Readers should note the following references throughout the Integrated Report:

Truworths International Ltd and its subsidiaries is referred to as ‘the Group’

Truworths International Ltd is referred to as ‘Truworths International’ or ‘the company’

Office Holdings Ltd is referred to as ‘Office’

The Group excluding Office is referred to as ‘Truworths’
REVIEW OF 2019

Truworths posted a steady performance in the weak South African retail market, with good management of gross margin, expenses, inventory and cash.

Office profitability severely impacted by depressed UK trading conditions and Brexit uncertainty, resulting in an impairment of intangible assets.

Group retail sales increased 3.7% to R18.6 billion, with Truworths up 3.1% and Office 0.9% lower in Sterling (up 5.3% in Rand terms).

Office under further pressure as consumer spending trends towards online shopping away from store-based retailing.

Truworths debtors book remains healthy despite increasing consumer stress in low growth South African environment.

Lay-by payment option introduced to stores across the Truworths portfolio.

Truworths International 2018 Integrated Report ranked in top 10 of EY Excellence in Integrated Reporting awards for 12th consecutive year, only company to achieve this besides Sasol.

Environmental, social and governance practices recognised with the Group qualifying for inclusion in the FTSE4Good ESG Index.

GROUP FINANCIAL PERFORMANCE

Gross margin lower at 51.6% (2018: 52.4%)
Operating margin down to 9.1% (2018: 22.5%)
Adjusted operating margin at 19.4%*
Earnings before interest paid and tax down 58.1%
Adjusted earnings before interest paid and tax down 10.3%*
Diluted headline earnings per share down 8.5%
Office intangible assets impairment of £97 million after deferred tax.
Cash generated from operations R2.7 billion (2018: R3.1 billion)
Return on assets 12% (2018: 25%)
Adjusted return on assets 23%^* Net debt to equity ratio improved to 7.2% (2018: 9.3%)
Cash realisation rate 93% (2018: 109%)
Annual dividend per share down 8.6% to 384 cents (2018: 420 cents)

* Excluding the Office impairment and foreign exchange gains and losses.

OUTLOOK FOR 2020

TRUWORTHS AFRICA

Consumer spending to remain under pressure in the short term owing to the effects of the prolonged economic downturn and constraints on disposable income.

Retail sales momentum in Truworths to be driven by supply chain refinement, the expanding e-commerce offering, recently introduced lay-by payment option and customer response to new store concepts including Context and ID Kids.

Impact of the promulgation of the debt relief legislation is uncertain, with the effective date subject to finalisation of regulations.

Medium-term growth prospects will be supported by the health of the account portfolio, continued investment for growth, robust cash flows and strong balance sheet.

OFFICE

Trading conditions and consumer confidence will remain under intense pressure ahead of the Brexit deadline.

Retail sector likely to remain constrained into the medium term.

Turnaround strategy implemented in Office to restore profitability by focusing on processes and controls in merchandise buying and planning, costs, capital expenditure, inventory, brands and marketing, and closing loss-making stores.
Truworths International has pleasure in presenting its 2019 Integrated Report which aims to provide shareholders with a balanced insight into how the business creates value in the short, medium and long term.

As a board we are committed to achieving high governance standards which we believe are essential for sustainable value creation. Our reporting philosophy is founded on the governance principles of accountability, transparency, accuracy, integrity, responsibility and compliance.

This year’s report is again targeted primarily at our shareholders, who are the principal providers of the Group’s financial capital, as well as the local and international investment community. We also recognise the role of other key stakeholder groups in creating value, being our customers, employees, suppliers and regulators.

As part of our ongoing commitment to improving disclosure and striving for the highest reporting standards, our Integrated Report is independently evaluated each year to ensure we continue to report in line with best global practices.

The Group’s reporting was recognised in the EY Excellence in Integrated Reporting Awards when the 2018 Integrated Report was ranked tenth out of the 106 largest companies on the JSE. This is the 12th consecutive year that the Group has been recognised in the Top 10 and is one of only two companies to achieve this recognition.

The 2018 report was also adjudged the winner of two companies to achieve this recognition.

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The 2018 Integrated Report was also adjudged the winner of two companies to achieve this recognition.

The Group’s external auditor, Ernst & Young Inc. (EY), has provided assurance on the Group Audited Annual Financial Statements and expressed an unmodified audit opinion. EY has also reviewed the accuracy of the financial statements and expressed an unmodified audit opinion.

The content of the Integrated Report has been reviewed by the directors and has not been independently assured. Accredited service providers have measured and provided assurance on selected non-financial metrics included in the Integrated Report while management has verified the processes for measuring all non-financial information.

As part of our ongoing commitment to improving disclosure and striving for the highest reporting standards, our Integrated Report is independently evaluated each year to ensure we continue to report in line with best global practices.

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The Group’s external auditor, Ernst & Young Inc. (EY), has provided assurance on the Group Audited Annual Financial Statements and expressed an unmodified audit opinion. EY has also reviewed the accuracy of the financial information extracted from the annual financial statements that appear in the Integrated Report.
The Truworths business was founded in 1917, while the company has been listed on the JSE and on the Namibian Stock Exchange since 1998. The Truworths International Group is today one of the largest retailers in Africa with 806 stores across the continent and 139 Office stores and concessions in the UK, Germany and the Republic of Ireland, together with a fast-growing online presence. The Truworths brand is synonymous with superior quality, aspirational fashion and is complemented by a portfolio of some of South Africa’s most desired apparel brands which have been developed over the past four decades. The 1980s saw the rapid expansion of the brand portfolio with the launch of Daniel Hechter under a long-term licence agreement (1984), Inwear (1986), Truworths Man (1988) and Truworths Jewellery (1989). In the 1990s further home-grown brands were launched, namely LTD (1992), Identity and Truworths Elements (1999). Ginger Mary followed in 2001 and Hey Betty in 2011. Organic brand expansion has been supported by the acquisitions of Young Designers Emporium (2003), Uzzi (2006), Earthaddict, Earthchild and Naartjie (2015).

Truworths International expanded into the northern hemisphere retail market in 2015 with the acquisition of the Office fashion footwear chain in the United Kingdom. The acquisition spread the Group’s customer base across developed and emerging markets, and diversified the Group’s product offering, sales, earnings and country risk profile.

Office London was introduced in South Africa in 2017 while the acquisition of Loads of Living in the same year accelerated the Group’s entry into the homeware market. The year 2019 marked the launch of ID Kids and Context, an upmarket, experiential concept store offering a collection of fashion, beauty and homeware.
OUR DNA
Our DNA fundamentally describes who we are. It is the heart and soul of our business that drives our operating philosophies, principles and decision-making. It is what makes us unique, differentiates us from our competitors and makes our business virtually impossible to replicate.

We have a universal, clear understanding of our DNA. We survive, endure and prosper through rigorously applying our Business Philosophy.

• Our leaders play an essential role in ensuring that we remain true to our DNA. We believe in and actively practise our core beliefs.

• We understand that success in fashion retail is ‘a marathon and not a sprint’ and that, over time and with consistent and ongoing application of our Business Philosophy, the business will continue its success.

• We create the platform and environment for teams and individuals to deliver our Purpose and live our Values so that we are able to deliver on our stakeholders’ expectations.

• We practise constructive leadership, which is a blend of an unusual capacity for realistic optimism, an ability to find solutions and opportunities in adversity, and an ability to communicate and implement a vision to the business.

• By knowing and understanding the uniqueness of who we are, it becomes easier to internalise and gain a true understanding of our Business Philosophy.

OUR BUSINESS PHILOSOPHY
Our Business Philosophy is core to the success of the business. It ensures that the business remains aligned with its strategic direction and is integral to creating value for stakeholders in the short, medium and long term.

Our Business Philosophy comprises three synergistic elements:

OUR PURPOSE defines our customer and the merchandise, account, retail and service offering

OUR VISION describes our stakeholder expectations and how the business is assessed in terms of creating value for these stakeholders

OUR VALUES shape the business culture and employee behaviours required to achieve our Purpose
BUSINESS PHILOSOPHY continued

TRUWORTHS

Youthful fashionable South Africans want to look attractive and feel successful and confident. Truworths entices them into exciting and visually appealing retail emporiums, which are staffed by passionate and knowledgeable team members and which offer wide ranges of curated and tasteful fashion of superb quality and intrinsic value. The ranges of unique aspirational fashionable brands are an innovative and adventurous blend of colour, fabric and fashion styling.

OFFICE

Office aims to be the world authority on fashionable footwear by offering a broad curated range of the latest ‘in-demand’ styles in an environment that our teams all contribute to making an out-of-this-world experience for our customers.

OUR PURPOSE

... FOR OUR TRUWORTHS CUSTOMERS

‘Truworths helps me look attractive and feel successful and confident. Shopping at Truworths is exciting because it offers wide ranges of curated and tasteful fashion of superb quality and intrinsic value in retail emporiums that are visually appealing and are staffed by passionate and knowledgeable staff.’

... FOR OUR OFFICE CUSTOMERS

‘I love shopping at Office because I trust that they will help me look fashionable and be well informed on international fashion footwear trends. Office creates a world-class experience and is staffed by fashion footwear experts.’

OUR VALUES

Celebrate and reward excellence in contribution
New ideas are stimulated
Work in teams
Encouraged to learn and share
Innovation and passion
Rewards reflect contribution
Invest in future potential
Determined to learn and share
Courage to contribute
Innovation and energy

OUR VISION

... FOR OUR EMPLOYEES

‘I am totally committed because my team members and I are encouraged to contribute innovatively, and celebrate and reward excellence in contribution.’

... FOR OUR SHAREHOLDERS

‘We are long-term investors in Truworths International because we trust in management’s capacity to execute innovative strategies which deliver significant value over time.’
TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2019

SUSTAINABLE FUTURE IN FASHION

TRUWORTHS’ CONTRIBUTION

End poverty in all its forms everywhere
Through merchandise donations to The Clothing Bank, Truworths is enabling unemployed South Africans, mainly women, to become financially and socially independent, and to eradicate poverty in their lives. Over 800 people have been trained in The Clothing Bank’s two-year programme. Truworths has donated over 90 000 garments for resale and over 80 000 metres of fabric to make garments for sale.

Ensure healthy lives and promote well-being for all at all ages
Health has long been a focus of the Truworths corporate social investment (CSI) programme. An area of ongoing support has been in the development of hospitals and clinics. Truworths funded an eye clinic in Lenasia, Gauteng, with an initial investment of R3.6 million and in the past year a further R1.5 million for the expansion of the facility where over 600 surgeries have been performed.

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Truworths invested R149 million in training and development of staff in 2019, with 91% of those trained being black employees. Education is a key focus of the Truworths CSI programme which supports the LifeMatters Foundation and Leap Science and Maths School.

Achieve gender equality and empower all women and girls
Empowering women is core to Truworths’ CSI and enterprise development strategy through projects including support for The Clothing Bank to assist unemployed women. The commitment to gender equality is also reflected in the company’s workforce where 72% of employees are female.

Promote inclusive and sustainable economic growth, employment and decent work for all
The Group is committed to responsible and cautious staffing strategies to remain a stable employer in all economic cycles, directly employing over 13 000 people across its operations and creating thousands more jobs indirectly. The Group promotes responsible consumption and opposes the dumping of unsold garments in landfill sites. The business partners with organisations that recycle or re-use damaged goods or convert fabrics into garments for resale. All suppliers are required to commit to good environmental practices. Materials associated with merchandise are recycled or re-used where possible, while the business continues to seek ways to limit packaging on merchandise. Over 380 tonnes of cardboard boxes and 88 tonnes of plastic from hangers were recycled in the past year alone.

Ensure sustainable consumption and production patterns
The Group supports the Sustainable Development Goals (SDGs) which are a collection of 17 global objectives developed by the United Nations to be achieved by the year 2030. The Sustainability Committee has aligned the Truworths sustainability programme with seven of the SDGs where the committee believes the business can have the most impact and play a role in contributing in some way towards these goals.

This report highlights some of Truworths’ initiatives in support of these SDGs. Further detail is included in the Social and Environmental Report 2019 available on the website at www.truworthsinternational.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES
Truworths International was again included in the FTSE4Good Index Series, the sustainable and responsible investment indices, which recognise companies with strong ESG practices measured against global standards.

Truworths received an ESG rating of 4.2 (maximum 5) in 2019, increasing from 4.1 in 2018. This compared favourably to the South African average of 3.3 and the industry average of 2.5.

FTSE4GOOD INDEX SERIES SCORECARD

<table>
<thead>
<tr>
<th>Pillar/theme</th>
<th>Exposure</th>
<th>Truworths International</th>
<th>Industry average</th>
<th>Country average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Medium</td>
<td>3.5</td>
<td>1.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Climate change</td>
<td>Low</td>
<td>5.0</td>
<td>2.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Environmental supply chain</td>
<td>High</td>
<td>3.0</td>
<td>1.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Social</td>
<td>Medium</td>
<td>4.1</td>
<td>2.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Human rights and community</td>
<td>Low</td>
<td>5.0</td>
<td>3.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Labour standards</td>
<td>High</td>
<td>4.0</td>
<td>1.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Social supply chain</td>
<td>High</td>
<td>4.0</td>
<td>1.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Governance</td>
<td>Medium</td>
<td>5.0</td>
<td>3.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Anti-corruption</td>
<td>Medium</td>
<td>5.0</td>
<td>2.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>Medium</td>
<td>5.0</td>
<td>4.4</td>
<td>4.8</td>
</tr>
<tr>
<td>ESG rating score</td>
<td></td>
<td>4.2</td>
<td>2.5</td>
<td>3.3</td>
</tr>
</tbody>
</table>
CREATING SUSTAINABLE VALUE
Creating and sustaining value for our stakeholders over the short, medium and long term is not limited to financial value.

By creating value for our customers and employees, as well as our wider stakeholder base including suppliers, regulators, lenders, landlords, government and the broader society in which we trade, we ultimately generate value for our shareholders, as outlined in the accompanying value-creation model.

The outcomes of the value created for our stakeholders are summarised by capital in the Value-creating business model on page 10.

For further detail on the Group’s stakeholders and the engagement issues addressed with these stakeholders over the past year, refer to Building quality stakeholder relationships on pages 24 to 26.

**Employees**

Our employees are the individuals and teams who strive to create value, and thereby derive value themselves, by meeting the fashion, quality and service needs of our customers, and providing the Group’s business support services.

**Customers**

Our retail customers are the consumers of our products and services. These customers are our primary source of revenue, enabling us to ultimately create financial value for shareholders.

**Shareholders**

Our shareholders are the principal providers of financial capital and by delivering sustainable, long-term value, the Group ensures continued access to capital.

**Group Stakeholders**

Our broader stakeholder base includes those groups that have a material direct or indirect impact on our business and influence our ability to create value.

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**How we create value:**

- Providing employment and creating job opportunities as the business expands
- Creating an environment where employees are motivated and encouraged to contribute innovatively
- Paying employees market-related salaries and benefits, and rewarding employees for excellence through incentive schemes
- Encouraging learning and sharing of knowledge and developing staff to exceed customer expectations
- Transforming the employee base to reflect diversity and equality

**How we measure the value created:**

- Job creation, through the number of full-time equivalent employees
- Commitment to training and development, through skills development spend per employee
- Diversity, employment equity and gender equality, through the percentage of employees from designated groups

**How we create value:**

- Generating competitive returns
- Maintaining a strong balance sheet
- Investing in stores, distribution facilities, technology and infrastructure for future growth
- Retaining income for continued growth and expansion of the business, organically and acquisitively
- Ensuring best-practice governance and risk management principles are applied across the business

**How we measure the value created:**

- Return on invested capital greater than the weighted average cost of capital
- Medium-term growth in headline earnings per share greater than inflation
- Dividend yield
- Long-term share price appreciation

**How we create value:**

- Contributing to national and local governments, and regulatory institutions
- Supporting local and offshore manufacturers of products, lenders, service providers and property landlords
- Assisting in growing and developing society through corporate citizenship, transformation and black economic empowerment

**How we measure the value created:**

- Net promoter score (NPS) measures customers’ likelihood of recommending Truworths and Office respectively
- Growth in active accounts is an indication of the demand for Truworths merchandise
- Social media following measures fashionability and desirability of merchandise

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**How we create value:**

- Property owners: rentals paid for store leases and other services
- Lenders: meeting interest and capital repayment obligations timeously
- Suppliers: purchases of merchandise and other services
- Governments: contributions of corporate taxes
- Landlords: creating interest and capital repayment obligations

**How we measure the value created:**

- Paying employees market-related salaries and benefits
- Ensuring prudent gearing levels
- Equity, employment equity and gender equality
- Showcasing unique aspirational fashion brands
- Creating an environment where employees are motivated and encouraged to contribute innovatively
- Providing employment and creating job opportunities as the business expands
- Creating fitness for purpose administrative and infrastructure for future growth
- Enabling us to ultimately create financial value for shareholders.

---

**How we create value:**

- Contributing to national and local governments, and regulatory institutions
- Supporting local and offshore manufacturers of products, lenders, service providers and property landlords
- Assisting in growing and developing society through corporate citizenship, transformation and black economic empowerment

**How we measure the value created:**

- Government: contribution of corporate taxes
- Suppliers: purchases of merchandise and other services
- Landlords: meeting interest and capital repayment obligations timeously
- Property owners: rentals paid for store leases and distribution facilities
- Communities and broader society: social value created through corporate social investment, supplier and enterprise development, and environmental programmes
As a fashion retailer the Group’s business model is to procure merchandise from third-party suppliers and to sell it to consumers for cash or on account through its network of retail stores and e-commerce platforms. The Group’s purpose is to provide exclusive and aspirational apparel brands to youthful fashionable consumers.

The capitals of value creation inputs into the Group’s business activities constitute the financial, manufactured, intellectual and human capitals available to and utilised by the Group as well as the social and relationship capital evidient in the important relationships and partnerships with stakeholders. Through its supply chain, which outsources the manufacturing and transportation processes to suppliers, the Group indirectly utilises natural capital in the form of raw materials such as cotton, wool and leather, as well as water and carbon-depleting energy sources. The Group’s operations, to a lesser extent, utilise water and carbon-depleting energy sources in its head offices, distribution centres and stores, and the business travelling undertaken by its employees.

Several factors that are partially or wholly outside the control of the Group could have a significant impact on our ability to create and sustain value for our stakeholders. Refer to the Chief Financial Officer’s Report on page 50 for more detail on the external factors influencing our financial performance and our response to these factors.

The successful execution of this business model will create value for the Group’s primary stakeholders, notably shareholders, customers, employees, and other stakeholders including suppliers, financiers, landlords and the governments of the countries in which it operates. The business model, underpinned by the Group’s social and environmental responsibilities, distinguishes the Group from its industry peers, arguably providing a sustainable competitive advantage.
**CAPITAL**

**VALUE-CREATING BUSINESS MODEL continued**

**FINANCIAL CAPITAL**
- Continued access to financial capital through investor and financial market confidence.
- Ongoing investment in business processes and streamlining existing and developing new and leading brand portfolio.
- Expanding market confidence.

**MANUFACTURED CAPITAL**
- Ongoing investment in the Group’s stores, distribution capability and e-commerce platforms to promote and sustain growth.
- Secured rental reversions and lower escalations.
- Entered into early discussions with landlords to secure prime space at competitive rates.
- Consolidating space and improving efficiencies through introducing new brands into existing stores.
- Capital expenditure of R383 million on stores, distribution centres and buildings.
- Capital expenditure of R383 million on stores, distribution centres and buildings.
- Share buy-backs of R266 million.

**INTELLECTUAL CAPITAL**
- Launched new brands, Context and ID Kids.
- Introduced refreshed emporium store concept and launched new concepts for Identity, Uzzi and YDE.
- Implemented phase 1 of new product life cycle management (PLM) system.
- Account management strategies refined.
- Extended systems to support introduction of lay-by facilities in all Truworths stores.
- Alignment of Office’s business processes, including merchandising methodology, with Truworths.

**KEY PERFORMANCE INDICATORS AND OUTCOMES**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail sales up 3.7%</td>
<td>R38 381 658</td>
</tr>
<tr>
<td>Gross profit margin (%)</td>
<td>55.6</td>
</tr>
<tr>
<td>Impairment of Office intangible assets (Rm)</td>
<td>97</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>5.1 (15.9%)</td>
</tr>
<tr>
<td>Diluted headline earnings per share down 8.5% (cents)</td>
<td>580.7</td>
</tr>
<tr>
<td>Net debt to equity (%)</td>
<td>7.2</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>5 (2%)</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>12 (2%)</td>
</tr>
<tr>
<td>Return on invested capital divided by weighted average cost of capital (times)</td>
<td>0.7</td>
</tr>
<tr>
<td>Inventory turnover (times)</td>
<td>4.2</td>
</tr>
<tr>
<td>Asset turnover (times)</td>
<td>1.4 (1.2%)</td>
</tr>
<tr>
<td>Net borrowings and finance costs repaid (Rm)</td>
<td>469</td>
</tr>
<tr>
<td>Share price (cents)</td>
<td>7 000</td>
</tr>
<tr>
<td>Annual dividend per share down 9% (cents)</td>
<td>384</td>
</tr>
<tr>
<td>Dividend yield (%)</td>
<td>5</td>
</tr>
</tbody>
</table>

* On a comparable basis, i.e. excluding the Office impairment and the impact of foreign exchange losses.

**KEY TRADE-OFFS**
- Financial capital is applied to sustain and grow our business, typically with positive impacts on manufactured, human, intellectual, and social and relationship capital, and negative impacts on natural capital.
- By investing in our stores and distribution capacity we are increasing our manufactured capital, but negatively impacting natural capital and, in the short term, financial capital. Our commitment to investing for growth will, however, contribute positively to financial capital in the medium to long term.
- Capital expenditure of R383 million on stores, distribution centres and buildings.
- Consolidating space and improving efficiencies through introducing new brands into existing stores.
- Entered into early discussions with landlords to secure prime space at competitive rates.
- Secure rental reversions and lower escalations.
- Office’s digital platform enhanced through implementation of Worldpay payment gateway and new checkout process.

**KEY PERFORMANCE INDICATORS AND OUTCOMES**
- Retail sales up 3.7% (Rbn)
- Gross profit margin (%)
- Impairment of Office intangible assets (Rm)
- Operating margin (%) (15.9%)
- Diluted headline earnings per share down 8.5% (cents)
- Net debt to equity (%) 7.2
- Return on equity (%) 5 (2%)
- Return on assets (%) 12 (2%)
- Return on invested capital divided by weighted average cost of capital (times) 0.7
- Inventory turnover (times) 4.2
- Asset turnover (times) 1.4 (1.2%)
- Net borrowings and finance costs repaid (Rm) 469
- Share price (cents) 7 000
- Annual dividend per share down 9% (cents) 384
- Dividend yield (%) 5

**REFERENCES**
- Managing the risk of fashion (pages 61 and 71)
- Optimising supply chain efficiency (pages 61 and 72)
- Managing retail presence (pages 62 and 72)
- Managing account risk (page 63)
- Chief Financial Officer’s Report (page 50)
- Optimising supply chain efficiency (pages 62 and 72)
- Managing retail presence (pages 65 and 73)

**INTEGRATED REPORT (pages 65 and 73)**
- Managing the risk of fashion (pages 61 and 71)
- Optimising supply chain efficiency (pages 62 and 72)
- Managing retail presence (pages 65 and 73)

**INTEGRATED REPORT 2019**
- Managing the risk of fashion (pages 61 and 71)
- Optimising supply chain efficiency (pages 62 and 72)
- Managing retail presence (pages 65 and 73)
**ACTIONS TO ENHANCE OR MITIGATE OUTCOMES IN 2019**

- Commissioned benchmarking review of Truworths’ total reward framework compared to market best practice.
- Conducted salary benchmarking surveys.
- New directors appointed to the board, thereby adding experience, expertise and diversity.
- Reduced number of permanent and flexible employment positions through natural attrition to avoid retrenchments.
- Focused on developing internal talent to demonstrate commitment to sustainable transformation in South Africa.

**KEY PERFORMANCE INDICATORS AND OUTCOMES**

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and benefits paid to employees increased (Rbn)</td>
<td>2.2</td>
</tr>
<tr>
<td>Reduced number of employees</td>
<td>13 391</td>
</tr>
<tr>
<td>Maintained block employee representation in South Africa (%</td>
<td>50</td>
</tr>
<tr>
<td>Female representation stable Truworths (%)</td>
<td>72</td>
</tr>
<tr>
<td>Office (%)</td>
<td>61</td>
</tr>
<tr>
<td>Trained more people across the Group</td>
<td>12 059</td>
</tr>
<tr>
<td>Significant overall investment in skills development (Rm)</td>
<td>152</td>
</tr>
<tr>
<td>Increased skills development spend per employee (R’000)</td>
<td>11.4</td>
</tr>
</tbody>
</table>

**HUMAN CAPITAL**

Employment creation, employee development through skills training and workplace experience, and the promotion of fair labour practices

- Met South African employment equity targets for junior and middle management
- Office gender pay gap report reflects outcomes better than industry averages
- No referrals of unfair discrimination or employment equity compliance

**SOCIAL AND RELATIONSHIP CAPITAL**

Maintained positive relationships with stakeholders and invested in the well-being of the communities we operate in through our various corporate social investment initiatives

- Conclusion of wage negotiations with South African Commercial, Catering and Allied Workers Union (SACCAWU)
- No work days lost to industrial action

**NATURAL CAPITAL**

Depiction of environmental resources through our supply chain (indirect) and own business operations (direct)

- Issued Carbon Disclosure Project report for the period 1 July 2017 to 30 June 2018.
- All South African stores renovated during the period received energy-efficient lighting as well as electricity meters.
- Electricity meters fitted to additional 130 stores.
- Ongoing consolidation of import shipments to improve efficiencies.
- Concerted effort to re-use cartons, thereby decreasing purchasing of new cartons and decreasing volumes of cartons being recycled.

**KEY TRADE-OFFS**

- Reducing the number of permanent and flexible employment positions through natural attrition has impacted negatively on our human capital but, in the current challenging trading environment, assisted to reduce the negative impact on our financial capital. It is believed that our human capital, and indirectly social and relationship capital, will benefit from this decision in the long term as opportunities for development and growth arise for remaining staff.
- Our commitment to the training and development of our employees reduces our financial capital but leads to increased human and intellectual capital. This will ensure that our employees are equipped to serve our customers with superior quality, aspirational fashion and provide world-class customer service that will ultimately increase the value created for our shareholders.
- Through our commitment to socio-economic and enterprise development we are trading financial capital in the short-term to boost social and relationship capital through the upliftment of communities and the development of our local supply chain.
- In the current tough economic climate our focus on containing costs through the negotiation of prices with suppliers and landlords, and by limiting the use of external service providers where work can be performed in-house, arguably weighs on our social and relationship capital in an effort to limit the reduction of our financial capital. This will, however, increase our human and intellectual capital as in-house skills grow and develop.
- We consume natural resources and fossil fuels in the production, packaging and transportation of our merchandise, which impacts negatively on natural capital, in order to increase financial capital, and indirectly all the other capitals of value creation.
- Various green initiatives are aimed at reducing our impact on natural capital, often at a cost to financial capital, at least in the short term.
Truworths International aims to be a world-class omni-channel retailer of aspirational fashion clothing, footwear, accessories and homeware, operating in both the southern and northern hemispheres.

**GROUP STRATEGY**

Diversity the business between the southern and northern hemispheres, countries of operation, cash and account sales, clothing and footwear, and owned and third-party merchandise brands

Enhance returns to shareholders through efficient financial and capital management, prudently managing gearing and focusing on tight expense control, applying cash generated from operations to fund capital investment, paying half-yearly dividends according to a consistent dividend policy and conducting share buy-backs at earnings accretive levels

Grow organically through the steady expansion of existing operations, while also seeking opportunities for strategic bolt-on acquisitions in fashion-related businesses to extend the customer offering

Create and maintain an enticing and modern store environment by regularly reviewing store design principles, developing new store concepts and upgrading stores as part of an ongoing innovation programme, while growing the omni-channel presence

Deploy a centralised management model characterised by clear board direction and strategy determination, active executive director involvement in business operations, a flat management structure, an empowered and accountable management team, and robust governance structures and processes

Conduct operations in a sustainable manner to ensure the viability of the Group’s businesses, principally by remaining relevant to and meeting the needs of customers, respecting the interests of all other stakeholders and managing the impact of the operations on the physical and natural environment

**STRATEGIC OBJECTIVES**

The Group’s strategic objectives are aimed at delivering sustained growth in revenue and profitability, enhancing long-term shareholder wealth and creating value for other stakeholders. These strategic objectives for the Group, Truworths and Office will be realised through the delivery of short-term action plans and projects, which are developed and implemented each year, as outlined in Material issues, risks and opportunities on pages 14 to 23.

The directors confirm that the Group’s strategy has been consistently applied during the reporting period, remains appropriate and is unchanged for the year ahead.

**TRUWORTHS**

Engage in the retailing of fashion clothing, footwear, cosmetics and accessories under the principal Truworths and Identity brands, mainly in South Africa with a selective presence in southern Africa

Manage the risk of fashion through a merchandise strategy that offers an extensive range of internationally inspired aspirational fashion of high fabric and construction quality, across a diversified and mostly internally developed and owned brand portfolio, and consistently introducing new fashion concepts

Focus on one customer profile: youthful and fashionable South African ladies, men and kids, and provide product offerings that vary from higher-priced aspirational brands to affordable ranges catering for the value-conscious market

Grow the omni-channel presence and market penetration through ongoing development of e-commerce capabilities, the creative use of social media platforms and other innovative brand development opportunities

Supplement account facilities with a lay-by (set aside) offering to develop relationships with new customers, expand customer participation in the loyalty programmes and grow merchandise sales

Manage account risk by steadily growing the Group’s active account base using strict credit-granting criteria, and deploying best-in-class new account acquisition processes and account risk management systems, together with creative collection strategies

Use the Group’s in-house account offering as an enabler of merchandise sales and a facilitator of merchandise sales growth, while enhancing customer relationship management to attract and retain customers

Accurate transformation across the elements of the broad-based black economic empowerment scorecard applicable to the South African business to improve opportunities for previously disadvantaged South Africans, especially through employment equity, skills development, enterprise development and socio-economic development

Maximise efficiencies in the supply chain by reducing lead times of both local and imported supplies through process enhancements and close collaboration with manufacturers, and be first to market with the latest fashion merchandise

Consolidate and restore the profitability of Office as a fashion-forward footwear and sneaker specialist, operating under the Office and Offspring brands

Expand the e-commerce business, recognising the importance of the omni-channel customer and the need to satisfy the customer’s store and digital experience

Manage inventory levels to minimise stock build-up, free up working capital and promote full-margin sales

Embark on a measured store portfolio rationalisation process to meaningfully reduce real estate rental, operating and rates costs

Use custom-designed leased distribution centres located at key shipping and transportation hubs and a distribution model which makes use of outsourced transportation service providers to convey merchandise to the Group’s warehouses and from these warehouses to customers and stores

Utilise the Group’s in-house account offering as an enabler of merchandise sales and a facilitator of merchandise sales growth, while enhancing customer relationship management to attract and retain customers

Maintain and enhance relationships with suppliers of internationally branded footwear to remain positioned as their strategically important partner with scale access to consumer markets

Operate through leased store premises in prime locations in shopping malls and town centres, applying the emporium (store-within-a-store) concept where relevant and expanding the store footprint through prudent annual growth in trading space to gain market share and promote sales

Strategies are underpinned by sound financial, information and operating systems, as well as people and governance processes, while the Group’s philosophy, values and policies guide all business practices and interactions with stakeholders.
MATERIAL ISSUES, RISKS AND OPPORTUNITIES

HOW WE DETERMINE MATERIAL ISSUES
Material issues are the factors that are likely to have the most material impact on the Group’s revenue and profitability, and therefore influence our ability to create and sustain value for stakeholders.

The material issues are reviewed annually during the course of the Group’s strategic planning process which is undertaken by the executive directors and senior management of Truworths and Office.

The strategic planning processes result in the formulation of strategic plans and projects that are presented to and endorsed by the board.

The achievement of the strategic plans and the attainment of other measurable deliverables form the performance targets for the executive directors and senior management for purposes of the Group’s incentive schemes.

FACTORS INFLUENCING MATERIAL ISSUES
In identifying and reviewing these material issues for Truworths and Office the following factors are typically considered:

- Prevailing political and macroeconomic climate
- Current and forecast trading environment
- Competitor landscape
- Business strengths and weaknesses
- Human, manufactured, intellectual, social and financial capital resources
- Legislative and regulatory framework
- External opportunities and threats
- Industry trends and consumer behaviour
- Group strategy
- Key risks as detailed in the Group’s risk registers
- Needs, expectations and concerns of primary stakeholders

OPPORTUNITIES
Medium-term opportunities have been identified for each material issue to provide shareholders with insight into the growth drivers of Truworths and Office over a two to four-year time horizon.

TRUWORTHS
The directors confirm that the material issues for Truworths for the 2020 financial period are unchanged, these being fashion risk, supply chain efficiency, account risk management and retail presence (stores and online).

OFFICE
The directors confirm that the Office material issues remain appropriate for the 2020 financial period, notably fashion risk, supply chain efficiency and retail presence (stores and online). Owing to the disappointing performance the turnaround in Office has been added as a material issue.

RISKS
The risks relating to the Truworths and Office material issues are extracted from the risk registers of the two businesses. The risks in these registers reflect the key risks facing the businesses and could impact on the delivery of the objectives outlined in the material issues section if not effectively managed.
## Material Issues, Risks and Opportunities continued

<table>
<thead>
<tr>
<th>Risk</th>
<th>Report Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt relief legislation will enable the SA National Credit Regulator (NCR) to extinguish debts owed by qualifying critically indebted customers to credit providers such as Truworths</td>
<td>Truworths material issue: Managing account risk</td>
</tr>
<tr>
<td>Risk of online sales substituting store sales in a fast-changing UK retail landscape</td>
<td>Office material issue: Managing retail presence, Turnaround strategy</td>
</tr>
<tr>
<td>Exchange rate volatility creates challenges in managing retail selling prices of imported merchandise</td>
<td>Truworths material issue: Managing the risk of fashion; Office material issue: Managing the risk of fashion</td>
</tr>
<tr>
<td>Availability of counterfeit goods devalues the brand and impacts sales negatively</td>
<td>Truworths material issue: Managing the risk of fashion</td>
</tr>
<tr>
<td>Ineffective management of merchandise and buying decisions over stock ranges and volumes in Office</td>
<td>Office material issue: Managing the risk of fashion, Turnaround strategy</td>
</tr>
<tr>
<td>Availability of skilled IT human resources for support and projects</td>
<td>Truworths Human Capital Report</td>
</tr>
<tr>
<td>Low cash sales growth in Truworths</td>
<td>Chief Financial Officer's Report</td>
</tr>
<tr>
<td>Electricity load shedding in South Africa remains a risk to trading</td>
<td>Truworths material issue: Managing retail presence</td>
</tr>
<tr>
<td>The uncertainty of the impact that Brexit could have on the Office business</td>
<td>Office material issue: Turnaround strategy</td>
</tr>
<tr>
<td>Suitability and sustainability of Office’s ageing merchandise management system, having become acutely dependent on highly skilled scarce internal and external resources</td>
<td>Office material issue: Managing the risk of fashion</td>
</tr>
<tr>
<td>Loss of head office building</td>
<td>Governance creating value</td>
</tr>
<tr>
<td>Inability to effectively manage account risk in Truworths</td>
<td>Truworths material issue: Managing account risk</td>
</tr>
<tr>
<td>Organic and acquisitive growth in the business placing increased pressure on Truworths’ distribution and warehousing capacity</td>
<td>Truworths material issue: Optimising supply chain efficiency</td>
</tr>
<tr>
<td>A major cybersecurity incident could lead to the loss of sensitive information</td>
<td>Governance creating value</td>
</tr>
<tr>
<td>Increasing competition from international retailers entering the South African market</td>
<td>Truworths material issue: Managing the risk of fashion</td>
</tr>
<tr>
<td>Loss of key executives and senior employees</td>
<td>Truworths Human Capital Report; Office Human Capital Report; Remuneration Committee Report</td>
</tr>
<tr>
<td>Impact of changing product mix within Sports and MTO ranges on Office’s gross margin</td>
<td>Office material issue: Managing the risk of fashion</td>
</tr>
<tr>
<td>Absence of formalised disaster recovery and business continuity plans for Office</td>
<td>Governance creating value</td>
</tr>
<tr>
<td>Office’s reliance on third-party brands</td>
<td>Office material issue: Managing the risk of fashion, Optimising supply chain efficiency</td>
</tr>
<tr>
<td>Availability of key IT systems that support and enable daily trade</td>
<td>Chief Financial Officer's Report</td>
</tr>
<tr>
<td>Loss of or inability to access distribution facilities</td>
<td>Truworths material issue: Optimising supply chain efficiency</td>
</tr>
<tr>
<td>Truworths’ dependency on warehouse management system and throughput required to meet peak demand</td>
<td>Truworths material issue: Optimising supply chain efficiency</td>
</tr>
<tr>
<td>BBBEE certification</td>
<td>Truworths Human Capital Report; Social and Environmental Report 2019</td>
</tr>
<tr>
<td>Suppliers not operating to contracted standards of ethical behaviour could result in reputational damage and interruption of supply</td>
<td>Truworths material issue: Optimising supply chain efficiency; Office material issue: Optimising supply chain efficiency</td>
</tr>
</tbody>
</table>
Key risks and mitigation strategies

### DESCRIPTION OF RISK

<table>
<thead>
<tr>
<th>Key Risk</th>
<th>Mitigation</th>
</tr>
</thead>
</table>
| Exchange rate volatility creates challenges in managing retail selling prices of imported merchandise. | • Forward exchange contracts are used to cover merchandise imports so price points can be confirmed at the time of placing orders.  
• Continue to seek opportunities to increase local supply to reduce reliance on imports, including investment in Truworths Manufacturing.  
• Improve procurement processes, consolidate fabric sourcing and adjust product ranges to limit product inflation. |
| Availability of counterfeit goods devalues the brands and impacts sales negatively. | • Continuous work done with counterfeit experts, training of customs officials and conducting numerous raids on illicit operators.  
• Ongoing assessment and bolstering of counterfeit measures.  
• Instituting legal action against perpetrators. |
| Increasing competition from international retailers entering the South African market. | • Continue to monitor the impact of international retailers targeting the Truworths mass middle-market customer.  
• Constant innovation across sales channels, brands and products, including e-commerce platform, launch of new brand websites and introduction of lay-bys.  
• Truworths account offering gives the mass middle-market customer access to quality, aspirational fashion. |
| Failing to provide quality fashion to customers each season at appropriate margins. This covers buying processes, fashion monitoring, supplier relationships and ensuring Truworths has skilled buying and planning resources. | • Apply proven forecasting, design, and assortment planning processes and key executive interventions throughout the merchandise life cycle aimed at managing and mitigating the risk of fashion.  
• Weekly monitoring of merchandise performance by executives and senior management to manage inventory within acceptable levels, thereby limiting markdowns and maintaining the gross margin within the target range.  
• Manage suppliers to ensure risk is spread across the supply chain.  
• Balance local and international supply base to take advantage of both quick response and fast fashion.  
• Execute retention strategies for merchandise buyers and planners.  
• Achieve better prices to offer better value by consolidating fabric sourcing across brands while maintaining product quality. |
Performance against objectives and targets

<table>
<thead>
<tr>
<th>OBJECTIVES AND PLANS</th>
<th>PERFORMANCE AGAINST OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue to focus on fast fashion and quick response strategy.</td>
<td>• Quick response capability continues to grow and prove successful.</td>
</tr>
<tr>
<td></td>
<td>• Strategy covers fabric commitments, production booking and testing processes.</td>
</tr>
<tr>
<td></td>
<td>• Able to replenish best-selling styles during a season with short lead times.</td>
</tr>
<tr>
<td>Continue to focus on offering better value through strategic fabric purchasing and supplier consolidation.</td>
<td>• Consolidating key fabrics with suppliers has driven down prices of certain key volume, wanted items.</td>
</tr>
<tr>
<td></td>
<td>• Process has enabled Truworths to promote hot fashion items at good prices with reasonable margins.</td>
</tr>
</tbody>
</table>

Challenges encountered
- Distribution centre capacity is under increasing pressure over peak periods which results in inefficiencies in the supply chain.
- Inability of the local supply base to effectively react to peaks and troughs in the production cycle is impacting the value equation which in turn limits the volumes of merchandise that can be ordered locally.

TARGETS

<table>
<thead>
<tr>
<th>Group inventory turn 3.5 – 4.5 times</th>
<th>Performance against targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truworths inventory turn 4.5 – 5.5 times</td>
<td>Group inventory turn 4.2 times (2018: 4.0 times)</td>
</tr>
<tr>
<td></td>
<td>Truworths inventory turn 4.8 times (2018: 4.8 times)</td>
</tr>
</tbody>
</table>

Key risks and mitigation strategies

<table>
<thead>
<tr>
<th>DESCRIPTION OF RISK</th>
<th>RISK MITIGATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic and acquisitive growth in the business placing increased pressure on distribution and warehousing capacity.</td>
<td>• New Truworths distribution centre to be developed for completion in 2022.</td>
</tr>
<tr>
<td></td>
<td>• Arrangements with third-party warehousing facilities to store imported goods during peak periods.</td>
</tr>
<tr>
<td>Loss of, or inability to access, distribution facilities.</td>
<td>• All distribution centre assets are adequately insured.</td>
</tr>
<tr>
<td></td>
<td>• Fire and flood protection installed at all distribution facilities.</td>
</tr>
<tr>
<td></td>
<td>• Disaster recovery plans in place to ensure business continuity in the event of a disaster.</td>
</tr>
<tr>
<td>Suppliers not operating to contracted standards of ethical behaviour could result in reputational damage and interruption of supply.</td>
<td>• Truworths’ code of conduct included in all supplier agreements.</td>
</tr>
<tr>
<td></td>
<td>• Manufacturers are required to comply with ethical standards, labour, health and safety, and environmental legislation.</td>
</tr>
<tr>
<td></td>
<td>• Legislative compliance audits are carried out as part of the new supplier take-on process.</td>
</tr>
<tr>
<td></td>
<td>• Monitoring of adherence to Truworths’ code of conduct to be conducted through internal audit process.</td>
</tr>
<tr>
<td>Dependency on warehouse management system and throughput required to meet peak demand.</td>
<td>• Reduced dependency on external consultants.</td>
</tr>
<tr>
<td></td>
<td>• Strong in-house IT skills to support the system.</td>
</tr>
<tr>
<td>Supplier overdependency or underperformance.</td>
<td>• Supplier scorecard used to monitor supplier utilisation as well as supplier quality and delivery performance.</td>
</tr>
<tr>
<td>Challenging trading conditions could erode local supply base.</td>
<td>• Focusing on re-examining alliances with local suppliers, design houses and cut, make and trim (CMT) services.</td>
</tr>
</tbody>
</table>
### Key risks and mitigation strategies

**DESCRIPTION OF RISK**

Debt relief legislation approved by Parliament will enable the National Credit Regulator (NCR) to extinguish the debts owed to credit providers by low-income consumers with unsecured debt of less than R50,000 who are critically indebted. This legislation could result in a portion of Truworths’ debtors books being irrecoverable.

Inability to effectively manage account risk could result in increased bad debt, lower and slower collections, limited new account growth and a reduction in the number of customers able to buy on account.

**RISK MITIGATION**

- Engage with government and the NCR through the National Clothing Retail Federation, other industry bodies and independently to have legislation amended or withdrawn.
- Align with other credit providers to propose workable alternatives so that debt review and debt counselling are affordable for low-income consumers.
- Contingency plans developed across the account operations and account risk management areas.
- The allowance for doubtful debts under IFRS 9 includes a provision relating to the potential impact of debt relief legislation.

- Apply account risk criteria and processes consistently using advanced analytics, scorecards and models.
- Review account management, collections and acquisition strategies regularly and refine to leverage new data and predictive models.
- Implement and maintain best-of-breed account management tools that accurately execute policies, processes and strategies.

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### Targets

<table>
<thead>
<tr>
<th>Description of Risk</th>
<th>Performance Against Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt relief legislation approved by Parliament will enable the National Credit Regulator (NCR) to extinguish the debts owed to credit providers by low-income consumers with unsecured debt of less than R50,000 who are critically indebted. This legislation could result in a portion of Truworths’ debtors books being irrecoverable.</td>
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<tr>
<td>Inability to effectively manage account risk could result in increased bad debt, lower and slower collections, limited new account growth and a reduction in the number of customers able to buy on account.</td>
<td></td>
</tr>
</tbody>
</table>

**Targets for 2020**

- Implement test strategies in the credit limit management decision area that grow profit by either reducing bad debt and maintaining sales or by growing sales while maintaining bad debt.
- Reduce communication costs while maintaining sales and payments across several campaigns and customer touchpoints.
- Test a combination of collections agencies, customer communication and collector actions.

**Objectives and plans**

- Drive new account acquisition.
- Improve conversion rate from risk approval to accounts opened.
- Roll out credit limit management strategies that use decision optimisation.
- Expand digital customer engagement capabilities.
- Develop and test new loyalty promotions.
- Continue to invest in analytical capability to leverage our single view of the customer data platform across the customer life cycle.

**Opportunities**

- Explore the use of non-traditional data sources for customer acquisition and account management.
- Embed predictive analytics and AI into all customer management functions.
- Remove boundaries between the store and the digital experience, allowing customers to seamlessly move between the two channels.
- Enable self-service wherever possible to improve customer satisfaction and improve efficiency.

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### Performance against objectives and targets

<table>
<thead>
<tr>
<th>Performance Against Objectives</th>
</tr>
</thead>
</table>
| Rebuild the new accounts decision management process using better predictive models, a new strategy development system and customer-centric decision system. | Bespoke credit bureau scorecards developed.
| Redevelop and test new account limit management strategies with the goal of increasing profit within account risk constraints. | Decision optimisation framework established.
| Integrate e-commerce sales into the single view of the customer and use this data to grow profit across both bricks and mortar and online businesses. | Account campaigns support both online and store sales channels.
| Enhance and develop loyalty promotions and offers. | Further testing of loyalty promotions to attract and retain customers through tailored offers.
| Introduce lay-by-offering into all stores. | Lay-by offering implemented.
| Continue roll-out of e-commerce offering. | Ongoing improvement in functionality and customer experience on e-commerce platform.
| Increase profit from new accounts by managing cost of acquisition, account sales and bad debts. | Lay-by contributed approximately 1% to retail sales.
| Maintain the quality of the portfolio at current levels. | Ongoing improvement in functionality and customer experience on e-commerce platform.
| Grow sales from existing account customers. | Ongoing improvement in functionality and customer experience on e-commerce platform.

**Targets for 2020**

- Doubtful debt allowance as a percentage of gross trade receivables at 19.2% (2018: 19.0% on IFRS 9 basis).
- Net bad debt as a percentage of gross trade receivables reduced to 13.3% (2018: 14.7%).
- Doubtful debt allowance as a percentage of gross trade receivables at 19.2% (2018: 19.6% on an IFRS 9 basis).
- Net bad debt as a percentage of gross trade receivables reduced to 13.3% (2018: 14.7%).
- Sales growth of 14% from accounts on book for 12 months or less (2018: 21%).
- Net bad debt as a percentage of account sales 8.3% (2018: 9.2%).
- Active account holders able to purchase at period-end 83% (2018: 84%).
- Overdue accounts as a percentage of gross trade receivables improved to 13% (2018: 14%).
- Doubtful debt allowance as a percentage of gross trade receivables at 19.2% (2018: 19.6% on an IFRS 9 basis).
- Net bad debt as a percentage of gross trade receivables reduced to 13.3% (2018: 14.7%).
- Sales growth of 3% from accounts on book for longer than 36 months.

---

### Challenges encountered

- Changing legislation around debt relief, debt orders and account balance insurance required new systems and processes to be developed.
- Adoption of IFRS 9: Financial Instruments required the development of new impairment models, policies and processes.
- Changing legislation around debt relief, debit orders and account balance insurance required new systems and processes to be developed.
- Decision management and execution across the customer life cycle is becoming increasingly complex and requires an investment in people and technology to ensure the credit strategies are accurately executed.
- Severals of the predictive analytics and artificial intelligence (AI) projects undertaken required the use of new technology.
- Collections remained challenging in the low growth economic environment.

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### MEDIUM TERM

**Objectives and plans**

- Drive new account acquisition.
- Improve conversion rate from risk approval to accounts opened.
- Roll out credit limit management strategies that use decision optimisation.
- Expand digital customer engagement capabilities.
- Develop and test new loyalty promotions.
- Continue to invest in analytical capability to leverage our single view of the customer data platform across the customer life cycle.

**Opportunities**

- Explore the use of non-traditional data sources for customer acquisition and account management.
- Embed predictive analytics and AI into all customer management functions.
- Remove boundaries between the store and the digital experience, allowing customers to seamlessly move between the two channels.
- Enable self-service wherever possible to improve customer satisfaction and improve efficiency.

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### TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2019

**Objectives and plans**

- Drive new account acquisition.
- Improve conversion rate from risk approval to accounts opened.
- Roll out credit limit management strategies that use decision optimisation.
- Expand digital customer engagement capabilities.
- Develop and test new loyalty promotions.
- Continue to invest in analytical capability to leverage our single view of the customer data platform across the customer life cycle.

**Opportunities**

- Explore the use of non-traditional data sources for customer acquisition and account management.
- Embed predictive analytics and AI into all customer management functions.
- Remove boundaries between the store and the digital experience, allowing customers to seamlessly move between the two channels.
- Enable self-service wherever possible to improve customer satisfaction and improve efficiency.

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### Refer to MANAGING ACCOUNT RISK on page 43 for more detail.
### 2019

#### Performance against strategic objectives and targets

**OBJECTIVES AND PLANS**

- Trading space expected to grow by approximately 2.5%.
- R35 million committed to store development.
- Continue consolidation and rationalisation of trading space where trading densities are low and close under-performing stores.
- Launch new store concept, Context.

**PERFORMANCE AGAINST OBJECTIVES**

- Trading space growth limited to 1.6%.
- 23 stores opened.
- 30 stores converted, consolidated or closed.
- First Loads of Living incorporated in emporium store.
- New store concepts launched for Identity, Uzzi and YDE.

#### Challenges encountered

- Expansion in certain existing locations is challenging as Truworths is overtrading and unable to secure additional space, with the high trading densities inhibiting growth.
- Rentals in good-performing malls are high and it is difficult to secure rental reversions and reduced escalation rates from landlords.
- Trading density increased by 1.2% to R35 682 per m², one of the highest in the fashion retail sector.

#### Key risks and mitigation strategies

**DESCRIPTION OF RISK**

- High demand for well-located retail premises in established malls, impacting availability of retail space and expansion opportunities.
- Fixed annual rental escalations and high utility costs and rates increases impacting store profitability.
- Electricity load shedding in South Africa remains a risk to trading.

**RISK MITIGATION**

- New malls present opportunities in prime positions.
- Opening stand-alone stores for key brands to create space in existing high trading density emporium stores.
- Engage with landlords to secure prime space at competitive rentals and escalation rates.
- Ongoing engagement with shopping centre owners to connect to central generators.
- Evaluating alternative power supplies.

### 2020

**Objectives and plans**

- Trading space expected to grow by approximately 0.7%.
- R291 million committed to store development.
- Continued consolidation and rationalisation of trading space where trading densities are low, and closure of under-performing stores.
- Ongoing roll-out of the emporium formats.
- Extend e-commerce offering to include Loads of Living and Identity.

**Opportunity**

- Consolidate trading space further to improve operating efficiency and trading densities by renovating key stores and reprofiling stores by adding new brands.

**TARGETS FOR 2020**

- Trading density per m² of R35 500 – R36 500
- Store electricity consumption of 20.5 Wh per m² (South Africa only)
**O F F I C E**

**MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued**

**MANAGING THE RISK OF FASHION**

**R E T A I L  S A L E S  B Y  D E P A R T M E N T**

- **OFFICE**
  - Office: 89% (2018: 91%)
  - Ladies own-branded: 15% (2018: 17%)
  - Ladies branded: 16% (2018: 17%)
  - Mens: 8% (2018: 9%)
  - Kids: 4% (2018: 4%)

- **OFFSPRING**
  - Office: 82% (2018: 83%)
  - Offspring: 18% (2018: 17%)

**S T O R E  R E T A I L  S A L E S  C O N T R I B U T I O N**

- **OFFICE**
  - Office: 55% (2018: 54%)
- **OFFSPRING**
  - Offspring: 17% (2018: 16%)

**FASHION**

**THE RISK OF MANAGING FASHION**

**CONTRIBUTION RETAIL SALES**

- **OFFICE**
  - Office: 2019: 87%
  - Ladies own-branded: 2018: 17%
  - Ladies branded: 2018: 18%
  - Mens: 2018: 9%
  - Kids: 2018: 4%
  - Offspring: 2018: 13%

**TARGET**

- **Gross margin of 44% – 47%**
  - **PERFORMANCE AGAINST TARGET**
  - Gross margin at 42.3% (2018: 44.4%)

**Gross margin of 44% – 47%**

- **PERFORMANCE AGAINST OBJECTIVES**
  - **OBJECTIVES AND PLANS**
  - **Ongoing focus on managing the risk of fashion.**
    - Retail sales declined by 9.9% compared to the prior period.
    - Gross margin declined to 42.3% (2018: 44.4%).
    - Buying and merchandising team sought to use experience, understanding of fashion and store network to see trends early and with the aim of minimising stock holding of brands that were not trending. Sales, however, were disappointing; stock levels increased and gross margins reduced.
    - Commenced the alignment of merchandising philosophy with that of Truworths through a ‘trading alignment’ initiative.
  - **Implement a cloud-based management information solution to replace existing analytical tool.**
    - Continued to implement the cloud-based management information solution to become fully functional during the 2020 financial period.
    - MTO retail sales declined by 7.4% compared to the prior period.
    - Measures have been put in place with a view to ensuring the recovery of Office’s MTO brands supported by new ways of working, including new buying practices across the department.
    - Reduced the number of MTO styles and increased the focus on ensuring that the products produced meet consumer demand with the aim of increasing inventory turn and improving margins.
  - **Align made-to-order (MTO) offering to consumer demand.**
    - MTO retail sales declined by 7.4% compared to the prior period.
    - Measures have been put in place with a view to ensuring the recovery of Office’s MTO brands supported by new ways of working, including new buying practices across the department.
    - Reduced the number of MTO styles and increased the focus on ensuring that the products produced meet consumer demand with the aim of increasing inventory turn and improving margins.

**Challenges encountered**

- **Weak trading resulted in markdown sales substituting full-price sales, having an impact on both sales and margin.**
- **Significant competitor discounting in the marketplace and decline in MTO sales increased pressure on margins.**
- **Pound devaluation is putting pressure on merchandise pricing and margins as some stock is purchased in US dollar and euro.**

**Key risks and mitigation strategies**

**DESCRIPTION OF RISK**

- **Reliance on third-party brands.**
  - Continued engagement with partner brands to maintain brand relationships.
  - High-quality buying and merchandising teams to ensure that consumer trends are monitored and sales data is shared with the brands, allowing Office to partner with the brands and to influence future strategy.
  - New brands introduced.

- **Impact on gross margin of changing product mix within sports and MTO ranges.**
  - Renew focus on higher margin MTO product.
  - Understand and align MTO offering with customer demand.
  - Reduce product options to improve inventory turn.
  - Improve systems and processes to increase inventory turn.

- **Ineffective management of merchandise and buying decisions over stock ranges and volumes.**
  - Apply proven merchandise processes and key executive interventions throughout the merchandise life cycle aimed at managing and mitigating the risk of fashion.
  - Utilise the merchandise management system to control stock levels and ensure the ideal stockholding.
  - Work with Truworths’ management to put effective processes and controls in place.

- **Office is exposed to exchange rate volatility on imported merchandise.**
  - Continue to apply foreign exchange hedging policy to reduce the adverse impact of currency fluctuations.
  - Net exposure to euro is 12% and US dollar is 3% (as proportion of total expenditure).
  - Use natural internal hedge in the form of euro income generated from sales from German and Republic of Ireland stores, the German website and the UK website multi-currency option.

- **Suitability and sustainability of the ageing merchandise management system, having become acutely dependent on highly skilled scarce internal and external resources.**
  - Implement plans to replace current merchandise system.
  - Moved current merchandise management system to a new server.
  - Reduce reliance on current merchandise management system by decoupling new systems and through use of business intelligence.

**MEDIUM TERM**

- **Opportunities**
  - Use market research to continue to build brand positioning of being the omni-channel hub for the female fashion-forward customer.
  - Cement our position of being the preferred partner for all brands who align with Office’s positioning.
  - Grow MTO through an improved range.

**2020**

- **Objectives and plans**
  - Ongoing focus on managing the risk of fashion by entrenching refined buying philosophy focused on differentiation and aligning MTO offering to consumer demand (reduce styles/options and increase inventory turn).
  - Undertake market research to better define and understand the needs of the Offspring customer.
### Performance against objectives and targets

<table>
<thead>
<tr>
<th>OBJECTIVES AND PLANS</th>
<th>PERFORMANCE AGAINST OBJECTIVES</th>
</tr>
</thead>
</table>
| Reduce stockholding levels with a particular focus on aged and marked down stock. | • Marked down stock levels have increased as a result of challenging trading conditions.  
• Significant progress has been made in clearing some of the aged stock (three to five years or more). |
| Complete warehouse and distribution efficiency project, including the introduction of a new warehouse management system (WMS). | • Third-party consultants appointed to provide recommendations on the re-engineering of the distribution centres.  
Management considering the report and recommendations provided.  
• Obtained HMRC Authorised Economic Operator status to allow for faster flow of inbound orders through customs. |

#### Challenges encountered
- Uncertainty around Brexit continues to put pressure on inbound merchandise planning.
- Stock intake was brought forward ahead of the original March Brexit deadline which did not materialise, resulting in more aged marked down stock than usual as at the year-end.

### Objectives and plans
- Reduce stockholding to ideal levels, with a continued focus on aged stock.
- Finalise the appointment of a new WMS supplier with the aim of implementing a new WMS in the next two years.
- Focus on improving delivery options across same day, express and ‘click & collect’.

### Opportunities
- Capitalise on potentially faster flow of inbound orders through customs as a result of successfully achieving HMRC Authorised Economic Operator status.
- Identification of new sources of supply.

### Key risks and mitigation strategies

<table>
<thead>
<tr>
<th>DESCRIPTION OF RISK</th>
<th>RISK MITIGATION</th>
</tr>
</thead>
</table>
| Reliance on third-party brands to secure desirable product. | • Diversify the range and styles across and within the different brands.  
• Increase Office MTO contribution.  
• Office considered a strategic partner by all major brands due to its national coverage and access to target markets. |
| Unethical behaviour within the supply chain. | • Apply and monitor adherence with anti-corruption and bribery policy.  
• Get MTG suppliers to confirm in writing that they accept the working practices in Office’s supplier manual.  
• Ensure adherence to Modern Slavery Act statement available on Office website.  
• Communicate the Office code of ethics to new suppliers, and obtain acknowledgement and signature.  
• Corporate social investment taskforce to address corporate social responsibility at Office.  
• Implemented documentation controls to safeguard against tax avoidance in the supply chain in line with legislation. |
MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

MANAGING RETAIL PRESENCE

Performance against objectives and targets

<table>
<thead>
<tr>
<th>OBJECTIVES AND PLANS</th>
<th>PERFORMANCE AGAINST OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E-commerce</strong></td>
<td></td>
</tr>
<tr>
<td>Customer experience: remove transactional friction to optimise journey.</td>
<td>• Migrated Office websites to Worldpay payment gateway platform, saving costs, offering new ways to pay and additional currencies.</td>
</tr>
<tr>
<td>Channel expansion: enhance language, payment and stock availability options.</td>
<td>• Continued expansion of the wholesale business.</td>
</tr>
<tr>
<td>Customer marketing: continued investment in online marketing and further development of customer-centric loyalty-based marketing programme.</td>
<td>• Partner brands have allowed more stock to be available online (in particular on the Offspring website).</td>
</tr>
<tr>
<td>Omni-channel: introduce enhanced in-store technology to improve customer service and achieve greater integration between digital and store channels.</td>
<td>• Office’s ‘click &amp; collect’ service has expanded.</td>
</tr>
<tr>
<td><strong>Physical stores</strong></td>
<td></td>
</tr>
<tr>
<td>Implement new ‘store of the future’ concept.</td>
<td>• Oxford Street flagship store refurbished in the ‘store of the future’ format. Store has been extremely well received by customers and brand partners.</td>
</tr>
<tr>
<td>E-commerce and physical stores</td>
<td></td>
</tr>
<tr>
<td>Introduce new omni-channel payment gateway to seamlessly identify customers across both e-commerce and physical store platforms.</td>
<td>• Omni-channel payment gateway implemented successfully, reducing payment friction.</td>
</tr>
<tr>
<td>Challenges encountered</td>
<td>• Declining sales in physical stores.</td>
</tr>
<tr>
<td>• Closure of 16 concession stores as House of Fraser and Arcadia (Topshop/Topman) entered into company voluntary arrangements.</td>
<td>• Challenging lease renegotiations.</td>
</tr>
<tr>
<td>• Continuing decline in high-street footfall with customer preference towards online shopping.</td>
<td>• Implementation of Worldpay payment gateway platform took longer than anticipated.</td>
</tr>
</tbody>
</table>

TARGET

Trading space growth of 0.3% Trading space decreased by 5.2%

Key risks and mitigation strategies

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<tbody>
<tr>
<td>Risk of online sales substituting store sales in a fast-changing UK retail landscape.</td>
<td>• Store of the future concept, as implemented at Oxford Street flagship store, has test and learn flexibility and continues to be evolved.</td>
</tr>
<tr>
<td>• Improvements in the omni-channel offering, through ‘click &amp; collect’ and web returns in-store, are supporting customer footfall into stores.</td>
<td></td>
</tr>
<tr>
<td>• More consistent approach to capturing customer data in-store, online and through customer services is enhancing customer profiling and the ability to track customer habits and reward key customers.</td>
<td></td>
</tr>
<tr>
<td>• Managing the store cost base tightly.</td>
<td></td>
</tr>
<tr>
<td>Non-compliance with the General Data Protection Regulation (GDPR) introduced in May 2018, which has changed laws relating to the collection, storage and usage of customer data.</td>
<td>• GDPR training provided to all employees.</td>
</tr>
<tr>
<td>• Adherence to GDPR in line with legislation.</td>
<td></td>
</tr>
<tr>
<td>Payment Card Industry Data Security Standard (PCIDSS) non-compliance.</td>
<td>• Implementation of PCI-compliant omni-channel payment processor.</td>
</tr>
<tr>
<td>• PCIDSS training provided to key employees.</td>
<td></td>
</tr>
<tr>
<td>• Adherence to PCIDSS in line with legislation.</td>
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MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

Performance against objectives and targets

<table>
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<tr>
<th>OBJECTIVES AND PLANS</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Implement turnaround strategy to restore revenue, margins and profitability of Office.</td>
<td>Separate workstreams identified to address areas of under-performance</td>
</tr>
<tr>
<td>Undertake critical review of real estate portfolio.</td>
<td>Close loss-making stores as leases expire.</td>
</tr>
<tr>
<td>Restructure Office’s debt (Office had debt facilities of approximately £42.5 million with UK lenders at the period-end).</td>
<td>Entered into debt restructuring negotiations in June 2019.</td>
</tr>
</tbody>
</table>

Challenges affecting Office’s performance and turnaround strategy

- Constrained retail spending and negative consumer sentiment in an economy dominated by Brexit uncertainty.
- Continuing decline in high-street footfall with customer preference for online shopping increasing.
- Challenges in inventory management resulting in a higher proportion of sales from markdown products, compared to full-price merchandise, which is impacting the gross profit margin.
- Office’s leases have historically been concluded for an average of 10 years with upward adjustments only, making it difficult and expensive to exit legacy leases in loss-making stores.

Key risks and mitigation strategies

<table>
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<tr>
<td>Ineffective management of merchandise and buying decisions over stock ranges and volumes.</td>
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</tr>
<tr>
<td>Risk of online sales substituting store sales in a fast-changing UK retail landscape.</td>
<td>• Store of the future concept, as implemented at Oxford Street flagship store, has test and learn flexibility and continues to be evolved.</td>
</tr>
<tr>
<td>Uncertainty of the impact that Brexit could have on the business.</td>
<td>• Dedicated project team established to focus on (inter alia) customs duties, supply chain, staffing and recruitment, and foreign exchange.</td>
</tr>
</tbody>
</table>

Growth opportunities and plans

- Streamline the real estate portfolio and enhance the e-commerce offering.
- Drive profitable growth by focusing on basics to improve staff morale, and invest in customers and brand relationships.
- Review current warehousing and distribution model to improve efficiencies and reduce costs.

OUR VISION

Management will focus on the basics to drive a more profitable business for all stakeholders: look after our people, invest in our customers, harness our brand relationships and improve our merchandise processes. Our strategic priorities are:

- Staff morale
- Contain costs
- Prioritise capital expenditure
- Focus on trade
- Improve inventory management
- Maintain the brand
- Invest in people by reorganising and restructuring resources for best outcome
- Engage customers
- Offer best-in-fashion product
- Enhance stores
- Rationalise space
- Customer service
- Digital experience
- Offspring
- Improve product assortment
- Supply chain
The Group’s stakeholder relationship programme focuses primarily on the five stakeholder groups that are most likely to influence the delivery of the Group’s strategy and to impact on the material issues within the business.

Recognising that quality stakeholder relationships are critical for value creation over the short, medium and long term, management periodically assesses the quality of these relationships to ensure the Group is effectively meeting the needs, expectations and concerns of stakeholders.

A five-point internal rating scale is applied by management.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Strong relationship of trust and mutual understanding</td>
</tr>
<tr>
<td>4</td>
<td>Good-quality, value-adding relationship</td>
</tr>
<tr>
<td>3</td>
<td>Good relationship but plans are to improve in order to increase value-add</td>
</tr>
<tr>
<td>2</td>
<td>Functional, poor-quality relationship</td>
</tr>
<tr>
<td>1</td>
<td>Poor to no relationship</td>
</tr>
</tbody>
</table>

5 990 shareholders (2018: 4 852)

58% of shares held outside South Africa (2018: 59%)

Engagement issues in 2019

- Declining profitability of Office which resulted in the impairment of intangible assets, driven by poor trading conditions and Brexit-related uncertainty, and tensions in the store versus online business model.
- Plans to turn around performance of Office.
- Succession planning for the CEO and the likely timing of the retirement of the current CEO.
- Capital management including gearing, dividend policy, share buy-backs, capital expenditure and potential acquisitions.
- Sustainability of the credit model in South Africa and the quality of the debtors book, risk appetite and potential impact of regulatory changes, including debt relief.
- Growth opportunities in the low growth South African environment.
- Whether Truworths’ strategy remains appropriate and relevant, and the price versus margin, and value versus price rationale.
- Informal engagement regarding the remuneration policy as well as remuneration disclosure.

Addressing engagement issues

Management is proactive in engaging with local and international institutional investors to address questions and areas of concern. This is achieved through results announcements, presentations and webcasts, the annual general meeting and other shareholder meetings, investor roadshows, participation in broker conferences and extensive management meetings with investors at the Group’s head office and elsewhere.
## Customers

2.7 million active account customers  
(2018: 2.6 million)

8.8 million loyalty programme members  
(2018: 7.1 million)

### Engagement issues in 2019
- Fashion appeal and product quality.
- Expansion of brands offered online and enhancements to e-commerce shopping experience.
- Loyalty programme promotions aimed at attracting and retaining customers through tailored offers.
- Lay-by facilities which were introduced during the period, providing non-account customers who cannot pay cash upfront access to Truworths’ merchandise.
- Visually appealing stores.
- Customer service and experience.

### Addressing engagement issues
Truworths has extensive engagement with account and loyalty customers through in-store interaction, digital communications, call centres and marketing communications to address customer satisfaction and engagement issues.

### Refer to
Managing Account Risk report on page 63 for further information.

## Employees

10 642 employees  
(2018: 11 198)

72% female; 28% male  
(2018: female – 72%; male – 28%)

93% black; 7% white  
(2018: black – 93%; white – 7%)  
(in South Africa)

### Engagement issues in 2019
- Employee survey to identify affirmative action barriers in the workplace ahead of the development of a new employment equity plan.
- Focus on employees’ financial and general well-being.
- Group results, outlook and strategic direction.
- Opportunities for advancement and career progression.
- Consistent and equitable rewards.
- Increased training and skills development opportunities.
- Update of business philosophy and refreshing of values, and creating a common understanding of how employees should live the values.

### Addressing engagement issues
Multiple communication channels are available to address issues raised by employees. These include a facility to pose anonymous questions to the CEO, participation in staff satisfaction surveys, employee roadshows, results presentations, in-store broadcasts, digital communications and employment equity forums.

### Refer to

## Suppliers

Approximately 50% of clothing is produced in South Africa  
(2018: approximately 50%)

Approximately 65% of merchandise across all categories is imported, mainly from China, India, Mauritius, Bangladesh and Madagascar  
(2018: 65%)

### Engagement issues in 2019
- Reducing lead times along the supply chain.
- Engaging with local suppliers on the quick response and fast fashion models.
- Measuring supplier performance through an enhanced supplier scorecard to assist them in managing and improving performance.
- Ensuring merchandise is manufactured to consistent quality and prescribed standards.
- Maintaining a sustainable local production environment through strategic partnerships.
- Maintaining ethical procurement standards and compliance with health and safety standards through supplier code of conduct included in all supplier agreements.
- Fair and transparent pricing.

### Addressing engagement issues
Key supplier engagements include audits of supplier manufacturing facilities, supplier scorecards, negotiations, a web-based supplier portal, and regular and ongoing informal communication.

### Refer to
Optimising Supply Chain Efficiency on page 62 for further information.

## Regulators

JSE, National Credit Regulator, SA Revenue Service (SARS), Companies and Intellectual Property Commission, South African Reserve Bank (SARB), BBBEE Commission, government departments including Department of Trade and Industry (DTI) and Department of Labour, and regulatory authorities outside South Africa

### Engagement issues in 2019
- Engagement with the DTI through National Clothing Retail Federation on proposed debt relief legislation.
- Engagement with various revenue authorities to address queries raised.
- Engagement with SARS regarding the amendments to the South African Income Tax Act in relation to bad and doubtful debts.
- Engagement with the JSE clarifying disclosures in the Group’s interim report at December 2018.
- Reporting to the SARB on progress in relation to foreign investments.

### Addressing engagement issues
Truworths interacts with regulators through formal and informal engagements, through its membership and active participation in the National Clothing Retail Federation (NCRF), the submission of returns, filing of progress reports, site visits and inspections, and through industry bodies.

### Refer to
Optimising Supply Chain Efficiency on page 62 for further information.
### Customers

Store and online customers in the United Kingdom, Germany and the Republic of Ireland, and international online customers

- Fashionability.
- Product quality.
- Breadth of range of leading international brands.
- E-commerce delivery options and speed.
- E-commerce payment options.

### Employees

2,669 employees

- **2018: 2,823**

- **61% female**
  - **2018: 62%**

- **39% male**
  - **2018: 38%**

### Suppliers

Internationally branded footwear: a large portfolio of key branded suppliers, including Nike, Adidas, Converse, Vans, Timberland, Birkenstock, Reebok, Puma, Toms and Ted Baker

Own-branded footwear: manufacturers and agents across Europe and Asia

- **Branded:**
  - Seek to maximise sale opportunities and brand exposure.
  - Obtain feedback on product performance and fashion trends.

- **Own-brand:**
  - Conduct annual audits of own-brand supplier manufacturing facilities.
  - Incorporate Office’s ethics and good business practice code within own-brand supplier manual.

### Regulators

Government departments, regulatory bodies and local authorities in all countries of operation, most notably Her Majesty’s Revenue and Customs (HMRC)

- Obtaining HMRC Authorised Economic Operator status ahead of Brexit.
- Legislative and regulatory compliance.
- Submission of statutory returns.

### Engagement

#### Issues in 2019

- **Fashionability.**
- **Product quality.**
- **Breadth of range of leading international brands.**
- **E-commerce delivery options and speed.**
- **E-commerce payment options.**

- **Want to feel rewarded.**
- **Opportunities for advancement and career progression.**
- **Want to feel engaged with Office’s performance.**

- **Branded:**
  - Seek to maximise sale opportunities and brand exposure.
  - Obtain feedback on product performance and fashion trends.

- **Own-brand:**
  - Conduct annual audits of own-brand supplier manufacturing facilities.
  - Incorporate Office’s ethics and good business practice code within own-brand supplier manual.

#### Addressing engagement issues

Office has commenced the enhancement of its merchandising strategy, with a view to aligning it with Truworths’ tried-and-tested merchandising philosophy, to provide a range of in-demand fashion of a suitable quality and price. Ongoing collaboration with certain branded suppliers ensures an exclusive product offering. Same-day delivery is being trialled in the Greater London area, while enhancements to ‘click & collect’ allow customers to order a greater range of stock already in stores rather than from the warehouse.

Focused on ensuring that the systems are in place to effectively manage and reward employees. Conducted a salary benchmarking survey to ensure Office remains competitive in the market. Leveraged the relationship with Truworths to implement human resource processes and performance management measures.

Continual dialogue with branded suppliers over product performance and customer feedback. Regular visits to key sources of supply are undertaken to build relationships, improve communication and reduce development times.

Office remains abreast of legislative and regulatory requirements. All material filings and payments are submitted by their due dates and the relevant tax authorities are engaged as and when required. Obtained HMRC Authorised Economic Operator status having successfully completed a strict auditing process.
South Africa’s economic prospects are currently being stifled by excessive debt levels in state-owned enterprises with crippling debt servicing costs, past widespread corruption which is going unpunished and unemployment in the country at a 15-year high.

Hard decisions need to be made by government to address fundamental issues to stimulate growth, attract foreign investment and increase business and consumer confidence.

Several of these negative influences are contributing to low economic growth and have resulted in South Africa experiencing one of its toughest consumer environments in recent history.

In the UK, negative consumer sentiment and heightened uncertainty ahead of the Brexit deadline of October 2019, as well as the migration of sales from stores to online, have placed high-street retailing under severe pressure, with nearly 1 000 stores closed through 27 retail failures in the first seven months of 2019 alone.

Office has not been immune to the downturn and poor trading has resulted in a non-cash impairment of £97 million being raised against the Office intangible assets.

These factors have contributed to the Group reporting disappointing financial results, with the operating profit declining by 58.1% to R1.7 billion. Diluted headline earnings per share (HEPS) decreased 2.5% in Truworths and 60.0% in Office, resulting in the Group’s diluted HEPS declining 8.5% for the period. The dividend cover was maintained at 1.5 times and the annual dividend was 36 cents lower at 384 cents per share.

Despite the earnings setback, the Group remains highly cash generative and is in a strong financial position with lower gearing. Management is committed to investing for growth through planned capital expenditure of R581 million for the 2020 financial period.

Governance and oversight have come under increasing scrutiny by regulators and investors alike over the past year. While South Africa has been at the forefront of global governance practices, high-profile public and private sector accounting scandals have weighed heavily on investor confidence. It will no doubt take time to restore trust and credibility.

The Truworths International board views governance as more than a compliance discipline, and rather as a means of improving corporate performance and ultimately enhancing value for our shareholders and other stakeholders. We believe sound corporate governance is creating value in the business through reduced risk and better risk mitigation, improved sustainability, enhanced accountability, consistent financial performance, sound stakeholder relationships, high levels of legislative compliance and reputational integrity. Further detail on how governance creates value in the Group is covered in the Governance creating value report on page 33.

We also strive to create an effective balance between meeting the board’s governance oversight responsibilities and maintaining an entrepreneurial environment in which management can operate.

Our governance standards are assessed each year as part of the evaluation for inclusion in the FTSE/JSE Responsible Investment Top 30 Index. The Group was again included in the Top 30 Index and attained 100% for the corporate governance component of the FTSE environmental, social and governance (ESG) ratings scorecard, confirming that the Group’s governance standards are in line with global best practice.

Investors are increasingly considering ESG performance in their investment decision-making. It is pleasing that the Group again qualified for inclusion in the FTSE4Good Index which measures the performance of companies demonstrating strong ESG practices against global standards. We achieved an overall ESG rating of 4.2 (2018: 4.1) compared to the country average of 3.3 and the industry average of 2.5. The Group obtained the maximum score of 5 for the governance pillar while recording 3.5 for the environment and 4.1 for the social pillars.
CHAIRMAN’S REPORT continued

INTEGRATED REPORTING

Transparent reporting is a hallmark of good governance. South African companies are recognised for their high standards of integrated reporting and this was confirmed in a recent comparative analysis study which ranked South Africa first for its quality of integrated reporting, with a score of 2.85 out of 3. The study assessed integrated reports from Brazil, France, Germany, Italy, Japan, The Netherlands, South Africa, South Korea, the United Kingdom and the United States of America.

Truworths International continues to be recognised for its high standard of integrated reporting. The Group’s 2018 Integrated Report was adjudged the winner in the Top 40 category in the JSE/Chartered Secretaries Southern Africa Integrated Reporting Awards.

In the EY Excellence in Integrated Reporting Awards the Group’s 2018 Integrated Report was ranked tenth (2017 report: ranked ninth) among the 100 largest companies on the JSE, again the only retailer in the top ten. The Group has been ranked in the top ten in these awards for 12 consecutive years, one of only two companies to achieve this recognition. The awards are adjudicated by the University of Cape Town’s College of Accounting.

BOARD GOVERNANCE

Diversity and transformation in the boardroom ensure balanced decision-making and that the needs and concerns of our stakeholder groups are addressed. Our board is diverse in its skills, thinking and composition, with expertise in a range of disciplines, thereby ensuring that the board adds value to the strategic direction of the business.

The composition of the board is reviewed on an ongoing basis by the Nomination Committee. Women representation on our board was strengthened during the period with the appointments of Cindy Hess as an independent non-executive director and Sarah Proudfoot as an executive director in May 2019.

Cindy has cross-industry experience, predominantly in the FMCG sector, in financial management, risk management and corporate finance, and has served as chief financial officer in large listed and unlisted companies.

Sarah’s appointment strengthens the board’s fashion retail knowledge and understanding. During her 21 years with the Group she has gained experience in merchandise design, buying and planning, store design and marketing and was appointed Director of Truworths Ladieswear Merchandise in 2016.

We welcome the new directors and look forward to benefiting from their collective experience and expertise. At year-end female representation on the board was 31%, in line with the medium-term target contained in the board’s gender and race diversity policy.

Our board is active and engaged, with a good blend of longer-serving directors and those more recently appointed, with five of the directors having served on the board for three years or less. A formal assessment of the independence of our non-executive directors during the reporting period confirmed that they are correctly categorised as independent when benchmarked against governance and regulatory standards.

Succession planning for key executive roles, in particular the position of CEO, is a top priority for the board and the Nomination Committee. The strong leadership team in Truworths provides the Group with CEO succession candidates while external appointments may also be considered to broaden the pool of potential successors.

APPRECIATION

Thank you to my fellow non-executive directors for their commitment to achieving high standards of governance and oversight, and for their guidance and counsel in what has been a challenging year for our business. Michael Mark’s extensive experience and decisive leadership have again proved invaluable in navigating the Group through difficult trading conditions in South Africa as well as the UK. Michael is supported by strong executive teams in Truworths and Office who continue to lead by example.

Thank you to our external stakeholders including shareholders, customers, suppliers, regulators, funders and advisers for their ongoing support.

Hilton Saven
Independent Non-executive Chairman

TRIBUTE TO DR THANDI NDLOVU

We are deeply saddened by the tragic and untimely passing of one of our longest-serving directors, Dr Thandi Ndlovu, on 24 August 2019. ‘Dr Thandi’, as she was affectionately known, was appointed to the board as an independent non-executive director in 2001 and was a member of the Social and Ethics Committee and the Nomination Committee. She made an outstanding contribution to board and committee affairs. Her versatility and extensive experience enabled her to provide substantive input to board deliberations across several disciplines, including transformation, supplier development and customer relations.

Dr Thandi was a pioneering business leader in the male-dominated construction sector in South Africa while being widely recognised for her social activism as a champion for the empowerment of women. She was a truly impactful and selfless leader whose vibrancy and wisdom will always be a true inspiration to all who had the privilege of knowing her.

Kindly refer to page 30 for our tribute to Dr Thandi.

TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2019

29
REMEmBERING
Dr Thandi Ndlovu

Our beloved and highly respected colleague Dr Thandi Ndlovu was tragically killed in a motor vehicle accident on 24 August 2019.

Dr Ndlovu served as an independent non-executive director on our board for almost 19 years and was a valued member of our Social and Ethics Committee, as well as the Nomination Committee. She was a confidante, an adviser and a mentor to our whole board, and we benefited tremendously from her guidance, support and understanding of our business DNA and everything we stand for.

Dr Ndlovu’s influence on the business extended well beyond the board. She contributed to the broader business and her passion for the business and its people together with her support and guidance meant an enormous amount to all staff and management.

During the darkest days of apartheid, Dr Ndlovu committed herself to the liberation struggle and served as a commander in the African National Congress’ military wing, uMkhonto weSizwe. She maintained her support for the movement for democratic change throughout.

She was a medical doctor who in her early years provided medical care to tens of thousands of disadvantaged people by establishing a clinic in Orange Farm outside Johannesburg. Here she worked as the only medical doctor in the community.

Dr Thandi, as she was affectionately known, was the founder, CEO and chairperson of the Motheo Construction Group of Companies, one of South Africa’s first and leading black female-owned construction companies. She was the recipient of numerous awards over the years including the 2017 Woman of Substance Award from The African Women Chartered Accountants Association and the 2013 Entrepreneur of the Year Award from the Businesswomen’s Association of SA (BWASA); contributing greatly to the construction of quality rural housing and the upgrading of informal settlements across South Africa.

Dr Thandi believed in leading by example and was determined to use her knowledge, stature and business acumen to champion change and opportunity for women in South Africa. She had a sharp intellect, a warm heart, a vibrant spirit, and always made time to share her knowledge and wisdom. She was a truly impactful and selfless leader, an inspiration to all who had the privilege of knowing her. Her story and life are full of wonderful lessons that followed these truths:

1. Let each person feel better off from having interacted with you each and every time.
2. Show equal respect to all even when you disagree, irrespective of differences.
3. Never move ahead without taking the hand of someone else along your journey.
4. Fill your business with skilled people so that you can use your success to uplift the less fortunate.
5. Fight gender-based violence in all its forms.
6. Use your personal moral compass to guide all your decisions in life and in business.

She was an amazing woman who over the past seven years climbed Mount Kilimanjaro on two occasions, Everest Base Camp, Mount Kenya and Annapurna Base Camp, all for charity. At a board meeting in August shortly before she died, Dr Thandi proudly told our board members that she was in training for her next climbing adventure, which was planned for September in Peru for her charity, The Thandi Ndlovu Children’s Foundation.

Our heartfelt condolences go out to her loved ones. She will be sorely missed by all who knew her.

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Rest in peace, our mentor, dear friend and colleague.

Hilton Saven
Chairman

Michael Mark
Chief Executive Officer

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TRUWORTHS INTERNATIONAL LTD BOARD

INDEPENDENT NON-EXECUTIVE DIRECTORS

HILTON SAVEN (66)
BCom, CA (SA)
Chairman of the board
Independent Non-executive Director
Chartered accountant and business consultant
Chairman: Balwin Properties Ltd, Lewis Group Ltd
Non-executive director: Monarch Insurance Company Ltd, Praxity Global Alliance Ltd (UK), Priory NICW (Belgium), Wellabar Investment Holdings (Pty) Ltd
Trustee: Truworths Chairman’s Foundation, Truworths International Ltd Share Trust
Appointed to the board in February 2003
Member of Remuneration Committee, Risk Committee and Nomination Committee

ROB DOW (62)
BCom (Hons), BSc. Acc. (DUniv), CA
Independent Non-executive Director
Investment adviser and business consultant
Non-executive director: Frivaldprop (Pty) Ltd and subsidiaries, Priory VentureHoldings (Pty) Ltd and subsidiaries, Sam-Michael’s 204 (Pty) Ltd
Member and director of non-profit organisation: Herschel Association
Trustee: Truworths International Ltd Share Trust
Appointed to the board in February 1996
Chairman of Remuneration Committee and member of Audit Committee and Nomination Committee

HANS HAWINKELS (67)
BSc. Eng., BCom, MBA
Independent Non-executive Director
Businessman and consultant
Non-executive director: Wyrostak (Pty) Ltd
Appointed to the board in February 2019
Member of Nomination Committee

MAYA MAKANJEE (57)
BCom, BA, MBA
Independent Non-executive Director
Director of companies
Non-executive director: AIG South Africa Ltd, Mpact Ltd, Tiger Brands Ltd
Non-executive director:
AIG South Africa Ltd, AIG
Director of companies
Independent Non-executive Director
BCom, BA, MBL
Committee and Nomination Committee
Member of Remuneration Committee, Risk Committee, Audit Committee and Nomination Committee

RODDY SPARKS (60)
BCom (Hons), CA (SA), MBA
Independent Non-executive Director
Director of companies
Chairman: University of Cape Town College of Accounting Advisory Board
Non-executive director: Tencor Ltd, Imperial Logistics Ltd
Appointed to the board in February 2012
Chairman of Audit Committee and member of Risk Committee and Nomination Committee

TONY TAYLOR (72)
BA
Independent Non-executive Director
Retail executive and businessman
Executive: Popul8 Retail Ltd
Non-executive chairman: PBT Group Ltd
Appointed to the board as an executive director in February 1999. Retired as an executive director and became a non-executive director on 1 April 2010, and qualified to be classified as an independent non-executive director with effect from 1 April 2010.
Member of Remuneration Committee and Nomination Committee

MICHAEL THOMPSON (76)
BCom, MBA, AMP (Harvard)
Independent Non-executive Director
Retired banking executive and management consultant
Chairman: SA Select Property Investments Ltd, SA Select Property Asset Managers (Pty) Ltd
Trustee: Truworths International Ltd Share Trust, Helderberg Village Master Homeowners Association
Appointed to the board in March 2004
Chairman of Social and Ethics Committee and member of Risk Committee, Audit Committee and Nomination Committee

EXECUTIVE DIRECTORS

DAVID PFAFF (54)
BCom, CA (SA), Dip Eco (DUniv)
Chief Operating Officer and Chief Financial Officer
Executive Director
Director: Truworths Ltd, Truworths Batawana (Pty) Ltd, Truworths (Macoluxx) (Pty) Ltd, Tso Group Clothing Retailers (Ghana) Ltd, Truworths (Sweden) Ltd, Truworths (Leosfod) (Pty) Ltd, Truworths (Kenya) Ltd
Non-executive director: Office Holdings Ltd
Trustee: Truworths Social Involvement Trust, Truworths Community Foundation, Truworths Enterprise Development Trust
Employee since June 1984
Appointed to the board in August 2010

DOUG DARE (58)
BBusSc
Director: Buying and Merchandising
Executive Director
Director: Truworths Ltd
Employee since June 1984
Appointed to the board in August 2010

CINDY HESS (43)
BCom, CA (SA)
Independent Non-executive Director
Businessman and consultant
Non-executive director: RCL Foods Ltd, Consolidated Infrastructure Group Ltd
Vice chairperson: Council of the University of the Western Cape
Appointed to the board in May 2019
Member of Nomination Committee

SARAH PROUDFOOT (51)
National Diploma in Clothing Design
Director: Merchandise Ladieswear
Executive Director
Director: Truworths Ltd
Employee since March 2001
Appointed to the board in May 2019

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BCom, BA, MBA
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Non-executive director: AIG South Africa Ltd, Mpact Ltd, Tiger Brands Ltd
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AIG South Africa Ltd, AIG
Director of companies
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Member of Nomination Committee

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National Diploma in Clothing Design
Director: Merchandise Ladieswear
Executive Director
Director: Truworths Ltd
Employee since March 2001
Appointed to the board in May 2019
GROUP LEADERSHIP

TRUWORTHS INTERNATIONAL EXECUTIVE LEADERSHIP

MICHAEL MARK (66) BCom, MBA, ACCA
Chief Executive Officer
Executive Chairman: Truworths Ltd
Employee since May 1988
Appointed to the board in July 1991

DAVID PFAFF (54) BCom, CA (SA), Dip Sav (South)
Chief Operating Officer and Chief Financial Officer
Employee since April 2013
Appointed to the board in September 2013

DOUG DARE (58) BBusSci
Truworths Director: Buying and Merchandising
Employee since June 1994
Appointed to the board in July 1999

SEAN FURLONG (58) Diploma in Marketing Management
Truworths Director: Planning and Logistics
Employee since February 1989
Appointed to the board in March 2016

SARAH PROUDFOOT (51)
National Diploma in Clothing Design
Truworths Director: Merchandise Ladieswear
Employee since March 2001
Appointed to the board in March 2016

STEVE WIDEGGER (57)
Diploma in Business Management
Divisional Director: Merchandise
Employee since February 1987
In current position since August 2008

FRANCOIS BAISSAC (57)
Diploma in Computer Programming
Divisional Director: Merchandise
Employee since June 1988
In current position since February 2011

TONY MIEM (56)
PG Diploma in Accounting
Divisional Director: Real Estate, Store Design and Visual Presentation
Employee since December 2005
In current position since August 2008
Director: Young Designers Emporium (Pty) Ltd, Truworths Ltd (incorporated in Zimbabwe)
Chairman: Sustainability Committee

ZAMIRA MOWZER (42)
BCom, CA (SA)
Divisional Director: Internal Audit, Governance and Risk
Employee since January 2008
In current position since March 2019
Trustee: Truworths Community Foundation, Truworths Social Involvement Trust, Truworths Enterprise Development Trust
Chairperson: Compliance Committee and Transformation Committee

CHRIS DURHAM (63) FCIS, PG Diploma in Adv Co Law (UCT)
Divisional Director: Company Secretary
Employee since June 1999
In current position since March 2019
Director: Truworths (Namibia) Ltd, Truworths (Swaziland) Ltd, Truworths (Lesotho) (Pty) Ltd, Truworths (Zambia) Ltd, Truworths (Kenya) Ltd
Trustee: Truworths Community Foundation, Truworths Social Involvement Trust, Truworths Enterprise Development Trust
Member: Compliance Committee, Sustainability Committee and Transformation Committee

TRUWORTHS DIVISIONAL DIRECTORS

NEVILLE KOPPING (56)
BCom
Divisional Director: Merchandise
Employee since March 2008
In current position since March 2016

GARY BARNARD (43)
BSc (Electro Mechanical Engineering)
Divisional Director: Credit Risk and Analytics
Employee since June 2002
In current position since August 2015

CATHY KIRKMAN (51)
Divisional Director: Merchandise Planning
Employee since March 1988
In current position since March 2019

MYLES APSEY (44)
BCom
Divisional Director: Merchandise Planning
Employee since May 2004
In current position since March 2019

PETER SHACKLETON (43)
BCom, PG Dip Management (Marketing)
Divisional Director: Marketing and Merchandise
Employee since May 2004
In current position since March 2019

GAVIN TEIXEIRA (53)
Divisional Director: Retail Operations
Employee since 2004
In current position since September 2016

GAVID KIRKMAN
Divisional Director: Group Financial Services
Employee since May 2004
In current position since March 2019

ROB WORTHINGTON (54)
Multi-channel Director
Employee since May 2010
In current position since May 2010

GHASSAN HODEIB (47)
Buying Director
Employee since February 1998
In current position since January 2004

JONATHAN KUTNER (46)
Merchandising Director
Employee since March 2004
In current position since March 2004

OFFICE LEADERSHIP

LORENZO MORETTI (48)
Chief Executive Officer
Director: Office Holdings Ltd
Employee since October 2018
In current position since October 2018

KERRY-LEE VAN DER MERWE (43)
BCom, CA (SA)
Chief Financial Officer
Director: Office Holdings Ltd
Employee since June 2016
In current position since October 2018

LORENA LEONARDI (48)
BCom, CA (SA)
Chief Financial Officer
Director: Office Holdings Ltd
Employee since June 2016
In current position since October 2018

TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2019
The board of directors periodically reviews the opportunities and threats it believes could have the most significant impact on the Group’s ability to create sustainable value for the Group’s stakeholders. In determining these material issues the directors consider several internal and external factors, including the Group’s strategy as formulated by executive management, the needs, expectations and concerns of its main stakeholders and the economic and trading environment.

In the 2019 financial period the board reaffirmed the Group’s strategy of aiming to be a world-class omni-channel retailer of fashion clothing, footwear, homeware and related merchandise, operating in both the southern and northern hemispheres. The board observed that the successful implementation of this strategy was aimed at delivering a diversified earnings profile, customer base in both developed and emerging market countries.

The board confirmed the Group’s growth strategies and these are outlined in the Group Strategy report on page 13.

The board monitors progress on the implementation of the strategic growth initiatives and measures performance against both the agreed financial targets and the strategic goal objectives.

The board, aided by the principal operating company boards, will assess on an ongoing basis whether the activities of the Group are creating value for its key stakeholders. Refer to the Measuring value creation report on page 9.
During the period under review board deliberations included the following:

<table>
<thead>
<tr>
<th>NOTED</th>
<th>CONSIDERED</th>
<th>APPROVED</th>
<th>AUTHORISED</th>
<th>RESOLVED</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Management’s integration and alignment of the Office business into the Group</td>
<td>• Executive management’s strategies for the Truworths and Office segments</td>
<td>• Executive management to continuously explore various potential acquisitions</td>
<td>• To appoint an additional independent non-executive director of the company</td>
<td>• Executive management to undertake share repurchases within defined parameters</td>
</tr>
<tr>
<td>• The performance of the customer loyalty programme launched within the Truworths segment in the 2018 period</td>
<td>• Executive management’s appointment of a new CEO for the Office segment</td>
<td>• Executive management’s appointment of a new CEO for the Group</td>
<td>• To appoint an additional executive director of the company</td>
<td>• Executive management to issue and list shares pursuant to share incentive scheme transactions within defined parameters</td>
</tr>
<tr>
<td>• The financial performance of the e-commerce platform introduced in the Truworths segment during the 2018 period</td>
<td>• Executive management’s proposal to restructure Office’s debt</td>
<td>• Executive management’s progressing possible litigation, in collaboration with other credit retailers, as regards envisaged debt relief legislation</td>
<td>• To appoint an additional independent non-executive director of the company</td>
<td>• Executive management to issue and list shares pursuant to share incentive scheme transactions within defined parameters</td>
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<tr>
<td>• Management’s roll-out of a lay-by payment option within the Truworths segment enabling customers to set aside merchandise for payment over a three-month period</td>
<td>• The accounting impairment of the Office business’ intangible assets</td>
<td>• To provide ongoing financial and operational support to the Office business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Management’s achievement of a compliance level on the broad-based black economic empowerment scorecard for the Truworths segment</td>
<td>• Management’s integration and alignment of the Office business into the Group</td>
<td>• Management’s integration and alignment of the Office business into the Group</td>
<td>• To provide ongoing financial and operational support to the Office business</td>
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</tr>
<tr>
<td>• Various presentations by management relating to different aspects of the Group’s business, including merchandise ranges and executive information systems</td>
<td>• The further progress made and steps taken to ensure adequate succession planning for key executives, including the Chief Executive Officer (CEO)</td>
<td>• The assurance provided by the Audit Committee regarding the rigour applied in the process of determining the amount by which the intangible assets of the Office business should be impaired</td>
<td>• To provide ongoing financial and operational support to the Office business</td>
<td></td>
</tr>
</tbody>
</table>

**CREATING VALUE continued**

**GOVERNANCE**

**Board deliberations**

A material matter considered and discussed by the board at length during the period, particularly in the second half, related to the declining performance of the Office segment, and the interventions planned and implemented by executive management to address the issues that had contributed to its disappointing levels of revenue and profitability. The board noted and approved a range of plans that included:

- appointing a new CEO and strengthening the management team;
- improving merchandise buying/planning processes by aligning with Truworths’ practices;
- prioritising the Office segment’s operational and capital expenditure to ensure alignment with the turnaround plan and medium-term strategic direction;
- aligning marketing and communication strategies, branding and brand relationships;
- rationalising the store portfolio by reviewing leases and closing loss-making stores; and
- entering into negotiations to restructure the Office segment’s borrowings and to continue to provide ongoing operational and financial support.

The board will critically monitor the implementation of these actions, will reassess their effectiveness on an ongoing basis and will task management to take such other steps as may be necessary to return the business to a positive growth trajectory over the next three years.

The restructuring of the Office debt was concluded successfully during September 2019 where the existing syndicated facility was replaced with a new £32.5 million facility on more favourable terms arranged by the Group’s principal bankers, Standard Bank. This facility is backed by a guarantee issued jointly by Truworths International and Truworths.

**NON-EXECUTIVE DIRECTOR SUCCESION**

A further significant matter under ongoing consideration by the board is succession for long-serving non-executive directors. In this regard the board is resolved to refresh the non-executive component of the board in a systematic manner that will enable the Group to have continuity in terms of the important and continually high-level contribution from long-standing directors, whilst newly appointed non-executive directors grow their knowledge of the Group and begin to influence board deliberations in a substantive manner.

Over the past 18 months three additional non-executive directors have been appointed to the board in pursuance of this succession strategy and it is envisaged that as they are promoted to committee membership in due course long-serving non-executives will be retiring from the board.
GOVERNANCE CREATING VALUE continued

GOVERNANCE FRAMEWORK

SHAREHOLDERS

TRUWORTHS INTERNATIONAL

GROUP BOARD OF DIRECTORS

Audit Committee  Risk Committee  Remuneration Committee  Social and Ethics Committee  Nomination Committee

TRUWORTHS SEGMENT

Operational board

Operational Board Governance Committees
Sustainability, Transformation, Tender and Capex, Compliance, Change Control

OFFICE SEGMENT

Operational board

Operational Board Governance Committees
Audit, Tender and Capex, Risk, Change Control

BOARD PERFORMANCE

An annual evaluation is conducted to assess the effectiveness of the board as a unit, as regards:

- Stakeholder engagement
- Role and responsibilities
- Ethical leadership and culture
- Succession planning
- Director evaluation and compensation
- Leadership, team and relationships with management
- Board and committee productivity

The evaluation concluded that the board’s overall functioning and governance were excellent, and further indicated that:

- The board believes it is functioning to very high standards and that it is well versed on the business, governance issues and the Group’s strategy.
- The relationships between the board members and with the CEO and other executives are excellent.
- The board’s role and responsibilities have been clearly defined, performance objectives are in place, issues are prioritised and discussed timeously whilst operational and financial performance is effectively monitored.
- The board is satisfied that there is a high level of independence of the non-executive directors.
- Good progress has been made in evolving the composition of the board by breadth of skill and by gender and race. It is believed that the recent additions to the board have further strengthened its effectiveness.

- The board is satisfied with its retention and continues to place importance on the development of its members, particularly those who have recently been appointed.
- Leadership, teamwork and management relations on the board are regarded as highly effective.
- Board and committee meetings are productive and allow for appropriate issues to be raised when necessary. There has been a significant improvement in the time allocated to meetings to cover a broader set of issues in more depth.
- Board members are suitably compensated in relation to their roles and fees are regularly benchmarked against market practices.
- Succession planning continues to be an important area of focus particularly with regards to the succession of the CEO.
- The board is satisfied with the high level of ethical behaviour and proper compliance standards throughout the Group.
- There is a high level of consideration by the board of the Group’s various constituencies, including shareholders, employees, customers, suppliers and communities.

BOARD PRIORITIES FOR THE 2020 PERIOD

- Continue to ensure that the board provides ethical leadership so that the Group operates within a culture of integrity and compliance.
- Monitor the implementation of management’s plans to refinance, restructure and rationalise the Office business.
- Work to ensure that the Group’s strategy maintains momentum in low growth environments.
- Ensure that the Group’s strategies for managing its key risks and suitably dealing with its material issues are appropriately implemented and regularly reviewed.
- Ensure that further progress as regards succession planning for the CEO continues.
- Ensure that the performance of executive management against financial and other targets is regularly reviewed.

SHAREHOLDERS

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BOARD AND COMMITTEE MEETING ATTENDANCE

For the reporting period the directors achieved a 95.5% (2018: 100%) level of attendance at board and committee meetings.

95.5%
Goverance Creating Value continued

Board Information

Age and tenure
Policy: Directors are appointed to the board based on skill, leadership, integrity, experience, diversity and business requirements. No maximum age limit is applicable and tenure on the board is determined with reference to contribution and engagement as assessed through the annual director evaluation process.

![Age and tenure chart]

Independence
Policy: The majority of the board should consist of non-executive directors, the majority of whom should be independent.

![Independence chart]

Gender and racial diversity
Policy: At least 30% of the board should comprise females in the medium term. At least 30% of the board should comprise black directors in the medium term.

![Gender and racial diversity chart]

Board size and turnover
Policy: The board should comprise sufficient directors, having regard for suitable diversity of skills, experience and background, and in order to meet regulatory requirements and ensure the board and board committee workload is adequately performed.

![Board size and turnover chart]

<table>
<thead>
<tr>
<th>Board of Directors</th>
<th>Non-executive directors</th>
<th>Executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors’ classification</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Board expertise</th>
<th>Collective expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic planning</td>
<td>92%</td>
</tr>
<tr>
<td>Finance and taxation</td>
<td>58%</td>
</tr>
<tr>
<td>Retail</td>
<td>100%</td>
</tr>
<tr>
<td>Corporate affairs and communication</td>
<td>42%</td>
</tr>
<tr>
<td>Financial services</td>
<td>100%</td>
</tr>
<tr>
<td>Information technology and communications</td>
<td>50%</td>
</tr>
<tr>
<td>Risk management, compliance and governance</td>
<td>25%</td>
</tr>
<tr>
<td>Distribution and logistics</td>
<td>33%</td>
</tr>
<tr>
<td>Construction and engineering</td>
<td>17%</td>
</tr>
<tr>
<td>Human resources and transformation</td>
<td>29%</td>
</tr>
<tr>
<td>Corporate finance, mergers and acquisitions</td>
<td>67%</td>
</tr>
<tr>
<td>Marketing</td>
<td>17%</td>
</tr>
</tbody>
</table>

| Diversity of expertise | Policy: To have a well-rounded board with the necessary skills and expertise to govern effectively and satisfy business requirements. |

<table>
<thead>
<tr>
<th>Board committees</th>
<th>Committee chair</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration</td>
<td></td>
</tr>
<tr>
<td>Risk</td>
<td></td>
</tr>
<tr>
<td>Nomination</td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td></td>
</tr>
<tr>
<td>Social and Ethics</td>
<td></td>
</tr>
</tbody>
</table>

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*Dr Thandi Ndlovu tragically passed away on 24 August 2019 and as such has been retired as a director of the Group. Please refer to the tribute to Dr Ndlovu on page 33. As Dr Ndlovu was a director of the company throughout the reporting period and at the period-end, the age and tenure, independence, gender and racial diversity, and board size and turnover statistics have been calculated including her.

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<table>
<thead>
<tr>
<th>Year</th>
<th>Non-executive directors</th>
<th>Executive directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>2016</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>2017</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>2018</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>2019</td>
<td>12</td>
<td>1</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Gender</th>
<th>Racial diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>44% (2018: 42%)</td>
</tr>
<tr>
<td>Female</td>
<td>56% (2018: 58%)</td>
</tr>
<tr>
<td>Black</td>
<td>35% (2018: 38%)</td>
</tr>
<tr>
<td>White</td>
<td>65% (2018: 62%)</td>
</tr>
</tbody>
</table>

---

<table>
<thead>
<tr>
<th>Director movement over last five years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Six directors appointed, three directors resigned/retired*</td>
</tr>
</tbody>
</table>

---

As Dr Ndlovu was a director of the company throughout the reporting period and at the period-end, the age and tenure, independence, gender and racial diversity, and board size and turnover statistics have been calculated including her.
GOVERNANCE CREATING VALUE continued

SUMMARISED GOVERNANCE REVIEW
During the 2019 financial period the Group continued to practise corporate governance at a high level, aimed at adding value to the business as well as facilitating the Group’s sustainability, generating long-term shareholder value and benefiting other stakeholders.
Governance in the Group is a strategic imperative and accordingly compliance with codes, legislation, regulations and listings requirements is the minimum requirement. Management has adopted sound corporate governance principles and appropriate governance structures and policies, and believes it has embedded a business-wide culture of good governance that is aligned to the Group’s Business Philosophy.
An independent assessment of the Group’s standard of governance is provided by the annual evaluation process for the FTSE4Good Index Series, conducted by FTSE/Russell, which relies on publicly available information. In the reporting period the Group again was a constituent company, attaining 5 out of 5 points (2018: 5 out of 5) for the corporate governance theme of the FTSE Environmental, Social and Governance (ESG) Ratings scorecard. The company was also a constituent member in the FTSE/JSE Responsible Investment Top 30 Index during the period.
The directors confirm that during the 2019 reporting period the Group has in all material respects voluntarily applied the 2016 King Code of Governance Principles (King IV) and complied with the mandatory corporate governance provisions in the JSE Listings Requirements.

GOVERNANCE DEVELOPMENTS IN 2019
While the board believes the Group has achieved a suitably high level of maturity in relation to governance, the relevant processes, policies and structures are continually reviewed and modified. The following enhancements were made to the Group’s governance framework during the period:

<table>
<thead>
<tr>
<th>GOVERNANCE ELEMENT</th>
<th>GOVERNANCE DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social and Ethics Committee</td>
<td>The committee further expanded its monitoring function to ensure that over a rolling period all matters requiring monitoring by regulation are suitably presented on by management and appropriately considered by the committee, or by the board or other structures that report to the board.</td>
</tr>
<tr>
<td>Directors</td>
<td>An additional independent non-executive director and an additional executive director, both women, were appointed to the company’s board, thereby extending its skills, diversity and experience.</td>
</tr>
<tr>
<td>Senior management appointments</td>
<td>A new position of Group Chief Operating Officer was created and filled, thereby enhancing leadership succession plans. A new CEO was appointed to the Office segment, thereby re-energising its leadership and enabling a critical review of the Office market positioning, brand and product offering, and partnership with strategic suppliers. Senior management succession in the Truworths segment was strengthened through the internal appointment of four long-serving executives to divisional director level, thereby adding new skills and diversity to the senior executive team.</td>
</tr>
<tr>
<td>Risk governance</td>
<td>The reporting to the Risk Committee by the board of the company has been further enhanced to encompass more detailed reporting on operational risks within the distribution function.</td>
</tr>
<tr>
<td>Board committees</td>
<td>The scope of operation of the Non-executive and Nomination Committee was redefined and the committee has been renamed as the Nomination Committee. Accordingly, its charter was updated to reflect its reduced membership and ensure alignment with King IV as regards regarding tenure of membership and annual performance evaluation obligations. The formal annual evaluation process was conducted to assess the performance of the board committees.</td>
</tr>
<tr>
<td>Risk governance in Office</td>
<td>The board commenced the implementation of its race diversity policy at board level towards the adoption of its medium-term target of 20% black representation.</td>
</tr>
<tr>
<td>Corporate social investment</td>
<td>The corporate social investment policy for the Truworths segment has been reviewed and updated to ensure improved alignment with business objectives and to improve governance oversight.</td>
</tr>
<tr>
<td>Information technology (IT) governance</td>
<td>The information security and privacy process within the Truworths business has been bolstered by the appointment of a new IT Security Manager within the segment. The focus on cybersecurity risk mitigation has intensified through the creation of increased awareness of cybercrime, the commissioning of external reviews of the business’ information security measures and the implementation of structured plans to address the development areas identified.</td>
</tr>
<tr>
<td>Supplier codes of conduct</td>
<td>The Group’s codes of conduct for local and international suppliers have been reviewed and aligned to the JSE Listings Requirements.</td>
</tr>
<tr>
<td>Credit legislation compliance</td>
<td>Management has reviewed its processes in response to proposed credit legislation regarding debt relief and has commenced the implementation of policies and processes to mitigate the associated risks.</td>
</tr>
<tr>
<td>Tax risk governance</td>
<td>Management implemented its group-wide transfer pricing policy and inter-company agreements, to ensure cross-border intra-group transactions take place on an arm’s length basis and the profit allocation reflects the underlying economic activities.</td>
</tr>
<tr>
<td>Sustainability reporting</td>
<td>The Group’s reporting on ESG initiatives was further improved through the revision of the content and comprehensiveness of its Social and Environmental Report 2019.</td>
</tr>
<tr>
<td>Remuneration policies</td>
<td>The board engaged PwC to conduct a review and assessment of remuneration policies and the implementation thereof to ensure alignment with market best practice and reporting standards required by shareholders.</td>
</tr>
</tbody>
</table>

2020 GOVERNANCE PRIORITIES
Board and governance priorities for the 2020 financial period will include:
- further implementation of the King IV-recommended practices across the Group;
- further developing risk management within the Office business; and
- further developing sustainability reporting capabilities within the Office business.

The board will continue to follow an approach of continuous incremental improvement as regards governance practices and structures to ensure the reasonable expectations of stakeholders as regards the Group’s corporate governance standards are met.
THE REMUNERATION COMMITTEE

REPORT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Background statement
R"ewarding and retaining high-performing employees in the current challenging environment requires a renewed approach to remuneration practices and policies while remaining aligned with the core Values of our Business Philosophy. The Group has invested considerable resources this past year in researching and reviewing the spectrum of our reward policies and practices, with input from external remuneration advisers, PricewaterhouseCoopers (PwC) as well as our shareholders, and have implemented several changes to ensure we achieve our objectives through our reward practices. The committee is satisfied with the independence and objectivity of PwC in compliance with principle 14 recommendation 33(d) of King IV.

We will continue to enhance these practices to ensure we remain competitive in terms of attracting and retaining talent at all levels within the Group. These practices and policies aim to entrench a high-performance culture across the Group, ensure sustained value creation and align performance and reward with our Business Philosophy. The achievement of Group, team and individual performance objectives remains central to driving remuneration strategies.

The year in review
At the company’s 2018 Annual General Meeting (AGM), 75.0% of shareholders voted in favour of the Group’s remuneration policy and 78.3% voted in favour of the implementation report.

Post the 2018 AGM management engaged informally with a range of local and international shareholders regarding the remuneration policy as well as remuneration disclosure. This has resulted in increased disclosure and refinement of our remuneration policies and practices which include but are not limited to:

• The introduction of maximum long-term incentive (LTI) award allocations.
• The inclusion of transformation and sustainability targets in our short-term incentive (STI) strategic targets.
• The revision of on-target STI payment and LTI award levels across all grades in line with market best practice.
• The disclosure of LTI and STI targets.
• The adoption of the principles of malus and clawback.

We trust that amendments made have had a positive effect on both the structure of our remuneration policies as detailed in Section B of this report as well as the level of disclosure in the implementation report in Section C.

The committee has oversight of the Group’s remuneration practices and policies. The committee is responsible for reviewing, recommending and approving the remuneration of executive and non-executive directors of the company; and directors, divisional directors and key executives of principal subsidiaries (collectively referred to as ‘executives’). The committee periodically reviews the Group’s remuneration strategy to ensure it supports the business and human resources strategies, remains aligned with the objective of enhancing shareholder value and is focused on achieving the following objectives:

• Attracting, engaging, motivating, rewarding and retaining a high-performing executive team as well as ensuring these principles are applied and maintained across all employee levels of the Group.
• Ensuring that the Chief Executive Officer (CEO) and executive team pursue the long-term sustainable growth and success of the Group.
• Demonstrating a clear relationship between short and longer-term performance and remuneration.
• Ensuring an appropriate balance between guaranteed and variable remuneration, taking into account both the short and long-term objectives of the Group.
• Differentiating pay between higher and average performers through effective performance management and assessment.

The committee comprises independent non-executive directors Rob Dow (chairman), Hilton Saven and Tony Taylor. The CEO is an invitee to committee meetings and recuses himself from discussions that relate to his performance and remuneration. No external consultants attended committee meetings.

The following activities were undertaken by the committee during the period:

• Commissioned a market benchmarking review by external remuneration advisers, PwC. This review entailed a critical analysis of Truworths’ total reward framework compared to market best practice, including our approach to guaranteed pay, STI allocation levels, STI performance measures, the quantum of the STI pool, as well as LTI allocation levels and performance measures. The review was aimed at ensuring that our current policies and practices are appropriate in achieving a measurable and sustainable way of rewarding senior and key employees as well as ensuring they are appropriately incentivised and retained in line with market best practice in a challenging trading environment.
• Reviewed and approved the remuneration of executives.
• Reviewed and approved the STI payments to executives for the 2018 financial period.
• Reviewed the STI policy and model to ensure it remains relevant in its measures of shareholder requirements, market best practice, as well as rewarding high-performing employees. Additional financial and non-financial metrics were introduced to modify and enhance the design of the STI model to ensure a broader and balanced view on Group and subsidiary company performance, and the targets for the 2018 financial period were approved.
• Based on a benchmarking exercise by executive management, reviewed and recommended for approval by shareholders the non-executive directors’ remuneration for the 2019 calendar year.
• Reviewed and approved the issue of share-based LTI awards in terms of the 2012 share plan.
• Approved the payment of dividends to LTI share scheme participants holding restricted and performance shares.
• Confirmed that all long-term remuneration allocations and payments were made in accordance with the rules of the LTI schemes.
• Agreed and recommended for approval by the board the performance targets for the relevant LTI schemes in terms of performance levels being made in the current reporting period.
• Refined the performance management process to improve the alignment of the Group’s reward for performance with the more clearly defined requirements of King IV.
• Reviewed the committee’s year planner to ensure all elements are covered over the period as recommended by King IV.
• Agreed to adopt the principles of pre-vesting forfeiture (malus) and post-vesting forfeiture (clawback) provisions in the remuneration policy for executive management within the context of prevailing local and international guidelines and market practice.
• Reviewed the comparator group used to benchmark remuneration for both executive and non-executive directors.
• Reviewed the benefits offered by the Group across all levels of employees and approved amendments to the leave and maternity benefit policies.

The committee plans to undertake the following in the 2020 reporting period:

• Introduce malus and clawback provisions and ensure all contractual consequences are considered and introduced on implementation.

Rob Dow
Chairman

SECTION A

The committee has oversight of the Group’s remuneration report in Section C.

We trust that amendments made have had a positive effect on both the structure of our remuneration practices and policies as detailed in Section B of this report as well as the level of disclosure in the implementation report in Section C.

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• Attracting, engaging, motivating, rewarding and retaining a high-performing executive team as well as ensuring these principles are applied and maintained across all employee levels of the Group.
• Ensuring that the Chief Executive Officer (CEO) and executive team pursue the long-term sustainable growth and success of the Group.
• Demonstrating a clear relationship between short and longer-term performance and remuneration.
• Ensuring an appropriate balance between guaranteed and variable remuneration, taking into account both the short and long-term objectives of the Group.
• Differentiating pay between higher and average performers through effective performance management and assessment.

The committee comprises independent non-executive directors Rob Dow (chairman), Hilton Saven and Tony Taylor. The CEO is an invitee to committee meetings and recuses himself from discussions that relate to his performance and remuneration. No external consultants attended committee meetings.

The following activities were undertaken by the committee during the period:

• Based on a benchmarking exercise by executive management, reviewed and approved LTI and STI targets.
• Reviewed the STI policy and model to ensure it remains relevant in terms of awards being made in the current reporting period.
• Reviewed and approved the remuneration of executives.
• Commissioned a market benchmarking review by external remuneration advisers, PwC. This review entailed a critical analysis of Truworths’ total reward framework compared to market best practice, including our approach to guaranteed pay, STI allocation levels, STI performance measures, the quantum of the STI pool, as well as LTI allocation levels and performance measures. The review was aimed at ensuring that our current policies and practices are appropriate in achieving a measurable and sustainable way of rewarding senior and key employees as well as ensuring they are appropriately incentivised and retained in line with market best practice in a challenging trading environment.
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• Based on a benchmarking exercise by executive management, reviewed and recommended for approval by shareholders the non-executive directors’ remuneration for the 2019 calendar year.

Rob Dow
Chairman

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The remuneration objectives are achieved by utilising a total remuneration approach which comprises all elements of financial reward, including guaranteed earnings, short-term incentives and long-term incentives. The combination of financial and non-financial reward elements constitutes ‘total reward’ and supports the holistic employee value proposition. For further details on the employee value proposition, refer to the Truworths and Office Human Capital reports on pages 87 and 74 and the Social and Environmental Report 2019 on the website at www.truworthsinternational.com.

Remuneration practices are closely linked to the achievement of Group, subsidiary company, team and individual performance objectives. The composition of total remuneration is based on the employee’s role and level in the Group and there is a strong and sustainable link between performance, contribution and potential within the Group. There is a strong and sustainable link between performance, contribution and potential in the Group. The remuneration philosophy is aimed at driving a high-performance culture that delivers the Group’s long-term strategic objectives as well as sustainable shareholder returns within the Group’s risk appetite. This ‘total remuneration’ philosophy underpins the Group’s equitable reward mechanisms which are applied across all levels in a fair, responsible and transparent manner.

The remuneration objectives are achieved by utilising a total remuneration approach which comprises all elements of financial reward, including guaranteed earnings, short-term incentives and long-term incentives. The composition of financial and non-financial reward elements constitutes ‘total reward’ and supports the holistic employee value proposition. For further details on the employee value proposition, refer to the Truworths and Office Human Capital reports on pages 87 and 74 and the Social and Environmental Report 2019 on the website at www.truworthsinternational.com.

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The remuneration and benefits at all levels are equitable and applied consistently. Employees across all levels of the Group are rewarded appropriately based on their performance and contribution; and the reward practices promote an ethical culture and responsible corporate citizenship.

• A balanced and appropriate mix of short and long-term incentives to promote sustained high levels of performance and align employee and shareholder interests within the Group’s financial constraints as well as risk appetite. These are regularly reviewed to ensure appropriateness for the current life cycle of the business, the retail industry as well as the breadth and size of the Group.

• Alignment of risk and reward, with remuneration practices and schemes designed to encourage superior medium to long-term performance relative to competitors, while operating within prudent risk parameters to ensure sustainability.

Executive directors’ remuneration structure

Executive directors’ remuneration is determined according to the nature and responsibilities of the executive’s role in relation to market benchmarks, and the performance of the individual in relation to Group performance and individual performance targets. Rewarding executive directors through guaranteed and performance-related remuneration is aimed at achieving the following:

• Alignment of executive and shareholder interests
• Promotion of a culture of executive share ownership
• Promotion of excellence in individual executive performance
• Retention of executives

The core principle of the Group’s performance management process is the effective alignment of Group strategic objectives (refer to the Group Strategy report on page 13) with individual outputs. Internal and external surveys as well as professional advisers are consulted in determining comparable remuneration practices. The Group utilises external professional service providers and best practices for continued remuneration benchmarking and for job evaluation purposes. Remuneration is further benchmarked against other JSE-listed retailers and comparable JSE-listed companies. All data is appropriately aged, and weighted averages, medians and ranges are applied to establish the most appropriate remuneration levels.

The remuneration mix is determined as follows:

<table>
<thead>
<tr>
<th>Variable Remuneration</th>
<th>Guaranteed Remuneration</th>
<th>Short-term performance</th>
<th>Long-term performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total guaranteed package, which can include the following benefits:</td>
<td>• Salary</td>
<td>• Restricted share plan</td>
<td>• Performance share plan</td>
</tr>
<tr>
<td>• Travel allowance</td>
<td>• Share appreciation rights</td>
<td>• Performance share plan</td>
<td></td>
</tr>
<tr>
<td>• Retirement benefits</td>
<td>• Healthcare benefits</td>
<td>• Performance share plan</td>
<td></td>
</tr>
<tr>
<td>• Group life and disability insurance benefits</td>
<td>• Total guaranteed package is based on performance, contribution, experience and market value relative to responsibilities within the Group.</td>
<td>• Incentives are based on Group, subsidiary company and individual performance criteria, and are only paid if the Group achieves its threshold performance levels.</td>
<td></td>
</tr>
</tbody>
</table>

Benefits are compulsory but offer flexibility in option choices.

Contractual obligations

There are no contractual obligations at any level to pay special severance or compensation on termination of employment contracts arising from failure or incapacity to perform, or from under-performance against contractual objectives.

There are no contractual obligations at any level to allocate any short or long-term incentives, the only exception being the allocation of restricted shares in lieu of a restraint payment when joining the Group.

No employment contract terms are affected by, or are linked in any way, to the automatic severance of such contracts as a result of a change in control of the Group. Furthermore, no payments of unvested short or long-term incentives are guaranteed on, or linked to, such a change in control, save that the rights of participants in the 2012 share plan must be accommodated by the board on a fair and reasonable basis on a change of control, and vesting of such rights will, unless the committee decides otherwise, be accelerated if such change of control leads to retrenchment within 24 months of the change in control.

The CEO’s contract provides for a notice period of six months. Other executive directors have contracts that provide for notice periods of between four and nine months.

Guaranteed remuneration

Guaranteed remuneration is determined in relation to employment market norms. The Group conducts annual remuneration benchmarking against comparable JSE-listed companies and also utilises the services of professional advisers to conduct external surveys with the aim of maintaining guaranteed remuneration at the median market level. The current peer JSE-listed retailers utilised as comparators were assessed during the year and include Woolworths Holdings Ltd, The Foschini Group Ltd, Mr Price Group Ltd, Pepkor Holdings Ltd, Shoprite Holdings Ltd, Pick n Pay Stores Ltd, The Spar Group Ltd, Massmart Holdings Ltd, Clicks Group Ltd, Cashbuild Ltd, Div-Chem Pharmacies Ltd, Italie Ltd and Lewis Group Ltd.

The selection methodology followed takes account of both size and performance metrics which includes number of employees, turnover, total assets and earnings before interest and tax (EBIT). This methodology supports an objective determination of the comparator group that eliminates bias and the selection of a comparator group that is not disproportionately weak or strong. The Group further deploys a process of job profiling and evaluation to ensure consistency in the evaluation and sizing of roles, thereby ensuring the correct match to comparable roles and benchmarking of guaranteed remuneration levels utilising PwC’s REMeasure and REMChannel database as well as Willis Towers Watson’s database.

A combination of performance and market remuneration positioning is utilised to adjust guaranteed remuneration levels annually. Adjustments to guaranteed remuneration outside of the annual review process are made on an exception basis and linked to changes in responsibility level.

Variable remuneration

The performance of executive directors is reviewed annually by the committee against predetermined financial and non-financial targets to ensure alignment with shareholder interests. The setting of targets for both short and long-term variable pay schemes are selected to discourage behaviour in pursuit of incentive targets which is contrary to the Group’s risk appetite. Instead, targets are set with the objective of being challenging, yet realistic within the context of the economic realities of the countries in which we are operating and stage in the business life cycle.
The targets and measures are verifiable and a robust process is applied to both obtaining approval for the determination, as well as when making payment, of short and long-term incentives.

The committee has discretion regarding incentive payments to mitigate unintended consequences that may arise from a purely formulaic approach. Discretion may not be used to compensate for unfavourable outcomes.

Short-term incentives
The short-term cash incentive (STI) scheme aims to drive performance through appropriate incentivisation in a measurable and sustainable way, thereby rewarding and retaining key talent.

The Group follows a hybrid approach with regards to structuring the STI which is a combination of both the top-down and bottom-up approach:
- The top-down approach is based on the achievement of financial drivers with the resulting pool being distributed to participants on a discretionary basis.
- The bottom-up formulaic approach is based on the individual performance of participants and company performance during the year under review.

This hybrid approach ensures bonuses are firstly linked to the key performance metrics of the business which determines the pool size and secondly, individual performance metrics which determine the individual’s relative share of the pool. A formulaic approach is used to quantify the incentive pool that is self-funded through the achievement of both financial and non-financial key performance metrics. This approach further mitigates against unjustified outcomes by ensuring that there is no single performance metric which acts as an exclusive gatekeeper.

The following qualifying criteria apply to participation in the STI scheme:
- Employees must have contributed to the attainment of company targets for at least one quarter of the financial year measured.
- Employees must be performing at the required level at the time of the award in order to qualify.
- Employees must have contributed to the attainment of company targets to ensure that the interests of all stakeholders are supported.
- Employees must have contributed to the attainment of company targets and these are utilised to reward and support good long-term decision-making.

The quantum of the STI earning potential is based on the guaranteed pay of the relevant employee multiplied by a market-related-on-target percentage based on their Patterson grade.

No portion of any STI is guaranteed. STI payments at the discretion of the committee which must be satisfied that such payments are fair and reasonable. STIs are in the form of cash and the committee may consider deferral of a portion of the incentive paid.

All executive directors’ STI payments are approved by the committee.

The table indicates the threshold, on-target and stretch STI payments as a percentage of guaranteed pay. These may be further adjusted based on the individual performance score achieved and STIs are capped at 150% of guaranteed pay.

### Percentage of annual guaranteed earnings for strategic purposes

<table>
<thead>
<tr>
<th></th>
<th>Below threshold</th>
<th>Thres-</th>
<th>On-target</th>
<th>Stretch</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>50%</td>
<td>60%</td>
<td>100%</td>
<td>150%</td>
</tr>
<tr>
<td>Executive directors</td>
<td>30%</td>
<td>60%</td>
<td>100%</td>
<td>150%</td>
</tr>
</tbody>
</table>

Long-term incentives

Long-term incentive (LTI) schemes are aimed at aligning executive remuneration with shareholder interests by rewarding executives for the creation of shareholder value over the medium to longer term. The LTI schemes are reviewed regularly to ensure alignment with relevant legislation, other governing rules and standards, appropriate market benchmarks and best practice.

The Group operates five share-based LTI schemes, four in terms of the 2012 share plan and one further LTI scheme in terms of the Office performance equity plan:

**RETENTION AWARDS**
- Restricted share plan
- Share appreciation rights

**PERFORMANCE AWARDS**
- Performance share plan
- Performance appreciation rights
- Office performance equity plan

The following core principles apply to the Group’s share-based schemes:
- The maximum aggregate allocation in terms of all the schemes is limited to 10% of the company’s issued shares at June 2012 over the life of the schemes in terms of the policy, being 48,181,002 shares, but the committee’s guideline is to keep this below 3.5%.
- Annual allocations are capped at 1.25% of issued shares at June 2012 in any one year and no more than 5% in any five-year period in terms of the policy, but committee guidelines are to limit annual allocations to below 1% in any one year.
- The maximum aggregate allocation for any one employee is limited to 2.4% of issued shares at June 2012 over the life of the schemes in terms of the policy, being 11,083,440 shares.
- Annual awards are allocated based on face value of the awards granted with the maximum annual allocations limited to 130% of guaranteed pay for the CEO and 110% of guaranteed pay for other executive directors.
- The restricted share plan scheme and share appreciation rights scheme have no performance conditions, and are utilised to support the retention of key executives and employees.
- The performance share plan scheme and performance appreciation rights scheme have multiple performance targets, and are utilised to support and reward good long-term decision-making and both financial and non-financial performance.
- Threshold, target and stretch measures are applied to all long-term incentive targets.
- The Office performance equity plan takes the form of options with performance targets and these are utilised to reward and support the retention of key executives and employees of Office.
- Awards can be made across all five schemes and can vest over a period of up to six years.
- Where awards lapse, there is no replacement compensation.
- No long-term incentive allocation is guaranteed.
- The committee assesses and approves all Group performance targets to ensure that the interests of all stakeholders are appropriately considered, and financial and non-financial targets are set as an incentive for employees to perform, and simultaneously for the business to achieve stretch goals.
- All unvested shares and options, as well as unvested and unexercised vested rights are forfeited upon an employee’s resignation or dismissal in terms of the scheme rules.
- Retention-focused long-term incentives awarded to existing executive directors may not make up more than 50% of the total long-term incentive allocations in any particular year. These will only be issued in exceptional circumstances as the intention is for all awards for executive directors to be performance linked.
- Performance-focused long-term incentives issued to executive directors will be subject to corporate performance targets.

The committee regularly monitors the overall actual and forecast impact and costs of these schemes on Group earnings.

- Loans to employees pursuant to the legacy 1998 share option scheme have been discontinued (historical loans will remain in place until they expire in December 2020).

In line with the Group’s value of rewarding excellence as well as maintaining a long-term perspective on both the business and employees’ careers, management aims to include all high-performing employees at senior level as well as those key to future succession or with scarce skills in the LTI share plan.

Legacy share scheme
The legacy long-term incentive scheme (1998 share option scheme) remains in operation but no further awards have been made in terms of this scheme since 2012 nor are currently planned to be made. The last share options issued under this scheme expire in August 2022. Potential gains relating to unvested instruments under the 1998 share option scheme as well as the number of instruments issued in terms of this scheme are taken into account in the allocation of shares under the 2012 share plan and Office performance equity plan.

Non-executive directors’ remuneration
Non-executive directors receive fixed fees for services rendered as directors and as members of board committees.

These fees are based on an assessment of the non-executive directors’ time commitment, responsibilities, skills and experience. All non-executive directors receive the same base board fees, regardless of their length of service. In line with best governance and remuneration practice, non-executive directors do not participate in incentive schemes and do not receive any benefits (other than the discounts applicable to employees in respect of purchases charged to store card accounts) or performance-related remuneration from the Group. None of the non-executive directors have service contracts with the Group and no consultancy fees were paid to non-executive directors during the period.

The remuneration of non-executive directors is reviewed annually by the committee using benchmarks from similar businesses. In line with best practice and to avoid a conflict of interests, current peer group comparators utilised are Woolworths Holdings Ltd, The Foschini Group Ltd, Mr. Price Group Ltd, Pepkor Holdings Ltd, Naspers Ltd, The Spar Group Ltd, Massmart Holdings Ltd, Clicks Group Ltd, Cashbuild Ltd, Dis-Chem Pharmacies Ltd, Itallite Ltd and Lewis Group Ltd. Recommendations for increases are researched and presented by executive management to the committee for consideration, and presented to the shareholders at the AGM for consideration and approval. Fees are determined in advance for a calendar year.

Non-executive directors are advised of their remuneration by the chairman of the Board of Directors.
Short-term incentives
A detailed analysis was conducted to ensure that the Group’s STI policy and practice are in line with market best practice. Following this analysis the committee agreed to retain the EBIT metric as the key determinant of the STI pool but it no longer operates as a gatekeeper. This was preventing eligible employees, particularly at an executive level, from receiving STI payments where the EBIT growth gatekeeper level was not met, irrespective of whether the other Group and individual performance targets were met.

As detailed in the remuneration policy on page 39, the Group has adopted a more formulaic approach which includes balanced company and individual scorecards. This combined approach mitigates against unjustified outcomes, while it ensures that at the same time employees are rewarded for the performance conditions which were met over the financial year.

The STIs in respect of the 2019 reporting period, determined with reference to Group EBIT with the performance hurdles set at 100% of the targeted Group EBIT, only became payable to executive directors if the threshold EBIT level was achieved. Threshold, target and stretch levels were pre-agreed in line with forecast Group performance as follows:

<table>
<thead>
<tr>
<th>Vesting target</th>
<th>Group EBIT threshold</th>
<th>Target ceiling</th>
<th>Stretch ceiling</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 946</td>
<td>3 946</td>
<td>4 375</td>
<td>4 700</td>
</tr>
</tbody>
</table>

The Group’s performance did not meet the EBIT threshold level and therefore no STIs were payable to executive directors.

At subsidiary company level Truworths exceeded the EBIT threshold requirements and therefore incentives were paid to qualifying employees. An amount of R38 million was paid in terms of these STIs.

Long-term incentives
Group financial performance conditions and targets for LTI purposes are determined by the committee. Measuring performance over a longer period ensures a focus on longer-term, sustainable growth in shareholder value.

Actual performance against targets was assessed for the 2019 period and applied to performance shares allocated in November 2016. Both the ROA target and the EBIT growth threshold level was not achieved. This resulted in a total vesting of 0% of this share allocation. Details of the targets set as well as vesting achieved are as follows:

<table>
<thead>
<tr>
<th>Metric</th>
<th>Weighing</th>
<th>50th percentile</th>
<th>75th percentile</th>
<th>Final result</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>40%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>EBIT growth &gt; inflation</td>
<td>60% no growth</td>
<td>CPI pa</td>
<td>CPI + 5ppt pa</td>
<td>no growth</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group EBIT target for November 2016 share issue</th>
<th>Percentage</th>
<th>Vesting target</th>
<th>100% vesting target</th>
<th>150% vesting target</th>
<th>Published medium-term Group targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>40%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>EBIT growth &gt; inflation</td>
<td>60% no growth</td>
<td>CPI pa</td>
<td>CPI + 5ppt pa</td>
<td>no growth</td>
<td></td>
</tr>
</tbody>
</table>

During the period the committee agreed and recommended for approval by the board the performance targets for the relevant share schemes in relation to awards made in the 2019 reporting period.

The performance measures for awards made to executive directors were based on ROA, return on equity (ROE), gross profit margin, EBIT growth, headline earnings per share (HEPS) growth, inventory turn and strategic targets with a variable vesting scale from 0% to 150% with the application of linear vesting between performance measures. These awards were all performance based with a vesting period of between three and five years.

The targets applicable to the performance shares awarded during the 2019 financial year are as follows:

1. CPI means the Consumer Price Index as published by Statistics SA.
2. This note applies to executive directors’ share allocations awarded in March 2019 and March 2020.
3. This note applies to executive directors’ share allocations awarded in March 2019 and March 2020.
4. This note applies to executive directors’ share allocations awarded in March 2019 and March 2020.
Executive directors’ remuneration

Please refer to the Group Audited Annual Financial Statements 2019 on the website for further details relating to executive directors’ remuneration and share-based awards. The total annual guaranteed pay, benefits, short-term cash incentives and loans pursuant to the 1998 share scheme in the single-figure remuneration table below have been extracted from note 31.1 of the Group Audited Annual Financial Statements 2019, while the value of long-term incentives and qualifying dividends have been calculated in terms of the requirements of King IV.

Single figure remuneration table

<table>
<thead>
<tr>
<th>Director</th>
<th>Months</th>
<th>Total annual guaranteed pay R’000</th>
<th>Benefits* R’000</th>
<th>Short-term cash incentive R’000</th>
<th>Long-term incentive* R’000</th>
<th>Qualifying dividends R’000</th>
<th>Total single figure of remuneration R’000</th>
<th>Loans pursuant to 1998 share scheme R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>12</td>
<td>9 383</td>
<td>3 338</td>
<td>–</td>
<td>6 308</td>
<td>19 029</td>
<td>43 254</td>
<td></td>
</tr>
<tr>
<td>David Pfaff</td>
<td>12</td>
<td>5 134</td>
<td>2</td>
<td>18</td>
<td>650</td>
<td>9 804</td>
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<td>484</td>
<td>4 355</td>
<td>17 694</td>
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<tr>
<td>Sarah Proudfoot</td>
<td>12</td>
<td>288</td>
<td>16</td>
<td>–</td>
<td>–</td>
<td>304</td>
<td>2 272</td>
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<td>2018</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Michael Mark</td>
<td>12</td>
<td>9 100</td>
<td>3 405</td>
<td>9 278</td>
<td>7 567</td>
<td>29 430</td>
<td>43 254</td>
<td></td>
</tr>
<tr>
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<td>4 596</td>
<td>7</td>
<td>772</td>
<td>743</td>
<td>6 118</td>
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</tr>
<tr>
<td>Doug Dare</td>
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<td>3 731</td>
<td>103</td>
<td>–</td>
<td>450</td>
<td>787</td>
<td>5 071</td>
<td>–</td>
</tr>
</tbody>
</table>

* Benefits comprise the interest benefit in respect of loans pursuant to the 1998 share scheme, subsistence allowances for local and overseas travel, long-service awards and fringe benefits on life insurance premiums paid.

The long-term incentive value is calculated as the sum of:
- Performance share plan: The grant price value of all awards issued in the financial period.
- Performance appreciation rights: For all awards where the CPTs vested in the financial period, the difference between the five-day VWAP of the share at period-end and the strike price multiplied by the CPT vesting percentage and the number of awards.
- Share appreciation rights: For all awards vesting in the 12 months after the financial period-end, the difference between the five-day VWAP of the share at period-end and the strike price multiplied by the number of awards.
- Office performance equity plan: The grant price value of all awards issued in the financial period.

The company does not have any prescribed officers as defined in the Companies Act (71 of 2008, as amended) of South Africa.

Share-based awards

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Number of participants</th>
<th>Value of awards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted share plan (with no performance targets)</td>
<td>448</td>
<td>R53m</td>
</tr>
<tr>
<td>Performance share plan (with performance targets)</td>
<td>16</td>
<td>R23m</td>
</tr>
<tr>
<td>Office performance equity plan</td>
<td>1</td>
<td>R50 000</td>
</tr>
</tbody>
</table>

Share instruments awarded to employees and executives, including the above share scheme allocations in the 2019 financial period, constitute 17 482 000 shares, being 3.8% (2018: 4.7%) of total issued shares at June 2012 which is below the committee’s guideline aggregate allocation of 7.5% (10% in terms of the share scheme rules). The annual allocation as detailed above is 0.35% of issued shares in June 2012 (2.4% in terms of the policy).

Targets agreed for shares to be awarded in the 2020 financial year with the measurement period being the 2022 financial year are as follows:

<table>
<thead>
<tr>
<th>Metric</th>
<th>2023 LTI targets for September 2019 award</th>
<th>100% Vesting target</th>
<th>150% Vesting target</th>
<th>Published medium-term Group targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>26%</td>
<td>18%</td>
<td>21%</td>
<td>Good performance</td>
</tr>
<tr>
<td>HEPS growth x CPI</td>
<td>24%</td>
<td>18%</td>
<td>21%</td>
<td>Very good performance</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>53%</td>
<td>49%</td>
<td>51%</td>
<td>Excellent performance</td>
</tr>
<tr>
<td>Inventory turn (times)</td>
<td>3.50</td>
<td>4.00</td>
<td>4.50</td>
<td></td>
</tr>
<tr>
<td>Strategic targets (including sustainability and transformation)</td>
<td>3.50 – 4.50</td>
<td>3.00 – 4.00</td>
<td>2.50 – 3.50</td>
<td></td>
</tr>
</tbody>
</table>
## Table of total awards and cash flow

<table>
<thead>
<tr>
<th>Director</th>
<th>Award type</th>
<th>Opening balance on 2 July 2018 '000</th>
<th>Granted during F2019 '000</th>
<th>Forfeited during F2019 due to performance conditions not achieved '000</th>
<th>Additional shares during F2019 due to performance conditions achieved '000</th>
<th>Vested/exercised during F2019 '000</th>
<th>Closing balance on 30 June 2019 '000</th>
<th>Cash flow on settlement 2019 '000</th>
<th>Estimated closing fair value on 30 June 2019 '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Mark</td>
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<td>2,567</td>
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<td>121</td>
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<td>111</td>
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<tr>
<td></td>
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<td>114</td>
<td>194</td>
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<tr>
<td></td>
<td>Restricted shares without performance conditions</td>
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<td>57</td>
<td>–</td>
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<td>2,318</td>
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<td>Restricted shares with performance conditions</td>
<td>68</td>
<td>69</td>
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<td>–</td>
<td>68</td>
<td>125</td>
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<td>9,656</td>
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<tr>
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<td>Appreciation rights with performance conditions</td>
<td>43</td>
<td>–</td>
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<td>–</td>
<td>43</td>
<td>–</td>
<td>–</td>
<td>646</td>
</tr>
</tbody>
</table>

**Notes:**
- The fair value of restricted shares and shares are based on the relevant year-end share price.
- The fair value of appreciation rights are based on the binomial actuarial option pricing model at the relevant year-end.
- All options have vested. The fair value of options are based on the difference between the year-end share price and strike price.
- The cash flow on settlement includes share gains made and dividends paid during the period.
- All shares allocated to executive directors since 2017 have had performance conditions attached.

---

**Notes:**
- The fair value of restricted shares and shares are based on the relevant year-end share price.
- The fair value of appreciation rights are based on the binomial actuarial option pricing model at the relevant year-end.
- All options have vested. The fair value of options are based on the difference between the year-end share price and strike price.
- The cash flow on settlement includes share gains made and dividends paid during the period.
- All shares allocated to executive directors since 2017 have had performance conditions attached.
Non-executive directors’ remuneration
The total fees paid to non-executive directors in respect of the 2019 financial period are detailed below.

<table>
<thead>
<tr>
<th>Director</th>
<th>2019 (R’000)</th>
<th>2018 (R’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hilton Saven</td>
<td>1 251</td>
<td>1 128</td>
</tr>
<tr>
<td>Rob Dow</td>
<td>666</td>
<td>638</td>
</tr>
<tr>
<td>Thandi Ndlovu</td>
<td>411</td>
<td>290</td>
</tr>
<tr>
<td>Michael Thompson</td>
<td>683</td>
<td>678</td>
</tr>
<tr>
<td>Tony Taylor</td>
<td>467</td>
<td>403</td>
</tr>
<tr>
<td>Roddy Sparks</td>
<td>747</td>
<td>625</td>
</tr>
<tr>
<td>Maya Makanjee</td>
<td>374</td>
<td>183</td>
</tr>
<tr>
<td>Hans Havinkens</td>
<td>374</td>
<td>183</td>
</tr>
<tr>
<td>Cindy Hess</td>
<td>70</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>5 052</td>
<td>4 238</td>
</tr>
</tbody>
</table>

The proposed fees of non-executive directors for the 2020 calendar year were benchmarked against fees payable by other JSE-listed companies with a similar profile and are detailed below.

<table>
<thead>
<tr>
<th>Position</th>
<th>2019 Proposed Remuneration (R’000)</th>
<th>2019 Fees (R’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive chairman</td>
<td>1 075</td>
<td>980</td>
</tr>
<tr>
<td>Non-executive director</td>
<td>350</td>
<td>315</td>
</tr>
<tr>
<td>Audit Committee chairman</td>
<td>350</td>
<td>290</td>
</tr>
<tr>
<td>Audit Committee member</td>
<td>160</td>
<td>153</td>
</tr>
<tr>
<td>Remuneration Committee chairman</td>
<td>114</td>
<td>140</td>
</tr>
<tr>
<td>Remuneration Committee member</td>
<td>98</td>
<td>95</td>
</tr>
<tr>
<td>Risk Committee member (non-executive only)</td>
<td>110</td>
<td>95</td>
</tr>
<tr>
<td>Nomination Committee chairman</td>
<td>122</td>
<td>116</td>
</tr>
<tr>
<td>Nomination Committee member</td>
<td>72</td>
<td>69</td>
</tr>
<tr>
<td>Social and Ethics Committee chairman</td>
<td>105</td>
<td>70</td>
</tr>
<tr>
<td>Social and Ethics Committee member (non-executive only)</td>
<td>72</td>
<td>38</td>
</tr>
</tbody>
</table>
Consumer spending in South Africa remained under pressure over the past year owing to the prolonged economic downturn in the country while heightened Brexit-related uncertainty and deteriorating consumer confidence continue to hamper the embattled UK retail sector.

The South African economy showed no growth in the first quarter of calendar 2019 after expanding by 1.3% and 1.1% respectively in the two previous quarters. The contraction in the economy in the first three months of 2019 was exacerbated by power outages by the national electricity utility, Eskom, which had a serious impact across most sectors of the economy.

With over 760 stores across South Africa, blackouts or scheduled electricity load shedding remains a risk to trading for Truworths. Management continues to engage with shopping centre owners to connect to central generators while also evaluating alternative power supplies to ensure stores are able to trade during power outages.

Pressure on South Africa’s consumer economy has intensified in the past year from sharp fuel and electricity price hikes, the increase in the value-added tax rate from 14% to 15% in April 2018, and rising food costs. Trading conditions became more challenging as the mounting strain on disposable income has resulted in Truworths’ customers being more cautious about what they buy. The state of the economy has also seen higher levels of discounting and promotional activity by Truworths’ competitors to attract cash-strapped consumers, resulting in a difficult trading environment.

Nevertheless, South Africa’s retail sales increased by 2.4% year on year to June 2018 compared to growth of 0.3% in the year to June 2018.

The consumer confidence index increased slightly to a level of 5 points in the second quarter of 2019, mainly due to the more positive environment after the recent national elections and a stabilisation in the power supply in the second quarter. However, sentiment among South Africans remains well below the 26-point all-time high level reported a year previously.

The TransUnion SA Consumer Credit Index (CCI) increased marginally in the second quarter of calendar 2019, from 48 to 49 points, signalling an end to the declining trend of the past three consecutive quarters. The CCI has now been below 50, which indicates deteriorating credit health, since the third quarter of calendar 2018. The quality of the Truworths account portfolio has however improved year on year, widening the gap relative to the retail industry. Record new account application volumes of 2.8 million for the year are evidence of the strong demand for Truworths merchandise.

South Africa’s labour market remains extremely tough, with the unemployment rate reaching 29.0% in the second quarter of calendar 2019, the highest jobless rate since the first quarter of 2003. There are currently more than 6.5 million jobless South Africans and the prospects for meaningful and sustainable job creation in the short to medium term are limited in the prevailing low economic growth environment in the country.

Consumer inflation has been steady with the annual inflation rate remaining within the SA Reserve Bank’s (SARB) targeted range of 3% to 6% for the past 12 months, reaching the midpoint of 4.5% in June 2019.

Interest rates, too, have been relatively stable. The central bank’s benchmark repo rate was increased by 25 basis points in November 2018. Shortly after the end of the Group’s reporting period, in July 2019, the repo rate was reduced to 6.50%.

The outlook for economic growth in South Africa remains muted in the short to medium term, with the SARB forecasting growth of only 0.6% for 2019 and 1.4% for 2020.

Trading conditions in the seven other countries of operation in Africa, where Truworths has a combined store base of 39, also remain challenging as a result of generally weakening domestic economies and depreciating currencies.

The UK gross domestic product grew 1.2% year on year in the second quarter to June 2019, slowing from 1.8% in the first quarter as Brexit-related uncertainty continues to take its toll on the UK economy.

Consumer spending is at its weakest level since the mid-1990s, at -13 points for June 2019 (June 2018: -9 points). Sentiment among consumers remains depressed and the GfK consumer confidence index reached a post-EU referendum low of -14 as many are concerned about the Brexit implications, while rising wages have failed to translate into higher spending.

The UK retail marketplace remains under stress owing to challenging economic conditions, increasing rentals and business rates, and rising minimum wages affecting store-based retail and the online disruption within the marketplace. This has led to a number of well-known high-street retailers going into forced administration or company voluntary arrangements. Landlords are becoming more defensive of their position, making it increasingly difficult for retailers to restructure their leasehold portfolios and this may lead to further insolvencies among high-street retailers.

The British Retailers Consortium’s monthly health check of the UK retail sector, conducted with consultancy firm KPMG, showed that total retail sales declined by 1.3% in June 2019 (like-for-like sales declined by 1.6% compared to last year), while the annual rate of growth slowed to 0.6%. The report also pointed to consumers increasingly shopping online, with data showing that more than 30% of non-food items were bought over the internet. In light of the challenging trading environment many retailers are undertaking high levels of discounting in order to boost sales and manage their inventory positions.

In addition to its store footprint across the UK, Office has eight stores in Germany and seven in the Republic of Ireland.
CHIEF EXECUTIVE OFFICER’S REPORT

The Group’s performance for the period was dominated by the decline in profitability of the Office chain in the UK. Uncertainty over Brexit and muted consumer confidence, together with the pressure on store-based retailing as consumer spending shifts to online shopping, continue to negatively impact the UK economy and the retail sector in particular.

GROUP PERFORMANCE IMPACTED BY OFFICE

While Truworths posted a steady performance in the weak domestic retail market, the tough trading environment in the UK resulted in a non-cash impairment charge of £97 million (approximately R1.7 billion) being raised against the Office intangible assets.

Group retail sales increased by 3.7% to R18.6 billion. Truworths Africa, which comprises mainly the Truworths business in South Africa, increased sales for the period by 3.1% to R13.5 billion. Sales for Office declined by 0.9% to £279 million.

While the Truworths Africa gross margin was stable at 55.5%, the Office gross margin declined from 44.4% to 42.3%, resulting in the Group’s margin decreasing by 80 basis points to 51.6%. The reduction in the Office gross margin was mainly due to a change in the full-price versus markdown sales mix as the sale of older stock substituted full-price product.

Group operating profit decreased by 58.1% to R1.7 billion, resulting in an operating margin of 9.1%. Excluding the Office impairment as well as the impact of foreign exchange gains and losses in the current and prior periods, operating profit declined by 10.3% to R3.5 billion and the operating margin decreased from 22.3% to 19.4%.

A detailed analysis of the financial performance is covered in the Chief Financial Officer’s Report on page 50.

OFFICE TURNAROUND STRATEGY

Office is faced with low top-line growth, a declining gross profit margin, high stock levels and the challenge of managing the balance of online versus physical store sales while being bound by long-term leases.

A turnaround strategy has been implemented to restore revenue, margins and profitability, and is being managed through the following workstreams:

- trading, focused on merchandise performance and managing stock to reduce markdowns;
- prioritising operational and capital expenditure;
- marketing and brands, reviewing marketing and communications strategies, branding and brand relationships; and
- product, focusing on range design, selection and styling of in-house Office-branded product.

Each of these workstreams is being overseen by an executive director of Truworths International working in partnership with Office management.

Inventory management remains a significant focus area to arrest the gross profit margin decline and release working capital. Management expects to achieve optimal stock levels by the end of the first half of the 2020 financial period.

The e-commerce opportunity which we anticipated at the time of the Office acquisition is being realised and we continue to enhance the e-commerce offering to grow sales in a consumer environment trending towards online shopping. Online and digital sales in Office grew by 10% to account for 34% of the chain’s retail sales.

Office is critically evaluating its real estate portfolio with a view to closing loss-making stores as leases expire. However, the chain has several long-term legacy leases, making it difficult and expensive to exit these under-performing stores. No new stores are planned to be opened in the 2020 period and trading space is planned to reduce by 3.0%.

At the end June 2019 Office had borrowings of approximately £42.5 million. Shortly after the end of the reporting period we advised shareholders that Office engaged advisers and entered into discussions with lenders regarding potential debt restructuring options. The restructuring of the Office debt was concluded successfully during September 2019 where the existing syndicated facility was replaced with a new £32.5 million facility on more favourable terms arranged by the Group’s principal bankers, Standard Bank. This facility is backed by a guarantee issued jointly by Truworths International and Truworths. Office’s net debt currently ranges between £8 million and £13 million, depending on the time of the month, and generally does not exceed £20 million during peak periods.

GROUP PERFORMANCE IMPACTED BY OFFICE

The Group’s performance for the period was dominated by the decline in profitability of the Office chain in the UK. Uncertainty over Brexit and muted consumer confidence, together with the pressure on store-based retailing as consumer spending shifts to online shopping, continue to negatively impact the UK economy and the retail sector in particular.
The Truworths business model remains unchanged and the directors believe the strategy is appropriate in the current economic and trading environment.

Truworths reported stronger retail sales growth of 3.9% in the second half, compared to 2.4% for the first 26 weeks, mainly driven by account sales recording an increase of 5.6% in the second half.

Truworths has an expanding presence in the kidswear market through its exclusive kidswear brands, LTD Kids, Earthchild and Naartjie. Kidswear retail sales grew by 19% in the period to exceed R1 billion for the first time.

The Truworths e-commerce platform launched in 2018 was profitable in its first year and is already generating the turnover equivalent to a medium to large-sized Truworths store.

The quality of the Truworths debtors book remains healthy despite increasing consumer stress. Active accounts across the Truworths, Identity and YDE debtors books increased by 2.6% to R2.7 million and the total value of the book grew by R5.9 billion. The doubtful debt allowance has increased marginally from 19.0% to 19.2% since the start of the year when the new accounting standard IFRS 9 was adopted.

The lay-by offering, which was piloted in the prior reporting period, was successfully implemented and is proving an attractive purchase option for customers who do not qualify for credit. Lay-bys contributed approximately 1% of retail sales in the period.

**Debt Relief Legislation**

Debt relief legislation in South Africa, in the form of the National Credit Amendment Act, was enacted in August 2019 and has been met with strong opposition from the credit industry. Stakeholders will have the opportunity to comment on the required regulations and Truworths will engage with the Department of Trade and Industry through the National Clothing Retail Federation to propose workable alternatives to debt relief.

The legislation enables the credit regulator to extinguish the debts owed to credit providers by customers earning less than R7 500 per month with unsecured debt of less than R50 000 and who are considered to be critically indebted by the regulator.

We believe that our current level of provisioning for bad debts should adequately cover the potential impact of the legislation, given that most accounts of critically indebted customers would likely have been classified as bad irrespective of the new legislation.

**Outlook 2020**

The Group is committed to investing for long-term growth and capital expenditure of R81 million (Truworths: R537 million and Office: £2.5 million) has been committed for the 2020 period.

**Solid Truworths Performance**

Consumer spending in South Africa is expected to remain under pressure in the short term owing to the effects of the prolonged economic downturn and pressure on disposable incomes. The labour market continues to weaken with unemployment at a 15-year-high level. However, consumer confidence has stabilized following the country’s national elections in May 2019 and the improvement in the power supply in recent months, while consumer inflation remains steady.

The stronger retail sales growth trend reported by Truworths in the second half of the 2019 period is promising and sales momentum in the 2020 period is expected to be driven by the expanding e-commerce offering, the lay-by payment option and customer response to new store concepts, including ID Kids and Context.

Truworths’ medium-term prospects will be supported by the health of the account portfolio, continued investment for growth, robust cash flows and strong balance sheet.

**Office**

Trading conditions and consumer confidence remain under intense pressure ahead of the end-October 2019 Brexit deadline and the retail sector is expected to remain constrained in the medium term.

As outlined above, management has implemented several turnaround initiatives and these are all progressing according to plan despite the difficult trading conditions.
## Five-Year Review of Financial Performance

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of weeks</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td>Returns and margin performance</td>
<td>5-year average*</td>
<td>51.6</td>
<td>51.6</td>
<td>52.4</td>
<td>52.6</td>
<td>52.9</td>
<td>55.2</td>
</tr>
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<td>Gross margin (%)</td>
<td>52.9</td>
<td>52.9</td>
<td>52.9</td>
<td>52.9</td>
<td>52.9</td>
<td>52.9</td>
<td>52.9</td>
</tr>
<tr>
<td>Trading margin (%)</td>
<td>12.4</td>
<td>2.7</td>
<td>14.1</td>
<td>15.0</td>
<td>17.0</td>
<td>21.0</td>
<td>21.0</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>22.2</td>
<td>15.4</td>
<td>9.1</td>
<td>22.5</td>
<td>23.3</td>
<td>24.9</td>
<td>31.0</td>
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<td>Return on equity (%)</td>
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<td>23</td>
<td>9</td>
<td>27</td>
<td>31</td>
<td>35</td>
<td>35</td>
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<tr>
<td>Return on assets (%)</td>
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<td>12</td>
<td>25</td>
<td>26</td>
<td>24</td>
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</tr>
<tr>
<td>Inventory turn (times)</td>
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<td>4.2</td>
<td>4.2</td>
<td>4.0</td>
<td>4.5</td>
<td>3.3</td>
<td>4.3</td>
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<td>Asset turnover (times)</td>
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<td>1.2</td>
<td>1.4</td>
<td>1.1</td>
<td>1.1</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Net debt to equity (%)</td>
<td>17</td>
<td>6</td>
<td>7</td>
<td>9</td>
<td>18</td>
<td>32</td>
<td>–</td>
</tr>
<tr>
<td>Net debt to EBITDA (times)</td>
<td>0.4</td>
<td>0.2</td>
<td>0.3</td>
<td>0.2</td>
<td>0.4</td>
<td>0.6</td>
<td>–</td>
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<tr>
<td>Return on invested capital (ROIC) (%)</td>
<td>13</td>
<td>13</td>
<td>9</td>
<td>16</td>
<td>17</td>
<td>12</td>
<td>24</td>
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<tr>
<td>Weighted average cost of capital (WACC) (%)</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>14</td>
<td>13</td>
<td>14</td>
<td>–</td>
</tr>
<tr>
<td>ROIC divided by WACC (times)</td>
<td>12</td>
<td>1.0</td>
<td>0.7</td>
<td>1.1</td>
<td>1.3</td>
<td>1.3</td>
<td>1.7</td>
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<tr>
<td>Cash realisation rate (%)</td>
<td>92</td>
<td>93</td>
<td>93</td>
<td>109</td>
<td>91</td>
<td>89</td>
<td>80</td>
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</table>

### Statements of comprehensive income

<table>
<thead>
<tr>
<th>5-year compound growth (%)*</th>
<th>18 094</th>
<th>18 094</th>
<th>17 547</th>
<th>18 065</th>
<th>16 654</th>
<th>11 290</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of merchandise (Rm)</td>
<td>12</td>
<td>(7 422)</td>
<td>(9 175)</td>
<td>(9 954)</td>
<td>(7 086)</td>
<td>(6 240)</td>
</tr>
<tr>
<td>Trading expenses (Rm)</td>
<td>20</td>
<td>3 028</td>
<td>3 945</td>
<td>3 945</td>
<td>3 945</td>
<td>3 945</td>
</tr>
<tr>
<td>Trading profit (Rm)</td>
<td>(27)</td>
<td>2 245</td>
<td>492</td>
<td>2 158</td>
<td>2 081</td>
<td>2 253</td>
</tr>
<tr>
<td>Operating profit (Rm)</td>
<td>(13)</td>
<td>2 426</td>
<td>1 653</td>
<td>3 214</td>
<td>2 140</td>
<td>3 125</td>
</tr>
<tr>
<td>Profit before tax (Rm)</td>
<td>(14)</td>
<td>3 428</td>
<td>1 565</td>
<td>3 696</td>
<td>3 915</td>
<td>3 946</td>
</tr>
<tr>
<td>Headline earnings (Rm)</td>
<td>–</td>
<td>2 435</td>
<td>2 407</td>
<td>2 647</td>
<td>2 836</td>
<td>2 806</td>
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</table>

### Statements of financial position

<table>
<thead>
<tr>
<th>5-year compound growth (%)</th>
<th>7 005</th>
<th>5 195</th>
<th>6 904</th>
<th>6 559</th>
<th>7 413</th>
<th>1 876</th>
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</thead>
<tbody>
<tr>
<td>Non-current assets (Rm)</td>
<td>31</td>
<td>7 005</td>
<td>9 175</td>
<td>10 309</td>
<td>9 450</td>
<td>6 625</td>
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<tr>
<td>Cash and cash equivalents (Rm)</td>
<td>(13)</td>
<td>777</td>
<td>777</td>
<td>982</td>
<td>2 055</td>
<td>1 552</td>
</tr>
<tr>
<td>Trading and other receivables (Rm)</td>
<td>3</td>
<td>4 934</td>
<td>4 934</td>
<td>5 110</td>
<td>5 256</td>
<td>5 281</td>
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<tr>
<td>Inventories (Rm)</td>
<td>20</td>
<td>2 108</td>
<td>2 108</td>
<td>2 072</td>
<td>1 916</td>
<td>2 401</td>
</tr>
<tr>
<td>Other current assets (Rm)</td>
<td>34</td>
<td>352</td>
<td>352</td>
<td>423</td>
<td>374</td>
<td>100</td>
</tr>
<tr>
<td>Total assets (Rm)</td>
<td>11</td>
<td>15 176</td>
<td>13 356</td>
<td>15 491</td>
<td>16 139</td>
<td>17 061</td>
</tr>
<tr>
<td>Total equity (Rm)</td>
<td>7</td>
<td>10 329</td>
<td>9 175</td>
<td>10 309</td>
<td>9 450</td>
<td>6 625</td>
</tr>
<tr>
<td>Non-current liabilities (Rm)</td>
<td>62</td>
<td>1 057</td>
<td>1 763</td>
<td>2 863</td>
<td>4 709</td>
<td>5 481</td>
</tr>
<tr>
<td>Current liabilities (Rm)</td>
<td>12</td>
<td>2 380</td>
<td>2 418</td>
<td>2 759</td>
<td>1 980</td>
<td>2 955</td>
</tr>
<tr>
<td>Total equity and liabilities (Rm)</td>
<td>11</td>
<td>15 176</td>
<td>13 356</td>
<td>15 491</td>
<td>16 139</td>
<td>17 061</td>
</tr>
</tbody>
</table>

Note: 2016 includes the results of Office for 31 weeks, unless otherwise indicated. The full ten-year review and definitions are available on the website at www.truworthsinternational.com.

* Excludes the impairment of Office’s intangible assets.

~ Excluding the impairment of Office’s intangible assets and the impact of foreign exchange losses.

~ Excluding the impairment of Office’s intangible assets.

* Excluded from the acquisition of Office as well as the impairment of Office’s intangible assets during the 2019 financial period. Net debt ratios reflect four-year averages.

~ Excluding the impairment of Office’s intangible assets. The 2019 ratio is based on the results of the Group including 12 months of Office profits, on a pro forma basis, excluding any exceptional non-recurring items.

* Impacted by the acquisition of Office as well as the impairment of Office’s intangible assets during the 2019 financial period. Net debt ratios reflect four-year averages.

* Excludes shares repurchased for share scheme purposes. Includes shares previously repurchased and cancelled: 44 million (cost of R1.9 billion) in 2014, 36 million (cost of R275 million) in 2007 and 7 million (cost of R200 million) in 2006.

The full ten-year review and definitions are available on the website at www.truworthsinternational.com.

The Summarised Group Financial Statements appear on pages 55 and 56.
CHIEF FINANCIAL OFFICER’S REPORT

Challenging trading conditions in the Group’s two major markets continued to impact performance and contributed to a decline in earnings for the period. Truworths posted a steady performance in the weak South African retail market while the profitability of the Office chain was impacted severely by the depressed UK trading conditions.

Group retail sales increased by 3.7% to R18.6 billion, with the Truworths segment increasing sales for the year by 3.1% to R13.5 billion. Retail sales for the Office segment declined in Sterling terms by 0.9% to £279 million, although in Rand terms increased by 5.3%.

The continually difficult trading environment in the UK has impacted the profitability of the Office segment, necessitating a reassessment of the carrying value of its assets. This has resulted in a non-cash impairment charge of £37 million (£102 million excluding the impact of deferred tax in relation to trademarks) being raised against the Office intangible assets.

Truworths demonstrated good management of gross margin, expenses and the debtors book, while the Group remained strongly cash generative with a robust balance sheet.

Group diluted headline earnings per share declined by 8.5% to 560.7 cents, with earnings in Truworths down 3.0% and Office 60.0% lower on an adjusted basis, as explained in the Pro Forma Information section on the right. The annual dividend was reduced by 8.6% to 384 cents per share, with the dividend cover maintained at 1.5 times.

Three of the Group’s financial targets were achieved or exceeded, while three were not achieved, owing mainly to the impact of the Office impairment on the Group’s performance.

The Group generated cash from operations of R2.7 billion (2018: R3.1 billion) which funded dividend payments of R1.8 billion, capital expenditure of R465 million, share buy-backs of R266 million and loan repayments of R422 million.

Group net debt decreased from R968 million to R663 million, with the net debt to equity ratio at the end of the year at 7.2%, down from 9.3% a year ago.

The cash realisation rate, which is a measure of how profits are converted into cash, was 93% for the period (2018: 109%). The Group’s average cash realisation rate for the last five financial years is 92%.

PRO FORMA INFORMATION

The Group’s results for the 52-week period ended 30 June 2019 are not directly comparable to those of the 52-week period ended 1 July 2018 due to the following factors:

• the impairment of the Office intangible assets in the current period;
• the adoption of IFRS 9 in the current period; and
• the impact of foreign exchange gains and losses in both the current and prior periods.

Pro forma information (non-IFRS financial information) has therefore been used selectively throughout this report to provide meaningful comparisons of current period performance against the prior period. A reconciliation between the Group’s reported and pro forma results is provided in note 16 of the Preliminary Report on the Audited Group Annual Results, which is available on the Group’s website at www.truworthsinternational.com.

ADOPTION OF NEW ACCOUNTING STANDARDS

During the reporting period the Group adopted the newly effective accounting standards IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers. The Group adopted these standards retrospectively by adjusting opening balances on 2 July 2018, being the commencement date of the reporting period, rather than restating comparative financial information.

The most significant impact of IFRS 9 relates to the impairment of the Group’s trade receivables based on a forward-looking expected credit loss (ECL) model. This has resulted in a significant increase in the doubtful debt allowance in respect of the in-store account portfolio, mainly driven by the recognition of lifetime ECLs in respect of certain receivables as well as the impact of forward-looking information. The increase in the doubtful debt allowance on transition to IFRS 9 was accounted for in retained earnings, net of deferred tax.

The adoption of IFRS 15 did not have a material impact on the Group.
MAJOR FACTORS INFLUENCING FINANCIAL PERFORMANCE AND HOW WE RESPOND

CHALLENGING TRADING CONDITIONS IN UK RESULTING IN OFFICE IMPAIRMENT

- Stronger consumer uncertainty and negative consumer sentiment have created particularly challenging UK retail trading conditions which have impacted the profitability of Office, resulting in an impairment charge of £97 million against the Office intangible assets.

PRESSURE ON CONSUMER SPENDING IN SA

- Consumer spending has come under increasing pressure in South Africa's low growth environment. Rising fuel, utility, medical, healthcare and food costs are affecting disposable income levels, which is negatively impacting sales growth.

SHIFT TO ONLINE SHOPPING AWAY FROM STORE-BASED RETAILING IN THE UK

- Online is an increasingly popular sales channel, accounting for 16% of retail sales in the UK, compared to 11% five years ago. In Office, online sales have increased from 20% at the time of being acquired by the Group to 34% in 2019.

- Office’s online retail sales increased by 10% compared to a decline of 9% in store sales in the current period. The growth in online sales is affecting store sales and profitability owing to the fixed cost structure of stores.

EXCHANGE RATE VOLATILITY AND DEPRECIATING CURRENCIES

- Exchange rate volatility has a direct impact on the cost of imported goods, particularly in Truworths where approximately 65% of all merchandise is imported and US dollar denominated, which puts pressure on retail selling prices and constrains sales growth.

GROUP FINANCIAL AND OPERATING TARGETS

Financial targets are published to provide guidance to shareholders on the Group’s financial performance objectives. Targets and performance are benchmarked against JSE-listed apparel retailers and leading global listed fashion retailers. The targets are reviewed annually by the board, based on actual performance and the medium-term outlook.

<table>
<thead>
<tr>
<th>Actual 2019</th>
<th>Target 2019</th>
<th>Target achieved</th>
<th>Local benchmark*</th>
<th>Global benchmark**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin (%)</td>
<td>51.6</td>
<td>51 – 55</td>
<td>✓</td>
<td>48.3</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>9.1</td>
<td>19 – 24</td>
<td>✓</td>
<td>15</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>9</td>
<td>23 – 28</td>
<td>✓</td>
<td>28</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>12</td>
<td>20 – 25</td>
<td>✓</td>
<td>21</td>
</tr>
<tr>
<td>Inventory turn (times)</td>
<td>4.2</td>
<td>3.5 – 4.5</td>
<td>✓</td>
<td>3.5</td>
</tr>
<tr>
<td>Asset turnover (times)</td>
<td>1.4</td>
<td>0.9 – 1.3</td>
<td>exceeded</td>
<td>1.5</td>
</tr>
</tbody>
</table>

* The local benchmarks are based on the average ratios for comparable JSE-listed apparel retailers, Alstrip and TYF, for the 2019 period. ** The global benchmarks are based on the average ratios for global fashion retailers, H&M and Zara, for the 2019 period.

ANALYSIS OF FINANCIAL CAPITAL

The following analysis of performance aims to demonstrate how the Group’s financial capital has been increased, decreased or transformed through the Group’s operating and investing activities in the 2019 reporting period, and how the effective management of this capital is expected to contribute to value creation for shareholders in the medium and long term.

This review of financial performance should be read together with the Group’s Audited Annual Financial Statements, which are available at www.truworthsinternational.com.

GROUP

Statements of comprehensive income

- Year of merchandise

Group retail sales increased by 3.7% from R18.0 billion to R18.6 billion. Account sales comprised 51% (2018: 50%) of retail sales for the period.

Group sale of merchandise, which comprises Group retail sales, together with wholesale and franchise sales and delivery fee income, less accounting adjustments, increased 3.1% to R18.1 billion.

<table>
<thead>
<tr>
<th>Divisional sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truworths ladieswear</td>
</tr>
<tr>
<td>Truworths designer emporium</td>
</tr>
<tr>
<td>Total Truworths ladieswear</td>
</tr>
<tr>
<td>Office</td>
</tr>
<tr>
<td>Truworths menswear</td>
</tr>
<tr>
<td>Identity</td>
</tr>
<tr>
<td>Truworths kids emporium</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

- Sale of merchandise

Truworths increased by 1.6% and Office decreased by 5.2% as a net 24 stores were closed across all brands, including 16 Office concession stores. At the end of the period the Group had 945 stores including 24 concession stores (2018: 969 stores including 40 concession stores).
Gross margin
The Group’s gross margin reduced to 51.6% (2018: 52.4%). Truworths’ gross margin was unchanged at 55.5% while the Office gross margin declined from 44.2% to 42.3%.

Trading expenses
Trading expenses, inclusive of the impairment of Office intangible assets, increased by 31.9% to R9.2 billion. On an adjusted basis, trading expenses increased by 6.3% and constituted 41.0% (2018: 39.8%) of sale of merchandise. For further detail on trading expenses refer to the Truworths and Office sections in this report.

Interest received
Interest received decreased by 18.8% to R1.2 billion (2018: R1.4 billion). Excluding the IFRS recategorisation of interest received in respect of stage 3 trade receivables amounting to R198 million, interest received decreased by 11.3%. This decrease was as a result of the deployment of cash in the restructuring of the South African funding arrangements in June 2018 and the growth in accounts opened post the May 2016 reduction in the maximum overdraft limits.

Operating profit
Operating profit inclusive of the impairment of Office intangible assets, decreased 58.1% to R1.7 billion while the operating margin declined from 22.5% to 9.1%. On an adjusted basis (but not taking into account the impact of the restructuring of South African funding arrangements in June 2018 and the growth in accounts opened post the May 2016 reduction in the maximum overdraft limits) the operating margin was reduced from 22.3% to 19.4%.

Finance costs
Finance costs decreased materially by 66.4% from R230 million in the prior period to R64 million. This reflects the benefits of the restructuration of the Group’s South African funding arrangements undertaken in June 2018.

Earnings
HEPS declined by 8.6% to 562.8 cents while diluted HEPS were 8.5% lower at 560.7 cents. Earnings per share, which include the impairment of the carrying value of the Office intangible assets, decreased by 66.8% to 203.9 cents.

Statements of financial position
The Group’s financial position remains strong. Net asset value per share decreased 10.9% to 216 cents and on an adjusted basis increased 6.3% to 256 cents.

Goodwill and intangible assets decreased by R1.9 billion, principally as a result of the Office impairment.

Inventories increased by 1.7% to R2.1 billion at the end of the reporting period. Inventory turn increased to 4.2 times (2018: 4.0 times).

Interest-bearing borrowings decreased from R1.7 billion to R1.3 billion as a consequence of the restructuring of the funding arrangements in South Africa to achieve an efficient and more cost-effective capital base.

Group net debt decreased from R968 million to R663 million, despite the repurchase of 3.75 million shares for R266 million during the period.

The put option liability, representing the Group’s obligation in respect of the put options granted to the majority shareholders of Office, and which is measured at the present value of the redemption amount, decreased by R268 million to R121 million at the end of the period as a result of the decline in the Office segment’s earnings.

Interest on bank balances included a reduction in the reporting period. Interest received decreased by 10.3% to R3.5 billion and the operating margin declined from 26% to 19.4%.

TRUWORTHS AND OFFICE BUSINESS SEGMENTS
Management measures the operating results of the Truworths and Office business segments separately for the purpose of resource allocation and performance assessment. Segmental performance is reported on an IFRS basis and evaluated with reference to revenue, gross margin, operating margin, EBITDA and profit after tax.

Operating profit performance

<table>
<thead>
<tr>
<th>Account: cash sales mix (%)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total third-party revenue</td>
<td>52</td>
<td>55</td>
</tr>
<tr>
<td>Third party</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>Inter-segment</td>
<td>31</td>
<td>41</td>
</tr>
<tr>
<td>Trading expenses</td>
<td>32</td>
<td>44</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>18</td>
<td>25</td>
</tr>
<tr>
<td>Employment costs</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>Trade receivable costs</td>
<td>22</td>
<td>28</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>45</td>
<td>60</td>
</tr>
<tr>
<td>Interest received</td>
<td>33</td>
<td>43</td>
</tr>
<tr>
<td>Finance costs</td>
<td>23</td>
<td>29</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>33</td>
<td>39</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>33</td>
<td>40</td>
</tr>
<tr>
<td>Tax expense</td>
<td>22</td>
<td>30</td>
</tr>
<tr>
<td>EBITDA</td>
<td>33</td>
<td>40</td>
</tr>
<tr>
<td>Segment assets</td>
<td>31</td>
<td>38</td>
</tr>
<tr>
<td>Segment liabilities</td>
<td>28</td>
<td>34</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td>Other segmental information</td>
<td>28</td>
<td>30</td>
</tr>
</tbody>
</table>

Other operating costs

<table>
<thead>
<tr>
<th>Account: cash sales mix (%)</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>793</td>
<td>859</td>
</tr>
<tr>
<td>Employment costs</td>
<td>281</td>
<td>276</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>120</td>
<td>129</td>
</tr>
<tr>
<td>Trade receivable costs</td>
<td>242</td>
<td>267</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>340</td>
<td>408</td>
</tr>
<tr>
<td>Interest received</td>
<td>304</td>
<td>348</td>
</tr>
<tr>
<td>Finance costs</td>
<td>345</td>
<td>408</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>345</td>
<td>408</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>345</td>
<td>408</td>
</tr>
<tr>
<td>Tax expense</td>
<td>345</td>
<td>408</td>
</tr>
<tr>
<td>EBITDA</td>
<td>345</td>
<td>408</td>
</tr>
<tr>
<td>Segment assets</td>
<td>345</td>
<td>408</td>
</tr>
<tr>
<td>Segment liabilities</td>
<td>345</td>
<td>408</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>345</td>
<td>408</td>
</tr>
<tr>
<td>Other segmental information</td>
<td>345</td>
<td>408</td>
</tr>
</tbody>
</table>

Operating profit performance

<table>
<thead>
<tr>
<th>Operating profit</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>41</td>
<td>44</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>34</td>
<td>37</td>
</tr>
</tbody>
</table>

* June 2018 not comparable to prior years due to restructuring of SA funding arrangements in June 2018. The numbers in the graph above have been adjusted to exclude the impact of the restructuring of the Office debt. The reported numbers are operating profit R3.4bn, EBITDA margin 29% and operating margin 26%.

Notes to accounts continued
TRUWORTHS

This analysis covers the performance of the Truworths business segment, which operates in South Africa and in the rest of Africa, and includes YDE.

Statements of comprehensive income

Sale of merchandise

Retail sales in Truworths increased by 3.1% from R13.1 billion to R13.5 billion while product deflation averaged 0.2% (2018: 1.4% deflation).

Account sales increased by 4.5% and accounted for 70% (2018: 69%) of retail sales. Cash sales decreased by 0.1%, like-for-like store retail sales increased by 0.7%.

Sale of merchandise increased by 1.9% to R12.9 billion.

The South African operations accounted for 96.6% (2018: 96.3%) of the Truworths segment’s retail sales, with the 29 (2018: 40) stores in the rest of Africa contributing the balance.

Retail space increased by 1.6% as Truworths opened 23 stores and closed 30.

Trading densities increased to R35.682 per m$ (2018: R35.256 per m$) and remain among the highest level in the local retail sector.

Gross margin

The gross margin was unchanged at 55.5%.

Trading expenses

<table>
<thead>
<tr>
<th>Analysis of trading expenses</th>
<th>2019 £m</th>
<th>2018 £m</th>
<th>Change £m</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>322</td>
<td>289</td>
<td>33</td>
<td>11</td>
</tr>
<tr>
<td>Employment costs</td>
<td>1 569</td>
<td>1 474</td>
<td>95</td>
<td>6</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>1 491</td>
<td>1 462</td>
<td>29</td>
<td>2</td>
</tr>
<tr>
<td>Trade receivable costs</td>
<td>1 037</td>
<td>1 099</td>
<td>(62)</td>
<td>(6)</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>500</td>
<td>720</td>
<td>(220)</td>
<td>(30)</td>
</tr>
<tr>
<td>Total</td>
<td>5 210</td>
<td>5 044</td>
<td>166</td>
<td>3</td>
</tr>
</tbody>
</table>

* Trading expenses grew 4% on the prior period excluding the interest reclassification or respect of stage 3 trade receivables in terms of IFRS 9 (R184 million) as well as the impact of foreign exchange losses of R39 million in 2018 and foreign exchange gains of R260 million in 2019.

- Depreciation and amortisation increased by 11%. Excluding non-comparable stores, depreciation increased 2%.
- Employment costs grew by 6%. Excluding non-comparable stores and other non-comparable costs (incentives and share scheme expenses), employment costs increased 4%.
- Occupancy cost increases were limited to 2%, aided by successful rental negotiations during the period. Trading space increased 1.6%.
- Trade receivable costs declined by 6% and, excluding the IFRS 9 stage 3 interest reclassification, increased by 4%. Gross bad debt decreased by 4% and recoveries increased by 6%, resulting in net bad debt decreasing 6%. The total cost of accounts of R1.211 billion exceeded total income from accounts (including noninterest) of R1.185 billion, resulting in a deficit of R36 million (2018: surplus of R71 million).
- Other operating costs, excluding foreign exchange gains and losses in both the current and prior periods, increased by 2%.

Interest received

Total interest received decreased by 19% to R1.150 million, impacted by the deployment of cash in the restructuring of the South African funding arrangements in June 2018, the interest reclassification in terms of IFRS 9 and the growth in accounts opened post the May 2016 reduction in the maximum prescribed interest rates under the National Credit Act. Trade receivable interest, excluding noninterest, decreased by 1% to R1.083 million.

Interest received

Total interest received increased by 19% to R1.150 million, impacted by the deployment of cash in the restructuring of the South African funding arrangements in June 2018, the interest reclassification in terms of IFRS 9 and the growth in accounts opened post the May 2016 reduction in the maximum prescribed interest rates under the National Credit Act. Trade receivable interest, excluding noninterest, decreased by 1% to R1.083 million.

Finance costs

Finance costs reduced by R168 million to R54 million (2018: R222 million) following the restructuring of the Group’s South African funding arrangements undertaken in 2018.

Trading and operating profit

Trading profit decreased by 0.2% to R2.235 million and by 2% on an adjusted basis (excluding the IFRS 9 interest reclassification and foreign exchange gains and losses in both the current and prior periods). The trading margin declined from 17.8% to 17.4%.

Operating profit (profit before finance costs and tax) decreased by 7% to R3.4 billion (2018: R3.7 billion), with the operating margin reducing from 29.1% to 26.4%.

OFFICE

This analysis covers the financial performance of the Office business segment, which operates primarily in the UK, Germany and the Republic of Ireland.

Statements of comprehensive income

Sale of merchandise

Sale of merchandise was unchanged at £286 million for the period while retail sales declined by 0.9% to £279 million (R51.1 billion). Trading space decreased 5.2% following the closure of 17 stores, 16 of which were concession stores across House of Fraser and Arcadia (Topshop Topman).

E-commerce showed continued good growth, with online retail sales increasing 9.8% to £94 million and accounting for 34% of total retail sales (2018: 31%). Store retail sales decreased 6.0% to £185 million.

The UK accounted for 91% of retail sales, Germany 5% and the Republic of Ireland 4%.

Gross margin

Gross margin declined to 42.3% (2018: 44.4%) owing mainly to a change in the full-price merchandise versus markdown merchandise sales mix.

Trading expenses

<table>
<thead>
<tr>
<th>Analysis of trading expenses</th>
<th>Jun 2019 £m</th>
<th>Jun 2018 £m</th>
<th>Change £m</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>5.6</td>
<td>(14)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment costs</td>
<td>37.0</td>
<td>(8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>41.5</td>
<td>(7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivable costs</td>
<td>6.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating costs</td>
<td>23.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>111.2</td>
<td>111.2</td>
<td>0.0</td>
<td>0</td>
</tr>
</tbody>
</table>

* Zero due to rounding.
GROUP INFORMATION TECHNOLOGY

Capital expenditure of R78 million (2018: R81 million) was invested in leading-edge information technology (IT) systems over the past year to support the retail operations and supply chain. The Group has committed R113 million for Truworths and Office IT capital expenditure for the 2020 reporting period.

Major IT developments: Truworths
Completed in 2019 financial period:
• Implemented first phase of product life cycle management (PLM) system to optimise procurement and supply chain processes.
• Enhanced online offering with the addition of Office London and cosmetics to the Truworths website.
• Launched YDE e-commerce site.
• Extended systems to support lay-by payment options for all Truworths, Identity and Office London stores.
• Launched digitalised fashion delivery system in all stores countrywide.
• Introduced machine learnings and artificial intelligence (AI) applications to maximise the significant value of Truworths’ customer and merchandise data.

Planned for completion in 2020 financial period:
• Upgrade and implement new merchandise management system.
• Implement additional phases of the PLM system.
• Launch project to replace the current point-of-sale system, which will include advanced mobility, multi-channel and in-store digital features. The system is planned to be implemented in the 2021 financial period.
• Upgrade nationwide store systems network with the latest software defined network solution to provide greater throughput, manageability and stability.
• Deliver systems security projects identified in the Group’s cybersecurity road map.
• Progress strategic initiatives on cloud, digital and AI.

Major IT developments: Office
Completed in 2019 financial period:
• Migrated Office’s legacy financial systems onto the Group’s financial system, leveraging the functionality offered by Truworths’ financial systems to facilitate financial reporting across the business.
• Implemented new omni-channel payment processor.
• Implemented new customer-facing store technology.
• Enhanced systems for web order fulfilment from store.
• Redesigned distribution centre processes to improve efficiencies.
• Upgraded and improved web technology.

Planned for completion in 2020 financial period:
• Implement alternative payment methods for online sales.
• Implement enhanced delivery options for online sales.
• Upgrade and implement customer-facing store technology.
• Improve integration with concession department stores’ systems.
• Improve web technologies and redesign websites.

GROUP FINANCIAL PLANS FOR 2020

Capital expenditure of R581 million (Truworths: R537 million and Office: R44 million) has been committed for the 2020 financial period and will be applied mainly as follows:
• R309 million for new stores, and the expansion and refurbishment of existing stores;
• R113 million for computer infrastructure and software;
• R151 million for land, buildings and refurbishment; and
• R4 million for distribution facilities.

Trading space in Truworths is planned to increase by approximately 0.7% while Office trading space is expected to decrease by 3.0%.

After two consecutive years of product deflation in Truworths, it is expected that product inflation will be in the low single digits for the 2020 financial period, mainly due to currency pressure.

The trading outlook for Truworths and Office for the 2020 financial period is covered in the Chief Executive Officer’s Report on page 47.

GROUP MEDIUM-TERM FINANCIAL TARGETS

The Group’s medium-term financial and operating targets have been reviewed, and in some instances revised, to reflect the Group’s expected performance over the next three years. The Group’s medium-term targets approved by the board at the end of the 2019 and 2018 financial periods are set out below.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Current period medium-term targets to 2022</th>
<th>Prior period medium-term targets to 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin (%)</td>
<td>49 – 53</td>
<td>49 – 53</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>17 – 22</td>
<td>17 – 22</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>18 – 24</td>
<td>17 – 23</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>18 – 24</td>
<td>17 – 23</td>
</tr>
<tr>
<td>Inventory turn (times)</td>
<td>3.5 – 4.5</td>
<td>3.5 – 4.5</td>
</tr>
<tr>
<td>Asset turnover (times)</td>
<td>0.9 – 1.3</td>
<td>0.9 – 1.3</td>
</tr>
</tbody>
</table>

APPRECIATION

Thank you to our shareholders as well as the broader investment community for your interest and engagement with the Group. We welcome those shareholders who invested for the first time this year. I also extend my thanks to our lenders, auditors and advisers for their support. Our finance team strives to achieve the highest standards of corporate reporting and I thank them for their ongoing support and commitment.

David Pfaff
Chief Financial Officer and Chief Operating Officer
SUMMARISED GROUP STATEMENTS OF FINANCIAL POSITION

30 Jun 2019  1 Jul 2018

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>5 195</td>
<td>6 904</td>
</tr>
<tr>
<td>Properties, plant and equipment</td>
<td>1 769</td>
<td>1 726</td>
</tr>
<tr>
<td>Goodwill</td>
<td>346</td>
<td>1 629</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2 616</td>
<td>3 227</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>130</td>
<td>139</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>301</td>
<td>173</td>
</tr>
<tr>
<td>Current assets</td>
<td>8 171</td>
<td>8 567</td>
</tr>
<tr>
<td>Inventories</td>
<td>2 108</td>
<td>2 072</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>4 924</td>
<td>5 110</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>—</td>
<td>73</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>777</td>
<td>982</td>
</tr>
<tr>
<td>Other current assets</td>
<td>352</td>
<td>350</td>
</tr>
<tr>
<td>Total assets</td>
<td>13 356</td>
<td>15 491</td>
</tr>
<tr>
<td>EQUITY AND LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>9 175</td>
<td>10 369</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>1 763</td>
<td>2 363</td>
</tr>
<tr>
<td>Interest-bearing borrowings</td>
<td>1 310</td>
<td>1 266</td>
</tr>
<tr>
<td>Put option liability</td>
<td>74</td>
<td>389</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>559</td>
<td>706</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>2 418</td>
<td>2 759</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>1 640</td>
<td>1 800</td>
</tr>
<tr>
<td>Interest-bearing borrowings</td>
<td>130</td>
<td>419</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>180</td>
<td>263</td>
</tr>
<tr>
<td>Put option liability</td>
<td>47</td>
<td>227</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4 111</td>
<td>5 122</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>13 356</td>
<td>15 491</td>
</tr>
<tr>
<td>Number of shares in issue (net of treasury shares)</td>
<td>(millions)</td>
<td>425.5</td>
</tr>
<tr>
<td>Net asset value per share</td>
<td>(cents)</td>
<td>2 156</td>
</tr>
<tr>
<td>Key ratios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>9</td>
<td>27</td>
</tr>
<tr>
<td>Return on capital (%)</td>
<td>19</td>
<td>40</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>12</td>
<td>25</td>
</tr>
<tr>
<td>Inventory turnover (times)</td>
<td>4.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Asset turnover (times)</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Net debt to equity (%)</td>
<td>7.2</td>
<td>9.3</td>
</tr>
<tr>
<td>Net debt to EBITDA (times)</td>
<td>0.3</td>
<td>0.2</td>
</tr>
</tbody>
</table>

SUMMARISED GROUP STATEMENTS OF COMPREHENSIVE INCOME

3 weeks to 30 Jun 2019  1 Jul 2018

<table>
<thead>
<tr>
<th>Revenue</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of merchandise</td>
<td>19 557</td>
<td>19 254</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>18 094</td>
<td>17 547</td>
</tr>
<tr>
<td>Gross profit</td>
<td>9 345</td>
<td>9 193</td>
</tr>
<tr>
<td>Other income</td>
<td>322</td>
<td>279</td>
</tr>
<tr>
<td>Trading expenses</td>
<td>(9 176)</td>
<td>(8 954)</td>
</tr>
<tr>
<td>Trading profit</td>
<td>402</td>
<td>2 518</td>
</tr>
<tr>
<td>Interest received</td>
<td>1 153</td>
<td>1 420</td>
</tr>
<tr>
<td>Dividends received</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1 653</td>
<td>3 946</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(86)</td>
<td>(250)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>1 569</td>
<td>3 696</td>
</tr>
<tr>
<td>Tax expense</td>
<td>(876)</td>
<td>(1 021)</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>691</td>
<td>2 665</td>
</tr>
</tbody>
</table>

52 weeks to 30 Jun 2019  1 Jul 2018

<table>
<thead>
<tr>
<th>Revenue</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of merchandise</td>
<td>63 758</td>
<td>65 293</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>54 765</td>
<td>56 327</td>
</tr>
<tr>
<td>Gross profit</td>
<td>8 993</td>
<td>8 966</td>
</tr>
<tr>
<td>Other income</td>
<td>3 251</td>
<td>3 077</td>
</tr>
<tr>
<td>Trading expenses</td>
<td>(8 715)</td>
<td>(8 345)</td>
</tr>
<tr>
<td>Trading profit</td>
<td>1 278</td>
<td>5 321</td>
</tr>
<tr>
<td>Interest received</td>
<td>2 680</td>
<td>2 963</td>
</tr>
<tr>
<td>Dividends received</td>
<td>106</td>
<td>120</td>
</tr>
<tr>
<td>Operating profit</td>
<td>3 954</td>
<td>8 278</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(243)</td>
<td>(250)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>3 711</td>
<td>8 028</td>
</tr>
<tr>
<td>Tax expense</td>
<td>(1 276)</td>
<td>(1 946)</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>2 435</td>
<td>6 082</td>
</tr>
</tbody>
</table>

The information in these summarised Group annual financial statements has been extracted from the 2019 Group Audited Annual Financial Statements and the 2019 Preliminary Report on the Audited Group Annual Results.
### Summarised Group Statements of Changes in Equity

#### Balance at the beginning of the period attributable to equity holders of the company

<table>
<thead>
<tr>
<th>30 Jun 2019</th>
<th>1 Jul 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rm</td>
<td>Rm</td>
</tr>
<tr>
<td>Balance at the beginning of the period attributable to equity holders of the company</td>
<td>10 369</td>
</tr>
<tr>
<td>Adjustment on adoption of IFRS 9</td>
<td>(223)</td>
</tr>
<tr>
<td>Restated balance at the beginning of the period</td>
<td>10 146</td>
</tr>
<tr>
<td>Total comprehensive income for the period</td>
<td>641</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>691</td>
</tr>
<tr>
<td>Other comprehensive (losses)/income for the period</td>
<td>(50)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(1 768)</td>
</tr>
<tr>
<td>Premium on shares issued in terms of the 1998 share option scheme</td>
<td>10</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>90</td>
</tr>
<tr>
<td>Acquisition of non-controlling interest</td>
<td>–</td>
</tr>
<tr>
<td>Release of cash flow hedging reserve on impairment of Office intangible assets</td>
<td>54</td>
</tr>
<tr>
<td>Movement in put option liability</td>
<td>268</td>
</tr>
<tr>
<td>Balance at the reporting date attributable to equity holders of the company</td>
<td>9 175</td>
</tr>
</tbody>
</table>

#### Comprising:

- **Share capital and premium**
  - 729 | 729
- **Treasury shares**
  - (1 291) | (1 083)
- **Retained earnings**
  - 9 019 | 10 932
- **Non-distributable reserves**
  - (92) | (209)

<table>
<thead>
<tr>
<th>30 Jun 2019</th>
<th>1 Jul 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rm</td>
<td>Rm</td>
</tr>
<tr>
<td>Total equity attributable to equity holders of the company</td>
<td>9 175</td>
</tr>
</tbody>
</table>

#### Dividends (cents per share)

<table>
<thead>
<tr>
<th>30 Jun 2019</th>
<th>1 Jul 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash dividends paid</td>
<td>(1 768)</td>
</tr>
<tr>
<td>Cash dividends paid per share</td>
<td>244</td>
</tr>
</tbody>
</table>

#### Key notes:

- **Increase in doubtful debt allowance of R310 million, net of deferred tax, on adoption of IFRS 9 on 2 July 2018.**
- **Other comprehensive (losses)/income comprises the movement in the foreign currency translation reserve, the fair value adjustment in respect of financial assets held at fair value through other comprehensive income and gains on defined benefit plans.**
- **Decrease in the present value of the amount payable on exercise of the put options granted to the non-controlling management shareholders in Office as a result of the decline in the Office segment's profitability.**
- **Decrease in the debt balance on non-distributable reserves mainly due to the release of the cash flow hedging reserve that arose on acquisition of Office, and which was released on impairment of the Office intangible assets, as well as the release of a portion of the share-based payment reserve on the exercise of shares during the period held in respect of the 2012 share scheme.**
- **Annual dividend per share decreased by 8.6% to 384 cents. Dividend cover maintained at 1.5 times.**
TRUWORTHS MARKET-LEADING BRAND PORTFOLIO

Truworths owns an enviable portfolio of market-leading fashion clothing and footwear brands, offering some of South Africa’s most sought-after ladieswear, menswear and kidswear, and in addition owns a premium homeware brand.

TRUWORTHS’ BRAND STRATEGY

Truworths offers its customers premium-quality fashion ranges of an international standard across a diversified portfolio of aspirational brands that appeal to the different lifestyles of youthful, fashionable South Africans. In addition, the business also has a strong and growing kidswear offering and a premium homeware brand.

Core to Truworths’ brand strategy is the focus on continuing to grow and develop exclusive and highly-sought-after in-house brands. Collectively these brands account for the majority of the brand offering and are complemented by a small collection of specialist third-party licensed brands.

Major international fragrance and cosmetics brands are offered in a uniquely curated environment, Elements. Truworths in addition offers fashionable fine jewellery, sunglasses and watches, comprising exclusively designed merchandise as well as leading fashion brands, and also offers a range of cellular devices.

Each brand in the Truworths portfolio has a clearly defined profile and a documented description of the DNA which ensures the merchandise has a distinctive signature. The portfolio of brands then comes together across lifestyles to create a unique and compelling customer offering. These descriptions are used by the merchandise buying teams to guide them in their product selection process and in how the brands are visually presented in stores, windows and digitally.

Truworths constantly reviews its portfolio of brands to identify new merchandise opportunities across the customer spectrum.

EXPANDING BRAND PORTFOLIO

Truworths and Truworths Man are the core brands and are supported by a range of internally developed mainstream brands that make up the emporium:

- Inwear (launched in 1986)
- Truworths Jewellery (1989)
- LTD (1992)
- Truworths Elements (1999)
- Ginger Mary (2004)
- Hey Betty (2011)

Within the emporium many other smaller brands exist. These brands are critical to the variety of lifestyles that the company offers to satisfy its customers’ needs. These include some particularly well-established brands such as Outback Red, Hemisphere, Finngans, Skinny, TRS, Trench and TRNY.

Daniel Hechter, the French designer brand, has been offered under an exclusive long-term licence agreement since 1984.

Identity, launched in 1999, offers a range of young, affordable and trendy merchandise for the fashion-aware and value-conscious youth and kids market. The chain only operates from stand-alone stores.

Office London, the South African offering of the UK fashion footwear brand owned by the Group, was launched in 2017. The brand offers a wide selection of third-party branded athleisure footwear complemented by a limited selection of in-house designed own-brand fashion footwear and apparel.

Organic expansion of the brand portfolio has been complemented by the acquisition of the following brands:

- Italian-inspired menswear brand Uzzi (2006)
- Ladieswear brand EarthAddict (2015)
- Kidswear brands Earthchild and Naartjie (2015)
- Home and linen retailer Loads of Living (2017)

In 2003 the Group acquired Young Designers Emporium (YDE), an agency business showcasing clothing, footwear and accessory brands of emerging fashion designers in South Africa. YDE operates from stand-alone stores and is not included in emporium stores as the brand targets a different customer profile to Truworths.

NEW BRANDS INTRODUCED IN 2019

ID Kids, a brand offering boys’ and girls’ collections for two to ten year olds, was tested in Identity stores in summer 2018 and winter 2019. The brand is aligned with the DNA of Identity in terms of value and cool, funky fashion, and will be extended to over 50 stores in the 2020 financial period.

Context, an upmarket brand targeting discerning female customers, offers a range of exclusive Truworths fashion, beauty and homeware. The brand will be expanded selectively to maintain exclusivity, with the offering being curated specifically for each location.

New brands within the portfolio are regularly assessed and tested to deal with changing market needs and new opportunities.

SPECIALIST BRAND EMPORIUM STORES

The Truworths Emporium store enables customers to shop for Truworths’ multiple fashion brands in a single location. The emporium store concept has evolved with the expansion of the brand portfolio and customers have access to four specialist branded emporiums within the Truworths Emporium:

- Truworths Ladieswear Emporium
- Truworths Menswear Emporium
- Truworths Ladieswear Designer Emporium
- Truworths Kids Emporium

The Truworths portfolio of brands and specialist branded emporium stores offers an enticement to youthful and fashionable consumers to shop for quality apparel merchandise of international styling and standard.
Brand description

Truworths Ladieswear Emporium offers a range of aspirational and fashionable leisurewear, denim, formalwear, eveningwear, lingerie, shoes and accessories designed for the youthful, modern, fashion-conscious woman.

Truworths Menswear Emporium caters for the entire wardrobe requirements of modern, fashion-conscious, youthful men by offering a range of exclusive aspirational brands that encompass formalwear and leisurewear, in addition to a range of shoes, underwear and accessories.

The Truworths Ladieswear Designer Emporium offers a unique range of exclusive brands that appeal to the discerning South African woman. The ranges are complementary, with each having a clearly defined look and feel, and lifestyle relevance. This combination of ranges in a single space makes for an exciting better-end shopping experience.

The Truworths Kids Emporium offers a range of exclusive, aspirational childrenswear brands that are of exceptional quality for the fashion and brand-conscious parent and child. Each brand offers a range of boys and girls wear that is unique and carefully designed to ensure that the DNA of each brand is differentiated. This is to ensure that when placed together the brands complement one another to create a one-of-a-kind kids shopping experience. The emporium caters for children from newborns to 14 years old.

Brand profile

Supporting brands and ranges

Outback Red, OBR Sport, TRS, TRNY, Hey Betty, Truworths, Inwear, Basis, Fennigans, Truworths Collection, Zeta, Truworths Maternity, Intrigue, Skiny and Peep

Truworths Man, Uzi, Daniel Hechter Mens, LTD Mens, Hemisphere, Hemisphere Sport, Studio, Trench, Moskow and Extraxm

Daniel Hechter Ladies, Ginger Mary, Truworths Glamour, LTD Ladies and Earthaddict

LTD Kids, Earthchild, Naartjie, Max and Mia, and Zigy

Retail sales for 2019

R3.8 billion
R3.7 billion
R1.4 billion
R1.1 billion

Retail sales growth on prior period

unchanged
unchanged
1%
19%

Retail sales contribution

28% (2018: 29%)
27% (2018: 28%)
10% (2018: 10%)
6% (2018: 7%)

Compound retail sales growth over last three years

4% decrease
unchanged
4%
10%

Number of emporium stores, departments within emporium stores or stand-alone stores

349 Truworths Emporium stores
338 Inwear departments
1 Context stand-alone store

322 Truworths Man departments
35 Truworths Man stand-alone stores
247 Uzi departments
44 Uzi stand-alone stores
306 Daniel Hechter Man departments
142 LTD Man departments

295 Daniel Hechter Ladies departments
3 Daniel Hechter stand-alone stores
293 Ginger Mary departments
2 Ginger Mary stand-alone stores
107 LTD departments
1 LTD stand-alone store
7 Earthaddict stand-alone stores
5 Earthaddict/Earthchild combination stores

263 LTD Kids departments
61 Truworths Kids Emporiums within Truworths Emporium stores
4 LTD Kids Emporium stand-alone stores
22 Earthchild stand-alone stores
21 Naartjie stand-alone stores
6 Naartjie and Earthchild stand-alone stores
TRUWORTHS: MARKET-LEADING BRAND PORTFOLIO continued

Included in this category are Truworths Elements, Truworths Jewellery, Truworths Cellular, Office London and Loads of Living.

Truworths Elements offers a range of premium international skincare, cosmetics and fragrance brands. Truworths Elements is a fresh and uncluttered beauty destination, focusing on highly sought-after prestigious brands for fashion-conscious customers, where they can enjoy the expertise of trained specialist cosmetic consultants.

Truworths Jewellery offers a selection of quality fine jewellery, trendy fashion jewellery and leading international watch and sunglasses brands. The merchandise appeals to youthful women, across broad lifestyle spectrums, who view jewellery as an integral part of fashion. The range includes gold, silver and faux jewellery collections, as well as a broad assortment of formal and leisure-inspired watch and sunglasses brands.

Office London offers a wide selection of third-party branded fashionable athleisure footwear, some of which are exclusive to Office, complemented by a limited selection of in-house designed own-brand fashion footwear.

Loads of Living offers a selection of sophisticated linen and homeware.

Identity offers a range of young, affordable and trendy fashion for men, women and kids, and is the brand for those who want to be wearing up-to-date fashion. Identity caters for the fashion-aware and value-conscious youth market. Identity operates from independent stand-alone stores.

The Young Designers Emporium (YDE) showcases South Africa’s young, cutting-edge fashion talent. As an agent, YDE markets the clothing and lifestyle products of emerging designers and suppliers. The unique trading formula of YDE provides an exciting platform for young designers to present their own-label ranges in a branded space. The emporiums are aimed at fashion-forward customers aged 16 to 35 years and offer clothing, shoes, bags and accessories. YDE operates from independent stand-alone stores.
Truworths strives to create winning merchandise ranges across its brand portfolio season after season, offering customers internationally styled, aspirational fashion and homeware of superior quality. Success and failure in fashion retailing is ultimately measured by what sells and what does not.

Truworths’ proven merchandise philosophy of offering customers an extensive range of garments and styles, while offering a limited quantity of each style ensures exclusivity.

Consistent processes are followed by the merchandise planning and buying teams to manage and mitigate the risk of fashion throughout the product life cycle. This includes forecasting and interpreting international fashion trends, tailoring these trends to the South African market, designing garments, planning and assorting ranges, sourcing and engaging suppliers, delivering fast fashion and quick response to new trends and popular styles, and managing production across the supply chain until the merchandise reaches stores and, finally, the customer.

**THE YOUTHFUL FASHIONABLE CUSTOMER**

Truworths targets a youthful fashionable customer and through its exclusive market-leading brands aims to cater for the varied lifestyle needs of this customer, from casualwear to workwear, eveningwear and footwear.

Truworths also offers kidswear and has an expanding presence in this market through its multiple exclusive kidswear brands – LTD Kids, Earthchild, Naartjie and the recently launched ID Kids.

A selection of superior quality homeware is offered through the Loads of Living chain to complement the fashion offering.

Fashion is aimed at making customers look attractive and successful and feel enthused with confidence, regardless of their age or size. This single customer view removes the risk of segmenting the market by targeting different customer profiles, and provides clarity and focus to the buying and marketing teams.

**SUPERIOR QUALITY FASHION**

Truworths is synonymous with quality fashion, with industry-leading metrics for low levels of quality-related customer returns. Core to the quality assurance process is an in-house fabric and garment testing laboratory. The laboratory is accredited by South Africa’s Council for Scientific and Industrial Research (CSIR), providing assurance that the laboratory’s methods and results are aligned with international standards.

The quality assurance team partners with local and international suppliers to ensure merchandise is manufactured to consistent quality and prescribed standards.

**CONSISTENT FASHION FORMULA**

A consistent merchandise buying and planning formula is applied to every six-month season. Developed over many years, this process is constantly refined and updated to align with the growth and complexity of the business, and to continue to meet the challenges of the fast-moving and evolving global fashion retail market. Checks and balances at critical stages in the process limit the risk of fashion failure.

Garments are selected and designed to complement each range and to showcase the differentiating characteristics of each brand. Detailed planning and balancing of ranges ensures consistency of the merchandise offering and provides structure to the creative process.

Merchandise is sourced from a combination of local and international suppliers based on a carefully considered methodology that provides flexibility and reliability, and mitigates supply chain risk. At each stage in the process there are checks to ensure that the merchandise meets the exacting quality standards that customers both value and expect.

**MANAGING FASHION RISK IN 2019**

While merchandise strategies and processes are implemented to reduce fashion risk, each year presents new challenges in the macro environment that need to be managed and mitigated.

In South Africa’s protracted low growth environment, consumers in Truworths’ mass middle-income target market are under growing financial strain, resulting in customers spending less on fashion clothing.

The tough trading environment was compounded by a late start to the sales of winter 2019 product.

The high level of discounting and promotional activity by competitors over the past few years has intensified, particularly among value-oriented retailers. While Truworths does not plan to match these discounting strategies, the mainstream ladies, mens and kids brands have increased the volume of well-priced product which complements existing ranges to offer customers promotional deals to further improve value.

Truworths faces a perennial challenge in managing the impact of the volatility of the Rand/US dollar exchange rate on product pricing as approximately 65% of merchandise is imported and US dollar denominated. Ongoing consolidation of fabric buying and production is aimed at lowering prices to mitigate the impact of exchange rate volatility and provides the opportunity to improve the value offering. Continuous efforts to increase local sourcing further mitigates the currency exposure while offering the added benefit of quick response.

Despite the challenging operating environment Truworths again proved its ability to manage the risk of fashion, with the gross profit margin stable at 55.5% and the inventory turn unchanged at 4.8 times.

**FORECASTING FASHION TRENDS**

The Truworths ladieswear and menswear Fashion Studios drive the merchandise buying processes. The studios receive international fashion trend information from a wide range of sources, including trade fairs, online fashion intelligence, social media, and by following global and local street trends.

Merchandise designers work in partnership with buyers to track trends and formulate the main fashion direction for each new season. A design and customisation process is completed for each brand, providing direction on colour, fabric, print and trim in line with the latest emerging trends.

Similarly, homeware ranges for Loads of Living require the buying team to monitor dynamic local and international trends to meet the needs of discerning homeware customers.

**NEW BRANDS TARGETING NICHE MARKETS**

Truworths continued to expand its brand portfolio with the launch of two further internally developed brands, ID Kids and Context.

The strategic focus on the kidswear market was extended into the identity brand with the launch of ID Kids. The brand is aligned with the cool, fun, good value positioning of the identity brand and offers boys and girls collections for two to ten year olds. A pilot of ID Kids ranges in selected identity stores was well received and the brand will be extended to over 50 stores in the 2020 financial period.

Context offers a curated range of exclusive fashion, fragrance, cosmetics and homeware, targeting upmarket, discerning female customers. Focusing on sophistication, Context offers LTD and Earthaddict fashion in combination with selected items from glamorous dresses to beautiful lingerie. The combination of cosmetics and organic natural beauty brands with a selection of homeware products from Loads of Living creates an unusual and appealing lifestyle offering. The store concept allows for flexibility in combining ranges and the product offering will be specifically curated for each unique Context location.

**NEW TECHNOLOGY DRIVING EFFICIENCIES**

Merchandise processes are supported by leading-edge systems and technology.

During the year a product life cycle management (PLM) system was implemented to optimise procurement and supply chain processes. The system provides visibility of the entire product development process, including timelines and key deadlines. This tool enables the merchandise teams to identify and address delays at any stage in the process and implement procedures to mitigate against these issues arising in the future.

PLM ensures that more detailed briefs are provided to suppliers, resulting in more accurate product samples being designed and developed, ultimately improving speed to market and potentially achieving better prices.

In the 2020 financial period suppliers will be integrated onto the system and this online supplier collaboration should further reduce production lead times.

The upgrade of Truworths’ core merchandise management system is progressing well and is expected to be implemented by the second half of the 2020 financial period. The system will enable easier integration with new systems such as the new point-of-sale currently being developed, incorporation of e-commerce, greater flexibility for promotions and loyalty campaigns, and the integration of business acquisitions.

**TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2019**

Refer to Material issues, risks and opportunities on page 16 for more detail.
TRUWORTHS

OPTIMISING SUPPLY CHAIN EFFICIENCY

Truworths strives to be quick to market with the season’s hottest fashion ranges by constantly shortening lead times along the supply chain while balancing local and offshore supply.

FAVOURING LOCAL SOURCING AND SUPPLY

Local supply offers shorter lead times as suppliers can respond quickly to replenishing popular selling styles during a season. Quick response and fast fashion models have been developed with key suppliers, enabling Truworths to respond more rapidly to customer buying patterns. Buyers can also make styling and colour changes as late as four weeks prior to delivery, ensuring that the ranges reflect the latest trends.

Owing to the success of the quick response model Truworths is evaluating further opportunities within its local supplier base. However, the inability of the domestic supply base to adequately manage peaks and troughs in the production cycle, together with the ongoing pressure on the viability of the local cut, make and trim (CMT) industry, is proving a major challenge.

Truworths is committed to ensuring the sustainability of the local supplier base and in the 2020 financial period will be focusing on managing peaks and troughs in the production cycle, together with evaluating further opportunities within its local supplier base.

STRENGTHENING SUPPLIER RELATIONSHIPS

Truworths has a well-diversified supplier base and monitors the volume of merchandise being supplied by each manufacturer to reduce the risk of overexposure to individual suppliers.

A focus during the period on strategic fabric purchasing and volume consolidation has driven down the prices of certain key volume items, enabling Truworths to promote in-demand fashion items without sacrificing margin.

An enhanced supplier scorecard was introduced during the reporting period to better measure key supplier performance. Suppliers can now access their performance reports on the online supplier portal to assist them in managing and improving performance.

The scorecard influences the decisions of the merchandise buying teams on their choice of supplier and order quantities, resulting in Truworths growing volumes with better-performing suppliers. The scorecard also identifies areas for improvement in under-performing suppliers and these weaknesses can then be addressed through collaboration between Truworths and the suppliers.

Truworths strives to be quick to market with the season’s hottest fashion ranges by constantly shortening lead times along the supply chain while balancing local and offshore supply.

NEW DISTRIBUTION FACILITY

Capacity in Truworths’ distribution centres is under increasing pressure at peak periods owing to the higher volumes of merchandise being processed. This has arisen from the recent acquisitions, the development of new brands and organic growth in the business. The pressure is particularly evident in November each year ahead of the festive season trading period and when higher volumes of imported merchandise are delivered ahead of the Chinese New Year holiday period.

Truworths currently has arrangements with third-party warehousing facilities to store imported goods during these peak times, mitigating distribution capacity pressure resulting from high-volume deliveries.

In response to the need to expand distribution capacity, Truworths has commenced a project to design and construct a new state-of-the-art distribution centre which is scheduled to be completed by mid-2022 at a currently projected cost of R400 million to R500 million. The new facility, which is anticipated to meet Truworths’ distribution requirements for the next 15 years, will create capacity for organic business growth, the expansion of e-commerce and the integration of new businesses.

Truworths plans to implement more innovative methods of distribution and changes in merchandise allocation strategies in the new distribution centre to improve stock management and efficiency. The improved allocation strategies are expected to increase sales and reduce markdowns by ensuring the right merchandise is available in the right stores at the right time.

Logistics consultants have been appointed to advise on the design of the materials handling solution for the new facility.

ADVANTAGES OF IMPORTED PRODUCT

In recent years Truworths has expanded its supplier base into Bangladesh, Sri Lanka and Pakistan. Merchandise is imported in categories where local suppliers are not as price competitive as their offshore counterparts or do not have the manufacturing capabilities to meet the required production and quality standards. Approximately 50% of clothing merchandise is sourced locally. Categories with a high import component include shoes, fashion accessories, lingerie, fully fashioned knitwear, winter outdoor jackets and denim.

The disadvantage of imported product is that fabric and styling is often committed about four to five months prior to delivery. Repeat orders of popular ranges also have longer lead times, taking longer than local suppliers to be shipped from the East.

EFFICIENT ONLINE DELIVERY FULFILMENT

Online shoppers on the Truworths e-commerce platform can select home delivery or collection in store. As a high percentage of customers opt for the ‘click & collect’ in-store service, Truworths is able to leverage its existing supply chain and delivery network which has resulted in the e-commerce website being profitable within its first year of operation.

The preference for ‘click & collect’ is also driving foot traffic into stores, thereby generating additional sales and ensuring that delivery costs are being covered.

The extensive Truworths store network not only makes it convenient for customers to collect and return purchases, but also reduces the cost of fulfilment.

The e-commerce order fulfilment rate is in line with industry peers and while delivery lead-time measures were also similar to competitors, management aims to drive faster fulfilment times in the new year with an enhanced order management system.
MANAGING ACCOUNT RISK

The pressures on disposable income in South Africa’s low growth environment are contributing to increasing consumer stress, with the TransUnion Consumer Credit Index being below 50 index points for three consecutive quarters, indicating deteriorating credit health and growing financial strain on consumers in the marketplace.

However, in this environment of increasing credit stress, the Truworths’ account portfolio has improved year on year and is widening the favourable gap when compared to the retail industry, based on statistics from independent data analytics specialist, Principa.

The improved performance of the Truworths account portfolio is being supported by advanced predictive analytics.

Overdue accounts as a percentage of total receivables reduced from 14% to 13.3%, and net bad debt as a percentage of account receivables declined from 9.2% to 8.3%. Net bad debt as a percentage of account sales fell from 14% to 13% and net bad debt as a percentage of gross trade receivables decreased to 19.2%. Overdue balances to the total debtors reduced from 8% to 7.3%.

Truworths experienced a record year for new accounts with over 2.8 million applications. While several enhancements across the in-store, media and digital channels have made it easier to apply for accounts, the primary driver of the increased demand in-store, media and digital channels have made it easier to apply to open accounts, the primary driver of the increased demand for accounts is the strong demand for Truworths’ compelling merchandise offer.

Importantly, Truworths has maintained its strict account risk approval criteria, evidenced by the percentage of account applications resulting in opened accounts declining to 22% (2018: 25%).

The profile of the new account applicants confirms Truworths’ appeal to youthful fashionable customers, with 48% of new account applicants being under the age of 30.

ACCOUNTS ENABLING MERCHANDISE SALES

Account facilities are offered to customers across all Truworths merchandise brands in South Africa, Namibia, Botswana and Eswatini.

Truworths uses accounts as an enabler of sales to customers in the mass middle to upper-income market, as opposed to operating a financial services business which is common practice in the retail sector. Many consumers have limited access to bank and other financial institution credit and credit cards, and are therefore reliant on store accounts to buy quality, aspirational fashion merchandise. Truworths account customers do not pay initiation, club, collection or magazine fees. However they do pay an annual account service fee of R32.

Truworths is also increasing its targeting of more affluent cash customers, many of whom use credit cards, by broadening its ranges and product offerings, including the new Context ladieswear store, the Office London and Loads of Living businesses and through its loyalty programme and e-commerce platform.

ACCOUNT MANAGEMENT IN 2019

Gross trade receivables on the Truworths Africa debtors book, comprising the Truworths, Identity and YDE books, totalled R5.9 billion (2018: R5.7 billion). The number of active accounts increased by 2.6% to 2.7 million following the record volume of new account applications.

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Challenger account strategies are then developed with the goal of outperforming the existing champion strategies which have been running on the portfolio for some time and have known performance. These challenger strategies are closely monitored and, once performance confirms that they deliver a better outcome, they are then applied to a larger portion of the account portfolio.

Truworths employs decision optimisation to assist in the management of credit decisions. This technique uses a combination of decision impact modelling, simulation and mathematical optimisation to balance the trade-off between operational costs, credit risk and credit sales.

Customer credit limits and authorisations are actively managed across the portfolio.

Systems which provide a single view of the customer enable the risk team to leverage the information across the customer life cycle, thereby assisting with omni-channel customer communication, customer decision strategies and predictive modelling.

POSITIVE RESPONSE TO LAY-BY OFFERING

After being successfully piloted in the previous financial period, the lay-by payment option was extended to stores across the Truworths portfolio in the first half of the reporting period.

The lay-by offering allows customers to select merchandise and pay it off over a few months. This gives non-account customers, who are unable to pay upfront or qualify for an account, access to Truworths merchandise.

Customers have responded positively to the new payment option, with over 180 000 lay-bys being processed during the period, contributing approximately 1% of retail sales.

Lay-by customers automatically become members of the loyalty programme and receive customer communication to encourage repeat purchases while also being potential future account customers.

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MANAGING ACCOUNT RISK continued

E-COMMERCE AND ONLINE SHOPPING
The e-commerce platform launched in February 2018 is integral to Truworths’ omni-channel commerce model, enabling customers to transact across multiple sales channels. The platform is continually enhanced to improve functionality and customer experience while the positive online brand engagement is reinforcing long-term relationships with customers.

The e-commerce site was profitable within its first year of operation and is currently generating the turnover of a medium to large-sized Truworths store.

Customers have several payment options online, including the Truworths account card, as well as having a choice of ‘click & collect’ in store or home delivery. The order fulfilment rate is industry-leading, ensuring an engaging omni-channel experience for customers.

The online brand offering has been extended during the period to include Office London, cosmetics and fragrances, while a new e-commerce platform was introduced for YDE. E-commerce websites will be launched for Identity and Loads of Living in the 2020 financial period.

NATIONAL CREDIT AMENDMENT ACT
Debt relief legislation that was signed into law in August 2019 is aimed at relieving over-indebted South Africans with no means of easing the burden of their debt.

The National Credit Amendment Act enables the credit regulator to extinguish the debts owed to credit providers by customers earning less than R7 500 per month with unsecured debt of less than R50 000 and who are considered critically indebted by the NCR.

Regulations will need to be drafted to enact the legislation, with stakeholders being given the opportunity to comment on the regulations.

The legislation has been met with strong opposition from the credit industry and Truworths will engage with the Department of Trade and Industry through the National Clothing Retail Federation to propose workable alternatives to debt relief.

In terms of IFRS 9 Truworths is required to provide for lifetime expected credit losses in respect of the account portfolio. In addition, IFRS 9 requires management to apply forward-looking information, such as regulatory changes, in the determination of the doubtful debt allowance. Considering the likelihood that the accounts of critically indebted customers would have gone bad irrespective of the new legislation, Truworths believes that its current level of provisioning should cover a portion of the potential negative impact of the legislation. It remains uncertain, though, what impact the legislation may have on the behaviour of account customers.

Provisioning levels are monitored on a monthly basis and will be adjusted in line with observed behaviour and when further clarity is obtained on the draft regulations and their effective date.

EXPANDING LOYALTY BASE
Combined membership of the TruRoyalty (Truworths) and iDream (Identity) customer loyalty programmes increased by 1.9 million members to 8.8 million, including 3.8 million account customers and 5.0 million non-account customers. Active non-account loyalty members exceed 550 000.

The loyalty programmes are aimed at attracting and retaining customers, while increasing both the basket size and frequency of shopping of account and cash customers. Improved communication and insight into customer behaviour and preferences are significant benefits of the loyalty programmes.

All account customers, account applicants and lay-by customers automatically become loyalty programme members, while cash customers can join the programme at no cost.

Members are offered a suite of exclusive benefits, including personalised merchandise promotions, additional sale discounts, vouchers and competitions. The benefits have been structured to have minimal impact on the retail margin. Exclusive loyalty-only promotions are also aimed at enticing customers to become loyalty members by applying for an account or lay-by facility.

MANAGING ACCOUNT RISK IN 2020
The high volumes of account applications are expected to continue into the 2020 financial period on the back of continued strong demand for Truworths merchandise.

Customer acquisition will be supported by improvements in the application process to increase the conversion rate from risk approval to accounts being opened.

A new suite of credit limit management strategies will be introduced to improve the efficiency of the portfolio with the aim of maintaining bad debts while increasing profitability.

Customer communications will continue to migrate to digital engagement, with improved self-service empowering customers to manage their accounts.

Collections remain a key focus and the business will leverage the wealth of data on customers’ communications preferences and payment history to optimise collection rates.
Truworths has continued to pursue its strategy of driving sales growth by cautiously investing in new trading space, reprofiling emporium stores by adding new brands, renovating key stores and expanding trading space in existing overtraded stores.

At the same time management has also focused on optimising the efficiency and productivity of the real estate portfolio. This included consolidating certain free-standing stores into emporium stores, right-sizing stores by reducing trading space, securing rental reversions on renewal of leases and the closure of poor-performing stores.

Several new store designs were introduced to ensure the stores remain visually appealing and relevant:

- New Truworths Emporium design included the first new Loads of Living store in Tyger Valley shopping centre
- New Identity design launched in the Mams Mall in Mamelodi
- New YDE design concept used in the renovated store in the V&A Waterfront
- New Uzzi concept included in the Westville Pavilion Truworths Emporium store

During the period Truworths invested R252 million in new store development and renovations.

Space consolidation by several major retailers is placing pressure on landlords, providing an opportunity to negotiate lower escalations and, in some instances, rental reversions or a combination of both. However, demand for quality space in good-performing malls remains high, making it difficult to negotiate better rentals with landlords. This has resulted in comparable store rentals escalating by an average of 3% during the period compared to 5% in the prior period.

The prolonged downturn in the domestic economy has resulted in a slowdown in new mall developments. However, several existing shopping centres are being redeveloped as landlords seek to remain competitive and optimise their tenant mix. Expansion in certain existing locations where Truworths is overtraded remains a challenge and is inhibiting growth.

Electricity load shedding remains a risk to trading in South African stores. Management is evaluating the feasibility of installing its own generators or backup power facilities in stores.
Managing Retail Presence continued

Multiple Store Formats

Truworths Emporium Stores

Truworths’ 349 emporium stores house a portfolio of exclusive, market-leading brands. Emporium stores are located in central positions in shopping malls and generally have three to five entrances, with maximum shop frontage and windows showcasing the wide range of brands and merchandise.

The store format encourages customers to cross-shop between the mainstream brands such as Truworths, Truworths Man, Uzzi, Daniel Hechter, LTD, Earthaddict, LTD Kids, Earthchild and Naartjie. These brands, together with their sub-brands, retain their unique identity and fashion styling within the emporium.

The brands included in each emporium depend on the size and location of the store. Following the expansion of the Truworths brand portfolio in recent years, four specialist emporiums are now offered within the greater emporium store: Truworths Ladieswear, Truworths Menswear, Truworths Ladieswear Designer and Truworths Kids emporiums (refer to Market-leading brand portfolio on page 58 for detail on the brands included in each of the emporium formats).

Identity, YDE and Office London Stores

Identity and Young Designers Emporium (YDE) operate from stand-alone stores and are not incorporated in emporium stores as they target a different customer profile to Truworths’ shoppers. There are 258 Identity stores and 20 YDE stores.

Identity appeals to the fashion-forward and value-conscious youth market, offering high fashion merchandise at affordable prices. Stores are vibrant, edgy and fun to appeal to younger customers.

YDE showcases the fashion of emerging South African designers and targets young, fashionable customers wanting designer labels and styling. The store design is a strong point of differentiation from competitors.

Office London, the South African offering of the UK fashion footwear brand owned by the Group, operates stand-alone stores in central positions in shopping malls, often adjacent to the Truworths Emporium. In certain stores Truworths has utilised part of its existing prime real estate locations in malls to grow the Office London footprint, creating an opportunity to improve the efficiency of existing Truworths Emporium stores. The Office London stores are modern, light and energetic, and are located in the top retail locations in South Africa.

At period-end the brand has 15 stores across the country.

Growing Omni-Channel Experience

E-commerce is now live across all the main Truworths brands and, together with the extensive Truworths store footprint, creates an engaging omni-channel experience for customers to shop effortlessly-in-store and on digital devices.

The Truworths e-commerce website is generating the turnover of a medium to large-sized store and was profitable within its first year of operation as the online store leverages off the existing supply chain infrastructure and distribution network.

The e-commerce offering was extended to include Office London and Truworths Elements (skincare, cosmetics and fragrance brands) while an e-commerce site was launched for YDE.

Retail Presence in 2020

Truworths plans to continue with its store consolidation and space rationalisation programme into the 2020 financial period. Trading space is forecast to show minimal growth in the 2020 period.

Management has committed R291 million to store development and retail rentals are anticipated to increase by an average 3% in the new financial period.

The Group will expand its presence in Fourways Mall in Gauteng with the inclusion of Context in the expanded Truworths Emporium, the opening of an Office London ‘superstore’ which will include fashion and sports footwear as well as leisurewear, Identity and YDE stand-alone stores and a Loads of Living stand-alone store which will also offer a range of Context outerwear and natural beauty products.

The omni-channel offering is planned to be extended with the inclusion of the Loads of Living brand on the Truworths online platform and a new identity e-commerce site will be launched in the second half of the financial year.

Growing Kidswear Offering

Kidswear is a strategic growth opportunity for Truworths. A new boys and girlswear brand, ID Kids, was piloted in 26 Identity stores during the period and will be extended to over 50 stores in the 2020 financial period.

Truworths currently has 61 Kids Emporiums (2018: 46) which house the LTD Kids, Earthchild and Naartjie brands. Two further free-standing Kids Emporium stores were opened, bringing the total number of stand-alone stores nationally to four.

Launch of Context

The first Context store was launched in the V&A Waterfront in Cape Town in April 2019. Context offers a curated range of fashion, beauty and homeware for higher-end female customers, with all brands being exclusive to Truworths.

The brand will be expanded selectively to maintain exclusivity and three new locations are planned for the year ahead. The product offering will be curated for the specific location and market positioning of the stores, which will be located in better-end malls and exclusive smaller retail environments.

Truworths International Integrated Report 2019
Truworths strives to be the South African retail employer of choice for people who identify with the company’s Purpose and Values. The business continually invests in attracting, developing and retaining human resource talent while enhancing employee engagement and satisfaction levels.

The focus during the reporting period has been on the following:

- growing the investment in training and development despite difficult trading conditions;
- investing in employees’ financial and broader well-being;
- managing employee retention and confidence in a challenging economic environment;
- fostering a culture of transparency, accountability and innovation; and
- continuing to ensure the Group’s Values are lived by employees.

The Truworths workforce comprises a core component of full-time employees and a larger component of flexi-time employees whose working hours are dependent on business requirements. The number of flexible positions has been reduced through natural attrition and this has enabled Truworths to maintain staffing levels and avoid retrenchments. Management will continue to follow responsible and cautious staffing strategies to ensure that Truworths remains a stable employer for the many loyal and high-performing employees in the business.

### Truworths’ human capital at a glance

<table>
<thead>
<tr>
<th>Category</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employees (South Africa and rest of Africa)</td>
<td>10 642</td>
<td>11 198</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>5 193</td>
<td>5 127</td>
</tr>
<tr>
<td>Contract employees*</td>
<td>231</td>
<td>182</td>
</tr>
<tr>
<td>Flexi-time employees</td>
<td>5 218</td>
<td>5 889</td>
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<tr>
<td>Skills development expenditure (excluding W&amp;SETA levies paid)</td>
<td>Rm 140</td>
<td>Rm 110</td>
</tr>
<tr>
<td>Skills development spend per employee trained</td>
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<tr>
<td>Total employees trained</td>
<td>11 247</td>
<td>10 909</td>
</tr>
<tr>
<td>Employees trained in South Africa</td>
<td>10 970</td>
<td>10 562</td>
</tr>
<tr>
<td>Black employees as a % of employees trained in South Africa</td>
<td>98%</td>
<td>98%</td>
</tr>
</tbody>
</table>

* Contract employees include intern, fixed-term and post-retirement contracts.

### DIVERSITY AND INCLUSION INDEX

The sustained investment in people development, diversity and inclusive human resources practices contributed to the Group qualifying for the Refinitiv Diversity and Inclusion Index in 2019. Truworths was one of only four South African companies to be included in this index of the top 100 most diverse and inclusive companies internationally.

Qualification for the index is based on performance across 24 diversity and inclusion metrics. These include employee satisfaction levels, skills training and expenditure, management training, opportunities for internal promotion, career development processes and flexible working hours. The index ranking also focuses on diversity objectives and processes, board gender diversity and the percentage female employees and management.

The index evaluates over 7 000 companies globally and identifies the top 100 listed companies with the most diverse and inclusive workplace.

### EMBEDDING OUR VALUES

The Truworths Business Philosophy and Values underpin the human capital management strategy and have been central to guiding the business through the current challenging trading environment. These values are incorporated into everyday working life at Truworths through employee engagement, recognition programmes, individual performance reviews, employee development and recruitment. Truworths fosters a culture of innovation and high performance by encouraging employees to share their ideas, and by recognising and rewarding excellence.
HUMAN CAPITAL REPORT continued

In 2018 a companywide update of our Business Philosophy was implemented which included refreshing our company Values. Key changes included ensuring employees remain focused on delivering to our Purpose and the inclusion of the importance of teamwork, passion and driving innovation. Over 6 100 employees attended workshops over the past year aimed at ensuring continuity and common understanding of how employees can contribute to the success of the business by living the company’s Values. We seek to recognise and reward excellence through various initiatives, for example management teams nominate employees and operational teams for “CEO citations” based on excellent performance, outstanding achievements or demonstration of high commitment to our Values.

Truworths has multiple channels to enable open communication within the business. One such channel is an online channel that enables employees across the business to engage directly with the CEO. Other channels include the Communicum magazine, the store e-mail system and task manager. At head office, the CEO and senior managers host monthly communications on business direction and performance. Two operational roadshows also take place each year which are attended by approximately 1 000 employees. The CEO gives a business update twice a year and other business updates are circulated by e-mail.

Employee surveys are also conducted to elicit feedback from staff on pertinent issues. In January 2019 a survey was undertaken to identify affirmative action barriers, while other ad-hoc employee surveys sought strategic input and feedback on staff events and results presentations. An employee satisfaction survey was conducted in May 2018.

Truworths has policies and programmes to ensure all employees are aware of the conduct which aligns with our culture and are aware of their rights. These elements combine to create an environment that stimulates and assists employees to contribute to the company both in the short and long term, and assists in fostering open communication.

TRANSFORMATION

Truworths is committed to transformation and meeting the objectives of the South African Broad-Based Black Economic Empowerment (BBBEE) Act and Codes. The strategy continues to be aimed at demonstrating gradual but sustainable improvement in transformation.

The Transformation Committee, chaired by the Divisional Director: Internal Audit, Governance and Risk, meets quarterly to review progress relative to the BBBEE generic scorecard and general transformation activity. The Transformation Committee makes recommendations to the Truworths board on opportunities to improve the BBBEE score and to highlight associated risks.

In 2019 Truworths improved its BBBEE score from 55 points to 58 points, maintaining its status as BBBEE compliant. The improvement in the overall score can mainly be attributed to the following factors:

- continued focus on skills development, specifically through the investment of R51 million in learnerships in 2018 and 2019;
- engagement with suppliers on their BBBEE status and confirming that BBBEE compliance is a requirement for a continued relationship with Truworths; and
- more than 200 000 (2018: 99 000) units of merchandise donated to various charities, including 110 000 (2018: 70 000) units donated to The Clothing Bank and Nutide.

Truworths’ BBBEE scorecard

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>9.04</td>
<td>10.80</td>
</tr>
<tr>
<td>Management control (including employment equity)</td>
<td>6.66</td>
<td>5.34</td>
</tr>
<tr>
<td>Skills development</td>
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<td>18.91</td>
</tr>
<tr>
<td>Enterprise and supplier development (including preferential procurement)</td>
<td>19.08</td>
<td>15.15</td>
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<tr>
<td>Socio-economic development</td>
<td>5.00</td>
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<tr>
<td>Total points</td>
<td>58.35</td>
<td>55.20</td>
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<td>Level</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

EMPLOYMENT EQUITY

The Employment Equity Plan 2014 – 2019 has guided the Truworths strategy to transform the South African employee base to reflect the demographics of the country and ensure that the workplace is free of discrimination. The plan includes targets aimed at improving race, gender and disability representation at all levels in the business. On the expiry of the five-year Employment Equity Plan in June 2019 all affirmative action objectives and the majority of numerical targets were achieved.

The new Employment Equity Plan for the period 2019 – 2024 came into effect in July 2019 and affirmative action objectives and targets have been set for the next five-year plan. Quantitative and qualitative analysis was undertaken in developing the new plan, including a staff survey to identify affirmative action barriers in the workplace. The process included consultation with the Employment Equity Forums, the Truworths International Social and Ethics Committee and the Transformation Transformation Committee as well as communication to all staff regarding the process of developing and adopting the new plan.

While the new plan is not based on growth in headcount, opportunities are likely to arise from resignations and retirements that will enable Truworths to make further progress towards being more reflective of South Africa’s economically active population.

The plan sets more aggressive targets at middle management levels to accelerate progress being made at senior and top management levels, as well as improving female representivity at senior levels and increasing broader participation of males at junior levels.

Employment Equity Plan 2019 – 2024: Targets

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Black representivity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top management</td>
<td>25.0</td>
<td></td>
</tr>
<tr>
<td>Senior management</td>
<td>30.7</td>
<td></td>
</tr>
<tr>
<td>Middle management</td>
<td>44.7</td>
<td></td>
</tr>
<tr>
<td>Junior management</td>
<td>89.1</td>
<td></td>
</tr>
<tr>
<td>Female representivity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top management</td>
<td>31.0</td>
<td></td>
</tr>
<tr>
<td>Senior management</td>
<td>55.1</td>
<td></td>
</tr>
<tr>
<td>Middle management</td>
<td>70.7</td>
<td></td>
</tr>
<tr>
<td>Junior management</td>
<td>77.1</td>
<td></td>
</tr>
</tbody>
</table>

SUCCESSION, TALENT AND SKILLS DEVELOPMENT

Truworths’ Values aim to encourage employees to learn and share, and there is a strong culture of guiding, coaching and mentoring throughout the business. In 2018, 11 247 employees participated in 199 training programmes, of whom 10 970 employees were trained in South Africa.

The continued investment in training and development (R149 million in 2019 compared to R110 million in 2018) provides a pipeline of skills in core areas. The majority of training programmes is developed and run internally, enabling the business to protect intellectual capital in the highly competitive retail market. External training providers are utilised for highly technical training.

High on our agenda has been preparing for succession specifically for our top management team and other areas of scarce skills. In the reporting period a new position of Group Chief Operating Officer was created and filled, thereby enhancing leadership succession plans. A number of internal appointments were also made at Divisional Director level through this process. Sarah Proudfoot, the Truworths Ltd Director for Ladieswear Merchandise became the first female executive director to be appointed to the Truworths International board in May 2019.

The graduate programme is the main source of recruitment for positions in the merchant area and a large percentage of current senior managers are graduates of this programme. In the reporting period 141 candidates participated in the graduate programme. The programme is targeted at developing professional competence in areas of skills shortages such as buying, planning, designing, international sourcing and garment technology.

Truworths also offers an internship and a bursary programme focused on skills shortages such as fashion, design, retail management and qualifications linked to merchandise planning. These programmes are designed to develop future talent for the graduate programme and support employment equity and BBBEE goals. In the period 157 graduate interns were offered employment (2018: 110). Further, 367 learners completed their National Certificate in Wholesale and Retail (2018: 367).

Truworths offers focused leadership development programmes for managers to ensure succession in merchant, operations and support departments. In 2018, 1 742 employees attended these leadership development programmes. The external executive coaching programme has been expanded and the application of the 360° leadership assessment tool was extended to enhance employee readiness for moving into leadership roles.

The business continues to collaborate with the Wholesale and Retail Sector Education and Training Authority (W&R SETA) in South Africa on a range of projects including the international leadership development programme (12-month intensive management programme aimed at middle and senior managers), the retail development programme (12-month management programme for leaders in retail, learnership training (resulting in a certificate in retail operations) as well as internships and bursaries.)

Freedom of Association

All employees are made aware of their rights of freedom of association and the Group has a policy against unfair discrimination or victimisation of employees exercising any right to freedom of association. The right to freedom of association is extended to the Group’s operations globally but there is no material union membership in other African operations. Truworths has a relationship agreement with the South African Commercial, Catering and Allied Workers Union (SACCAWU).

Despite the challenging economic environment Truworths concluded annual wage and substantive negotiations with SACCAWU for 2019 without requiring intervention from the Commission for Conciliation, Mediation and Arbitration (CCMA), which intervention has been the trend in recent years. SACCAWU represents 8.7% (2018: 8.7%) of all South African employees. Membership of SACCAWU has remained static in the reporting period.

Truworths did not experience any internal industrial action in the reporting period and was not issued with any material compliance orders by the Department of Labour.

68
Office is a strategic global partner to the world’s major footwear brands and operates primarily under the Office and Offspring brands.

From its heritage in the fashion capital of London, Office is ideally placed to collaborate with the leading international footwear brands to deliver the most relevant and fashionable merchandise in the marketplace.

The Office branded chain is a fashion-forward footwear specialist providing customers who want to be fashionable and well informed on international fashion footwear trends with a broad, curated range of the latest trend and ‘in-demand’ footwear.

Offspring is positioned as a ‘sneaker boutique’, filling a gap in the market for fashion sportswear. Offspring has been at the forefront of collaboration with an extensive collection of special projects with brands such as Adidas, Nike, Converse and Vans.

The Office chain accounted for 82% of sales in 2019 (2018: 87%). Offspring accounted for 18% of sales in 2019, up from 13% in the prior financial period, reflecting the growing trend in fashion sportswear.

Third-party brands

<table>
<thead>
<tr>
<th>Brand</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branded (non-exclusive product)</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>Branded (exclusive product)</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Own-brand</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Third-party brands</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Office's fashion philosophy is driven by a consistent buying and merchandising process developed over 20 years that allows the teams to continually develop their knowledge of the brands, product and markets. This process has been further improved through Truworths' buying, planning and sourcing knowledge over the past few years.

Office's London heritage and proven fashion formula ensures that it attracts the brands that are looking to get ahead and reach the fashionable consumer. Office is able to offer a range of the best global brands in addition to exclusive access to limited edition product through strong brand relationships. These relationships have been developed over many years and Office works closely with its suppliers to develop branded exclusives.

Office is recognised as a strategic account by its branded product partners, who value the team's knowledge of the market, and was invited to spend time with the global leadership teams of certain key brands during the period, cementing relationships at a time where brands are realigning their distribution strategies. Office enjoys product priority on best sellers as well as being able to apply a shared risk approach that gives the business the ability to return and cancel or postpone product should the need arise.

Office's own-brand product is sourced from European suppliers against longer lead sources that allow for fashion product to be tested in the market with limited risk before maximising sales once the product's potential is understood.

The buying and design process is constantly being improved to ensure Office is the first to react to trends. While design and buying continue to work seasonally the teams have adapted to customers' desire to 'buy now, wear now' and respond to the need to provide relevant fast product to satisfy the many new 'micro, flash trends' that emerge in the fast-paced fashion footwear market.

Designers and buyers work closely with partners to track trends and ensure the merchandise reflects the latest looks. Trend information is sourced through international trade fairs, online subscriptions, social media, international and local retail inspiration as well as local and street trends. Celebrity styling and events are also analysed to ensure that 'must-have' items are available. Early reactions to formulate seasonal trends are expanded throughout the season as further trends become evident, with the buying teams being constantly updated on fast react items and trends.

Office is the footwear brand for the youthful UK and European customer. Customers can find a broad curated range of the latest trend and ‘in-demand’ footwear, whether they are shopping for branded footwear or Office's own-label product.
OPTIMISING SUPPLY CHAIN EFFICIENCY

Integral to optimising sales is the strong relationships Office has developed within its supply chain.

Office has developed a quick response model with key accounts through trusted relationships. This allows the buyers and designers to react to trading conditions and trend information making late styling changes. These strong relationships within the supply chain are developed even further within Office’s own-brand MTO footwear.

Office’s European suppliers source all components locally, allowing fast product development and reduced overall lead times. Additionally, key suppliers hold production capacity, leathers and other components, which allow the buyers and designers to react quickly to sales information and reduce lead times further. Buyers and designers regularly travel to key sources within Europe as well as to sources in longer-lead destinations in Asia to build relationships, align business strategies, improve communication and reduce development times. The collaborative, strategic partnership Office has with a key group of suppliers, who consider their relationship with Office as integral to their own business, ensures good service levels are achieved. Risk is minimised by spreading volumes across this group of key suppliers.

Office is now an HMRC Authorised Economic Operator, having successfully passed a strict auditing process. This allows for the potentially faster flow of inbound orders through customs, and this will become particularly advantageous in a post-Brexit environment.

All merchandise is delivered to one of the three warehouses (two in Scotland and one in London) prior to being distributed to stores or online customers via a third-party distribution network. Office delivers five times a week to stores and is trialling next day delivery to customers within London.

IMPROVING WAREHOUSE EFFICIENCIES

Technological changes have been made at the warehouses to ensure a more efficient picking process while layout changes have been made to improve space utilisation.

Given that leases on Office’s three warehouses are due for renewal in the next three to four years, Office has engaged a third-party consultancy to review its warehouse and distribution footprint. Office is also aiming to implement a new Warehouse Management System over the next two years and is in the process of selecting a service provider.

SUPPLIER PERFORMANCE AND COMPLIANCE

A new supplier manual was issued during the year. This version includes the implementation of penalty clauses on suppliers who do not meet the required standards.
Office is an omni-channel retailer with a portfolio of 138 stores and concessions in the United Kingdom, Germany and the Republic of Ireland. The physical store offering is complemented by a range of digital platforms, contributing 34% of retail sales in the reporting period.

The UK retail sector remains under severe pressure. During the period trading space was reduced by 5.2%, no new stores were opened and one standalone store was closed, while concession stores were impacted by some key partner department stores entering into company voluntary arrangements (CVAs). This resulted in Office exiting 10 House of Fraser and 6 Arcadia (Topshop and Topman) concessions during the period. A decision was made after year-end to exit the remaining House of Fraser concessions. At the end of the 2019 reporting period there were 24 concessions in total.

CHANGING RETAIL LANDSCAPE
A major challenge in the UK retail market is the continued shift from store-based to online retailing. Declining store sales and increasing expenses are putting pressure on the profitability of stores, while retailers must incur additional digital marketing expenditure to promote and grow online sales. Traditionally UK store leases were signed for periods of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments of 10 years or more, with rent reviews every five years to reprice rentals to market rates, with upward adjustments.

Office is not immune to these challenges and our store trading results have come under increased pressure over the last two years. Management has therefore embarked on a process to assess the viability of all stores with a view to closing loss-making stores or, alternatively, renegotiating or relocating such stores on viable terms.

STORES
In line with the business’ commitment to ensure Office stores provide a seamless and engaging shopping experience for customers, the Office Oxford Street flagship store was transformed through the implementation of the ‘store of the future’ concept. This ultra-modern concept, which links the experience of store-based shopping and digital technology, includes multi-channel elements such as digital screens and the introduction of handheld technology. The new format has been well received by brand partners, employees and customers and the most successful elements will, over time, be implemented in other stores.

Store activations with our brand partners have resulted in sales growth for these brands. Our partners are seeing the benefit of collaborations and are engaging Office to create more opportunities.

Trading space is expected to decrease by 3% in the 2020 financial period.

CONCESSIONS
Trading through concessions allows Office to access customer footfall within department stores, both physically in the stores and online, while simultaneously offering a more flexible physical footprint and cost base. However, our concessions are also impacted by the ability of the department store to perform in tough trading conditions. The concession strategy for Office and Offspring involves working closely with the concession partners to review performance and assess the need to open, relocate, adjust or close space within the host store portfolio.

The focus for the coming year is refitting the Offspring concession in Selfridges, London. Selfridges continues to be a key strategic concession partner in both the Selfridge’s ladies’ and men’s departments across all locations. The new design concept is being created in collaboration with Selfridges and will pave the way for the future Offspring design concept.

ONLINE PRESENCE
Consumers are increasingly shopping online and Office is well positioned for online growth through its well-established and growing online and mobile retail presence. E-commerce accounted for 34% of Office’s total retail sales for the period (2018: 31%). Growth has been driven by Office’s focus on creating a seamless omni-channel hub and an increase in digital marketing spend. In the period net online sales were up 9.8% to £94 million (2018: £86 million).

A number of improvements were made to the Office website in the period, making the website more reactive and simpler, while transactional friction has been reduced through the implementation of the new Worldpay payment gateway platform and new payment page. ‘Click & collect’ and the continued ability to return online purchases in-store have further improved the omni-channel offering. Office will continue to invest in the Office and Offspring websites, ensuring that they offer a compelling customer experience and are visually enhanced in line with the brands. The payment gateway will also be expanded to include new ways to pay including Apple Pay and Google Pay and a number of additional international currencies.

Office warehouses distribute 80% of stock sold online with the balance of stock being shipped directly from stores. This increases the availability of stock that can be sold across both store and online platforms, and has been useful in shifting some slow-selling lines from store stock to online.

During the period there was a 10% increase in search marketing spend which has driven more traffic to the websites and the conversion of customers. Marketing spend to drive traffic from third-party websites/affiliates to Office sites was also increased.

Office will continue to invest in the Office and Offspring websites, ensuring that they offer a compelling customer experience and are visually enhanced in line with the brands. The payment gateway will also be expanded to include new ways to pay including Apple Pay and Google Pay and a number of additional international currencies.

Office warehouses distribute 80% of stock sold online with the balance of stock being shipped directly from stores. This increases the availability of stock that can be sold across both store and online platforms, and has been useful in shifting some slow-selling lines from store stock to online.
Over the past year there has been a continued focus on embedding the Group culture in the business and ensuring that the Business Philosophy is deeply engrained.

A key human resources focus area has been on ensuring that the relevant processes are in place to effectively manage and reward employees and, in doing so, drive employee engagement. Central to this has been leveraging the relationship with Truworths to share processes and performance management measures.

Approximately one-third of Office’s staff are full-time employees and Office is looking to ensure their development by improving personal development discussion processes. The Truworths rating system is being used at head office down to store level so that employees are familiar with the scoring system as they progress through the business. A salary benchmarking survey was undertaken during the period to ensure Office remains competitive in the employment market.

As a result of the legislated changes to the national minimum wage in April 2019, Office implemented a 4% wage increase in the period. While minimum wage standards are being met, employee turnover at a store level remains a concern. In order to determine why employees are leaving Office the exit process has been reviewed, with those leaving the business encouraged to provide reasons for leaving on their experience working for Office. In anticipation of Brexit and how it may affect a number of employees Office is ensuring that employees who are non-UK residents are aware of how to apply for residency and encouraging eligible employees to apply.

Training expenditure for the year increased to £168 000 (2018: £92 000), with a large portion of this being for the Apprenticeship Levy. The Apprenticeship Levy is a UK tax on employers, which can be used to fund apprenticeship training. A total of 812 (2018: 526) employees attended internal training courses, with 40 (2018: 32) employees also now enrolled on an apprenticeship programme.

Customer surveys are a key measure of performance in stores and are conducted annually. Over 239 000 responses were received across platforms. The net promoter score, a measure of how likely customers are to recommend Office to a friend, has improved to 61 for the year (2018: 60).

During the period Office once again participated in the gender pay gap report. While the results of the gender pay gap analysis compared well to the national and industry results, the business will continue to enhance the experience of all employees in respect of equality, diversity and inclusion. The report can be found on the Office website at www.office.co.uk/view/content/gender-pay-gap.

In the 2020 year Office will roll out a new programme to support management in people-related matters, which will include training on performance, well-being and compliance. Office plans to embed talent and succession planning in the business to ensure the ability to move people internally into new positions rather than having to recruit externally.
SHAREHOLDER SPREAD
Pursuant to the Listings Requirements of the JSE and to the best knowledge of the directors, after reasonable enquiry, the spread of shareholders at the end of the reporting period was as follows:

<table>
<thead>
<tr>
<th>Non-public shareholders</th>
<th>Number of shares</th>
<th>% of issued share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury shares (repurchased shares and 2012 share plan shares)</td>
<td>17,371,747</td>
<td>3.9</td>
</tr>
<tr>
<td>Shares held in terms of the 1998 share scheme by directors and other participants</td>
<td>1,771,257</td>
<td>0.4</td>
</tr>
<tr>
<td>Shares held directly by directors and associates</td>
<td>267,106</td>
<td>-*</td>
</tr>
<tr>
<td>Total non-public shareholders</td>
<td>19,410,110</td>
<td>4.4</td>
</tr>
<tr>
<td>Public shareholders</td>
<td>423,466,360</td>
<td>95.6</td>
</tr>
<tr>
<td>Total shareholders</td>
<td>442,876,470</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Zero due to rounding.

MAJOR FUND MANAGERS
According to the disclosures made by nominee and asset management companies in terms of section 56 of the Companies Act (71 of 2008, as amended), the following fund managers administered portfolios in excess of 3% of the company’s shares at the end of the reporting period:

<table>
<thead>
<tr>
<th>Country</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Investment Corporation</td>
<td>South Africa</td>
<td>11.8</td>
</tr>
<tr>
<td>Westwood Global Investment LLC</td>
<td>United States of America</td>
<td>8.6</td>
</tr>
<tr>
<td>BlackRock Inc.</td>
<td>United States of America</td>
<td>5.2</td>
</tr>
<tr>
<td>Abax</td>
<td>South Africa</td>
<td>4.1</td>
</tr>
<tr>
<td>AQR Capital Management LLC</td>
<td>United States of America</td>
<td>3.9</td>
</tr>
<tr>
<td>The Vanguard Group Inc.</td>
<td>United States of America</td>
<td>3.8</td>
</tr>
<tr>
<td>Investec Asset Management</td>
<td>South Africa</td>
<td>3.8</td>
</tr>
<tr>
<td>State Street Global Advisors</td>
<td>United States of America</td>
<td>3.7</td>
</tr>
<tr>
<td>Standard Life Aberdeen</td>
<td>United Kingdom</td>
<td>3.7</td>
</tr>
</tbody>
</table>

SHAREHOLDERS’ DIARY

Annual general meeting | 7 November 2019

Reports
- Annual results for the period ended 30 June 2019 announced | 15 August 2019
- Preliminary report for the period ended 30 June 2019 mailed | by 27 September 2019
- Integrated report for the period ended 30 June 2019 published | by 30 September 2019
- Interim results for the period ended 29 December 2019 announced | 20 February 2020*
- Annual results for the period ending 28 June 2020 announced | 20 August 2020*
- Preliminary report for the period ending 28 June 2020 mailed | by 28 September 2020*

Dividends

<table>
<thead>
<tr>
<th>Dividend declared</th>
<th>Dividend paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>In respect of the period ended 30 June 2019</td>
<td></td>
</tr>
<tr>
<td>(Dividend number 43)</td>
<td>15 August 2019</td>
</tr>
<tr>
<td>For the period ended 29 December 2019</td>
<td></td>
</tr>
<tr>
<td>(Dividend number 44)</td>
<td>20 February 2020*</td>
</tr>
</tbody>
</table>

* These are approximate dates.
FORWARD-LOOKING STATEMENTS

The Integrated Report contains forward-looking statements which relate to the financial condition and results of the operations of Truworths International and its Group companies. These statements by their nature involve risk and uncertainty as they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not statements of fact, but statements by the management of Truworths International based on its current estimates, expectations and assumptions regarding the Group’s future performance.

Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: global and national economic conditions; changes to IFRS and the impact on past, present and future periods; exchange rate and interest rate movements; account management and the associated risks of lending; growth in trading space; merchandise clearance rates; inventory levels and stock turn; gross and operating margins achieved; and competitive and regulatory factors.

The Group does not undertake to publicly update or revise any of these forward-looking statements, whether to reflect new information or future events. The forward-looking statements have not been reviewed or reported on by the Group’s external auditor.