



TRUWORTHS
INTERNATIONAL

CORPORATE GOVERNANCE
REPORT 2013

Corporate Governance Report

Truworths International continues to apply high corporate governance standards aimed at ensuring the ongoing sustainability of the business, the creation of long-term shareholder value and that other stakeholders benefit from the Group's ongoing success.

The Truworths International board is responsible for ensuring that the Group has a clearly defined governance and compliance framework. The board is primarily accountable to shareholders, while also considering the interests of other stakeholders such as customers, employees, suppliers, regulators and community organisations.

In an environment of increasing volume and complexity of regulation, management aims to achieve a balance between the governance expectations of investors and other stakeholders, and the need to generate competitive financial returns.

Governance in the Group extends beyond the minimum requirement of compliance with codes, legislation, regulations and listings requirements. Management adheres to sound corporate governance principles and aims to create a culture of good governance across the business, ensuring that the culture 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 JSE Socially Responsible Investment (SRI) Index. In the 2012 calendar year the Group once again qualified for inclusion in the Index, and attained 100% (2011: 100%) for the core governance element of the SRI scorecard.

Application of King III principles

The directors confirm that during the 2013 financial period the Group has in all material respects voluntarily applied the 2009 King Code of Governance Principles (King III) and complied with the mandatory corporate governance provisions in the JSE Listings Requirements. A schedule of how the Group has applied the King III principles is available on www.truworths.co.za.

Governance developments in 2013

While the board believes the Group has achieved a suitable level of maturity in relation to governance, its processes, policies and structures are continually reviewed and modified to align with internal requirements and with the aim of ensuring ongoing adherence with legislation, regulation and best governance practices. The following enhancements were made to the Group's governance framework during the year:

Governance element	Governance development
Social and Ethics Committee	The committee has developed and refined its working methodology, and improved and expanded its monitoring role relating to transformation, skills development, environmental sustainability and customer relations.
Audit Committee	The committee's workings have been enhanced through improved reporting by management on risk management, tax compliance and information security, as well as by more substantive interrogation of accounting provisions and allowances where management's judgement has been exercised.
Memorandum of incorporation (MOI)	The company's MOI was amended in response to shareholder feedback regarding the rotation of executive directors, and subsequently adopted by shareholders at the AGM in November 2012. The MOI's of the Group's South African operating subsidiaries were amended to align with the Companies Act, were approved by special resolution of the Group holding companies and submitted to the Companies and Intellectual Property Commission (CIPC) for registration.

Governance element	Governance development
Companies Act compliance	<p>Compliance with the Companies Act was further enhanced in terms of:</p> <ul style="list-style-type: none"> • Revised shareholder and board approval processes for intra-group loans to related parties • Formal consideration of the solvency and liquidity tests ahead of dividend declarations and share buy-backs by Group companies • Submission of annual returns accompanied by annual financial statements to CIPC.
Risk governance	<p>Improved reporting by the chairman of the Risk Committee to the board of the company, the Audit Committee and to the board of Truworths Ltd so as to present a more comprehensive and detailed view of risk management activity. Presentation to and consideration by the Risk Committee of Group financial key performance indicators (KPIs) that constitute the Group's risk dashboard.</p>
Information technology (IT) governance	<p>Consolidation and enhancement of IT governance processes, including the introduction of an IT governance scorecard, the involvement of the IT audit manager in promoting and monitoring IT governance, and the inclusion of IT governance as a permanent item on the agendas for the Risk Committee, Audit Committee and Truworths Ltd board meetings.</p>
Director education and development	<p>Adoption and implementation of a more structured and formalised process for making ongoing management presentations at board meetings to foster a broader understanding of the Group's operations and key projects.</p>
Company secretary	<p>Evaluation framework and process implemented and assessment conducted as to the independence, experience, competence and qualifications of the company secretary, as required by the JSE Listings Requirements.</p>
Internal audit	<p>Resources of the internal audit department were reviewed owing to the Group's recent expansion and management decisions were taken to increase the headcount of store auditors and supplement the head office and IT technical audit resources.</p>
Consumer legislation compliance	<p>Management considered, made submissions to regulators on and planned to deal with various items of legislative and regulatory change. These include changes and proposed amendments to the National Credit Act and codes of conduct and affordability assessment guidelines applicable to the credit providers industry; the proposed code of conduct in terms of the Consumer Protection Act for the consumer goods and services industry; and the information privacy and security provisions of the Protection of Personal Information Bill.</p>
Environmental sustainability	<p>Management's interventions aimed at reducing the environmental impact, in the form of carbon emissions from electricity usage, of the Group's operations gained further momentum with the completion of the head office lighting project, the completion of the pilot phase and viability study for the store re-lamping project, and the introduction of the smart shipping programme aimed at reducing carbon emissions from merchandise freighting activities.</p>
Chief Executive Officer (CEO)	<p>The service contract of the CEO, Michael Mark, was extended by a further two years to 30 June 2015.</p>
Chief Financial Officer (CFO)	<p>David Pfaff was appointed CFO Designate with effect from 15 April 2013 following the resignation of the incumbent CFO, Mark Sardi, and was appointed CFO with effect from 1 September 2013.</p>
Director independence	<p>The independence of long-serving non-executive directors was reviewed, as proposed by King III. All non-executive directors are considered to be independent. Tony Taylor, a non-executive director, was reclassified as an independent non-executive director with effect from 1 April 2013, three years after retiring as an executive director of the Group.</p>
Risk Committee	<p>The charter of the Risk Committee was amended to align with its amended composition, meeting frequency and mandate.</p>

Corporate Governance Report (continued)

Board of directors

Board structure

The complementary roles and responsibilities of the boards of Truworths International, the listed investment holding and management company, and its wholly-owned retailing subsidiary, Truworths Ltd (Truworths), 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. The board focuses on material issues which impact on shareholder value creation and the long-term sustainable growth of the business. This includes corporate and information technology governance, transformation, acquisitions and succession planning, as well as reviewing and monitoring the development and implementation of the strategic plans adopted by the Truworths board.

Operational responsibility for the Group's retailing business has been delegated to the Truworths board which is accountable for the ongoing management of the business.

Board charter

A formal board charter outlines the scope of authority, responsibilities, powers, composition and functioning of the Truworths International board. The primary responsibilities of the board, which are reviewed and updated regularly, are as follows:

- review strategic direction and monitor execution of strategic plans;
- consider financial reports, budgets and business plans, and monitor performance;
- approve annual and interim financial reports and dividends;
- review risk management strategies and ensure effective internal controls and governance and compliance framework;
- advise on corporate finance, treasury, employment equity and benefits, stakeholder communication and governance issues;
- monitor transformation and empowerment;
- make material investment, disinvestment, refinancing or restructuring decisions;
- determine and approve amendments to the Group's treasury policy;
- evaluate and monitor performance of the board, individual directors, the Chief Executive Officer and executive management;
- approve executive remuneration and incentive schemes;

- appoint new directors and the Chief Executive Officer, and ensure appropriate orientation and induction of new directors;
- develop clear divisions of responsibility at board level to ensure appropriately limited individual decision-making ability; and
- aim to ensure the sustainability of the business.

Board composition

The Group has a unitary board structure with seven non-executive directors and one full-time salaried executive director, being the Chief Executive Officer, at the reporting date. The board charter requires the majority of directors to be non-executive.

All non-executive directors, including the Chairman, are independent in terms of the King III definition and the guidelines outlined in the JSE Listings Requirements. Tony Taylor retired as an executive director with effect from 31 March 2010 and has therefore been reclassified as an independent non-executive director with effect from 1 April 2013.

Mark Sardi resigned as an executive director and Chief Financial Officer (CFO) of the Group with effect from 12 April 2013. David Pfaff was appointed as CFO Designate with effect from 15 April 2013, and CFO with effect from 1 September 2013.

In the view of the board the qualifications, experience and personal characteristics of the independent non-executive directors, together with the fact that they have no material contractual relationships with the Group, ensure that their judgement is exercised independently and in an unfettered manner. The independence of long-serving non-executive directors was assessed by the board, as recommended by King III, and the board concluded that these directors remain correctly categorised as independent.

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

The Group has no controlling shareholder and there is no material shareholder representation on the board.

Biographical details of the directors appear on page 41 of the Integrated Annual Report.

Board appointments

Directors are appointed by the board in a formal and transparent manner. The Non-executive and Nomination Committee in consultation with the Chief Executive Officer considers suitable candidates and nominates persons for appointment as directors to the boards of both Truworths International and Truworths.

Non-executive directors are selected based on their skills, business experience and qualifications, while gender and racial diversity are also considered in appointing new directors. At year-end, black directors constituted 25% of the board membership.

One-third of the 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 by the board of directors since the previous AGM must be elected by shareholders at the following AGM. Details of these directors are given in the Notice of AGM on pages 128 to 133 in the Integrated Annual Report.

Directors generally have no fixed term of appointment, except for the contract of the Chief Executive Officer, Michael Mark, whose service contract was extended during the period by a further two years to 30 June 2015 and is subject to a notice period of nine months. The salient features of this contract are disclosed in note 26.1 of the Group Annual Financial Statements which are available online.

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

Executive directors are discouraged from holding and do not hold any directorships of companies outside of the Group.

Director induction and development

Newly-appointed directors participate in an induction programme managed by the Chief Executive Officer, Company Secretary and Divisional Director: Human Resources. The programme is tailored to the needs of each director, based on qualifications, knowledge and experience. Besides providing orientation regarding the Group's operations and its values, the programme also makes directors aware of relevant policies such as the avoidance of conflicts of interest and the obligation to declare interests, the share dealing policy and the code of ethics and conduct.

Directors are introduced to key management and also receive documentation such as the board and committee

charters, relevant extracts from the memorandum of incorporation relating to directors' power and duties, the Group and managerial organograms and the latest annual financial statements.

As part of their ongoing development, directors attend appropriate external seminars and workshops, and periodic technical updates on legislative and regulatory changes by the Company Secretary. Presentations at board meetings by representatives from different business functions are aimed at improving the non-executive directors' understanding of the Group's businesses and processes, and progress on key strategic projects. Directors' membership of the Institute of Directors of South Africa (IODSA), which has an ongoing objective of director development and education, is paid for by the Group on request of the directors.

Board meetings

The board meets at least four times a year in Cape Town. Additional meetings may be convened to discuss specific issues which arise between scheduled board meetings. No additional meetings were convened during the year. All board meetings are convened by formal notice. Supporting documentation in the form of comprehensive proposals and reports is distributed to directors at least five working days before board meetings to allow for adequate preparation, and to facilitate more relevant discussion at these meetings.

Five directors constitute a quorum at board meetings, provided that a majority of the directors present are non-executive.

Decisions taken at board meetings are decided by a majority of votes, with each director having one vote. Specific issues which arise between board meetings are dealt with by electronic communication and where decisions are taken, these are recorded by written resolution, requiring signature by all directors to be valid. Executive management consults regularly with the non-executive directors on relevant issues between board meetings as may be required.

Directors have access to all Group information and are entitled to obtain independent professional advice at the Group's expense, after consulting with the Chairman. Non-executive directors have direct access to management and may meet with management independently of the executive directors.

Directors and chairmen of board committees are required to attend the annual general meeting of the company's shareholders and are available to answer questions on reports considered at the meeting.

Corporate Governance Report (continued)

Board and director evaluations

Introduction

An annual evaluation is conducted to assess the effectiveness of the board as a unit and the individual contributions of the directors. The process is managed internally by the Group's Human Resources Development unit using a web-based 360-degree assessment tool which encourages candour.

Two evaluation processes were carried out at the end of the 2013 financial period. The first evaluation sought to measure the performance of individual directors based on their general contribution and their involvement and participation in meetings, while the second aimed to review the overall functioning and performance of the board as a unit. The findings of these evaluations were considered by the board during August 2013 and were compared to the previous year's assessment, with appropriate action plans being formulated. The minutes of the board meeting at which these evaluations are discussed are made available to the company's external auditors.

Individual director evaluation

The Chairman discusses results of the individual director evaluations with the directors individually and suitable developmental plans are agreed with them. The results of the evaluation of the Chief Executive Officer are distributed to all board members and considered by them.

Board evaluation

The evaluation of the board as a unit comprises nine dimensions with a total of 49 questions, each rated on a five point scale ranging from 'ineffective' to 'outstanding'. The evaluation for the 2013 period concluded that the board's overall functioning and governance were excellent. The findings indicate that:

- the board's role and responsibilities have been clearly defined, issues are prioritised and discussed timeously and performance objectives are regularly reviewed in detail;
- the board is independent, and has improved with regards to more clearly articulating its size, composition and eligibility criteria. The board does see a need to improve the race and gender composition as appropriately skilled candidates are identified;
- the directors have effective education on governance and the operations of the group, but this could be further improved with regards to the orientation of new members;
- leadership, teamwork and management relations on the board are excellent and remains an area of strength;

- board and committee meetings are productive, allow for review of all key aspects of the business and held at sufficient intervals;
- board members, including the Chief Executive Officer are suitably compensated, although the evaluation of directors and board committees could be further developed;
- the Non-executive and Nomination Committee which manages the executive succession plan, is functioning as intended with the appropriate focus on key position succession. The board is satisfied with the level of ethical behaviour and proper compliance standards throughout the organisation; and
- the board is satisfied that there is appropriate consideration of its various constituencies including shareholders, employees, customers, suppliers and communities.

Conclusion

The board agreed that the evaluation process was appropriate and that the findings were helpful in highlighting areas requiring attention. The board further recommitted itself to extend the process in future years to include an evaluation of the key committees reporting to the board.

Conflicts of interests

The Group's policy on conflicts of interests applies to all directors and employees. Directors are required to declare their personal financial interests, and those of related persons, annually, in terms of the Companies Act and the company's memorandum of incorporation. Based on these declarations, no directors had a material interest in any transaction with the Group during the financial period, other than the interest disclosed in note 30 in the Group Annual Financial Statements, which interest is considered to be at arm's length.

Directors' and officers' insurance

Directors and officers enjoy the benefit of liability insurance funded by the Group to cover instances where they could be held personally liable to Group companies in cases of negligence, default or a breach of duty or trust. The cover excludes liability resulting from criminal, reckless or fraudulent behaviour. The level of cover is reviewed annually to ensure that it is appropriate and in accordance with legislative parameters.

Prescribed officers

As Truworths International is an investment holding company with no employees, the board has determined that the company has no prescribed officers as defined in the Companies Act (71 of 2008, as amended).

During the period the Group's CFO, Mark Sardi, who was not a director of the company's principal operating subsidiary, Truworths Ltd, was classified as a prescribed officer in relation to that subsidiary, on the basis of the scope of his authority. Having regard for the method and manner of decision making in the subsidiary, the limited degree to which executive authority has been delegated by the Chief Executive Officer and board of that subsidiary and the fact that the subsidiary does not have an executive committee, the board of the subsidiary has concluded that no other persons qualify to be categorised as prescribed officers in relation to that subsidiary. The Group's independent auditors have concurred with this conclusion.

Chief Financial Officer expertise and experience

The Audit Committee reports in terms of the JSE Listings Requirements that, based on a written evaluation, it was satisfied as to the appropriateness of the expertise and experience of the Group's Chief Financial Officer Designate for the period he was employed during the reporting period.

Company Secretary

The Company Secretary works to ensure that board procedures and relevant legislation and regulation is 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 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, who is a Fellow of the Institute of Chartered Secretaries and Administrators and holds the Postgraduate Diploma in Advanced Company Law (UCT), suitably fulfils the role as he 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 III, the Company Secretary is not a director within the Group and is suitably independent of the board to be an effective steward of the Group's corporate governance framework.

Truworths Limited board

The Truworths board is responsible for the operational management of the Group's fashion retailing business.

The board currently comprises four directors. Biographical details of the Truworths directors appear on pages 42 and 43 of the Integrated Annual Report.

The responsibilities of the Truworths board, which are discharged through delegation to the management team, include:

- strategic plan development, execution and refinement;
- merchandise sourcing, buying, planning, warehousing and distribution;
- store location, leasing, operations, design and architecture;
- credit management and customer relations marketing;
- information technology acquisition, development, maintenance and governance;
- financial management and administration;
- budget development and monitoring in relation to sales and expenses;
- risk identification, assessment, mitigation and management;
- internal control development, monitoring and audit;
- development and monitoring of operational policies and procedures;
- selection, management and servicing of franchisees;
- business philosophy and values system development and refinement;
- human resource recruitment, training, development and remuneration;
- transformation strategy development, implementation and monitoring;
- employment equity plan development and implementation;
- approving investment, disinvestment, refinancing and restructuring transactions in accordance with parameters set by the Truworths International board;
- adopting and implementing corporate governance practices; and
- resolving differences with suppliers, customers and employees through engagement, litigation and alternative dispute resolution mechanisms such as arbitration.

Corporate Governance Report (continued)

Board and committee attendance

Truworths International Limited							
Director	Status	Board	Audit Committee	Remuneration Committee	Non-executive and Nomination Committee	Social and Ethics Committee	Annual General Meeting
Hilton Saven	Independent non-executive	#4/4	##2/3	4/4	#4/4		1/1
Rob Dow	Independent non-executive	4/4	2/3	#4/4	4/4		1/1
Michael Thompson	Independent non-executive	4/4	#3/3		4/4	#4/4	1/1
Thandi Ndlovu	Independent non-executive	4/4			4/4	4/4	1/1
Sisa Ngebulana	Independent non-executive	3/4			3/4	0/4	0/1
Tony Taylor	Independent non-executive*	4/4			4/4		1/1
Roddy Sparks	Independent non-executive	3/4	3/3		3/4		1/1
Michael Mark	Executive	4/4		##4/4			1/1
Mark Sardi	Executive**	3/3					1/1
% meeting attendance 2013		94	83	100	93	67	89
% meeting attendance 2012		95	90	100	93	100	89

* Independent with effect from 1 April 2013

** Resigned with effect from 12 April 2013

Chairman

Attendance by invitation

Truworths Limited						
Director/Executive	Status	Board	Risk Committee	Transformation Committee	Sustainability Committee	
Michael Mark	Executive director	#4/4				
Emanuel Cristaudo	Executive director	4/4	#4/4			
Doug Dare	Executive director	4/4				
Derek Kohler	Executive director	4/4		3/4		
Mark Sardi*	Chief Financial Officer	##3/3	3/4			2/3
Michael Thompson	Non-executive director	n/a	4/4			
David Pfaff**	Chief Financial Officer Designate	##1/1	1/1			1/1
Chris Durham	Company Secretary	##4/4	3/4	4/4		4/4
Tony Miek	Divisional director	##4/4				#4/4
Mark Smith	Divisional director	##4/4	4/4	#4/4		3/4
Francois Baissac	Divisional director	##4/4	4/4			
% meeting attendance 2013		100	92	92	88	
% meeting attendance 2012		97	85	83	83	

* Resigned 12 April 2013

** Appointed 15 April 2013

Chairman

Attendance by invitation

(Note: Only the attendance of directors and those divisional directors who are members of committees have been reflected, although all divisional directors are invitees to board meetings, and executives and managers are members of certain committees.)

Board committees

The directors have delegated specific responsibilities to committees to assist the boards of Truworths International and Truworths in meeting their oversight responsibilities. These committees are chaired by independent non-executive directors, except where the committees perform an executive function. The directors confirm that the committees have functioned in accordance with their written terms of reference during the financial period.

Truworths International Audit Committee	
Objectives and functions	Composition
<p>Information on the Audit Committee is included in the Audit Committee Report, which has been incorporated in the Group's annual financial statements as required by the Companies Act.</p> <ul style="list-style-type: none"> • Aims to ensure the maintenance of adequate accounting records and 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 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. • Defines and considers the non-audit services that may be rendered by the external auditor. • Considers the findings arising from the annual financial statement 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 Annual Report. 	<p>Chairman: Michael Thompson</p> <p>Other committee members:</p> <ul style="list-style-type: none"> • Two independent non-executive directors <p>The Chairman of Truworths International, Hilton Saven, attends by invitation.</p> <p>The Chief Financial Officer, Company Secretary, Internal Audit Manager, Finance Executive and external auditor attend by invitation.</p>

Corporate Governance Report (continued)

Truworths International Remuneration Committee

Objectives and functions	Composition
<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. 	<p>Chairman: Rob Dow</p> <p>Other committee members:</p> <ul style="list-style-type: none"> One independent non-executive director <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>

Details on the Group's remuneration policies are disclosed in the Remuneration Report on pages 105 to 108 of the Integrated Annual Report.

Truworths International Non-executive and Nomination Committee

Objectives and functions	Composition
<ul style="list-style-type: none"> Ensures succession plans are in place for the Chief Executive Officer and other key executives. Makes key appointments such as Chairman, Chief Executive Officer and senior executives. Considers any strategic or sensitive matter delegated to the committee by the board. Identifies and nominates persons for appointment as directors of the company. 	<p>Chairman: Hilton Saven</p> <p>Other committee members:</p> <ul style="list-style-type: none"> All non-executive directors <p>The Chief Executive Officer attends by invitation.</p>

Truworths International Social and Ethics Committee

Objectives and functions	Composition
<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. 	<p>Chairman: Mike Thompson (appointed 15 August 2012)</p> <p>Other committee members:</p> <ul style="list-style-type: none"> Two independent non-executive directors <p>The Chairmen of the Truworths Transformation and Sustainability Committees and the Company Secretary attend, and the Chief Executive Officer may attend, by invitation.</p>

Truworths Risk Committee

Objectives and functions

- Develops a risk management framework and helps develop a risk management culture within the Group.
- Adopts an enterprise-wide risk management approach based on King III Code principles.
- Identifies, assesses and helps manage significant risks facing the Group.
- Develops management mechanisms which enable risk identification, mitigation and communication, and business continuity.
- Aims to ensure the maintenance of effective systems of internal control to safeguard assets and support business sustainability.
- Provides an objective and independent forum to debate risk-related matters facing the Group.
- Reports to the Truworths board and communicates significant risk-related issues to both the Truworths and Truworths International boards.

Composition

- Chairman: Emanuel Cristaudo
- Other committee members:
- One non-executive director of Truworths International
 - Chief Financial Officer
 - Divisional Director: Information Services
 - Divisional Director: Human Resources
 - Group Risk Manager
 - Company Secretary
 - Internal Audit Manager
 - Finance Executive
- The Group's Information Systems Audit Manager, an external risk management consultant and senior management attend by invitation.

Truworths Transformation Committee

Objectives and functions

- Monitors the development and implementation of an appropriate transformation strategy.
- Aims to ensure management embraces transformation across the Group.
- Monitors the design, implementation and regular review of policies, plans and processes aimed at facilitating transformation.
- Reviews the implementation of integrated reporting to stakeholders on transformation.
- Aims to enable effective communication between directors, management and external advisers in relation to transformation.

Composition

- Chairman: Mark Smith
- Other committee members:
- Director: Store and Franchise Operations
 - Company Secretary
 - Internal Audit Manager
 - Human Resources Executive
 - Employee Relations Manager
 - Merchandise Manager

Truworths Sustainability Committee

Objectives and functions

- Aims to ensure the Group adopts sustainable development as a philosophy which underpins all activities.
- Encourages the Group to practise appropriate levels of corporate citizenship and social responsibility in its interaction with communities and in relation to the environment.
- Monitors the development and implementation of appropriate strategies on the Group's social, economic and environmental impacts.
- Monitors compliance with King III in relation to sustainability reporting in the Group's integrated report.
- Benchmarks the Group's sustainability and performance measures.

Composition

- Chairman: Tony Miek
- Other committee members:
- Divisional Director: Human Resources
 - Chief Financial Officer
 - Human Resources Executive
 - International Sourcing Manager
 - Company Secretary
 - Finance Executive

Corporate Governance Report (continued)

Additional Governance Committees and Forums

The governance process within Truworths is supported by the following board-appointed committees:

Investment Committee

Monitors the Group's cash management function, ensuring compliance with the board-approved treasury policy, achievement of money market returns in line with benchmarks, adoption of suitable procedures to minimise liquidity and financial risk and the accurate forecasting of cash flows. In addition the committee monitors non-core investments held by the Group's charitable trusts, provides a forum for the debate of investment-related issues and proposes changes to the Group's treasury policy.

Information Security Committee

Provides assurance that the Group's information systems and supporting infrastructure where vital business information is stored, processed or transmitted are performing as specified; that Group information is provided adequate protection; that Group data and software integrity is maintained; and that unplanned disruptions of processing will not seriously impact the Group.

Project Steering Committee

Ensures that projects aimed at enhancing departmental functioning and/or contributing to business development generally are suitably and systematically initiated, prioritised, implemented, resourced, monitored, guided, reported on and completed or terminated.

Tender and Contracts Committee

Ensures that expenditure on material contracts or tenders involving funding from the Group's operating expenditure budget is appropriately motivated, sufficiently maintained within budgetary allocations, adequately administered, regularly monitored and appropriately reported on.

Tax Forum

Responsible for monitoring compliance with tax legislation, assessing tax risks across all taxes, duties and levies in all countries in which the Group operates, developing co-ordinated strategies and methodologies for dealing with tax matters, advising on the appointment of tax advisers and to provide an objective and independent forum to discuss and debate significant tax-related matters.

Project Roadmap Review Forum

Responsible to oversee the selection, prioritisation and resourcing of projects, primarily those focused on acquiring and implementing information technology solutions.

Employee Wellness Committee

Aims to ensure that the Group develops, adopts and implements appropriate strategies and policies aimed at understanding and minimising the consequences of HIV and AIDS on the Group's business as it impacts primarily on its employees and customers. The committee also seeks to ensure that the Group, through its corporate social investment programme, assists the communities in which it operates to understand, prevent the spread of and manage the consequences of HIV and AIDS.

Change Control Committee

Ensures that any material changes proposed to the Group's information technology systems take place in a controlled manner, are appropriately motivated, have sufficient safeguards against disruption to the Group's business and production environment, have properly considered matters such as the impact on other business systems, testing and integration issues, are subject to regular monitoring by senior management, and are appropriately reported on.

Capital Expenditure Committee

Considers and evaluates requests for capital expenditure, both budgeted and unbudgeted, and ensures that management has undertaken an appropriate process in assessing the costs and benefits of the expenditure and has followed due process in inviting and evaluating tenders.

Accounting Forum

Responsible for monitoring and ensuring management adequately implements changes in financial reporting standards, and for ensuring management has in place appropriate plans and timetables to ensure that the Group entities meet their statutory financial reporting obligations.

Compliance Committee

Responsible for monitoring the effectiveness of the processes to create awareness and develop an understanding of relevant legislation and regulation, and to review the initiatives undertaken by management to ensure compliance.

Collection Agency Selection Committee

Oversees the appointment of the debt collection agencies contracted by the Group, monitors their compliance with codes of conduct and contracts, and reviews their collection performance.

Investor relations

The Group's investor relations policy follows the principles of transparency, timely disclosure and equal access to information for all stakeholders. The policy is aimed at ensuring compliance with governance and disclosure regulations and practices, while also protecting management and limiting reputational risk for the Group.

Management actively engages with local and international shareholders and analysts to enable informed decisions to be made on investing in Truworths International.

Investor relations activities include presentations of interim and annual results, participation in local and offshore investor conferences, investor roadshows, hosting shareholders and analysts on store visits and issuing regular media updates on trading performance. Management communicates with foreign shareholders through the webcasting of results presentations, regular meetings in South Africa and abroad, frequent conference calls and by making information accessible on the Group's website.

Internal accountability 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.

The board of Truworths International is accountable for risk governance and has delegated responsibility for risk management to the Truworths board. Specific oversight of risk management is the function of the Risk Committee of the Truworths board.

This committee ensures management has identified, assessed, mitigated and managed the significant risks facing the business and has developed a suitable risk management methodology and culture within the Group. The chairman of the Risk Committee reports on the committee's activities to both the Truworths International and Truworths boards, as well as the Truworths International Audit Committee.

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

An external consultant is retained to assist with the Group's risk governance and management processes and to periodically benchmark the risk maturity profile of the Group relative to its peers in South Africa and against the King III risk governance principles.

The Group Risk Manager co-ordinates the risk management process whereby risks, controls and mitigation plans are determined by operating business units at least annually. These risks are documented in a risk register and are rated in terms of likelihood of occurrence and impact. Senior management is required to satisfy the Risk Committee that suitable policies have been adopted and appropriate processes have been implemented to manage the identified risks adequately.

The overall risk profile of the Group has not changed materially in the period under review. The key risks facing the Group, together with mitigation strategies, are covered in detail in Material Issues and Risks on pages 14 to 29 and in the Risk Report on pages 120 to 123 of the Integrated Annual Report.

Internal audit

The internal audit function provides assurance to the Truworths International board, via the Audit Committee, on the adequacy and effectiveness of the Group's internal control and risk management practices, and the integrity of financial reporting systems. Internal audit also assists management by making recommendations for improvements to the control and risk management environment.

The principle of independence of the internal audit department is upheld and the Internal Audit Manager reports on operational matters to the Chief Executive Officer and on administrative matters to the Chief Financial Officer.

The scope of the internal audit department's work includes:

- reviewing, appraising and reporting on the adequacy and effectiveness of the system of internal control;
- reviewing the processes and systems which are designed to ensure integrity in reporting of financial and operating information; and
- reviewing the adequacy of compliance with applicable policies, plans, procedures, laws and regulations.

Specific focus is placed on the system of internal control that ensures that assets and information are protected against loss, theft or misuse, as well as on those controls that ensure key transactional information is of high integrity. Internal audit also provides consultation and other services to management such as due diligence services, forensic audit services, systems auditing services, risk management services and special reviews or audits.

Corporate Governance Report (continued)

Internal controls

The Group aims to maintain a high standard of internal control. The sound control environment in the Group is founded on:

- strong responsibility for controls by executives;
- executive commitment to integrity and ethical values; and
- the skills and competence of executives.

The soundness of the Group's control environment is illustrated through:

- management's hands-on operating style;
- clear communication through staff policies;
- assignment of authority and responsibility to appropriate levels of management; and
- a control consciousness throughout the Group.

The Truworths International board is ultimately responsible for the system of internal control, which is designed to ensure:

- effectiveness and efficiency of operations;
- safeguarding, verification and accountability of assets;
- detection and minimisation of fraud and losses;
- reliability of financial and operational information and reporting; and
- compliance with applicable laws, regulations, policies and procedures.

The Truworths International board delegates responsibility for the implementation and maintenance of the control framework to management. The Audit Committee, together with the Risk Committee and the internal and external auditors, assist the board in monitoring the effectiveness and adequacy of the control environment.

The Audit Committee, based on assurance provided by internal audit, reports that during the reporting period:

- internal control procedures were represented by management as having been substantially effective and appropriate;
- no material breach of internal controls and procedures was brought to its attention;
- key risks appeared to be adequately documented by management and appropriately monitored and reported on by the Risk Committee;
- policies and authority levels were represented by management as having been enforced and adhered to; and
- no material breaches of any laws affecting the Group were brought to its attention.

Personal share dealings

Directors and employees are prohibited from dealing in the Group's shares during two formal closed periods. 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 JSE's news service, SENS.

Restrictions may also be placed on share dealings at any other time if directors and employees have access to price-sensitive information which is not in the public domain. All share dealings by directors, executives, the Company Secretary and other designated persons in possession of price-sensitive information, require prior written approval.

The Company Secretary bi-annually advises directors and employees of the relevant provisions of the Financial Markets Act (and up to 3 June 2013 the Securities Services Act) and the prohibitions regarding dealing in the company's shares or encouraging dealing by others, while in possession of non-public, price-sensitive information, or disclosing this information.

The Company Secretary is advised of any dealings in the company's shares by directors of Truworths International or Truworths, or associates of these directors, and notifies the JSE and the investment community through SENS within 48 hours of the trade being effected, in accordance with the JSE Listings Requirements.

Financial reporting

The directors are responsible for preparing annual financial statements that fairly present the financial position of the Group and the results of its operations in accordance with the Companies Act, International Financial Reporting Standards (IFRS) and the JSE Listings Requirements. The application of IFRS is reviewed by the Group's Accounting Forum, which meets quarterly with the external auditors, comprises members of the Group's financial management team, and makes recommendations to management and the directors relating to accounting treatment and disclosure.

The external auditor is responsible for conducting an independent audit of the annual financial statements in accordance with International Auditing Standards, and to express an opinion as to whether the financial statements provide fair presentation.

The directors, based on the work of the Audit Committee, ensure that the annual financial statements provide the disclosures required by the JSE Listings Requirements, the Companies Act and King III, and incorporate appropriate accounting policies that, unless otherwise stated, have been uniformly and consistently applied and are supported by reasonable and prudent judgements and estimates.

Going concern

The annual financial statements for the 2013 financial period have been prepared on the going concern basis. Based on the Group's positive cash flows and cash balances, the level of unutilised borrowing facilities and the revenue and cash budgets for the period to June 2014, the directors believe that the company and the Group have adequate resources to continue in operation for the period ahead.

Information technology governance

Information technology (IT) governance remains a responsibility of a number of forums within the Group, including the Audit 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 are managed appropriately so as not to pose a threat to the continuity of the Group's operations.

Aspects of IT governance are also dealt with by the following committees which report to the board of the main operating subsidiary, Truworths:

- Change Control Committee (considers and authorises IT system changes)
- Information Security Committee (ensures information protection)
- Capital Expenditure Committee (authorises IT hardware and software purchases)
- Tender and Contracts Committee (authorises IT system maintenance contracts)
- Project Roadmap Review Forum (prioritises and ensures the appropriate resourcing and progress monitoring of IT projects).

The head of the Information Systems Department (ISD) is a divisional director reporting to the Customer Relations Management and Information Systems Director of Truworths, and is responsible for elements of IT governance. The ISD has documented its IT governance framework, as well as its objectives and key performance measures in relation to IT governance, and formally reports on IT governance matters to the Truworths board, including progress made as measured by a board-approved IT governance scorecard.

The head of ISD is assisted in his role by the Information Systems Department Management Committee comprising executives and senior managers in the department. The IT Audit Manager continues to play a significant role in monitoring levels of IT governance and promoting and facilitating its ongoing development within the business.

Legislative compliance

Compliance with the Consumer Protection Act, the Companies Act and the National Credit Act has received ongoing attention during the period.

A project team working together with external legal consultants have assessed the impact of the proposed Protection of Personal Information Bill and recommended changes to systems and processes. This Bill will impact the Group in relation to the secure maintenance and transmission of customer and employee data. This intended data privacy legislation has also received due attention from the Group's legal advisers, Company Secretary, Risk Committee and management.

The Group maintained its focus on other legislative compliance during the financial period, particularly in relation to merchandise labelling in accordance with the Merchandise Marks Act and Consumer Protection Act, in relation to the rules, disclosure and conduct of promotional competitions as regulated by the Consumer Protection Act, as well as legislation in the African countries where the Group has recently commenced operations, and where different regulatory requirements exist at both national and provincial level. Ongoing reviews of adherence with fiscal legislation, including customs duty, employees' tax, dividend withholding tax, and value-added tax, have been undertaken by management during the period.

The Group had no instances of major non-compliance with legislation during the period and no material fines were incurred, nor were there any instances of prosecutions of Group companies or its directors and/or officials for failure to comply with any applicable legislation or codes of conduct. No requests for information were received by the Group in terms of the Promotion of Access to Information Act (PAIA) during the period, while the Group's PAIA manuals were appropriately available on the Group's website as required by the legislation.

The Group's compliance infrastructure continued to benefit during the period through the work of a Compliance Officer with written terms of reference and clear reporting lines and obligations.

Corporate Governance Report (continued)

Values and ethics

The Group's values are core to its business philosophy and guide the way the Group conducts its business and interacts with all stakeholders (refer to pages 10 and 11 of the Integrated Annual Report). The business philosophy and values were developed over a number of years in consultation with employees and are modified as circumstances and the environment change. A formalised policy details the Group's code of ethical and acceptable conduct, with the values supporting all aspects of this code.

Management strives to embed the values and code in the culture of the Group. The induction programme educates new employees on the values and the business philosophy. This code, as well as the code of conduct in relation to conflicts of interest is available to all employees on the Group's intranet and in the employee handbook.

The Group has a written policy which prohibits the acceptance by employees of gifts of any nature from current or prospective suppliers, and prohibits participation in recreational events, or events purely of an entertainment nature sponsored by these suppliers, unless sanctioned by the Chief Executive Officer. During the period, work commenced on amending Group policies to ensure that involvement in corrupt practices, including the deployment of facilitation payments, was strictly prohibited, with severe sanctions for breach of such policies.

During the period, a number of incidents of non-compliance by employees with the Group's policy on ethical conduct 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 SA Police Service.

Whistle-blowing

The Group promotes a culture of openness and transparency throughout the organisation, in accordance with the Group's values of trust and mutual respect.

King III requires companies to apply mechanisms to combat theft, fraud and other unethical practices. The Group has an ethics hotline which is managed in partnership with an external service provider. Whistle-blowers may call in with anonymous tip-offs which are relayed to the Human Resources department for investigation. Employees may report incidents to their line manager or to the Human Resources department. Where an investigation of financial irregularity is required, the Internal Audit department may become involved.

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 perpetrators. In 2013 seven awards were made (2012: three). A total of 79 reports were received in 2013 (2012: 87).

During the financial period the Group continued to promote awareness of the ethics hotline and of the policies that deal with fraud and unethical behaviour.

Money laundering

The Group has a manual in terms of the Financial Intelligence Centre Act (FICA) aimed at preventing and properly reporting alleged incidents of money laundering and unusual or suspicious transactions by customers. This manual is incorporated within each store manual and is also available on the Group's intranet. There have been no reports of suspected money laundering activities or unusual or suspicious transactions within any of the Group's operations during the financial period.

Political party support

The Group supports the multi-party democratic process but does not make any donations to any political parties in South Africa or elsewhere.

Competitive conduct

The Group operates in a highly competitive industry which has relatively low barriers to entry and a multitude of customers. 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 to 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 retailers, and conduct their activities in a transparent manner in the form of non-profit organisations governed by written constitutions.

The Group is a member of the Retailers' Association (RA) as well as the National Clothing Retail Federation of South Africa (NCRF). The constitutions of these bodies specifically provide 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. 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.

Industry support

The Group is a founding member of the NCRF and has provided ongoing financial and general administrative support and a permanent secretariat to the organisation since its establishment in 2007. This body was formed by major clothing retailers to represent the interests of the industry; engage with government; consumer bodies and labour organisations; initiate research on challenges facing the sector; and promote the benefits of the industry.

The NCRF remained active during the period in monitoring government's envisaged local procurement programme for the domestic clothing and textile manufacturing industry, in promoting awareness of financial incentives for suppliers amongst NCRF members, in participating in the government-sponsored initiative aimed at establishing a National Fashion Council, which is aimed at providing a platform for stakeholders in the local fashion supply chain to promote its benefits and products, and in monitoring and commenting on codes of conduct for credit providers and suppliers of goods respectively issued by the National Credit Regulator and National Consumer Commission.

Governance priorities in 2014

Incremental improvements will be made to governance structures, policies and processes in 2014. These will include the following:

- further development of the IT governance framework, through the adoption of enhanced processes and policies, the regular measurement of the progress of IT governance initiatives through the board-adopted IT governance scorecard and ongoing work to embed good IT governance practices in the day-to-day business operations;
- ensuring the Social and Ethics Committee continues to develop meaningful momentum in relation to management's programmes regarding sustainability, social and environmental issues of material consequence to the Group and its key stakeholders, including disclosure and reporting on such issues; and
- further enhancing the Group's understanding of and compliance with the legislative and regulatory requirements in the foreign territories it has recently commenced or will commence operations, including the development of the functioning and scope of the Compliance Officer role.



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