Review of 2018

Financial Performance
- Gross margin stable at 52.4%
- Operating margin down to 22.5%
- Cash generated from operations up 3.3% to R3.1 billion
- Comparable diluted headline earnings per share down 1.3%
- Annual dividend per share down 7.1% to 420 cents
- Net asset value per share up 10.0%

Outlook for 2019

United Kingdom
- Trading environment will continue to be negatively impacted by political uncertainty relating to the outcome of the Brexit negotiations
- Stable inflation, better employment growth and wage inflation are expected to be positive for UK household disposable income
- Primary focus on growing e-commerce business, recognising the importance of the omni-channel customer and the need to satisfy the customer’s store and digital experience, and arresting the margin decline through improved merchandise ranges and product mix

South Africa
- Consumer spending to remain under pressure owing to low economic growth, high levels of unemployment, escalating cost of living and declining confidence
- Improving account metrics a positive indicator for sales
- Strategic plans to mitigate pressures in the external environment include new e-commerce site, introducing a lay-by facility, expanding Loads of Living chain and introducing a new store concept

- Continued challenging economic environment in SA and UK
- Truworths’ account portfolio improving along with an overall improvement in the SA credit market
- Acquired homeware chain, Loads of Living, with 13 stores
- Balance sheet strengthened with improved net debt to equity ratio as SA’s debt restructured
- Office London launched in SA with 13 stores
- New Truworths e-commerce site launched in SA
- Comparable sale of merchandise declined 0.2% to R17.5 billion (relative to the comparable 52-week prior period)
- New Truworths e-commerce site launched in SA
- Continued tight control over trading expenses, which declined by 2%
- Favourable court ruling in credit affordability assessment regulation case
- Stable inflation, better employment growth and wage inflation are expected to be positive for UK household disposable income
- Comparable sale of merchandise declined 0.2% to R17.5 billion (relative to the comparable 52-week prior period)
OUR APPROACH TO REPORTING

Truworths International has pleasure in presenting its 2018 Integrated Report which is aimed primarily at our shareholders, who are the principal providers of the Group’s financial capital, as well as the local and international investment community.

Through this Integrated Report our objective is to provide shareholders with a balanced insight into how we aim to create value in the short, medium and long-term.

Our ongoing commitment to improving disclosure and striving for the highest reporting standards was again recognised in the EY Excellence in Integrated Reporting Awards. The Group’s 2017 Integrated Report was ranked 9th among the 100 largest companies on the JSE, the 11th consecutive year that we have achieved the distinction of being one of the top 10 companies in these independently judged awards.

INTEGRATED REPORTING FRAMEWORK

The board believes that the Integrated Report complies in all material respects with the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC).

Central to the framework is reporting in terms of the capital resources applied in the creation of value. The most significant forms of capital used by the Group are financial, intellectual, human, manufactured and social and relationship capital, and to a lesser extent, natural capital. The impact of these capitals in value creation is covered in the relevant sections of this report.

MATERIAL ISSUES

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

These material issues are reviewed each year during the course of the strategic planning process undertaken by executive directors and senior management of the Group’s two business segments. The outcomes of this review are considered and endorsed by the board. Following the 2018 review the board confirmed that fashion risk, account risk (Truworths only), supply chain efficiency and retail presence remain the material issues for the Group.

The risks relating to these material issues are disclosed together with medium-term opportunities to provide our shareholders with insight into the growth drivers of the business. (See Material Issues, risks and opportunities on pages 14 to 22.)

MATERIALITY

We continue to apply the principle of materiality in determining the content and disclosure in our Integrated Report. Directors’ judgement has been used in determining the issues that could substantively affect the Group’s revenue and profitability, and its ability to create value over time, and is informed by the material issues, risks and opportunities identified by the board in consultation with management. The disclosure excludes information which could lead to loss of our competitive advantage or is considered price sensitive.

ASSURANCE

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

The Group’s external auditor, Ernst & Young Inc. (EY), has provided assurance on the annual financial statements and expressed an unmodified audit opinion. EY has also reviewed the accuracy of non-financial information extracted from the annual financial statements that appear in the Integrated Report.

Our Integrated Report is independently evaluated each year to ensure we continue to report in line with best global practices.

DIRECTORS’ APPROVAL

The directors are responsible for the Integrated Report and confirm that it fairly represents the Group’s performance for the period under review as well as the growth strategies, material issues, risks and opportunities, and prospects of the Group.

The Audit Committee has oversight responsibility for the integrity of the Integrated Report and recommended it for approval by the directors. The board unanimously approved the Integrated Report for release to shareholders.

Hilton Saven
Independent Non-executive Chairman
Michael Mark
Chief Executive Officer
Truworths International Ltd is an investment holding and management company based in Cape Town, South Africa. Its main operating companies, Truworths Ltd (Truworths, operating primarily in South Africa) and Office Holdings Ltd (Office, operating primarily in the United Kingdom), are leading retailers of fashion clothing, footwear, related merchandise, and homeware.

Founded in 1917 in Cape Town as The Alliance Trading Company, the business changed its name to Truworths Fashion House in 1935. The company has been listed in the General Retailers sector on the JSE and on the Namibian Stock Exchange since 1998.

The Truworths brand is synonymous with fashion and is supported by a portfolio of some of South Africa’s most desired apparel brands which have been developed over the past four decades. The 1980s saw the rapid expansion of the brand portfolio with the launch of Daniel Hechter (1984), Inwear (1986), Truworths Man (1989) and Truworths Jewellery (1999). In the 1990s, three home-grown brands were launched, namely L.U. (1992), Identity and Elements (1999). Ginger Mary followed in 2004 and Hey Betty in 2011.

Organic brand expansion has been complemented by the acquisition of Young Designers Emporium (2003), Uzzi (2006), and Earthaddict, Earthchild and Naartjie (2015).

Truworths International expanded into the northern hemisphere retail market in 2015 with the acquisition of the Office fashion footwear chain in the United Kingdom.

Office London was launched in SA in 2017 while the acquisition of Loads of Living in the same year accelerated the Group’s entry into the fashion homeware market.

Today Truworths International is one of the largest retailers in Africa with 813 stores across the continent and 156 Office stores and concessions in the UK, Germany and the Republic of Ireland, together with a fast-growing online presence. The Group achieved retail sales of R18.8 billion and operating profit of R3.9 billion in the 2018 reporting period, with operating metrics among the highest of fashion retail companies worldwide.

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

Exclusive own brands include Truworths, Truworths Man, Inwear, Identity, Daniel Hechter (long-term licence), LTD, Ginger Mary, Hey Betty and Office London. Specialist chains YDE, Uzzi, Earthaddict, Earthchild, Naartjie and Loads of Living were acquired to complement own brands.

Retail footprint of 173 stores across all brands in South Africa and 40 stores in other African countries.

Online retail
Fast-growing e-commerce business accounts for 31% of Office sales across a range of digital platforms.
INVESTMENT CASE

Truworths International offers investors exposure to the fashion retail sectors in South Africa and the United Kingdom, together with its mainstream middle to upper-income customer base spread across developed and emerging markets, and a diversified product, sales, earnings and country risk profile. The directors believe the following factors should enable Truworths International to continue to deliver competitive returns and value for shareholders through sustainable dividend and return on invested capital (ROIC) growth, which over time will result in share price appreciation.

WELL-INVESTED STORE BASE AND SUPPLY CHAIN
Capital expenditure of more than R2 billion invested over the past five years, mainly in stores, supply chain and information technology.

ORGANIC AND ACQUISITIVE GROWTH
Organic growth complemented by strategic acquisitions in SA and the UK to extend product offering.
Proven ability to integrate acquisitions.

MANAGING ACCOUNT RISK
Account sales offered across all Truworths brands in South Africa, Namibia, Botswana and Swaziland as an enabler of sales:
• 2.6 million active account customers
• 7.1 million loyalty customers (including 3.5 million account customers)
Proven track record of managing account risk through tough credit cycles.

WELL-INVESTED STORE BASE AND SUPPLY CHAIN
Capital expenditure of more than R2 billion invested over the past five years, mainly in stores, supply chain and information technology.

INTERNATIONAL COMPETITIVE METRICS
Margins and return ratios are high by international standards for fashion retailers.

STRONG CASH GENERATION
Strong free cash flow with R14 billion generated from operations in past five years.

ACTIVE CAPITAL MANAGEMENT
Shareholder returns enhanced through capital of R9 billion being returned to shareholders in dividends and share buy-backs over the past five years.

EXPANDING RETAIL PRESENCE
Omni-channel retail offering in SA and UK.
Portfolio of 969 well-located stores mainly in SA and UK.
Fast-growing online business of scale in Office and sophisticated e-commerce platform launched in SA, combined generating 8% of Group retail sales.

MANAGING THE RISK OF FASHION
Exclusive fashion brands across all retail formats.
Gross margin at globally competitive level, averaging 33.8% over the past five years.
High level of clothing and footwear market share.

INTERNATIONAL EXPANSION STRATEGY
Office acquisition provides access to northern hemisphere and developed markets, and a platform for offshore growth.
Strong financial position and low gearing allows flexibility to raise funding to pursue acquisition opportunities in the medium-term.

DIVERSIFICATION
Retail sales increasingly diversified across sales channels, product categories, geographic store locations and cash/account payment options.
Earnings base partially diversified into hard currencies with Office contributing 8% of Group earnings.

EXPERIENCED AND SKILLED RETAIL MANAGEMENT
Directors and executives are highly experienced and skilled in the fashion retail industry.
Succession plans and candidates for all key positions in the Group.

MANAGING ACCOUNT RISK
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EXPERIENCED AND SKILLED RETAIL MANAGEMENT
Directors and executives are highly experienced and skilled in the fashion retail industry.
Succession plans and candidates for all key positions in the Group.
Economic and trading conditions again proved challenging in the Group’s two major markets. South Africa’s economy came under intense pressure as the year progressed while the UK retail environment has been impacted by the continued uncertainty in the wake of the decision to withdraw from the European Union (EU).

Following the change in political leadership with the appointment of Cyril Ramaphosa as the president of South Africa in February 2018, the consumer confidence index reached an all-time high level of 26 points in the first quarter of the 2018 calendar year. This reversed the trend of 12 consecutive quarters of negative consumer confidence.

However, confidence levels subsequently retreated as consumers faced severe pressure from rising living costs, including higher petrol, electricity and food costs, compounded by the increase in the value-added tax (VAT) rate from 14% to 15%, the first increase in 25 years.

Owing to the increasing strain on consumer disposable income, South Africa’s retail sales slowed in the last few months of the financial period and showed muted year-on-year growth of 0.7% for June 2018. This is well below the 12-month high of 7.1% reported for November 2017.

The lack of job creation in an environment of low economic growth in South Africa is evident in the country’s unemployment rate which remained stubbornly high at 27.2% for the second quarter of 2018. There are currently over 6.1 million South Africans who are jobless.

In the second quarter of calendar 2018, South African GDP contracted for a second consecutive quarter by 0.7%, mainly led by agriculture. This means the country is in a technical recession, and underscores the pressure on consumers, with household spending posting its first decline since the first quarter of 2018.

Despite the challenging consumer climate, South Africa’s credit market is improving. This is confirmed by the TransUnion Consumer Credit Index, which reached its highest level since 2011 in the first quarter of 2018. This index is an indicator of consumer credit health and measures the ability of consumers to meet their credit obligations.

The depreciation of sterling following the EU Brexit referendum has been a key driver of inflation which measured 2.4% in the year to June 2018, although this was 0.9% down from the level of 3.3% recorded in May 2017.

The BDO High Street Sales Tracker, which measures like-for-like sales across over 70 retailers with more than 10,000 stores, reports that in the 24 months following the EU referendum, in-store sales have exceeded growth of 1% in only five months. As wages continue to be squeezed by rising inflation, consumers are focusing their disposable income on basic needs which profoundly impacted the retail sector.

The quality of the Truworths account portfolio has shown encouraging improvements over the financial period. This is evident in the reduction of the doubtful debt provision, a decline in bad debts, growth in the active account base and an increase in the number of account holders able to shop, all factors which bode well for future sales.

The South African Reserve Bank’s benchmark repo rate was reduced by a total of 50 basis points to 6.5% during the financial period, which is positive for the improving credit market.

In March 2018 the High Court found in favour of the Group and two other JSE-listed retailers in the legal action taken against the National Credit Regulator (NCR) and the Minister of Trade and Industry. The court rescinded the requirement for customers to provide documentary proof of income under the credit affordability assessment regulations on the grounds that it discriminated against consumers, such as self-employed persons, who were unable to furnish such proof. The NCR has subsequently issued draft guidelines dealing with documentation requirements which have been open for public comment.

Truworths has 40 stores in seven countries in the rest of Africa. Trading conditions in some countries of operation have been extremely challenging owing to depreciating currencies and weakening consumer economies. In addition, commodity-based economies such as Ghana and Zambia have been severely impacted by continued pressure on commodity prices and the restrictive regulatory environments in these countries. The Group’s four stores in Ghana were closed during the period while four of the Group’s seven stores in Zambia were closed. Despite these challenges, Truworths is committed to its strategy of cautious growth in Africa.

While the trading environment in the UK continues to be negatively impacted by Brexit-related uncertainty, in particular the lack of progress on the negotiations, better employment growth and wage inflation are expected to be positive for UK household disposable income.

In addition to its store footprint across the UK, Office has eight stores in Germany and seven in the Republic of Ireland.

The German economy expanded by 1.9% year-on-year in the second quarter of 2018, slowing from 2.7% and 2.8% in the third and fourth quarters of 2017. Consumer confidence at 10.7 points in June 2018 was the weakest level of the past year. Retail sales grew 3% year-on-year. However, the economy remains buoyant, supported by a stable employment market and continued low interest rates.

The Republic of Ireland has one of the fastest-growing economies in the euro zone and reported GDP growth of 6.1% year-on-year to June 2018. Retail sales growth of 7% in June 2018 is the highest level over the past two years. Inflation has remained extremely low at just 0.4% in the year to June 2018, while unemployment rates decreased to 5.1% in that month.
CREATING SUSTAINABLE VALUE

Business philosophy 8
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Material issues, risks and opportunities 14
Building quality stakeholder relationships 23
BUSINESS PHILOSOPHY

OUR DNA
Our DNA fundamentally describes who we are and can be defined as the heart and soul of our business that drives our basic operating philosophies, principles and decision-making. It’s what makes us unique, differentiates us from our competitors and makes us impossible to replicate.

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

- Our leaders play an essential role in ensuring that we remain true to our DNA. We believe in and actively practise our core beliefs.
- We understand that fashion retail success is ‘a marathon and not a sprint’ and that over time and with consistent and ongoing contribution, the business will succeed.
- We create the platform and environment for teams and individuals to deliver our Purpose and live our Values so that we are able to deliver to our stakeholders’ expectations.
- We practise constructive leadership, which to us is a blend of an unusual capacity for realistic optimism, an ability to find solutions and opportunities in adversity and an ability to communicate a vision and sense of optimism.
- By knowing and understanding the uniqueness of the essence of who we are, it becomes easier to internalise and gain a true understanding of our Business Philosophy.

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

Our Business Philosophy comprises three synergistic elements – our Purpose, our Values and our Vision – which work together as one system.
Youthful fashionable South Africans want to look attractive and feel successful and confident. Truworths entices them into exciting and visually appealing retail emporiums, which are staffed by passionate and knowledgeable team members and which offer wide ranges of curated and tasteful fashion of superb quality and intrinsic value. The ranges of unique aspirational fashionable brands are an innovative and adventurous blend of colour, fabric and fashion styling.

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

Our Purpose

Office customers

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

Our Vision

... for our employees

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

... for our Truworths customers

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

... for our shareholders

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

Our Values

Innovation and energy

New ideas are stimulated

Work in teams

Focus on learn and share

Innovation and passion

Rewards reflect contribution

Invest in future potential

Open to learn and share

Courage to contribute

... for our employees

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

Business Philosophy | Continued

Celebrate and reward excellence in contribution

New ideas are stimulated

Work in teams

Focus on learn and share

Innovation and passion

... for our Truworths customers

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

... for our shareholders

We are long-term investors in Truworths International because we trust in management’s capacity to execute innovative strategies which deliver significant value over time.
As a retailer of fashion clothing, footwear, related merchandise and homeware, the Group’s business model is to procure merchandise from third-party suppliers and to sell it to consumers for cash or on account through its network of retail stores and e-commerce platforms. The essence of the Group’s purpose is to provide exclusive and aspirational apparel brands to youthful fashionable consumers.

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

外部因素影响价值创造

几个因素部分或全部地控制着集团，可能导致对我们的业务能力产生影响，并对我们这些因素保持可持续价值的影响。

Refer to the Chief Financial Officer’s report on page 45 for more detail on the external factors influencing our financial performance and our response to these factors.
Ongoing investment in the Group’s stores, distribution capability and e-commerce platforms to promote and sustain growth

Development of new and streamlining of existing business processes and systems, and the maintenance of our market-leading brand portfolio

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

Maintain positive relationships with stakeholders and invest in the well-being of the communities we operate in through our various corporate social involvement initiatives

Depletion of environmental resources through our supply chain (indirect) and own business operations (direct)
Grupo Strategy

Truworths International aims to be a world-class omni-channel retailer of fashion clothing, footwear, accessories and homeware, operating in both the southern and northern hemispheres.

The strategy is aimed at ensuring a diversified mass market customer base in both developed and emerging market countries. The successful implementation of this strategy should result in a diversified earnings profile, improved returns for shareholders, and more value being created for other stakeholders.

Sound financial and capital management, information technology, human capital and operating systems support the strategy, while the business philosophies of the Group’s operating segments guide all business practices and interactions with stakeholders.

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

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**Truworths**

- **E-commerce accounts**
- **Various initiatives launched to enhance the customer online experience, including store lookup and multi-currency payment options**
- **Expansion of ‘ship from store’ programme**
- **Continued growth in online footprint through third-party websites**
- **Store design concept further refined after initial introduction at Arndale Manchester, Oxford and Bracknell stores**
- **A new ‘store of the future’ concept is being developed with initial implementation planned for 2019**
- **Improved geo-location technology to help customers find their nearest store more easily**

**Office**

- **Grew local procurement model to reduce lead times to only four weeks**
- **Increased use of social media to increase customer awareness and engagement, allowing shopable content on Instagram**

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**MEDIUM-TERM STRATEGIC PLANS**

Medium-term strategic plans are developed by the board and management to enable the Group to deliver its long-term strategy.

These plans are determined in relation to the Group’s business model, vision and purpose, material issues and the related risks and opportunities, macroeconomic conditions and competitive forces. The plans are reviewed and amended annually.
<table>
<thead>
<tr>
<th>Truworths and Office collaboration</th>
<th>Medium-term strategic plans</th>
<th>Plans and priorities for 2019</th>
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<tbody>
<tr>
<td>• Continue to collaborate on systems development, merchandising, business intelligence and measurement processes</td>
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<tr>
<td>• Evaluate the potential acquisition of fashion-related businesses to further diversify the Group’s product offering and earnings base</td>
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<td>• Improve new accounts decision management process</td>
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<tr>
<td>• Continue implementation of omni-channel communication across all areas of account and loyalty communication</td>
<td>• Continue implementation of omni-channel communication across all areas of account and loyalty communication</td>
<td>• Continue implementation of omni-channel communication across all areas of account and loyalty communication</td>
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<td>• Redevelop and test new account limit management strategies</td>
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<tr>
<td>• Integrate e-commerce sales into single view of the customer to grow profit across both bricks and mortar and online businesses</td>
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<tr>
<td>• Lay-by facility to be extended to all stores before 2018 festive trading season</td>
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MATERIAL ISSUES, RISKS AND OPPORTUNITIES

DETERMINING MATERIAL ISSUES
Material issues are identified during the course of the Group’s annual strategic planning processes undertaken by executive directors and senior management of the Group’s two business segments. These are the key issues which could have the most material impact on the Group’s ability to create and sustain value for stakeholders. The strategic planning processes result in the formulation of plans and projects that are presented to and endorsed by the board. The achievement of the objectives of key strategic projects selected by the board, and the implementation of measurable deliverables relating thereto, constitute performance targets for the executive directors and senior management for purposes of the Group’s incentive schemes.

In identifying these material issues for Truworths and Office the following factors are typically considered:

• Prevailing political and economic environment
• Current and forecast trading environment
• Competitor landscape
• Business strengths and weaknesses
• Human, manufactured, intellectual, social and financial capital resources
• Legislative and regulatory framework
• External opportunities and threats
• Key risks as detailed in the Group’s risk registers
• Group strategy and medium-term strategic objectives
• Needs, expectations and concerns of primary stakeholders

The directors confirm that the material issues for Truworths for the 2019 financial period are unchanged, these being fashion risk, supply chain risk, account risk management and retail presence.

Similarly, the directors confirm that the Office material issues remain appropriate and are unchanged for the 2019 financial period, notably fashion risk, supply chain efficiency and retail presence.

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

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

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<td>3. Increase in counterfeit merchandise could impact on sales</td>
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<td>4. Fluctuation of the Rand and impact on retail selling prices</td>
<td>Material issue: Managing the risk of fashion</td>
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<td>5. Risk of running out of water at head office, distribution facilities and stores due to Western Cape drought</td>
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<td>6. A major cybersecurity incident might lead to the loss of sensitive information</td>
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<td>7. Managing distribution capacity</td>
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<td>8. Effectively managing account risk</td>
<td>Material issue: Managing account risk</td>
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<td>11. BBBEE certification</td>
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<td>12. Increasing competition from international retailers entering South Africa</td>
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<td>13. Dependency on warehouse management system and throughput</td>
<td>Material issue: Optimising supply chain efficiency</td>
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<td>14. Loss of distribution facilities and inability to access distribution facilities, e.g. due to civil action</td>
<td>Board and Governance Processes and Social and Environmental Report 2018</td>
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<td>15. Availability of key IT systems that support and enable daily trade</td>
<td>Board and Governance Processes</td>
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<td>16. Loss of head office building</td>
<td>Board and Governance Processes</td>
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<td>17. Unethical behaviour within the supply chain</td>
<td>Material issue: Optimising supply chain efficiency</td>
</tr>
</tbody>
</table>

### Likelihood

- **Almost certain**
- **Likely**
- **Moderate**
- **Unlikely**
- **Rare**

### Consequence

- **Insufficient**
- **Minor**
- **Moderate**
- **Major**
- **Catastrophic**

### Risk Report Reference

1. E-commerce and store strategy to deal with risks of online sales substituting store sales
   - Material issue: Managing retail presence
2. Workforce optimisation
   - Human Capital Report
3. Impact of changing product mix within Sports and made-to-order (MTO) ranges on gross margin
   - Material issue: Managing the risk of fashion
4. IT systems capability and capacity to support current operations and future growth
   - Chief Financial Officer’s Report
5. Capability and resourcing of the internal audit function to mitigate risk of fraud and management override at head office and store level
   - Report on Corporate Governance and Application of King IV Principles 2018
6. Foreign currency fluctuations
   - Material issue: Optimising supply chain efficiency
7. Payment Card Industry Data Security Standard (PCIDSS) compliance
   - Material issue: Managing the risk of fashion
8. Absence of formalised disaster recovery and business continuity plans
   - Board and Governance Processes
9. Effectively managing account risk
   - Material issue: Managing the risk of fashion
10. Reliance on third-party brands
    - Material issue: Managing the risk of fashion
11. Compliance with the Data Protection Act and General Data Protection Regulation (GDPR)
    - Material issue: Managing retail presence
12. The uncertainty of the impact that Brexit could have on the business
    - Material issue: Managing the risk of fashion, Material issue: Optimising supply chain efficiency and Chief Financial Officer’s Report
MANAGING THE RISK OF FASHION

Performance against objectives and targets in 2018

OBJECTIVES AND PLANS FOR 2018

Gross margin 52.4% (2017: 52.6%)

Truworths gross margin 55% – 57%

Ladieswear Emporium 29% (2017: 35%)

Identity 16% (2017: 16%)

Other 10% (2017: 9%)

Challenges encountered in 2018

• Increase in value-added tax (VAT) rate and the related implications on systems and resources.
• Unusually high level of discounting in the marketplace.
• Pressure on disposable income resulting in customers being more risk averse in their fashion purchases.
• Relocation of fabric mills and temporary shutdown or closure of dye houses and laundries in China has resulted in constrained fabric supply from the region together with inconsistent quality.

Key risks and mitigation strategies for 2019

DESCRIPTION OF RISK

Increased international competition.

EXCHANGE RATE VOLATILITY

• Monitor impact of the international retailers targeting the Truworths mainstream middle market customer (most international brands target upper income customers).
• Constant innovation across sales channels, brands and products, including e-commerce platform, launch of new brand websites and introduction of lay-bys.

OBJECTIVE AND PLANS FOR 2019

• Ongoing focus on managing the risk of fashion.
• Implementation of new brands and product opportunities.
• Implementation of the product life cycle management system.

Medium-term opportunities

• Optimise the potential of e-commerce across all brands.
• Grow Loads of Living chain and product offering.
• Improve product mix in Office London to drive sales growth.

Availability of counterfeit goods devalues the brands.

• Substantial work done with counterfeit experts, training of customs officials and numerous raids conducted.
• Appointment of a larger legal team to ensure sufficient attention is devoted to anti-counterfeiting objectives.
• Ongoing assessment and bolstering of counterfeit measures.
• Instituting legal action against perpetrators.

Truworths aims to provide quality fashion to customers each season at appropriate margins. This covers buying processes, fashion monitoring, supplier relationships and ensuring Truworths has skilled buying and planning resources.

• Apply proven forecasting and design processes and key executive interventions throughout the merchandise life cycle aimed at managing and mitigating the risk of fashion.
• Manage suppliers to ensure risk is spread across the supply chain.
• Balance local and international supply base to take advantage of both quick response and fast fashion.
• Maintain gross margin within target range.
• Execute retention strategies for merchandise buyers and planners.
• Achieve better prices to offer better value by consolidating fabric sourcing across brands while maintaining product quality.

Medium-term opportunities

• Optimise the potential of e-commerce across all brands.
• Grow Loads of Living chain and product offering.
• Improve product mix in Office London to drive sales growth.

Objectives and plans for 2019

• Ongoing focus on managing the risk of fashion.
• Implementation of new brands and product opportunities.
• Implementation of the product life cycle management system.
OPTIMISING SUPPLY CHAIN EFFICIENCY

Performance against objectives and targets in 2018

**OBJECTIVES AND PLANS FOR 2018**

**PERFORMANCE AGAINST OBJECTIVES**

- Careful selection and management of strategic fabric that can be utilised for in-season trading to reduce lead times.
- Consolidating certain product types across the supply chain to leverage price benefits, thereby providing continuity and enhanced productivity for suppliers.
- Implement e-commerce offering across all brands in South Africa.
- Improve productivity and throughput time in distribution centres from improved controls and performance measures.

**TARGETS FOR 2018**

**PERFORMANCE AGAINST TARGETS**

- Group inventory turn 2.5 – 4.5 times
- Truworths inventory turn 4.5 – 5.5 times

Challenge encountered in 2018

- Distribution centres are becoming increasingly congested over peak periods, such as the festive season, and this is resulting in inefficiencies in the supply chain.
- Reduced volumes have resulted in no efficiency improvements.
- New warehouse management system enables the business to measure and monitor areas of congestion and resolve these speedily.
- The new system reduces the reliance on the IT team to support the distribution centre.
- Established a new distribution centre for Loads of Living in Cape Town.

Key risks and mitigation strategies for 2019

**DESCRIPTION OF RISK**

- Growth in the business could result in the need to expand distribution and warehousing capacity.
- Suppliers not operating to contracted standards of ethical behaviour could result in reputational damage and interruption of supply.
- Supplier overdependency or under-performance.

**RISK MITIGATION**

- Main Truworths distribution centre to be enhanced significantly by 2021.
- Truworths’ code of conduct included in all supplier agreements.
- Manufacturers are required to comply with ethical standards, labour, health and safety, and environmental legislation.
- Legislative compliance audits are carried out as part of the new supplier take-on process.
- Monitoring of adherence to Truworths’ code of conduct to be conducted through quality assurance process.
- Use the newly developed supplier scorecard to monitor supplier utilisation as well as supplier quality and delivery performance.

Medium-term opportunities

- Supplier collaboration on product life cycle management system.

Objectives and plans for 2019

- Continue to focus on fast fashion and quick response strategy.
- Continue to focus on offering better value through strategic fabric purchasing and supplier consolidation.

**TARGETS FOR 2019**

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

Refer to Optimising supply chain efficiency on page 56 for more detail.
MANAGING ACCOUNT RISK

Performance against objectives and targets in 2018

<table>
<thead>
<tr>
<th>OBJECTIVES AND PLANS FOR 2018</th>
<th>PERFORMANCE AGAINST OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grow new account sales while maintaining new account quality standards.</td>
<td>• 21% growth in sales on new accounts (less than 12 months on book), with no change to risk criteria.</td>
</tr>
<tr>
<td>Improve sales from existing customers through account limit management and customer reactivation.</td>
<td>• Growth in sales from accounts that have been on book for more than 24 months.</td>
</tr>
<tr>
<td>Improve collections through more effective use of call centre technology.</td>
<td>• Successfully implemented new systems with the benefit evident in improved collections results.</td>
</tr>
<tr>
<td>Reduce cost of customer engagement through more efficient targeting and communication.</td>
<td>• Significant cost savings realised in excess of R40 million due to improved targeting and communication with customers using the most profitable channel.</td>
</tr>
<tr>
<td>Continue to review loyalty programmes based on customer experience.</td>
<td>• Extensive testing undertaken to increase the percentage of customers identifying themselves on cash loyalty transactions.</td>
</tr>
<tr>
<td>Launch of online store.</td>
<td>• E-commerce platform and new Truworths website launched.</td>
</tr>
</tbody>
</table>

Challenges encountered in 2018

• The tough retail trading environment resulted in costs and processes being evaluated to ensure they are necessary and add value to the business.
• Increased regulatory monitoring and preparation for adoption of new accounting standard, IFRS 9.
• Inability to effectively manage account risk could result in increased bad debt, lower and slower collections, limited new account growth and a reduction in the number of customers able to buy on account.

Key risks and mitigation strategies for 2019

<table>
<thead>
<tr>
<th>DESCRIPTION OF RISK</th>
<th>RISK MITIGATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inability to effectively manage account risk could result in increased bad debt, lower and slower collections, limited new account growth and a reduction in the number of customers able to buy on account.</td>
<td>• Apply account risk criteria and processes consistently using advanced analytics, scorecards and models.</td>
</tr>
<tr>
<td>Review account management, collections and acquisition strategies regularly and refine to leverage new data and predictive models.</td>
<td>• Review account management, collections and acquisition strategies regularly and refine to leverage new data and predictive models.</td>
</tr>
<tr>
<td>Implement and maintain best-of-breed account management tools that accurately execute policies, processes and strategies.</td>
<td>• Implement and maintain best-of-breed account management tools that accurately execute policies, processes and strategies.</td>
</tr>
</tbody>
</table>

Objectives and plans for 2019

• Rebuild the new accounts decision management process using better predictive models, a new strategy development system and customer-centric decision system.
• Use omni-channel communication across all areas of account and loyalty communication utilising the best channel per communication type.
• Redevelop and test new account limit management strategies with the goal of increasing profit within account risk constraints.
• Integrate e-commerce sales into the single view of the customer and use this data to grow profit across both bricks and mortar and online businesses.
• Enhance and develop loyalty promotions and offers.
• Introduce lay-by offering into all stores.
• Continued roll-out of e-commerce offering.

Objectives and plans for 2019

Increase profit from new accounts by managing cost of acquisition, account sales and bad debts. Maintain the quality of the portfolio at current levels. Grow sales from existing account customers.
MANAGING RETAIL PRESENCE

Performance against objectives and targets in 2018

OBJECTIVES AND PLANS FOR 2018

Trading space expected to grow by approximately 4%.

- Trading space growth of 3.3% (2.2% excluding stores added by Loads of Living acquisition).
- Net six stores opened (24 opened and 18 closed), excluding 13 Loads of Living and 13 Office London stores.
- 813 stores at period-end (2017: 781).

R353 million committed to store development.

- R220 million (2017: R335 million) invested in store development.
- Actual spend below budget mainly as a result of agreed project delays.

Launch Office London in SA.

- Office London chain launched in August 2017 with 10 stores.
- Expanded to 13 stores by period-end.

Launch new e-commerce platform.

- E-commerce platform launched in February 2018.
- New Truworths website live and generating turnover equivalent to a medium-sized store.

Continued expansion of Truworths Kids Emporium footprint.

- 14 new Kids Emporiums opened within larger emporium stores.
- Opened first two stand-alone Kids Emporium stores.
- 46 Kids Emporiums at period-end.

TARGETS FOR 2019

Trading space growth of 2.5%.

- Trading space growth of 3.3%.
- Carbon emissions of 168 kg per m² (South Africa only).

Challenges encountered in 2018

- In certain existing locations in good-performing malls Truworths is overtrading and unable to secure additional space, which is inhibiting growth.
- Prolonged muted economic conditions have resulted in management adopting a more cautious approach to store expansion.
- Poor trading results at some locations in South Africa, as well as in Ghana and Zambia, have resulted in store closures.

Key risks and mitigation strategies for 2019

DESCRIPTION OF RISK

- High demand for well-located retail premises in established malls, impacting availability of retail space and expansion opportunities.
- Fixed annual rental escalations and high utility cost and rates increases impacting store profitability.

RISK MITIGATION

- New malls present opportunities in prime positions.
- Renovating key stores and optimising existing space to introduce new brands.
- Early discussions with landlords to secure prime space at competitive rentals and escalation rates.
- Opening stand-alone stores for key brands so as to free up space in existing high trading density emporium stores.
- Securing expansion options in new and renewed leases.
- Consolidating and rationalising trading space where trading densities are low.
- Reducing electricity consumption through smart metering.
- Vigilant review of rates increases.

Medium-term opportunities

- Consolidate trading space to improve operating efficiency and trading densities by renovating key stores and reprofiling stores by adding new brands.
- Ongoing roll-out of the emporium formats.

Objectives and plans for 2019

- Trading space expected to grow by approximately 2.5%.
- R355 million committed to store development.
- Continue consolidation and rationalisation of trading space where trading densities are low, and close under-performing stores.
- Launch new store concept, ‘Context’.
- Extend e-commerce offering to Office London, YDE, Loads of Living, and cosmetics and fragrances.

TRUWORTHS INTERNATIONAL INTEGRATED REPORT 2018

19
MANAGING THE RISK OF FASHION

Performance against objectives and targets in 2018

OBJECTIVES AND PLANS FOR 2018

Ongoing focus on managing the risk of fashion.

- Retail sales declined by 2.5% on a comparable 52-week basis (4.5% decline on reported 53-week basis).
- Gross margin declined from 46.0% to 44.4%.
- Buying and merchandise teams focused on delivering the most relevant and fashionable footwear product to the marketplace.

Ongoing development of new merchandise management system.

- Improved visibility of stock management and comparison to optimal stockholding levels.
- Initiated project to implement a new business intelligence platform in order to enhance merchandise analytics.

TARGET FOR 2018

- Gross margin of 44% – 47%

Challenges encountered in 2018

- Extremely tough retail environment, as evidenced by the number of profit warnings and Company Voluntary Arrangements (CVAs) announced during the year.
- Ongoing uncertainty surrounding Brexit negotiations.
- Unseasonal weather in late February 2018 and other adverse conditions deterring retail performance.
- Margin reduction resulting from:
  - a greater proportion of sales on markdown merchandise as opposed to full price;
  - a shift in Sports branded product sales mix towards lower-margin Sports brands; and
  - a reduction in the margin of MTO merchandise mainly in the first half of the financial period.

Key risks and mitigation strategies for 2019

<table>
<thead>
<tr>
<th>DESCRIPTION OF RISK</th>
<th>RISK MITIGATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not remaining at the forefront of the UK footwear fashion market.</td>
<td>London heritage, consumer demographic and embedded relationships with branded footwear suppliers all ensure that Office is at the forefront of changes in footwear fashion.</td>
</tr>
<tr>
<td></td>
<td>Customer feedback through store employees, social media, and customer polling.</td>
</tr>
<tr>
<td></td>
<td>Collaborative development with branded suppliers in order to offer unique product offerings.</td>
</tr>
<tr>
<td></td>
<td>Close relationships with specialist own-brand suppliers allows for delivery of highest-quality product while still achieving order flexibility and reliability of supply.</td>
</tr>
</tbody>
</table>

Impact of changing product mix within sports and MTO ranges on gross margin.

- Renewed focus on higher-margin MTO product.
- Understand and align MTO offering with customer demand.

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

- Apply proven merchandise processes and key executive interventions throughout the merchandise life cycle aimed at managing and mitigating the risk of fashion.
- Merchandise management system provides improved visibility of stock management and comparison to optimal stockholding levels.

Medium-term opportunities

- Optimise use of the merchandise management system to ensure that product is stocked to the right depth and in the correct location to supply customers.
- Renewed focus on MTO product.
- Build a single view of Office customers across stores, digital and customer services in order to develop more consistent, personal and relevant marketing communications across all channels.

Objectives and plans for 2019

- Ongoing focus on managing the risk of fashion.
- Implement a cloud-based management information solution to replace existing analytical tool.
- Align MTO offering to consumer demand.

TARGET FOR 2019

- Gross margin of 44% – 47%

Retail sales by department

- Office: 62% (2017: 61%)
- Sports: 24% (2017: 25%)
- LadiesOwn-branded: 15% (2017: 16%)
- Ladies Branded: 10% (2017: 10%)
- Mens: 8% (2017: 8%)
- Kids: 4% (2017: 4%)
OPTIMISING SUPPLY CHAIN EFFICIENCY

OBJECTIVES AND PLANS FOR 2018

Create capacity for further investment in new merchandise by reducing old stock holdings while maintaining improved inventory turn ratios.

- Commenced warehouse and distribution efficiencies project, including implementing a new warehouse management system.
- Improved aging profile of stock, with levels of markdown stock reduced by 5.1% (following reduction by 17.5% in 2017).

Optimise benefits of merchandising system.

- Able to manage seasonal closing stock with greater efficiency.

TARGET FOR 2018 PERFORMANCE AGAINST OBJECTIVES

Inventory turn 3.2 times (in sterling)

Challenges encountered in 2018

- Reducing stock levels to achieve inventory turn targets without negatively impacting sales.
- Managing appropriate supply origins for MTO customer demand.

TARGET FOR 2019

Inventory turn of 3.0 – 3.5 times

Key risk and mitigation strategies for 2019

- Office is exposed to exchange rate volatility on imported merchandise.
  - Foreign exchange hedging policy to reduce the adverse impact of currency fluctuations.
  - Net exposure to euro 11% and US dollar 2% (as proportion of total expenditure).
  - Natural internal hedge as euro income generated from sales through German and Republic of Ireland stores, the German website, and the UK website multi-currency option.

Medium-term opportunity

- Identify new sources of supply to mitigate the potential macroeconomic impact of Brexit.

Objectives and plans for 2019

- Reduce stockholding levels with a particular focus on aged or marked down stock.
- Complete warehouse and distribution efficiencies project, including the introduction of a new warehouse management system.

INVENTORY TURN

‘Create capacity for further investment in new merchandise by reducing old stock holdings’
MANAGING RETAIL PRESENCE

Performance against objectives and targets in 2018

<table>
<thead>
<tr>
<th>OBJECTIVES AND PLANS FOR 2018</th>
<th>PERFORMANCE AGAINST OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E-commerce</strong></td>
<td></td>
</tr>
<tr>
<td>Continue investment in digital marketing to drive new and repeat purchases.</td>
<td>• Increased search advertising spend and new advertising formats, including Google Shopping, which grew revenue by 11%.</td>
</tr>
<tr>
<td>Improve customer experience by introducing new Office app, adding new currencies on website to support international sales and enabling customers to check stock levels in-store.</td>
<td>• New Office app successfully launched.</td>
</tr>
<tr>
<td>• New multi-currency capability on UK websites (Office, Office app and Offspring) in US dollar and euro.</td>
<td>• Introduce multi-currency capability on UK websites (Office, Office app and Offspring) in US dollar and euro.</td>
</tr>
<tr>
<td>• In-store stock look-up functionality available across websites.</td>
<td>• In-store stock look-up functionality available across websites.</td>
</tr>
<tr>
<td>• Further enhancements include new Wish List, personalised product recommendations, geo-location technology and expanded ‘ship from store’ programme.</td>
<td>• Further enhancements include new Wish List, personalised product recommendations, geo-location technology and expanded ‘ship from store’ programme.</td>
</tr>
<tr>
<td>Ongoing transformation of the look of all digital platforms to ensure a consistent brand experience across all channels, particularly social media.</td>
<td>• Launched #officeloves to the brand website, allowing shoppable content on Instagram.</td>
</tr>
<tr>
<td>• 25% increase in Office Facebook followers.</td>
<td>• 25% increase in Office Facebook followers.</td>
</tr>
<tr>
<td>• Consistent campaign imagery implemented across websites, stores, digital marketing and social media.</td>
<td>• Consistent campaign imagery implemented across websites, stores, digital marketing and social media.</td>
</tr>
<tr>
<td><strong>Physical stores</strong></td>
<td></td>
</tr>
<tr>
<td>New store design concept to be incorporated in all new and refurbished stores.</td>
<td>• New store design concept applied to three stores.</td>
</tr>
<tr>
<td>New store design concept further refined after initial implementation.</td>
<td>• New store design concept further refined after initial implementation.</td>
</tr>
</tbody>
</table>

Challenges encountered in 2018

- Increase in business rates and some rentals where leases were subject to rent reviews during the period.
- Ongoing changes to retail landscape and consumer demand, with continual shift towards online demand.
- Ongoing transformation of the look of all digital platforms to ensure a consistent brand experience across all channels, particularly social media.
- Physical stores
  - New store design concept applied to three stores.
  - New store design concept further refined after initial implementation.

Key risks and mitigation strategies for 2019

<table>
<thead>
<tr>
<th>DESCRIPTION OF RISK</th>
<th>RISK MITIGATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing the balance between e-commerce and store profit contribution to the business.</td>
<td>• New ‘store of the future’ concept currently being developed for implementation in January 2019.</td>
</tr>
<tr>
<td>• Managing cost base tightly.</td>
<td>• Ability to manage e-commerce’s flexible cost base as the business develops.</td>
</tr>
<tr>
<td>Changing landscape of UK retail market with digital versus bricks and mortar.</td>
<td>• Strong and growing e-commerce offering already in place, with 31% of retail sales from digital platforms.</td>
</tr>
<tr>
<td>The introduction of General Data Protection Regulation (GDPR) in May 2018 changed laws relating to the collection, storage and usage of customer data.</td>
<td>• Extensive programme of GDPR compliance across data capture, storing and sharing processes.</td>
</tr>
<tr>
<td>Payment Card Industry Data Security Standard (PCI/CCSS) compliance.</td>
<td>• Implementation of PCI compliant omni-channel payment processor.</td>
</tr>
</tbody>
</table>

Medium-term opportunities

**E-commerce**
- Global: Expand to the biggest international markets through own and third-party websites.
- Customer:
  - Deliver a world-class, seamless customer experience with highly personalised, relevant communications that increase conversion, loyalty and engagement.
  - Enhanced customer relationship management (CRM) with detailed customer history in-store/on tablet/at point-of-sale.
- Upgraded customer mobile app.
- Product: Expand own-brand offering in existing and adjacent categories and develop new online stores.
- Brand: Transform the look, feel and tone of the on and offline estate, to increase engagement, satisfaction and loyalty.

**Physical stores**
- Implement new ‘store of the future’ concept.
- Improve store technology infrastructure to enhance experience and service opportunities, including:
  - use of mobile technology to improve staff efficiencies; expanded payment options; enhanced CRM with detailed customer history in-store/on tablet/at point-of-sale; improved data capturing, cross-channel loyalty, and upgraded customer mobile app; and
  - use digital technology to improve operational efficiency, particularly around stock search, click & collect, web returns and queuing.
- Mobile point-of-sale.
- Wholesale
- Expand the wholesale channel.

Objectives and plans for 2019

**E-commerce:**
- Customer experience: Remove transactional friction to optimise shopping journey.
- Channel expansion: Enhance language, payment and stock availability options.
- Customer marketing: Continued investment in online marketing and further development of customer-centric loyalty-based marketing programme.
- Omni-channel: Introduce enhanced in-store technology to improve customer service and greater integration between digital and store channels.

**Physical stores:**
- Implement new ‘store of the future’ concept.
- E-commerce and physical stores:
  - Introduce omni-channel payment gateway to seamlessly identify customers across both e-commerce platforms and physical stores.

TARGET FOR 2019
Trading space growth of 0.3%
BUILDING QUALITY STAKEHOLDER RELATIONSHIPS

The Group’s stakeholder relationship programme focuses primarily on the five stakeholder groups that are most likely to influence the delivery of the Group’s strategy and to impact on the material issues within the business.

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

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

5  Strong relationship of trust and mutual understanding
4  Good-quality, value-adding relationship
3  Good relationship but needs to improve to add value
2  Functional, poor-quality relationship
1  Poor to no relationship

SHAREHOLDERS

4 852 shareholders
59% of shares held outside South Africa

Engagement issues in 2018
- Group strategy and business model
- Trading in current challenging climate
- Low top-line growth
- Progress on integration of Office in the UK
- Affordability assessment regulations
- Capital management
- CEO succession
- Trading outlook and earnings growth prospects

Addressing engagement issues
Management is proactive in engaging with local and international institutional investors to promote the company’s investment case and to address questions and areas of concern. This is achieved through results announcements and presentations, investor roadshows, participating in broker conferences and meetings with investors.
TRUWORTHS INTERNATIONAL
INTEGRATED REPORT 2018

BUILDING QUALITY STAKEHOLDER RELATIONSHIPS | CONTINUED

CUSTOMERS

Refer to the Managing Account Risk report on page 57 for further information

2.6 million active account customers

7.1 million TruRoyalty and iDream loyalty programme members

Addressing engagement issues

- Visually appealing stores
- Fashion appeal
- Product quality
- Customer service and experience
- Merchandise pricing
- Online shopping
- Loyalty programme

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

EmploYEEs

Refer to the Human Capital report on page 61 and the Social and Environmental Report for further information

11 198 employees

- 72% female; 28% male
- 93% black, 7% white (in South Africa)

Addressing engagement issues

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

SUPPLIERS

Refer to the Optimising Supply Chain Efficiency report on page 56 for further information

2018

- 50% of clothing is produced in South Africa
- 65% of all merchandise (across all categories) is imported, mainly from China, India, Mauritius, Bangladesh and Madagascar

Addressing engagement issues

Multiple communication channels are available to address issues raised by suppliers. These include audits of supplier manufacturing facilities, supplier scorecards, negotiations, a web-based supplier portal, and regular and ongoing informal communication.

REGULATORS

National Credit Regulator, SA Revenue Service, government departments including Department of Trade and Industry and Department of Labour, and regulatory authorities outside South Africa

Addressing engagement issues

- Legislative and regulatory compliance
- Tax compliance and being a responsible taxpayer in all jurisdictions
- Submission of statutory returns
- Participation in industry associations

Truworths interacts with regulators through the submission of returns, filing of progress reports, formal and informal engagements, site visits and inspections, and through industry bodies.

CUSTOMERS

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

Addressing engagement issues

- Desire a wide range of high-quality in-demand leading fashion footwear
- Want to be provided with quick e-commerce delivery options

OFFICE

Maintained its established merchandising strategy to provide in-demand fashion of a suitable quality, range and price. Ongoing collaboration with certain branded suppliers ensures the development of unique product offerings for exclusive sale by Office.

EMPLOYEES

Refer to the Human Capital report on page 67 for further information

2 823 employees

- 62% female; 38% male

Addressing engagement issues

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

A key focus has been on identifying and rewarding individual contribution, and a new performance-focused appraisal process was introduced during the period, linked to the Office business philosophy and values. Office also issued its first gender pay gap report as at April 2017 (available on the Office website at www.office.co.uk/view/content/gender-pay-gap) and launched a workforce optimisation project.

SUPPLIERS

Refer to the Optimising Supply Chain Efficiency report on page 56 for further information

Branded:

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

Own-brand:

- manufacturers and agents across Europe and Asia

Addressing engagement issues

- Maximise sales opportunities and brand exposure
- Obtain feedback on product performance and fashion trends
- Annual audits of own-brand supplier manufacturing facilities
- Office’s code of conduct incorporated within own-brand supplier manual

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

REGULATORS

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

Addressing engagement issues

- Ongoing compliance
- Filings made by due dates

Office remains abreast of legislative and regulatory requirements. All material filings and payments are submitted by their due dates and the relevant tax authorities are engaged as and when required.
Governance

Chairman’s report 26
Board of directors 28
Group leadership 29
Board and governance processes 30
Remuneration Committee report 34
Low growth and deteriorating economic conditions continued to hamper retail sales growth in South Africa, despite a short-lived rise in consumer confidence early in the 2018 calendar year following Cyril Ramaphosa’s appointment as president. The buoyant sentiment was not supported by improving economic fundamentals and consumers soon faced the reality of rising living costs and declining disposable income.

Similarly in the United Kingdom, the slowing economic growth post the Brexit referendum, negative consumer confidence levels, rising inflation and general uncertainty around the European Union-exit negotiations have hindered retail sales.

Consequently, the Group’s comparable retail sales were unchanged at R18 billion, comparable headline earnings declined by 1% (decline of 7% relative to the 53-week prior period) and the annual dividend was 7% lower at 420 cents per share, with the dividend cover maintained at 1.5 times. While the trading results disappointed, the Group generated R3.1 billion in cash from operations, strengthened the balance sheet and reduced gearing by repaying net borrowings of R2.2 billion.

Despite the slower financial performance, good progress has been made in delivering on the Group’s strategy of becoming a world-class omni-channel retailer of fashion clothing and footwear. Refer to the Chief Executive Officer’s Report on page 40 for detail on progress with the Group’s strategic objectives.
COMMITMENT TO GOVERNANCE
We consider governance as a philosophy, rather than a compliance discipline, in the belief that high governance standards can contribute to better corporate performance and create value for our shareholders and other stakeholders. Independent research confirms that the Group’s governance standards are in line with best practice, not only in South Africa but also globally. Our governance standards are assessed each year as part of the evaluation for inclusion in the FTSE/JSE Responsible Investment Top 30 Index. The Group was again included in the Top 30 Index and attained 100% for the corporate governance component of the FTSE environmental, social and governance (ESG) ratings scorecard.

Given the increasing international awareness and focus on ESG issues by companies and investors, it is pleasing that the Group has been included in the FTSE4Good Index. The index measures the performance of companies demonstrating strong ESG practices against global standards.

The Group made the transition to the new King IV code this year. We welcome the move towards an outcomes-based approach to corporate governance and will continue to align governance structures, policies and processes with the recommended King IV practices.

INTEGRATED REPORTING
Underlining our commitment to good governance is the high standard of the Group’s financial reporting. In the EY Excellence in Integrated Reporting Awards the Group’s 2017 Integrated Report was ranked 9th among the 100 largest companies on the JSE. This is the 11th consecutive year that our report has been ranked in the top 10 in the EY reporting awards, the only company in the country to achieve this distinction. The awards are independently judged by the University of Cape Town’s College of Accounting.

BOARD GOVERNANCE
The non-executive component of the board was strengthened with the appointments of Hans Hawinkels and Maya Makanjee as independent directors in February 2018. Both directors have extensive experience in executive and director level positions in major South African corporates and we look forward to benefiting from their business insights and perspectives.

Changes were made to the composition of our board committees involving our non-executive directors. Roddy Sparks assumed the role of chairman of the Audit Committee, replacing Mike Thompson who remains a member of the committee. Mike has chaired the Audit Committee for 13 years and we thank him for his dedicated leadership of this committee. Tony Taylor has been appointed as an additional member of the Remuneration Committee and, in line with the recommendations of King IV, Roddy Sparks and I have been appointed to the Risk Committee.

We believe our board is strong, well balanced and diverse in its composition, expertise and opinions. There is also an appropriate balance between our eight independent non-executive directors and three executive directors.

Diversity and transformation in the boardroom are critical for effective and balanced decision-making. After adopting a gender diversity policy in 2017, with a voluntary target of 30% female board representation in the medium-term, the board has now implemented a board race diversity policy.

MANAGEMENT AND SUCCESSION
Executive director and Group Chief Financial Officer (CFO), David Poff, was appointed to the newly created position of Group Chief Operating Officer in August 2018. This appointment recognises David’s expanded responsibilities across the Group and he will continue in his role of CFO. David has made a sterling contribution since joining the Group five years ago and we look forward to benefiting from his strong leadership in this new role.

Shareholders should be assured that succession planning for key executive roles, in particular the position of CEO, is a high priority. The board believes that the strong leadership team in Truworths provides the Group with CEO succession candidates while external appointments will also be considered to broaden the pool of potential successors.

INVESTMENT CASE
The recent release of South Africa’s second quarter 2018 growth statistics shows that the country has entered a recession for the first time since 2009, confirming the poor economic environment in which we are trading. However, the weak performance over the past year and the challenges in the external environment should not detract from the Group’s compelling investment case and the directors remain committed to the current strategy.

APPRECIATION
Thank you to Michael Mark for his decisive leadership of the Group and to his executive teams in Truworths and Office who lead by example in the highly competitive fashion sector. My thanks are also due to my fellow non-executives who provide extensive support and counsel to the executive team while meeting high standards of oversight.

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

Hilton Saven
Independent Non-executive Chairman
INDEPENDENT NON-EXECUTIVE DIRECTORS

HILTON SAVEN (65)
BCom, CA (SA)
Chairman of the board
Independent Non-executive Director
Chairman: Masure South Africa, Retail Properties Ltd, Lewis Group Ltd
Non-executive director: Monarch Insurance Company Ltd, Praxity Global Alliance Ltd (SKL), Praxity FCW (Belgium), Weitblake Investments (Pty) Ltd
Trustee: Truworths Chairman’s Foundation, Truworths International Ltd Share Trust
Appointed to the board in February 2003
Member of Remuneration Committee, Risk Committee, and Non-executive and Nomination Committee

ROB DOW (61)
BSc (Hons), Dip. Acc (OxSt), CA
Independent Non-executive Director
Investment adviser and business consultant
Non-executive director: Kenari Capital (Pty) Ltd and subsidiaries, Morella Investments (Pty) Ltd, Tridepartment (Pty) Ltd and subsidiaries, Phetlogo Investment Holdings (Pty) Ltd and subsidiaries, Sue Michellia 204 (Pty) Ltd
Member and director of non-profit companies: Herschel Association, St Mary’s School for Girls (Johannesburg)
Trustee: Truworths International Ltd Share Trust
Appointed to the board in February 1998
Chairman of Remuneration Committee and member of Audit Committee, and Non-executive and Nomination Committee

THANDI NDLOVU (63)
Independent Non-executive Director
Construction executive and businesswoman
Chief Executive Officer and Chairperson: Motheo Construction Group of companies
Executive director: Baitshapi Development Consulting Services (Pty) Ltd
Non-executive director: Komanso Investment Holdings (Pty) Ltd, Thuleng Investments (Pty) Ltd
Member of the Council of the South African Forum of Civil Engineering Contractors (SAFCEC) and Chair of the Construction Sector Transformation Committee of the Black Business Council in the Built Environment (BBCEB)
Appointed to the board in February 2001
Member of Social and Ethics Committee, and Non-executive and Nomination Committee

MICHAEL THOMPSON (75)
BCom, MBA, AMP (Harvard)
Independent Non-executive Director
Retired banking executive and management consultant
Chairman: DA Select Property Investments Ltd, DA Select Property Asset Managers (Pty) Ltd
Trustee: Truworths International Ltd Share Trust
Appointed to the board in March 2004
Chairman of Social and Ethics Committee and member of Risk Committee, Audit Committee, and Non-executive and Nomination Committee

TONY TAYLOR (71)
BSc Eng, BCom, MBA
Independent Non-executive Director
Non-executive chairman: PBT Group Ltd
Non-executive director: Kemano Investment Holdings (Pty) Ltd
Appointed to the board as an executive director in February 1999. Retired as an executive director and became a non-executive director on 1 April 2010, and qualified to be classified as an independent non-executive director with effect from 1 April 2013.
Member of Remuneration Committee, and Non-executive and Nomination Committee

RODDY SPARKS (59)
BCom (Hons), CA (SA)
Independent Non-executive Director
Director of companies
Chairman: University of Cape Town College of Accounting Advisory Board
Appointed to the board in February 2012
Chairman of Audit Committee and member of Risk Committee, and Non-executive and Nomination Committee

MAYA MAKANJEE (56)
BCom, BA, MBL
Independent Non-executive Director
Director of companies
Non-executive director: A10 South Africa Ltd, A10 Life South Africa Ltd, Myxet Ltd, Tiger Brands Ltd
Appointed to the board in February 2018
Member of Non-executive and Nomination Committee

HANS HAWINKELS (86)
BSc Eng, BCom, MBA
Independent Non-executive Director
Businessman and consultant
Non-executive director: Wyjysal (Pty) Ltd
Appointed to the board in February 1998
Member of Non-executive and Nomination Committee

DAVID PFAFF (53)
BCom, CA (SA), Dip. Tax (Rio)
Chief Operating Officer and Chief Financial Officer
Executive Director
Director: Truworths Ltd, Truworths (Botswana) (Pty) Ltd, Truworths (Mauritius) (Pty) Ltd, Truworths (Ghana) Ltd, Truworths (Swarling) Ltd, Truworths (Ghana) Ltd, Truworths (Kenya) Ltd
Non-executive director: Truworths Ltd
Appointed to the board in September 2013
Chairman of Risk Committee, and Social and Ethics Committee

DOUG DARE (57)
Director: Buying and Merchandising
Executive Director
Director: Truworths Ltd
Appointed to the board in August 2016

INTEGRATED REPORT 2018
EXECUTIVE DIRECTORS

MICHAEL MARK (65)
BCom, MBA, ACMA
Chief Executive Officer
Executive Director
Executive Chairman: Truworths Ltd, since March 1998
Director: Young Designers Emporium (Pty) Ltd, Truworths (Namibia) Ltd
Chairman and non-executive director: Office Holdings Ltd
Trustee: Truworths Chairman’s Foundation
Employees since May 1988
Appointed to the board in July 1989, as Managing Director of Truworths Ltd in July 1991 and as Group Chief Executive Officer in July 1998
Chairman of Risk Committee

BOARD OF DIRECTORS

TRUWORTHS INTERNATIONAL
**GROUP LEADERSHIP**

**TRUWORTHS INTERNATIONAL EXECUTIVE LEADERSHIP**

- **MICHAEL MARK (65)**
  - BCom, MBA, ACMA
  - Chief Executive Officer
  - Executive Chairman: Truworths Ltd
  - Employee since May 1988
  - Appointed to the board in July 1991

- **DAVID PFAFF (53)**
  - BCom, CA (SA), Dip Sec (Ibzwane)
  - Chief Operating Officer and Chief Financial Officer
  - Employee since April 2013
  - Appointed to the board in September 2013

- **DOUG DARE (57)**
  - BBusSc
  - Truworths Director: Buying and Merchandising
  - Employee since June 1984
  - Appointed to the board in July 1995

- **SEAN FURLONG (57)**
  - Diploma in Marketing Management
  - Truworths Director: Planning and Logistics
  - Employee since February 1995
  - Appointed to the board in March 2016

- **SARAH PROUDFOOT (50)**
  - National Diploma in Clothing Design
  - Truworths Director: Merchandising Ladieswear
  - Employee since March 2001
  - Appointed to the board in March 2016

- **TONY MIEK (55)**
  - BCom
  - Divisional Director: Real Estate, Store Design and Visual Presentation
  - Employee since December 2005
  - In current position since August 2006
  - Director: Young Designers Emporium (Pty) Ltd
  - Chairman of Sustainability Committee

- **NEVILLE KOPPING (55)**
  - BCom
  - Divisional Director: Merchandising
  - Employee since March 2006
  - In current position since March 2008

- **FRANCOIS BAISSAC (56)**
  - Diploma in Computer Programming and Project Management
  - Divisional Director: Information Systems
  - Employee since June 1988
  - In current position since February 2011

- **STEVE WIDEGER (54)**
  - BSc (Business Management)
  - Divisional Director: Merchandising
  - Employee since February 1997
  - In current position since August 2006

- **MARK SMITH (53)**
  - BA (Hons), Higher Diploma in Education, SAP
  - Divisional Director: Human Resources
  - Employee since September 2009
  - In current position since September 2009
  - Chairman of Transformation Committee
  - Member of Sustainability Committee
  - Trustee of Truworths Community Foundation, Truworths Social Investment Trust

- **GLENN WOOD (53)**
  - BSc (Accounting), MSc (Financial Management)
  - Divisional Director: Retail Operations
  - Employee since March 2015
  - In current position since May 2015
  - Member of Transformation Committee

- **CHRISS SMITH (53)**
  - BSc (Hons), Higher Diploma in Education, SAP
  - Divisional Director: Human Resources
  - Employee since September 2009
  - In current position since September 2009
  - Chairman of Transformation Committee
  - Member of Sustainability Committee
  - Trustee of Truworths Community Foundation, Truworths Social Investment Trust

- **GARY BARNARD (42)**
  - BSc (Electrical-Mechanical Engineering)
  - Divisional Director: Account Risk
  - Employee since June 2012
  - In current position since August 2015

- **CHRIS DURHAM (62)**
  - BDS, PBO Adv., Co Law (VCT)
  - Divisional Director: Company Secretary
  - Employee since June 1993
  - In current position since March 2016
  - Director: Truworths (Namibia) Ltd, Truworths (Swaziland) Ltd, Truworths (Lesotho) (Pty) Ltd, Truworths (Zambia) Ltd, Truworths (Kenya) Ltd
  - Member of Compliance Committee, Sustainability Committee and Transformation Committee
  - Trustee of Truworths Community Foundation, Truworths Social Investment Trust, Truworths Enterprise Development Trust

- **ROB WORTHINGTON (53)**
  - Multi-channel Director
  - Employee since May 2010
  - In current position since May 2010

- **KERRY-LEE VAN DER MERWE (42)**
  - BAccSci (Hons), CA (SA)
  - Finance Director
  - Employee since June 2016
  - In current position since June 2016

- **GHASSAN HODEIB (46)**
  - Buying Director
  - Employee since February 1996
  - In current position since January 2004

- **JONATHAN KUTNER (45)**
  - Merchandising Director
  - Employee since March 2004
  - In current position since March 2004

**TRUWORTHS DIVISIONAL DIRECTORS**

- **MARK SMITH (53)**
  - BSc (Hons), Higher Diploma in Education, SAP
  - Divisional Director: Human Resources
  - Employee since September 2009
  - In current position since September 2009
  - Chairman of Transformation Committee
  - Member of Sustainability Committee
  - Trustee of Truworths Community Foundation, Truworths Social Investment Trust

- **GLAAN WOOD (53)**
  - BSc (Accounting), MSc (Financial Management)
  - Divisional Director: Retail Operations
  - Employee since March 2015
  - In current position since May 2015
  - Member of Transformation Committee

- **MARK SMITH (53)**
  - BSc (Hons), Higher Diploma in Education, SAP
  - Divisional Director: Human Resources
  - Employee since September 2009
  - In current position since September 2009
  - Chairman of Transformation Committee
  - Member of Sustainability Committee
  - Trustee of Truworths Community Foundation, Truworths Social Investment Trust

- **GARY BARNARD (42)**
  - BSc (Electrical-Mechanical Engineering)
  - Divisional Director: Account Risk
  - Employee since June 2012
  - In current position since August 2015

- **CHRIS DURHAM (62)**
  - BDS, PBO Adv., Co Law (VCT)
  - Divisional Director: Company Secretary
  - Employee since June 1993
  - In current position since March 2016
  - Director: Truworths (Namibia) Ltd, Truworths (Swaziland) Ltd, Truworths (Lesotho) (Pty) Ltd, Truworths (Zambia) Ltd, Truworths (Kenya) Ltd
  - Member of Compliance Committee, Sustainability Committee and Transformation Committee
  - Trustee of Truworths Community Foundation, Truworths Social Investment Trust, Truworths Enterprise Development Trust

**OFFICE LEADERSHIP**

- **BRIAN MCCLUSKEY (56)**
  - BCom, CA (SA), Dip Sec (Ibzwane)
  - Chief Executive Officer
  - Director: Office Holdings Ltd
  - Employee since February 2005
  - In current position since January 2006

- **KERRY-LEE VAN DER MERWE (42)**
  - BAccSci (Hons), CA (SA)
  - Finance Director
  - Director: Office Holdings Ltd
  - Employee since June 2016
  - In current position since June 2016

- **ROB WORTHINGTON (53)**
  - Multi-channel Director
  - Employee since May 2010
  - In current position since May 2010

- **GHASSAN HODEIB (46)**
  - Buying Director
  - Employee since February 1996
  - In current position since January 2004

- **JONATHAN KUTNER (45)**
  - Merchandising Director
  - Employee since March 2004
  - In current position since March 2004
The Truworths International board provides ethical and strategic direction and leadership to the Group. The board is accountable for the overall strategy, governance and performance of the Group.

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

In the 2018 financial period the board confirmed the Group’s strategy of aiming to be a world-class omni-channel retailer of fashion clothing, footwear, related merchandise and homeware, operating in both the southern and northern hemispheres. The board noted that this strategy is aimed at ensuring a diversified mass-market customer base in both developed and emerging market countries. The board observed that the successful implementation of this strategy should result in a diversified earnings profile, improved returns for shareholders, and more value being created for its other stakeholders.

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

The board has confirmed the medium-term growth strategies for the Group, Truworths and Office as detailed in the Group Strategy report on page 12.

The board will regularly monitor progress being made in relation to the implementation of these strategic growth initiatives and will measure performance against the agreed financial targets, strategic goal objectives and key performance indicators.

The board, aided by the operating boards of Truworths and Office, will assess on an ongoing basis whether the activities of the Group are creating value for its key stakeholders and will use the following measurements of value added in conducting this assessment:

<table>
<thead>
<tr>
<th>For Shareholders</th>
<th>For Customers</th>
<th>For Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sustainable dividend and return on invested capital (ROIC) growth, which over time will result in share price appreciation</td>
<td>• Truworths: Net Promoter Score (measures customers’ likelihood of recommending Truworths) as well as Customer Score (measures the customer experience in store)</td>
<td>• Number of full-time equivalent employees, indicating job creation</td>
</tr>
<tr>
<td>• Longer-term growth in diluted headline earnings per share</td>
<td>• Office: Net Promoter Score (measures customers’ likelihood of recommending Office)</td>
<td>• Percentage of employees from designated groups, indicating diversity</td>
</tr>
</tbody>
</table>

Board deliberations

During the period under review board deliberations included the following key issues:

- Progress made towards integrating the Office business into the Group.
- Management’s progress in implementing a world-class e-commerce platform for Truworths.
- The successful outcome of litigation relating to aspects of the affordability assessment regulations.
- The successful piloting of a lay-by facility within Truworths, enabling customers to set aside merchandise for payment over a three-month period.
- The further progress made and steps taken to ensure adequate succession planning for key executives, especially the Chief Executive Officer.
- The recommendation by the Audit Committee that external auditor rotation be considered ahead of the 2023 mandatory deadline.
- Executive management’s strategies for Truworths and Office.
- The terms of the acquisition of the Loads of Living homeware business.
- Executive management’s proposal to restructure and reduce Group debt.
- Executive management’s decision to consider possible litigation in respect of envisaged debt relief legislation.
- To adopt a board race diversity policy and target.
- To conduct structured annual evaluations of the performance of board committees.
- To appoint additional independent non-executive directors of the company.
BOARD INFORMATION

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

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

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

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

Board of Directors

<table>
<thead>
<tr>
<th>Board expertise</th>
<th>Hilton Saven</th>
<th>Michael Mark</th>
<th>Rob Dow</th>
<th>Thandi Ndlovu</th>
<th>Michael Thompson</th>
<th>Tony Taylor</th>
<th>Roddy Sparks</th>
<th>David Platff</th>
<th>Doug Dare</th>
<th>Maya Makanjee</th>
<th>Hans Havinkels</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Chairman</td>
<td>Executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<tr>
<td>Strategic planning</td>
<td>Executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
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</tr>
<tr>
<td>Finance and taxation</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
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<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
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<td>Retail</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
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<tr>
<td>Corporate affairs and communications</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
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<td>Financial services</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<tr>
<td>Information technology and communication</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Risk management, compliance and governance</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
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<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
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<td>Distribution and logistics</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Construction and engineering</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
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<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<tr>
<td>Human-resources and transformations</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Corporate finance, mergers and acquisitions</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
<td>Independent executive director</td>
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<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
</tbody>
</table>

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

Board committees
- Remuneration
- Risk
- Non-executive and Nomination
- Audit
- Social and Ethics

Non-executive directors’ average age: 59 years
Non-executive directors’ average tenure: 12.3 years

Executive directors’ average age: 52 years
Executive directors’ average tenure: 11.4 years

Strategic planning
82%

Finance and taxation
55%

Retail
36%

Corporate affairs and communications
36%

Financial services
55%

Information technology and communication
27%

Risk management, compliance and governance
73%

Distribution and logistics
36%

Construction and engineering
27%

Human-resources and transformations
36%

Corporate finance, mergers and acquisitions
64%

Gender
- Male: 46% (2017: 48%)
- Female: 44% (2017: 42%)

Racial diversity
- Black: 18% (2017: 16%)
- White: 82% (2017: 84%)

Board expertise
- Collective expertise
- Education
- Professional
- Functional

Board committees
- Remuneration
- Risk
- Non-executive and Nomination
- Audit
- Social and Ethics

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

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

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

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

Board of Directors

<table>
<thead>
<tr>
<th>Board expertise</th>
<th>Hilton Saven</th>
<th>Michael Mark</th>
<th>Rob Dow</th>
<th>Thandi Ndlovu</th>
<th>Michael Thompson</th>
<th>Tony Taylor</th>
<th>Roddy Sparks</th>
<th>David Platff</th>
<th>Doug Dare</th>
<th>Maya Makanjee</th>
<th>Hans Havinkels</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Chairman</td>
<td>Executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>Executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<tr>
<td>Finance and taxation</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Retail</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Corporate affairs and communications</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
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<tr>
<td>Financial services</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Information technology and communication</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Risk management, compliance and governance</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Distribution and logistics</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Construction and engineering</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Human-resources and transformations</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
<tr>
<td>Corporate finance, mergers and acquisitions</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
<td>Executive director</td>
<td>Director: Buying and Merchandising</td>
<td>Independent executive director</td>
<td>Independent executive director</td>
</tr>
</tbody>
</table>

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

Board committees
- Remuneration
- Risk
- Non-executive and Nomination
- Audit
- Social and Ethics
For the reporting period the directors achieved a 100% (2017: 96%) level of attendance at board and committee meetings.

SUMMARISED GOVERNANCE REVIEW

During the 2018 financial period the Group continued to practise corporate governance at a high level, aimed at adding value to the business as well as facilitating the Group’s sustainability, generating long-term shareholder value and benefiting other stakeholders.

Governance in the Group goes far beyond a box-ticking process, and accordingly compliance with codes, legislation, regulations and listings requirements is the minimum requirement. Management has adopted sound corporate governance principles and appropriate governance structures and policies, and believes it has embedded into operations a business-wide culture of good governance that is aligned to the Group’s business philosophies.

An independent assessment of the Group’s standard of governance is provided by the annual evaluation process for the FTSE/JSE Responsible Investment Top 30 Index, which is based on publicly available information. In the reporting period the Group again qualified for inclusion in this index attaining 4.5 out of 5 points (2017: 5 out of 5) for the corporate governance theme of the FTSE Environmental, Social and Governance (ESG) Rating scorecard.

The directors confirm that during the 2018 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. Details of how the Group has applied the King IV principles and complied with the JSE Listings Requirements are contained in the Report on Corporate Governance and Application of King IV Principles 2018, which can be viewed at www.truworthsinternational.com/investors.

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

This report is a summary of corporate governance matters within the Group and should be read in conjunction with the Report on Corporate Governance and Application of King IV Principles 2018 available at www.truworthsinternational.com/investors.

Governing adding value at Truworths

Corporate governance can be viewed by its detractors as a compliance overhead that adds little tangible value, and is costly and distractive in terms of resource utilisation.

Truworths’ approach to corporate governance, however, is to aim for the relevant policies, structures and processes that may have been brought into existence initially to ensure adherence with applicable regulation and codes of conduct, to contribute to improved operational decision-making and corporate performance. 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 broadness 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:

1. lower risk
2. improved sustainability
3. consistency of financial performance
4. sound stakeholder relationships
5. high levels of legislative compliance
6. reputational integrity
Governance developments in 2018

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

<table>
<thead>
<tr>
<th>GOVERNANCE ELEMENT</th>
<th>GOVERNANCE DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social and Ethics Committee</td>
<td>The committee refined the board-approved dashboard which facilitates its monitoring function so as to ensure that over a rolling period all matters requiring monitoring by regulation are suitably presented on by management and considered by the committee, or by the board or other structures that report to the board.</td>
</tr>
<tr>
<td>Non-executive directors</td>
<td>Two additional independent non-executive directors were appointed to the board, thereby extending its skills, diversity and experience.</td>
</tr>
<tr>
<td>Board committees</td>
<td>The charters of the Audit, Remuneration, Social and Ethics, and Risk Committees were updated to ensure alignment with King IV as regards recording tenure of membership and annual performance evaluation obligations. A formal evaluation process was designed, adopted and implemented to assess the performance of these board committees. The membership of the board committees was reassessed and amended to ensure appropriate non-executive and executive director representation and attainment of prescribed minimum membership levels.</td>
</tr>
<tr>
<td>Board race diversity policy</td>
<td>The board developed and adopted a race diversity policy at board level, including the adoption of a target that 30% of the board comprise black South Africans in the medium term.</td>
</tr>
<tr>
<td>Risk governance in Office</td>
<td>The risk management process in the Office segment has achieved a level of functional maturity as evidenced by the functioning of its Risk Committee, the evolution of the risk assessment process and the updating of risk registers for business units within the Office segment.</td>
</tr>
<tr>
<td>Supplier codes of conduct</td>
<td>The monitoring of adherence with the Group’s codes of conduct for both local and international suppliers has commenced on a pilot basis through a structured assessment process.</td>
</tr>
<tr>
<td>Consumer and credit legislation compliance</td>
<td>Management updated its processes in response to consumer and credit legislation, and implemented processes to ensure compliance with and become licensed as a credit provider under the Consumer Credit Act in Swaziland.</td>
</tr>
<tr>
<td>Business continuity</td>
<td>The Group’s business continuity plans were subject to development, ongoing review and refinement and its disaster recovery capabilities as regards key information system applications were further tested.</td>
</tr>
<tr>
<td>Procurement governance</td>
<td>The new procurement policy governing the processes and authorisation levels that relate to the purchase of goods and services by the Truworths business was implemented.</td>
</tr>
<tr>
<td>Tax risk governance</td>
<td>Management reviewed its Group-wide transfer pricing policy and inter-company agreements, and updated and extended these policies to transactions between the Office and Truworths businesses to ensure cross-border transactions take place on an arm’s length basis and the profit allocation reflects the underlying economic activities.</td>
</tr>
<tr>
<td>Auditor appointment</td>
<td>When assessing the suitability of the external auditor for re-appointment, the Audit Committee reconsidered the firm’s independence as well as the results of the routine audit inspection most recently conducted by IRBA (the auditing profession regulator in South Africa) on the firm and the audit partner, which results reflected no adverse findings and required non-material remedial actions.</td>
</tr>
</tbody>
</table>

AUDITOR ROTATION

The board noted the proposed introduction of mandatory external auditor rotation in South Africa in 2023. Ernst & Young (EY) and its predecessor firms have been the Group’s external auditor since 1975, while PricewaterhouseCoopers (PwC) audits the entities constituting the Office business. The Audit Committee considered a tender process, with a view to a possible change in external auditor, but believed it to be premature. Office is scheduled to migrate to a new accounting system during the 2019 period, and the imminent adoption of new accounting standards that will materially impact on the Group’s financial reporting could result in complexities and costs for a new audit firm. The impact of recent changes in finance function senior personnel was also considered. The committee therefore agreed to reconsider the tender process ahead of mandatory auditor rotation.

The Audit Committee is 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.

2019 GOVERNANCE PRIORITIES

Governance priorities for the 2019 financial period will include:

- Further progressing the Group’s consideration of the King IV-recommended practices.
- Further developing the corporate governance framework within the Office business.
- Further developing the Group’s tax risk governance framework by implementing the Group’s updated transfer pricing policy.

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.
Remuneration Committee Report

Section A:
Report from the Chairman of the Remuneration Committee

Remuneration is an increasingly complex and challenging issue and practices and policies continue to be enhanced to ensure we remain competitive in terms of attracting and retaining talent at all levels within the Group. These practices and policies aim to entrench a high-performance culture across the Group, ensure sustained value creation and align performance and reward with our business philosophies. The achievement of Group, team and individual performance objectives remains central to driving remuneration strategies.

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

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

The committee comprises independent non-executive directors Rob Dow (chairman), Hilton Saven and Tony Taylor. The CEO is an invitee to committee meetings and recuses himself from discussions that relate to his performance and remuneration.

At the 2017 Annual General Meeting (AGM), 81% of shareholders voted in favour of the Group’s remuneration policy and 93% in favour of the implementation report. This was an improvement on our 2016 AGM results where 79% of shareholders voted in favour of the Group’s remuneration policy, and reflects our continued commitment to improved application of our remuneration policy as well as transparency in our reporting.

No material issues were raised by shareholders and therefore no action was required in the reporting period to address issues.

Owing to the changing reporting requirements detailed in the King IV practice notes, independent professional advice was obtained regarding the payment application as well as reporting of dividends paid to certain directors holding restricted shares in terms of the Group’s share schemes. The timing of the application of performance conditions and post-performance conditions on dividend payments has been clarified and applied, and is reported as required in the implementation report.

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

- Reviewed and approved the remuneration of the executive directors of Truworths International; and directors, divisional directors and key executives of principal subsidiaries (collectively referred to as “executives”).
- Reviewed and approved the short-term incentive payments to executives for the 2017 financial period.
- Reviewed and approved the short-term incentive targets for the 2017 financial period.
- Based on a benchmarking exercise completed and presented by executive management, reviewed and recommended for approval by shareholders the non-executive directors’ remuneration for the 2018 calendar year.
- Reviewed and approved the issue of share-based long-term incentive awards in terms of the 2012 share scheme.
- Approved the payment of dividends to long-term incentive share scheme participants holding restricted shares.
- Confirmed that all long-term remuneration allocations and payments were made in accordance with the rules of the long-term incentive schemes.
- Agreed and recommended for approval by the board the performance targets for the relevant long-term incentive share schemes in respect of awards being made in the current reporting period.
- Reviewed and confirmed the introduction of additional financial and non-financial metrics to modify and enhance the design of the short-term incentive model to ensure a more broad and balanced view on Group and subsidiary company performance.
- Reviewed and adopted the remuneration practices as further outlined in guidance notes regarding the application of King IV: Governance of remuneration.

The committee plans to undertake the following in the 2019 reporting period:

- Refine the performance management process to improve the alignment of the Group’s reward for performance philosophy with the more clearly defined requirements of King IV.
- Review the current short-term incentive model to ensure it remains relevant in its measures of shareholder requirements as well as rewarding high-performing employees, while at the same time reviewing the current gatekeeper metric (EBIT) to confirm its appropriateness. The gatekeeper metric typically acts as a hurdle for performance relative to targets and must be designed to ensure that fundamental principles governing the operation of the business are not violated in the pursuit of profitability.
- Review the principles and application of equal pay for work of equal value to ensure equity is maintained across all levels within the Group.
- Review the committee’s year planner to ensure all elements are sufficiently covered over the period as recommended by King IV.
- Review and further define the meaning of fair, responsible and transparent remuneration in the Group for inclusion in the remuneration policy.
- Review the appropriateness of the fixed to variable remuneration mix across all levels of the Group to ensure it is competitive, sustainable, fair and services the Group’s operational needs and objectives.
- Consider the implementation of pre-vesting forfeiture (malus) and post-vesting forfeiture (clawback) provisions in the remuneration policy for executive management within the context of prevailing local and international regulations and market practice.
- Review the benefits offered by the Group across all levels of employees.

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

This report of the committee focuses primarily on the remuneration of the Truworths International executive and non-executive directors. There were no material policy exceptions during the period.

Rob Dow
Chairman
The total remuneration mix is determined as follows:

<table>
<thead>
<tr>
<th>Guaranteed remuneration</th>
<th>Variable and performance-related remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual guaranteed remuneration</strong></td>
<td><strong>Short-term performance</strong></td>
</tr>
<tr>
<td><strong>Total guaranteed package, which can include the following benefits:</strong></td>
<td><strong>Short-term cash-based incentive scheme</strong></td>
</tr>
<tr>
<td>- <strong>Travel allowance</strong></td>
<td><strong>Restricted share plan</strong></td>
</tr>
<tr>
<td>- <strong>Retirement benefits</strong></td>
<td><strong>Share appreciation rights</strong></td>
</tr>
<tr>
<td>- <strong>Healthcare benefits</strong></td>
<td><strong>Office performance equity plan</strong></td>
</tr>
<tr>
<td>- <strong>Group life and disability insurance benefits</strong></td>
<td><strong>Total guaranteed package is based on performance, contribution, experience and market value relative to responsibilities within the Group.</strong></td>
</tr>
<tr>
<td>- <strong>Total guaranteed package is based on performance, contribution, experience and market value relative to responsibilities within the Group.</strong></td>
<td><strong>Benefits are of a compulsory nature but offer flexibility in option choices.</strong></td>
</tr>
</tbody>
</table>
| **Contractual obligations** | There are no contractual obligations at any level to pay special severance or compensation on termination of employment contracts arising from failure or incapacity to perform, or from under-performance against contracted objectives. |}

**Executive directors’ remuneration structure**

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

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

**Executive directors’ remuneration**

Executive directors have contracts that provide for notice periods of between six and nine months. In terms of the King IV principles and the JSE Listings Requirements, the Group’s remuneration policy and implementation report as set out in sections B and C which follow are required to be approved by separate non-binding advisory votes at the AGM.

The steps taken to address legitimate and reasonable concerns will be disclosed in the following year’s Remuneration Report.
The primary performance indicators on which executive directors are measured are:
• Return on assets (ROA)
• Return on equity (ROE)
• Earnings before interest paid and tax (EBIT)
• Gross margin
• Strategic goals

For incentive purposes, Group targets for ROA, ROE, EBIT, gross margin and strategic goals are determined by the committee and approved by the board. Detailed targets for long-term incentive share awards are disclosed in the Implementation report.

The CEO’s performance is further measured in relation to headline earnings growth and maintaining the quality of earnings, the achievement of long-term strategic goals, including succession planning, and the determination of the overall direction of the business. No provisions are made for pre-vesting forfeiture (malus) or post-vesting forfeiture (clawback) of guaranteed or variable remuneration.

The targets and measures are verifiable and a robust process is applied to both obtaining approval for the determination, as well as when making payment, of short and long-term incentives.

The committee has discretion regarding all incentive payments to mitigate unintended consequences.

Short-term incentives (STIs)

The short-term cash incentive scheme aims to drive performance and retain key talent. Individual performance is measured with reference to a scorecard of metrics to encourage executives to focus on both the financial and non-financial performance targets of the Group.

Financial targets are based primarily on earnings and earnings growth and no short-term incentive is paid to executive directors if the threshold performance measures and the Group’s published financial targets for the period are not achieved (refer to the Chief Financial Officer’s Report on page 45).

Non-financial targets are based on the long-term strategic goals of the business. The scheme is self-funded and the short-term incentives are only paid if the Group exceeds the financial performance targets after the cost of the incentives has been taken into account.

Participation in the scheme is at the discretion of the committee and generally limited to employees whose role and contribution could directly influence the performance of the Group. No portion of any executive directors’ short-term incentive is guaranteed. STIs are in the form of cash and the employees must be in service (and not in their notice period) on the date of payment.

<table>
<thead>
<tr>
<th>Percentage of annual guaranteed earnings for STI purposes</th>
<th>Below threshold</th>
<th>Threshold</th>
<th>On-target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>0%</td>
<td>12%</td>
<td>40%</td>
<td>80%</td>
</tr>
<tr>
<td>Executive directors</td>
<td>0%</td>
<td>12%</td>
<td>40%</td>
<td>80%</td>
</tr>
</tbody>
</table>

The STIs in respect of the 2018 reporting period were determined with reference to Group EBIT as gatekeeper, with the performance hurdles set at 100% of the targeted Group EBIT. These STIs only become payable to executive directors if the threshold EBIT level is achieved after the cost of the incentive is taken into account. However, long-term targets and maximum levels are pre-agreed in line with budgeted Group performance. Executive directors do not qualify to receive an STI if the threshold targets are not met.

Long-term incentives

Long-term incentive (LTI) schemes are aimed at aligning executive remuneration with shareholder interests by rewarding executives for the creation of shareholder value over the medium term. The LTI schemes are reviewed regularly to ensure alignment with overall reward as well as with best practice.

The Group operates four share-based LTI schemes in terms of the 2012 share plan and has introduced two further LTI schemes in terms of the Office performance equity plan.

<table>
<thead>
<tr>
<th>Retention awards</th>
<th>Performance awards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted share plan</td>
<td>Performance share plan</td>
</tr>
<tr>
<td>Share appreciation rights</td>
<td>Performance appreciation rights</td>
</tr>
<tr>
<td>Office performance equity plan</td>
<td>Office cash-settled phantom options</td>
</tr>
</tbody>
</table>

The following core principles apply to the Group’s share-based schemes:
• The maximum aggregate allocation resulting from all the schemes is limited to 10% of the company’s issued shares at June 2012 over the life of the schemes in terms of the policy, being 46 181 002 shares, but the committee’s guideline is to keep this below 7.5%.
• Annual allocations are capped at 1.25% of issued shares at June 2012 in any one year and no more than 5% in any five-year period in terms of the policy, but committee guidelines are to limit annual allocations to below 1% in any one year.
• The maximum aggregate allocation for any one employee is limited to 2.4% of issued shares at June 2012 over the life of the schemes in terms of the policy, being 11 083 440 shares.
• The restricted share plan scheme and share appreciation rights scheme have no performance conditions, and are utilised to support the retention of key executives and employees.
• The performance share plan scheme and performance appreciation rights scheme have multiple performance targets, and are utilised to support and reward good long-term decision-making and financial performance. Threshold, target and stretch measures are applied to all long-term incentive targets.
• The Office performance equity plan takes the form of options with performance targets and are utilised to reward and support the retention of key executives and employees of Office.
• Office cash-settled phantom options are awarded to reward and support the retention of key executives and employees directly contributing to the achievement of Office’s short, medium and long-term strategic goals.
• Awards can be made across all six schemes and can vest over a period of up to six years.
• Where awards lapse, there is no replacement compensation.
• No long-term incentive allocation is guaranteed.
• The committee assesses and approves all Group performance targets to ensure that the interests of all stakeholders are appropriately considered, and financial targets are set as an incentive for employees to perform, and simultaneously for the business to achieve stretch goals.
• All unvested shares and options, as well as unvested and unexercised vested rights are forfeited upon an employee’s resignation or dismissal in terms of the scheme rules.
• Retention-focused long-term incentives awarded to existing executive directors may not make up more than 50% of the total long-term incentive allocations in any particular year. These will only be issued in exceptional circumstances as the intention is for all awards for executive directors to be performance linked.
• Performance-focused long-term incentives issued to executive directors will be subject to corporate performance targets.
• Based on shareholder engagement, financial performance hurdles for long-term incentives have been amended to further include ROE and gross margin. Financial targets make up 20% of the weighting.
• The committee regularly monitors the overall actual and forecast impact and costs of these schemes on Group earnings.
• Loans to employees pursuant to the legacy 1998 share option scheme have been discontinued (historical loans will remain in place until they expire in 2028).

Legacy share scheme

The legacy long-term incentive scheme (1998 share option scheme) remains in operation but no further awards are currently planned to be made under this scheme. Potential payments relating to unvested instruments under the 1998 share option scheme as well as the number of instruments issued in terms of this scheme are taken into account in the allocation of shares under the 2012 share plan and Office performance equity plan.

Non-executive directors’ remuneration

Non-executive directors receive fixed fees for services rendered as directors and as members of board committees. These fees are based on an assessment of the non-executive directors’ time commitment, responsibilities, skills and experience. All non-executive directors receive the same base board fees, regardless of their length of service. In line with best governance and remuneration practice, non-executive directors do not participate in incentive schemes and do not receive any other benefits or performance-related remuneration from the Group. None of the non-executive directors have service contracts with the Group and no consultancy fees were paid to non-executive directors during the period. The remuneration of non-executive directors is reviewed annually by the committee using benchmarks from similar businesses. In line with best practice and to avoid a conflict of interests, current peer group comparators utilised are The Foschini Group Ltd, Woolworths Holdings Ltd, Mr Price Group Ltd, Massmart Holdings Ltd, Imperial Holdings Ltd, Shoprite Holdings Ltd and Clicks Group Ltd. Recommendations for increases are researched and presented by executive management to the committee for consideration, and made to the shareholders at the AGM for consideration and approval. Fees are determined in advance for a calendar year.
The committee annually reviews and approves the short-term incentive model as well as any payment allocation made. While the Group’s performance did not meet the Group EBIT target, other subsidiary company metrics for the reporting period were achieved and the committee approved the payment of reduced awards to certain high-performing employees and where individual performance targets were achieved. An amount of R26 million was paid in terms of these short-term incentive payments.

The below table details historical Group operating profit performance as well as short-term incentive pool payable for the period:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group operating profit (Rm)</td>
<td>3,946</td>
<td>3,965</td>
<td>4,154</td>
<td>3,443</td>
</tr>
<tr>
<td>(0.5% decrease)</td>
<td>(4.5% decrease)</td>
<td>(20.7% growth)</td>
<td>(2.6 % growth)</td>
<td></td>
</tr>
<tr>
<td>ROA (%)</td>
<td>25</td>
<td>26</td>
<td>24</td>
<td>38</td>
</tr>
<tr>
<td>Short-term incentive pool (Rm)</td>
<td>30</td>
<td>28</td>
<td>42</td>
<td>37</td>
</tr>
<tr>
<td>(7% growth)</td>
<td>(33.3% decrease)</td>
<td>(13.5% growth)</td>
<td>(61% growth)</td>
<td></td>
</tr>
<tr>
<td>(No payment made to executive directors)</td>
<td>(No payment made to executive directors)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Long-term incentives

Financial performance conditions and targets are determined by the committee. Measuring performance over a longer period ensures a focus on longer-term, sustainable growth in shareholder value. These targets are intended to focus management’s attention on growing revenue, containing the fixed cost base, making well-reasoned and profitable capital expenditure decisions, and maintaining a healthy and efficient balance sheet structure.

During the period the committee agreed and recommended for approval by the board the performance targets for the relevant share schemes in relation to awards being made in the 2018 reporting period.

The performance measures for awards made to executive directors were based on ROA, ROE, gross margin, EBIT growth and strategic targets with a variable vesting scale from 0% to 150%. No shares vest at all if performance falls below the 50% vesting target, whilst performance above the maximum 150% vesting target does not increase the vesting percentage above 150%. These awards were all performance based with a vesting period of between three and five years.

The committee also takes into account the economic environments in which the Group operates and that Truworths’ financial metrics in many instances are regarded as being industry leading. It is to be noted that the committee’s practice has been to set challenging targets for long-term incentive (LTI) purposes.

The targets applicable to the performance shares awarded during the 2018 financial year are as follows:

- **F2020 LTI targets for August 2017 Award**
  - ROA: 35% (20% on-target, 23% stretch)
  - EBIT growth: 35% (CPI, CPI + 1pp pa, CPI + 2pp pa, Excellent performance)
  - Strategic projects: 30% (Good performance, plus, plus, Excellent performance)

- **F2021 LTI targets for March 2018 Award**
  - ROA: 25% (20% on-target, 23% stretch)
  - ROE: 10% (23% on-target, 26% stretch)
  - EBIT growth: 20% (CPI, CPI + 1pp pa, CPI + 2pp pa, Excellent performance)
  - Strategic projects: 30% (Good performance, plus, Excellent performance)

Non-financial strategic projects include:
- Response to the affordability regulations in South Africa
- Introduction of Office Londen into South Africa
- Integration of Office in the Group
- Implementation of an updated brand vision for each buying division
- E-commerce implementation and roll-out
- Loads of Living integration in Truworths
- Introduction of lay-bys across all relevant countries

Only restricted shares were allocated during the period and all shares allocated to executive directors were performance based. No share appreciation rights were allocated during the period. Actual performance against targets was assessed for the 2018 period and applied to performance shares allocated in March 2016. Although the ROA target was exceeded, the EBIT growth threshold level was not achieved. This resulted in a total vesting of 52.3% of this share allocation. Since the implementation of the Group’s 2012 share plan, only one award has achieved vesting at the 100% target level, this being the September 2014 award. The committee believes the validity of its methodology of setting challenging targets has been confirmed by historic performance criteria resulting overall in an average percentage vesting of below 100%.

Share scheme allocations in the 2018 financial period:

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Number of participants</th>
<th>Value of awards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted share plan (with no performance targets)</td>
<td>558</td>
<td>R130m</td>
</tr>
<tr>
<td>Performance share plan (with performance targets)</td>
<td>16</td>
<td>R62m</td>
</tr>
<tr>
<td>Share appreciation rights (with no performance targets)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Performance appreciation rights (with performance targets)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Office equity performance plan</td>
<td>8</td>
<td>£250k</td>
</tr>
<tr>
<td>Office cash-settled phantom option plan</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Share instruments awarded to employees and executives, including the above share scheme allocations in the 2018 financial period, constitute 4.7% of total issued shares at June 2012 which is below the committee’s guideline aggregate allocation of 7.5% (10% in terms of the share scheme policy). The annual allocation as detailed above is 0.5% of issued shares at June 2012 which is below the committee guideline of 1% in any one year (0.25% in terms of the policy). The maximum aggregate allocation for any one participant is 0.9% of shares in issue at June 2012 (2.4% in terms of the policy).
Executive directors’ remuneration

Please refer to the Group Audited Annual Financial Statements 2018 on the website for further details relating to executive directors’ remuneration and share-based awards.

<table>
<thead>
<tr>
<th>Directors’ fees</th>
<th>Salaries</th>
<th>Performance bonus</th>
<th>Allowances</th>
<th>Interest benefit on loans</th>
<th>Total remuneration</th>
<th>Fair value of equity-based awards granted</th>
<th>Loans pursuant to 1998 share scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael Mark</td>
<td>12</td>
<td>9 100</td>
<td>–</td>
<td>–</td>
<td>3 334</td>
<td>12 505</td>
<td>10 000</td>
</tr>
<tr>
<td>David Pfaff</td>
<td>12</td>
<td>4 596</td>
<td>–</td>
<td>7</td>
<td>4 603</td>
<td>8 199</td>
<td>3 408</td>
</tr>
<tr>
<td>Doug Dare</td>
<td>12</td>
<td>3 731</td>
<td>–</td>
<td>19</td>
<td>84</td>
<td>3 834</td>
<td>2 854</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>17 427</td>
<td>–</td>
<td>97</td>
<td>3 418</td>
<td>20 942</td>
<td>16 322</td>
</tr>
<tr>
<td><strong>2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael Mark</td>
<td>12</td>
<td>9 100</td>
<td>–</td>
<td>76</td>
<td>3 460</td>
<td>12 636</td>
<td>9 658</td>
</tr>
<tr>
<td>David Pfaff</td>
<td>12</td>
<td>4 383</td>
<td>–</td>
<td>8</td>
<td>4 401</td>
<td>8 784</td>
<td>2 430</td>
</tr>
<tr>
<td>Doug Dare</td>
<td>12</td>
<td>2 986</td>
<td>–</td>
<td>20</td>
<td>96</td>
<td>3 102</td>
<td>2 358</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>16 479</td>
<td>–</td>
<td>104</td>
<td>3 556</td>
<td>20 139</td>
<td>14 446</td>
</tr>
</tbody>
</table>

*No further loans pursuant to the 1998 share scheme have been extended since 2015. Loans extended prior to this date can remain in place until they expire in 2020.*

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

Non-executive directors’ remuneration

The total fees paid to non-executive directors in respect of the 2018 financial period are detailed below.

<table>
<thead>
<tr>
<th>Proposed fees (excluding VAT) for 12 months to December 2019</th>
<th>Proposed % increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive chairman</td>
<td>980</td>
</tr>
<tr>
<td>Non-executive director</td>
<td>315</td>
</tr>
<tr>
<td>Audit Committee chairman</td>
<td>290</td>
</tr>
<tr>
<td>Audit Committee member</td>
<td>153</td>
</tr>
<tr>
<td>Remuneration Committee chairman</td>
<td>146</td>
</tr>
<tr>
<td>Remuneration Committee member</td>
<td>95</td>
</tr>
<tr>
<td>Risk Committee member (non-executive only)</td>
<td>95</td>
</tr>
<tr>
<td>Non-executive and Nomination Committee chairman</td>
<td>116</td>
</tr>
<tr>
<td>Non-executive and Nomination Committee member</td>
<td>69</td>
</tr>
<tr>
<td>Social and Ethics Committee chairman</td>
<td>70</td>
</tr>
<tr>
<td>Social and Ethics Committee member (non-executive only)</td>
<td>38</td>
</tr>
</tbody>
</table>

As regards the number of performance shares awarded to the executive directors in the 2018 financial year, Truworths advises that various considerations were taken into account by the committee.

The awards made to the CEO are likely to be the final allocation ahead of his envisaged retirement within the next few years, and it is noted the shares awarded vest over a five-year period. It is also to be noted that the CEO’s annual guaranteed pay has not been adjusted for three years, and accordingly the share award value to pay ratio appears disproportionately high.

The awards made to the other two executive directors were in pursuance of the CEO succession plans being implemented by the board, and acknowledged increased strategic responsibilities assumed by them in the year following a reallocation of portfolios and the acquisition of a homeware’s business. The awards also served to give effect to the board’s intention to create a new Chief Operating Officer role, to which David Pfaff was appointed in September 2018, and build the stable senior leadership team that will be necessary to support the effective execution of the CEO succession plans.

Although the committee does not have a disclosed policy for annual share awards per executive level, it does have guiding shareholding levels per executive director. These levels are aimed at ensuring substantive alignment between the interests of directors and shareholders, and are reviewed biannually. The share awards in the 2018 financial year were made having regard for these shareholding levels, and no executive director’s holdings exceed this guideline level.

The proposed fees of non-executive directors for the 2019 calendar year were benchmarked against fees payable by other JSE-listed companies with a similar profile and are detailed below.

As regards the number of performance shares awarded to the executive directors in the 2018 financial year, Truworths advises that various considerations were taken into account by the committee.

As regards the number of performance shares awarded to the executive directors in the 2018 financial year, Truworths advises that various considerations were taken into account by the committee.
PERFORMANCE REVIEW

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INTRODUCTION
After marking the 100th anniversary of Truworths’ founding last year, the first year of our next century proved challenging as the retail environments in our two major markets were severely impacted by deteriorating economic conditions.

On the positive side, it was a year in which the Group implemented several strategic initiatives which we believe will differentiate us in the retail market and be drivers of growth well into the future.

TOP-LINE GROWTH CHALLENGING
Weak trading conditions in SA and the UK weighed heavily on top-line growth. However, the Group demonstrated good margin and expense management, and the results were in line with our published guidance to investors.

Group retail sales on a comparable 52-week period basis were unchanged at R18 billion, with Truworths increasing sales by 0.8% to R13.1 billion and sales in Office declining 2.5% to £281 million (R4.8 billion).

Truworths’ gross margin increased by 30 basis points to 55.5%, the highest level since 2015. The gross margin in Office came under pressure owing to a greater proportion of sales being on marked down merchandise and a change in product mix to lower-margin sports brands, and as such declined from 46.0% to 44.4%. The overall Group gross margin was stable at 52.4% compared to 52.8% in the prior period.

Our continued focus on containing costs saw Group trading expenses decline by 1.9%. Comparable Group trading profit increased by 2.2% to R2.5 billion which was a pleasing result in the prevailing consumer environment. Truworths’ trading profit increased by 9.0% or by 3.0% excluding foreign exchange gains and losses. The difficult trading conditions in the UK retail market are evident in Office where the trading profit decreased by 32.3% as measured in pound sterling.

Comparable Group operating profit decreased 0.5% to R3.9 billion while the comparable Group operating margin was stable at 22.5% relative to 22.6% in the prior period.

A detailed analysis of the financial performance is included in the Chief Financial Officer’s report on pages 44 to 48.
MANAGING OUR RETAIL PRESENCE
The Group has an extensive real estate portfolio with 969 stores spread across our operations globally. Group retail space expanded by 3.2% and by 2.2% when the non-comparable Loads of Living and Office London stores are excluded. We are continuing to consolidate store space and close non-performing stores in the current environment. During the period 23 new stores were opened across all brands in South Africa and 10 under-performing stores closed.

An additional 26 stores were added through the launch of Office London (13 stores) and the acquisition of Loads of Living (13 stores), bringing our retail footprint in South Africa to 773 stores.

Our store presence in the rest of Africa was reduced from 47 to 40 following the opening of a new store in Namibia and the closure of stores in Ghana and Zambia due to unfavourable trading conditions.

The Office store base remained constant at 156 stores, including 40 concession outlets, across the UK, Germany and the Republic of Ireland.

Looking ahead, Group trading space growth is planned to grow by 2.5% in 2019 and 1.5% in 2020.

Expand e-commerce offering
The Office store base remained constant at 156 stores, including 40 concession outlets, across the UK, Germany and the Republic of Ireland.

The strength of the Group’s balance sheet in the constrained retail environment positions it to capitalise on potential acquisition opportunities. The Group’s active account base increased 2.1% to 2.6 million over the period, growing for the first time since the 2016 financial period.

In March 2018 the High Court found in favour of the Group and two other major listed retailers in the legal action taken against the National Credit Regulator and the Minister of Trade and Industry. The court rescinded the requirement for customers to provide documentary proof of income under the credit affordability assessment regulations on the grounds that it discriminated against consumers, such as self-employed persons, who were unable to furnish such proof.

During the time in which the documentation requirements were in force the Group successfully implemented account granting strategies, amended information systems and streamlined processes to mitigate the negative impact of the regulations. Notwithstanding the relative success of these changes, the outcome of the court case is positive for the Group.

Expand kidswear
The Kids Emporium concept is unique in South African retail and houses the LTD Kids, Earthchild and Naartjie brands. Fourteen new Kids Emporiums were opened, bringing the total footprint to 46 across South Africa (all housed within Truworths Emporium stores). The first two stand-alone Kids Emporium stores were opened during the period.

Truworths e-commerce and online shopping
After extensive planning and investment the e-commerce platform went live with the launch of the new sophisticated Truworths website in February 2018. The site was profitable from the outset and is already generating turnover equivalent to a medium-size Truworths store.

Office retail presence and e-commerce
E-commerce in Office accounted for 31% of retail sales, up from 28% in the prior period. The e-commerce offering was enhanced with the introduction of in-store merchandise look-up functionality and multi-currency payment options introduced to the UK websites. A new store design concept was applied to three new stores and will be refined for further roll-out.

IMPROVING ACCOUNT ENVIRONMENT
It is important to stress to shareholders that Truworths uses accounts as an enabler of sales to customers in the mainstream middle-income South African market, as opposed to operating a financial services business which is prevalent in credit retail. Our customers do not pay initiation, club, collection or magazine fees, and only pay an annual account service fee of R28. Financial services income (excluding interest income) accounts for only 0.3% of revenue.

South Africa’s credit environment is improving as confirmed by the TransUnion Consumer Credit Index, an indicator of consumer credit health in South Africa, which reached its highest level since 2011 in the first quarter of calendar 2018.

This improvement is also evident in the quality of the Truworths account portfolio. The doubtful debt provision to gross trade receivables decreased by 12.3% from 12.7% at June 2017 while net bad debt to gross trade receivables decreased to 14.7% from 15.0%. Active account holders able to shop increased by 84% compared to 82%, while the Group’s active account base increased 2% to 2.6 million over the period, growing for the first time since the 2016 financial period.

In March 2018 the High Court found in favour of the Group and two other major listed retailers in the legal action taken against the National Credit Regulator and the Minister of Trade and Industry. The court rescinded the requirement for customers to provide documentary proof of income under the credit affordability assessment regulations on the grounds that it discriminated against consumers, such as self-employed persons, who were unable to furnish such proof.

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NEW STRATEGIC PLANS FOR 2019
Expanding e-commerce offering
Following the successful launch of our new sophisticated e-commerce platform and the new Truworths website, the online store offering will be extended to include Office London, cosmetics and fragrances, and Loads of Living in the 2019 financial period. The YDE site is scheduled to launch in the first half of the 2019 financial period and the Identity site is planned to follow in the next year. Retail sales on the online platform are expected to match the sales of one of the larger Truworths stores by the 2019 period-end, and within two to three years are envisaged to equate to the sales of the largest Truworths store.

Truworths and Office collaboration
The ongoing collaboration between Truworths and Office will mainly focus on merchandise and e-commerce. Truworths’ and Office’s management have established a healthy working relationship for sharing ideas and resolving challenges.

This improvement is also evident in the quality of the Truworths account portfolio. The doubtful debt provision to gross trade receivables decreased by 12.3% from 12.7% at June 2017 while net bad debt to gross trade receivables decreased to 14.7% from 15.0%. Active account holders able to shop increased by 84% compared to 82%, while the Group’s active account base increased 2% to 2.6 million over the period, growing for the first time since the 2016 financial period.

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During the time in which the documentation requirements were in force the Group successfully implemented account granting strategies, amended information systems and streamlined processes to mitigate the negative impact of the regulations. Notwithstanding the relative success of these changes, the outcome of the court case is positive for the Group.

Strategic acquisition opportunities
The strength of the Group’s balance sheet in the constrained retail environment positions it to capitalise on potential acquisition opportunities with the focus on targets in SA and the UK which complement our fashion business or provide entry into new channels or markets.

New store concept ‘Context’
Truworths will be introducing an experiential concept store called Context which will house designer ladies fashion, fragrance and cosmetic brands, as well as homeware. The first two free-standing stores are planned to open in the second half of the 2019 financial period.

Introduction of lay-bys
Lay-by facilities are being introduced to enable non-account customers, who cannot afford to pay cash up front, access to Truworths’ merchandise. Lay-bys generated an uplift of approximately 2% in store sales in a pilot project across 20 stores and the facility is scheduled to be extended to all stores before the 2018 festive season trading period.
GROUP LEADERSHIP

David Pfaff, executive director and the Group’s Chief Financial Officer (CFO), was appointed to the newly created position of Group Chief Operating Officer in August 2018. He will continue in the role of CFO and head of the Group’s finance function. The appointment recognises David’s expanded responsibilities which now include retail store operations in addition to his existing portfolio of risk and analytics, account operations, information systems and finance. On behalf of the board and my executive colleagues we congratulate David and wish him success in his new role.

OUTLOOK

South Africa: Truworths

While sentiment improved after President Ramaphosa came into office, consumer spending remains under pressure due to low economic growth, high levels of unemployment and the continuously rising cost of living. A subsequent decline in consumer confidence and mounting pressure on emerging markets remain obstacles for growth. Uncertainty surrounding land reform is also impacting on business and investor confidence.

Several strategic projects recently undertaken by management aim to mitigate the effects of this challenging external environment. These include the e-commerce site, the introduction of lay-bys, the expansion of Loads of Living and the roll-out of a new store concept.

Management will continue its operational cost-containment efforts, while investing appropriately in infrastructure for the long-term.

The improved metrics on the debtors book, as evidenced by the growth in active accounts, reduced provisioning and higher percentages of account customers able to shop because they are not in arrears, are positive indicators for future sales.

Product inflation for the summer 2018 season is expected to be flat following deflation of 1.4% for the past reporting period.

United Kingdom: Office

Political uncertainty relating to the outcome of the Brexit negotiations continues to have a negative impact on the trading environment. However, stable inflation, better employment growth and wage inflation are expected to have a small but positive impact on UK household disposable income.

Management’s initiatives aimed at addressing margin decline through improved merchandise ranges and product mix are expected to arrest the profitability reduction experienced in the 2018 reporting period.

The well-established and growing online and mobile retail presence positions Office for growth in a market with an increasing preference for online shopping. Improvements to the store concept are aimed at attracting customers through an enhanced in-store experience. These improvements over time should help off-set the sales pressure on stores. Marketing, customer engagement and loyalty initiatives are being implemented to retain customers, and improve customer experience and communication.

Group

The Group remains committed to investing for long-term growth and capital expenditure of R746 million (Truworths R626 million and Office R6.6 million) has been committed for the 2019 period. A project is under way to significantly enhance the main Truworths distribution centre in Cape Town. This new enhanced facility, which will in all likelihood consolidate the current facilities into one large purpose-built distribution centre, will be built at a cost of R400 million to R500 million over the next three years and is planned for completion in 2021.

APPRECIATION

Our non-executive directors provide incredible support to the executive team through their wealth of diverse experience and collective wisdom, in addition to meeting their governance oversight responsibilities. Thank you to our Chairman, Hilton Saven, and my fellow directors for their guidance, insight and counsel.

The executive teams in Truworths and Office have performed well in the face of strong headwinds in the external environment and I thank them for their committed leadership. Our employees are passionate about our brands and are committed to delivering an exceptional shopping experience for our customers, and I thank them for a job well done.

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

Michael Mark
Chief Executive Officer

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## Five-Year Review of Financial Performance

### Period

<table>
<thead>
<tr>
<th>Number of weeks</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns and margin performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5-year average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross margin (%)</td>
<td>54</td>
<td>53</td>
<td>55</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Trading margin (%)</td>
<td>18</td>
<td>17</td>
<td>21</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>27</td>
<td>25</td>
<td>31</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>33</td>
<td>35</td>
<td>35</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>31</td>
<td>24</td>
<td>38</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>Inventory turnover (times)</td>
<td>4.4</td>
<td>4.5</td>
<td>4.3</td>
<td>4.7</td>
<td>5.3</td>
</tr>
<tr>
<td>Asset turnover (times)</td>
<td>1.1</td>
<td>1.1</td>
<td>1.0</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Net debt to equity (%)</td>
<td>20</td>
<td>18</td>
<td>33</td>
<td>59</td>
<td>59</td>
</tr>
<tr>
<td>Net debt to EBITDA (times)</td>
<td>0.2</td>
<td>0.4</td>
<td>0.6</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Return on invested capital (ROIC) (%)</td>
<td>16</td>
<td>20</td>
<td>23</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Weighted average cost of capital (WACC) (%)</td>
<td>14</td>
<td>13</td>
<td>13</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>ROIC divided by WACC</td>
<td>1.1</td>
<td>1.3</td>
<td>1.3</td>
<td>1.7</td>
<td>1.8</td>
</tr>
</tbody>
</table>

### Statements of comprehensive income

<table>
<thead>
<tr>
<th>5-year compound growth (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of merchandise (Rm)</td>
<td>17 547</td>
<td>16 065</td>
<td>16 654</td>
<td>11 290</td>
<td>10 458</td>
</tr>
<tr>
<td>Trading expenses (Rm)</td>
<td>16 904</td>
<td>17 006</td>
<td>16 437</td>
<td>16 291</td>
<td>16 143</td>
</tr>
<tr>
<td>Trading profit</td>
<td>–</td>
<td>2 518</td>
<td>2 708</td>
<td>2 851</td>
<td>2 373</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>2 396</td>
<td>3 915</td>
<td>3 946</td>
<td>3 375</td>
<td>3 375</td>
</tr>
<tr>
<td>Headline earnings (Rm)</td>
<td>2 267</td>
<td>2 836</td>
<td>2 860</td>
<td>2 471</td>
<td>2 471</td>
</tr>
</tbody>
</table>

### Statements of financial position

<table>
<thead>
<tr>
<th>5-year compound growth (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets (Rm)</td>
<td>40</td>
<td>6 509</td>
<td>7 413</td>
<td>1 876</td>
<td>1 360</td>
</tr>
<tr>
<td>Cash and cash equivalents (Rm)</td>
<td>40</td>
<td>6 509</td>
<td>7 413</td>
<td>1 876</td>
<td>1 360</td>
</tr>
<tr>
<td>Trade and other receivables (Rm)</td>
<td>6</td>
<td>5 110</td>
<td>5 281</td>
<td>4 657</td>
<td>4 182</td>
</tr>
<tr>
<td>Inventories (Rm)</td>
<td>21</td>
<td>2 072</td>
<td>1 916</td>
<td>2 401</td>
<td>1 074</td>
</tr>
<tr>
<td>Other current assets (Rm)</td>
<td>30</td>
<td>423</td>
<td>352</td>
<td>374</td>
<td>109</td>
</tr>
<tr>
<td>Total assets (Rm)</td>
<td>16</td>
<td>15 491</td>
<td>16 139</td>
<td>17 061</td>
<td>9 157</td>
</tr>
<tr>
<td>Total equity (Rm)</td>
<td>11</td>
<td>10 369</td>
<td>9 450</td>
<td>8 625</td>
<td>7 504</td>
</tr>
<tr>
<td>Non-current liabilities (Rm)</td>
<td>90</td>
<td>2 363</td>
<td>4 709</td>
<td>5 481</td>
<td>192</td>
</tr>
<tr>
<td>Current liabilities (Rm)</td>
<td>24</td>
<td>2 759</td>
<td>1 980</td>
<td>2 695</td>
<td>1 461</td>
</tr>
<tr>
<td>Total equity and liabilities (Rm)</td>
<td>16</td>
<td>15 491</td>
<td>16 139</td>
<td>17 061</td>
<td>9 157</td>
</tr>
</tbody>
</table>

### Statements of cash flows

<table>
<thead>
<tr>
<th>5-year compound growth (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash inflow from operations (Rm)</td>
<td>10</td>
<td>3 471</td>
<td>2 867</td>
<td>2 639</td>
<td>2 145</td>
</tr>
<tr>
<td>Capital expenditure (Rm)</td>
<td>12</td>
<td>485</td>
<td>467</td>
<td>589</td>
<td>390</td>
</tr>
</tbody>
</table>

### Share performance

<table>
<thead>
<tr>
<th></th>
<th>(cents per share)</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic earnings</td>
<td>154.8</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Headline earnings</td>
<td>159.7</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Diluted headline earnings</td>
<td>162.7</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Cash flow</td>
<td>180.4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Cash equivalent earnings</td>
<td>173.2</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Net asset value</td>
<td>2 411</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Weighted average cost of capital (WACC) (%)</td>
<td>14</td>
<td>13</td>
<td>13</td>
<td>14</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>ROIC divided by WACC</td>
<td>1.1</td>
<td>1.3</td>
<td>1.3</td>
<td>1.7</td>
<td>1.8</td>
<td></td>
</tr>
</tbody>
</table>

Note: 2016 includes the results of Office for 31 weeks, unless otherwise indicated.

- Impacted by the acquisition of Office. Net debt ratios reflect three-year averages.
- The 2016 ratio is based on the results of the Group including 12 months of Office’s profits, on a pro forma basis, excluding any exceptional non-recurring items.
- Includes shares previously repurchased and cancelled: 44 million (cost of R1.9 billion) in 2014, 26 million (cost of R275 million) in 2007 and 7 million (cost of R200 million) in 2006.
- The full ten-year review and definitions are available on the website at www.truworthsinternational.com/investors.
- The Summarised Group Annual Financial Statements appear on pages 49 and 50.
Factors in the external environment continued to influence performance as challenging economic conditions and prospects in the South African and United Kingdom markets resulted in the Group’s retail sales being unchanged for the second successive year.

Owing to the inclusion of a 53rd week in the prior period, the 52 weeks of the current period are not comparable to the 53 weeks of the prior period in terms of number of weeks and dates. Refer to the Impact of 53rd week in prior period below for further details.

Retail sales on a comparable basis were constant at R18.0 billion and decreased by 2.7% relative to the 53-week prior period. Comparable operating profit decreased by 0.5% to R3.9 billion (decreased by 6.3% compared to the 53-week prior period) and comparable headline earnings per share were 1.0% lower at 615.7 cents (7.0% lower compared to the 53-week prior period).

The directors have maintained the dividend cover at 1.5 times and declared an annual dividend of 420 cents per share, 7.1% lower than the prior period.

The Group demonstrated good operational management of expenses, gross margin and the debtors book, while the business remained strongly cash generative with a robust balance sheet and lower gearing at the end of the period.

Funding arrangements in South Africa were restructured to achieve a more efficient and cost-effective financing structure. The Group applied its cash resources to fund net borrowing repayments of R2.2 billion through scheduled and additional loan repayments. The impact of the restructuring was not material in the reporting period and we expect the cost benefits to be realised from the 2019 financial period onwards.

Cash generated from operations increased by 3.3% to R3.1 billion and the Group’s cash balance was R719 million (2017: R2.1 billion) at the end of the financial period.

The Group’s net debt to equity ratio at the end of the period was 9.3% compared to 18.3% a year earlier.

The cash realisation rate, which is a measure of how profits are converted into cash, was 109% for the period, compared to 91% in the prior period. Our cash realisation rate has averaged 93% for the past five financial years.

Owing to the inclusion of a 53rd week in the prior period, the 52 weeks of the current period are not comparable to the 53 weeks of the prior period in terms of number of weeks and dates. Performance relative to the prior period is measured with reference to the 53-week prior period’s published results, unless otherwise indicated. Where relevant, performance relative to the prior period is measured with reference to the pro forma comparable 52-week prior period (the comparable prior period) to allow for meaningful comparison and to ensure transparent reporting to shareholders. For more detail refer to note 15 in the 2018 Preliminary Report on the Audited Group Annual Results available at www.truworthsinternational.com/investors.

Impact of 53rd Week in Prior Period
In line with the general practice in the South African retail industry, the Group manages its operations in accordance with a retail calendar, which treats each financial year as an exact 52-week period. This treatment effectively results in the ‘loss’ of a day (or two days in a leap year) each calendar year. These days are brought to account every four to seven years by including a 53rd week in the financial reporting calendar.
Deteriorating macroeconomic conditions in SA

- Deteriorating economic conditions in SA’s low growth environment and rising living costs have resulted in declining consumer disposable income, negatively impacting sales.

Our response:
- Continued focus on cost containment to mitigate the impact of constrained top-line growth on profitability
- Successfully piloted lay-bys for roll-out across the Truworths chain in the 2019 financial period to allow cash customers to set aside and pay off merchandise over three months
- Close under-performing stores
- Expand e-commerce offering to all brands
- Increase membership of loyalty programmes to increase frequency of shopping and basket size
- Introduce new store concepts
- Expand the Loads of Living store base and product offering

Impact of Brexit-related uncertainty in the UK

- Retail sales remain under pressure in the UK following the Brexit referendum, with slowing economic growth, negative confidence levels and rising inflation placing pressure on wages.

Our response:
- Capitalise on positioning in online and mobile retail
- Improve in-store experience to attract customers
- Marketing, customer engagement and loyalty initiatives to attract and retain customers
- Focus on cost containment to mitigate the constrained top-line growth

Improving credit market in SA

- SA’s credit market improved over the reporting period. The TransUnion Consumer Credit Index, which measures the credit health of consumers, reached its highest level since 2011 in the first quarter of 2018.

Our response:
- Leverage the investment in data, predictive modelling and decision execution technology to grow and improve the profitability of the debtors book
- Redevelop new account limit management strategies to increase profitability, within risk constraints
- Leverage customer data across bricks and mortar and online trading environments

Exchange rate volatility and depreciating currencies

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

Our response:
- All import orders are covered using forward exchange contracts
- The gross profit margin is protected through forward cover, by planning merchandise in value rather than units to contain markdowns and through quick reaction to sales performance

The weaker pound has increased the cost of euro-denominated imports and other inputs in Office.

GROUP FINANCIAL AND OPERATING TARGETS

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

The Group’s performance for the 2018 period was in line with all six board-approved targets.

Table: Performance Summary

<table>
<thead>
<tr>
<th>Target achieved</th>
<th>Local benchmark*</th>
<th>Global benchmark**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin (%)</td>
<td>52.4</td>
<td>51 – 55</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>22.5</td>
<td>20 – 25</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>27</td>
<td>20 – 31</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>25</td>
<td>22 – 27</td>
</tr>
<tr>
<td>Inventory turn (times)</td>
<td>4.0</td>
<td>3.5 – 4.5</td>
</tr>
<tr>
<td>Asset turnover (times)</td>
<td>1.1</td>
<td>0.8 – 1.3</td>
</tr>
</tbody>
</table>

* The local benchmarks are based on the average ratios for comparable JSE-listed apparel retailers for the 2018 period.

** The global benchmarks are based on the average ratios for global fashion retailers, H&M and Inditex, for the 2017 period.

ANALYSIS OF FINANCIAL CAPITAL

The following analysis of performance aims to demonstrate how the Group’s financial capital has been increased, decreased or transformed through the Group’s operating and investing activities in the 2018 reporting period, and how the effective management of this capital is expected to contribute to value creation for shareholders in the short, medium and long-term.

This review of financial performance should be read together with the Group’s audited annual financial statements, which are available at www.truworthsinternational.com/investors.

GROUP

Statements of comprehensive income

Sale of merchandise

Group retail sales were unchanged at R18.0 billion relative to the comparable prior period. Relative to the 53-week prior period Group retail sales decreased by 2.7%.

Account sales comprised 50% (2017: 50%) of retail sales for the period.

Group sale of merchandise, which comprises Group retail sales, together with wholesale and franchise sales and delivery fee income, less accounting adjustments, was unchanged at R17.5 billion relative to the comparable prior period (declined by 2.9% compared to the 53-week prior period).

<table>
<thead>
<tr>
<th>Divisional sales**</th>
<th>Comparable 52 weeks to 2 Jul 2017*</th>
<th>Change on prior period 52 weeks to 2 Jul 2017 %</th>
<th>Change on prior period 53 weeks to 2 Jul 2017 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truworths ladieswear</td>
<td>3 753 (1) 3 753</td>
<td>(3) (3)</td>
<td>988 (6)</td>
</tr>
<tr>
<td>Truworths ladieswear designer emporium‡</td>
<td>1 383 (1) 1 383</td>
<td>(1) (1)</td>
<td>1 436 (4)</td>
</tr>
<tr>
<td>Total Truworths ladieswear</td>
<td>5 136 (1) 5 136</td>
<td>(3) (3)</td>
<td>4 427 (5)</td>
</tr>
<tr>
<td>Office</td>
<td>4 488 (1) 4 488</td>
<td>(3) (3)</td>
<td>5 081 (5)</td>
</tr>
<tr>
<td>Truworths menswear*</td>
<td>3 063 (1) 3 063</td>
<td>(3) (3)</td>
<td>3 759 (3)</td>
</tr>
<tr>
<td>Identity</td>
<td>2 082 (1) 2 082</td>
<td>(3) (3)</td>
<td>2 129 (2)</td>
</tr>
<tr>
<td>Truworths kids emporium*</td>
<td>925 (1) 925</td>
<td>(3) (3)</td>
<td>896 (3)</td>
</tr>
<tr>
<td>Other§</td>
<td>1 309 (1) 1 309</td>
<td>(3) (3)</td>
<td>1 183 (1)</td>
</tr>
<tr>
<td>Group retail sales</td>
<td>17 963 (1) 17 963</td>
<td>(3) (3)</td>
<td>18 472 (3)</td>
</tr>
<tr>
<td>Delivery fee income</td>
<td>51 (1) 51</td>
<td>(3) (3)</td>
<td>53 (4)</td>
</tr>
<tr>
<td>Wholesale sales</td>
<td>66 (1) 66</td>
<td>(3) (3)</td>
<td>58 (4)</td>
</tr>
<tr>
<td>Franchise sales</td>
<td>5 (1) 5</td>
<td>(3) (3)</td>
<td>8 (3)</td>
</tr>
<tr>
<td>Accounting adjustments</td>
<td>(518) (1) (518)</td>
<td>(3) (3)</td>
<td>(518) (3)</td>
</tr>
<tr>
<td>Sale of merchandise</td>
<td>17 547 (1) 17 547</td>
<td>(3) (3)</td>
<td>18 065 (3)</td>
</tr>
<tr>
<td>YDE agency sales</td>
<td>254 (1) 254</td>
<td>(3) (3)</td>
<td>278 (4)</td>
</tr>
</tbody>
</table>

* The local benchmarks are based on the average ratios for comparable JSE-listed apparel retailers for the 2018 period.

** The global benchmarks are based on the average ratios for global fashion retailers, H&M and Inditex, for the 2017 period.

† Daniel Hechter Ladies, Ginger Mary, Glamour, LTD Ladies and Earthaddict.

‡ Daniel Hechter Ladies, Ginger Mary, Glamour, LTD Ladies and Truworths ladieswear designer emporium.

~ Truworths Man, Uzzi, Daniel Hechter Mens and LTD Mens.

# Truworths kids emporium.

^ Cellular, Truworths Jewellery, Cosmetics, Office London and Loads of Living.

Truworths trading space increased by 3.2% as a net 32 stores were added across all brands during the period. The Loads of Living chain acquired during the period accounted for 13 of the new stores, while the launch of Office London in South Africa added a further 13 stores. Excluding Loads of Living, trading space increased by 2.1%. At the end of the period the Group had 969 stores, including 40 concession outlets (2017: 937, including 38 concession outlets).
Gross margin
The Group’s gross margin was stable at 52.4% (2017: 52.6%).

Trading expenses
Trading expenses decreased by 1.9% to R7.0 billion (2017: R7.1 billion) and constituted 39.8% (2017: 39.2%) of sale of merchandise. Excluding foreign exchange gains in 2018 of R29 million and losses in 2017 of R93 million, trading expenses decreased by 0.1%, reflecting the continued focus on efficiency and cost containment. For further detail on trading expenses refer to the Truworths and Office sections in this report.

Interest received
Interest received decreased by 2.9% to R1.4 billion (2017: R1.5 billion), mainly due to decreases totalling 50 basis points in the SA repo rate since the beginning of the reporting period as well as a decrease in trade receivables.

Operating profit
Operating profit decreased 0.5% to R3.9 billion relative to the comparable prior period (decreased 6.3% compared to the 53-week prior period) while the operating margin was stable at 22.5% on a comparable basis. The operating profit decline is attributable to the reduction in gross profit, compounded by a relatively smaller decrease in trading expenses, as well as lower interest received.

Finance costs
Finance costs decreased by 15.3% to R250 million (2017: R285 million) mainly as a result of the settlement of a portion of the Group’s long-term borrowings and decreases totalling 50 basis points in the SA repo rate.

Earnings
HEPS and diluted HEPS decreased by 1.0% to 615.7 cents and 1.3% to 612.7 cents respectively relative to the comparable prior period. Relative to the 53-week prior period, HEPS and diluted HEPS decreased by 7.0% and 7.3% respectively.

Statements of financial position
The Group’s financial position remains strong, with net asset value per share at period-end increasing by 10.0% to 2,421 cents (2017: 2,201 cents).

Interest-bearing borrowings at the period-end decreased to R1.7 billion from R3.8 billion at the prior period-end, primarily as a consequence of the timing of the Truworths end-of-season sale, which commenced in the 53rd week of the prior period. The inventory in Office increased from £47 million at the prior period-end to £50 million mainly as a consequence of weaker trading.

Cash and capital management
The Group generated R3.1 billion in cash from operations and this funded dividend payments of R1.9 billion, capital expenditure of R495 million and share buy-backs of R184 million. As referred to earlier, the Group utilised its available cash resources to fund net borrowing repayments of R2.2 billion through scheduled and additional loan repayments, as well as the restructuring of its funding arrangements in South Africa. Net cash and cash equivalents at period-end totalled R719 million (2017: R2.1 billion).

The cash realisation rate was 109% for the period compared to 91% in the 53-week prior period.

The Group’s net debt to equity ratio at the end of the period was 9.3% (2017: 18.3%) and net debt to EBITDA was 0.2 times (2017: 0.4 times).
This analysis covers the performance of the Truworths business segment, which operates in South Africa and in the rest of Africa, and includes YDE.

### Statements of comprehensive income

**Sale of merchandise**

Sale of merchandise increased by 1% to R13.1 billion relative to the comparable prior period (decreased 2% compared to the 53-week prior period), with cash sales increasing by 3% and account sales being unchanged. Account sales accounted for 69% (2017: 70%) of retail sales. Product deflation averaged 1.4% for the period.

Sale of merchandise increased by 1% to R12.6 billion relative to the comparable prior period (decreased 2% compared to the 53-week prior period).

The South African operations accounted for 96% (2017: 96%) of the Truworths segment’s retail sales, with the 40 (2017: 47) stores in the rest of Africa contributing the balance.

Retail space increased by 3.3% and by 2.2% excluding the 13 Loads of Living stores acquired during the year. A net six stores were opened in addition to the 13 stores opened under the new Office London brand.

While Truworths’ trading density declined to R35 256 per m² (2017: R36 317 per m²), this remains among the highest level in the local retail sector.

**Gross margin**

The gross margin improved by 30 basis points to 55.5% (2017: 55.2%).

**Analysis of trading expenses**

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>289</td>
<td>277</td>
</tr>
<tr>
<td>Employment costs</td>
<td>1,474</td>
<td>1,438</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>1,462</td>
<td>1,381</td>
</tr>
<tr>
<td>Trade receivable costs</td>
<td>1,099</td>
<td>1,207</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>720</td>
<td>875</td>
</tr>
<tr>
<td><strong>Trading expenses</strong></td>
<td><strong>5,044</strong></td>
<td><strong>5,158</strong></td>
</tr>
</tbody>
</table>

* 4% decrease excluding the impact of foreign exchange gains and losses in both periods.

**Analysis of trading expenses**

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>5.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Employment costs</td>
<td>37.0</td>
<td>38.0</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>45.1</td>
<td>45.9</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>23.5</td>
<td>21.5</td>
</tr>
<tr>
<td><strong>Trading expenses</strong></td>
<td><strong>111.2</strong></td>
<td><strong>111.9</strong></td>
</tr>
</tbody>
</table>

* 4% decrease excluding the impact of foreign exchange gains and losses in both periods.

**Occupancy costs decreased 2% due to successful lease renewal negotiations and a lower rental base following the closure of four stand-alone stores.**

**Other operating costs increased 9% due to non-comparable one-off items in the current and prior periods as well as an increase in e-commerce related promotion and fulfilment expenses to grow sales.**

**Operating profit**

Operating profit decreased by 32% to £16 million relative to the comparable prior period (decreased 28% compared to the 53-week prior period), with the operating margin declining to 5.8% from 6.3%. The decline in operating profit and operating margin is mainly a consequence of the reduction in gross margin.

**Statements of comprehensive income**

**Sale of merchandise**

Sale of merchandise decreased by 2.3% to £286 million (R4.9 billion) relative to the comparable prior period and by 4.3% relative to the 53-week prior period.

Retail sales declined by 2.5% on a comparable basis to £281 million (R4.8 billion) and by 4.5% relative to the 53-week prior period. Trading space increased by 9%.

E-commerce sales showed continued strong growth and accounted for 31% of retail sales (2017: 28%).

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

**E-commerce sales**

E-commerce sales showed continued strong growth and accounted for 31% of retail sales (2017: 28%).

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

**Retail sales**

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>52 weeks</td>
<td>53 weeks</td>
</tr>
<tr>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>R 281</td>
<td>R 156*</td>
</tr>
</tbody>
</table>

* Includes 40 concession stores (2017: 38).

**Gross margin**

Gross margin declined to 44.4% (2017: 46.0%) owing to a greater proportion of sales being on marked down merchandise and a shift in product mix to lower-margin sports brands. Refer to the Office Material issues, risks and opportunities section (Managing the risk of fashion) on page 65 for further detail.

**Analysis of trading expenses**

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>5.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Employment costs</td>
<td>37.0</td>
<td>38.0</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>45.1</td>
<td>45.9</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>23.5</td>
<td>21.5</td>
</tr>
<tr>
<td><strong>Trading expenses</strong></td>
<td><strong>111.2</strong></td>
<td><strong>111.9</strong></td>
</tr>
</tbody>
</table>

**Occupancy costs decreased 2% due to successful lease renewal negotiations and a lower rental base following the closure of four stand-alone stores.**

**Other operating costs increased 9% due to non-comparable one-off items in the current and prior periods as well as an increase in e-commerce related promotion and fulfilment expenses to grow sales.**

**Operating profit**

Operating profit decreased by 32% to £16 million relative to the comparable prior period (decreased 28% compared to the 53-week prior period), with the operating margin declining to 5.8% from 6.3%. The decline in operating profit and operating margin is mainly a consequence of the reduction in gross margin.
GROUP INFORMATION TECHNOLOGY

Capital expenditure of R81 million (2017: R71 million) was invested in leading-edge information technology (IT) systems over the past year to support the retail operations and supply chain. The Group has committed R160 million for Truworths and Office IT capital expenditure for the 2019 reporting period. The increase in IT capital expenditure in 2019 is mainly attributable to the project to upgrade the core merchandise system.

Major IT developments: Truworths

Completed in 2018 financial period

- Launched new e-commerce site for Truworths
- Upgraded workforce management system for stores to drive ongoing productivity improvements
- Integrated Loads of Living into Truworths’ systems
- Implemented a product life cycle management system to optimise procurement and supply chain processes across all divisions. The system became operational in several departments in Truworths during the period and will be extended to the remaining departments in the 2019 period

Planned for completion in 2019 financial period

- Migrate Office’s legacy financial system onto the Group’s financial system, which will leverage the functionality offered by Truworths’ financial systems and facilitate financial reporting across the business
- Develop new e-commerce enabled websites for Office London, Loads of Living and Identity
- Launch an e-commerce facility for YDE
- Implement systems to support lay-by facilities to be offered in all Truworths, Identity and Office London stores
- Upgrade core merchandise operations management system to leverage new features and improve omni-channel capabilities
- Introduce machine learnings and artificial intelligence applications to maximise the significant value of Truworths’ customer and merchandise data
- Perform independent cybersecurity assessment

Major IT developments: Office

Completed in 2018 financial period

- Implemented multi-currency payment system on e-commerce platform
- Prepared for implementation of new financial system and e-procurement
- Improved warehouse stock auditing process
- Undertook evaluation in preparation for replacement of warehouse management system

Planned for completion in 2019 financial period

- Implement new financial system and e-procurement
- Introduce new warehouse management system
- Implement new human resources system
- Upgrade customer-facing store technology
- Implement new omni-channel payment processor

GROUP TARGETS AND PLANS FOR 2019

The Group’s financial and operating targets have been reviewed for the 2019 reporting period. The board-approved targets for operating margin, return on equity and return on assets have been revised downwards.

<table>
<thead>
<tr>
<th>Target</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin (%)</td>
<td>51 – 55</td>
<td>51 – 55</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>19 – 24</td>
<td>19 – 24</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>23 – 28</td>
<td>23 – 28</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>20 – 25</td>
<td>20 – 25</td>
</tr>
<tr>
<td>Inventory turn (times)</td>
<td>3.5 – 4.5</td>
<td>3.5 – 4.5</td>
</tr>
<tr>
<td>Asset turnover (times)</td>
<td>0.9 – 1.3</td>
<td>0.9 – 1.3</td>
</tr>
</tbody>
</table>

Capital expenditure of R746 million (Truworths R626 million and Office R120 million) has been committed for the 2019 financial period and will be applied mainly as follows:

- R415 million for new stores and the expansion and refurbishment of existing stores
- R160 million for information systems
- R135 million for buildings, mostly in respect of renovations planned for the office building which was acquired during 2016
- R14 million for distribution facilities

Pursuant to the Group’s commitment to invest for future growth, management plans to enhance Truworths’ main distribution centre in Cape Town by 2021. The project is anticipated to cost between R400 million and R500 million, and will in all likelihood consolidate the current facilities into one large purpose-built distribution centre. Refer to the Optimising supply chain efficiency report on page 56 for further detail.

Trading space in Truworths is planned to increase by approximately 2.5%. A net 10 new stores are planned as 24 under-performing stores are scheduled to be closed. Office’s trading space is expected to grow by 0.3%.

Negligible product inflation for Truworths is expected for July to December 2018 (summer 2018), however recent Rand weakness is likely to drive product inflation thereafter.

The trading outlook for Truworths and Office for the 2019 financial period is covered in the Chief Executive Officer’s report on page 42.

Thank you to our international and local shareholders for their continued investment and we welcome those who invested for the first time during the period. We also thank fund managers, analysts and the broader investment community for their interest and engagement with management. The finance teams in Truworths and Office constantly strive for the highest standards of corporate reporting and I thank them for their support and commitment over the period.

David Pfaff
Chief Financial Officer and Chief Operating Officer
The information in these summarised Group annual financial statements has been extracted from the Group’s 2018 Audited Annual Financial Statements and the Preliminary Report on the Audited Annual Results.

### Summarised Group Statements of Financial Position

<table>
<thead>
<tr>
<th>1 Jul 2018</th>
<th>2 Jul 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td><strong>ASSETS</strong></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>6 904</td>
</tr>
<tr>
<td>Goodwill</td>
<td>1 726</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>3 227</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>10</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>139</td>
</tr>
<tr>
<td><strong>Deferred tax</strong></td>
<td>173</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>8 587</td>
</tr>
<tr>
<td>Inventories</td>
<td>2 072</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>5 110</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>73</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>982</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>15 491</td>
</tr>
<tr>
<td><strong>Equity and liabilities</strong></td>
<td><strong>Equity and liabilities</strong></td>
</tr>
<tr>
<td>Total equity</td>
<td>10 369</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>2 363</td>
</tr>
<tr>
<td>Interest-bearing borrowings</td>
<td>1 268</td>
</tr>
<tr>
<td>Put option liability</td>
<td>389</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>706</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>2 759</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>1 800</td>
</tr>
<tr>
<td>Interest-bearing borrowings</td>
<td>419</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>263</td>
</tr>
<tr>
<td>Contingent consideration obligation</td>
<td>–</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>277</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>5 122</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>15 491</td>
</tr>
<tr>
<td>Number of shares in issue (net of treasury shares) (millions)</td>
<td>428.3</td>
</tr>
<tr>
<td>Net asset value per share (cents)</td>
<td>2 421.0</td>
</tr>
</tbody>
</table>

### Summarised Group Statements of Comprehensive Income

#### 52 weeks to 1 Jul 2018

| | **Revenue** |
| | 19 254 |
| | **Sale of merchandise** |
| | 17 547 |
| | **Cost of sales** |
| | (8 354) |
| | **Gross profit** |
| | 9 193 |
| | **Other income** |
| | 93 |
| | **Other trading income** |
| | 279 |
| | **Trading expenses** |
| | (6 954) |
| | **Trading profit** |
| | 2 198 |
| | **Interest received** |
| | 420 |
| | **Dividends received** |
| | 8 |
| | **Operating profit** |
| | 3 941 |
| | **Finance costs** |
| | (250) |
| | **Profit before tax** |
| | 3 691 |
| | **Tax expense** |
| | 101 |
| | **Profit for the period** |
| | 3 590 |

#### 52 weeks to 2 Jul 2017

| | **Revenue** |
| | 19 374 |
| | **Sale of merchandise** |
| | 17 562 |
| | **Cost of sales** |
| | (8 336) |
| | **Gross profit** |
| | 9 236 |
| | **Other income** |
| | 93 |
| | **Other trading income** |
| | 291 |
| | **Trading expenses** |
| | (7 073) |
| | **Trading profit** |
| | 2 164 |
| | **Interest received** |
| | 1 477 |
| | **Dividends received** |
| | 24 |
| | **Operating profit** |
| | 3 965 |
| | **Finance costs** |
| | (289) |
| | **Profit before tax** |
| | 3 676 |
| | **Tax expense** |
| | 101 |
| | **Profit for the period** |
| | 3 575 |

#### 53 weeks to 2 Jul 2017

| | **Revenue** |
| | 19 246 |
| | **Sale of merchandise** |
| | 17 562 |
| | **Cost of sales** |
| | (8 365) |
| | **Gross profit** |
| | 9 284 |
| | **Other income** |
| | 93 |
| | **Other trading income** |
| | 291 |
| | **Trading expenses** |
| | (7 086) |
| | **Trading profit** |
| | 2 164 |
| | **Interest received** |
| | 1 477 |
| | **Dividends received** |
| | 24 |
| | **Operating profit** |
| | 3 965 |
| | **Finance costs** |
| | (289) |
| | **Profit before tax** |
| | 3 676 |
| | **Tax expense** |
| | 101 |
| | **Profit for the period** |
| | 3 575 |

#### Key Ratios

- **Return on equity (%)**
  - 27
- **Return on capital (%)**
  - 40
- **Return on assets (%)**
  - 25
- **Inventory turnover (times)**
  - 4.0
- **Asset turnover (times)**
  - 1.1
- **Net debt to equity (%)**
  - 9.3
- **Net debt to EBITDA (%)**
  - 0.2

*In line with the practices generally prevailing in the South African retail industry, the Group manages its internal accounting and retail operations in accordance with a retail calendar, which treats each financial year as an exact 52-week period. This treatment of financial results is the result of a day or less in a 53-week period in every three to four years by including a 53rd week in the financial reporting period. Due to the inclusion of a 53rd week in the 2018 financial year, the 53 weeks of the current period are not comparable to the 53 weeks of the prior period in terms of number of weeks and days. Although the Group has reported comparative financial results for the 53 weeks to 2 July 2017, it is useful and good governance to also report information for the directly corresponding 52-week prior period from 4 July 2016 to 2 July 2017, in order to facilitate comparison of the current period’s results against such comparable prior period results. These adjustments are not expected to have a continuing effect as they will only occur in every 53-week period.

The unaudited pro forma comparable 52-week prior period information for the period ended 2 July 2017 has been prepared for illustrative purposes only to indicate how the actual audited results of the Group for the current period compare to such information.

Refer to note 51 in the Preliminary Report on the Audited Annual Results for the 52 weeks ended 2 July 2018 for more information.

**Group sale of merchandise, which comprises Group retail sales, together with wholesales and franchise sales and delivery fee income, less accounting adjustments, declined 2.9% relative to the comparable prior period.** Relative to the 53-week prior period, Group sale of merchandise declined by 2.3%.

Trading expenses decreased 1.9% and constituted 39.6% (2017: 39.3%) of sale of merchandise. Excluding foreign exchange gains in 2018 (R29 million) and losses in 2017 (R3 million), trading expenses decreased by 0.1%, reflecting management’s continued focus on efficiency and cost containment.

Interest received decreased by 3.3% mainly due to decreases totalling 50 basis points in the South African repo rate since the beginning of the reporting period and a decrease in trade receivables. Trade receivable income (R1.36 billion) exceeded the cost of the book (R1.27 billion) by R171 million.

Finance costs decreased by 15.3% mainly as a result of the settlement of a portion of the Group’s long-term borrowings and decreases in the South African repo rate referred to above.

Headline earnings per share (HEPS) and diluted HEPS decreased by 1.0% to 615.7 cents and 1.3% to 612.7 cents respectively relative to the comparable prior period. Relative to the 53-week prior period, HEPS and diluted HEPS decreased by 7.0% and 7.3% respectively.

The Group’s gross margin increased 22.5% (2017: 23.8%) to 52.6% (2017: 52.6%). This decline is attributable to the decrease in the gross profit, compounded by a relatively smaller decrease in trading expenses, as well as a decrease in interest received.

### Key ratios

- **Return on equity** (%): 40
- **Return on capital** (%): 25
- **Return on assets** (%): 20
- **Inventory turnover** (times): 4.0
- **Asset turnover** (times): 1.1
- **Net debt to equity** (%): 9.3
- **Net debt to EBITDA** (%): 0.2

Key ratios:

- **Return on equity** (%): 27
- **Return on capital** (%): 40
- **Return on assets** (%): 25
- **Inventory turnover** (times): 4.0
- **Asset turnover** (times): 1.1
- **Net debt to equity** (%): 9.3
- **Net debt to EBITDA** (%): 0.2
### SUMMARISED GROUP STATEMENTS OF CHANGES IN EQUITY

<table>
<thead>
<tr>
<th></th>
<th>1 Jul 2018</th>
<th>2 Jul 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the period attributable to the equity holders of the company</td>
<td>9 450</td>
<td>8 625</td>
</tr>
<tr>
<td>Total comprehensive income for the period</td>
<td>2 909</td>
<td>2 223</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>2 665</td>
<td>2 866</td>
</tr>
<tr>
<td>Other comprehensive income/(losses) for the period</td>
<td>244</td>
<td>(643)</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>(1 925)</td>
<td>(1 527)</td>
</tr>
<tr>
<td>Shares repurchased</td>
<td>(184)</td>
<td>(101)</td>
</tr>
<tr>
<td>Utilisation of treasury shares in respect of the exercise of options in terms of the 1998 share option scheme</td>
<td>—</td>
<td>8</td>
</tr>
<tr>
<td>Premium on shares issued in terms of the 1998 share option scheme</td>
<td>—</td>
<td>8</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>87</td>
<td>61</td>
</tr>
<tr>
<td>Acquisition of non-controlling interest</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Movement in put option liability</td>
<td>11</td>
<td>162</td>
</tr>
<tr>
<td>Balance at the reporting date attributable to the equity holders of the company</td>
<td>10 369</td>
<td>9 450</td>
</tr>
</tbody>
</table>

**Comprising:**
- Share capital and premium: 729 (706)
- Treasury shares (1 083) (1 039)
- Retained earnings: 10 032 (10 212)
- Non-distributable reserves: (209) (529)
- Total equity attributable to the equity holders of the company: 10 369 (9 450)

**Dividends (cents per share):**
- Cash final – payable/paid September: 159 (182)
- Cash interim – paid March: 261 (270)
- Total: 420 (452)

### SUMMARISED GROUP STATEMENTS OF CASH FLOWS

#### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>1 Jul 2018</th>
<th>2 Jul 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow from trading and cash EBITDA*</td>
<td>2 905</td>
<td>3 189</td>
</tr>
<tr>
<td>Working capital movements</td>
<td>172</td>
<td>(151)</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>3 137</td>
<td>3 038</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>1 433</td>
<td>1 497</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(244)</td>
<td>(292)</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(855)</td>
<td>(1 256)</td>
</tr>
<tr>
<td>Cash inflow from operations</td>
<td>3 471</td>
<td>2 987</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>(1 925)</td>
<td>(1 527)</td>
</tr>
<tr>
<td>Net cash from operating activities</td>
<td>1 546</td>
<td>1 460</td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>1 Jul 2018</th>
<th>2 Jul 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of property, plant, equipment and computer software</td>
<td>(485)</td>
<td>(488)</td>
</tr>
<tr>
<td>Loans advanced</td>
<td>(47)</td>
<td>—</td>
</tr>
<tr>
<td>Other investing activities</td>
<td>(71)</td>
<td>(29)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(600)</td>
<td>(407)</td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>1 Jul 2018</th>
<th>2 Jul 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds on shares issued</td>
<td>23</td>
<td>—</td>
</tr>
<tr>
<td>Shares repurchased by subsidiaries</td>
<td>(184)</td>
<td>(101)</td>
</tr>
<tr>
<td>Borrowings repaid</td>
<td>(2 979)</td>
<td>(324)</td>
</tr>
<tr>
<td>Borrowings incurred</td>
<td>800</td>
<td>—</td>
</tr>
<tr>
<td>Other financing activities</td>
<td>(6)</td>
<td>(3)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(2 345)</td>
<td>(428)</td>
</tr>
</tbody>
</table>

**Net increase in cash and cash equivalents:**
- 1 403 (535)

**Cash and cash equivalents at the beginning of the period:**
- 2 055 (3 192)

**Net foreign exchange difference:**
- 66 (172)

### CASH AND CASH EQUIVALENTS AT THE REPORTING DATE

<table>
<thead>
<tr>
<th></th>
<th>1 Jul 2018</th>
<th>2 Jul 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>1 403</td>
<td>535</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the period</td>
<td>2 055</td>
<td>3 192</td>
</tr>
</tbody>
</table>

### Key ratios

- Cash flow per share (cents): 807.4 (697.2)
- Cash equivalent earnings per share (cents): 738.3 (766.3)
- Cash realisation rate (%): 109 (91)

* Earnings before interest received, finance costs, tax, depreciation and amortisation.
OPERATIONAL REVIEW: TRUWORTHS

- Market-leading brand portfolio
- Managing the risk of fashion
- Optimising supply chain efficiency
- Managing account risk
- Managing retail presence
- Human capital report
Truworths owns an enviable portfolio of market-leading fashion clothing and footwear brands, offering some of South Africa’s most sought-after ladieswear, menswear and kidswear. It also owns a premium homeware brand.

TRUWORTHS’ BRAND STRATEGY

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

Core to Truworths’ brand strategy is, and always will be, the focus on continuing to grow and develop the exclusive and highly sought-after in-house brands. Collectively these brands are the most significant part of the overall brand offering, and are complemented by a small collection of specialist third-party licensed brands. Each brand has a clearly defined profile, which ensures the merchandise has a distinctive signature.

Additionally, Truworths offers some global and international brands. Of note is the Truworths Kids Emporium, which operates from stand-alone stores and is not included in emporium stores as the brand targets a different customer profile to Truworths.

EXPANDING BRAND PORTFOLIO

Identity, launched in 1999, offers a range of young, affordable and trendy merchandise for the fashion-aware and value-conscious youth market. Its merchandise is presented under the Identity and ID labels and the chain operates from independent stand-alone stores.

Daniel Hechter, the French designer brand, has been offered under an exclusive long-term licence agreement since 1984. Organic expansion of the brand portfolio has been complemented by the acquisition of the following brands:

- Uzzi (2006)
- Earthaddict
- Earthchild (2015)
- Naartjie (2015)

The portfolio has been expanded with the launch in August 2017 of Office London, the South African offering of the UK fashion footwear brand owned by the Group. Originating in London, the fashion capital of the world, Office is a world authority on fashionable footwear and offers a wide selection of third-party branded athleisure footwear, some of which is exclusive to Office, complemented by a limited selection of in-house designed own-brand fashion footwear.

Truworths’ brand offering was further extended following the acquisition in October 2017 of Loads of Living, a South African retailer of sophisticated linen and homeware ranges.

SPECIALIST BRAND EMPORIUM STORES

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

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

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

YDE

In 2003 the Group acquired the Young Designers Emporium (YDE) business that acts as an agent in showcasing a variety of clothing, footwear and accessory brands of emerging fashion designers in South Africa.

YDE operates from stand-alone stores and is not included in emporium stores as the brand targets a different customer profile to Truworths.

Coolest fashion brands

Identity was voted the Coolest South African Fashion Brand in the Sunday Times Generation Next awards for 2018. Identity has now won this award five years in a row. Uzzi was ranked third and LTD fifth. Now in its 14th year, the Generation Next survey polls the opinions of the youth market in South Africa across a range of brand and product categories.
## Market-Leading Brand Portfolio | Continued

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

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

### Truworths Ladieswear Designer Emporium
- Offers a unique range of exclusive brands that appeal to the discerning South African woman. It incorporates Daniel Hechter Ladies, LTD Ladies, Earthaddict, Ginger Mary, and the two Glamour brands, Emily Moon and Essence. The ranges complement one another with each having a clearly defined look and feel and lifestyle relevance. This combination in a single space makes for an exciting and enticing better-end shopping experience.

### Truworths Kids Emporium
- Offers a range of exclusive, aspirational childrenswear brands that are of exceptional quality for the fashion and brand-conscious parent and child. These brands include Earthchild and Naartjie among others. Together, they create a one-of-a-kind kids shopping experience. The emporium caters for children from newborn to 14 years old.

### Brand Profile

<table>
<thead>
<tr>
<th>Brand Category</th>
<th>Target Audience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youthful women</td>
<td>Across all ages and lifestyles</td>
</tr>
<tr>
<td>Youthful men</td>
<td>Across all ages and lifestyles</td>
</tr>
<tr>
<td>Kids, toddlers, and</td>
<td>newborns</td>
</tr>
</tbody>
</table>

### Supporting Brands and Ranges

<table>
<thead>
<tr>
<th>Brand Range</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outback Red, OBR Sport, TRS, TRNY, Hey Betty, Truworths, Inwear, Basix, Finnigans, Truworths Collection, Zeta, Truworths Maternity, Intrigue, Skinny and Peep</td>
<td>R3.8 billion</td>
</tr>
<tr>
<td>Truworths Man, Uzzi, Daniel Hechter Mens, LTD Mens, Hemisphere, Hemisphere Sport, Studio, Trench, Moskow and Extream</td>
<td>R2.7 billion</td>
</tr>
<tr>
<td>Daniel Hechter Ladies, Ginger Mary, Truworths Glamour, LTD Ladies and Earthaddict</td>
<td>R1.4 billion</td>
</tr>
<tr>
<td>LTD Kids, Earthchild, Naartjie, Max and Mia, and Zigy</td>
<td>R925 million</td>
</tr>
</tbody>
</table>

### Retail Sales Growth

<table>
<thead>
<tr>
<th>Period</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior period</td>
<td>R3.6 billion</td>
<td>R3.8 billion</td>
</tr>
<tr>
<td>Prior period (comparable)</td>
<td>6% decrease</td>
<td>3% decrease</td>
</tr>
<tr>
<td>Prior period (comparable)</td>
<td>R3.6 billion</td>
<td>R3.7 billion</td>
</tr>
<tr>
<td>Prior period (comparable)</td>
<td>6% decrease</td>
<td>3% decrease</td>
</tr>
<tr>
<td>Prior period (comparable)</td>
<td>R3.6 billion</td>
<td>R3.7 billion</td>
</tr>
</tbody>
</table>

### Retail Sales Contribution

<table>
<thead>
<tr>
<th>Category</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truworths Emporium</td>
<td>29%</td>
<td>28%</td>
</tr>
<tr>
<td>Inwear departments</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Truworths Man</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>Uzzi</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Daniel Hechter Mens</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>LTD Mens</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Hemisphere</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Hemisphere Sport</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Studio</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Trench</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Moskow and Extream</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Daniel Hechter Ladies</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Ginger Mary</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Truworths Glamour</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>LTD Ladies and Earthaddict</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>LTD Kids</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Earthchild</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Naartjie</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Max and Mia</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Zigy</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>LTD Kids</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Earthchild</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Earthchild/Naartjie</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Naartjie/Earthchild</td>
<td>27%</td>
<td></td>
</tr>
</tbody>
</table>

### Compound Retail Sales Growth Over Last Three Years

<table>
<thead>
<tr>
<th>Category</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truworths Emporium</td>
<td>-1%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Inwear departments</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Truworths Man</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uzzi</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daniel Hechter Mens</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTD Mens</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hemisphere</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hemisphere Sport</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Studio</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trench</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moskow and Extream</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daniel Hechter Ladies</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ginger Mary</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Truworths Glamour</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTD Ladies and Earthaddict</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTD Kids</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earthchild</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Naartjie</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Max and Mia</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zigy</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTD Kids</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earthchild</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earthchild/Naartjie</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Naartjie/Earthchild</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Number of Emporium Stores or Departments within Emporium Stores

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truworths Emporium</td>
<td>346</td>
</tr>
<tr>
<td>Inwear departments</td>
<td>338</td>
</tr>
<tr>
<td>Truworths Man</td>
<td>311</td>
</tr>
<tr>
<td>Uzzi</td>
<td>233</td>
</tr>
<tr>
<td>Daniel Hechter Mens</td>
<td>123</td>
</tr>
<tr>
<td>LTD Mens</td>
<td>105</td>
</tr>
<tr>
<td>Daniel Hechter Ladies</td>
<td>289</td>
</tr>
<tr>
<td>Ginger Mary</td>
<td>291</td>
</tr>
<tr>
<td>LTD Ladies and Earthaddict</td>
<td>289</td>
</tr>
<tr>
<td>LTD Kids</td>
<td>225</td>
</tr>
</tbody>
</table>

1 Retail sales for the 53 weeks to 2 July 2017 have been restated based on Truworths’ new internal department structure. The restatement did not affect Group reported retail sales for the said period. The growth on the prior period disclosed above is with reference to the restated 2017 retail sales.
### Brand Description

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

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

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

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

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

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

**The Young Designers Emporium (YDE)** showcases South Africa’s young, cutting-edge fashion talent. As an agent, YDE markets the clothing and lifestyle products of emerging designers and suppliers. The unique trading formula of YDE provides an exciting platform for young designers to present their own-label ranges in a branded space. The emporiums are aimed at fashion-forward customers aged 16 to 35 years and offer clothing, shoes, bags and accessories. YDE operates from independent stand-alone stores.

### Brand Profile

<table>
<thead>
<tr>
<th>Brand</th>
<th>Ladies, men and kids</th>
<th>Young ladies and men</th>
<th>Young ladies and men in the 16 – 35 age group</th>
<th>Various designers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Truworths Elements departments</td>
<td>74</td>
<td>162</td>
<td>255</td>
<td>21</td>
</tr>
<tr>
<td>Truworths Jewellery departments</td>
<td></td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office London stores</td>
<td></td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loads of Living stores</td>
<td></td>
<td>255</td>
<td></td>
<td></td>
</tr>
<tr>
<td>YDE stores</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Supporting Brands and Ranges

- MAC, Estée Lauder, Clinique, Clarins, Revlon, Kangol, Elizabeth Arden, Coty, Gatineau and Aramis, as well as niche fashion and salon brands, third-party branded footwear as well as own-brand fashion footwear
- Identity man, Identity woman and Identity shoes, bags, lingerie and accessories
- Various designers

### Retail Sales for 2018

- **Truworths Elements**: R1.3 billion
- **Truworths Jewellery**: R2.1 billion
- **Office London**: R254 million

### Retail Sales Growth on Prior Period

- **Truworths Elements**: 11% increase (13% increase on comparable prior period)
- **Truworths Jewellery**: 2% decrease (1% increase on comparable prior period)
- **Office London**: 16% (2017: 16%)
- **Loads of Living**: 2%

### Compound Retail Sales Growth Over Last Three Years

- **Truworths Elements**: 9%
- **Truworths Jewellery**: -5%
- **Office London**: -5%

### Number of Emporium Stores or Departments within Emporium Stores

- **Truworths Elements**: 74
- **Truworths Jewellery**: 162
- **Office London**: 13
- **Loads of Living**: 255
- **Identity**: 21

---

1 Retail sales for the 53 weeks to 2 July 2017 have been restated based on Truworths’ new internal department structure. The restatement did not affect Group reported retail sales for the said period. The growth on the prior period disclosed above is with reference to the restated 2017 retail sales.
MANAGING THE RISK OF FASHION

Truworths remains committed to offering its customers superior quality fashion at competitive prices. To achieve this it needs to maintain and enhance its best-in-class processes to successfully manage the risk of fashion.

**CUTTING-EDGE TECHNOLOGY TO IMPROVE EFFICIENCIES**

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

A style performance measurement tool, which is used across the merchandise departments, enables merchants quickly and efficiently to identify the sales performance of individual styles as well as trends across styles.

The core merchandising system, which is key to an efficient merchandising process, is currently being upgraded to the latest version featuring up-to-date technology. This will reduce the maintenance required, provide greater flexibility for merchandising initiatives, such as promotions and loyalty campaigns, and remove some of the current system constraints. It will also allow for easier integration with newer systems such as e-commerce offerings and business acquisitions. A third-party system integrator has been engaged and the projects in the design phase, with completion and implementation expected at the end of the 2019 financial period.

**MANAGING THE RISK OF FASHION IN 2018**

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

A poorly performing economy and low consumer confidence in South Africa made for tough trading conditions during the 2018 reporting period. There was an unusually high level of discounting in the marketplace, resulting in an unpredictable trading environment. Lower disposable incomes also meant that customers were more risk adverse in their fashion purchases.

In spite of these challenges, by managing the risk of fashion, Truworths was able to reduce its level of markdowns compared to the previous year. This was achieved by balancing its fashion offering against its core merchandise offering, managing price points (supported by product deflation) and introducing a wider spread of price points. Management also had to carefully balance levels of stock in an environment of lower-than-expected sales.

Another challenge was the increase in value-added tax (VAT) in South Africa from 14% to 15% in April 2018. This required changes to be made to selling prices within a short timeframe, and affected multiple systems and processes. In certain instances though, notably in relation to stock already in stores, the business maintained selling prices and absorbed the impact of the increase.

International apparel retailers continue to expand their presence in South Africa. Management closely monitors the impact of those retailers targeting the Truworths mainstream middle to upper-income customer. While Truworths respects its fashion peers and will never become complacent to the threat of local or international competition, the ongoing success of the chain will always be based on strategies that focus on its own business philosophy.

Despite the difficult operating environment, Truworths continued to manage the risk of fashion successfully with the gross profit margin improving to 55.5% (2017: 55.2%) and an inventory turn of 4.8 times (2017: 5.2 times, benefitting from the end-of-season sale in the last week of that period).

**DRIVING PROMOTIONS THROUGH LOYALTY PROGRAMMES**

The Truworths and Identity loyalty programmes have been introduced to launch value offerings without any material impact on margins. They also provide insight into customer preferences and behaviour, and create the opportunity for targeted marketing.

A number of merchandise promotions have now been linked to the loyalty programmes, with varying success. This has been a period of experimentation in the promotional space, and Truworths plans to build on the knowledge it has gained to optimise the potential of these programmes in the 2019 financial period.

**LAUNCH OF OFFICE LONDON**

In August 2017 Truworths opened its first Office stores in South Africa under the Office London brand. The merchandising and buying teams collaborated closely with their counterparts in the United Kingdom to develop the brand. Thirteen stores were opened during the period.

Customer acceptance of the Office London brand in South Africa has been positive. The learning curve has been steep in terms of the appropriate mix for the local market and in terms of learning to work within the different parameters of each footwear and sports brand. Over the medium term the plan is to improve the product mix in Office London to drive sales. A new store concept has also been developed and is being rolled out to South African stores, as well as to some Office stores in the UK. The design and look and feel of these stores have been well received.

Truworths’ merchandising and buying teams continue to collaborate with Office UK in order to manage the risk of Office London footwear fashion. The merchandising teams share trend information and collaborate on product development for their own brand ranges. Truworths has been able to leverage the experience that Office UK has in terms of the sports footwear business, enabling the buying team to be informed about future trends and retail success in terms of brands and styles. Truworths is also leveraging Office UK’s e-commerce experience in the launch of the Office London site and online strategy.
OPTIMISING SUPPLY CHAIN EFFICIENCY

Truworths aims to exceed its customers’ expectations by being quick to market with the season’s hottest fashion ranges. This requires a highly efficient supply chain that ensures short lead times. At the same time it needs to ensure value, which requires optimal balancing of its local and offshore supply.

MERCHANDISE SOURCING AND SUPPLY

To ensure fast fashion and quality merchandise that customers expect, Truworths has a blended approach to sourcing, using both local and international suppliers. Directly and indirectly imported product accounts for approximately 65% of total merchandise orders, with China being the main source of supply.

During the reporting period there was a small increase in imports from India and in product sourced locally in South Africa and a slight decrease in imports from China. There was also substantial growth, albeit off a very low base, in imports from other Asian countries including Vietnam, Bangladesh and Indonesia.

Several fabric mills, dye houses and laundries were relocated or closed in China during the past year due to increased regulations aimed at improving industry standards in the country. These closures led to constrained fabric supply from China and a lack of consistency in terms of quality.

Truworths aims to offer better value to its customers by focusing on strategic fabric sourcing and supplier consolidation. Certain product types will also be consolidated in order to leverage price benefits, providing continuity and enhanced productivity for suppliers.

GROWING LOCAL PRODUCTION

Locally manufactured product is the preferred source of supply owing to its speed to market relative to offshore sourcing.

Truworths has increased the volume of fabric it purchases locally to be able to offer a quick response when it comes to replenishing best-selling styles during the season. Such replenishment can take place within three to four weeks. This approach also ensured a stable fabric supply during a time when the mills in China were facing closures and enforced upgrades.

By sourcing locally Truworths can deliver on its commitment to fast fashion. Buyers can make colour and styling changes as late as four weeks, but typically around eight to ten weeks, prior to delivery thereby ensuring that ranges reflect the latest trends. Truworths continues to invest in its manufacturing division, which procures fabrics and trims and undertakes styling, but outsources production, in order to enhance local supply capabilities.

ENSURING BETTER SUPPLIER RELATIONSHIPS

Truworths has a diversified supplier base and closely monitors the units of merchandise being supplied by each manufacturer. A new supplier scorecard has been developed to better measure key supplier performance and will be introduced in the 2019 financial period. Suppliers will have access to supply performance reports to assist them in improving and managing their own performance. The scorecard will also assist Truworths in growing volumes with better-performing suppliers and in identifying areas for improvement in under-performing suppliers.

A web-based portal enables Truworths to communicate with suppliers and make quality standards manuals available online, creating further efficiencies in the supply chain.

The Truworths code of conduct for suppliers is incorporated into all supplier agreements and binds manufacturers to comply with ethical business standards, labour legislation (particularly relating to child labour and minimum wage levels), bargaining council requirements, international health and safety standards, as well as environmental legislation and treaties to which South Africa is a signatory.

EXPANDING DISTRIBUTION CAPACITY

Increased merchandise volumes arising from recent business acquisitions, new brands and organic growth are creating pressure on the Truworths distribution centres over peak periods. Management plans to significantly enhance its main Truworths distribution centre in Cape Town to be operational by 2021.

This new enhanced facility, which will in all likelihood consolidate the current facilities into one large purpose-built distribution centre, will allow for growth in the business and, by leveraging newer technology, enable both faster throughput times as well as more flexible distribution and allocation methodologies.

Truworths has agreements with third-party warehousing facilities that can store imported goods during peak times, mitigating distribution capacity pressure that results from high-volume deliveries. This allows Truworths to effectively manage the flow of merchandise into its distribution centres.

A new distribution centre was established in Cape Town for Loads of Living during the reporting period.

RATIONALE FOR IMPORTING PRODUCT

A large portion of Truworths’ merchandise ranges is imported because local suppliers are not as price competitive as their offshore counterparts, nor do they have the manufacturing capabilities to produce certain categories of merchandise viably in South Africa. Imported products include shoes, fashion accessories, lingerie, fully fashioned knitwear, winter outdoor jackets and denim.

For imported product, both fabric and styling are committed about 19 weeks prior to delivery. Repeat orders of popular ranges also have longer lead times, taking up to six weeks to be shipped from the East.

A WORLD-CLASS CUSTOMER EXPERIENCE FOR ONLINE SHOPPERS

The Truworths e-commerce platform offers online shoppers the option of having their purchases delivered to their homes or available for collection in store. In the few months since the launch of the online offering, fulfilment targets as well as lead-time measures in terms of delivery to customers are being achieved, providing a world-class customer experience.

Online orders are currently fulfilled by a combination of some of the large Truworths Emporium stores and by the distribution centres. The use of mobile technology has made the process highly efficient, and delivery costs are being well managed and controlled by leveraging off the existing supply chain.
**ACCOUNTS AS AN ENABLER OF SALES**

Purchases on account are offered to customers across all Truworths’ merchandise brands in South Africa, Namibia, Botswana, and Swaziland. Truworths uses accounts as an enabler of sales to customers in its mainstream middle to upper-income market, as opposed to operating a financial services business. Account customers do not pay initiation, club, collection or magazine fees, and only pay an annual account service fee of R26. Many consumers have limited access to bank and other financial institution credit and credit cards, and are therefore reliant on store accounts to buy quality, aspirational fashion merchandise.

Truworths aims to balance the cost of the book with trade receivable income, as was again the case in the reporting period where the total trade receivable income amounted to R1 349 million, exceeding trade receivable costs of R1 278 million by R71 million.

Truworths is increasingly targeting more affluent cash customers, many of whom use credit cards, by broadening its ranges and product offerings, and launching the loyalty programme and new e-commerce platform.

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**ACCOUNT PERFORMANCE IN 2018**

Gross trade receivables on the total debtors book, comprising the Truworths, Identity and YDE books, were at R5.6 billion (2017: R5.8 billion) and account sales contributed 69% (2017: 70%) of retail sales in Truworths for the period.

Overdue values to the total debtors book remained at 14% (2017: 14%).

The doubtful debt allowance to gross trade receivables reduced to 12.3% from 12.7% at June 2017 and net bad debt to gross trade receivables reduced to 14.7% (2017: 15.0%). Trade receivable costs reduced by 9% to R1 099 million (2017: R1 207 million).

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**REWARDING LOYALTY**

The TruRoyalty (Truworths) and iDream (Identity) customer loyalty programmes were launched in 2017. There are now close to 7.1 million loyalty programme customers, including 3.5 million account customers and 3.6 million non-account customers (2017: approximately 2 million non-account customers).

The loyalty programmes are aimed at attracting and retaining customers, while increasing both the basket size and frequency of shopping of account and cash customers.

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

Members are offered a suite of exclusive benefits, including personalised merchandise promotions, additional sale discounts, vouchers and competitions. The benefits have been structured to have minimal impact on the retail margin.

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**INTRODUCING LAY-BYS**

Lay-bys have been introduced as another way to purchase Truworths’ merchandise. The lay-by offering allows customer-selected merchandise to be set aside until the customer has fully paid for the item. The facility will be extended to all stores before the 2018 festive season trading period.
MANAGING ACCOUNT RISK | CONTINUED

E-COMMERCE AND ONLINE SHOPPING
Truworths’ new-breed e-commerce platform went live in February 2018 and has been well received. The fulfilment and on-time delivery metrics are industry-leading, ensuring an engaging omni-channel experience for customers.

The new site generates turnover equivalent to a mid-sized Truworths store and this turnover is expected to grow to the level of a large store in the 2019 financial period.

The online brand availability will be expanded in the 2019 financial period. Office London merchandise will be available on the site in September 2018, followed by Loads of Living products by January 2019 and Identity within the following financial period. YDE merchandise will be available on its own e-commerce platform from September 2018.

The e-commerce platform is part of Truworths’ omni-channel marketing strategy and integrates with all communications. It also aligns with the TruRoyalty and iDream customer loyalty programmes. Customers have several payment options, including the Truworths account card, as well as having a choice of home delivery or ‘click & collect’ in store.

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

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

During the reporting period significant improvements have been made in the new account acquisition areas, with new data, credit scores and analytics processes driving sales and profit improvement.

The strategic focus on collections through enhanced systems, outsource partners and internal resources has contributed to an improved collections performance. This has resulted in a sustained period of improved collections across all delinquency levels, and the book having the highest percentage of up-to-date accounts since 2011. The improved roll rates (i.e. the rate of movement of accounts between risk states from one month to the next) are indicative of the improvement in the quality of the portfolio, and a consequential reduction in provision percentage to balance. There was also a reduction in charge-off and an improvement in recoveries.

Systems providing a single view of the customer have enabled the risk team to leverage the information across the customer life cycle, which assists with omni-channel customer communication, customer decision strategies and predictive model development.

REGULATORY CHANGES AND ACCOUNTING STANDARDS
Proof of income requirements rescinded
The ruling by the High Court in favour of credit retailers has had a positive effect on Truworths. The ruling rescinded the requirement to obtain proof of income documentation by those applying for credit accounts. These regulations, introduced by the Minister of Trade and Industry in September 2015, restricted Truworths’ ability to open new accounts and to grow account sales. A large number of Truworths’ customers are self-employed or work in the informal sector and, though creditworthy, are unable to provide the prescribed documentation, while others have found the administrative burden too inconvenient and do not follow through with account opening.

Following the court ruling the average number of accounts opened per month has increased by 9,000, with no discernible increase in portfolio risk.

National Credit Amendment Bill
The Portfolio Committee on Trade and Industry has introduced into Parliament the National Credit Amendment Bill, which proposes a debt intervention plan aimed at relieving over-indebted South Africans with no means of easing the burden of their debt. The Bill includes provision for debt relief for over-indebted consumers who earn less than R7 500 per month and have unsecured debt of less than R50 000.

These consumers will be able to apply to the NCR for debt intervention and follow a process to have their applications assessed first by the NCR and secondly the recommendations of the NCR assessed by the National Consumer Tribunal as to whether the debt should be rearranged or be suspended and ultimately extinguished.

The Bill has met broad opposition across the industry as well as from the banking sector and Truworths is using all available avenues to respond and comment thereon, both via the National Clothing Retail Federation of South Africa and individually. However, due to uncertainty on how the Bill will be implemented it is premature to comment on its potential impact, save to say that the impact could be material if enacted in its present form.

 Doubtful debt allowance – IFRS 9
Truworths’ doubtful debt allowance under the new financial reporting standard, IFRS 9, is likely to increase due to the requirement for recognition of lifetime expected credit losses. However, this adjustment does not affect Truworths’ credit strategy design process as this has always considered the lifetime doubtful debt provision for an account. The increase in the allowance on transition to IFRS 9 in the 2019 financial period will be adjusted through retained earnings.
Truworths has continued its proven strategy of cautiously investing in new trading space to gain market share and promote sales growth.

**Defining the Fashion Forecourt**
Truworths aims to be a leading fashion anchor tenant and actively seeks to trade from the best positions in fashion forecourts of shopping malls. Securing the optimum location for its stores therefore remains a key focus. This strategy also applies to stores on main streets in cities and towns where Truworths aims to be at the heart of the fashion retail zone. Enticing stores and internationally styled merchandise position Truworths as an appealing destination for quality fashion apparel. Creative merchandise displays in long window frontages, often with multiple entrances, showcase the latest looks, and are designed to attract customers.

**Expanding Truworths’ South African Footprint**
Truworths’ ability to secure prime locations in good-performing centres continues to be a challenge, partly due to the emergence of international retailing brands in the South African market, as landlords seek to secure these brands as tenants. However, in some centres, the demise of other retailers has opened up opportunities to negotiate better rental rates with landlords. Overall, in the reporting period, comparable store rental costs were lower with the rentals escalating by 5% on average in comparison to 7% during the prior period.

Truworths’ South African store footprint grew by 39 stores, with 49 stores opened or acquired and 10 stores closed. The new stores included 13 stores for the Office London chain, Truworths Emporium (7), Identity (11), Kids Emporium (2), Earthchild and Naartjie (2) and YDE (1). The acquisition of Loads of Living added 13 stores to the portfolio.

To ensure that stores remain enticing, stores are regularly refurbished and new stores are designed to be visually appealing and relevant. In the reporting period R320 million was invested in store development and renovation.

Consolidation in the property sector has resulted in a reduction in the number of landlords as malls are now owned and managed by fewer property funds.

Redevelopment of existing shopping centres is also taking place as landlords seek to remain competitive; however escalating building costs is putting pressure on landlords to increase rentals in search of higher yields.

**Store Footprint in the Rest of Africa**
Trading conditions in some countries of operation in the rest of Africa have been extremely challenging owing to depreciating currencies and a tough consumer and business environment.

The store base in the rest of Africa reduced from 47 to 40. One store was opened in Namibia, bringing the store footprint in that country to 18. All four stores in Ghana and four underperforming stores in Zambia were closed due to high rental costs and difficult trading conditions.

**Growth in Store Base**
- Number of stores
- Growth in trading space of 2.5% planned for 2019
- Launched a new sophisticated e-commerce platform
- Expanded to 813 stores (2017: 781 stores)
- Net 32 new stores opened across all brands (2017: 11 stores)
- Footprint in rest of Africa reduced to 40 stores (2017: 47 stores)
- Total retail trading space up 3.3% (up 2.2% excluding Loads of Living (2017: 1.6%))
- Grown trading space of 2.5% planned for 2019
- +13 stores with the acquisition of Loads of Living
- R320m invested in store development and renovation

Refer to Material issues, risks and opportunities on page 19 for more detail.
Truworths will continue with its ongoing rationalisation and consolidation of space in 2019 with a net 10 new stores planned and trading space expected to grow by 2.5%. During the period 24 stores are planned to be closed.

MULTIPLE STORE FORMATS
Truworths’ stores are designed to offer customers an engaging fashion retail experience, allowing them to shop Truworths’ varied fashion collections.

Truworths emporium stores
Truworths’ 346 emporium stores house a portfolio of exclusive market-leading brands. Emporium stores are located in central positions in shopping malls and generally have three to five entrances, with maximum shop frontage and windows showcasing the broad range of brands and merchandise.

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

The brands on offer in each emporium depend on the size and location of the store. Following the expansion of the Truworths brand portfolio in recent years, four specialist emporiums are now offered within the greater emporium store: these are the Truworths Ladieswear, Truworths Menswear, Truworths Ladieswear Designer and Truworths Kids emporiums.

Identity and YDE stores
Identity and YDE operate from stand-alone stores and are not featured in emporium stores as they target a different customer profile to Truworths’ shoppers. There are 255 Identity stores and 21 YDE stores across the Group.

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

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

LAUNCH OF OFFICE LONDON
The Office London chain was launched in South Africa in August 2017 with the opening of 10 stores. A further three stores were added during the period.

Office London stores operate as stand-alone stores in central positions in shopping malls, often adjacent to the Truworths Emporium. Where possible, Truworths will utilise portions of its existing prime real estate locations in malls to grow the Office London footprint, creating an opportunity to improve the efficiency of existing Truworths Emporium stores.

The Office London stores are modern, light and energetic and are located in the top retail locations in South Africa.

OFFERING A TRUE OMNI-CHANNEL EXPERIENCE
Truworths launched its new e-commerce platform in February 2018 and this provides an online offering of the full range of merchandise available in the Truworths bricks and mortar stores. The initial reaction of customers to the e-commerce site and offering has been very positive and initial sales have exceeded targets.

The e-commerce platform is being extended across the various brands. The Office London and YDE sites are planned for September 2018, cosmetics and fragrances will be available in the first half of 2019. The new Identity site will launch in the first half of calendar 2020. The new Identity site will launch in the 2020 financial period.

The successful launch of the Truworths e-commerce platform, together with its significant store footprint, enables an engaging omni-channel experience for customers to shop effortlessly on any digital device and in-store.

INTEGRATING LOADS OF LIVING
Truworths entered the homeware and linen market with its acquisition of the 13-store Loads of Living chain in October 2017. The chain has been integrated into the Truworths operations and the product offering is currently under review.

A new store design concept has been created for the brand and will be implemented in the first new store in November 2018. Further sites are also being considered for this format. A new Loads of Living website linked to the Truworths e-commerce platform will be launched late in the 2019 financial period.

EXPANDING KIDSWEAR OFFERING
Kidswear remains a strategic growth driver for Truworths. There are now 46 Kids Emporium stores housing LTD Kids, Earthchild and Naartjie, 14 more than in the prior period. In the 2018 period a new Kids Emporium free-standing concept store was launched, and two new stores were opened.

INTEGRATED REPORT 2018

MANAGING RETAIL PRESENCE | CONTINUED
Truworths strives to be the South African retail employer of choice for people who identify with the company’s purpose and values. The business continually invests in attracting, developing and retaining talent while enhancing employee engagement and satisfaction levels. The focus during the reporting period has been on the following:

- Maintaining the investment in training and development
- Investing in employees’ financial and broader well-being
- Fostering a culture of transparency, accountability and innovation
- Creating a positive impact on the broader society in which the business operates

A voluntary and confidential employee satisfaction survey conducted during the year supports the belief that employees enjoy working at Truworths. Employee participation in the survey was 52%, which is considered to be high relative to local benchmarks.

The survey indicated that 93% of employees are proud to work for Truworths, with other key insights being:

- Employees are trained, work is stimulating and they are happy with the way they are managed.
- Respondents to the survey have faith in the CEO and the directors.
- Employees connect with the Truworths values and believe in the vision and strategy of the business.
- Teamwork is encouraged and progress is based on hard work.
- The business promotes and respects diversity in the workplace.

Despite these positive trends in our employee survey we have embarked on a strategic project, which focuses on retaining our high-performing employees to ensure that we reverse the slight upward trend in employee turnover at head office.

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

‘The business continually invests in attracting, developing and retaining talent while enhancing employee engagement and satisfaction levels.’
HUMAN CAPITAL REPORT | CONTINUED

REMUNERATION AND RETENTION
The achievement of Truworths, team and individual performance remains central to driving remuneration strategies. All management and specialised full-time employees are remunerated on total guaranteed packages (TGP), which enable these employees to tailor their cash and benefits to suit their personal lifestyles.

The extension of benefits to longer-serving flexi-time employees in the previous reporting period has contributed to a reduction in labour turnover among this group from 38.1% to 33.9%. These additional benefits were introduced in 2015 when the turnover for this category of employees was 54.1%.

The percentage of all categories of employees with access to retirement benefits has increased from 59.0% to 62.0%. In 2015 the percentage of employees who had access to retirement benefits was 38.0%.

Support is provided to employees nearing retirement age, including offering the services of an independent financial adviser.

While retrenchments have been an inevitable outcome of the economic climate for many retailers, Truworths has had no forced retrenchments in South Africa during the reporting period. This has been achieved by balancing the proportion of full-time to flexi-time employees and reducing the number of flexi-time employees through natural attrition. Although there have been store closures in the period, line management works closely with the employee relations department according to documented processes and policies when store closures are contemplated. All affected employees were reassigned to alternative stores in line with the objective of the store closure policy.

Owing to poor trading four stores in Zambia and all four stores in Ghana were closed, which resulted in unavoidable retrenchments in these countries.

During the course of the Loads of Living integration into Truworths and the relocation of their head office from Johannesburg to Cape Town, all employees were accommodated except three who elected voluntary retrenchment.

The remuneration of executive and non-executive directors is REMUNERATION AND RETENTION

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OPERATIONAL REVIEW: OFFICE

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Managing retail presence 66
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Human capital report 67
Office is a strategic global partner to the world’s major footwear brands and operates primarily under the Office and Offspring brands. From its heritage in the fashion capital of London, Office is ideally placed to collaborate with the leading international footwear brands to deliver the most relevant and fashionable merchandise into the marketplace.

The ‘Office’ branded chain is a fashion-forward footwear specialist, providing customers who want to be fashionable and well informed on international fashion footwear trends with a broad curated range of the latest trend and ‘in-demand’ footwear. The ‘Office’ branded chain accounted for 87% (2017: 89%) of sales in 2018.

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

OFFICE

YOUTHFUL FASHIONABLE CUSTOMER
Office is the footwear brand for the youthful UK and European customer. Customers can find a broad curated range of the latest trend and 'in-demand' footwear whether they are shopping for branded footwear or Office's own-label product.

SUPERIOR QUALITY FASHION
Office is committed to providing customers with quality footwear. The buying and technical team works closely with suppliers to ensure that Office product meets UK and European quality and testing standards.

All Office merchandise is developed to a high standard, and is fitted in-house by the buying and technical team to ensure that aesthetics, fit and comfort are all considered.

Regular visits by the buying and technical team to factories keeps quality standards high while ensuring factory conditions and ethical standards are met.

Office is committed to providing customers with product which is manufactured ethically and fairly. Office requires all own-label MTO suppliers to work within the parameters of its code of ethics and good business practice, which is designed to be fair, achievable and promotes the ongoing development of suppliers.

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

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

FORECASTING FASHION TRENDS
Designers and buyers work closely with partners to track trends and ensure the merchandise reflect the latest looks.

Trend information is sourced through international trade fairs, online subscriptions, social media, international and local retail inspiration as well as global and local street trends. Celebrity styling and events are also analysed to ensure that 'must have' items are available.

Early reactions to formulate seasonal trends are expanded throughout the season as further trends become evident, with the buying teams being constantly updated on fast react items and trends.

PROVEN FASHION FORMULA
Office has dedicated teams across a mix of product from boots to sports shoes that ensure the brand is relevant. This fashion philosophy is driven by a consistent buying and merchandising process developed over 20 years that allows the teams to continually develop their knowledge of the brands, product and markets. This process has been further improved through Truworths’ buying, planning and sourcing knowledge over the past few years.

A merchandise management system was implemented during 2017. This has allowed Office to set ideal stock targets to control purchases and avoid over or understocking. The use of the same system across the Group has enabled more effective dialogue and Group-wide stock visibility and clarity.

Office is able to offer a range of the best global brands in addition to exclusive access to limited edition product through strong brand relationships. These relationships have been developed over many years and Office works closely with its suppliers to develop branded exclusives.

Office is recognised as a strategic account by its branded product partners who value the team’s knowledge of the market. Office enjoys product priority on best sellers as well as being able to apply a shared risk approach that gives the business the ability to return and cancel or postpone product should the need arise.

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

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

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

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Refer to Material issues, risks and opportunities on page 20 for more detail.
MANAGING RETAIL PRESENCE

Office is an omni-channel retailer with a portfolio of 156 stores and concessions in the United Kingdom, Germany and the Republic of Ireland. The physical store offering is complemented by a range of digital platforms, which contributed over 30% of retail sales in the reporting period.

STORES
New opportunities continue to be explored, particularly in retail parks, and during the period Office signed for its third retail park location which will open in the new financial period.

During the period one store was opened under the Office brand while two were closed and another relocated. One Offspring store was also closed. Two Office ladies and one Offspring ladies concession were opened while one Offspring Topman was closed.

A new store design concept was implemented in three Office stores and has been further refined after initial application. A new ‘store of the future’ concept is currently being developed with initial implementation planned in early 2019 and this concept will ensure that Office stores remain world-class and provide a seamless shopping experience for customers.

CONCESSIONS
Trading through concessions allows Office to access customer footfall within department stores, both physically in stores and online, while simultaneously offering a more flexible physical footprint and cost base.

The concession strategy for Office and Offspring involves working closely with concession partners to review performance and assess the need to open, relocate or close space within the host store portfolio.

In June 2018 House of Fraser, one of the host retailers through which Office operates various concession stores, underwent a company voluntary arrangement. This was then followed by a potential purchaser for House of Fraser withdrawing and the company falling into administration in August 2018 before most of its business and assets were acquired by Sports Direct. This situation remains fluid and management is engaging with the business to determine the nature of a future relationship.

Concessions are also currently held with Selfridges and Arcadia (Topshop/Topman).

ONLINE PRESENCE
In a market with an increasing preference for online shopping, Office is positioned for growth through its well-established and growing online and mobile retail presence. E-commerce accounted for 31% of Office’s total retail sales for the period (2017: 28%).

Growth has been driven by a programme of continuous improvements to the online customer experience. The digital platform was enhanced with a new Office app, a digital Wish List, the addition of new currencies and use of social media to keep customers engaged.

Further sources of growth include the extension of the Office online footprint through third-party websites, expansion of the offering across Amazon, concession stores, as well as international growth, particularly from the German website.

Office has worked on delivering a more seamless experience across digital and stores, including the addition of functionality to allow customers to check stock levels in store via the website. The ‘ship from store’ programme has also been expanded, with customers able to order from store stock for home delivery.

‘A new store design concept was introduced for the Office stores and this concept will continue to evolve to ensure that Office remains world-class and provides a seamless shopping experience for customers.’

OPTIMISING SUPPLY CHAIN EFFICIENCY
Integral to optimising sales are the strong relationships Office has developed within the supply chain.

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

Office’s European suppliers source all components locally, allowing fast product development and reduced overall lead times. Additionally, key suppliers hold production capacity, which allows the buyers and designers to react quickly to sales information and reduce lead times further.

Office’s buyers and designers travel regularly to key sources within Europe as well as to sources in longer-lead destinations in Asia to build relationships, align business strategies, improve communication and reduce development times.

The collaborative, strategic partnership Office has with a key group of suppliers, who consider their relationship with Office as integral to their own business, ensures exceptional service levels are achieved. Risk is minimised by spreading volumes across this group of key suppliers.

All merchandise is delivered to either the main warehouse in Kilmarnock, Scotland or Greenford in London prior to being distributed to stores or online customers via a third-party distribution network.

‘A new store design concept was introduced for the Office stores and this concept will continue to evolve to ensure that Office remains world-class and provides a seamless shopping experience for customers.’

Refer to Material issues, risks and opportunities on page 22 for more detail.

Refer to Material issues, risks and opportunities on page 21 for more detail.
One of Office's key human resource focus areas has been on learning and development. Internally developed and facilitated programmes have been central to the learning strategy, with learning forums across head office encouraging employees to be open to learning and sharing with colleagues.

Total training expenditure for the year increased to £92,000 (2017: £47,000). A total of 526 attendees attended internal training courses, with 32 employees also now enrolled on an apprenticeship programme.

Customer service surveys are a key measure of performance in stores, with over 17,000 responses received in the financial period. The Net Promoter Score, a measure of how likely customers are to recommend Office to a friend, has remained relatively stable and averaged 60 for the year (2017: 61).

A key focus, in order to improve employee retention, has been on identifying and rewarding individual contribution, and a new performance-focused appraisal process based on the Office business philosophy and values was introduced during the period.

The business responded accordingly to the legislated national living wage and national minimum wage increases in April 2018. However, it is expected that further legislative increases will occur again in April 2019, putting additional pressure to respond and remain competitive in the UK retail marketplace.

During the period a workforce optimisation project was initiated and is aimed at ensuring store employees are engaged and continually improve customer service.

‘A key focus, in order to improve employee retention, has been on identifying and rewarding individual contribution, and a new performance-focused appraisal process based on the Office business philosophy and values was introduced during the period.’

**Office’s human capital at a glance**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employees</td>
<td>2,823</td>
<td>3,031</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>914</td>
<td>954</td>
</tr>
<tr>
<td>Part-time employees</td>
<td>1,909</td>
<td>2,077</td>
</tr>
</tbody>
</table>

**GENDER PAY GAP REPORTING**

In April 2017 Office completed its first gender pay gap report which showed that on average women were paid 8.6% less than men, which was significantly better than the UK national average (17.4%) and UK retail sector (16.4%). The mean difference of 8.6% is predominantly driven by the variance in the hourly rate of pay of male versus female employees in the upper quartile of hourly rates of pay. This can be attributed to the fact that Office has a higher proportion of male employees in more senior roles in this quartile.

The survey also indicated that 59.5% of male employees received a bonus in the past year, while the corresponding proportion for females was 50.4%. The difference in the values of bonus received between male and female employees was a mean of 22.6%. There is no difference in the bonus and commission structure between male and female employees within Office and the variance in the receipt and value of bonuses received is attributable to part-time workers inherently facing a lower earnings potential due to the relatively lower hours worked.

While the results of the Office gender pay gap analysis are positive and compare well to national and industry results, the business will continue to seek to enhance the experience of all employees in respect of equality, diversity and inclusion.

The report can be accessed on the Office website at [www.office.co.uk/view/content/gender-pay-gap](http://www.office.co.uk/view/content/gender-pay-gap).
SHAREHOLDERS’ DIARY

Annual general meeting 24 October 2018

Reports

Annual results for the period ended 1 July 2018 announced 16 August 2018

Preliminary report for the period ended 1 July 2018 mailed by 25 September 2018

Integrated report for the period ended 1 July 2018 published by 25 September 2018

Interim results for the period ending 30 December 2018 announced 21 February 2019*

Annual results for the period ending 30 June 2019 announced 15 August 2019*

Preliminary report for the period ending 30 June 2019 mailed 27 September 2019*

Dividends

In respect of the period ended 1 July 2018 (Dividend number 41) 16 August 2018 17 September 2018

For the period ending 30 December 2018 (Dividend number 42) 21 February 2019* 18 March 2019*

* These are approximate dates.

ADMINISTRATION

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Tax reference number 9875/145/71/7
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NSX code: TRW
ISIN: ZAE000028296

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