



TRUWORTHS

INTERNATIONAL

Truworths International Ltd
**REPORT ON CORPORATE
GOVERNANCE AND APPLICATION
OF KING IV PRINCIPLES**

2019

REPORT ON CORPORATE GOVERNANCE AND APPLICATION OF KING IV PRINCIPLES 2019

INTRODUCTION

During the 2019 reporting 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.

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. Accordingly governance in the Group is a strategic imperative and compliance with codes, legislation, regulations and listings requirements is the minimum requirement.

An independent assessment of the Group’s standard of governance is provided by the annual evaluation process for the FTSE4Good Index Series, concluded by FTSE/Russell, which relies on publicly available information. In the reporting period the Group again was a constituent company, attaining 5 out of 5 points (2018: 5 out of 5) for the corporate governance theme of the FTSE Environmental, Social and Governance (ESG) Ratings scorecard. The company was also a constituent member in the FTSE/JSE Responsible Investment Top 30 Index during the period.

The directors confirm that during the 2019 reporting period the Group has in all material respects voluntarily applied the 2016 King Code of Governance Principles (King IV) and complied with the mandatory corporate governance provisions in the JSE Listings Requirements. A narrative of how the Group has applied the King IV principles and complied with the JSE Listings Requirements is set out in this report.

The Group welcomes the move towards the outcomes-based approach to corporate governance adopted by King IV. While many changes to the Group’s governance processes have been brought about, the work involved to align the Group’s governance structures, policies and processes with the King IV-recommended practices is ongoing.

GOVERNANCE ADDING VALUE AT TRUWORTHS

The Group’s approach to corporate governance is to ensure it contributes to improved operational decision-making and corporate performance and reducing the risk of failure. The Group’s aim therefore is for the relevant governance policies, structures and processes, which 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, 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 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 improved corporate performance achieved through its sound governance framework has created 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 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 | GOVERNANCE DEVELOPMENT |
|---|---|
| Social and Ethics Committee | 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. |
| Directors | 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. |
| Senior management appointments | 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. |
| Non-executive director independence assessment | 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. |
| Risk governance | 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. |
| Board committees | 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. |
| Board race diversity policy | The board commenced the implementation of its race diversity policy at board level towards the adoption of its medium-term target of 30% black representation. |
| Risk governance in Office | The risk management process in the Office segment has been refocused to ensure improved alignment with Truworths’ key operational processes. |
| Corporate social investment | 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. |
| Information technology (IT) governance | 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. |
| Supplier codes of conduct | 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. |
| Credit legislation compliance | Management has reviewed its processes in response to new credit legislation regarding debt relief and has commenced the implementation of policies and processes to mitigate the associated risks. |
| Tax risk governance | 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. |
| Sustainability reporting | The Group’s reporting on ESG initiatives was further improved through the revision of the content and comprehensiveness of its Social and Environmental Report. |
| Remuneration policies | The board engaged PricewaterhouseCoopers (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. |

REPORT ON CORPORATE GOVERNANCE AND APPLICATION OF KING IV PRINCIPLES 2019 continued

BOARD OF DIRECTORS

Board structure

The board functions in terms of a written charter and the complementary roles and responsibilities of the boards of Truworths International, the JSE and NSX-listed investment holding and management company, and its South African and United Kingdom retailing subsidiaries, Truworths Ltd (Truworths) and Office Holdings Ltd (Office), are formally documented.

The Truworths International board provides direction and leadership to the Group and is ultimately accountable for the overall governance, performance, strategy and affairs of the Group.

Operational responsibility for the Group's Truworths and Office businesses has been delegated to the Truworths and Office boards respectively, which boards are accountable for the ongoing management of these businesses.

Board composition

The Group has a unitary board structure with eight (2018: eight) non-executive directors and four (2018: three) full-time salaried executive directors at the date of this report. Ms Cindy Hess and Ms Sarah Proudfoot were appointed to the board as an independent non-executive director and an executive director respectively during the period. Dr Thandi Ndlovu, an independent non-executive director, passed away tragically on 24 August 2019.

The roles of the independent non-executive Chairman and the Chief Executive Officer are fulfilled by separate persons and are clearly defined. This division of responsibilities ensures a balance of authority and power, with no individual director having unrestricted decision-making authority.

Biographical details of the directors appear on page 31 of the 2019 Integrated Report.

Board appointments

Directors are appointed by the board in a formal and transparent manner. The Nomination Committee, in consultation with the Chief Executive Officer, considers suitable candidates and nominates persons for appointment as directors to the board of Truworths International, as well as to the boards of Truworths and Office, taking into account the skills set and diversity of current board members and business requirements.

One-third of the company's directors, both executive and non-executive, are required to retire by rotation at the annual general meeting (AGM) of shareholders. Retiring directors may offer

themselves for re-election. Directors appointed during the period are required to have their appointments ratified at the following AGM. Details of these directors are given in the Notice of the AGM and included in the Preliminary Report posted to shareholders and published on the website www.truworthsinternational.com.

Directors generally have no fixed term of appointment. The contract of the Chief Executive Officer, Michael Mark is subject to a six-month notice period by either party. The salient features of this contract are disclosed in note 30.1 of the Group Audited Annual Financial Statements 2019.

Executive directors ordinarily retire at the age of 60 unless contracts have been negotiated with the board beyond this age. There is no prescribed retirement age for non-executive directors.

Director independence

All non-executive directors, including the Chairman, are independent in terms of the King IV definition and the guidelines outlined in the JSE Listings Requirements.

The independence of all, particularly long-serving, non-executive directors was formally assessed by the board during the reporting period, as recommended by King IV. Based on this assessment, which is based on regulatory requirements and guidelines relating to independence, the board confirms that all non-executive directors are correctly categorised as independent.

The board notes that the qualifications, experience, personal characteristics and integrity of the independent non-executive directors, together with the facts that they:

- have no contractual, consulting or family relationships with the Group;
- are not representatives of any major institutional shareholders of the company;
- are not financially dependent on the fees they earn as non-executive directors;
- are not participants in the Group's share and other incentive schemes; and
- are not involved in external charities that benefit from donations by the Group,

and other relevant considerations, ensure that their judgement in relation to Group matters is exercised independently and in an unfettered manner.

Board and director evaluations

An annual evaluation is conducted to assess the effectiveness of the board as a unit and the individual contributions of the directors. The Chairman discusses results of the evaluations with the directors individually and agrees suitable developmental plans, where necessary. The results of the evaluation of the Chief Executive Officer are distributed to all board members and considered by them. The evaluation assesses effectiveness as regards:

- fulfilment of the board's role and responsibilities;
- the board's composition, size and independence;
- director orientation and development;
- board leadership, teamwork and relationships with management;
- board and committee meeting productivity;
- director evaluation and compensation;
- succession planning;
- ethical leadership and culture; and
- stakeholder engagement.

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 while 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 regard 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

The board will focus on the following priorities in the 2020 financial 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.

REPORT ON CORPORATE GOVERNANCE AND APPLICATION OF KING IV PRINCIPLES 2019 continued

Board committee evaluations

In the past formal evaluations were conducted periodically on each of the board committees to assess their effectiveness. These evaluations now take place annually, as recommended by King IV, to enable a summary of the assessments to be included in the Integrated Report.

The evaluations overall reflect an improved level compared to the previous financial period and reports conclude that committees are functioning well overall and meeting the objectives of their respective charters.

The specific focus areas for each committee are as follows:

Nomination Committee

- Overall the functioning of this committee has been rated as improved.
- Increased focus on enhancing the process of reviewing progress to achieving goals.

Risk Committee

- Functioning of this committee was well rated particularly with regard to ethics, compliance to standards and the development of objectives that respond to the Group's specific needs.
- Leadership, the proportion of non-executive to executive representation and good clarity around the committee's role was highly rated by the committee.
- More defined and communicated expectations concerning member responsibilities was seen as an opportunity to further refine the committee's effectiveness.

Remuneration Committee

- The functioning of this committee has improved overall with the committee being seen as highly functioning particularly with regard to seeking outside advice, meeting productivity, ethical behaviour, implementation of executive remuneration and incentive reward schemes and a culture of open and frank discussion.
- The committee's functioning and team effectiveness is regarded as highly effective overall. To further strengthen the committee there is an opportunity to further enhance best practices in leadership, teamwork and management relations.
- Members feel there is an opportunity for a greater focus on communication with external stakeholders regarding remuneration policies and developments (both local and international) relating to executive compensation.

Audit Committee

- This committee continued to be viewed as a well-functioning committee focused on compliance, productivity, communication and the management of meetings.

- There is an opportunity to more clearly define members' responsibilities.
- An ongoing area of focus is to ensure that performance benchmarks are well communicated and that there is a credible process in place for reviewing the committee's progress in meeting goals.

Social and Ethics Committee

- The board continues to be satisfied that the committee is sufficiently independent, seeks outside advice where appropriate, effectively identifies priorities, maintains high levels of ethics and that the structure and composition is appropriate.
- The committee needs to ensure it continues to prioritise issues of significant social and ethics-related matters.

Chief Financial Officer evaluation

Based on a formal written evaluation conducted at the end of the reporting period, the Audit Committee is satisfied that the expertise and experience of the Chief Financial Officer, who is an executive director of the company, is appropriate to meet the responsibilities of the position.

Company Secretary

The Company Secretary works to ensure that board and committee procedures and charters, and relevant legislation and regulation are observed, and is responsible for preparing meeting agendas and recording minutes. The Company Secretary also provides guidance to directors on governance, compliance and fiduciary responsibilities.

Based on the outcome of a formal written assessment conducted by the Chairman, Chief Executive Officer, Chief Financial Officer and Audit Committee chairman, the board is of the opinion that the Company Secretary possesses the requisite competence, knowledge and experience to carry out the duties of a secretary of a public company. In line with the principles of King IV, the Company Secretary is not a director of the company and in the view of the directors is suitably independent of the board to be an effective steward of the Group's corporate governance programme.

Finance function assessment

During the reporting period the Audit Committee conducted a formal assessment regarding the expertise, resources and experience of the Group's finance functions within both the Truworths and Office businesses.

Based on a consideration of the qualifications, participation in continuing professional education and the nature, duration and relevance of the experience of key managers in the Group's finance departments, as well as a review of the staff complement, functional responsibilities and information systems of the departments,

the Audit Committee is satisfied as to the appropriateness of the collective expertise and experience of the Group's finance function and the adequacy of its human and technological resources. The Audit Committee was further satisfied that the Group has established sound financial reporting procedures and that such procedures operated as intended during the reporting period.

Board gender diversity

During the 2017 reporting period the voluntary target set by the board was that at least 10% of the board of the company should comprise females in the short term, and that at least 30% of the board of the company should comprise females in the medium term.

At the end of the reporting period the board comprised 31% female members. The untimely passing of Dr Thandi Ndlovu since the reporting period-end has reduced the level of board female representation to 25% and will require the board to consider further board appointments during the 2020 period.

Board race diversity policy

During the prior reporting period the board formulated and adopted a race diversity policy to inform the composition of the board. Salient features of this policy are that:

- the company supports the principles and aims of racial diversity at board level, believing that such diversity will enhance decision-making by the board, will promote the empowerment of black South Africans and will strengthen the representation of the company's leadership;
- the voluntary target set by the board is that at least 10% of the board should comprise black directors in the short term and 30% in the medium term; and
- the Nomination Committee will annually review the voluntary target, measure the actual black director representation on the board against the voluntary target, and make recommendations in relation to the development and promotion of black executives within the businesses of the Group with a view to their qualifying to become potential board candidates.

At the end of the reporting period the board comprised 23% black directors. Following the passing of Dr Thandi Ndlovu, two of twelve, or 17%, of the board members were black and hence the company has achieved its short-term target for race diversity.

Board and committee meeting attendance

| | STATUS | BOARD | AUDIT COMMITTEE | REMUNERATION COMMITTEE | RISK COMMITTEE | NOMINATION COMMITTEE | SOCIAL AND ETHICS COMMITTEE | ANNUAL GENERAL MEETING |
|-------------------|--------|------------------|------------------|------------------------|------------------|----------------------|-----------------------------|------------------------|
| Hilton Saven | I | 4/4 [#] | | 5/5 | 4/4 | 4/4 [#] | | 1/1 |
| Rob Dow | I | 4/4 | 3/3 | 5/5 [#] | | 4/4 | | 1/1 |
| Michael Thompson | I | 4/4 | 2/3 | | 4/4 | 4/4 | 4/4 [#] | 1/1 |
| Thandi Ndlovu | I | 4/4 | | | | 4/4 | 4/4 | 1/1 |
| Tony Taylor | I | 4/4 | | 4/5 | | 4/4 | | 1/1 |
| Roddy Sparks | I | 4/4 | 3/3 [#] | | 3/4 | 4/4 | | 1/1 |
| Hans Hawinkels | I | 4/4 | | | | 4/4 | | 1/1 |
| Maya Makanjee | I | 4/4 | | | | 4/4 | | 1/1 |
| Cindy Hess* | I | 1/1 | | | | 1/1 | | |
| Michael Mark | E | 4/4 | | | 3/4 [#] | | | 1/1 |
| David Pfaff | E | 4/4 | | | 4/4 | | 4/4 | 1/1 |
| Doug Dare | E | 4/4 | | | | | | 1/1 |
| Sarah Proudfoot* | E | 1/1 | | | | | | |
| % attendance 2019 | | 100 | 89 | 93 | 90 | 100 | 100 | |
| % attendance 2018 | | 100 | 100 | 100 | 100 | 100 | 100 | |

[#] = Chairman E = Executive I = Independent non-executive * = Appointed May 2019

REPORT ON CORPORATE GOVERNANCE AND APPLICATION OF KING IV PRINCIPLES 2019 continued

BOARD COMMITTEES

The directors have delegated specific responsibilities to committees to assist the board in meeting its oversight responsibilities. The committees, which operate in terms of written charters and whose chairmen report at each board meeting, are as follows:

| | Truworths International Audit Committee | Truworths International Remuneration Committee | Truworths International Nomination Committee | Truworths International Social and Ethics Committee | Truworths International Risk Committee | Other committees and forums |
|----------------------------------|---|---|---|--|---|--|
| OBJECTIVES AND FUNCTIONS | <p>Information on the Audit Committee is included in the Audit Committee Report, which has been incorporated in the Group's Audited Annual Financial Statements as required by the Companies Act. The Audit Committee:</p> <ul style="list-style-type: none"> • Aims to ensure the maintenance of adequate accounting records and the establishment of effective financial reporting and internal control systems. • Aims to ensure compliance of published financial reports with relevant legislation, reporting standards and good governance. • Aims to ensure Group assets are appropriately safeguarded. • Has oversight of fraud and information technology. • Confirms the nomination and appointment of the external auditor, ensuring such appointment is legislatively compliant. • Approves the terms of engagement and fees paid to the external auditor. • Assesses the independence of the external auditor and its suitability for re-appointment, taking into account the findings of technical reviews conducted by IRBA, the audit profession regulator. • Defines and considers the non-audit services that may be rendered by the external auditor. • Considers the findings arising from the annual financial statements audit. • Monitors the functioning and approves the coverage plan of internal audit. • Reviews risk and tax management programmes and initiatives. • Fulfils the function of Audit Committee to Group subsidiaries and charitable trusts. • Reviews the expertise, resources and experience of the Group's finance function and the expertise and experience of the Chief Financial Officer. • Recommends to the board the approval of the Integrated Report, Audited Annual Financial Statements, Preliminary Report and Interim Report. | <ul style="list-style-type: none"> • Ensures senior executives and non-executives are rewarded in accordance with the Group's compensation objectives, with particular attention to retention, performance and international practice. • Advises, recommends and reviews reward strategies and policies, including evaluation methodologies. • Determines the remuneration packages of executive directors and non-executive directors to support the Group's strategic objectives. • Reviews and approves compensation of executive and non-executive directors and senior executives. • Approves awards under share and cash incentive plans. • Ensures alignment of the compensation and incentive plans with the Group's business strategies and values. • Reviews and approves the Group's remuneration policy and implementation report for publication. | <ul style="list-style-type: none"> • Ensures succession plans are in place for the Chief Executive Officer and other key executives. • Implements key appointments such as Chairman, Chief Executive Officer and senior executives. • Considers any strategic or sensitive matters delegated to the committee by the board. • Identifies and nominates persons for appointment as directors of the company. | <ul style="list-style-type: none"> • Monitors activities in relation to social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships, and labour and employment. • Makes recommendations to and brings matters to the attention of the board in relation to these activities. • Reports to shareholders at the company's annual general meeting in relation to such activities. | <ul style="list-style-type: none"> • Identifies, assesses, mitigates and manages significant risks facing the Group. • Develops risk management mechanisms which demonstrably enable dynamic risk identification, mitigation and communication, as well as business continuity. • Maintains functionally effective systems of internal control which are designed to safeguard Group assets and investments and support business sustainability. • Monitors and assesses key risk areas and key performance indicators regularly, including reviewing and updating the Group's register and matrix of top risks. • Ensures that management maintains a comprehensive register of the risks facing the Group, reflecting the risk owners and the controls implemented to mitigate or transfer such risks. • Monitors the Group's initiatives and programmes in relation to information technology governance and information security. | <p>Within the Group, in both the Truworths and Office businesses, are a number of standing committees and forums whose function is to ensure high levels of governance in relation to their specific areas of mandate. All such structures are constituted by written charters, are responsible for reporting on their activities and decisions either directly or indirectly to the boards of the Group's two principal operating subsidiaries, namely Truworths and Office, and whose composition is determined by the boards of these companies.</p> <p>Included in these committees and forums are:</p> <ul style="list-style-type: none"> Truworths Sustainability Committee Truworths Transformation Committee Office Risk Committee Office Audit Committee Office Remuneration Committee Truworths Tender and Capital Expenditure Committee Office Tender and Capital Expenditure Committee Truworths Change Control Committee Office Change Control Committee Truworths Compliance Committee Truworths Accounting Forum Truworths Tax Forum Truworths Investment Committee <p>These committees and forums add value and integrity to the Group's operational decision-making, given that they have narrowly prescribed terms of reference, are able to focus on specialist topics, and are constituted in the main by divisional directors and executives in the Group.</p> |
| COMPOSITION AND EXPERTISE | <p>Chairman: Roddy Sparks</p> <p>Other committee members:</p> <p>Two independent non-executive directors</p> <p>The board Chairman, Chief Financial Officer, Company Secretary, Divisional Director Internal Audit, Governance and Risk, IT Audit Manager, Finance Divisional Manager and external audit partner and associate director attend committee meetings by invitation.</p> <p>The Company Secretary acts as the committee secretary.</p> <p>All committee members hold recognised financial or business degrees or diplomas, and are either professionally qualified chartered accountants or masters in business administration. In view of their qualifications and vast experience they are considered to have the financial expertise necessary to fulfil the responsibilities of an audit committee member.</p> | <p>Chairman: Rob Dow</p> <p>Other committee members:</p> <p>Two independent non-executive directors</p> <p>The Chief Executive Officer attends by invitation and recuses himself when matters relating to his own remuneration are discussed or when required to do so by the chairman.</p> <p>The Group's remuneration policy and implementation report are disclosed in the Remuneration Committee Report in the Integrated Report.</p> <p>The Truworths Remuneration Manager acts as the committee secretary.</p> | <p>Chairman: Hilton Saven</p> <p>Other committee members:</p> <p>Two independent non-executive directors</p> <p>The Chief Executive Officer attends by invitation.</p> | <p>Chairman: Michael Thompson</p> <p>Other committee members:</p> <p>One independent non-executive director</p> <p>One executive director</p> <p>The chairpersons of the Truworths Transformation and Sustainability Committees, the Company Secretary and the Legal Adviser (who acts as the committee secretary) attend meetings as invitees.</p> | <p>Chairman: Michael Mark</p> <p>Other committee members:</p> <p>Three independent non-executive directors</p> <p>One executive director</p> <p>Certain divisional directors and executives attend and make presentations at committee meetings as invitees.</p> <p>The Company Secretary acts as the committee secretary.</p> | |

REPORT ON CORPORATE GOVERNANCE AND APPLICATION OF KING IV PRINCIPLES 2019 continued

ACCOUNTABILITY AND COMPLIANCE**Risk management**

Risk governance and management are integral elements of the Group's corporate governance framework.

These elements aim to ensure business specific operational and strategic risks, emerging risks, as well as risks posed by the external environment, are adequately and timeously identified and mitigated. The board confirms that the Group's risk management, mitigation and monitoring processes have been effective in limiting the impact of risks on the business during the period.

An enterprise-wide risk management approach, based on the King IV principles, aims to ensure that all areas of the business are aligned with the Group's risk management philosophy and strategy.

The overall risk profile of the Group has not changed materially in the period under review. The key risks facing the Group in 2020, together with mitigation strategies, are covered in the Material Issues, Risks and Opportunities section of the 2019 Integrated Report.

Internal and external audit

Details of the internal audit function and systems of internal control, as well as the external audit function, are covered in the Audit Committee Report in the Group Audited Annual Financial Statements 2019, available at www.truworthsinternational.com.

While the Truworths business maintains a full internal audit team for both head office and store audits, this newly established function for the Office business was outsourced to a professional audit firm during the reporting period.

These internal audit functions report directly to the Truworths Audit Committee and the Office Audit Committee respectively on proposed upcoming and planned investigations as well as results and findings from completed audits.

EXTERNAL AUDITOR ROTATION

The board notes the introduction of mandatory external auditor rotation in South Africa in 2023. Ernst & Young (EY) and its predecessor firms has been the Group's external auditor since 1975, while PwC audits the entities constituting the Office business.

The Audit Committee envisages a tender process with a view to a change in external auditor comfortably ahead of the effective date of mandatory audit firm rotation.

The Audit Committee remains satisfied with the ongoing independence, impartiality, competence, resources, service levels and objectivity of EY and notes the additional independence that results from PwC's engagement on the Office audit. The high levels of financial reporting maintained by the Group over an extended period, as evidenced by awards received, and the Group's robust internal control environment, further indicate that the audit process and the assurance it provides remain sound.

Personal share dealings

Directors and employees are prohibited from dealing in the company's shares during two formal closed periods, as well as during other periods declared as being prohibited periods by the board. The closed periods commence approximately two weeks before the end of the interim (December) and annual (June) financial periods and end 24 hours after the financial results are disclosed on the Stock Exchange News Service (SENS). All share dealings by directors, executives, the Company Secretary and other designated persons in possession of price-sensitive information, are governed by the Group's share dealing code and require prior written clearance by the Chief Executive Officer or Chairman. The share dealings of company directors, the Company Secretary and directors of major subsidiaries are announced on SENS in accordance with the JSE Listings Requirements.

INFORMATION TECHNOLOGY GOVERNANCE

The monitoring of information technology (IT) governance remains a responsibility of a number of forums within the Group, including the Truworths and Office Audit Committees and Risk Committees:

- The Audit Committee considers the efficacy of IT controls, policies and processes in so far as these might pose a risk to the financial reporting process, and the effectiveness of financial controls; and
- The Risk Committee monitors management's initiatives to ensure that IT risks, including emerging cybersecurity risks, are managed appropriately so as not to pose a threat to the continuity of the Group's operations.

LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP**Ethics**

The board leads the Group and directs its activities with integrity, by the tone it sets through its actions, decisions, policies and codes, the culture it instils and the example of its directors, thereby demonstrating transparency, accountability, fairness, honesty and responsiveness to stakeholders.

The Group's Values are core to its Business Philosophy and guide the way the Group conducts its business and interacts with all stakeholders. A Business Ethics and Integrity Code was issued during the reporting period and details the Group's code of ethical and acceptable conduct, with the Values supporting all aspects of this Code. This Code has been communicated to employees, and has been published at www.truworthsinternational.com.

The board has endorsed the Business Ethics and Integrity Code, as well as the Group's business philosophies for its Truworths and Office segments. The board has also endorsed the Group's ethical values, codes of conduct and disciplinary policies developed by management, monitoring the application and effectiveness thereof through the Social and Ethics Committee.

During the period some incidents of non-compliance by employees with the Group's Business Ethics and Integrity Code were reported and dealt with in terms of the Group's disciplinary procedures. These resulted in formal warnings and in serious instances gave rise to dismissal from employment and cases being reported to the relevant national police service.

Leadership

The board leads the Group effectively:

- by understanding the purpose of the Group's business, the industry in which it operates and the Group's local and international competitors, the resources and capital at its disposal, the environmental, social, governance and regulatory framework in which it operates, and the major risks faced by the Group's business segments;
- by ensuring its members have the requisite skills, experience and diversity, and are appropriately exposed to different facets of the Group's operations; and
- by requiring board members to avoid or disclose conflicts of interest, act with care and diligence, and take steps to prepare suitably for and be engaged at board meetings.

Corporate citizenship

The board ensures through its Social and Ethics Committee that the Group conducts its affairs in a manner that takes into account the realistic expectations of its stakeholders, and is sensitive to the Group's social, economic and environmental impacts, and ensures that it reports on its material initiatives in regard to good corporate citizenship in its Human Capital Report (included in its Integrated Report), as well as in its Social and Environmental Report.

These reports provide detail on the Group's environmental and social initiatives and how these are monitored, including upholding of human rights, corporate social investment, prevention of fraud, corruption and bribery, consumer protection, environmental sustainability measures, employment equity, transformation, skills development, fair labour practices, occupational health and safety, etc.

The Group's Social and Environmental Report 2019 and the Social and Ethics Committee Report 2019 are available at www.truworthsinternational.com.

WHISTLE - BLOWING

King IV requires companies to apply mechanisms to combat theft, fraud and other unethical practices. The Group has an ethics hotline in each of its Truworths and Office segments, and these are managed in partnership with an external service provider.

Truworths

Employees are eligible for an award of up to R5 000 for reporting unethical behaviour to the hotline that leads to the prosecution and/or dismissal of the perpetrator. In 2019 three awards were made (2018: six). A total of 93 reports was received in 2019 (2018: 141).

Office

No awards are paid for reporting unethical behaviour. A total of five reports was received in 2019 (2018: four).

REPORT ON CORPORATE GOVERNANCE AND APPLICATION OF KING IV PRINCIPLES 2019 continued

COMPLIANCE GOVERNANCE

The board has determined that compliance with laws is the minimum standard of conduct, is made aware of applicable laws and regulations, and voluntary codes by the Company Secretary, and monitors compliance/adherence through the Audit Committee which receives reports from the Internal Audit department following its annual legislative compliance audit.

The board is made aware of applicable legislation and codes through the legislation updates and presentations made at each board meeting by the Company Secretary, and through material on relevant topics that is distributed to directors from time to time. Through presentations made by management at meetings of the committees of the board the directors are further exposed to the impact of key legislation on the Group's business.

Compliance risk is a key area of focus of the Group's risk management programme, and business unit heads actively consider regulatory compliance when compiling and annually reviewing the risk registers for their business units.

The board has tasked the boards of its principal operating subsidiaries, Truworths Ltd and Office Holdings Ltd, with the design and implementation of an effective compliance framework, key elements of which include the appointment and work of the Group's Compliance Officer, the establishment, activities and reporting of the Compliance Committee, the establishment of project teams to ensure compliance with material new legislation, and the work of the Company Secretary in making management aware of relevant legislation.

The Group had no instances of material non-compliance with legislation during the reporting period. No material fines or penalties were incurred, nor were there any instances of prosecution of Group companies or their directors/officers for failure to comply with any applicable legislation or regulation.

COMPETITIVE CONDUCT

The Group operates in a highly competitive industry which has relatively low barriers to entry, a multitude of customers and has recently witnessed the entry of a number of international apparel retailers into South Africa, as well as increased competition from operators in the informal and semi-formal sectors. As the Group strives to be the retailer of choice in its market segment, it is highly protective of confidential information, trade secrets, methodologies and supplier networks.

Interaction with other retailers is therefore generally restricted to forums in which co-operation at an industry level is necessary for the purposes of making representations to government, or for the sharing of information and ideas about issues facing the industry at large. Such forums typically have a public profile, are open to membership by any retailer and conduct their activities in a transparent manner in the form of non-profit organisations governed by written constitutions.

The Group is a founding member of the National Clothing Retail Federation of South Africa (NCRF). The constitution of this body specifically provides that the principle of competition shall not be compromised through their activities. Consequently no sharing of information or co-operation in any form that could lessen the ability of retailers to compete with one another is permitted.

The board is satisfied that the Group has not entered into any arrangements with competitors that unlawfully restrict competition or could be said to constitute collusion, and is confident that it has not entered into any arrangements which could be prohibited by the Competition Act of South Africa. All South African business acquisitions undertaken by the Group have been approved by the Competition Commission in South Africa. No fines or prosecutions have been incurred by the Group for anti-competitive practices or non-compliance with that Act, nor has the Group been the subject of any enquiries or investigations by the competition authorities during the period.

ANTI-BRIBERY AND CORRUPTION

The boards of Truworths and Office have adopted and have oversight of the anti-bribery and corruption policy that is applicable to and has been communicated to all employees. The policy deals, inter alia, with bribery, embezzlement, fraud, extortion, abuse of power, conflicts of interest and abuse of confidential information. The policy is supported by various avenues to report issues, including line management, the whistle-blowing hotline and the online facility whereby incidents can be reported anonymously directly to the CEO. Furthermore, a fraud response action plan has been adopted by the board to provide guidance to management as to the actions to be taken when incidents of fraud have been alleged or detected.

Political contributions or donations to political parties are not permitted by the Group. No reports of corruption or bribery involving the Group were received during the period, neither were any fines or penalties imposed on the Group by government authorities in relation to corruption or bribery.

During a prior reporting period the Truworths business updated its Codes of Conduct for local and foreign suppliers to further underscore that the Group had a policy of zero tolerance towards bribery and corruption, and that involvement in such practices was grounds for termination of contractual relationships with such suppliers.

2018 AGM VOTING RESULTS

At the AGM of the company's shareholders held on 24 October 2018, all the ordinary and special resolutions, as set out in the notice of the AGM were approved by the requisite majority of shareholders. The required special resolutions were not required to be lodged with the Companies and Intellectual Property Commission.

The shares in issue eligible to vote at the AGM were 428 669 230 (2017: 429 779 470) (voteable shares). This number was calculated as the total number of the company's shares in issue, less treasury shares as defined in the JSE Listings Requirements.

The number of shares represented at the AGM either by shareholders personally present, or through letters of representation and by proxy, was 345 517 275 (2017: 254 040 161) representing 81% (2017: 59%) of the voteable shares.

The votes cast in favour of the resolutions ranged from 75% to 100% (2017: 87% to 100%), as reflected in the announcement published on the JSE's news service, SENS, on the date of the AGM.

STAKEHOLDER RELATIONSHIPS

The board recognises that perceptions of its key stakeholders can impact on the Group's reputation and encourages management to engage meaningfully with such stakeholders with a view to upholding the Group's reputation.

The board has tasked management with the responsibility of engaging with the Group's key stakeholders, being customers, shareholders and employees, as well as suppliers, regulators and community organisations, of devising suitable forums and communication channels for such interaction and of responding appropriately following such engagements, in the interests of the Group.

The board aims to ensure that the interests of the Group's different stakeholders are suitably considered and appropriately balanced, with a view to ensuring the Group's relevance and sustainability.

The board ensures all shareholders are treated in a fair manner, through the public dissemination of price-sensitive information, its transparent financial reporting and announcements, its dividend policy and its encouragement of shareholder involvement at meetings.

The board and management work to ensure that communication with the Group's stakeholders is frequent, substantive, transparent and credible, recognising that such communication leads to trust and mutual respect and helps to ensure the sustainability of the Group.

The board encourages management to resolve disputes with customers, suppliers, employees and regulators in an effective and reasonable manner and in appropriate forums, including alternative dispute resolution mechanisms, having due regard for contractual and legislative obligations and the best interests of the Group.

Details on stakeholder engagement are provided in the Building Quality Stakeholder Relationships report on page 24 in the Group's 2019 Integrated Report, available at www.truworthisinternational.com.

REMUNERATION GOVERNANCE

Information relating to Remuneration Governance is provided in the Remuneration Committee Report as well as in the Human Capital Report, which are both incorporated in the Group's 2019 Integrated Report available at www.truworthisinternational.com.

2020 GOVERNANCE PRIORITIES

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.
- 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.



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