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’

The Truworths International Integrated Report is supplemented by additional information which is relevant to shareholders and other stakeholder groups.

The documents below are available online at www.truworthsinternational.com.

FINANCIAL REPORTING
Group Audited Annual Financial Statements 2019
Annual Results Presentation 2019
10-Year Review, Ratios, Share Statistics and Definitions 2019

GOVERNANCE REPORTING
Report on Corporate Governance and Application of King IV Principles 2019
Social and Ethics Committee Report 2019

SUSTAINABILITY REPORTING
Social and Environmental Report 2019

ANNUAL GENERAL MEETING
Notice to Shareholders (included in the Preliminary Report on the Audited Group Annual Results and Notice of Annual General Meeting)
Form of Proxy

GROUP WEBSITES
Group: www.truworthsinternational.com
Truworths: www.truworths.co.za
Office: www.office.co.uk
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.
OUR APPROACH TO INTEGRATED REPORTING

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 the Top 40 category in the Chartered Secretaries Southern Africa/JSE Integrated Reporting Awards.

REPORTING SCOPE AND BOUNDARIES

The report covers material information relating to the business model, strategy, material issues and risks, governance and performance of the operations of Truworths International and its subsidiaries for the 52-week period from 2 July 2018 to 30 June 2019. The report is supplemented by the Group Audited Annual Financial Statements which are available on our website at www.truworthsinternational.com.

The integrated reporting boundary covers the results of the Truworths and Office operating segments. Truworths operates primarily in South Africa and has a retail presence in seven other African countries. Office operates principally in the United Kingdom, with a presence in Germany and the Republic of Ireland.

The integrated reporting boundary covers risks, opportunities and outcomes relating to the Group’s operating environment, its retail businesses and engagement with key stakeholder groups that could influence the Group’s ability to create and sustain value.

MATERIALITY

We continue to apply the principle of materiality in determining the content and disclosure in our Integrated Report. Management’s judgement has been used in deciding the issues that could substantively affect the Group’s strategy, revenue and profitability, and its ability to create value over time. The disclosure excludes information which could lead to loss of our competitive advantage or is considered price sensitive.

MATERIAL ISSUES

The directors in consultation with management annually identify the issues that could have the most significant impact on the Group’s ability to create sustainable value for its stakeholders. In determining these material issues the directors consider internal and external factors, including the Group’s strategy, the needs, expectations and concerns of our main stakeholders, and the economic and trading environment.

These material issues are reviewed each year during the course of the board’s strategic planning process. Following the 2019 review the board confirmed that fashion risk, supply chain efficiency, retail presence and account risk (relating to Truworths and Office) remain the material issues for the Group.

The impact of Brexit uncertainty and the challenging trading conditions in the UK have necessitated the implementation and prioritisation of a turnaround strategy for Office. Given the materiality of the Group’s investment in Office, the effective execution of this turnaround strategy has been included as a material issue for the year ahead.

The risks relating to these material issues are disclosed together with medium-term opportunities to provide our shareholders with insight into the growth drivers of the business. (See Material issues, risks and opportunities on pages 14 to 23.)

REPORTING FRAMEWORKS AND COMPLIANCE

The guiding principles of the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) have been applied in the preparation of this report.

All Group financial reporting complies with International Financial Reporting Standards and as a listed company we comply with the South African Companies Act and the JSE Listings Requirements.

The 2018 King Code of Governance Principles (King IV) has been applied throughout the reporting period and the directors confirm that the Group has in all material respects voluntarily applied the principles of the code.

The application of King IV is detailed in the report on Corporate Governance and Application of King IV Principles 2019 on the Group’s website.

INDEPENDENT ASSURANCE

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.

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.

DIRECTORS’ APPROVAL

The board acknowledges its responsibility for ensuring the integrity of the Integrated Report. The directors confirm that the report fairly represents the Group’s performance for the period under review as well as the growth strategies, material issues, risks and opportunities, and prospects of the Group.

The directors believe that the Integrated Report has been prepared in accordance with the Integrated Reporting Framework of the IIRC.

Oversight responsibility for the content of the Integrated Report has been delegated to the Audit Committee who recommended the report for approval by the directors. The board approved the Integrated Report for release to shareholders.

Hilton Savin
Chairman

Michael Mark
Chief Executive Officer

Doug Dare
Rob Dow
Hans Havinkels
Cindy Hess
Maya Makanjee
David Pielf
Sarah Proudfoot
Reddy Sparks
Tony Taylor
Michael Thompson
Truworths International Ltd is an investment holding and management company based in Cape Town, South Africa. Its main operating companies, Truworths Ltd (Truworths, operating primarily in South Africa) and Office Holdings Ltd (Office, operating primarily in the United Kingdom), are leading retailers of fashion clothing, footwear, homeware and related merchandise.

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), Ginger Mary followed in 2004 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.

**Group Profile**

**Truworths International**

![Map of Truworths International territories](image)

**Office London**

Leading fashion footwear retailer in the UK for fashionable 16 to 25 year olds in the mid-level price range.

**Brands**

Private label and major global third-party footwear brands, including Nike, Adidas, Converse, Dr Martens, Birkenstock, Timberland, Vans and UGG sold through Office and Offspring.

**Store footprint**

Office has 138 stores in the UK, Germany and the Republic of Ireland, including 24 concession outlets in high-profile department store retailers.

**Online retail**

Fast-growing e-commerce business accounts for 34% of Office sales across a range of digital platforms.

**Accounts**

Account facilities are offered to customers across all brands in South Africa, Namibia, Eswatini and Botswana. The active account customer base is 2.7 million.

**Retail sales**

R5.1bn

**Cash: account sales**

R13.5bn

**Cash**

R13.5bn

**Store sales channel**

R13.5bn

**Product mix**

Clothing: 81%

Accessories: 9%

Footwear: 7%

**Retail sales channel**

R18.6bn

**Sales channel**

R13.5bn

**Market positioning**

Market-leading fashion apparel retailer offering internationally inspired, superior quality, aspirational fashion clothing and footwear for ladies, men, teenagers and kids, and homeware in the mainstream middle to upper-income market.

**Brands**

Exclusively owned or licensed brands include Truworths, Truworths Man, Inwear, Identity, Daniel Hechter, LTD, Ginger Mary, Uzzi, Hey Betty, Earthaddict, Earthchild, Naartjie, Office London, Loads of Living and Context, and specialist chain YDE.

**Store footprint**

Retail footprint of 767 stores across all brands in South Africa and 39 stores in other African countries. The store network is complemented by an e-commerce platform which features most brands.

**Accounts**

Account facilities are offered to customers across all brands in South Africa, Namibia, Eswatini and Botswana. The active account customer base is 2.7 million.
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
Rewards reflect contribution
Invest in future potential
Open to learn and share
Courage to contribute
Innovation and energy

OUR VALUES
Celebrate and reward excellence in contribution
New ideas are stimulated
Work in teams
Encouraged to learn and share
Innovation and passion

OUR VISION
... 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 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.’

... 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.’
**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. Truworths International was ranked as one of the top 100 companies globally in the Refinitiv Diversity and Inclusion Index for the first time in 2019.

**Ensure sustainable consumption and production patterns**
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.

**Take urgent action to combat climate change and its impacts**
Measures have been implemented to decrease the carbon emissions associated with the transportation of merchandise across the supply chain. In retail stores energy usage is being monitored, energy-saving lighting installed to reduce consumption, electricity reduction targets have been set, and renewable energy is being used where possible.

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**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>
</tbody>
</table>

**ESG rating score**

- 4.2
- 2.5
- 3.3
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.

### MEASURING VALUE CREATION

**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:**
- Transforming the employee base to reflect diversity and equality
- Encouraging learning and sharing of knowledge and developing staff to exceed customer expectations
- 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
- Providing employment and creating job opportunities as the business expands

**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:**
- Offering fashion clothing and footwear which enables customers to look attractive, feel successful and confident
- Selling wide ranges of curated and tasteful fashion and homeware of superb quality and intrinsic value
- Showcasing unique aspirational fashion brands through an extensive footprint of existing and visually appealing stores supported by the convenience of online shopping
- Enabling customers to buy merchandise by offering account and lay-by facilities in Truworths
- Knowledgeable employees serving customers with passion

**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

**How we create value:**
- Introducing 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:**
- 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 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
- Lenders: 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

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**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.

**SHAREHOLDERS**

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

**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.

**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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**TRUWORTHS INTERNATIONAL**

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.
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 successful execution of this business model will create value for the Group’s primary stakeholders, notably shareholders, customers and employees, and other stakeholders including suppliers, financiers, landlords and the governments of the countries in which it operates. The business model, underpinned by the DNA and business philosophies of its operating segments, distinguishes the Group from its industry peers, arguably providing a sustainable competitive advantage.
VALUE-CREATING BUSINESS MODEL continued

**CAPITAL**

**KEY PERFORMANCE INDICATORS AND OUTCOMES**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail sales up 3.7%</td>
<td>(Rbn)</td>
<td>18.6</td>
</tr>
<tr>
<td>Gross profit margin (%)</td>
<td></td>
<td>53.6</td>
</tr>
<tr>
<td>Impairment of Office intangible assets (Em)</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td></td>
<td>5.1 (15.8%)</td>
</tr>
<tr>
<td>Diluted headline earnings per share down 8.5% (cents)</td>
<td>580.7</td>
<td>912.7</td>
</tr>
<tr>
<td>Net debt to equity (%)</td>
<td></td>
<td>7.2</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td></td>
<td>5 (2SP)</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td></td>
<td>12 (2SP)</td>
</tr>
<tr>
<td>Return on invested capital divided by weighted average cost of capital (times)</td>
<td>0.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Inventory turnover (times)</td>
<td></td>
<td>4.2</td>
</tr>
<tr>
<td>Asset turnover (times)</td>
<td></td>
<td>1.4 (1.2%)</td>
</tr>
<tr>
<td>Net borrowings and finance costs repaid (Rbn)</td>
<td>499</td>
<td>2,453</td>
</tr>
<tr>
<td>Share price (cents)</td>
<td></td>
<td>7,000</td>
</tr>
<tr>
<td>Annual dividend per share down 9% (cents)</td>
<td>384</td>
<td>420</td>
</tr>
<tr>
<td>Dividend yield (%)</td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>

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

**FINANCIAL CAPITAL**

Ongoing investment to financial capital through investor and financial market confidence.

- 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.

**MANUFACTURED CAPITAL**

Net stores closed or added across all brands during the period

- Closed 24 added 32
- Under-performing stores closed during the period: 47* 22
- Stores renovated and extended: 66 104
- Increase in rentals paid to landlords (Rbn): 1.2 1.6

* Including 16 Office concessions across House of Fraser and Arcadia.

- Expanded Truworths' digital retailing capability and added Office London, cosmetics and fragrances to the website.
- Improved customer experience on Office e-commerce sites.
- 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.

**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 lifecycle 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.

- Ongoing testing of new concepts.
- Regular review of account management, collections and acquisition strategies.
- Implemented Office turnaround strategy managed through separate workstreams – trading, short-term essentials, marketing and brands, and product.
- Impact of business process alignment enhanced through further systems alignment between Truworths and Office.

- Ongoing investment in business processes and new systems is growing our intellectual capital and indirectly benefiting our human, and social and relationship capitals, but negatively impacting financial capital in the short term.

**KEY TRADE-OFFS**

- 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.
- Secured rental reversions and lower escalations.
- Consolidating space and improving efficiencies through introducing new brands into existing stores.
- Capital expenditure of R383 million on stores, distribution centres and buildings.

**REFERENCE**

Chief Financial Officer’s Report (page 50)

Optimising supply chain efficiency (pages 62 and 72)

Managing retail presence (pages 65 and 73)

Managing the risk of fashion (pages 61 and 71)

Optimising supply chain efficiency (pages 62 and 72)

Managing account risk (page 63)
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 renumeration.
• Focused on developing internal talent to demonstrate commitment to sustainable transformation in South Africa.

• 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.

• 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 environmental impact on natural capital, often at a cost to financial capital, in order to increase financial capital, and indirectly all the other capitals of value creation.

• HumanCapital

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

• Various green initiatives are aimed at reducing our environmental impact on natural capital, often at a cost to financial capital, in order to increase financial capital, and indirectly all the other capitals of value creation.
• Various green initiatives are aimed at reducing our environmental impact on natural capital, often at a cost to financial capital, in order to increase financial capital, and indirectly all the other capitals of value creation.

• Reduced 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.

• No referrals of unfair discrimination or employment equity compliance

• Met South African employment equity targets for junior and middle management
• Ongoing consolidation of import shipments to improve efficiencies.
• All South African stores renovated during the period received energy-efficient lighting as well as electricity meters.

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• 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

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**STRAEGIC OBJECTIVES**

The Group’s strategic objectives are aimed at delivering sustained growth in revenue and profitability, enhancing long-term shareholder value 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 consistently applied during the reporting period, remains appropriate and is unchanged for the year ahead.

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**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**

**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**

**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**

**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

**Use a diversified range of merchandise manufacturing suppliers** operating both domestically and outside Africa, accessed either directly through internal buying and sourcing teams, or through local or foreign agents

**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**

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**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**

**Utilise centralised Group-owned distribution centres and a fashion-forward distribution model, which uses outsourced transportation service providers to convey merchandise to the Group’s warehouses and between the warehouses and stores**

**Accelerate 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**

**Use a diversified range of merchandise manufacturing suppliers** operating both domestically and outside Africa, accessed either directly through internal buying and sourcing teams, or through local or foreign agents

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

**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**

**Accelerate 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**

**Utilise 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

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

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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.
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.

Risk of online sales substituting store sales in a fast-changing UK retail landscape.

Exchange rate volatility creates challenges in managing retail selling prices of imported merchandise.

Availability of counterfeit goods devalues the brand and impacts sales negatively.

Ineffective management of merchandise and buying decisions over stock ranges and volumes in Office.

Availability of skilled IT human resources for support and projects.

Low cash sales growth in Truworths.

Electricity load shedding in South Africa remains a risk to trading.

The uncertainty of the impact that Brexit could have on the Office business.

Suitability and sustainability of Office’s ageing merchandise management system, having become acutely dependent on highly skilled scarce internal and external resources.

Loss of head office building.

Inability to effectively manage account risk in Truworths.

Organic and acquisitive growth in the business placing increased pressure on Truworths’ distribution and warehousing capacity.

A major cybersecurity incident could lead to the loss of sensitive information.

Increasing competition from international retailers entering the South African market.

Loss of key executives and senior employees.

Impact of changing product mix within Sports and MTO ranges on Office’s gross margin.

Absence of formalised disaster recovery and business continuity plans for Office.

Office’s reliance on third-party brands.

Availability of key IT systems that support and enable daily trade.

Loss of or inability to access distribution facilities.

Truworths’ dependency on warehouse management system and throughput required to meet peak demand.

BBBEE certification.

Suppliers not operating to contracted standards of ethical behaviour could result in reputational damage and interruption of supply.
Performance against objectives and targets

**OBJECTIVES AND PLANS**

**PERFORMANCE AGAINST OBJECTIVES**

Ongoing focus on managing the risk of fashion.
- Despite lower-than-planned sales growth, stock management processes and systems ensured that the level of product markdowns was not adversely affected.
- Gross margin was stable at 55.5%.
- Volumes of fast fashion and quick response product increased.
- Fabric and product consolidation have contributed to offering customers better value.

Implementation of new brands and product opportunities.
- ID Kids range of girls and boyswear successfully piloted in 26 Identity stores.
- Launched Context, an experiential concept store offering female customers a curated range of better-end fashion, beauty and homeware.

Implementation of product life cycle management (PLM) system.
- PLM implemented across all merchandise divisions to optimise procurement and supply chain processes.
- System provides visibility of the entire product development process.
- System will assist in reducing production lead times, improving speed to market and obtaining better prices from suppliers.

Challenges encountered
- Retail trading environment particularly challenging owing to the low economic growth in South Africa, weak labour market and declining consumer confidence.
- Consumers in Truworths’ mass middle-income target market under growing financial pressure, resulting in customers spending less on fashion purchases.
- Late start to sales of winter product impacted performance in the second half of the financial period.
- 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.

Key risks and mitigation strategies

**DESCRIPTION OF RISK**

**RISK MITIGATION**

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.

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.

**TARGETS**

Group gross margin 51% – 55%
Truworths gross margin 55% – 57%

**PERFORMANCE AGAINST TARGETS**

Group gross margin 51.6% (2018: 52.4%)
Truworths gross margin 55.5% (2018: 55.5%)

**2020**

**OBJECTIVES AND PLANS**

- Ongoing focus on managing the risk of fashion.
- Implementation of new brands and product opportunities.
- Grow contribution from e-commerce and omni-channel.
- Extend ID Kids to over 50 stores in the 2020 financial period.
- Enhance local production capability.
- Implementation of new merchandise management system.
- Commence process of fully integrating the PLM system with suppliers.

**OPPORTUNITIES**

- Optimise the growth potential of e-commerce and omni-channel across all brands.
- Continue to grow and expand ID Kids.
- Extend Loads of Living product offering.
- Experiment with new product opportunities within the emporium stores.

**MEDIUM-TERM TARGETS**

Group gross margin 49% – 53%
Truworths gross margin 54% – 57%
Performance against objectives and targets

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

**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**
- Group inventory turn 3.5 – 4.5 times
- Truworths inventory turn 4.5 – 5.5 times

**PERFORMANCE AGAINST TARGETS**
- Group inventory turn 4.2 times (2018: 4.0 times)
- Truworths inventory turn 4.8 times (2018: 4.8 times)

**Key risks and mitigation strategies**

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

**Objectives and plans**
- Design and commence construction of new distribution facility.
- Perform a review of the merchandise supply strategy.
- Further develop local supply chain through alliances with suppliers, design houses, and CMT suppliers to enhance speed to market, improve pricing and maintain a sustainable local production environment.
- Enhance e-commerce order fulfilment times.

**Opportunities**
- Develop new distribution facility to be commissioned by 2022.
- Supplier collaboration on the product life cycle management system.
- Grow in-house manufacturing capability.
RISKS AND OPPORTUNITIES continued

**Performance against objectives and targets**

<table>
<thead>
<tr>
<th>OBJECTIVES AND PLANS</th>
<th>PERFORMANCE AGAINST OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rebuild the new accounts decision management process using better predictive models, a new strategy development system and customer-centric decision system.</td>
<td>• Bespoke credit bureau scorecards developed.</td>
</tr>
<tr>
<td>Redevolve and test new account limit management strategies with the goal of increasing profit within account risk constraints.</td>
<td>• Decision optimisation framework established.</td>
</tr>
<tr>
<td>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.</td>
<td>• Account campaigns support both online and store sales channels.</td>
</tr>
<tr>
<td>Enhance and develop loyalty promotions and offers.</td>
<td>• Further testing of loyalty promotions to attract and retain customers through tailored offers.</td>
</tr>
<tr>
<td>Introduce lay-by offering into all stores.</td>
<td>• Lay-by offering implemented.</td>
</tr>
<tr>
<td>Continue roll-out of e-commerce offering.</td>
<td>• Lay-by contributed approximately 1% to retail sales.</td>
</tr>
</tbody>
</table>

**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.
- 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.
- Several 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.

**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.

**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 book being irrecoverable.

**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.

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.

**OPPORTUNITIES**

- 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.

**TARGETS FOR 2020**

- 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: 18.9% 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.

**MEDIUM TERM**

- 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.
**MANAGING RETAIL PRESENCE**

### Performance against strategic objectives and targets

**OBJECTIVES AND PLANS**

- Trading space expected to grow by approximately 2.5%.
- R35 million committed to store development.

**PERFORMANCE AGAINST OBJECTIVES**

- Trading space growth limited to 1.6%.
- 23 stores opened.
- 30 stores converted, consolidated or closed.

### Continue consolidation and rationalisation of trading space where trading densities are low and close under-performing stores.

- Net seven stores closed (23 opened and 30 stores converted, consolidated or closed).
- Trading space reduced in nine stores.
- 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

<table>
<thead>
<tr>
<th>DESCRIPTION OF RISK</th>
<th>RISK MITIGATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>High demand for well-located retail premises in established malls, impacting availability of retail space and expansion opportunities.</td>
<td>• New malls present opportunities in prime positions.</td>
</tr>
<tr>
<td>Fixed annual rental escalations and high utility costs and rates increases impacting store profitability.</td>
<td>• Engage with landlords to secure prime space at competitive rentals and escalation rates.</td>
</tr>
<tr>
<td>Electricity load shedding in South Africa remains a risk to trading.</td>
<td>• Ongoing engagement with shopping centre owners to connect to central generators.</td>
</tr>
</tbody>
</table>

### Targets for 2020

- Trading density per m²: R35 500 – R36 500
- Store electricity consumption of 20.5 Wh per m² (South Africa only)

### 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.
MANAGING THE RISK OF FASHION

Performance against objectives and targets

| O B J E C T I V E S  A N D  P L A N S | 2019
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Ongoing focus on managing the risk of fashion.</td>
</tr>
<tr>
<td>• Retail sales declined by 0.9% compared to the prior period.</td>
</tr>
<tr>
<td>• Gross margin declined to 42.3% (2018: 44.4%).</td>
</tr>
<tr>
<td>• Buying and merchandising teams 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.</td>
</tr>
<tr>
<td>• Commenced the alignment of merchandising philosophy with that of Truworths through a ‘trading alignment’ initiative.</td>
</tr>
<tr>
<td>Implement a cloud-based management information solution to replace existing analytical tool.</td>
</tr>
<tr>
<td>• Continued to implement the cloud-based management information solution to become fully functional during the 2020 financial period.</td>
</tr>
<tr>
<td>Align made-to-order (MTO) offering to consumer demand.</td>
</tr>
<tr>
<td>• MTO retail sales declined by 7.4% compared to the prior period.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>DESCRIPTION OF RISK</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance on third-party brands.</td>
<td>• Continued engagement with partner brands to maintain brand relationships.</td>
</tr>
<tr>
<td>Impact on gross margin of changing product mix within sports and MTO ranges.</td>
<td>• Renew focus on higher margin MTO product.</td>
</tr>
<tr>
<td>Ineffective management of merchandise and buying decisions over stock ranges and volumes.</td>
<td>• Apply proven merchandise processes and key executive interventions throughout the merchandise life cycle aimed at managing and mitigating the risk of fashion.</td>
</tr>
<tr>
<td>Office is exposed to exchange rate volatility on imported merchandise.</td>
<td>• Continue to apply foreign exchange hedging policy to reduce the adverse impact of currency fluctuations.</td>
</tr>
<tr>
<td>Suitability and sustainability of the ageing merchandise management system, having become acutely dependent on highly skilled scarce internal and external resources.</td>
<td>• Implement plans to replace current merchandise system.</td>
</tr>
</tbody>
</table>

TARGET

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin of 44% – 47%</td>
<td>PERFORMANCE AGAINST TARGET</td>
</tr>
<tr>
<td></td>
<td>Gross margin at 42.3% (2018: 44.4%)</td>
</tr>
</tbody>
</table>

MEDIUM-TERM TARGET

Grass margin 41% – 45%
## OPTIMISING SUPPLY CHAIN EFFICIENCY

### MEDIUM TERM

#### MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

### 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.

#### Targets

- **2019**  
  - Inventory turn 3.0 – 3.5 times

#### Performance against target

- **2019**  
  - Inventory turn 3.2 times (in sterling)

#### 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. |
| Unethical behaviour within the supply chain. | • Apply and monitor adherence with anti-corruption and bribery policy.  
• Get MTO 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. |

#### 2020

**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’.

### MEDIUM-TERM TARGET

- Inventory turn of 3.0 – 4.0 times

---

Refer to OPTIMISING SUPPLY CHAIN EFFICIENCY on page 72 for more detail.
MANAGING RETAIL PRESENCE

### Performance against objectives and targets

<table>
<thead>
<tr>
<th>OBJECTIVES AND PLANS</th>
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</tr>
</thead>
</table>

#### E-commerce

- Customer experience: remove transactional friction to optimise journey.
- Channel expansion: enhance language, payment and stock availability options.
- Customer marketing: continued investment in online marketing and further development of customer-centric loyalty-based marketing programme.

#### Omni-channel: introduce enhanced in-store technology to improve customer service and achieve greater integration between digital and store channels.

<table>
<thead>
<tr>
<th>Physical stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement new 'store of the future' concept.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>E-commerce and physical stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce new omni-channel payment gateway to seamlessly identify customers across both e-commerce and physical store platforms.</td>
</tr>
</tbody>
</table>

#### Challenges encountered

- Closure of 16 concession stores as House of Fraser and Arcadia (Topshop/Topman) entered into company voluntary arrangements.
- Continuing decline in high-street footfall with customer preference towards online shopping.

<table>
<thead>
<tr>
<th>Key risks and mitigation strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>DESCRIPTION OF RISK</td>
</tr>
<tr>
<td>Risk of online sales substituting store sales in a fast-changing UK retail landscape.</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>
</tr>
<tr>
<td>Payment Card Industry Data Security Standard (PCIDSS) non-compliance.</td>
</tr>
</tbody>
</table>

#### Objectives and plans

- Undertake a critical review of the real estate portfolio and close or renegotiate leases of loss-making stores.
- Negotiate rental reductions where possible and conclude new leases for a maximum of five years.
- Office and Offspring websites will be enhanced to improve the customer experience.
- Continue to evolve the 'store of the future' concept and implement key learnings in other stores.
- Expand product offering in existing and adjacent categories (including children’s footwear and accessories).
- Grow wholesale business and MTO extensively and explore new markets in Europe and Asia.
### Performance against objectives and targets

<table>
<thead>
<tr>
<th>OBJECTIVES AND PLANS</th>
<th>PERFORMANCE AGAINST OBJECTIVES</th>
</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>
<thead>
<tr>
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</thead>
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<td>Apply proven merchandise processes and key executive interventions throughout the merchandise life cycle aimed at managing and mitigating the risk of fashion.</td>
</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.
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:

- **5** Strong relationship of trust and mutual understanding
- **4** Good-quality, value-adding relationship
- **3** Good relationship but plans are to improve in order to increase value-add
- **2** Functional, poor-quality relationship
- **1** Poor to no relationship

**SHAREHOLDERS**

- **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.
2.7 million active account customers
(2018: 2.6 million)

8.8 million loyalty programme members
(2018: 7.1 million)

10 642 employees
(2018: 11 198)

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

93% black; 7% white
(2018: black – 93%; white – 7%)

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%)

- 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 upfront access to Truworths' merchandise.
- Visually appealing stores.
- Customer service and experience.

- 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.

- 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.

- 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.

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.

Engagement issues in 2019

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.

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.

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

**Building Quality Stakeholder Relationships continued**

<table>
<thead>
<tr>
<th>CUSTOMERS</th>
<th>EMPLOYEES</th>
<th>SUPPLIERS</th>
<th>REGULATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store and online customers in the United Kingdom, Germany and the Republic of Ireland, and international online customers</td>
<td>2,669 employees (2018: 2,823)</td>
<td>Internationally branded footwear: a large portfolio of key branded suppliers, including Nike, Adidas, Converse, Vans, Timberland, Birkenstock, Reebok, Puma, Toms and Ted Baker</td>
<td>Government departments, regulatory bodies and local authorities in all countries of operation, most notably Her Majesty’s Revenue and Customs (HMRC)</td>
</tr>
<tr>
<td>61% female (2018: 62%)</td>
<td></td>
<td>Own-branded footwear: manufacturers and agents across Europe and Asia</td>
<td></td>
</tr>
<tr>
<td>39% male (2018: 38%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

- Own-brand:
  - 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.

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

**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.

Continued dialogue with branded suppliers over product performance and customer feedback.

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.
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4 Group profile
5 Business philosophy
Sustainable future in fashion

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11 Value-creating business model
13 Integration
14 Managing risks, uncertainties and opportunities
15 Building quality shareholder relationships

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GOVERNANCE
CHAIRMAN’S REPORT

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 9.0% 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.

COMMITMENT TO GOVERNANCE

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.

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.

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
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.

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

Hilton Saven
Chairman
Michael Mark
Chief Executive Officer

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

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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.

Rest in peace, our mentor, dear friend and colleague.
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, Trinity Global Alliance Ltd (UK), Priority HICW (Belgium), Wallslab 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), CA (SA), CA
Independent Non-executive Director
Investment adviser and business consultant
Non-executive director: Tritonprop (Pty) Ltd and subsidiaries, Phalasana Investment Holdings (Pty) Ltd and subsidiaries, San Michaela 204 (Pty) Ltd
Member and director of non-profit organisation: Herschel Association
Trustee: Truworths International Ltd Share Trust
Appointed to the board in February 1998
Chairman of Remuneration Committee and member of Audit Committee and Nomination Committee

HANS HAWINKELS (67)
BCom, MBA, MIA
Independent Non-executive Director
Businessman and consultant
Non-executive director: Woyak (Pty) Ltd
Appointed to the board in February 2018
Member of Nomination Committee

MAYA MAKANJEE (57)
BCom, BA, MBA
Independent Non-executive Director
Director of companies
Non-executive director: AIG South Africa Ltd, AIG Life South Africa Ltd, Maptal Ltd, Tiger Brands Ltd
Appointed to the board in February 2018
Member of 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: Trench 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: Popular 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 2013.
Member of Remuneration Committee and Nomination Committee

CINDY HESS (43)
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

MAYA MAKANJEE (57)
BCom, BA, MBA
Independent Non-executive Director
Director of companies
Non-executive director: AIG South Africa Ltd, AIG Life South Africa Ltd, Maptal Ltd, Tiger Brands Ltd
Appointed to the board in February 2018
Member of 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: Trench Ltd, Imperial Logistics Ltd
Appointed to the board in February 2012
Chairman of Audit Committee and member of Risk Committee and Nomination Committee

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Retail executive and businessman
Executive: Popular Retail Ltd
Non-executive chairman: PBT Group Ltd
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Member of Remuneration Committee and Nomination Committee

CINDY HESS (43)
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

INTEGRATED REPORT 2019

EXECUTIVE DIRECTORS

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

DAVID PAFF (54)
BCom, CA (SA), Dip Soc (Navex)
Chief Operating Officer and Chief Financial Officer
Executive Director
Director: Truworths Ltd, Truworths Botswana (Pty) Ltd, Truworths Mauritius (Pty) Ltd, Tru Group Clothing Retailers (Ghana) Ltd, Truworths (Uganda) Ltd, Truworths (Lesotho) (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 April 2013
Appointed to the board in September 2013
Member of Risk Committee, Social and Ethics Committee

DOUG DARE (58)
BBusSc
Director: Buying and Merchandising
Executive Director
Director: Truworths Ltd
Employee since June 1984
Appointed to the board in August 2016

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 2010

31
GROUP LEADERSHIP

TRUWORTHS INTERNATIONAL EXECUTIVE LEADERSHIP

MICHAEL MARK (66)
BCom, MBA, ACMA
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 Soc (Oxon)
Chief Operating Officer and Chief Financial Officer
Employee since April 2013
Appointed to the board in September 2013

DOUG DARE (58)
BBusSc
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: Merchandising Ladieswear
Employee since March 2001
Appointed to the board in March 2016

STEVE WIDEGGER (56)
Diploma in Business Management
Divisional Director: Merchandise
Employee since February 1987
In current position since August 2008

FRANCOIS BAISSAC (57)
Diploma in Computer Programming and Project Management
Divisional Director: Information Systems
Employee since June 1988
In current position since February 2011

TONY MIEK (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

NEVILLE KOPPING (56)
BCom
Divisional Director: Merchandise
Employee since March 2006
In current position since March 2008

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 Merchandising
Employee since May 2004
In current position since March 2019

ZHASSAN HODEIB (47)
Buying Director
Employee since February 1996
In current position since January 2004

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

CHRIS DURHAM (63)
PGD, PGD: Adv. Co Law (UCT)
Divisional Director: Company Secretary
Employee since June 1999
In current position since March 2016
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

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

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

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

GHASSAN HODEIB (47)
Buying Director
Employee since February 1996
In current position since January 2004

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

TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2019

32
GOVERNANCE CREATING VALUE

BOARD CONTRIBUTION TO STRATEGIC DELIVERY AND VALUE CREATION

The Truworths International board functions in terms of a formal charter and provides ethical and strategic direction and leadership to the Group. The board is accountable for the overall strategy, governance and performance of the Group.

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 noted that this strategy is aimed at ensuring a diversified mass market customer base in both developed and emerging market countries.

The board observed that the successful implementation of this strategy was aimed at delivering a diversified earnings profile, improved returns for shareholders, and value being created for its other stakeholders.

During the period under review the board confirmed that fashion risk, supply chain efficiency, retail presence and managing account risk remain the material issues for the Truworths segment.

The specific material issues of fashion risk, supply chain efficiency and omni-channel retail presence have been identified for the Office segment. The impact of Brexit uncertainty and the challenging trading conditions in the UK have necessitated the implementation and prioritisation of a turnaround strategy for Office. Given the materiality of the Group’s investment in Office, the effective execution of this turnaround strategy has been added as a material issue for Office for the year ahead. The board has acknowledged that the low-growth retail trading environments in South Africa and the United Kingdom, its two main geographical areas of operation, remain challenging.

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.

GOVERNANCE ADDING VALUE

The Group’s approach to corporate governance is to ensure it contributes to improved operational decision-making and corporate performance reducing the risk of failure. The Group’s aim therefore is for the relevant governance policies, structures and processes, that initially may have been brought into existence to ensure adherence with applicable regulation and codes of conduct, to add value and ensure corporate sustainability.

This aim is achieved by:

•  considering the governance requirements critically and with a view to determining how they could be implemented within the Group in a value-adding way;
•  identifying opportunities in governance requirements for enhanced accountability, improved decision-making, better risk mitigation and more comprehensive disclosure;
•  conducting a thorough debate and enquiry process before putting into place the applicable policies, reporting and monitoring mechanisms, and committee structures, that are hallmarks of a sound corporate governance framework; and
•  periodically reviewing these elements and benchmarking the Group’s initiatives against comparable organisations and recommended best practice.

Improved corporate performance arising from sound corporate governance has manifested itself in a number of ways in the Group over an extended period, including:

•  diversity and independence of opinion in board decision-making, with the aim of ensuring sound outcomes;
•  improved operational decision-making that takes into account diversity and breadth of perspectives;
•  maintenance of discipline and integrity in management’s reporting to the board;
•  enhanced levels of accountability and transparency by management to the board;
•  meaningful risk management processes and controls that are embedded in day-to-day operations and decision-making;
•  better and more integrated reporting of both financial and non-financial aspects to stakeholders;
•  improved levels of assurance regarding the reporting by management to shareholders; and
•  achievement of an appropriate balance in meeting the expectations of the different stakeholders of the Group.

It is the view of the board that the sound governance framework has preserved value for the business and its stakeholders, in the form of lower risk, improved sustainability, consistency of financial performance, sound stakeholder relationships, high levels of legislative compliance and reputational integrity.
GOVERNANCE CREATING VALUE continued

Board deliberations
OFFICE
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.

The board welcomed the positive contribution from long-standing directors, whilst newly appointed non-executive directors grow their knowledge of the Group and contribute from long-standing directors, whilst newly appointed non-executive directors grow their knowledge of the Group and continue to provide ongoing operational and financial support.

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.

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 continuously 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.

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>
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<tbody>
<tr>
<td>KEY ISSUES</td>
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<tr>
<td>• Management’s integration and alignment of the Office business into the Group</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>• 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>
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<tr>
<td>• The performance of the customer loyalty programme launched within the Truworths segment in the 2018 period</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>• Executive management’s appointment of a new CEO for the Office segment</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 executive director of the company</td>
</tr>
<tr>
<td>• The financial performance of the e-commerce platform introduced in the Truworths segment during the 2018 period</td>
<td>• The recommendation by the Audit Committee that external auditor rotation be implemented by the 2023 deadline</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 a Chief Operating Officer of the Group</td>
</tr>
<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>• Management’s achievement of a compliance level on the broad-based black economic empowerment scorecard for the Truworths segment</td>
<td>• The accounting impairment of the Office business’ intangible assets</td>
<td>• Executive management’s strategies for the Truworths and Office segments</td>
<td>• To provide ongoing financial and operational support to the Office business</td>
</tr>
<tr>
<td>• Management’s achievement of a compliance level on the broad-based black economic empowerment scorecard for the Truworths segment</td>
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CREATING VALUE continued

During the period under review board deliberations included the following:

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<tr>
<th>KEY ISSUES</th>
<th>ROUTINE MATTERS</th>
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<td>ROUTINE MATTERS</td>
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<tr>
<td>• The general annual and other declarations made by directors regarding their personal financial interests</td>
<td>• The quarterly financial reports and forecasts presented by the Chief Financial Officer (CFO)</td>
<td>• The Group’s operational and capital expenditure budgets by business segment</td>
<td>• Executive management to undertake share repurchases within defined parameters</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>• The quarterly analysis of the company’s shareholders and beneficial owners of shares</td>
<td>• The quarterly reports of the chairman of the Audit, Remuneration, and Social and Ethics Committees</td>
<td>• The Group’s Audited Annual Financial Statements, Integrated Report and Preliminary Report on the Audited Group Annual Results and Notice of Annual General Meeting</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>• Various presentations by management relating to different aspects of the Group’s business, including merchandise ranges and executive information systems</td>
<td>• The quarterly presentations of the Risk Committee chairman, together with the top risk matrices for the Truworths and Office segments</td>
<td>• The Group’s Interim Report and all results announcements on SENS and in the media</td>
<td>• Executive management to issue and list shares pursuant to share incentive scheme transactions within defined parameters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The quarterly presentations by the Company Secretary on new relevant legislation/regulation</td>
<td>• The half-yearly analysis by the CFO of published competitor financial metrics</td>
<td>• The Group’s interim and final dividends and the company’s dividend cover</td>
<td>• Executive management to issue and list shares pursuant to share incentive scheme transactions within defined parameters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The annual analysis by the CEO and the Group’s Executive Committee on the performance of the Group</td>
<td>• The reports on management’s performance against the financial targets and key other indicators</td>
<td>• The Group’s financial and strategic targets for executive incentive scheme purposes</td>
<td>• Executive management to issue and list shares pursuant to share incentive scheme transactions within defined parameters</td>
<td>• Executive management to issue and list shares pursuant to share incentive scheme transactions within defined parameters</td>
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</tr>
</tbody>
</table>
GOVERNANCE COVERING 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

Office Segment

Operational board

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

OFFICE SEGMENT

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
- Composition, size and independence
- Director orientation and development
- Leadership, teamwork and relationships with management
- Board and committee meeting productivity
- Ethical leadership and culture
- Succession planning
- Director evaluation and compensation

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 to 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.

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%
GOVERNANCE  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.

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

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

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 expertise

<table>
<thead>
<tr>
<th></th>
<th>Collective expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic planning</td>
<td>62%</td>
</tr>
<tr>
<td>Finance and taxation</td>
<td>58%</td>
</tr>
<tr>
<td>Retail</td>
<td>50%</td>
</tr>
<tr>
<td>Corporate affairs and communication</td>
<td>42%</td>
</tr>
<tr>
<td>Financial services</td>
<td>50%</td>
</tr>
<tr>
<td>Information technology and communication</td>
<td>25%</td>
</tr>
<tr>
<td>Risk management, compliance and governance</td>
<td>35%</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.

Board committees

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

Non-executive directors’ average age: 62 years
Non-executive directors’ average tenure: 10 years

Executive directors’ average age: 57 years
Executive directors’ average tenure: 10 years

*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.

Board of Directors

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hilton Saven</td>
<td>Chairman</td>
</tr>
<tr>
<td>Michael Mark</td>
<td>Executive Director/Chief Executive Officer</td>
</tr>
<tr>
<td>Doug Dare</td>
<td>Executive Director/Chief Operating Officer</td>
</tr>
<tr>
<td>Rob Dow</td>
<td>President/Chief Executive Officer</td>
</tr>
<tr>
<td>Hans Havinkels</td>
<td>Independent non-executive director</td>
</tr>
<tr>
<td>Cindy Hess</td>
<td>Independent non-executive director</td>
</tr>
<tr>
<td>Maya Makanjee</td>
<td>Independent non-executive director</td>
</tr>
<tr>
<td>David Pfaff</td>
<td>Executive Director/Chief Financial Officer</td>
</tr>
<tr>
<td>Sarah Proudfoot</td>
<td>Independent non-executive director</td>
</tr>
<tr>
<td>Roddy Sparks</td>
<td>Independent non-executive director</td>
</tr>
<tr>
<td>Tony Taylor</td>
<td>Independent non-executive director</td>
</tr>
<tr>
<td>Michael Thompson</td>
<td>Independent non-executive director</td>
</tr>
</tbody>
</table>

Non-executive directors

- Male: 46% (2018: 47%)
- Female: 54% (2018: 53%)

Black: 23% (2018: 21%)
White: 77% (2018: 79%)

Gender and Racial Diversity

Age and tenure

<table>
<thead>
<tr>
<th>Age group</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5 years</td>
<td>2</td>
</tr>
<tr>
<td>5 – 10 years</td>
<td>1</td>
</tr>
<tr>
<td>&gt; 10 years</td>
<td>1</td>
</tr>
</tbody>
</table>

Executive directors

<table>
<thead>
<tr>
<th>Age group</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5 years</td>
<td>3</td>
</tr>
<tr>
<td>5 – 10 years</td>
<td>1</td>
</tr>
<tr>
<td>&gt; 10 years</td>
<td>5</td>
</tr>
</tbody>
</table>

Non-executive directors

<table>
<thead>
<tr>
<th>Age group</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5 years</td>
<td>2</td>
</tr>
<tr>
<td>5 – 10 years</td>
<td>1</td>
</tr>
<tr>
<td>&gt; 10 years</td>
<td>1</td>
</tr>
</tbody>
</table>

Executive directors

<table>
<thead>
<tr>
<th>Age group</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5 years</td>
<td>4</td>
</tr>
<tr>
<td>5 – 10 years</td>
<td>2</td>
</tr>
<tr>
<td>&gt; 10 years</td>
<td>6</td>
</tr>
</tbody>
</table>

Board size and turnover

Six directors appointed, three directors resigned/retired

0 – 5 years
- Non-executive directors: 2
- Executive directors: 3

5 – 10 years
- Non-executive directors: 1
- Executive directors: 1

> 10 years
- Non-executive directors: 5
- Executive directors: 6

2015
- Non-executive directors: 12
- Executive directors: 4

2016
- Non-executive directors: 12
- Executive directors: 4

2017
- Non-executive directors: 12
- Executive directors: 4

2018
- Non-executive directors: 12
- Executive directors: 4

2019
- Non-executive directors: 12
- Executive directors: 4

Director movement over last five years:
Six directors appointed, three directors resigned/retired

Male: 69% (2018: 82%)
Female: 31% (2018: 18%)

Black: 23% (2018: 18%)
White: 77% (2018: 82%)

Gender and Racial Diversity

Board expertise

- Collective expertise
  - Strategic planning: 62%
  - Finance and taxation: 58%
  - Retail: 50%
  - Corporate affairs and communication: 42%
  - Financial services: 50%
  - Information technology and communication: 25%
  - Risk management, compliance and governance: 35%
  - Distribution and logistics: 33%
  - Construction and engineering: 17%
  - Human resources and transformation: 29%
  - Corporate finance, mergers and acquisitions: 67%
  - Marketing: 17%

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

Board committees

- Remuneration
- Risk
- Nomination
- Audit
- Social and Ethics

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 Governance Principles (King IV) and complied with the mandatory governance requirements of the JSE Listings Requirements. A schedule of how the Group has applied the King IV principles and complied with the JSE Listings Requirements can be viewed at www.truworthsinternational.com.

The Group continued its assessment of the impact of the King IV principles and endorses the outcomes-based approach to corporate governance. While many refinements to the Group’s governance processes have already been brought about, the work involved to align the Group’s governance structures, policies and processes with the King IV recommended practices is ongoing.

This report is a summary of corporate governance matters within the Group and should be read in conjunction with the more detailed Report on Corporate Governance and Application of King IV Principles 2019 available at www.truworthsinternational.com.

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:

GOVERNANCE ELEMENT
Social and Ethics Committee
Directors
Senior management appointments
Non-executive director independence assessment
Risk governance
Board committees
Board race diversity policy
Risk governance in Office
Corporate social investment
Information technology (IT) governance
Supplier codes of conduct
Credit legislation compliance
Tax risk governance
Sustainability reporting
Remuneration policies
GOVERNANCE DEVELOPMENT
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.
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.
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.
A formal written evaluation process was undertaken by the board to confirm the independence of non-executive directors with reference to regulatory measures or guidelines regarding independence.
The reporting by the Risk Committee to the board of the company has been further enhanced to encompass more detailed reporting on operational risks within the distribution function.
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 recording tenure of membership and annual performance evaluation obligations.
The formal annual evaluation process was conducted to assess the performance of the board committees.
The board commenced the implementation of its race diversity policy at board level towards the adoption of its medium-term target of 30% black representationality.
The risk management process in the Office segment has been refocused to ensure improved alignment with Truworths’ key operational processes.
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.
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.
The Group’s codes of conduct for local and international suppliers have been reviewed and aligned and a structured process for monitoring of adherence has been agreed.
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.
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.
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.
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.

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
Rewarding 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 23(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 78.7% 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 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 2019 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 the approved 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 share schemes in respect of awards being made in the current reporting period.
• Refined the performance management process to improve the alignment of the Group’s reward-for-performance philosophy 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.

• Further review the principles and application of equal pay for work of equal value to ensure equity is maintained across all levels within the Group and how this addresses fair and responsible remuneration for executive management in the context of overall employee remuneration.
• Consider the implementation of minimum shareholding requirements to guaranteed remuneration for executive directors within the context of prevailing market practice.

The committee ensures that the Group takes cognisance of evolving legislation and remuneration practices through continuous research and monitoring, with specific focus on equal pay for work of equal value. In this regard, remuneration governance will continue to evolve and improve as the Group responds to feedback from shareholders and takes account of evolving international best practice and King IV principles. The chairman of the committee reports to the board on all aspects of the committee’s work as a standing agenda item at each board meeting. This feedback covers all aspects of remuneration strategy and policy, how the policy objectives are being achieved and the implementation thereof over the annual cycle.

This report of the committee focuses primarily on the remuneration of the Truworths International executive and non-executive directors. There were no material policy exceptions during the period and the committee is satisfied that the remuneration policy achieved its stated objectives during the period.

Rob Dow Chairman
The Group’s reward policy is designed to achieve the following objectives. The composition of total remuneration is based on the value proposition, refer to the Truworths and Office Human Capital employee value proposition. For further details on the employee remuneration approach which comprises all elements of financial 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 67 and 74 and the Social and Environmental Report 2019 on the website at www.truworthsinational.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 on the one hand, and the rewards received by the employee on the other.

The Group’s reward policy is designed to achieve the following objectives:

- Internal equity, which ensures employees are rewarded appropriately in relation to peers as well as in adherence with the principle of equal pay for work of equal value.
- External equity, to ensure employees are rewarded competitively in relation to the employment market.
- Fair and responsible reward management, which ensures that:
  - there is equal opportunity across the Group for growth and development of high-performing individuals who are aligned to the Group’s values and philosophies;
  - performance measurement practices are regularly and consistently applied;
  - 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
  - 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 131) 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 total remuneration mix is determined as follows:

<table>
<thead>
<tr>
<th>GUARANTEED REMUNERATION</th>
<th>VARIABLE AND PERFORMANCE-RELATED REMUNERATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual guaranteed remuneration</td>
<td>Short-term performance</td>
</tr>
<tr>
<td>Short-term cash-based incentive scheme</td>
<td>Restricted share plan</td>
</tr>
<tr>
<td>Share appreciation rights</td>
<td>Performance share plan</td>
</tr>
<tr>
<td>Total guaranteed package, which can include the following benefits:</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>
</tr>
<tr>
<td>Salary</td>
<td>• Performance</td>
</tr>
<tr>
<td>Travel allowance</td>
<td>as follows:</td>
</tr>
<tr>
<td>Retirement benefits</td>
<td></td>
</tr>
<tr>
<td>Healthcare benefits</td>
<td></td>
</tr>
<tr>
<td>Group life and disability insurance benefits</td>
<td></td>
</tr>
</tbody>
</table>

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 contracted 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 severing 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, Dis-Chem Pharmacies Ltd, Italtile 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 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.
- Only employees within qualifying roles at the approved Patterson grading level that do not participate in other short-term incentive schemes are utilised as a quality overlay to ensure other key metrics set are achieved.
- Threshold, target and stretch levels are pre-agreed for these metrics that act as modifiers to the bonus pool.

Individual performance is measured with reference to a scorecard of metrics to encourage all participants to focus on both the financial and non-financial performance targets that are directly aligned to the participant’s responsibilities.

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 are 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 STIs**

<table>
<thead>
<tr>
<th>Category</th>
<th>Below threshold</th>
<th>Threshold</th>
<th>On target</th>
<th>Stretch</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>50%</td>
<td>100%</td>
<td>150%</td>
<td></td>
</tr>
<tr>
<td>Executive directors</td>
<td>30%</td>
<td>60%</td>
<td>100%</td>
<td></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 46 181 002 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 1988 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.
**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 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>Metric</th>
<th>Threshhold</th>
<th>Target</th>
<th>Stretch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group EBIT target for 2019 STIs</td>
<td>R2 960</td>
<td>R3 946</td>
<td>R4 735</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:

**F2019 targets for November 2016 share issue**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Weighting %</th>
<th>Vesting target</th>
<th>100% Vesting target</th>
<th>150% Vesting target</th>
<th>Final result</th>
<th>Vesting achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>40%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
<td>12.5%</td>
<td>0%</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>0%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>0%</td>
<td></td>
<td></td>
<td>0%</td>
<td>0%</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 100% 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:

**F2021 LTI targets for September 2018 award**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Weighting %</th>
<th>50% 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>20%</td>
<td>17%</td>
<td>19%</td>
<td>23%</td>
<td>17% – 23%</td>
</tr>
<tr>
<td>ROE</td>
<td>15%</td>
<td>17%</td>
<td>19%</td>
<td>23%</td>
<td>17% – 23%</td>
</tr>
<tr>
<td>EBIT growth &gt; CPI</td>
<td>15% CPI pa</td>
<td>CPI + 1ppt pa</td>
<td>CPI + 2ppt pa</td>
<td>49% – 53%</td>
<td></td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>29% 49%</td>
<td>50%</td>
<td>53%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic targets</td>
<td>30% Good performance</td>
<td>Very good performance</td>
<td>Excellent performance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**F2021 LTI targets for March and June 2019 awards**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Weighting %</th>
<th>50% 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>15%</td>
<td>17%</td>
<td>19%</td>
<td>23%</td>
<td>17% – 23%</td>
</tr>
<tr>
<td>ROE</td>
<td>15%</td>
<td>17%</td>
<td>19%</td>
<td>23%</td>
<td>17% – 23%</td>
</tr>
<tr>
<td>HEPS growth &gt; CPI</td>
<td>15% CPI pa</td>
<td>CPI + 1ppt pa</td>
<td>CPI + 2ppt pa</td>
<td>49% – 53%</td>
<td></td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>15% 49%</td>
<td>50%</td>
<td>53%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic targets</td>
<td>30% Good performance</td>
<td>Very good performance</td>
<td>Excellent performance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**STIs**

- **Monthly exclusion:**
  - ROA: R583,000
  - EBIT: R96,900
  - ROE: R98,000
  - HEPS: R150,000

**LTI**

- **Monthly exclusion:**
  - ROA: R1 386
  - EBIT: R1 383
  - ROE: R3 843
  - HEPS: R5 134

**STI vesting:**

- **STI vesting:**
  - ROA: 18%
  - EBIT: 19%
  - ROE: 20%
  - HEPS: 23%

**LTI vesting:**

- **LTI vesting:**
  - ROA: 19%
  - EBIT: 19%
  - ROE: 20%
  - HEPS: 20%

**Share scheme:**

- **Share scheme:**
  - ROA: 18%
  - EBIT: 19%
  - ROE: 20%
  - HEPS: 23%

**Vesting period:**

- **Vesting period:**
  - ROA: 1 year
  - EBIT: 1 year
  - ROE: 2 years
  - HEPS: 3 years

**Performance gatekeepers:**

- **Performance gatekeepers:**
  - ROA: 18%
  - EBIT: 19%
  - ROE: 20%
  - HEPS: 20%

**Performance hurdles:**

- **Performance hurdles:**
  - ROA: 18%
  - EBIT: 19%
  - ROE: 20%
  - HEPS: 20%

**Share allocation:**

- **Share allocation:**
  - ROA: 18%
  - EBIT: 19%
  - ROE: 20%
  - HEPS: 20%
### Share-based awards

<table>
<thead>
<tr>
<th>Number of shares and type '000</th>
<th>2019 Face value of shares allocated R'000</th>
<th>Face value as % of guaranteed pay</th>
<th>2018 Number of shares and type '000</th>
<th>Face value of shares allocated R'000</th>
<th>Face value as % of guaranteed pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive director Performance share plan (with performance targets)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael Mark</td>
<td>54</td>
<td>4 000</td>
<td>104%</td>
<td>272</td>
<td>25 000</td>
</tr>
<tr>
<td>David Pfaff</td>
<td>75</td>
<td>5 500</td>
<td>107%</td>
<td>112</td>
<td>10 000</td>
</tr>
<tr>
<td>Sarah Proudfoot</td>
<td>39</td>
<td>2 750</td>
<td>ND*</td>
<td>16</td>
<td>6 000</td>
</tr>
</tbody>
</table>

* Not disclosed as Ms Proudfoot was not a director for the full financial period.

As indicated in our prior year’s disclosure, awards made to the CEO in 2018 were likely to be the final allocation ahead of his envisaged retirement in the next few years and hence no additional shares were allocated in 2019.

Awards made to executive directors in 2018 were in pursuance of the CEO succession plans being implemented by the board and allocations in the 2019 financial year are in line with our allocation policy.

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 3.8% (2018: 4.7%).

<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>R5m</td>
</tr>
<tr>
<td>Office performance equity plan</td>
<td>1</td>
<td>£50 000</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 3.8% (10% in terms of the share scheme rules). The annual allocation as detailed above is 0.35% of issued shares at June 2012 which is below the committee guideline of 1% in any one year (1.25% in terms of the policy). The maximum aggregate allocation for any one participant is 0.5% of shares in issue at 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>F2022 LTI targets for September 2019 award</th>
<th>50% 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>25%</td>
<td>18%</td>
<td>21%</td>
<td>24%</td>
<td>18% – 24%</td>
</tr>
<tr>
<td>HEPS growth &gt; CPI</td>
<td>15%</td>
<td>CPI</td>
<td>CPI + 1ppt pa</td>
<td>CPI + 2ppt pa</td>
<td></td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>15%</td>
<td>49%</td>
<td>51%</td>
<td>53%</td>
<td>49% – 53%</td>
</tr>
<tr>
<td>Inventory turn (times)</td>
<td>15%</td>
<td>3.50</td>
<td>4.00</td>
<td>4.50</td>
<td>3.50 – 4.50</td>
</tr>
<tr>
<td>Strategic targets (including sustainability and transformation)</td>
<td>30%</td>
<td>Good performance</td>
<td>Very good performance</td>
<td>Excellent performance</td>
<td></td>
</tr>
</tbody>
</table>

### Performance share plan

Performance share plan: The grant price value of all awards issued in the financial period.

- **Restricted share plan:** The grant price value of all awards issued in the financial period.
- **Performance appreciation rights:** For all awards where the company performance targets (CPTs) vested in the financial period, the five-day volume weighted average price (VWAP) of the share at period-end multiplied by the CPT vesting percentage and the number of awards.
- **Share appreciation rights:** For all awards where the CPTs vested in the financial period, the five-day volume weighted average price (VWAP) of the share at period-end and the strike price multiplied by the CPT vesting percentage and the number of awards.

### 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 paid</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>
<td>Michael Mark</td>
<td>12</td>
<td>9 383</td>
<td>3 338</td>
<td>18</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>15</td>
<td>650</td>
<td>5 804</td>
<td>43 254</td>
<td></td>
</tr>
<tr>
<td>Doug Dare</td>
<td>12</td>
<td>3 843</td>
<td>13</td>
<td>15</td>
<td>484</td>
<td>4 355</td>
<td>2 273</td>
<td></td>
</tr>
<tr>
<td>Sarah Proudfoot</td>
<td>1</td>
<td>288</td>
<td>16</td>
<td>–</td>
<td>–</td>
<td>304</td>
<td>2 273</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael Mark</td>
<td>12</td>
<td>9 100</td>
<td>3 405</td>
<td>–</td>
<td>9 278</td>
<td>7 547</td>
<td>29 430</td>
<td>43 254</td>
</tr>
<tr>
<td>David Pfaff</td>
<td>12</td>
<td>4 596</td>
<td>7</td>
<td>–</td>
<td>772</td>
<td>743</td>
<td>6 118</td>
<td></td>
</tr>
<tr>
<td>Doug Dare</td>
<td>12</td>
<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 company performance targets (CPTs) vested in the financial period, the five-day volume weighted average price (VWAP) of the share at period-end multiplied by the CPT vesting percentage and the number of awards.
- Share appreciation rights: For all awards where the CPTs vested in the financial period, the five-day volume weighted average price (VWAP) of the share at period-end and the strike price multiplied by the CPT vesting percentage and the number of awards.

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

### 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 R’000</th>
<th>Estimated closing fair value on 30 June 2019 R’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Mark</td>
<td>Options</td>
<td>2,567</td>
<td>–</td>
<td>111</td>
<td>–</td>
<td>121</td>
<td>2,325</td>
<td>15,323</td>
<td>143,299</td>
</tr>
<tr>
<td></td>
<td>Shares</td>
<td>450</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>450</td>
<td>11,349</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Restricted shares with performance conditions</td>
<td>1,550</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,550</td>
<td>108,500</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td></td>
<td>587</td>
<td>–</td>
<td>111</td>
<td>–</td>
<td>121</td>
<td>335</td>
<td>23,450</td>
<td>–</td>
</tr>
<tr>
<td>David Pfaff</td>
<td>Restricted shares without performance conditions</td>
<td>267</td>
<td>75</td>
<td>13</td>
<td>–</td>
<td>25</td>
<td>294</td>
<td>3,264</td>
<td>17,440</td>
</tr>
<tr>
<td></td>
<td>Restricted shares with performance conditions</td>
<td>34</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>20</td>
<td>14</td>
<td>980</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Appreciation rights without performance conditions</td>
<td>173</td>
<td>75</td>
<td>10</td>
<td>–</td>
<td>15</td>
<td>223</td>
<td>19,610</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Appreciation rights with performance conditions</td>
<td>31</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>31</td>
<td>–</td>
<td>405</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td></td>
<td>29</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>–</td>
<td>26</td>
<td>390</td>
<td>–</td>
</tr>
<tr>
<td>Doug Dare</td>
<td>Options</td>
<td>441</td>
<td>54</td>
<td>13</td>
<td>–</td>
<td>151</td>
<td>224</td>
<td>8,277</td>
<td>14,354</td>
</tr>
<tr>
<td></td>
<td>Restricted shares without performance conditions</td>
<td>194</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>120</td>
<td>74</td>
<td>1,513</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Restricted shares with performance conditions</td>
<td>30</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>16</td>
<td>14</td>
<td>980</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Appreciation rights without performance conditions</td>
<td>125</td>
<td>54</td>
<td>7</td>
<td>–</td>
<td>15</td>
<td>157</td>
<td>10,990</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Appreciation rights with performance conditions</td>
<td>47</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>47</td>
<td>464</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td></td>
<td>38</td>
<td>–</td>
<td>6</td>
<td>–</td>
<td>–</td>
<td>32</td>
<td>354</td>
<td>–</td>
</tr>
<tr>
<td>Sarah Proudfoot</td>
<td>Options</td>
<td>236</td>
<td>51</td>
<td>9</td>
<td>–</td>
<td>18</td>
<td>254</td>
<td>13,354</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Shares</td>
<td>13</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>13</td>
<td>1,513</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Restricted shares without performance conditions</td>
<td>81</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>81</td>
<td>5,670</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Restricted shares with performance conditions</td>
<td>16</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>10</td>
<td>6</td>
<td>420</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Appreciation rights without performance conditions</td>
<td>82</td>
<td>51</td>
<td>5</td>
<td>–</td>
<td>8</td>
<td>120</td>
<td>8,400</td>
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<tr>
<td></td>
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<tr>
<td>2019</td>
<td>Options</td>
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<td>273</td>
<td>7</td>
<td>–</td>
<td>65</td>
<td>2,567</td>
<td>14,180</td>
<td>17,150</td>
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<tr>
<td></td>
<td>Shares</td>
<td>450</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>450</td>
<td>14,612</td>
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<tr>
<td></td>
<td>Restricted shares without performance conditions</td>
<td>1,550</td>
<td>–</td>
<td>–</td>
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<td>–</td>
<td>1,550</td>
<td>119,738</td>
<td>–</td>
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<tr>
<td></td>
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<td>36</td>
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<td>–</td>
<td>29</td>
<td>567</td>
<td>43,801</td>
<td>–</td>
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<tr>
<td>David Pfaff</td>
<td>Restricted shares without performance conditions</td>
<td>185</td>
<td>112</td>
<td>2</td>
<td>–</td>
<td>28</td>
<td>287</td>
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<td>52</td>
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<td>1</td>
<td>–</td>
<td>10</td>
<td>173</td>
<td>13,364</td>
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<td>Appreciation rights with performance conditions</td>
<td>31</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>31</td>
<td>673</td>
<td>6,823</td>
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<td></td>
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<td>1</td>
<td>–</td>
<td>–</td>
<td>30</td>
<td>629</td>
<td>–</td>
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<tr>
<td>Doug Dare</td>
<td>Options</td>
<td>506</td>
<td>69</td>
<td>6</td>
<td>–</td>
<td>194</td>
<td>194</td>
<td>7,021</td>
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<tr>
<td></td>
<td>Shares</td>
<td>106</td>
<td>–</td>
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<td>–</td>
<td>57</td>
<td>–</td>
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<td>47</td>
<td>751</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>43</td>
<td>–</td>
<td>5</td>
<td>–</td>
<td>–</td>
<td>43</td>
<td>646</td>
<td>–</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.
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>Months paid</th>
<th>2019 R'000</th>
<th>2018 R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hilton Saven</td>
<td>12</td>
<td>1 251</td>
<td>1 128</td>
</tr>
<tr>
<td>Rob Dow</td>
<td>12</td>
<td>666</td>
<td>638</td>
</tr>
<tr>
<td>Thandi Ndluvu</td>
<td>12</td>
<td>411</td>
<td>390</td>
</tr>
<tr>
<td>Michael Thompson</td>
<td>12</td>
<td>683</td>
<td>678</td>
</tr>
<tr>
<td>Tony Taylor</td>
<td>12</td>
<td>467</td>
<td>403</td>
</tr>
<tr>
<td>Roddy Sparks</td>
<td>12</td>
<td>747</td>
<td>635</td>
</tr>
<tr>
<td>Maya Makanjee</td>
<td>12</td>
<td>374</td>
<td>183</td>
</tr>
<tr>
<td>Hans Havinkels</td>
<td>12</td>
<td>374</td>
<td>183</td>
</tr>
<tr>
<td>Cindy Hess</td>
<td>2</td>
<td>79</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>5 052</strong></td>
<td><strong>4 238</strong></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>Committee Chairman</th>
<th>Proposed fees (excluding VAT) for 12 months to December 2020 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>150</td>
<td>153</td>
</tr>
<tr>
<td>Remuneration Committee chairman</td>
<td>154</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 2019 compared to growth of 0.7% in the year to June 2018.

The consumer confidence index 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 to 6.75% 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 38, also remain challenging as a result of generally weakening domestic economies and depreciating currencies.

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.
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.
SOLID TRUWORTHS PERFORMANCE

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 to 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.

LEADERSHIP AND SUCCESSION

The Group continued to strengthen its leadership talent with key appointments during the period.

David Pfeiff was appointed to the newly-created position of Group Chief Operating Officer. David continues in his role of Group Chief Financial Officer.

Sarah Proudfoot, the Director of Ladieswear Merchandise in Truworths, was appointed as an executive director of Truworths International in May 2019. Sarah has gained extensive experience across merchandise design, buying, planning, store design and marketing during her 21 years with Truworths.

Four new Truworths divisional directors, Cathy Kirkman, Myles Aspey, Peter Shackleton and Zamira Mower, were appointed from within the Group, enhancing leadership in the areas of merchandise planning, marketing and internal audit, governance and risk.

Lorenzo Moretti was appointed CEO of Office in October 2018. Lorenzo has a deep understanding of brands gained from over 20 years’ global retail experience in companies including Nike, Gap, Tesco and Marks & Spencer. He has brought renewed energy and focus to the business and we are confident in his ability to lead the turnaround in Office.

APPRECIATION

Thank you to our Chairman, Hilton Saven, and my fellow directors for their guidance and support of the Group’s leadership team in the challenging times we have encountered over the past year. I extend my thanks to our committed executive teams in Truworths and Office, who continue to lead by example, and our passionate employees who strive to deliver an exceptional shopping experience for our customers.

Thank you to our customers for making us their first choice for quality fashion and we look forward to continuing to exceed your expectations.

Michael Mark
Chief Executive Officer
# Five-Year Review of Financial Performance

## Period

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Pro forma</td>
<td>Reported</td>
<td>Pro forma</td>
<td>Reported</td>
<td>Pro forma</td>
<td>Reported</td>
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### Returns and Margin Performance

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<thead>
<tr>
<th>Category</th>
<th>5-year average*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin (%)</td>
<td>52.9</td>
</tr>
<tr>
<td>Trading margin (%)</td>
<td>14.0</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>22.2</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>27</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>25</td>
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<tr>
<td>Inventory turnover (times)</td>
<td>4.1</td>
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<tr>
<td>Asset turnover (times)</td>
<td>1.2</td>
</tr>
<tr>
<td>Net debt to equity (%)</td>
<td>7</td>
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<tr>
<td>Return on invested capital (ROIC) (%)</td>
<td>17</td>
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<tr>
<td>Cash realisation rate (%)</td>
<td>92</td>
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</table>

### Statements of Comprehensive Income

<table>
<thead>
<tr>
<th>Category</th>
<th>5-year compound growth [%]*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of merchandise (Rm)</td>
<td>12</td>
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<tr>
<td>Trading expenses (Rm)</td>
<td>20</td>
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<tr>
<td>Trading profit (Rm)</td>
<td>27</td>
</tr>
<tr>
<td>Operating profit (Rm)</td>
<td>13</td>
</tr>
<tr>
<td>Profit before tax (Rm)</td>
<td>14</td>
</tr>
<tr>
<td>Headline earnings (Rm)</td>
<td>-</td>
</tr>
<tr>
<td>Cash inflow from operations (Rm)</td>
<td>2</td>
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</table>

### Statements of Financial Position

<table>
<thead>
<tr>
<th>Category</th>
<th>5-year compound growth [%]*</th>
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</thead>
<tbody>
<tr>
<td>Non-current assets (Rm)</td>
<td>31</td>
</tr>
<tr>
<td>Cash and cash equivalents (Rm)</td>
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<tr>
<td>Trade and other receivables (Rm)</td>
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</tr>
<tr>
<td>Inventories (Rm)</td>
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<tr>
<td>Other current assets (Rm)</td>
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</tr>
<tr>
<td>Total assets (Rm)</td>
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</tr>
<tr>
<td>Total equity (Rm)</td>
<td>7</td>
</tr>
<tr>
<td>Non-current liabilities (Rm)</td>
<td>82</td>
</tr>
<tr>
<td>Current liabilities (Rm)</td>
<td>12</td>
</tr>
<tr>
<td>Total equity and liabilities (Rm)</td>
<td>11</td>
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</table>

### Statements of Cash Flows

<table>
<thead>
<tr>
<th>Category</th>
<th>5-year compound growth [%]*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash inflow from operations (Rm)</td>
<td>2</td>
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<tr>
<td>Capital expenditure (Rm)</td>
<td>10</td>
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<tr>
<td>Share performance</td>
<td></td>
</tr>
<tr>
<td>Basic earnings per share (cents)</td>
<td>(19)</td>
</tr>
<tr>
<td>Diluted headline earnings per share (cents)</td>
<td>(cents)</td>
</tr>
<tr>
<td>Diluted headline earnings per share (cents)</td>
<td>(cents)</td>
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<tr>
<td>Cash flow per share</td>
<td>1</td>
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<tr>
<td>Equity cash ratio</td>
<td>695.8</td>
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<tr>
<td>Net cash per share (cents)</td>
<td>2701.9</td>
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<tr>
<td>Annual cash dividend per share (cents)</td>
<td>2.569</td>
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<tr>
<td>Dividend cover (times)</td>
<td>1.5</td>
</tr>
<tr>
<td>Number of shares in issue (000's)</td>
<td>(000's)</td>
</tr>
<tr>
<td>Number of shares in issue (net of treasury shares) (000's)</td>
<td>425 506</td>
</tr>
<tr>
<td>Weighted average number of shares (000's)</td>
<td>427 653</td>
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<tr>
<td>Cumulative value of shares repurchased (Rm)</td>
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<tr>
<td>Cumulative number of shares repurchased (000's)</td>
<td>102 391</td>
</tr>
<tr>
<td>Closing share price (cents per share)</td>
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### Notes:

- Excluding the impairment of Office's intangible assets and the impact of foreign exchange losses.
- 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 2016 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.
- Impact of foreign exchange losses.
- Impact of Office's intangible assets during the 2019 financial period. Net debt ratios reflect four-year averages.

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.

The Summarised Group Financial Statements appear on pages 55 and 56.

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**TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2019**

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49
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 continuingly difficult trading environment in the UK has impacted the profitability of the Office segment, necessitating a reassessment by management of the carrying value of the Office segment’s assets. This has resulted in a non-cash impairment charge of £97 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.
The global benchmarks are based on the average ratios for global fashion retailers, H&M and Inditex, for the 2018 period.

The local benchmarks are based on the average ratios for comparable JSE-listed apparel retailers, MrPrice and TFG, for the 2019 period.

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 18% 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 6% 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 deprecating 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.

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.truworthsininternational.com.

Group statements of comprehensive income

Sales of merchandise 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.

Challenging trading conditions in UK resulting in office impairment

Shareholder 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.

Major factors influencing financial performance and how we respond

Challenging trading conditions in UK resulting in office impairment

- Implemented turnaround strategy focused on merchandise buying and planning, cost control, operational and capital expenditure, marketing and brands, and own-branded product
- Ongoing focus on inventory management to reduce markdowns and stem the decline in the gross margin, while also releasing working capital
- Prioritised closure of under-performing stores
- Contained costs to mitigate the constrained top-line growth
- Restructuring of Office debt concluded successfully during September 2019. Existing syndicated facility replaced with a new £32.5 million facility on more favourable terms arranged by the Group’s principal bankers, Standard Bank

Pressure on consumer spending in SA

- Continued focus on cost containment to mitigate the impact of constrained top-line growth on profitability
- Successfully introduced lay-by payment option, enabling cash customers to set aside and pay off merchandise purchases over three months
- Increased membership of loyalty programmes to increase frequency of shopping and basket size
- Drove sales growth by introducing new store concepts and expanding e-commerce offering to all brands
- Consolidated and rationalised trading space in stores where trading densities are low
- Negotiated rental reversions and/or lower escalations
- Closed under-performing stores

Shift to online shopping away from store-based retailing in the UK

- Capitalised on positioning in online and enhanced e-commerce offering as fastwear is highly conducive to online sales
- Evaluated real estate portfolio with a view to closing loss-making stores when leases come to an end, with retail space planned to decrease by 3.0% in the 2020 financial period
- Improved in-store experience to attract customers

Exchange rate volatility and deprecating currencies

- All import orders are covered using a rolling method of regular purchase of forward exchange contracts
- Merchandise performance is monitored weekly by executives and senior management to manage inventory within acceptable levels, thereby limiting markdowns and maintaining the gross margin within the target range
- Restructuring of Office debt concluded successfully during September 2019. Existing syndicated facility replaced with a new £32.5 million facility on more favourable terms arranged by the Group’s principal bankers, Standard Bank

Group’s response:

 containing costs to mitigate the constrained top-line growth
 containing costs to mitigate the constrained top-line growth
 containing costs to mitigate the constrained top-line growth
 continuing focus on cost containment to mitigate the impact of constrained top-line growth on profitability
 increased membership of loyalty programmes to increase frequency of shopping and basket size
 drove sales growth by introducing new store concepts and expanding e-commerce offering to all brands
 consolidated and rationalised trading space in stores where trading densities are low
 negotiated rental reversions and/or lower escalations
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 capitalised on positioning in online and enhanced e-commerce offering as fastwear is highly conducive to online sales
 evaluated real estate portfolio with a view to closing loss-making stores when leases come to an end, with retail space planned to decrease by 3.0% in the 2020 financial period
 improved in-store experience to attract customers

Merchandise performance

- Gross margin (%)
  - Actual 2019: 51.6
  - Target 2019: 51 – 55
  - Target achieved: √
  - Local benchmark*: 48.3
  - Global benchmark**: 54.7
- Operating margin (%)
  - Actual 2019: 9.1
  - Target 2019: 19 – 24
  - X
  - Local benchmark*: 15
  - Global benchmark**: 12
- Return on equity (%)
  - Actual 2019: 9
  - Target 2019: 23 – 28
  - X
  - Local benchmark*: 28
  - Global benchmark**: 23
- Return on assets (%)
  - Actual 2019: 12
  - Target 2019: 20 – 25
  - X
  - Local benchmark*: 21
  - Global benchmark**: 23
- Inventory turn (times)
  - Actual 2019: 4.2
  - Target 2019: 3.5 – 4.5
  - √
  - Local benchmark*: 3.5
  - Global benchmark**: 3.4
- Asset turnover (times)
  - Actual 2019: 1.4
  - Target 2019: 0.9 – 1.3
  - exceeded
  - Local benchmark*: 1.5
  - Global benchmark**: 1.5

* The local benchmarks are based on the average ratios for comparable JSE-listed apparel retailers, Mr Price and TFG, for the 2019 period.
** The global benchmarks are based on the average ratios for global fashion retailers, H&M and.hm, for the 2018 period.
CHIEF FINANCIAL OFFICER’S REPORT continued

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 sales 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 reclassification of interest received in respect of stage 3 trade receivables amounting to R108 million, interest received decreased by 11.3%. This decrease was a result of the deployment of cash in the restructurings of the South African funding arrangements in June 2018 and the growth in accounts opened post the May 2016 reduction in the maximum prescribed interest rates under the National Credit Act.

Operating profit
Operating profit inclusive of the impairment of Office intangible assets, decreased 58.1% to R1.7 billion while the operating margin declined 10.9% to 17.7% and the operating margin decreased from 22.2% to 19.4%.

Finance costs
Finance costs decreased materially by 66.4% from R250 million in the prior period to R84 million. This reflects the benefits of the restructurings 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 2.159 billion and on an adjusted basis increased 6.3% to 2.569 billions.

Goodwill and intangible assets decreased by R19 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 restructure 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 billion 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 minority shareholders of Office, and which is measured at the present value of the redemption amount, decreased by R286 million to R121 million at the end of the period as a result of the decline in the Office segment’s earnings.

Operating profit inclusive of the impairment of Office intangible assets, increased by 6.3% to R3.5 billion and the operating margin increased 6.3% to 26.4%.

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](image)

**Operating profit performance**

<table>
<thead>
<tr>
<th>Account:</th>
<th>Cash sales mix (%)</th>
<th>Inventory turn (times)</th>
<th>Gross margin (%)</th>
<th>Trading margin (%)</th>
<th>Other segmental information</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>69:31</td>
<td>4.8</td>
<td>55.5</td>
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<td>3.1</td>
<td>44.4</td>
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**2019**

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<tr>
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<tr>
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<td>52.4</td>
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<tr>
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<td>26.4</td>
<td>1.9</td>
<td>31.5</td>
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<td>Group</td>
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<td>50.7</td>
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<tr>
<td>Office</td>
<td>30:70</td>
<td>1.7</td>
<td>32.8</td>
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<tr>
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<td>33.9</td>
<td>6.9</td>
<td>13.0</td>
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</table>
TRUWORTHS

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

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 39 (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 m² (2018: R35 256 per m²) and remain among the highest level in the local retail sector.

Gross margin

The gross margin was unchanged at 55.5%.

Trading expenses

Analysis of trading expenses

<table>
<thead>
<tr>
<th>2019 (£m)</th>
<th>2018 (£m)</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortisation</td>
<td>322</td>
<td>289</td>
<td>11</td>
</tr>
<tr>
<td>Employment costs</td>
<td>1 569</td>
<td>1 474</td>
<td>6</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>1 401</td>
<td>1 462</td>
<td>2</td>
</tr>
<tr>
<td>Trade receivable costs</td>
<td>1 037</td>
<td>1 099</td>
<td>(6)</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>600</td>
<td>720</td>
<td>11</td>
</tr>
<tr>
<td>Trading expenses</td>
<td>5 219</td>
<td>5 044</td>
<td>4</td>
</tr>
</tbody>
</table>

• 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 million exceeded total income from accounts (including notional interest) of R1 185 million, resulting in a deficit of R26 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 R150 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 notional interest, decreased by 7% to R1 083 million.

Interest expenses

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 R235 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 (R5.1 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%.

Trademarks

£m

<table>
<thead>
<tr>
<th>Retail sales change on prior period %</th>
<th>Number of stores change on prior period %</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>£7.3 million. The operating margin on the same basis decreased to 2.8% from 5.6%.</td>
<td><strong>18</strong></td>
</tr>
</tbody>
</table>

• Depreciation and amortisation decreased 14% due to assets becoming fully depreciated and lower capital expenditure in the period.

• Employment costs decreased 5% primarily due to store wages and salaries decreasing by £1 million owing to lower headcount and hours paid, and lower commission due to lower sales.

• Occupancy costs increased 7% mainly due to an increase in the onerous lease provision and other once-off costs, occupancy costs increased 2%.

• Other operating costs increased 6% mainly as a result of increased marketing spend and increased distribution costs in relation to e-commerce, which are directly linked to sales.

Operating profit/loss

Office reported an operating loss of £94.7 million compared to a profit of £18.1 million in the prior period. Excluding the intangible asset impairment, the operating profit declined by 55% to £7.3 million. The operating margin on the same basis decreased to 2.8% from 5.6%.
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>48 – 53</td>
<td>48 – 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

CHIEF FINANCIAL OFFICER’S REPORT continued
SUMMARISED GROUP FINANCIAL STATEMENTS

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 FINANCIAL POSITION

<table>
<thead>
<tr>
<th>30 Jun 2019</th>
<th>1 Jul 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td>Rem</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>5 195</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1 799</td>
</tr>
<tr>
<td>Goodwill</td>
<td>346</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2 616</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>12</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>130</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>301</td>
</tr>
<tr>
<td>Current assets</td>
<td>8 171</td>
</tr>
<tr>
<td>Inventories</td>
<td>2 168</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>4 894</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>7</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>777</td>
</tr>
<tr>
<td>Other current assets</td>
<td>352</td>
</tr>
<tr>
<td>Total assets</td>
<td>13 356</td>
</tr>
<tr>
<td>EQUITY AND LIABILITIES</td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>9 175</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>1 763</td>
</tr>
<tr>
<td>Interest-bearing borrowings</td>
<td>1 298</td>
</tr>
<tr>
<td>Put option liability</td>
<td>74</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>599</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>2 418</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>1 640</td>
</tr>
<tr>
<td>Interest-bearing borrowings</td>
<td>130</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>180</td>
</tr>
<tr>
<td>Put option liability</td>
<td>47</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>427</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4 401</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>13 356</td>
</tr>
<tr>
<td>Number of shares in issue (net of treasury shares) (millions)</td>
<td>425.5</td>
</tr>
<tr>
<td>Net asset value per share (cents)</td>
<td>2 156</td>
</tr>
<tr>
<td>Key ratios</td>
<td></td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>9</td>
</tr>
<tr>
<td>Return on capital (%)</td>
<td>19</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>12</td>
</tr>
<tr>
<td>Inventory turnover (times)</td>
<td>4.2</td>
</tr>
<tr>
<td>Asset turnover (times)</td>
<td>1.4</td>
</tr>
<tr>
<td>Net debt to equity (%)</td>
<td>7.2</td>
</tr>
<tr>
<td>Net debt to EBITDA (times)</td>
<td>0.3</td>
</tr>
</tbody>
</table>

SUMMARISED GROUP STATEMENTS OF COMPREHENSIVE INCOME

<table>
<thead>
<tr>
<th>52 weeks to 30 Jun 2019</th>
<th>52 weeks to 1 Jul 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>19 577</td>
</tr>
<tr>
<td>Sale of merchandise</td>
<td>18 094</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(8 749)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>9 345</td>
</tr>
<tr>
<td>Other income</td>
<td>322</td>
</tr>
<tr>
<td>Trading expenses</td>
<td>(9 176)</td>
</tr>
<tr>
<td>Trading profit</td>
<td>492</td>
</tr>
<tr>
<td>Interest received</td>
<td>1 153</td>
</tr>
<tr>
<td>Dividends received</td>
<td>8</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1 653</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(86)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>1 569</td>
</tr>
<tr>
<td>Tax expense</td>
<td>(876)</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>691</td>
</tr>
<tr>
<td>Attributable to:</td>
<td></td>
</tr>
<tr>
<td>Equity holders of the company</td>
<td>872</td>
</tr>
<tr>
<td>Holders of the non-controlling interest</td>
<td>(181)</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>691</td>
</tr>
<tr>
<td>Basic earnings per share (cents)</td>
<td>203.9</td>
</tr>
<tr>
<td>Headline earnings per share (cents)</td>
<td>562.8</td>
</tr>
<tr>
<td>Diluted basic earnings per share (cents)</td>
<td>203.1</td>
</tr>
<tr>
<td>Diluted headline earnings per share (cents)</td>
<td>560.7</td>
</tr>
<tr>
<td>Gross margin (%)</td>
<td>51.6</td>
</tr>
<tr>
<td>Trading expenses to sale of merchandise (%)</td>
<td>50.7</td>
</tr>
<tr>
<td>Trading margin (%)</td>
<td>2.7</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>9.1</td>
</tr>
<tr>
<td>Recalculating of headline earnings per share:</td>
<td></td>
</tr>
<tr>
<td>Basic earnings per share (cents)</td>
<td>203.9</td>
</tr>
<tr>
<td>Impairment of Office intangible assets (cents)</td>
<td>359.1</td>
</tr>
<tr>
<td>Fair value adjustment of financial assets (cents)</td>
<td>0.7</td>
</tr>
<tr>
<td>Loss on write-off of plant and equipment (cents)</td>
<td>0.2</td>
</tr>
<tr>
<td>Profit on disposal of property, plant and equipment (cents)</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Headline earnings per share (cents)</td>
<td>562.8</td>
</tr>
<tr>
<td>Recalculating of diluted weighted average number of shares:</td>
<td></td>
</tr>
<tr>
<td>Weighted average number of shares (millions)</td>
<td>427.7</td>
</tr>
<tr>
<td>Add: Dilutive effect of share options, restricted shares and share appreciation rights (millions)</td>
<td>1.6</td>
</tr>
<tr>
<td>Diluted weighted average number of shares (millions)</td>
<td>429.3</td>
</tr>
</tbody>
</table>

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%. Trading expenses for the current period, inclusive of the Office impairment, increased by 31.5%, constituting 50.7% of sale of merchandise. Excluding the Office impairment, the impact of foreign exchange gains and losses and the interest reclassifications in terms of IFRS 9, trading expenses increased by 6.3% and constituted 44.8% of sale of merchandise.

Interest received decreased by 18.6%. Excluding the reclassification of interest received in respect of stage II trade receivables in terms of IFRS 9 (R108 million), interest received decreased 11.3%. This decrease is primarily due to the deployment of cash in the restructuring of the South African funding arrangements in June 2018.

Finance costs decreased materially by 66.4%, reflecting the benefits of the restructuring of the Group’s South African funding arrangements in June 2018.

The Group’s earnings for the current period were impacted by the impairment of the Office intangible assets of R571 million (out of deferred tax). Headline earnings per share (HEPS) and diluted HEPS, which reflect the Group’s underlying performance for the period, decreased by 8.6% and 8.5% respectively.

Truworths Africa’s gross margin was unchanged at 55.5%, while the gross margin of Office declined from 44.4% in the prior period to 42.3%, mainly due to a decline in the full-price versusmarkdown sales mix.

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>30 Jun 2019</th>
<th>1 Jul 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the period attributable to equity holders of the company</td>
<td>10 369</td>
<td>9 450</td>
</tr>
<tr>
<td>Adjustment on adoption of IFRS 9</td>
<td>(223)</td>
<td>–</td>
</tr>
<tr>
<td>Restated balance at the beginning of the period</td>
<td>10 146</td>
<td>9 450</td>
</tr>
<tr>
<td>Total comprehensive income for the period</td>
<td>641</td>
<td>2 909</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>691</td>
<td>2 665</td>
</tr>
<tr>
<td>Other comprehensive (losses)/income for the period</td>
<td>(50)</td>
<td>244</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(1 768)</td>
<td>(1 925)</td>
</tr>
<tr>
<td>Shares repurchased</td>
<td>(266)</td>
<td>(194)</td>
</tr>
<tr>
<td>Premium on shares issued in terms of the 1998 share option scheme</td>
<td>10</td>
<td>23</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>90</td>
<td>87</td>
</tr>
<tr>
<td>Acquisition of non-controlling interest</td>
<td>–</td>
<td>(2)</td>
</tr>
<tr>
<td>Release of cash flow hedging reserve on impairment of Office intangible assets</td>
<td>54</td>
<td>–</td>
</tr>
<tr>
<td>Movement in put option liability</td>
<td>268</td>
<td>11</td>
</tr>
<tr>
<td>Balance at the reporting date attributable to equity holders of the company</td>
<td>9 175</td>
<td>10 369</td>
</tr>
</tbody>
</table>

#### Comprising:
- Share capital and premium: **729** (807.4%)
- Treasury shares: **1 (291)** (1.083%)
- Retained earnings: **9 019** (10 932)
- Non-distributable reserves: **(92)** (228)
- **Total equity attributable to equity holders of the company**: 9 175 (10 369)

### SUMMARISED GROUP STATEMENTS OF CASH FLOWS

#### CASH Flows FROM OPERATING ACTIVITIES
- Cash flow from trading and cash EBITDA*: **2 930** (2 965)
- Working capital movements: (266) (122)
- Cash generated from operations: **2 664** (3 137)
- Interest and dividends received: **1 160** (1 433)
- Finance costs: **(77)** (234)
- Tax paid: **(968)** (855)
- Cash inflow from operations: **2 779** (2 477)
- Cash dividends paid: **1 768** (1 925)
- Net cash from operating activities: **1 013** (1 540)

#### CASH Flows FROM INVESTING ACTIVITIES
- Acquisition of property, plant, equipment and computer software: **(465)** (465)
- Loans advanced: **(24)** (24)
- Other investing activities: **20** (71)
- **Net cash used in investing activities**: **(465)** (621)

#### CASH Flows FROM FINANCING ACTIVITIES
- Proceeds on shares issued: **10** (23)
- Shares repurchased by subsidiaries: **(266)** (194)
- Borrowings repaid: **(422)** (2 079)
- Borrowings incurred: **–** (800)
- Other financing activities: **(6)** (9)
- **Net cash used in financing activities**: **(864)** (2 307)

#### Net decrease in cash and cash equivalents
- **(116)** (1 402)

**Key ratios**
- Cash flow per share: **649.8** (807.4)
- Cash equivalent earnings per share: **701.9** (738.3)
- Cash realisation rate: **93%** (109%

---

* Cash EBITDA is earnings before interest received, finance costs, tax, depreciation and amortisation.
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 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 emporia 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 enticing 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

Youthful women across all ages and lifestyles
Youthful men across all ages and lifestyles
Youthful women across all ages and lifestyles
Kids, toddlers and newborns

Supporting brands and ranges

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

Truworths Man, Uzzi, Daniel Hechter Mens, LTD Mens, Hemisphere, Hemisphere Sport, Studio, Trench, Moscow and Eastream

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%)
8% (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 Uzzi departments
44 Uzzi 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 INTERNATIONAL INTEGRATED REPORT 2019
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 sunglass brands. The merchandise appeals to youthful women, across broad lifestyle spectrums, who view jewellery and accessories 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 sunglass 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 footware.

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.

Forecasting Fashion Trends
The Truworths ladieswear and menswear Fashion Studios drive the merchandise planning 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.

MANAGING THE RISK OF FASHION

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.

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.

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.

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 dressing 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 into 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 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.

DIRECTLY AND INDIRECTLY IMPORTED PRODUCT ACCOUNTS FOR APPROXIMATELY 65% OF TOTAL MERCHANDISE ORDERS, WITH CHINA BEING THE MAIN SOURCE OF SUPPLY. HOWEVER, LOCALLY MANUFACTURED PRODUCT IS THE PREFERRED SOURCE OF SUPPLY Owing to its speed to market relative to offshore sourcing.

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 forming closer alliances with local suppliers, design houses and CMT services.

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.

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.

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.

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TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2019

MANAGING ACCOUNT RISK

<table>
<thead>
<tr>
<th>Account sales comprise</th>
<th>Record new account applications of</th>
<th>Active account base up 2.6% to 2.7 million</th>
<th>New account acceptance rate decreased to</th>
<th>Net bad debt to gross trade receivables decreased to</th>
<th>Doubtful debt allowance to gross trade receivables at</th>
<th>Lay-by payment option successfully introduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>70% of Truworths’ retail sales (2018: 69%)</td>
<td>2.8 million (2018: 2.1 million)</td>
<td>2.6% (2018: 2.6 million)</td>
<td>22% (2018: 25%)</td>
<td>13.3% (2018: 14.7%)</td>
<td>19.2%</td>
<td></td>
</tr>
</tbody>
</table>

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 debtors reduced from 14% to 13% and net bad debt as a percentage of account sales fell from 9.2% to 8.3%. Net bad debt as a percentage of gross trade receivables declined from 14.7% to 13.3%.

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 to open accounts, the primary driver of the increased demand for accounts is the strong demand for Truworths’ compelling merchandise offering.

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 49% 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.

Account sales contributed 70% (2018: 69%) of retail sales in Truworths and active account holders able to purchase were at 82% (2018: 84%) at the period-end. Overdue balances to the total debtors book were at 13% (2018: 14%).

During the reporting period the Group adopted the IFRS 9 accounting standard, with the most significant impact relating to the impairment of trade receivables based on a forward-looking expected credit loss model. The details on the implementation and impact of IFRS 9 are covered in the Chief Financial Officer’s Report on page 50. Shareholders should note that the adoption of IFRS 9 has not impacted the Group’s prudent account management practices and these will continue to be consistently applied as in the past.

The doubtful debt allowance to gross trade receivables increased marginally from 19.0% to 19.2%. Trade receivable costs, excluding the reclassification of interest received in respect of stage 3 trade receivables in terms of IFRS 9 of R106 million, increased 5.0% to R1 154 million (2018: R1 099 million), resulting from the increase in the quantum of the doubtful debt allowance under IFRS 9, partially off-set by a 6.1% decrease in net bad debt.

### Managing Account Risk

All account strategies across the portfolio, from new account acquisition to account limit management, as well as marketing and debt collection to bad debt recoveries, are subject to rigorous review. From this review, opportunities are identified where improvements can be made to the portfolio.

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.
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.

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.

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.

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

MANAGING RETAIL PRESENCE

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, some 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.

TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2019

Refer to Material issues, risks and opportunities on page 19 for more detail.
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.

EXPANDING KIDSWEAR OFFERING

Kidswear is a strategic growth opportunity for Truworths. A new boys and girls wear 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.

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.

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 stores, which will be located in better-end malls and exclusive smaller retail environments.

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.
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.

Industry performance

For the period under review, the industry performance was affected by the typical economic environments in which the South African and regional businesses operate.

- South Africa’s economic climate experienced a challenging trading environment (Real GDP growth registered 0.2% compared to 1.1% in 2018). A “no-deal” Brexit left uncertainty around trading relationships and could negatively impact growth in the UK and Europe, which account for about 15% of sales.
- Europe continues to experience a weak economic environment and inflationary pressures, particularly in Italy and southern Europe, with some positive signs in Germany.
- South Africa’s economy shows signs of recovery and growing at a rate of 2% in 2019 with higher consumer confidence and a stable rand.
- Africa’s economic environment remains challenging with countries experiencing slow growth and constrained currencies.

Despite these external influences, Truworths has continued to improve on its financial performance with a strong focus on its capital management strategy and have been central to guiding the business through the current challenging trading environment.

The sustained investment in people development, diversity and the percentage female employees and management.

In 2019, Truworths continued to improve benefits for longer-serving flexi-time employees and this year added a funeral cover benefit. Since introducing additional benefits for these longer-serving flexi-time employees in 2015, employee turnover in this category of employees has reduced from 54.1% to 48.2%. The average length of time employees have been absorbed into neighbouring stores. The one exception to this has been in Zambia where a store was closed and regrettable six staff members were retracted.

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 company-wide 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 see 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 were circulated by e-mail. 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 Nutidex.

Truworths’ BBBEE scorecard

<table>
<thead>
<tr>
<th>Level</th>
<th>Total points</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level</td>
<td>58.35</td>
<td>55.20</td>
<td></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 years. 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 Forum, the Truworths International Social and Ethics Committee and the Truworths 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 representation at senior levels and increasing broader participation of males at junior levels.

**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, 1,147 employees participated in 189 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 are 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 shortage areas such as fashion, design, retail and 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 2019, 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, learner training (resulting in a certificate in retail operations) as well as internships and bursaries.

**FREEedom 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 employees 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.
OPERATIONAL REVIEW: OFFICE

Leading brand portfolio
Managing the risk of fashion
Optimising supply chain efficiency
Managing retail presence
Human capital report
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.
MANAGING THE RISK OF FASHION

PREVENTING FASHION TRENDS

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 around the world. Suppliers are identified based on their ability to deliver exclusive desirable product at the best quality. The buyers and the design team select the supplier best suited to achieve the desired styling, while also meeting the required pricing, order flexibility and supply reliability. This approach is supported by regular factory visits by buying and design teams to ensure that supplier relationships are optimised, while understanding factory capabilities and refining the overall design process.

Office balances short lead-time product 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.

SUPERIOR QUALITY FASHION

Office is committed to providing customers with quality footwear. The buying and technical teams work closely with suppliers to ensure that Office’s product meets UK and European quality and testing standards. All Office merchandise is developed to a high standard, and is fitted in-house by the buying and technical teams to ensure that aesthetics, fit and comfort are all considered.

Regular visits by the buying and technical teams to factories keep quality standards high while ensuring factory conditions and ethical standards are met. Office is committed to providing customers with product which is manufactured ethically and fairly. Office requires all own-label suppliers to work within the parameters of its code of ethics and good business practice, which is designed to be fair, achievable and promotes the ongoing development of suppliers.

The code is based on internationally agreed standards including the Universal Declaration of Human Rights and the International Labour Organisation Conventions. The code’s general principles ensure that all people who are employed through Office’s suppliers must have decent working conditions, not be exploited and be treated fairly and with dignity. All product must be produced lawfully, through fair and honest dealings.

A formal statement from the board is published annually on the website in compliance with the UK Modern Slavery Act legislation at www.office.co.uk.

MANAGING THE RISK OF FASHION IN 2019

In the UK retailers have been aggressively discounting and promoting as a means of growing revenue and clearing stock. Office has been no exception, with its overstocked position, driven by weak trading and defensive stock buying ahead of the original March Brexit deadline, contributing to gross profit margin reductions of more than two percentage points during the period. To avoid this in future Office is committed to being a fashion setter, not follower and has been using its extensive experience and understanding of its customer to invest in ‘new’ brands, increasing the size of investments in best-selling brands while reducing exposure to commoditised brands. This is being helped by extensive third-party research conducted in the period on the Office customer.

Performance of made-to-order (MTO) product was disappointing in 2019, with this category contracting to 19% (2018: 23%) of retail sales. In response Office has refined its buying processes by reducing the number of styles to allow the team to focus on the detail of each product, separating Office from the rest of the high street.

Office is also focusing on growing its men’s own-brand offering. During the period Office’s merchandising philosophy was further aligned with that of Truworths as part of the trading alignment initiative to ensure that Office is able to trade into good sellers rather than having to trade out of poor sellers. The trading alignment initiative is overseen by Truworths and is a key element of the turnaround strategy. Through this initiative Office should see an increase in sales due to less substitution of full-price sales as well as an improvement in gross profit margin due to lower markdowns.

Office is uniquely positioned to collaborate with the brands that offer ‘in-demand’ product to achieve Office’s objectives whilst supporting the brands’ strategy. A leading brand is funding a number of Office’s marketing investments including its website, store, mobile app and social media presence in recognition of the role Office plays in their overall brand positioning strategy.
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 139 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 5.2%. 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 5.2%

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.

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.

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.

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.

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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.
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.

Both internal and brand-related training is offered via an e-learning platform. Employees are able to complete compulsory training such as General Data Protection Regulation, and health and safety training via this platform, as well as brand-related sales training, which is uploaded to the platform by the brands. The platform also enables Office to monitor that agreed training requirements are met. A total of 2 729 employees actively used this platform.

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.
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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>1 771 297</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 % of issued share capital</th>
<th>2018 % of issued share capital</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:
- In respect of the period ended 30 June 2019 (Dividend number 43): Dividend declared 15 August 2019; Dividend paid 16 September 2019
- For the period ended 29 December 2019 (Dividend number 44): Dividend declared 20 February 2020*; Dividend paid 16 March 2020*

* 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.