INTEGRATED REPORT 2016

TRUWORTHS INTERNATIONAL

CONTENTS

1 Review of 2016
2 Our Approach to Reporting
4 Group Profile
6 Investment Case
8 Responding to the Challenging Trading Environment

CREATING SUSTAINABLE VALUE
12 Truworths' Business Philosophy
15 Creating Stakeholder Value
18 Group Strategy
20 Truworths' Value-creating Business Model
22 Truworths' Major Risks
23 Truworths' Material Issues, Risks and Opportunities

GOVERNANCE
34 Chairman's Report
36 Board of Directors
38 Executive Committee
40 Abridged Corporate Governance Report
44 Remuneration Committee Report

PERFORMANCE REVIEW
54 Chief Executive Officer's Report
58 Five-year Review of Financial Performance
60 Chief Financial Officer's Report
72 Summarised Group Annual Financial Statements

OPERATIONAL REVIEW
78 Truworths: Market-leading Brand Portfolio
84 Truworths: Managing the Risk of Fashion
86 Truworths: Optimising Supply Chain Efficiency
88 Truworths: Managing the Risk of Credit
92 Truworths: Ten-year Review of Credit Performance
94 Truworths: Managing Retail Presence
98 Truworths: Human Capital Report
102 Office Operational Report

108 Shareholders' Diary
IBC Administration

Readers should note the following references throughout the Integrated Report:

Truworths International Ltd and its subsidiaries is referred to as '**the Group**'
Truworths International Ltd is referred to as '**Truworths International**' or '**the company**'
The Group excluding Office is referred to as '**Truworths**'
Office Holdings Ltd is referred to as '**Office**'

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

These documents are available online at www.truworths.co.za/investors

FINANCIAL REPORTING
Group Audited Annual Financial Statements 2016
Annual Results Presentation 2016
10-year Review of Financial Performance

GOVERNANCE REPORTING
Corporate Governance Report 2016
Social and Ethics Committee Report 2016
Application of King III Principles 2016

OPERATIONAL REPORTING
Office Acquisition Presentation

SUSTAINABILITY REPORTING
Social and Environmental Report 2016

ANNUAL GENERAL MEETING
Notice to Shareholders
Form of Proxy

GROUP WEBSITES
Truworths: www.truworths.co.za
Office: www.office.co.uk

REVIEW OF 2016

Expanded into northern hemisphere retail market with **R5.5 billion acquisition** of **Office** footwear chain in the United Kingdom (UK) in December 2015

Integration of Office and Truworths progressing well, with initial focus on aligning retail philosophies, practices and systems

Competitive performance with **all board-approved financial targets achieved**

Key financial metrics*:

Return on assets **26%**

Earnings before interest paid and tax (EBIT) up **20.7%** to R4.2 billion

Introduction of **new affordability assessment regulations** in South Africa reduced credit sales by at least R200 million

Encouraging **improvements in debtors book** delinquency metrics but customer account growth slowed and level of new account acceptances reduced

Good customer response to **merchandise ranges in Truworths**, resulting in higher sales growth and stable gross margin

Economic conditions in South Africa, the UK and Europe became increasingly challenging, slowing sales growth in the second half

* Not comparable with prior period owing to Office acquisition.

OUTLOOK FOR 2017

Trading environment to remain challenging

South Africa

Slow economic growth and further inflationary pressure on consumers

High product inflation owing to Rand weakness will impact summer ranges

New affordability assessment regulations remain a key risk to profitability although impact could be lessened through successful mitigation strategies

United Kingdom

Uncertainty following decision to withdraw from European Union and **muted consumer sentiment**

However, **environment likely to stabilise** as more clarity emerges on Brexit consequences

Office stock management and ranges **to benefit from Truworths' influence** as the year progresses

OUR APPROACH TO REPORTING

We remain committed to presenting a balanced assessment of our ability to create value for stakeholders.

Truworths International has pleasure in presenting its Integrated Report for the 2016 reporting period. This is our sixth year of integrated reporting and we remain committed to presenting a balanced assessment of our ability to create value for stakeholders in the short, medium and longer-term.

Our Integrated Report is aimed primarily at our shareholders, who are the principal providers of financial capital, and the investor community locally and abroad. While other stakeholder groups influence our business, most notably our customers and employees, their needs and interests are addressed through other communications media.

REPORTING SCOPE AND BOUNDARY

This report covers the integrated performance of the operations of Truworths International and its subsidiaries for the 52-week period ended 26 June 2016. Following the acquisition of Office in the UK effective 4 December 2015, our results are now being reported for the Truworths and Office operating segments.

Risks, opportunities and outcomes attributable to or associated with any stakeholder and which have or may have a significant impact on our ability to create and sustain value are addressed throughout the report in the relevant context.

The Truworths business operates primarily in South Africa and has a retail presence in eight other African countries. Office operates principally in the UK, with a store base in Germany and the Republic of Ireland.

All Group financial reporting complies with International Financial Reporting Standards, the South African Companies Act and the JSE Listings Requirements. Management has applied the guiding principles of the King Code of Corporate Principles 2009 (King III) applicable to integrated reporting as well as the Integrated Reporting Framework of the International Integrated Reporting Council.

MATERIALITY

We have applied the principle of materiality in determining the content and disclosure in our Integrated Report. Management's 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, or that could influence investors' assessments of our ability to create value. This excludes information which could lead to loss of our competitive advantage. We report on four material issues which the board believes could impact positively or negatively on value creation in the business.

CAPITALS OF VALUE CREATION

The Group utilises various capital resources in the creation of value. The most significant forms of capital are financial, intellectual, human, manufactured and social and relationship capital, and to a lesser extent, natural capital.

While the Group has chosen not to structure its Integrated Report according to these capitals, the relevance and impact of these capitals and their role in value creation have been discussed in the relevant sections of this report.

ASSURANCE

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 the financial information extracted from the annual financial statements that appears in the Integrated Report.

The content of the Integrated Report has been reviewed by the directors. 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.

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

DIRECTORS' APPROVAL

The directors confirm that the Integrated Report fairly represents the material issues and the integrated performance of the Group for the period under review.

The board believes that the Integrated Report complies in all material respects with the International Integrated Reporting Framework.

The Audit Committee, which has oversight responsibility for the integrity of the Integrated Report, 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

GROUP PROFILE

Truworths International has delivered a total shareholder return of 24% per annum since listing.

TRUWORTHS INTERNATIONAL

Truworths International Ltd is an investment holding and management company listed on the JSE and the Namibian Stock Exchange. Based in Cape Town, South Africa, its main operating companies, Truworths Ltd (operating primarily in South Africa) and Office Holdings Ltd (operating primarily in the UK), are leading retailers of fashion clothing and footwear apparel.

Listed in the General Retailers sector on the JSE in 1998, Truworths International has delivered a total shareholder return of 24% per annum since listing.

TRUWORTHS

Truworths is a market-leading fashion apparel retailer in South Africa offering internationally inspired clothing and footwear for ladies, men, teenagers and kids across a diversified portfolio of its own exclusive brands.

Brands include Truworths, Truworths Man, Daniel Hechter, Inwear, Identity and LTD. These brands have been supplemented by the acquisition of specialist chains YDE, Uzzi, Earthaddict, Earthchild and Naartjie.

Large-format emporium stores house a collection of brands, fashion concepts and lifestyles in a single store. The retail footprint has grown to 770 stores across Africa, including 47 stores in eight countries outside South Africa.

Credit is offered to customers across all brands in South Africa, Namibia, Swaziland and Botswana to facilitate sales in the Truworths mass middle-income target market. The active credit customer base is 2.7 million.

Truworths traces its roots back to 1917 when The Alliance Trading Company opened its first store on a site not far from the present head office in Cape Town.

OFFICE

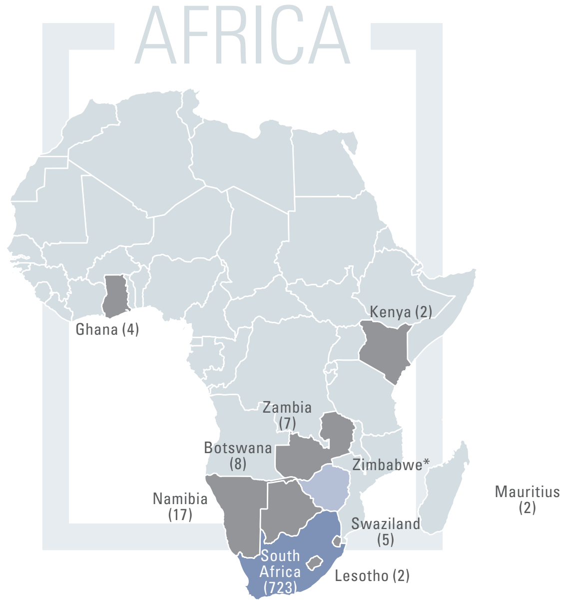
Office is the leading young fashion footwear retailer in the UK, trading under the Office and Offspring brands.

In addition to its strong private label brands, Office sells major global third party footwear brands. The footwear is targeted at fashionable 16 to 25 year olds at the mid-level price range.

Office has 108 stores in the UK and the Republic of Ireland, and 44 concessions in high profile department store retailers. The business started its expansion into continental Europe in 2014 and currently has seven stores in Germany. Office also operates a successful e-commerce business which accounts for approximately a quarter of sales.

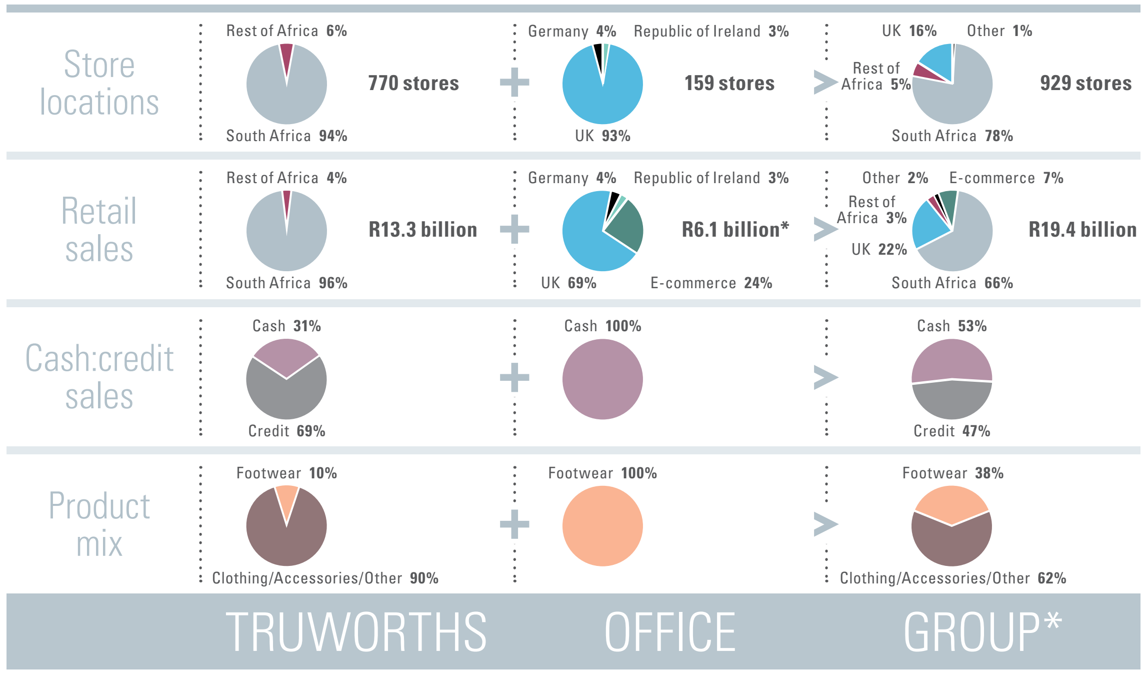
Founded in 1981, Office was acquired by Truworths International in December 2015 for R5.5 billion.

INTERNATIONAL EXPANSION STRATEGY



* 35% shareholding in Truworths Zimbabwe, fully impaired and not included in any disclosures in this report.

DIVERSIFICATION BENEFITS THROUGH OFFICE ACQUISITION



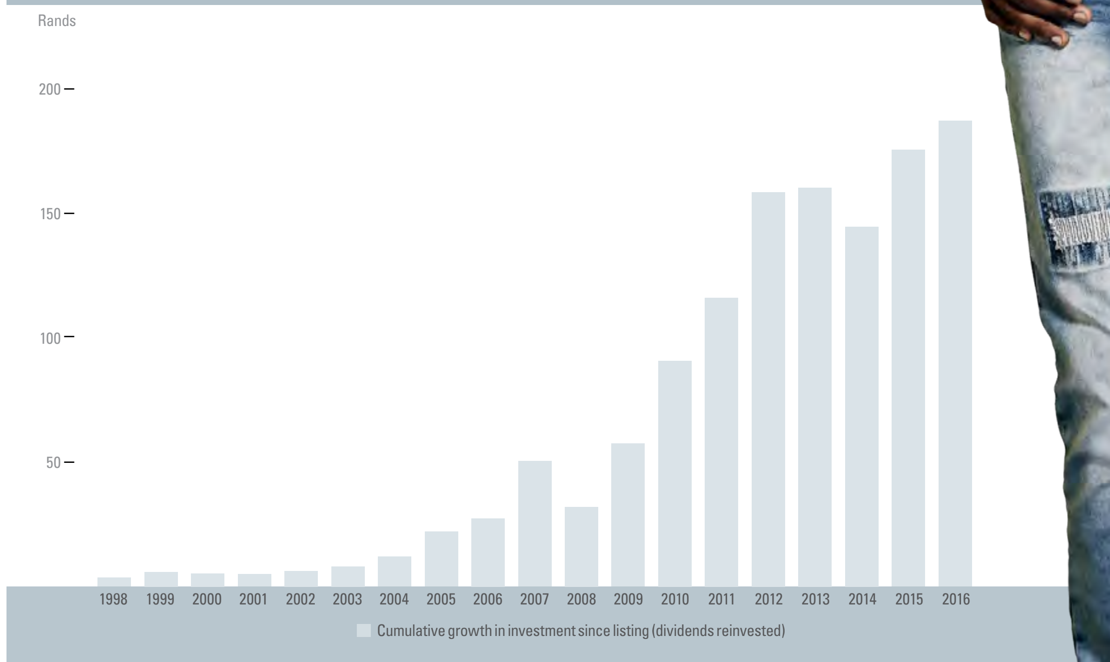
* Includes sales of Office for 12 months, on a pro forma basis.

INVESTMENT CASE

Truworths International aims to create value for shareholders by delivering competitive returns through dividend payments and share price appreciation.

The business offers a compelling case for investors seeking equity exposure to South Africa's retail sector and the mass middle-income consumer market, with a diversified earnings contribution from the UK. This Investment Case should be considered in conjunction with the Group Strategy, Truworths' Value-creating Business Model and Truworths' Material Issues, Risks and Opportunities.

TOTAL SHAREHOLDER RETURN



If R4 was invested in one share on listing in 1998 and all subsequent dividends were reinvested, the investment would be worth R189 at June 2016, resulting in an effective 24% return pa.

MANAGING THE RISK OF FASHION

Exclusive fashion brands across all retail formats

Gross margin at globally competitive level, averaging 55.5% over past five years

High level of ladies, mens and kidswear clothing and footwear market share

EXPANDING RETAIL PRESENCE

Portfolio of 723 well-located stores across South Africa and 147 in the UK, with small but growing store presence in rest of Africa, Germany and Ireland

Truworths emporium stores house multiple brands in a single store, promoting cross-shopping of brands

WELL-INVESTED ASSET BASE

Capital expenditure of R1.8 billion invested over past five years, mainly in store portfolio, supply chain and information technology

INTERNATIONAL EXPANSION

Office acquisition provides access to northern hemisphere and developed markets and is a platform for further offshore growth

MANAGING THE RISK OF CREDIT

Credit offered across all Truworths brands in South Africa, Namibia, Botswana and Swaziland as an enabler of sales of premium high-quality fashion to the mass mainstream and better-end markets

Active account base of 2.7 million loyal customers

Proven track record of managing credit risk through tough credit cycles

ORGANIC AND ACQUISITIVE GROWTH

Strong organic growth complemented by strategic acquisitions to extend fashion offering, with proven ability to integrate acquisitions

HIGHLY CASH GENERATIVE

Strong free cash flow with R11 billion generated in past five years

ACTIVE CAPITAL MANAGEMENT

Returns enhanced through capital of R8.8 billion being returned to shareholders in dividends and share buy-backs in past five years

DIVERSIFICATION*

Office acquisition ensures diversification of business mix, customer base and country risk

Retail sales | SA 66% UK 22% E-commerce 7% Other 5%

Product mix | Clothing/accessories 62% Footwear 38%

Store locations | SA 78% UK 16% Rest of Africa 5% Other 1%

Cash:credit sales | Cash 53% Credit 47%

Earnings | Truworths 91% Office 9%

MANAGEMENT

Highly experienced management team at Group level as well as within the Truworths and Office business units

* Includes results of Office for 12 months, on a pro forma basis, excluding any exceptional non-recurring items.

RESPONDING TO THE CHALLENGING TRADING ENVIRONMENT

This review focuses mainly on the South African retail and consumer environment, with a brief overview of the trading conditions impacting Office, the retail chain in the UK acquired by the Group during the reporting period.

INTRODUCTION

Retail trading conditions in South Africa proved challenging against the backdrop of slowing economic growth, heightened socio-political tensions and instability, rising interest rates and a weakening labour market. The Rand continued to lose ground and impacted on retailers exposed to the currency weakness through imported goods.

Credit retailers faced further headwinds following the introduction of new affordability assessment regulations by the National Credit Regulator (NCR) which have had a marked impact on credit sales in the country.

Consumer spending came under further pressure from rising living costs, driven by higher food, fuel and utility costs. Overall consumer confidence is at a lower level than during the global financial crisis of 2008/2009.

VOLATILE AND DEPRECIATING CURRENCY

As approximately 60% of Truworths' merchandise is imported and US dollar denominated, the business is vulnerable to exchange rate volatility and the depreciation of the Rand. While the Rand devalued by 23% against the US dollar over the reporting period, the currency was highly volatile and fell as much as 38% in the aftermath of the dismissal of South Africa's finance minister in December 2015.

Truworths partially mitigated the currency impact by improving procurement processes, identifying new sources of supply and adjusting product ranges, thereby limiting product inflation to an average of 9% for the reporting period. However the full impact of the devaluing Rand will only be evident in the summer 2016 season, when product inflation is expected to peak in the low to mid-teen levels.

The acquisition of Office in the UK has diversified the Group's currency exposure and can provide a hedge against what has historically and generally been a volatile and depreciating Rand, although the Pound Sterling has weakened in the short-term against the Rand in the aftermath of the recent Brexit vote.

BURDENSOME AFFORDABILITY REGULATIONS

The introduction of new affordability assessment regulations in September 2015 has had a widespread impact on credit retailers. Besides the extensive system and process changes required to be implemented to comply with the regulations, one of the main requirements is for retailers to validate an applicant's declared income with documented proof of income. This would typically need to be the three most recent salary advices or bank statements.

The impact of this proof of income requirement has been significant among Truworths' mass middle-market customers. Many customers are either self-employed or work in the informal sector and cannot provide formal proof of income. Others have found the process too onerous to comply. The new regulations have resulted in approximately 30% fewer accounts being opened each month, translating into an estimated loss of at least R200 million in sales for the reporting period.

Together with two other listed retailers, Truworths instituted legal proceedings against the NCR and the Minister of Trade and Industry in June 2016, seeking an order to have the new affordability assessment regulations reviewed.

CREDIT ENVIRONMENT

After showing signs of stabilising in the first half, the consumer credit environment in South Africa has deteriorated in the second half of the reporting period in line with slowing economic conditions and rising interest rates.

South Africa's benchmark interest rate, the repurchase (repo) rate (being the rate at which commercial banks borrow from the SA Reserve Bank), increased by 125 basis points to 7% over the past 12 months. Market consensus currently indicates the likelihood of a further 25 basis point increase in the second half of the 2016 calendar year.

While higher lending rates will increase consumers' debt servicing costs and reduce their disposable incomes, Truworths is not an interest rate sensitive business as account customers generally have limited exposure to mortgage bonds, vehicle finance and bank credit cards, and are reliant on in-store credit. Higher interest rates are therefore not expected to have a material impact on the spending patterns or debt repayment ability of the Truworths customer base.

RETAIL TRADING IN THE REST OF AFRICA

Trading conditions across the African continent were impacted by lower commodity prices and weakening currencies in most countries in which Truworths trades. This was particularly evident in Ghana and Zambia where the economies are highly dependent on commodities. Regulatory limitations preventing clothing imports into Nigeria resulted in trading no longer being viable and the four stores in the country were closed in the second half of the reporting period. Notwithstanding these factors, retail sales in the rest of Africa reflected pleasing year-on-year growth.

RETAIL TRADING IN THE UNITED KINGDOM

Conditions in the UK have also proved challenging during the reporting period, with declining footfall and spend being experienced across the retail sector. This has been largely driven by a general slowing of the economy, the tightening job market and uncertainty in the latter stages of the reporting period ahead of the Brexit vote in June.

The BDO monthly high street tracker reflected an 8.1% decline in retail sales for June 2016 over the prior year, with fashion retail sales being down for 10 of the past 12 months to June 2016.

However, online sales continued to grow strongly with industry sales for June 2016 reflecting growth of 15.8%. This trend favours Office as 24% of total sales are generated from e-commerce.

Consumers have shown a growing appetite for discount and promotional shopping and a reluctance to buy at full prices. As a fashion retailer Office was also affected by unseasonal and unpredictable weather patterns in both summer and winter.

CREATING SUSTAINABLE VALUE

12 TRUWORTHS' BUSINESS PHILOSOPHY

15 CREATING STAKEHOLDER VALUE

18 GROUP STRATEGY

20 TRUWORTHS' VALUE-CREATING BUSINESS MODEL

22 TRUWORTHS' MAJOR RISKS

23 TRUWORTHS' MATERIAL ISSUES, RISKS AND OPPORTUNITIES

Our Business Philosophy is core to the success of the business and is therefore integral to creating sustainable value

OUR PHILOSOPHY

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

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

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

TRUWORTHS' BUSINESS PHILOSOPHY

Our Business Philosophy comprises three synergistic elements – our purpose, our values and our vision.

Our Business Philosophy drives our business model and ensures Truworths remains aligned with its strategic direction. This has been core to the success of the business since being introduced almost two decades ago and is therefore integral to creating value for our 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.

Our Business Philosophy was developed for Truworths as a South African retailer. A key element of the Group's acquisition strategy is identifying companies that are culturally aligned and compatible with our Purpose, Values and Vision. This was the case with the acquisitions in South Africa over the past decade of Uzzi, Naartjie and Earthchild, which have been successfully integrated into Truworths.

Office, the fashion footwear retailer in the UK, was acquired midway through the reporting period and is currently being integrated into the Group. Formal alignment with our Business Philosophy will form part of this process after considering the markets in which Office operates.

OUR PURPOSE

Youthful, fashionable South Africans want to look attractive and successful and feel enthused with confidence. To this end Truworths entices them into the most exciting and visually appealing real and virtual retail environments where they can shop effortlessly for an innovative and adventurous blend of colour, fabric, value and fashion styling of international standard.

OUR VISION...

... for our customers

'Truworths will be the first place I go when I want quality fashion that makes me look attractive and successful and feel enthused with confidence because shopping at Truworths is effortless and I am helped by lively and committed people.'

... for our shareholders

'We are long-term investors in Truworths because we trust in management's capacity to execute innovative strategies which deliver significant real growth year after year.'

... for our employees

'I am totally committed to Truworths because I am always encouraged to offer innovative ideas which contribute to the ultimate purpose of Truworths. As a result Truworths is generous in recognising my role as an effective team member.'

CREATING STAKEHOLDER VALUE

This report aims to demonstrate how the Truworths chain creates value for its stakeholders. The contribution from Office, which was acquired during the reporting period, is covered separately in the Office Operational Report. Management plans to report value creation for the Group, Truworths and Office in the 2017 Integrated Report.

STAKEHOLDER ENGAGEMENT

Several stakeholders have a direct or indirect impact on the Group's business. These include shareholders, financiers, the broader investment community, customers, employees, regulatory bodies, property landlords, trade unions and the communities in which we operate, as well as our suppliers of merchandise and services.

However, the stakeholders which management believes are most likely to have a material influence on the delivery of the Group's strategy are those identified in the Group's vision:

STAKEHOLDER GROUP	RATIONALE FOR ENGAGEMENT	PRIMARY ENGAGEMENT
Shareholders	Principal providers of financial capital	CEO and CFO, together with senior finance management
Customers	Buyers of merchandise; source of revenue	Store management and employees, and call centre employees
Employees	Providers of talent and skills	Co-ordinated through the Human Resources Department and the responsibility of line management

The board has overall responsibility for stakeholder engagement and monitors its application across the business. The Group is proactive in responding to the needs, expectations and concerns of stakeholders. The level and frequency of engagement with each stakeholder group, and with different stakeholders in each group, differs according to the needs of the business and the expectations, concerns and preferences of each stakeholder.

SHAREHOLDERS: GROUP	CUSTOMERS: TRUWORTHS	EMPLOYEES: TRUWORTHS
OUR PRIMARY STAKEHOLDERS		
Local and international institutional and private investors (the principal providers of capital) as well as fund managers and analysts	Credit and cash customers of Truworths in South Africa and in the rest of Africa	All full-time and flexi-time employees of Truworths
HOW WE MEASURE VALUE FOR OUR STAKEHOLDERS		
Delivering sustainable shareholder returns	Supplying quality fashion of international styling	Employees being proud to work at Truworths
MORE ABOUT OUR STAKEHOLDERS		
4 951 shareholders 66% of shares held outside South Africa 14 sell-side analysts covering Truworths International **Major fund managers** Aberdeen Asset Management Group 20.7% Public Investment Corporation 13.5% Westwood Global Investments LLC 8.3% Blackrock Inc. 2.8% Coronation Asset Management 2.5%	Targeting youthful, fashionable consumers 2.7 million active account customers in Truworths	12 037 employees in Truworths 72% of Truworths employees are female 93% of Truworths employees are black
DELIVERING VALUE FOR OUR STAKEHOLDERS IN 2016		
Total shareholder return 7% Earnings before interest paid and tax R4.2 billion Headline earnings R2.8 billion Return on equity 37%* Return on assets 26%* Total cash dividend 452 cents per share Net asset value 2 031.8 cents per share	Truworths credit:cash sales 69%:31% Store base increased by 23 to 770 Four specialist emporium formats offered: Truworths Ladieswear, Truworths Menswear, Truworths Designer and Truworths Kids	94% of staff proud to work at Truworths (independent staff satisfaction survey) 16% permanent employee turnover R107 million training investment 10 682 employees trained No time lost to industrial action

* Ratios are based on the results of the Group including 12 months of Office profits, on a pro forma basis, excluding any exceptional non-recurring items.

MAIN ISSUES, NEEDS AND CONCERNS IN 2016	ADDRESSING ISSUES, NEEDS AND CONCERNS IN 2016	MEANS OF ENGAGEMENT
SHAREHOLDERS		
• Tough trading in current economic climate • Credit: financial impact of new affordability assessment regulations and interest rate cap • Fashion: pricing, margin and impact of exchange rates • Office acquisition • Capital management • Earnings growth • CEO succession • Growth prospects	• Five trading updates provided to investors • Presentation and detailed communications to investors on Office acquisition • Key investor concerns extensively covered in results announcements and presentations • Participation in broker-hosted conferences to reach wider range of investors • Ongoing engagement with investment analysts	• Meetings and teleconferences with investors, analysts and other fund managers • Annual and interim results reporting and presentations • SENS announcements • Annual general meeting • Attending broker-hosted conferences • Investor relations portal on website
CUSTOMERS		
• Fashion • Quality • Price • Range • Store experience • Service • Brand communication • Sizing	• Focused on well-established merchandise strategy to provide fashion that is youthful and fashionable but not 'fringe fashion' • Ensured fashion is aligned with international trends, but with the South African customer in mind • Focused on using excellent quality fabrics and detailed styling to bring added value and differentiation to the range • Focused on getting the balance right across the ranges – prints and plains, broadening range of price points, fabric mixes • Revisited size curves to improve offering in high-demand sizes	• Store windows • In-store experience • Customer call centre • Monthly billing, including marketing material either in print or electronically • Online and social media interaction • Advertising • Promotions • Brand communications • Custometer – customer survey tool • Customer focus groups
EMPLOYEES		
• Employees want to feel rewarded • Better opportunities for advancement and career progression • Improve manner in which they are being managed • Increased communication from management	• New job evaluation system being introduced to ensure consistent and equitable rewards • Total guaranteed package implemented to give employees greater flexibility in structuring remuneration • Improved competency framework and talent model • Further management training and leadership development • Reviewed effectiveness of current communication channels	• Staff satisfaction survey • CEO Talk • Employee magazine • Intranet • Electronic staff communications • In-store broadcasts • Performance reviews • Employment equity forums

GROUP STRATEGY

The acquisition of Office in the UK during the reporting period is in line with the Group's focus of building a strong international retail base.

Truworths International aims to be a world-class omni-channel retailer of fashion clothing, footwear and accessories, 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 countries. The successful implementation of this strategy will result in both cash and credit-generated revenues in various currencies, and a diversified earnings profile.

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.

The strategy is supported by sound financial capital management, information technology, human capital and operating systems, while the business philosophy guides all business practices and interactions with stakeholders.

The acquisition of Office in the UK during the reporting period is in line with the Group's focus of building a strong international retail base. This international acquisition has significantly diversified the Group's earnings, customer base and fashion merchandise mix, while providing access to northern hemisphere markets and laying the foundation for further international expansion.

MEDIUM-TERM GROWTH STRATEGIES

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

These growth strategies are determined in relation to the Group's business model, vision and purpose, material issues and the related risks and opportunities, macro-economic conditions and competitive forces. The strategies are reviewed and amended annually.

The growth strategies set out in this report should be considered in conjunction with Truworths' Value-creating Business Model and Truworths' Material Issues, Risks and Opportunities. The progress made against the delivery of these strategies is covered throughout the Integrated Report.

STRATEGIC GROWTH DRIVERS	PRIORITIES AND PLANS
GROUP	
Integration of Office into the Group	• Align operating models of Truworths and Office, including policies, systems, measurement processes and business intelligence, where appropriate • Integration to be phased over three years to extract optimal value while limiting risk
Strategic acquisitions	• Complement organic growth with acquisition of fashion businesses, with a focus on the UK and Europe, that meet the board's stringent investment criteria • Targeted medium-term net debt to equity ratio is 25% to allow for possible acquisitions
TRUWORTHS	
Expand kidswear presence	• Expand specialist Truworths Kids Emporium stores housing LTD Kids, Earthchild and Naartjie • Open 100 Truworths Kids Emporium stores over the next five years
Develop e-commerce platform and omni-channel capability	• Launch e-commerce platform in 2017 to facilitate omni-channel retailing • Relaunch website with significantly enhanced functionality, order fulfilment, communication and payment capabilities • Increase online fashion product offering • Develop digital channels to increase customer engagement and grow online sales
Introduce loyalty rewards programme	• Introduce loyalty rewards programme for cash and account customers in 2017 • Grow relationship with customers to increase frequency of shopping and basket size
Enhance distribution and supply chain capability	• Expand distribution capacity to accommodate growth and new distribution methods • Commence development of new distribution centre for completion in 2020 • Finalise the implementation of the new warehouse management system to enhance supply chain efficiencies
Credit	• Implement mitigation strategies to counter the impact of the new affordability assessment regulations and customer sentiment on credit applications and credit extension
OFFICE	
Optimise UK store portfolio	• Grow stand-alone store footprint in top UK retail destinations • Relocate older stores and close less profitable stores over the next three years
Expand presence	• Open 15 – 20 stores across the UK and Germany over the next three years • Evaluate expansion into neighbouring European countries in the medium-term • Introduce Office into South Africa under the Office London brand
Enhance e-commerce and multi-channel model	• Focus on website design and functionality, convenience and delivery capability • Develop mobile and in-store digital offering • Create single view of customer across multi-channel platforms • Develop further international websites, initially focused on Europe
Grow product offering	• Expand product range to include accessories • Focus on growing higher-margin Office house brands
Modernise store design	• Update and modernise store design concept and implement this design in new stores and store upgrades

TRUWORTHS' VALUE-CREATING BUSINESS MODEL

As a retailer of fashion apparel Truworths' business model is to procure merchandise from third party suppliers and to sell it to consumers for cash or on credit through its network of retail stores and e-commerce platform.

The successful execution of this business model will create value for Truworths' 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.

Several features of the business model distinguishes Truworths from its industry peers which arguably provides a sustainable competitive advantage.

As Office was acquired during the reporting period its business model will only be incorporated into this report from 2017.

CAPITALS OF VALUE CREATION

FINANCIAL CAPITAL relates to the funding received from the providers of capital and the financial resources available to Truworths.

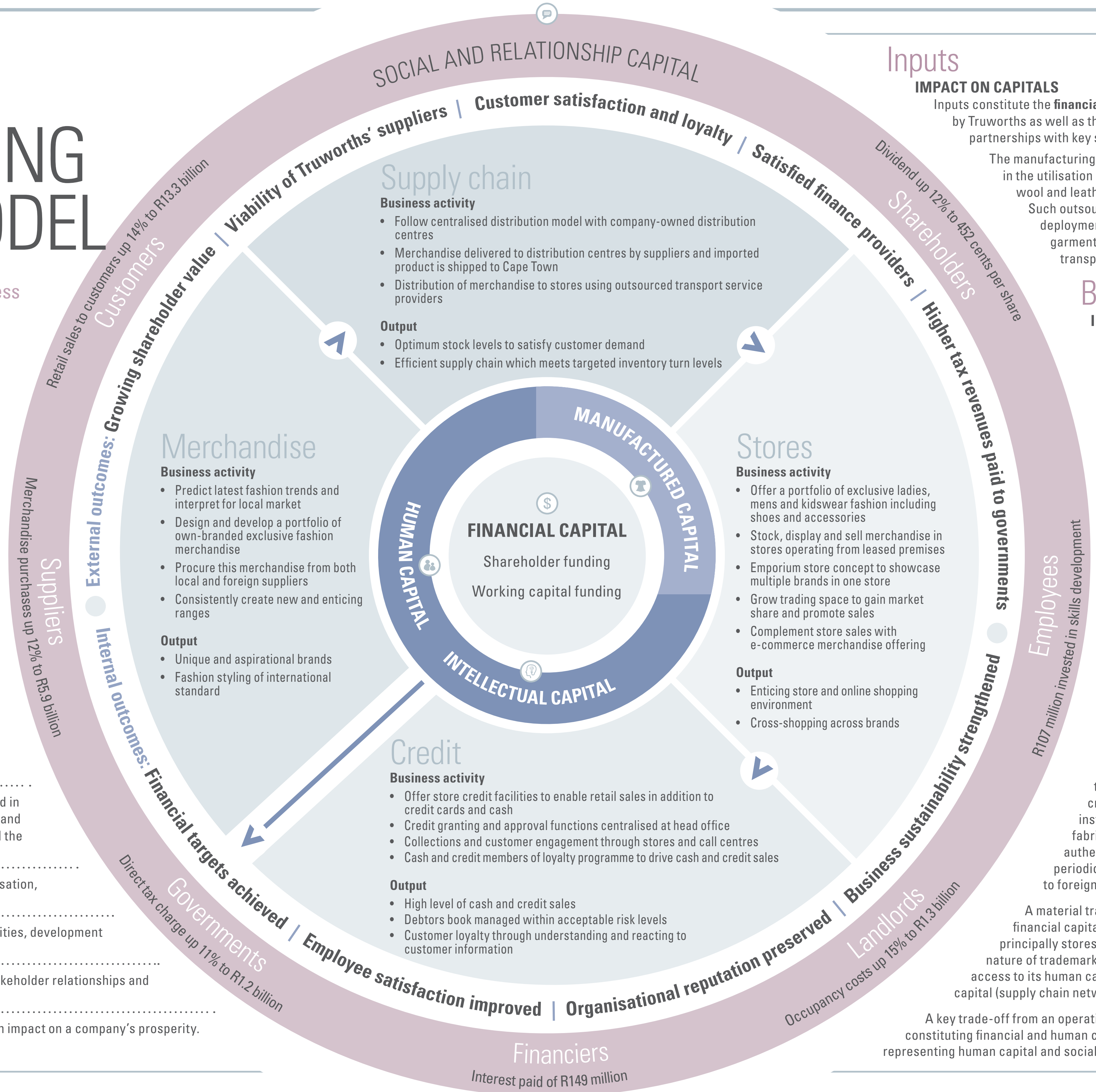
MANUFACTURED CAPITAL is the physical infrastructure used in the selling of merchandise, including the distribution centres and retail stores (even though the store premises are leased), and the information technology systems throughout the business.

INTELLECTUAL CAPITAL focuses on knowledge in the organisation, systems, processes, intellectual property and brands.

HUMAN CAPITAL relates mainly to employees' skills, capabilities, development and experience.

SOCIAL AND RELATIONSHIP CAPITAL deals broadly with stakeholder relationships and engagement, corporate reputation and values.

NATURAL CAPITAL relates to environmental resources which impact on a company's prosperity.



Inputs

IMPACT ON CAPITALS

Inputs constitute the **financial**, **manufactured** and **human capitals** available to and utilised by Truworths as well as the **social and relationship capital** evident in the important partnerships with key suppliers, bankers and landlords.

The manufacturing processes deployed by suppliers indirectly involve Truworths in the utilisation of **natural capital** in the form of raw materials such as cotton, wool and leather, as well as water and carbon-depleting energy sources. Such outsourced production also involves Truworths in the indirect deployment of **human capital** in the form of employees working in the garment and shoe manufacturing industry, and in the marine, road and air transportation industry.

Business activities

IMPACT ON CAPITALS

Truworths' business activities constitute **intellectual capital** in the form of knowledge-based intangibles in terms of trademarks, brands, operating systems, policies, processes and procedures. The **human capital** deployed by Truworths reflects the employees' competencies, qualifications, experience and energy, as well as alignment with Truworths' strategic objectives and ethical values.

Outcomes

IMPACT ON CAPITALS

Management believes that the outcomes in the 2016 reporting period have created value for stakeholders, as evidenced by increases in the **financial**, **manufactured**, **human**, **social and relationship** and **intellectual capitals** deployed by Truworths, with concomitant but acceptable levels of reduction in **natural capital**. Refer to the Creating Stakeholder Value report for further detail.

Trade-offs

A significant trade-off influencing the selection of suppliers relates to the disadvantages of using foreign manufacturers, in terms of long lead and delivery times and high transport and import duty costs, compared to the advantages of using local suppliers, being short lead times, ability to respond rapidly to changing fashion trends, low transportation costs and the creation of employment in the local manufacturing industry. In some instances the advantages of using foreign suppliers in terms of fabric quality and variety and technical garment construction and authenticity, and particularly in product pricing (notwithstanding periodic exchange rate weakness), outweigh the disadvantages relating to foreign supply.

A material trade-off between capitals during the period was the use of financial capital in the form of cash reserves to acquire the manufactured capital, principally stores, fixed assets and merchandise, and intellectual capital, in the nature of trademarks and know-how, of the Office business, as well as to obtain access to its human capital (employee skills and experience) and social and relationship capital (supply chain network).

A key trade-off from an operational perspective was to utilise cash and human resources, constituting financial and human capital respectively, in the skills development of its employees, representing human capital and social and relationship capital.

TRUWORTHS' MAJOR RISKS

Risk rating based on residual risk

LIKELIHOOD / CONSEQUENCE	Insignificant	Minor	Moderate	Major	Catastrophic
Almost certain					
Likely			Fluctuation of the Rand and impact on retail selling prices BBBEE certification Increase in counterfeit merchandise could impact on sales	Impact of new affordability assessment regulations on credit sales and profitability	
Moderate			Failure to integrate Office into the Group Availability of skilled IT human resources	Distribution and warehouse capacity constraints New warehouse management system delays distribution of merchandise to stores	
Unlikely			Increasing competition from international retailers entering South Africa	Inability to effectively manage credit risk Electricity load shedding resulting in loss of sales	
Rare				Loss of head office building Availability of key IT systems that enable daily trade Loss of warehousing facilities	

DEFINITIONS

Likelihood

Rating	Description
Almost certain	Definite
Likely	Probable/Impending
Moderate	Possible
Unlikely	Doubtful
Rare	Remote

Consequence

Rating	Description
Catastrophic	Shutdown
Major	Significant
Moderate	Tolerable
Minor	Negligible
Insignificant	Minimal

TRUWORTHS' MATERIAL ISSUES, RISKS AND OPPORTUNITIES

MATERIAL ISSUES

Material issues have been identified which the board believes are most likely to have a significant impact on the profitability and sustainability of the business. In determining these material issues, the board considered the Group's strategy and the business philosophy, as well as the legitimate needs, expectations and concerns of stakeholders (refer to the Creating Stakeholder Value report).

The material issues are reviewed regularly by executive management and the board. Following the 2016 review the board concluded that the material issues currently are fashion risk, supply chain efficiency, retail presence and credit risk management. While the previously reported material issues relating to financial and capital management, human resources and information technology are critical to the sustainability of the business, these are considered to be growth enablers rather than material issues.

The material issues pertain specifically to the Truworths business in South Africa and in the rest of Africa. As Office was acquired during the reporting period its material issues will only be incorporated into this report from 2017. Accordingly, the targets for 2017, where applicable, have been revised to include Office.

RISKS AND OPPORTUNITIES

Certain of the risks included in the discussion of Truworths' material issues are extracted from the Truworths key risk register (refer to Truworths' Major Risks report). The risks in this register reflect the key risks facing the business and could militate against the achievement of the objectives outlined in the material issues section if not effectively managed.

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

TRUWORTHS: MANAGING THE RISK OF FASHION

Performance against objectives and target in 2016

OBJECTIVES AND PLANS FOR 2016	PERFORMANCE AGAINST OBJECTIVES
Ongoing focus on managing the risk of fashion.	• Merchandise team focused on ensuring the level of fashionability is appropriate for the target customer. • Retail sales growth of 14% highlights favourable customer response to the summer 2015 and winter 2016 ranges.
Continued organic growth through extension of merchandise ranges and new concepts.	• Focused on integrating newly acquired brands Earthchild, Earthaddict and Naartjie.
Continued technology innovation to enhance merchandise processes.	• Current retail merchandise systems being upgraded to support e-commerce, multi-country expansion, customer loyalty and the integration of Office. • Product life cycle management system purchased for implementation, which is scheduled to commence in the 2017 reporting period.
Growth of the Truworths Manufacturing division. The division operates as a design house and uses cut-make-trim (CMT) suppliers to manufacture merchandise.	• Truworths Manufacturing showed good growth and together with the internal sourcing office are each now amongst the larger suppliers to Truworths. • Naartjie Manufacturing successfully integrated into Truworths Manufacturing.
The integration of Earthchild, Earthaddict and Naartjie into the business.	• Earthchild and Naartjie integrated into Truworths Kids Emporium. • Earthaddict integrated into Truworths Designer Emporium.

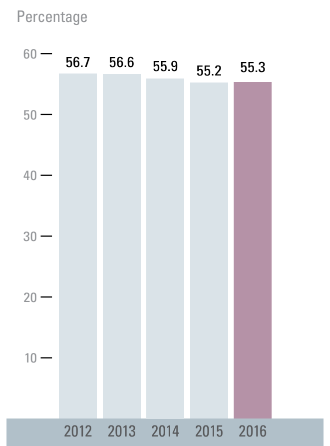
TARGET FOR 2016	PERFORMANCE AGAINST TARGET
Gross margin 54% – 57%	Gross margin at 55.3%

Challenges encountered in 2016

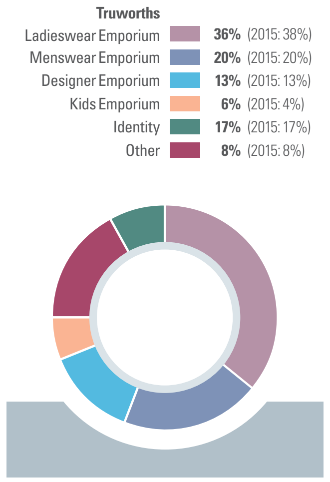
- Managing the impact of the devaluation of the Rand on product pricing in relation to imported merchandise.
- Credit sales performance impacted by the introduction of the new affordability assessment regulations by the National Credit Regulator (for further detail refer to the Truworths: Managing the Risk of Credit report).

Refer to the Truworths: Managing the Risk of Fashion report on pages 84 to 85 for further detail.

GROSS MARGIN



RETAIL SALES CONTRIBUTION



Key risks and mitigation strategies for 2017

DESCRIPTION OF RISK	RISK MITIGATION
Truworths needs to ensure quality fashion is provided to customers each season at appropriate margins. This covers buying processes, fashion monitoring, supplier relationships and ensuring Truworths has skilled buying and planning resources. The risk is heightened in an extremely tough economic environment with increased local and international retail competitive presence.	• 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. • Blend the 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. • Increase breadth of prices offered by incorporating more well-priced fashion basics into the ranges. • Use fashion studios to ensure ranges follow international fashion trends. • Monitor impact of international brands targeting the Truworths mass middle-market customer. • Product life cycle management system purchased for implementation, which is scheduled to commence during the 2017 reporting period.
Marked increase in counterfeit merchandise could impact on sales.	• Monitor counterfeit product in the market and attempt to identify source of origin. • External service providers contracted to uncover source of counterfeit product. • Engage with SA Revenue Service to assist them in identifying counterfeit product. • Initiate legal action against producers of counterfeit product.
Truworths is vulnerable to exchange rate volatility on imported merchandise which makes it complicated to manage retail selling prices.	• Improve procurement processes, identify new sources of supply and adjust product ranges to limit product inflation. • Foreign exchange hedging policy.

Medium-term opportunities

- Upgrade of the merchandise management system to support implementation of best practices, provide greater flexibility for merchandise initiatives and improve integration.

Group target for 2017

- Gross margin: 52% – 55%

Objectives and plans for 2017

- Ongoing focus on managing the risk of fashion.
- Adapt ranges to counter the impact of currency devaluation on merchandise pricing.
- Ongoing implementation of the product life cycle management system.
- Ongoing development of the new merchandise management system.
- Further development of offshore sourcing processes.
- Development of an e-commerce platform and offering.
- Continue the integration of Office into our retail processes, where appropriate.

TRUWORTHS: OPTIMISING SUPPLY CHAIN EFFICIENCY

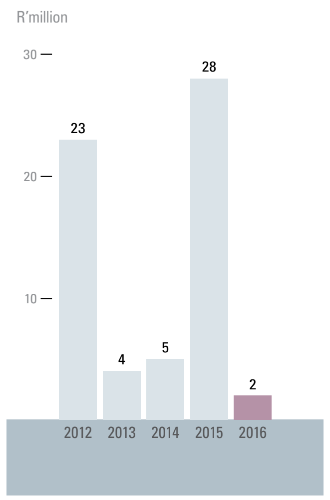
Performance against objectives and targets in 2016

OBJECTIVE AND PLAN FOR 2016	PERFORMANCE AGAINST OBJECTIVE
Capital expenditure of R163 million planned for the expansion and integration of distribution facilities.	• Distribution centres re-engineered and expanded to cater for organic growth and integration of Earthchild and Naartjie acquisitions. • Development of third owned distribution centre to commence in the 2017 calendar year. • Capital expenditure of R2 million (2015: R28 million comprising R12 million for distribution facilities and R16 million for land). • Implemented new warehouse management system in July 2016.

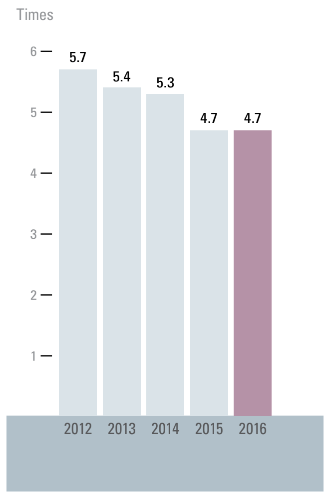
TARGETS FOR 2016	PERFORMANCE AGAINST TARGETS
Inventory turn 5.5 times – 6.0 times.	Inventory turn 4.7 times due to tough environment.
Improve supply chain efficiency by 5% year-on-year.	4% efficiency improvement.

Refer to the Truworths: Optimising Supply Chain Efficiency report on pages 86 to 87 for further detail.

CAPITAL EXPENDITURE ON DISTRIBUTION FACILITIES



INVENTORY TURN



Challenges encountered in 2016

- Managing the impact of the fluctuation and devaluation of the Rand on product pricing of imported merchandise.
- Integrating Earthchild, Earthaddict and Naartjie into the supply chain which placed pressure on distribution centre space and efficiencies as well as on suppliers.
- Managing space in the distribution centres to accommodate the organic and acquisitive growth in the business.

Key risks and mitigation strategies for 2017

DESCRIPTION OF RISK	RISK MITIGATION
Organic growth leading to a shortage of distribution and warehousing capacity.	• Distribution centres underwent extensive re-engineering and expansion in the 2016 reporting period to manage organic growth and recent acquisitions. • New warehouse management system being implemented to improve productivity and stock management. • Building of a third owned distribution centre planned to commence in the 2017 calendar year.
New warehouse management system could result in delays in the allocation and distribution of merchandise to stores.	• Work to refine and simplify the warehouse management system requirements. • Extend distribution centre staff training.

Medium-term opportunities

- Complete implementation of new warehouse management system in the distribution centres.
- Bolster the distribution capacity and further improve distribution efficiency through the development of a third owned distribution centre.

Objectives and plans for 2017

- Capital expenditure of R97 million planned for distribution expansion and development, mainly on the initial phase of the new distribution centre (subject to local authority approvals).
- Leverage benefits of new warehouse management system.
- Integrate enhanced e-commerce offering into the supply chain.

Targets for 2017

- Inventory turn 4.5 – 5.5 times (excluding Office) and 3.0 times – 4.0 times (including Office).
- Improve distribution centre productivity by 1% – 3% (excluding Office).

TRUWORTHS: MANAGING THE RISK OF CREDIT

Refer to the Truworths: Managing the Risk of Credit report on pages 88 to 90 for further detail.

Performance against objectives and targets in 2016

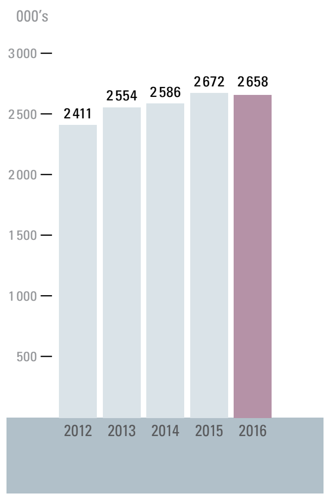
OBJECTIVES AND PLANS FOR 2016	PERFORMANCE AGAINST OBJECTIVES
Implement the first phase of a loyalty rewards programme for all customers.	• Loyalty programme framework developed for credit and cash customers. • Invested in customer engagement platform to facilitate multi-channel communication. • Testing phase will continue in the 2017 reporting period to evaluate impact on profitability.
Deliver a best-in-class omni-channel affordability assessment process.	• Omni-channel affordability assessment process implemented to assist customers in providing proof of income documentation. • Solution rolled out across multiple digital devices in stores and at head office.
Leverage predictive analytics to improve decisions across the customer life cycle.	• Several additional models developed to enhance customer management strategies.

TARGETS FOR 2016	PERFORMANCE AGAINST TARGETS
Lead the market in active account growth.	The reduction in active accounts was less than the direct retail competitors of Truworths (source: Principa).
Maintain the doubtful debt allowance at existing levels.	Doubtful debt allowance at 12.3% has improved from the 2015 reporting period (12.5%).
Improve frequency of purchase and basket size of account customers.	Pleasing improvement noted in both frequency of purchases and basket size of account customers.

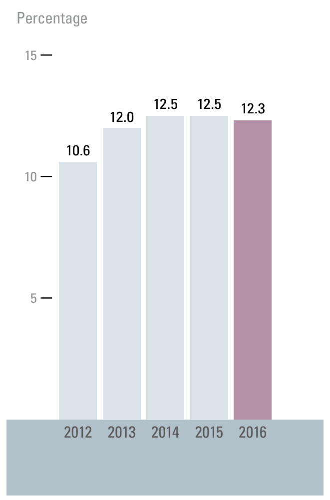
Challenges encountered in 2016

- Managing the implementation of the processes required to ensure compliance with the new affordability assessment regulations introduced by the National Credit Regulator.
- Growing credit sales and the active account base as affordability reduces in a deteriorating consumer credit environment.

NUMBER OF ACTIVE ACCOUNTS



DOUBTFUL DEBT ALLOWANCE AS A % OF GROSS TRADE RECEIVABLES



Key risks and mitigation strategies for 2017

DESCRIPTION OF RISK	RISK MITIGATION
Inability to effectively manage credit risk could result in increased bad debt, slower collections, limited new account growth and a reduction in the number of customers able to buy on credit.	• Apply credit granting processes consistently using advanced analytics, credit scorecards and models. • Review credit management, collections and acquisition strategies regularly and refine to leverage new data and predictive models. • Implement and maintain best-of-breed credit management tools that accurately execute credit policies, processes and strategies.
New affordability assessment regulations in terms of the National Credit Act have materially impacted credit granting and therefore sales.	• Continue to improve profitability of credit strategies by using better scorecards, more data and enhanced decision processes. • Ongoing improvements in head office and in-store processes. • Instituted legal proceedings together with two other major listed retailers against the National Credit Regulator and the Department of Trade and Industry to challenge certain aspects of the regulations.

Medium-term opportunities

- Leverage investment in data management and analytics to improve credit and marketing strategies.
- Improve customer engagement across all channels.
- Improve collections as new systems are implemented.

Objectives and plans for 2017

- Develop predictive models and strategies across the credit portfolio to respond to the changing economic and trading environment.
- Continue to invest in technology to unlock the value in the vast customer data available internally and externally.
- Commence development of new collections software.
- Further improve processes and systems to collect new affordability assessment documentation.
- Launch a loyalty programme for both credit and cash customers in order to offer personalised promotions and offers that increase purchase frequency and basket size.
- Relaunch e-commerce with enhanced functionality, order fulfilment, communication and payment capabilities to facilitate omni-channel retailing.

Targets for 2017

- Maintain number of active customer accounts.
- Maintain the doubtful debt allowance at existing levels of around 12.5%.
- Improve frequency of purchase and basket size from cash and account customers.

TRUWORTHS: MANAGING RETAIL PRESENCE

Refer to the Truworths: Managing Retail Presence report on pages 94 to 96 for further detail.

Performance against objectives and target in 2016

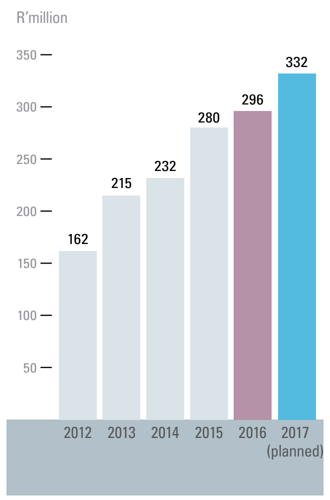
OBJECTIVES AND PLANS FOR 2016	PERFORMANCE AGAINST OBJECTIVES
Trading space expected to grow by approximately 4%.	• Trading space growth of 4.0% (2015: 7.7%). • Net 23 stores opened (2015: 44). • Truworths Kids Emporium launched housing three kidswear brands. • 770 stores at period-end (2015: 747).
R322 million committed to store development.	• R296 million (2015: R280 million) invested in store development.
Open additional stores in Namibia, Nigeria and Zambia and open stores in Kenya, Tanzania and Mozambique.	• Additional stores opened in Namibia, Zambia and Kenya. • Real estate developments being evaluated in Tanzania and Mozambique as well as Angola. • Stores closed in Nigeria owing to restrictions on clothing imports. • Store footprint in the rest of Africa now 47.
Full omni-channel capability, including non-account customer online purchasing.	• Ongoing development of new e-commerce platform.

TARGET FOR 2016	PERFORMANCE AGAINST TARGET
Store electricity carbon emissions of 70 000 tons or 195 kg per m².	• Carbon emissions of 71 600 tons or 178 kg per m² as at June 2016 (South Africa only).

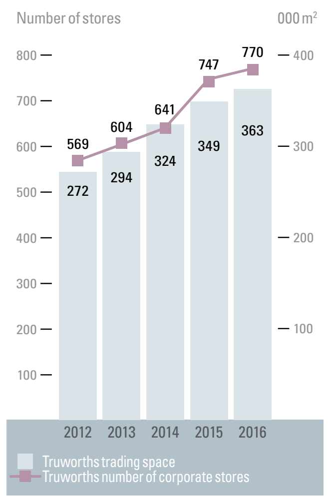
Challenges encountered in 2016

- Securing trading space in prime locations in good performing shopping centres without significantly impacting on the productivity of existing stores.
- Electricity outages impacting trading in stores, although these reduced significantly from the previous year.
- Managing above-inflation increases in utility costs.

STORE DEVELOPMENT CAPITAL EXPENDITURE



GROWTH IN STORE BASE



Key risks and mitigation strategies for 2017

DESCRIPTION OF RISK	RISK MITIGATION
Electricity loadshedding and outages limit trading hours and result in regular store closures, impacting sales and profitability.	• Link to existing mall generators. • Work with landlords to install generators with additional capacity in key shopping malls and link stores to generators. • Install generators in key CBD stores. • Uninterrupted power supply installed in all new and revamped stores. • Upgrade store servers.
Consolidation of landlords, slowdown in mall development and an increased demand for space, as a result of the increased presence of international retailers, impacting price and availability of retail space.	• Consolidating existing space and improving efficiencies by introducing new brands into various store formats. • Renovating key stores. • Early discussions with landlords to secure prime space at competitive rates.
Inability to successfully launch the e-commerce platform, which could impact sales growth.	• Highly skilled and experienced, dedicated project team. • Best-in-class e-commerce platform developed.

Medium-term opportunities

- Consolidate trading space to improve operating efficiency and trading densities by renovating key stores and reprofiling stores by adding new brands.
- Roll out kidswear brands in existing stores in areas where they do not have a presence yet.
- Ongoing refinement and roll-out of the four emporium formats.

Objectives and plans for 2017

- Trading space expected to grow by approximately 3%.
- R332 million committed to store development.
- Evaluate store opportunities in the rest of Africa.
- Continued expansion of Truworths Kids Emporium stores.

Targets for 2017

- Store electricity carbon emissions of 170 kg per m² (South Africa only).
- Roll out 28 Truworths Kids Emporiums

GOVERNANCE

34 CHAIRMAN'S REPORT
36 BOARD OF DIRECTORS
38 EXECUTIVE COMMITTEE
40 ABRIDGED CORPORATE GOVERNANCE REPORT
44 REMUNERATION COMMITTEE REPORT

Governance in the Group extends beyond compliance and is aimed at improving corporate performance, which aims ultimately to enhance value for our stakeholders.

CHAIRMAN'S REPORT

Strategically, Office provides access to developed northern hemisphere markets and a platform for further organic and acquisitive offshore growth.

HILTON SAVEN

INTERNATIONAL EXPANSION

During the 2016 reporting period the Group completed its most significant acquisition, and its first in the northern hemisphere, with the purchase of leading fashion footwear chain Office in the UK.

This earnings enhancing acquisition has strengthened the Group's investment case by diversifying the business mix, customer base and country risk, while also generating hard currency earnings. Strategically, Office provides access to developed northern hemisphere markets and a platform for further organic and acquisitive offshore growth.

Management has focused intensely on integrating Office into the Group in the seven months since the completion of the transaction in December 2015. The acquisition offers wide-ranging benefits for both Truworths and Office. However, we are under no illusion of the challenging and competitive trading environment in which we will be operating, and even more so since the UK's decision to leave the European Union.

The plans to extract benefits from the acquisition and the financial implications of the transaction are covered in the Chief Executive Officer's and Chief Financial Officer's reports respectively.

CREATING SHAREHOLDER VALUE

The Group remains highly cash generative and financially strong, and continues to deliver competitive returns for shareholders.

Cash generated from operations was used to fund the Office acquisition and the related transaction costs totalling R3.5 billion (R2.7 billion net of the cash acquired pursuant to the transaction), and R1.4 billion in dividend payments. Interest-bearing borrowings of R4.5 billion were raised to fund the Group's operating activities.

The Group's net asset value per share increased by 13% to 2 032 cents, underlining the strength of the balance sheet.

Diluted headline earnings per share (HEPS) increased by 12.5% to 665.9 cents. Excluding the once-off Office acquisition transaction-related costs, adjusted diluted HEPS increased by 16.2% to 688.2 cents.

Following the Office acquisition the board has elected to make capitalisation share awards, and accordingly has declared scrip dividends with cash dividends as an alternative in respect of the period. A final cash dividend of 182 cents per share has been declared, resulting in a total cash dividend of 452 cents per share (2015: 405 cents per share), an increase of 12% on the prior period.

In the past five years the Group has generated R12 billion in cash from operations, invested R1.8 billion in organic growth through capital expenditure, returned R8.8 billion to shareholders through dividends and share buy-backs, and invested R3.9 billion in acquisitions.

GOVERNANCE ENHANCING VALUE

Governance in the Group extends beyond compliance and is aimed at improving corporate performance, which aims ultimately to enhance value for our stakeholders.

The directors believe sound corporate governance is creating value in the business through reduced risk and better risk mitigation, improved sustainability, enhanced accountability, consistent financial performance, sound stakeholder relationships, high levels of legislative compliance and reputational integrity.

Following the acquisition of Office in the UK, governance processes are being implemented that are suited to the structure and needs of the Office business, and aligned with the Group's practices and policies. Good progress has been made in introducing a formal risk governance structure, including forming a risk committee, appointing a risk officer, conducting a risk assessment and creating a top risks register.

Governance standards in the Group are independently assessed each year as part of the evaluation process for the FTSE/JSE Responsible Investment Top 30 Index. The Group was included in the Top 30 Index and achieved 100% for the governance pillar on the FTSE environmental, social and governance (ESG) ratings scorecard.

Transparent reporting is a hallmark of good governance. The quality of the Group's reporting was again recognised in the EY Excellence in Integrated Reporting Awards where the 2015 Integrated Report was ranked sixth among the top 100 companies on the JSE, being the only retailer in the top ten. This continues the Group's proud performance in the EY reporting awards where it has been ranked in the top ten for nine successive years, being the only company on the JSE to achieve this distinction.

South Africa's corporate governance landscape will be further enhanced with the imminent introduction of the King IV code. This new code will align with governance and regulatory developments both locally and internationally since the 2009 King III report. Based on the draft King IV report, which was made available for public comment, the directors are confident in the Group's ability to apply the code seamlessly when it is expected to be effective from 1 November 2016.

BOARD AND MANAGEMENT

Truworths International has a strong, stable and diverse board with an appropriate balance between non-executive and executive directors. The non-executive directors provide extensive support to the business and to the executive team, and this was particularly evident in the past year with the acquisition of Office.

Michael Mark, who has served as Group CEO since 1996, has extended his contract with the Group and we look forward to continuing to benefit from his astute leadership, importantly during the integration phase of the Office business into the Group.

Jean-Christophe Garbino resigned from his position as CEO Designate and as an executive director in December 2015 after a short tenure, and we wish him well in his future career.

Doug Dare, who has been the Director: Buying and Merchandising of Truworths since 1999, was appointed as an executive director of Truworths International with effect from 19 August 2016. Doug has been with the Group for over 30 years and has extensive experience in merchandise management and planning, retail operations and marketing. We look forward to continue benefiting from his wealth of retail knowledge.

The strong senior leadership team provides the Group with CEO succession candidates. The executive committee of Truworths Ltd has been strengthened with the internal appointment of two highly experienced senior executives and we will also consider recruiting external candidates to broaden the depth of talent and our pool of succession candidates.

ACKNOWLEDGEMENTS

Thank you to Michael and his management team for their leadership during a challenging but exciting year. On behalf of the board I welcome the Office management and employees to the Group and we look forward to the contribution from our northern hemisphere colleagues.

My fellow non-executive directors continue to provide invaluable wisdom and insight, and I thank them for their active participation in our boardroom debate.

Our external stakeholders are vital to the continued success and sustainability of the business, and I thank in particular our shareholders, customers, suppliers, regulators and advisers for their ongoing support.

Hilton Saven
Independent non-executive Chairman

TRUWORTHS INTERNATIONAL LTD

BOARD OF DIRECTORS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1 HILTON SAVEN (63)
BCom, CA (SA)

Chairman of the board
Independent non-executive director

Chartered accountant and business consultant

Chairman: Mazars South Africa, Truworths Chairman's Foundation, Balwin Properties Ltd

Executive board member: Mazars International

Non-executive director: Lewis Group Ltd, Monarch Insurance Company Ltd, Praxity-Global Alliance Ltd, Life Vincent Pallotti Orthopaedic Centre (Pty) Ltd

Trustee: Truworths International Ltd Share Trust

Appointed to the board in February 2003

Member of Remuneration Committee, and Non-executive and Nomination Committee

2 MICHAEL MARK (63)
BCom, MBA, ACMA

Chief Executive Officer
Executive director

Executive Chairman: Truworths Ltd, since March 1998

Director: Young Designers Emporium (Pty) Ltd, Truworths (Namibia) Ltd

Non-executive director: Office Holdings Ltd

Trustee: Truworths Chairman's Foundation

Appointed to the board in July 1988, as Managing Director of Truworths Ltd in July 1991 and as Group Chief Executive Officer in July 1996

Chairman of Risk Committee

3 ROB DOW (59)
BSc (Hons), Dip. Acc (Dist), CA

Independent non-executive director

Investment adviser and business consultant

Director: Kensani Capital (Pty) Ltd, Morella Investments (Pty) Ltd, St Mary's School Waverley (non-profit company), Phetogo Investment Holdings (Pty) Ltd

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

4 THANDI NDLOVU (61)
BSc, MBChB

Independent non-executive director

Construction executive and businesswoman

Chairman: Motheo Construction Group of companies

President: South African Women in Construction, Black Business Council for the Built Environment

Director: Baitshepi Development Consulting Services (Pty) Ltd, Kemano Investment Holdings (Pty) Ltd, Thulong Investments (Pty) Ltd

Member of the Business Unity SA (BUSA) Transformation Policy Committee

Appointed to the board in February 2001

Member of Social and Ethics Committee, and Non-executive and Nomination Committee

5 MICHAEL THOMPSON (73)
BCom, MBA, AMP (Harvard)

Independent non-executive director

Retired banking executive and management consultant

Chairman: SA Select Property Investments Ltd, SA Select Property Asset Managers (Pty) Ltd

Trustee: Truworths International Ltd Share Trust

Appointed to the board in March 2004

Chairman of Audit Committee, and Social and Ethics Committee and member of Risk Committee, and Non-executive and Nomination Committee

6 KHUTSO MAMPEULE (51)
BA, MSc, MBA

Independent non-executive director

Businessman

Founder and Executive Chairman: Lefa Group Holdings (Pty) Ltd

Chairman: Phetogo Investment Holdings Ltd, Fourdec Advisory (Pty) Ltd, Withmore Investments (Pty) Ltd

Non-executive director: Comair Ltd, Niveus Investments Ltd

Appointed to the board in February 2014

Member of Non-executive and Nomination Committee

7 TONY TAYLOR (69)
BA

Independent non-executive director

Retail executive and businessman

Executive: Pepkor Retail Ltd

Appointed to the board in February 1999

Member of Non-executive and Nomination Committee

8 RODDY SPARKS (57)
BCom (Hons), CA (SA), MBA

Independent non-executive director

Director of companies

Chairman: NMC (Pty) Ltd

Non-executive director: Trencor Ltd, Imperial Holdings Ltd, Regent Life Assurance Company Ltd, Regent Insurance Company Ltd, Pembani Group (Pty) Ltd

Trustee: World Wildlife Fund for Nature, Foodbank Foundation, The Abe Bailey Testamentary Trust

Appointed to the board in February 2012

Member of Audit Committee, and Non-executive and Nomination Committee

9 DAVID PFAFF (51)
BCom, CA (SA), Dip Soc (Oxon)

Chief Financial Officer

Executive director

Director: Truworths Ltd, Truworths(Botswana) (Pty) Ltd, Truworths (Mauritius) (Pty) Ltd, Tru Group Clothing Retailers (Ghana) (Pty) Ltd, Truworths (Swaziland) Ltd, Truworths Lesotho (Pty) Ltd, Truworths Kenya Ltd

Non-executive director: Truworths Ltd (incorporated in Zimbabwe), Office Holdings Ltd

Employee since April 2013

Appointed to the board in September 2013

Member of Risk Committee, Sustainability Committee, and Social and Ethics Committee

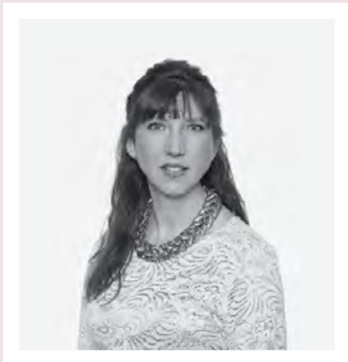
TRUWORTHS LTD
EXECUTIVE COMMITTEE

Michael Mark **(63)**
BCom, MBA, ACMA
Executive Chairman
Employee since July 1991
Appointed to the board in July 1991

David Pfaff **(51)**
BCom, CA (SA), Dip Soc (Oxon)
Chief Financial Officer
Employee since April 2013
Appointed to the board in September 2013

Doug Dare **(55)**
BBus Sc
Director: Buying and Merchandising
Employee since June 1984
Appointed to the board in July 1999

Sean Furlong **(55)**
Diploma in Marketing Management
Director: Planning and Logistics
Employee since February 1989
Appointed to the board in March 2016



Sarah Proudfoot **(48)**
National Diploma in Clothing Design
Director: Merchandise Ladieswear
Employee since March 2001
Appointed to the board in March 2016

TRUWORTHS LTD DIVISIONAL DIRECTORS

Tony Miek
(53)
PG Diploma in Accounting

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

Steve Widegger
(52)
Diploma in Business Management

Divisional Director: Merchandise
Employee since February 1987
In current position since August 2006

Neville Kopping
(53)
BCom

Divisional Director: Merchandise
Employee since March 2006
In current position since March 2008

Mark Forster
(56)

Divisional Director: Merchandise
Employee since May 1999
In current position since March 2008

Mark Smith
(51)
BA (Hons), Higher Diploma in Education, SMP

Divisional Director: Human Resources
Employee since September 2009
In current position since September 2009
Chairman of Transformation Committee
Member of Risk Committee and Sustainability Committee

Francois Baissac
(54)
Diploma in Computer Programming and Project Management

Divisional Director: Information Systems
Employee since June 1988
In current position since February 2011
Member of Risk Committee

Glenn Wood
(51)
BSc (Accounting), MSc (Financial Management)

Divisional Director (Designate): Retail Operations
Employee since March 2015
In current position since May 2015
Member of Risk Committee and Transformation Committee

Jonni Katz
(47)

Divisional Director: Earthchild and Naartjie
Employee since March 2015
In current position since June 2015

Gary Barnard
(40)
BSc (Electro-Mechanical Engineering)

Divisional Director: Credit
Employee since June 2002
In current position since August 2015
Member of Risk Committee

Chris Durham
(60)
FCIS, PG Dip. Adv. Co Law (UCT)

Divisional Director: Company Secretary
Employee since June 1999
In current position since March 2016
Director: Truworths (Namibia) Ltd, Truworths (Swaziland) Ltd, Truworths (Lesotho) (Pty) Ltd, Truworths (Zambia) Ltd, Truworths (Kenya) Ltd
Member of Risk Committee, Sustainability Committee and Transformation Committee

OFFICE MANAGEMENT

Brian McCluskey
(54)
CA

Chief Executive Officer
Director: Office Holdings Ltd
Employee since February 2005
In current position since January 2006

Ghassan Hodeib
(44)

Buying Director
Employee since February 1996
In current position since January 2004

Kerry-Lee van der Merwe
(40)
BAccSci (Hons), CA (SA)

Finance Director
Director: Office Holdings Ltd
Employee since June 2016
In current position since June 2016

Jonathan Kurtner
(43)

Merchandising Director
Employee since March 2004
In current position since March 2004

ABRIDGED CORPORATE GOVERNANCE REPORT

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.

INTRODUCTION

During the 2016 reporting period the Group continued to practise corporate governance at a high level, aimed at adding value to the business as well as facilitating the Group's sustainability, generating long-term shareholder value and benefiting other stakeholders.

In an environment of voluminous and changing regulation, and in the context of both acquisitive and organic growth, the Group has worked to attain an appropriate balance between the governance expectations of stakeholders, and the requirement to generate consistent and competitive financial returns.

Governance in the Group goes far beyond a box-ticking process, with compliance with codes, legislation, regulations and listings requirements being a 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 philosophy.

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 (in prior periods the JSE's Socially Responsible Investment (SRI) Index was the benchmark), which relies on publicly available information. In the reporting period the Group qualified for inclusion in the Index attaining 100% (2015: 100% on JSE SRI Index) for the elements of the governance pillar of the FTSE environmental, social and governance (ESG) ratings scorecard.

The directors confirm that during the 2016 reporting period the Group has in all material respects voluntarily applied the 2009 King Code of Governance Principles (King III) and complied with the mandatory corporate governance provisions in the JSE Listings Requirements. A schedule of how the Group has applied the King III principles can be viewed on www.truworths.co.za/investors.

This report is a summary of corporate governance matters within the Group and should be read in conjunction with the more detailed Corporate Governance Report available on www.truworths.co.za/investors.

GOVERNANCE ADDING VALUE

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

The Group's 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 manifests 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 a 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 lower risk, improved sustainability, consistency of financial performance, sound stakeholder relationships, high levels of legislative compliance and reputational integrity.

GOVERNANCE DEVELOPMENTS IN 2016

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

GOVERNANCE ELEMENT	GOVERNANCE DEVELOPMENT
Social and Ethics Committee	The committee reviewed the scope and breadth of management's reporting to the committee with the assistance of external advisers. As a consequence it has broadened and clarified its monitoring function to ensure that over a rolling period all matters required by regulation are suitably considered by the committee, or by the board, or other structures that report to the board.
Social and Ethics Committee	The charter of the committee was reviewed and changes thereto were adopted by the committee and the board.
Risk governance	The reporting by the Risk Committee to the board of the company has been amended to be more encompassing, and a revised format of the Group's top risk register incorporating an impact indicator both before and after the implementation of mitigating controls has been adopted and the risk register is presented routinely to the board together with a risk heat map.
Risk governance	The charter of the Risk Committee was reviewed and changes thereto, including providing for the committee to report to the company's board rather than to the board of its major subsidiary company and providing for the Office Risk Committee to report to it, were adopted by the committee and the board.
Risk governance in Office	A formal risk management process has been introduced in Office following its acquisition in December 2015. This includes the creation of a risk committee, the adoption of a committee charter, appointment of a risk officer, the conduct of a risk assessment process and the creation of a top risk register for the Office business.
Office Audit Committee	An audit committee has been established in Office, involving the appointment of committee members and the adoption of a charter.
Audit Committee	The charter of the Audit Committee was reviewed and changes thereto, including providing for the Office Audit Committee to report to it, were adopted by the committee and the board.
Remuneration Committee	The charter of the Remuneration Committee was extensively reviewed and changes thereto, including ensuring that the committee had suitable oversight of remuneration matters within Office, were adopted by the committee and the board.
Non-executive and Nomination Committee	The charter of the Non-executive and Nomination Committee was reviewed and changes thereto were adopted by the committee and the board.
Information technology (IT) governance	The ongoing development of IT governance processes, including the regular use of an IT governance scorecard, the ongoing involvement of the IT Audit Manager in promoting and monitoring IT governance, the routine consideration of IT governance matters on the agendas for board and committee meetings, and the embedding of good IT governance practices in day-to-day operations, have been witnessed.
Anti-bribery and corruption policies	The Group's policies, as well as contracts with suppliers, agents and employees aimed at combating bribery and corruption, were reviewed and suitably amended.

GOVERNANCE ELEMENT	GOVERNANCE DEVELOPMENT
Supplier code of conduct	A supplier code of conduct has been introduced and communicated to suppliers which confirms the Group's zero-tolerance approach to any forms of bribery and corruption, and insistence on full legislative compliance.
Consumer and credit legislation compliance	Management implemented new processes and adopted revised policies to deal with consumer and credit legislation changes, including new affordability assessment regulations under the National Credit Act, and the code of conduct and Ombud scheme in terms of the Consumer Protection Act for the consumer goods and services industry.
Chief Executive Officer	The service contract with the Chief Executive Officer (CEO) has been extended, with a six-month notice period for either party, following the resignation in December 2015 of the Chief Executive Officer Designate.
Business continuity	The Group's business continuity plans were further developed and its disaster recovery capabilities as regards key information system applications were further tested and upgraded.
Office operational governance	The Group's operational governance within Office was enhanced through the adoption of the Group's change control policies and procedures, and the Group's lease and capital expenditure approval processes.
Tax risk governance	Management took to finalising its group-wide transfer pricing policy and inter-company agreements, to ensure intra-group cross-border transactions take place on an arm's length basis and the intra-group profit allocation reflects the underlying economic activities, and further reviewed its processes, including its tax return and tax payment review policy, for ensuring reliability, accuracy and timeousness as well as defensibility in areas of judgement in relation to key tax-related issues.

2017 GOVERNANCE PRIORITIES

Governance priorities for the 2017 reporting period will include:

- Further developing the Group's understanding, and planning for the expected coming into force in November 2016, of the King IV Code of Corporate Principles.
- Continuing the development of an appropriate corporate governance framework within Office that complements the Group's corporate governance processes, practices and policies.
- Further improving the Group's understanding of and compliance with the regulatory requirements in the foreign territories in which it conducts operations, including further developing the effective functioning of the Group's Compliance Officer role.
- Reviewing and upgrading the Group's tax risk governance framework by consistently implementing the Group's transfer pricing policy and improving the reporting of material tax-related management information to the board.
- Further development of the reporting by management to the Social and Ethics Committee so as to broaden the scope of topics reported on and to incorporate a dashboard of progress on key environmental, social and governance issues, with a view to facilitating the effective monitoring required to be undertaken by this committee.
- The development by the board of a policy on the promotion of gender diversity at board level, including giving consideration to whether targets should be set for achieving such diversity.

Generally the board and management 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

Remuneration practices and policies aim to entrench a high-performance culture across the Group, ensure the delivery of sustained value creation and align performance and reward with the Group's business philosophy.

PART I: REMUNERATION GOVERNANCE

Remuneration remains a complex issue and practices and policies continue to be enhanced to improve the Group's ability to attract, engage, motivate and retain high-performing employees. Remuneration practices and policies aim to entrench a high-performance culture across the Group, ensure the delivery of sustained value creation and align performance and reward with the Group's business philosophy. The achievement of Group, team and individual performance remains central to driving remuneration strategies.

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

- Attracting, engaging, motivating and retaining a high-performing executive team.
- 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 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) and Hilton Saven. The CEO is an invitee to committee meetings and is excused from discussions that relate to his performance and remuneration.

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

- Conducted an extensive external remuneration benchmarking exercise for executive directors of Truworths International Ltd, and directors, divisional directors and key executives of principal subsidiaries (hereafter collectively referred to as 'executives').
- Reviewed and approved the remuneration of the executives.
- Confirmed that all long-term remuneration allocations and payments were made in accordance with the rules of the long-term incentive schemes.
- Approved the payment of vested long-term incentives to scheme participants.
- Approved the payment of dividends to share scheme participants.
- Conducted a formal review of the committee charter to ensure it remains current and aligned to acceptable standards.
- Based on a benchmark exercise, reviewed and recommended for approval by shareholders the non-executive directors' remuneration for the 2016 calendar year.

- Approved the issue of share-based awards in terms of the 2012 share scheme.
- Agreed and recommended for approval by the board the revised future performance targets for unvested instruments in the 2012 share scheme following the inclusion of the Office results in the Group's results.
- Agreed and recommended for approval by the board the performance targets for the relevant share schemes in respect of awards being made in the current reporting period.
- Refined the Group policies regarding the payment of short-term incentives to executives and employees subsequent to the acquisition of Office, including the adjustment of the target performance measurements.
- Considered and reviewed the terms and structure of the proposed Office long-term equity performance plan.
- Conducted an assessment of the reward policy for store employees as well as for employees below management level to further align reward to performance.
- Approved the conversion to total guaranteed packages (TGP), which offer flexible benefits and seek to improve retention and comparative internal equity of earnings.
- Reviewed and amended the employment contract of the CEO.

The committee plans to undertake the following in the 2017 reporting period:

- Further review of Group policies regarding the payment of long-term incentives to executives and employees.
- Further refine the performance management process with the aim of improving the alignment of reward for performance in accordance with Group requirements as well as emerging requirements from King IV.
- Implement and further refine reward policies, practices and communication for performance in store operations.

The committee ensures that the Group takes cognisance of evolving legislation and remuneration practices through continuous research. 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 recommendations. The chairman of the committee reports back to the board on all aspects of its work as a standing agenda item at each board meeting.

This report of the committee focuses primarily on the remuneration of the Truworths International executive and non-executive directors, details of which are set out on pages 36 and 37.

PART II: REMUNERATION POLICY

Remuneration philosophy and principles

The Group's remuneration philosophy is aimed at attracting, engaging, motivating and retaining key employees to drive a high-performance culture that delivers the Group's long-term strategy as well as sustainable shareholder returns. This 'total remuneration' philosophy underpins the Group's equitable reward mechanisms. Total remuneration comprises all elements of financial reward, including guaranteed earnings, short-term incentives and long-term incentives. The combination of financial and non-financial reward elements constitutes 'total reward' and supports the holistic employee value proposition.

Remuneration practices are closely linked to the achievement of Group, team and individual performance objectives. The composition of total remuneration is based on the employee's role and level in the Group and there is a strong and sustainable link between performance, contribution and potential on the one hand, and the rewards received by the employee on the other.

The Group's reward policy is based on the following:

- Enabling the Group to attract, engage, motivate and retain key employees.
- Internal equity, which ensures employees are rewarded appropriately in relation to peers.
- External equity, to ensure employees are competitively rewarded in relation to the employment market.

- An appropriate mix of short and long-term incentives to promote sustained high levels of performance and achieve alignment of employee and shareholder interests.
- Alignment of risk and rewards, with remuneration practices and schemes designed to encourage superior medium to long-term performance relative to competitors, while operating within prudent risk parameters to ensure sustainability.

Executive directors' remuneration structure

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

- Ensures alignment of the executives' and shareholders' interests.
- Promotes a culture of executive share ownership.
- Promotes excellence in individual executive performance.
- Supports the retention of executives.

The core principles of the Group's performance management process are the effective alignment of Group strategic objectives (refer to Group Strategy) with individual outputs. Internal and external surveys as well as professional advisers are consulted in determining comparable remuneration practices. The Group utilises external service providers and best practices for continued remuneration benchmarking and for job evaluation. Remuneration is further benchmarked against other JSE-listed retailers and comparable top 40 JSE-listed companies. All data is appropriately aged, and weighted averages, medians and ranges are applied to establish the most appropriate remuneration levels.

The total remuneration mix is determined as follows:

GUARANTEED REMUNERATION	VARIABLE AND PERFORMANCE-RELATED REMUNERATION		
Annual guaranteed remuneration	Short-term performance	Long-term performance	
		Retention shares	Performance shares
• Total guaranteed package which can include the following benefits: – Travel allowance – Retirement benefits – Healthcare benefits – Group life and disability insurance benefits	• Short-term cash-based incentive scheme	• Restricted share plan • Share appreciation rights	• Performance share plan • Performance appreciation rights
Total guaranteed package is based on performance, contribution, experience and market value relative to responsibilities within the Group. Benefits are of a compulsory nature but offer flexibility in option choices.	Incentives are based on Group and individual performance criteria (short-term incentives are only paid if the Group achieves its threshold performance levels).	Long-term share-based incentives are aimed at retention as well as encouraging sustainable shareholder wealth creation.	

Guaranteed remuneration

Guaranteed remuneration is determined in relation to employment market norms. The Group conducts annual benchmarking against comparable JSE-listed companies and also utilises the services of professional advisers to conduct external surveys with the aim of maintaining guaranteed remuneration at the median market level. The Group further deploys a process of job profiling and evaluation to ensure consistency in the evaluation and sizing of roles, ensuring the correct benchmarking of guaranteed remuneration levels.

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

Incentives

The performance of executive directors is reviewed annually by the committee against predetermined financial and non-financial targets to ensure alignment with shareholder interests.

The primary performance indicators on which executive directors are measured include:

- Return on assets (ROA)
- Growth in earnings before interest paid and tax (EBIT)

For incentive purposes, Group targets for ROA and EBIT growth are determined by the committee and approved by the board. The ROA target range is disclosed in the Group's Integrated Report each year, however the EBIT growth target is not disclosed as this is considered by the board to be market and price-sensitive information. However, target ranges for gross profit margin and operating profit margin, two of the key drivers of EBIT growth, are disclosed to shareholders.

The CEO's performance is further measured with reference to headline earnings growth and maintaining the quality of such earnings, the achievement of long-term strategic goals, including succession planning, and the determination of the overall direction of the business.

Short-term incentives

The short-term cash incentive (STI) 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 growth and no short-term incentive is paid to executives if the threshold performance measures and the Group's published medium-term financial targets are not achieved (refer to the Chief Financial Officer's report).

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 is 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 director's STI is guaranteed. STIs are in the form of cash and the employee must be in service (and not in their notice period) on the date of payment.

There are no deferred STI arrangements as STIs are only paid up to the capped amount. All executive director STIs are approved by the committee.

A short-term incentive of 70% of annual guaranteed earnings in the case of the CEO (50% in the case of other executive directors) is paid on the achievement of an on-target performance level. Incentive payments are capped at a maximum of 130% of guaranteed annual remuneration in the case of the CEO and 100% in the case of other executive directors with a sliding scale between the threshold and the maximum.

Multiple of annual guaranteed earnings for STI purposes	Under threshold	Threshold	On-target	Maximum
CEO	0%	0%	70%	130%
Executive directors	0%	15%	50%	100%

The STI in respect of the 2016 reporting period, determined with reference to Group headline earnings per share (HEPS) with the performance hurdles set at 100% of the targeted Group HEPS growth, only became payable if the threshold HEPS growth level was achieved after the cost of the incentive was taken into account. Threshold, target and stretch levels were pre-agreed in line with budgeted Group performance.

Based on further feedback and consultation with shareholders the STI measures were reviewed by the committee and amended for the 2017 reporting period.

The STI for the 2017 reporting period will be determined with reference to earnings before interest paid and tax (EBIT) growth, with the performance hurdles set at 100% of the targeted Group EBIT growth. The change from the HEPS growth measure in respect of the 2016 reporting period is to ensure that short and long-term incentive measures and targets use a common measurement metric. STIs will only be paid if the threshold EBIT growth levels are achieved after the cost of the incentive is taken into account. Threshold, target and maximum levels are pre-agreed annually in line with anticipated Group performance.

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:

RETENTION SHARES	PERFORMANCE SHARES
• Restricted share plan	• Performance share plan
• Share appreciation rights	• Performance appreciation rights

The following core principles apply to the Group's share-based schemes:

- The restricted share plan 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 and performance appreciation rights scheme have performance targets, and are utilised to support and reward good long-term decision-making and financial performance.
- Awards can be made across all four schemes and can vest over a period of up to six years.
- Where awards lapse, there is no replacement compensation.
- The allocation under the Group's LTI arrangement is approved in advance by the committee.
- 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 unvested and vested rights are forfeited upon an employee's resignation or dismissal in terms of the scheme rules.
- Retention-focused long-term incentives 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.
- Financial performance hurdles for previously awarded long-term incentives have been amended to ROA and EBIT growth in line with STI targets. There are no non-financial targets for long-term incentives.
- Loans to employees pursuant to the legacy 1998 share option scheme have been discontinued (historical loans will remain in place until they expire in 2020).

- The maximum allocation resulting from the schemes is limited to 10% of issued shares at June 2012 over the life of the schemes in terms of the policy, 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 committee regularly monitors the overall actual and forecast impact and costs of these schemes on Group earnings.

Legacy share schemes

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. The final High Performance Share Scheme payment was made during 2016 and this scheme will no longer continue. 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.

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 may 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 and, in line with best practice, recommendations for increases are made to the shareholders at the AGM for consideration and approval. Fees are determined in advance for a calendar year.

PART III: APPLICATION OF THE REMUNERATION POLICY IN 2016

Guaranteed remuneration

Guaranteed remuneration is reviewed annually with effect from 1 March and is based on a combination of prevailing inflation levels, Group performance, retail market data, internal comparatives, as well as individual performance.

To ensure compliance with changing legislation in terms of 'equal pay for work of equal value', the Group has streamlined all contract types to ensure alignment in earnings and benefits levels across roles of equal value. All existing full-time employees in specialised roles were converted to total guaranteed remuneration packages with effect from 1 January 2016 to allow employees greater freedom of choice in determining benefit contributions. This has ensured that remuneration remains highly competitive in the marketplace. Additional benefits were introduced for longer-serving flexi-time staff to improve retention and align these employees to their permanent counterparts, ensuring equality in line with the recent labour law amendments.

All directors', divisional directors' and specialised full-time employees' increases are based on total annual guaranteed package, while all core full-time employees' increases are based on cash salary plus benefits.

All store employees' compensation complies with the sectoral determination or statutory requirements and the minimum rates of pay as determined for the retail industry are either met or exceeded.

Short-term incentives

Executives and management participate in the annual short-term incentive scheme. The Group achieved its financial targets for the reporting period and the committee approved the payment of incentive awards to participating employees where their individual performance targets were achieved. An amount of R45 million will be paid in terms of these short-term incentive payments.

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, constraining 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 revised performance targets, after the inclusion of the Office business results, for all unvested shares in the relevant share schemes where performance achievement levels are still to be determined.

The committee further agreed and recommended for approval by the board the performance targets for the relevant share schemes in relation to awards being made in the 2016 reporting period.

The performance measures for awards made to executive directors in March 2015 with a variable vesting scale from 0% to 120% were based on ROA and HEPS growth.

The performance measures for awards made to executive directors in March 2016 were based on ROA and EBIT growth with a variable vesting scale from 0% to 150%. These awards were all performance-based with a vesting period of between three and five years.

The rules for the proposed Office equity performance plan were drafted and reviewed by the committee. That company's articles and plan rules will be finalised, approved and introduced during the 2017 reporting period.

Share scheme allocations in 2016

Scheme	Number of participants	Value of awards Rm
Restricted share plan (with no performance targets)	358	49
Performance share plan (with performance targets)	179	38
Share appreciation rights (with no performance targets)	136	18
Performance appreciation rights (with performance targets)	136	18

Executive directors' remuneration

		Short-term benefits				Post-retirement benefits	Long-term benefits			
	Months paid	Directors' fees R'000	Salaries R'000	Performance bonus R'000	Allowances R'000	Pension contributions R'000	Interest benefit on loans R'000	Total remuneration R'000	Fair value of equity-based awards granted R'000	Loans pursuant to share scheme R'000*
2016										
Michael Mark	12	–	8 145	7 963	12	348	3 199	19 667	6 908	43 254
David Pfaff	12	–	3 814	2 097	18	228	–	6 157	1 982	–
Total		–	11 959	10 060	30	576	3 199	25 824	8 890	43 254
2015										
Michael Mark	12	–	6 423	–	46	1 317	2 911	10 697	4 564	43 254
David Pfaff	12	–	3 037	1 400	34	318	–	4 789	1 075	–
Total		–	9 460	1 400	80	1 635	2 911	15 486	5 639	43 254

* No further loans pursuant to the share scheme are being issued. Prior loans will remain in place.

Non-executive directors' remuneration

The proposed fees of non-executive directors for the 2017 calendar year were benchmarked against fees payable by other JSE-listed companies with a similar profile and are detailed below.

	Proposed fees for 12 months to December 2017 R'000	Proposed % increase
Non-executive chairman	850	10
Non-executive director	290	4
Audit Committee chairman	255	9
Audit Committee member	135	8
Remuneration Committee chairman	140	–
Remuneration Committee member	85	6
Risk Committee chairman	–	–
Risk Committee member	85	6
Non-executive and Nomination Committee chairman	105	5
Non-executive and Nomination Committee member	60	20
Social and Ethics Committee chairman	60	20
Social and Ethics Committee member (non-executive only)	30	20

		Total remuneration	
	Months paid	2016 R'000	2015 R'000
Hilton Saven	12	878	773
Rob Dow	12	565	512
Thandi Ndlovu	12	337	305
Michael Thompson	12	653	576
Khutso Mampeule	12	305	269
Tony Taylor	12	315	287
Roddy Sparks	12	435	397
Total		3 488	3 119

PERFORMANCE REVIEW

54 CHIEF EXECUTIVE OFFICER'S REPORT

58 FIVE-YEAR REVIEW OF FINANCIAL PERFORMANCE

60 CHIEF FINANCIAL OFFICER'S REPORT

72 SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS

The Office acquisition will have a profound impact on the Group by diversifying the customer base and geographic store profile, growing footwear as a proportion of retail sales, shifting the credit:cash sales mix, diversifying revenue streams and generating hard currency earnings in offshore markets.

CHIEF EXECUTIVE OFFICER'S REPORT

The Group posted a competitive trading and financial performance against the background of a challenging trading environment.

MICHAEL MARK

Reflecting on the Group's performance for the 2016 reporting period we believe there are three major factors across the regulatory, trading and economic environments which influenced our financial results:

- Our biggest challenge has been managing the impact of the new affordability assessment regulations introduced by the National Credit Regulator in South Africa with effect from September 2015. Truworths supports the principle of these regulations which are aimed at ensuring that consumers are not over-indebted through unaffordable credit agreements.

  However, we believe that the requirement to provide documented proof of income for all new credit agreements is unreasonably restricting our ability to open new accounts and to grow credit sales, while also denying access to credit to many otherwise creditworthy customers. This issue is addressed in detail later under Onerous Affordability Regulations.
- Secondly, the integration of Office, our recently acquired fashion footwear chain in the UK, will be challenging but also presents the Group with significant opportunities for growth and diversification. Through the acquisition we are generating Pound Sterling earnings, which acquisition provides a hedge against the weakness of the Rand while diversifying our country risk, merchandise mix, customer base, sources of revenue and our credit:cash sales mix.

  The integration is progressing well and we are appropriately aligning the business with Truworths' retail philosophies, practices and systems. Our focus since acquiring Office in December 2015 has been on improving stock management, range planning and product selection in the merchandise division by reducing stock levels through more aggressive markdowns and better stock flow to stores, and by improving processes in the product areas of the business. Refer to the Office Operational Report and the Chief Financial Officer's Report.
- A third factor influencing our performance has been the difficult trading conditions in all the major areas in which we now operate: specifically in South Africa for Truworths and in the UK and Europe for Office.

  Our domestic trading environment was impacted by further pressure on consumer spending, the deteriorating credit market and declining consumer confidence, while we also had to contend with the extreme volatility and depreciation of the Rand.

  Trading conditions in the UK were challenging owing to unseasonal weather patterns, a general slowing in the economy and uncertainty ahead of the Brexit vote in June. Refer to our report on Responding to the Challenging Trading Environment.

ONEROUS AFFORDABILITY REGULATIONS

As highlighted earlier, the new affordability assessment regulations have had a widespread impact on credit retailers. Besides the extensive systems development and process changes required to ensure compliance, the regulations have also severely limited credit granting in South Africa.

All credit applicants are now required to provide their three most recent bank statements or salary advices, or other forms of proof of income, to validate their income. As many Truworths customers are self-employed or work in the informal sector, they are unable to provide the necessary documentation. Others have found the administrative burden too cumbersome and have not followed through with opening an account despite having applied to do so.

The regulations have resulted in approximately 30% fewer accounts being opened each month. In the period before the new regulations, cash sales in Truworths grew by 26% and credit sales by 18%. However, since the implementation of the regulations we have seen cash sales grow by 19% while credit sales have slowed to 8%. The regulations have resulted in an estimated loss of at least R200 million in credit sales and a profit after tax impact of around R70 million in the reporting period.

Extensive remedial action is being taken to mitigate the impact of the regulations on credit sales and this is covered in the Truworths: Managing the Risk of Credit report.

The impact of the regulations has not been restricted to low income customers, and others who are now being excluded from the credit market are customers who in our opinion are likely to have been able to meet their future payment obligations and who would have qualified for credit under our existing stringent credit granting criteria.

Furthermore, we believe that many South Africans use retail credit to establish a credit record which is necessary to qualify for the financing of larger assets, a process which ultimately supports economic growth in South Africa. This has long-term implications for the economy in general.

Truworths, together with two other major listed retailers, instituted legal action against the National Credit Regulator and the Minister of Trade and Industry in June 2016 to have the new affordability assessment regulations reviewed.

COMPETITIVE PERFORMANCE

The Group posted a competitive trading and financial performance against the background of the challenges outlined above.

Group retail sales increased by 46% to R17 billion, with Office contributing sales of R3.8 billion. Truworths increased retail sales by 14% as customers responded positively to the improved fashion ranges. The Office e-commerce business continued to gain momentum and increased online sales by 22%, which off-set the decrease in its store sales of 6%.

Trading space across the Group increased by 8.6% following the opening of a net 23 new stores and the addition of 159 Office stores, including 44 concession stores. At the end of the reporting period the Group had 929 stores and concessions across South Africa (723), UK (147), rest of Africa (47), Germany (7) and the Republic of Ireland (5).

The Group's gross margin decreased to 52.9% (2015: 55.2%) as Office operates at a lower gross margin than Truworths. Excluding Office, the gross margin increased to 55.3%.

While the credit environment deteriorated in the second half of the year, the Truworths debtors book metrics continued to improve. The doubtful debt allowance has improved from 12.5% to 12.3% of the debtors book and net bad debt improved from 12.5% to 12.4% of the debtors book as a result of improved collections.

Group operating profit increased 20.7% to R4.2 billion while the operating margin decreased to 24.9% from 30.5% owing to the reduction in the gross margin and higher trading expenses, mainly due to the acquisition of Office. Excluding Office, the operating margin increased to 30.7%.

Refer to the Chief Financial Officer's Report for an analysis of the financial performance.

OUR APPROACH TO CREDIT

A perennial question we encounter is whether our credit model is sustainable and our consistent response is that the Group is neutral between credit and cash.

Truworths uses credit as an enabler of sales, as opposed to operating a financial services business. Many customers in our mass mainstream middle-income market do not have access to bank credit and credit cards, and use our store credit offering to buy better quality, aspirational fashion.

Our approach is that credit should be largely self-funded and that the cost of credit is balanced each year by interest revenue. In the reporting period our total cost of credit of R1 277 million matched the total income from credit of R1 273 million.

As a Group we are increasingly targeting more affluent, cash customers, many of whom use credit cards. This is evident in our recent acquisitions of Office, Naartjie, Earthchild and Earthaddict, and in the creation of a Truworths Designer Emporium housing our better-end brands Daniel Hechter, LTD and Earthaddict. Our new customer loyalty programme will be tailored to specifically include cash customers while our e-commerce offering will also be appealing to higher income customers. Office London, due to be launched in South Africa in the 2017 calendar year, will also target more affluent customers, as do our existing MAC and Elements departments.

In the reporting period cash sales made up 47% of retail sales, compared to only 30% in the prior period, mainly influenced by the acquisition of Office which only makes cash (including credit and debit card) sales.

We believe that at this stage of the economic development of South Africa, credit is an essential component of our business model within the domestic market and is likely to remain so for the foreseeable future.

GROWTH STRATEGIES: TRUWORTHS

Expand kidswear presence

The first Truworths Kids Emporium store was opened in October 2015, housing our three aspirational upmarket brands LTD Kids, Naartjie and Earthchild. A further 13 were opened by June 2016. The kids emporium concept is unique in South African retail and Truworths plans to open over 100 Truworths Kids Emporiums in the next five years.

Develop e-commerce capability

Truworths is committed to increasing customer engagement through digital channels and growing online sales. Our e-commerce platform will be launched in 2017 to facilitate omni-channel retailing and the first phase of the project will be the re-launch of the Truworths website with enhanced functionality, order fulfilment and payment capabilities, with a significantly increased online shop offering the full range of products available in our flagship stores.

Introduce loyalty programme

The loyalty rewards programme scheduled for launch in 2017 is aimed at increasing both the basket size and frequency of shopping of account and cash customers of Truworths. A customer engagement platform has been developed which will enable multi-channel customer communication and allow for personalised offers and promotions.

Enhance supply chain capability

The current distribution facilities are being enlarged to accommodate organic and acquisitive growth, and new distribution methods. Construction of a third owned distribution centre will commence in the 2017 calendar year and is due for completion in 2020. A new warehouse management system has been implemented to enhance supply chain efficiencies.

GROWTH STRATEGIES: OFFICE

Office plans to open approximately 15 to 20 stores over the next three years across the UK and Germany, while closing less profitable stores and relocating others as opportunities arise. The first Office London store will be opened in South Africa in the 2017 calendar year.

EXECUTIVE MANAGEMENT

Truworths is led by an executive committee which is involved in all key business decisions. The committee has been expanded with the appointment of two of our senior merchandise executives, Sean Furlong and Sarah Proudfoot. They join myself, CFO David Pfaff and merchandise head Doug Dare who was recently appointed as an executive director to the Truworths International board. Further appointments may be made to the committee in the months ahead.

OUTLOOK

We expect the South African trading environment to remain challenging, with slow economic growth and rising inflation putting pressure on consumers.

The continued impact of the new affordability assessment regulations remains a concern, particularly in relation to the high revenue base established in the first half of the 2016 reporting period.

The trading environment in the UK is also faced with uncertainty after the decision to withdraw from the European Union.

However, in the second half of the 2017 reporting period product inflation could decline from its expected highs in the low to mid-teen percentages depending on the performance of the Rand. The Group also expects to make more progress in implementing mitigation strategies in relation to the new affordability assessment regulations.

The trading environment in the UK is likely to stabilise as more clarity emerges on Brexit while Office should benefit from the Group's influence on stock management and ranges.

The Group remains committed to investing for longer-term growth and capital expenditure of R547 million (Truworths R516 million and Office R31 million) is planned for the year ahead while trading space is expected to grow by approximately 3% (Truworths 3% and Office 6%).

APPRECIATION

Thank you to our Chairman, Hilton Saven, for his decisive leadership of the board and to my fellow directors for sharing their extensive business acumen and insight. I extend a special note of appreciation to the non-executives for their skill and wisdom during a challenging and significant year for our business.

My executive committee colleagues and the senior management teams continue to lead by example. Thanks in particular to Office CEO Brian McCluskey and his colleagues for their support and engagement through the acquisition and integration process. To all our employees in Truworths and Office I thank you for your commitment, teamwork and energy.

Thank you to our customers for supporting our brands and for making us their first choice for quality fashion apparel and footwear.

Michael Mark
Chief Executive Officer

FIVE-YEAR REVIEW OF FINANCIAL PERFORMANCE

Period **Number of weeks**			**2016** **52**	2015 52	2014 52	2013 52	2012 53
Returns and margin performance		5-year average					
Gross margin	(%)	55	**53**	55	56	57	57
Operating margin	(%)	32	**25**	31	32	35	36
Trading margin	(%)	23	**17**	21	23	26	28
Return on equity*	(%)	38	**37**	35	37	39	40
Return on assets*	(%)	40	**26**	38	42	46	46
Inventory turn*	(times)	5.0	**3.8**	4.7	5.3	5.4	5.7
Asset turnover*	(times)	1.2	**1.1**	1.2	1.3	1.3	1.3
Return on invested capital (ROIC)*	(%)	25	**20**	24	25	26	28
Weighted average cost of capital (WACC)	(%)	13	**13**	14	14	13	13
ROIC divided by WACC	(times)	1.8	**1.5**	1.7	1.8	2.0	2.2
Statements of comprehensive income		5-year compound growth (%)**					
Sale of merchandise	(Rm)	16	**16 654**	11 290	10 458	9 765	8 830
Trading expenses	(Rm)	21	**(6 240)**	(4 116)	(3 668)	(3 202)	(2 759)
Trading profit	(Rm)	5	**2 851**	2 373	2 408	2 548	2 459
Profit before tax	(Rm)	7	**3 946**	3 437	3 357	3 366	3 190
Headline earnings	(Rm)	8	**2 806**	2 471	2 410	2 408	2 227
Statements of financial position							
Non-current assets	(Rm)	47	**7 413**	1 876	1 360	1 280	1 197
Cash and cash equivalents	(Rm)	1	**1 592**	1 462	1 588	1 325	1 560
Trade and other receivables	(Rm)	12	**5 281**	4 637	4 182	3 766	3 421
Inventories	(Rm)	35	**2 401**	1 074	863	787	670
Other current assets	(Rm)	36	**374**	108	83	113	69
Total assets	(Rm)	22	**17 061**	9 157	8 076	7 271	6 917
Total equity	(Rm)	11	**8 625**	7 504	6 642	6 224	5 986
Non-current liabilities	(Rm)	131	**5 481**	192	88	96	95
Current liabilities	(Rm)	22	**2 955**	1 461	1 346	951	836
Total equity and liabilities	(Rm)	22	**17 061**	9 157	8 076	7 271	6 917

Period **Number of weeks**			**2016** **52**	2015 52	2014 52	2013 52	2012 53
Statements of cash flows		5-year compound growth (%)**					
Cash inflow from operations	(Rm)	10	**2 839**	2 145	2 542	2 198	1 618
Capital expenditure	(Rm)	22	**599**	380	289	270	226
Share performance							
Basic earnings	(cents per share)	8	**667.1**	591.2	575.9	570.8	526.3
Headline earnings	(cents per share)	8	**667.6**	593.8	576.8	570.8	526.7
Adjusted fully diluted headline earnings	(cents per share)	8	**688.2**[#]	592.1	569.3	560.7	517.1
Cash flow	(cents per share)	11	**675.5**	515.5	608.4	521.0	382.7
Cash equivalent earnings	(cents per share)	9	**759.0**	642.9	634.8	604.9	565.8
Net asset value	(cents per share)	11	**2 032**	1 791	1 605	1 490	1 412
Dividends declared	(cents per share)	12	**452**	405	385	362	326
Dividend cover	(times)		**1. 5**	1. 5	1. 5	1. 6	1. 6
Number of shares in issue	(000's)		**436 183**	429 328	422 640	463 806	461 810
Number of shares in issue (net of treasury shares)	(000's)		**424 456**	418 960	413 774	417 765	423 967
Weighted average number of shares	(000's)		**420 263**	416 149	417 757	421 905	422 754
Cumulative shares repurchased[##]	(Rm)		**2 929**	2 929	2 929	2 439	1 748
Cumulative shares repurchased[##]	(000's)		**95 041**	95 041	95 041	88 842	81 258
Closing share price	(cents per share)		**8 769**	8 649	7 490	8 695	8 952

Note: 2016 includes the results of Office for 31 weeks, unless otherwise indicated.
* Ratios are 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 as defined on page 65.
** Impacted by the acquisition of Office.
\# Fully diluted headline earnings per share adjusted to exclude the once-off Office transaction-related costs.
\#\# Includes shares previously repurchased and cancelled: 44 million (cost of R1.9 billion) in 2014, 36 million (cost of R275 million) in 2007 and 7 million (cost of R200 million) in 2006.

The full ten-year review and definitions are available on the website at www.truworths.co.za/investors.

CHIEF FINANCIAL OFFICER'S REPORT

The major factors influencing the Group's results for the period were the acquisition of Office in the UK and the introduction of new affordability assessment regulations.

DAVID PFAFF

The Group produced a competitive performance in the 2016 reporting period with all six of the board-approved financial targets being achieved despite increasing economic headwinds in our major trading regions.

Earnings before interest paid and tax (EBIT) increased by 20.7% to R4.2 billion while the return on assets was 26%.

The major factors influencing the Group's results for the period were the acquisition of Office in the UK and the introduction of new affordability assessment regulations by the National Credit Regulator in South Africa. These affordability regulations, which are estimated to have reduced credit sales in Truworths by at least R200 million in the period, are covered by the Chief Executive Officer in his report.

OFFICE ACQUISITION

The Office acquisition will have a profound impact on the Group by diversifying the customer base and geographic store profile, growing footwear as a proportion of retail sales, shifting the credit:cash sales mix, diversifying revenue streams and generating hard currency earnings in offshore markets.

The Group acquired an effective 88.9% stake in the fashion footwear retailer via its UK resident and managed subsidiary for £256 million (on a 100% basis).

The business was purchased from investment funds managed by a private equity group and the management of Office. Key management has retained an 11.1% shareholding and the Group has the option to buy Office management's stake over a three to five-year period.

The acquisition and related costs were funded through approximately R3.5 billion in cash from South Africa, while £88 million in term loans and revolving credit facilities were raised in the UK to refinance Office's pre-acquisition debt. The impact of the purchase, funding and related costs on the Group's statements of comprehensive income and financial position is covered in the analysis which follows.

The acquisition was effective from 4 December 2015 and in terms of IFRS 3 profits are accounted from 23 November 2015. The financial results of Office are therefore included in the Group results for 31 weeks to 26 June 2016.

ANALYSIS OF FINANCIAL PERFORMANCE

The analysis of performance in this report aims to show how the Group's financial capital has been increased, decreased or transformed through the operating and investing activities in the 2016 reporting period, and how it is expected to contribute to value creation for shareholders in the short, medium and longer-term.

The following review of financial performance for the 52-week period ended 26 June 2016 should be read together with the Group's annual financial statements, published on the Group's website at www.truworths.co.za/investors.

GROUP

Group financial and operating targets

Targets are published to provide guidance to shareholders on the Group's performance objectives for the forthcoming reporting period. Targets and performance are benchmarked against JSE-listed apparel retailers and best-in-class global listed fashion retailers. The targets are reviewed annually by the board based on actual performance and the outlook for the period ahead. The targets published for the 2016 reporting period were adjusted by the board following the acquisition of Office.

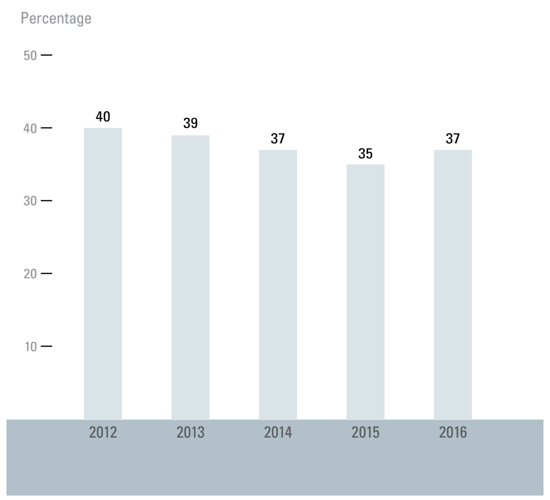
		Actual 2016	Target 2016 (adjusted post Office acquisition)	Target achieved	Local bench-mark**	Global bench-mark***
Gross margin	(%)	**52.9**	52 – 55	✓	45.1	57.4
Operating margin	(%)	**24.9**	21 – 25	✓	18.0	16.3
Return on equity*	(%)	**37**	32 – 37	✓	35	32
Return on assets*	(%)	**26**	24 – 29	✓	31	26
Inventory turn*	(times)	**3.8**	3.0 – 4.0	✓	3.6	3.6
Asset turnover*	(times)	**1.1**	1.1 – 1.4	✓	1.7	1.7

* Ratios are 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 as defined on page 65.

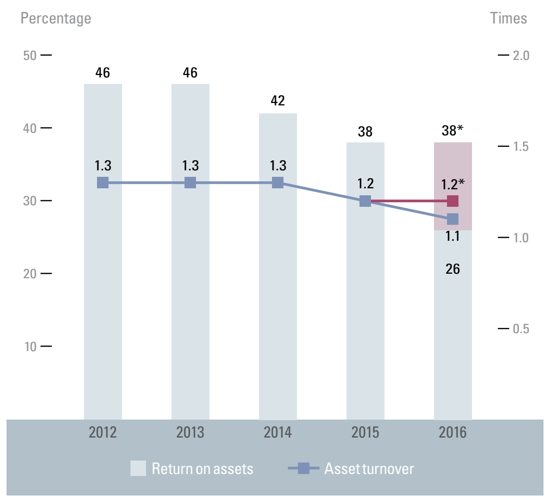
** The local benchmarks are based on the average ratios for comparable JSE-listed apparel retailers for the 2016 period.

*** The global benchmarks are based on the average ratios for global fashion retailers, H&M and Inditex, for the 2015 period.

GROUP RETURN ON EQUITY



GROUP RETURN ON ASSETS AND ASSET TURNOVER



* Pro forma return on assets and asset turnover shows performance if Office was not acquired.

Statements of comprehensive income

Sale of merchandise

Group retail sales increased by 46.1% to R17.0 billion, with cash sales growth of 129.7% and credit sales growth of 11.0%.

These results include the non-comparable sales of the Office, Earthchild and Naartjie businesses, which were acquired with effect from 4 December 2015, 1 March 2015 and 1 April 2015 respectively (collectively 'the acquisitions'). Truworths accounted for 78% of retail sales and Office 22%.

Credit sales accounted for 53% of retail sales (2015: 70%). It should be noted that the credit:cash metrics changed materially during the period as Office only generates cash sales.

Excluding the retail sales reported in both the current and prior periods by the acquired businesses, retail sales increased by 11.3% to R12.8 billion, with cash sales growth of 15.4% and credit sales growth of 9.7%.

Group sale of merchandise, which comprises Group retail sales, franchise sales and delivery fee income less accounting adjustments, grew 48% to R16.7 billion (2015: R11.3 billion).

Group trading space increased by 8.6% following the opening of a net 23 stores and the addition of 159 stores (including 44 concession stores) from the Office acquisition. At the end of the period the Group had 929 stores, including 44 concession stores (2015: 747 stores).

Further detail on the Group's store portfolio is covered in the Truworths: Managing Retail Presence Report and in the Office Operational Report.

Gross margin

The Group's gross profit margin declined to 52.9% (2015: 55.2%) owing mainly to the acquisition of Office, which operates at a lower gross margin. Excluding the impact of Office, the Group's gross margin increased to 55.3%.

Trading expenses

Trading expenses increased 51.6% to R6.2 billion (2015: R4.1 billion) and constituted 37.5% of sale of merchandise (2015: 36.5%). For further detail on trading expenses please refer to the Truworths and Office sections in this report.

Divisional sales	26 June 2016 Rm	28 June 2015 Rm	% change on prior period
Truworths ladieswear	4 794	4 387	9
Office	3 751	–	n/a
Truworths menswear	2 713	2 386	14
Identity	2 186	1 951	12
Truworths Designer Emporium*	1 680	1 464	15
Truworths Kids Emporium**	816	457	79
Other***	1 075	999	8
Group retail sales	17 015	11 644	46
Delivery fee income	34	–	n/a
Franchise sales	9	9	–
Accounting adjustments	(404)	(363)	11
Sale of merchandise	16 654	11 290	48
YDE agency sales	292	297	(2)

* Daniel Hechter, LTD and Earthaddict.
** LTD Kids, Earthchild and Naartjie.
*** Cellular, Truworths Jewellery and cosmetics.

Interest received

Interest received increased 21.2% to R1.3 billion (2015: R1.1 billion) due to the growth in the debtors book and increases in the South African repo rate during the period totalling 125 basis points.

Operating profit

Operating profit increased 20.7% to R4.2 billion while the operating margin decreased to 24.9% from 30.5% in 2015 owing to the reduction in the gross margin and the increase in trading expenses mainly as a result of the Office acquisition. Excluding Office the operating margin increased to 30.7%.

Earnings

Headline earnings per share (HEPS) increased 12.4% to 667.6 cents (2015: 593.8 cents) with fully diluted HEPS increasing 12.5% to 665.9 cents (2015: 592.1 cents).

Adjusted fully diluted HEPS, being fully diluted HEPS adjusted to exclude the impact of the once-off Office transaction-related costs, increased 16.2% to 688.2 cents.

Statements of financial position

The Group's financial position remains strong, with the net asset value per share increasing by 13% to 2 031.8 cents (2015: 1 790.9 cents) since the prior period-end.

As a result of the acquisitions, goodwill and intangible assets increased to R5.4 billion. The purchase consideration for Office was allocated to the identifiable assets and liabilities of Office, based on the externally reviewed statement of financial position at the acquisition date. Additional identifiable assets (including trademarks) and liabilities were recognised on completion of the purchase price allocation, with a corresponding reduction in goodwill.

Inventories increased to R2.4 billion at the end of the period. Excluding the inventory of Office, but including the Earthchild and Naartjie inventories, gross inventory increased 13%. Excluding Office, inventory turn remained at 4.7 times.

During the period the Group raised interest-bearing borrowings of R4.4 billion (R4.2 billion in term loans and R227 million in revolving credit facilities) to fund its operating activities and incurred R208 million in finance costs. The term loans are either repayable annually after three, four and five years or quarterly over five years.

The Group (via its wholly-owned UK resident and managed subsidiary Truworths UK Holdco 1 Ltd) has granted put options to Office management, which holds an 11.1% non-controlling interest. These options give the holders the right to sell their shares in Truworths UK Holdco 2 Ltd in tranches at the end of the 2019, 2020 and 2021 reporting periods upon approval of the audited consolidated accounts of that company for the respective years. The Group has determined that these put options do not transfer a present ownership interest of those shares to the Group. Accordingly, the Group has not recognised a non-controlling interest in equity, but instead recognised a liability of R562 million in relation to these put options in non-current liabilities. In addition, the Group has call options over the shares held by management giving it the right to purchase those shares on the same terms applicable to the put options. These call options have been valued at R15 million and are included in derivative financial assets.

On a pro forma basis as set out later in this report (which includes the results of Office for the five months prior to acquisition, and excludes all exceptional items) the return on equity was 37% (2015: 35%), the return on assets was 26% (2015: 38%) and asset turnover was at 1.1 times (2015: 1.2 times). The reduction in return on assets is due to the fact that the Office business unit has a lower return on assets compared to the Truworths business unit, and the increase in assets due to the goodwill and trademarks raised from the Office acquisition.

Capital management

The Group's capital management activities focused on the acquisition of Office, the continued investment in the organic growth of the business and on returning funds to shareholders through dividend payments.

During the period the Group raised interest-bearing borrowings of R4.4 billion to fund its operating activities while using the cash generated from operations to fund mainly the Office acquisition and transaction costs (R3.5 billion) and dividend payments (R1.4 billion).

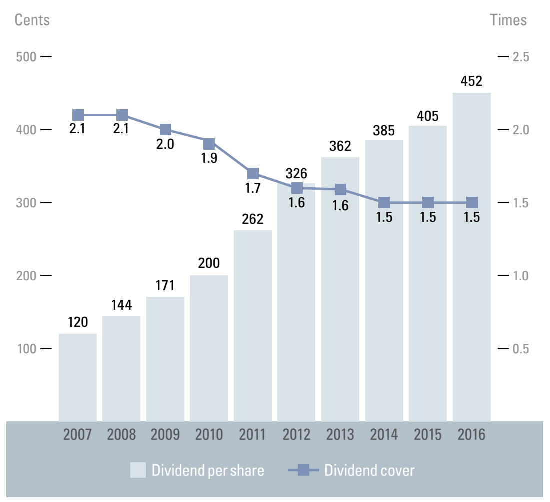
At the end of the period the Group had cash and cash equivalents of R1.6 billion, an increase of 8.9% over the prior period.

The Group's net debt to equity ratio at the end of the period was 33% and its net debt was 0.6 times earnings before finance costs, tax, depreciation and amortisation (EBITDA). To provide for potential further acquisitions the Group's medium-term targeted net debt to equity ratio is 25%. The directors estimate that this ratio could be achieved by the end of the 2017 reporting period by offering scrip dividends, with a cash dividend alternative.

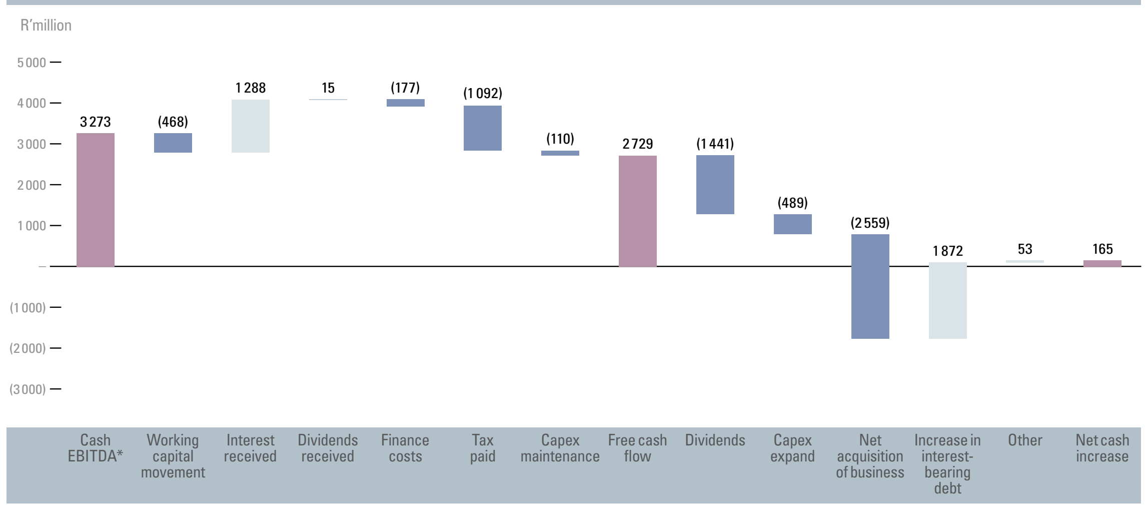
Capital expenditure amounted to R599 million (2015: R380 million), mainly invested in stores, head office, distribution capacity and information technology across Truworths (R562 million) and Office (R37 million). These amounts exclude the assets acquired by the Group through the acquisitions.

A total of R1.4 billion was returned to shareholders through cash dividend payments during the reporting period. No shares were repurchased during the period owing to the Office acquisition.

DIVIDENDS PER SHARE AND DIVIDEND COVER



GROUP CASH FLOW ANALYSIS



* Earnings before interest received, finance costs, tax, depreciation and amortisation.

Pro forma 12-month Office results used in pro forma ratios presented

The following results for the 12 months ended 26 June 2016 were used when calculating certain of the disclosed ratios. These results were adjusted to include the results for the five-month period before the Group gained control of the Office business.

The results have also been adjusted to exclude once-off exceptional items for Office. The once-off exceptional items include inventory markdown policy alignment, once-off deal-related fees, the profit on recognition of the call options, and finance-raising fees previously capitalised and written off on refinancing of debt.

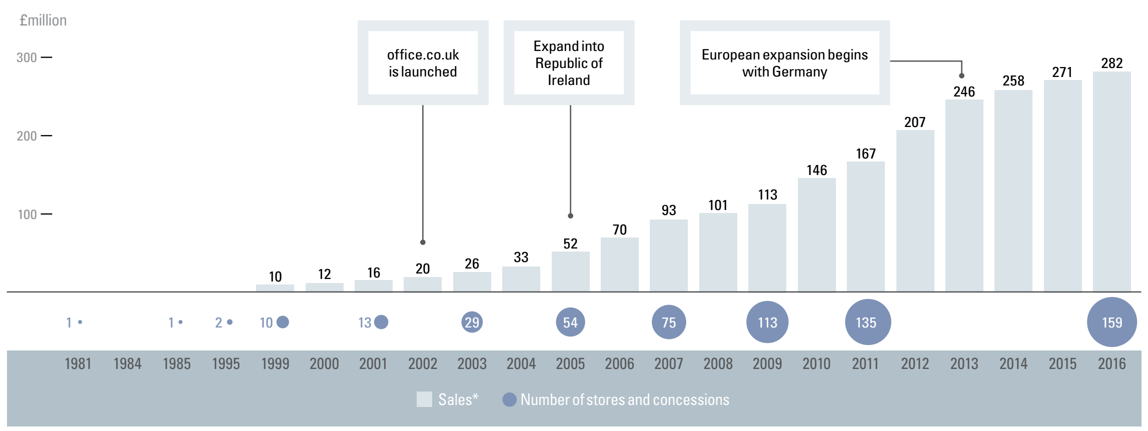
	Sale of merchandise Rm	Cost of sales Rm	Operating profit Rm	Profit after tax Rm
Group results as disclosed	16 654	7 837	4 154	2 817
Less: Office results for the seven months to June 2016	(3 765)	(2 071)	(193)	(119)
Plus: Office results for the 12 months to June 2016	6 052	3 363	260	75
(Less)/Plus: Once-off exceptional items	–	(72)	258	225
Less: Office results for the 12 months to June 2016, attributable to non-controlling interests	–	–	(58)	(33)
Group results used in the calculation of pro forma ratios	18 941	9 057	4 421	2 965

The 12-month results were translated to South African Rand at an average exchange rate for the 12-month period of R:£ of R21.44 and for the seven-month period of R:£ of R22.15.

Operating profit and profit after tax attributable to equity holders of the company were calculated based on the assumption that 88.9% of the share capital of Office was held by Truworths for the full 12-month period.

The unaudited pro forma ratios presented are the responsibility of the directors. The pro forma information is presented for illustrative purposes only and, due to its nature, may not fairly present the Group's results of operations for the period. In quantifying the pro forma information, the Group has applied the accounting policies adopted by it in its audited annual financial statements, which have been prepared in accordance with IFRS.

OFFICE'S GROWTH STORY



* 2015 and prior represents sales for the 12 month reporting periods ended January, and 2016 represents sales for the 12 months to June.

TRUWORTHS AND OFFICE BUSINESS SEGMENTS

Management monitors the operating results of the business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segmental performance is reported on an IFRS basis and evaluated based on revenue and profit before tax.

2016		Truworths Rm	Office Rm	Consolidation entries Rm	Group Rm
Total third party revenue		14 561	3 773	(103)	18 231
Third party		14 458	3 773	–	18 231
Inter-segment		103	–	(103)	–
Sale of merchandise		12 889	3 765	–	16 654
Retail sales		13 264	3 751	–	17 015
Accounting adjustments		(385)	(19)	–	(404)
Franchise sales and delivery fee income		10	33	–	43
Depreciation and amortisation		259	86	–	345
Employment costs		1 426	490	–	1 916
Occupancy costs		1 265	557	–	1 822
Trade receivable costs		1 092	–	–	1 092
Other operating costs		794	374	(103)	1 065
Interest received		1 287	1	–	1 288
Operating profit		3 961	193	–	4 154
Finance costs		171	37	–	208
Profit for the period		2 698	119	–	2 817
Profit before tax		3 789	157	–	3 946
Tax expense		(1 091)	(38)	–	(1 129)
Gross margin	(%)	55.3	45.0	–	52.9
Trading margin	(%)	20.6	5.1	–	17.1
Operating margin	(%)	30.7	5.2	–	24.9
Credit:cash sales mix	(%)	69:31	0:100	–	53:47

TRUWORTHS

This analysis covers the performance of the Truworths business unit in South Africa and in the rest of Africa, including YDE but excluding Office. The performance however includes the R3.5 billion investment in Office by Truworths, the term loans of R2.6 billion to fund the operations of Truworths and the additional interest expense incurred by Truworths.

Statements of comprehensive income

Sale of merchandise

Sale of merchandise increased by 14.2% to R12.9 billion (2015: R11.3 billion). Retail sales in Truworths increased 13.9% to R13.3 billion while product inflation averaged 9.1% for the period. Excluding the retail sales of the two acquired businesses, Earthchild and Naartjie, retail sales increased 11.3% to R12.8 billion.

Comparable store retail sales increased by 7.3% (2015: 1.3%), while product inflation averaged 9.5% (2015: 5.6%). Excluding the retail sales of the two acquired businesses, credit sales accounted for 70% (2015: 71%) of retail sales. Trading space increased by 4.0% (3.8% excluding Earthchild and Naartjie).

Cash sales increased by 21% while credit sales growth of 11% was negatively impacted by the new affordability assessment regulations (refer to the Truworths: Managing the Risk of Credit report for further detail). It is estimated that the impact of the new affordability assessment regulations on retail sales has been at least R200 million, translating into an estimated HEPS impact of 17 cents.

Comparable store sales, product inflation and unit sales growth are detailed in the table below:

Retail sales growth analysis	Retail sales Rm	Retail sales growth %	Like-for-like (LFL) store growth %	Product inflation %	Unit growth: comparable stores %	Unit growth: non-comparable stores %
Jun 2016 (52 weeks)	**13 264**	**14**	**7**	**9**	**(2)**	**7**
Jun 2015 (52 weeks)	11 644	8	1	6	(5)	7
Jun 2014 (52 weeks)	10 762	7	1	9	(8)	6
Jun 2013 (52 weeks)	10 074	13	8	2	6	5
Jun 2012 (52 weeks)	8 921	10	6	8	(2)	4

The South African operations accounted for 96.0% (2015: 96.2%) of the Truworths business unit's retail sales with the 47 stores in the rest of Africa contributing 4.0% (2015: 3.8%).

Retail sales outside South Africa	Retail sales June 2016 Rm	Retail sales June 2015 Rm	Change %	Number of stores June 2016	Number of stores June 2015
Namibia	**234**	219	7	**17**	16
Botswana	**100**	75	33	**8**	8
Swaziland	**87**	71	23	**5**	5
Zambia	**33**	24	38	**7**	5
Ghana	**25**	22	14	**4**	4
Lesotho	**20**	15	33	**2**	2
Mauritius	**19**	12	58	**2**	2
Kenya	**7**	–	100	**2**	–
Nigeria	**5**	8	(38)	**–**	2
Total	**530**	446	18	**47**	44

Gross margin

The gross margin improved by 10 basis points to 55.3%, benefiting from lower markdowns in the period.

Trading expenses

Analysis of trading expenses	2016 Rm	2015 Rm	Change %	2016 % of sale of merchandise	2015 % of sale of merchandise
Depreciation and amortisation	**259**	221	17	**2.0**	2.0
Employment costs	**1 425**	1 186	20	**11.0**	10.5
Occupancy costs	**1 265**	1 102	15	**9.8**	9.8
Trade receivable costs	**1 092**	960	14	**8.5**	8.5
Other operating costs	**694***	647	7	**5.4**	5.7
Trading expenses	**4 735**	4 116	15	**36.7**	36.5

* R794 million less R100 million of once-off transaction fees on-charged to Office.

- Depreciation and amortisation increased by 17% mainly due to store expansion as well as the additional assets purchased on the acquisition of Earthchild and Naartjie. Excluding non-comparable stores, depreciation increased 3%.
- Employment costs grew by 20% primarily as a result of the Earthchild and Naartjie acquisitions and the additional cost of providing benefits to certain flexi-staff following amendments to labour law. Excluding these items, incentive payments, share scheme costs and non-comparable store costs, employment costs increased by 11%, which includes growth in full-time equivalent employees of 4%.
- Occupancy costs increased by 15%, driven by trading space growth of 4%, average rental escalations of 7% and electricity cost increases of 20%. Comparable occupancy costs increased by 9%.
- Trade receivable costs increased by 14%. The doubtful debt allowance improved from 12.5% to 12.3% of gross trade receivables and the net bad debt as a percentage of gross trade receivables improved from 12.5% to 12.4%.
- Other operating costs increased by 7% and include foreign exchange gains of R34 million (2015: R5 million gain). Excluding the foreign exchange gains in both years, other operating costs increased by 12%.

Interest received

Total interest received increased by 21% to R1 287 million. Trade receivable interest, excluding notional interest, increased by 25% to R1 111 million owing to the increases in the repo rate totalling 125 basis points, as well as an 11% increase in credit sales.

Trading and operating profit

Trading profit increased by 12% to R2.7 billion (2015: R2.4 billion) and the trading margin declined from 21.0% to 20.6%.

Operating profit (profit before finance costs and tax) increased by R518 million or 15% to R4.0 billion (2015: R3.4 million), with the operating margin 20 basis points higher at 30.7% as a result of the 21% increase in interest received.

OFFICE

This analysis covers the financial performance of the Office business unit for the 31 weeks to 26 June 2016.

Statements of comprehensive income

Sale of merchandise

Sales of merchandise of Office at £170 million for the 31 weeks since acquisition were level with the corresponding prior period. Unseasonal weather hampered sales of ladies own-brand shoes but were partly off-set by the strong performance in the largest category of branded sports shoes.

Online sales continued the strong growth trend and now account for 24% of sale of merchandise (2015: 21%).

The UK accounted for 92% of sale of merchandise, with Germany and the Republic of Ireland both contributing 4%.

Like-for-like retail sales, including stores and e-commerce, were 1.4% lower for the period. E-commerce increased by 21.7% and store like-for-like sales were 7.6% lower. Trading space increased by 2.4%.

Office's trading density improved from £17 754 to £18 316 per square metre.

Sale of merchandise	Sale of merchandise June 2016 £m	Number of stores June 2016
United Kingdom	157	147*
Germany	7	7
Republic of Ireland	6	5
Total	170	159

* Includes 44 concession stores.

Gross margin

The gross margin declined from 46.6% to 45.0% owing to the increased stock provisioning to align with Truworths' stock management philosophy.

The weak sales performance has necessitated higher promotional and markdown activity.

A process was also started to improve the stock turn by reducing stock levels through more aggressive markdowns.

Operating profit and margin

Operating profit included in the Group results for the 31 weeks was R193 million and would have been R298 million had all once-off exceptional items been excluded.

GROUP INFORMATION TECHNOLOGY

The Group continues to invest in best-of-breed information technology (IT) to support its retail trading operations and supply chain. Capital expenditure of R82 million (2015: R71 million) was invested in the upgrading and installation of new IT systems and infrastructure.

The Group has committed R80 million for Truworths and Office IT capital expenditure for the 2017 reporting period.

Truworths

Major IT developments undertaken during the reporting period include the following:

- A new automated warehouse management system was implemented to improve stock management and measurement in the distribution centres.
- The call centre infrastructure was replaced with an outsourced, hosted solution which will provide access to new technology on an ongoing basis while containing costs.
- The e-commerce project to expand the Truworths omni-channel and online sales offering is on track for implementation in the second half of the 2017 reporting period.

Key projects for the new reporting period will include upgrading components of the retail merchandising systems to provide the capability to support e-commerce, multi-country expansion, customer loyalty and the integration of any further acquisitions; a new finance budget planning and forecasting system; the initial phase of a new collections system; and the implementation of an enterprise content management solution for head office and store documentation.

The largest infrastructure projects will be the installation of a new fibre-based wide area network to provide broadband real-time connectivity to top stores and the replacement of the head office PABX system with an outsourced, hosted solution.

Office

The main focus of IT development during the reporting period was on enhancing Office's e-commerce and web capability. The footprint of stores able to fulfil online sales was expanded and the business piloted the broader use of web-assisted selling through in-store tablets. New virtualised technologies, server and storage were introduced and the e-commerce back-end systems were migrated onto this environment.

Web supply chain processes were improved to ensure Office can manage web demand peaks including Black Friday, the biggest shopping day on the retail calendar.

Integration

The integration and rationalisation of systems between Truworths and Office will be one of the Group's main IT focus areas in the short-term. Priority projects will address merchandise planning, business intelligence and labour scheduling as well as upgrading Office's financial and human resources systems.

As Office has operated a less advanced IT and systems infrastructure, modified Truworths systems and processes will be adopted where appropriate. As the Group will now be operating two IT teams across different locations, strong collaboration tools will be implemented to ensure that IT policies and processes are aligned.

EXCELLENCE IN INTEGRATED REPORTING

It is pleasing to report that the Group's 2015 Integrated Report was placed sixth in the EY Excellence in Integrated Reporting Awards which ranks the reports of the top 100 companies by market capitalisation on the JSE. This is the ninth consecutive year that the Group has been ranked in the top ten of the EY reporting awards.

These awards are independently judged by the University of Cape Town's College of Accounting and are widely regarded as the benchmark for integrated reporting in the country.

GROUP PLANS AND TARGETS FOR 2017

The financial and operating targets for the 2017 reporting period are as follows:

		Target
Gross margin	(%)	51 – 55
Operating margin	(%)	21 – 25
Return on equity	(%)	30 – 35
Return on assets	(%)	22 – 27
Inventory turn	(times)	3.0 – 4.0
Asset turnover	(times)	0.9 – 1.3

The Group is committed to investing in the longer-term growth of the business and capital expenditure of R547 million is planned for the 2017 period, including:

- R332 million for new stores and the expansion and refurbishment of existing stores;
- R97 million for distribution facilities;
- R80 million for information systems; and
- R35 million for land and buildings.

Trading space is planned to increase by approximately 3% (Truworths 3% and Office 6%).

ACKNOWLEDGEMENTS

Thank you to our shareholders for your continued confidence in the Group and we welcome those who invested for the first time during the year. My colleagues in the finance departments in Truworths and Office provide invaluable support and I thank them in particular for their hard work and commitment during the Office transaction and in the subsequent integration phase.

David Pfaff
Chief Financial Officer

SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS

The information in these summarised Group annual financial statements has been extracted from the Group's 2016 audited annual financial statements.

SUMMARISED GROUP STATEMENTS OF FINANCIAL POSITION

	26 June 2016 Rm	28 June 2015 Rm
ASSETS		
Non-current assets	**7 413**	1 876
Property, plant and equipment	**1 622**	1 053
Goodwill	**1 805**	346
Intangible assets	**3 631**	217
Deferred tax	**230**	159
Derivative financial assets	**15**	–
Other non-current assets	**110**	101
Current assets	**9 648**	7 281
Inventories	**2 401**	1 074
Trade and other receivables	**5 281**	4 637
Cash and cash equivalents	**1 592**	1 462
Other current assets	**374**	108
Total assets	**17 061**	9 157
EQUITY AND LIABILITIES		
Total equity	**8 625**	7 504
Non-current liabilities	**5 481**	192
Interest-bearing borrowings	**4 042**	–
Put option liability	**562**	–
Other non-current liabilities	**877**	192
Current liabilities	**2 955**	1 461
Interest-bearing borrowings	**366**	–
Contingent consideration obligation	**42**	–
Other current liabilities	**2 547**	1 461
Total liabilities	**8 436**	1 653
Total equity and liabilities	**17 061**	9 157

Property, plant and equipment to the value of R371 million was acquired through the acquisition of Office. In addition, R344 million was spent on plant and equipment and R171 million spent on buildings during the period.

Goodwill arising on acquisition of Office was R1.5 billion.

The fair value of trademarks acquired through the acquisition of Office amounted to R3.5 billion. Computer software of R48 million was purchased and R33 million acquired through the Office acquisition.

Excluding the inventory of Office, but including the Earthchild and Naartjie inventories, gross inventory increased 13%. Excluding Office, inventory turn remained at 4.7 times.

Trade and other receivables increased by 13.9% as a result of the increase in credit sales. The allowance for doubtful debts has improved to 12.3% (2015: 12.5%) of gross trade receivables as a result of improved collections.

Interest-bearing borrowings were raised to fund the operations of the Group.

Put options granted to the non-controlling management shareholders in Office. These give the holders the right to sell their shares in Truworths UK Holdco 2 Ltd in tranches at the end of the 2019, 2020 and 2021 reporting periods.

Increased mainly due to the acquisition of Office and the resultant increase in trade and other payables as well as provisions.

SUMMARISED GROUP STATEMENTS OF COMPREHENSIVE INCOME

		26 June 2016 Rm	28 June 2015 Rm
Revenue		**18 231**	12 619
Sale of merchandise		**16 654**	11 290
Cost of sales		**(7 837)**	(5 060)
Gross profit		**8 817**	6 230
Other income		**274**	259
Trading expenses		**(6 240)**	(4 116)
Trading profit		**2 851**	2 373
Interest received		**1 288**	1 063
Dividends received		**15**	7
Operating profit		**4 154**	3 443
Finance costs		**(208)**	(6)
Profit before tax		**3 946**	3 437
Tax expense		**(1 129)**	(977)
Profit for the period		**2 817**	2 460
Attributable to:			
Equity holders of the company		**2 804**	2 460
Holders of the non-controlling interest		**13**	–
		2 817	2 460
Basic earnings per share	(cents)	**667.1**	591.2
Headline earnings per share	(cents)	**667.6**	593.8
Fully diluted basic earnings per share	(cents)	**665.4**	589.5
Fully diluted headline earnings per share	(cents)	**665.9**	592.1
Gross margin	(%)	**52.9**	55.2
Trading expenses to sale of merchandise	(%)	**37.5**	36.5
Trading margin	(%)	**17.1**	21.0
Operating margin	(%)	**24.9**	30.5
Reconciliation of headline earnings per share:			
Basic earnings per share	(cents)	**667.1**	591.2
Loss on disposal of plant and equipment	(cents)	**0.5**	1.4
Impairment of insurance cell captive	(cents)	**–**	1.2
Headline earnings per share	(cents)	**667.6**	593.8
Reconciliation of diluted weighted average number of shares:			
Weighted average number of shares	(millions)	**420.3**	416.1
Add: Dilutive effect of share options and share appreciation rights	(millions)	**1.1**	1.2
Diluted weighted average number of shares	(millions)	**421.4**	417.3

Group sale of merchandise, which comprises retail sales, franchise sales and delivery fee income less accounting adjustments, grew by 48%.

Excluding Office expenses and foreign exchange gains in both periods, trading expenses increased by 15.7%, mainly as a result of increases in employment costs of 20.2% and increases in depreciation and amortisation of 17.2%.

Interest received increased by 21.2% due to the growth in the debtors book and increases totalling 125 basis points in the South African repo rate during the period. Trade receivable costs increased by 14% to R1.1 billion due to the growth in the debtors book coupled with an increase in collection costs.

As a result of the interest-bearing borrowings raised in the current period to fund operations, as well as the fact that Office is geared, finance costs increased to R208 million.

The gross margin decreased principally due to the acquisition of Office, which operates at a lower margin. Excluding Office, the Group's margin increased to 55.3%.

Operating profit increased by 20.7% and the operating margin declined due to the reduction in the gross margin and the increase in trading expenses. Excluding Office, the operating margin increased to 30.7%.

SUMMARISED GROUP STATEMENTS OF CHANGES IN EQUITY

	26 June 2016 Rm	28 June 2015 Rm
Balance at the beginning of the period attributable to equity holders of the company	**7 504**	6 642
Profit and total comprehensive income for the period	**2 608**	2 469
Profit for the period	**2 817**	2 460
Other comprehensive (losses)/income for the period	**(209)**	9
Cash dividends	**(1 441)**	(1 700)
Premium on shares issued in terms of the 1998 share option scheme	**32**	65
Share-based payments	**52**	28
Acquisition of subsidiary – holders of non-controlling interest	**432**	–
Recognition of put option liability	**(562)**	–
Balance at the reporting date attributable to equity holders of the company	**8 625**	7 504
Comprising:		
Share capital and premium	**706**	551
Treasury shares	**(882)**	(770)
Retained earnings	**8 903**	7 533
Non-distributable reserves	**(102)**	190
Total equity attributable to equity holders of the company	**8 625**	7 504
Dividends (cents per share)		
Final – payable/paid September	**182**	169
Interim – paid March	**270**	236
Total	**452**	405

Other comprehensive (losses)/income comprises the movement in the foreign currency translation reserve, the effective cash flow hedge, the fair value adjustment on available-for-sale financial instruments, and gains and losses on defined benefit plans.

Recognition of non-controlling interest on acquisition, and subsequent derecognition thereof on recognition of put liability. The put liability is the present value of the amount payable on exercise of the put options granted to the non-controlling management shareholders in Office.

The total cash dividend for the period increased by 12%. The dividend cover remained at 1.5 times.

SUMMARISED GROUP STATEMENTS OF CASH FLOWS

		26 June 2016 Rm	28 June 2015 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flow from trading and cash EBITDA*		**3 273**	2 654
Working capital movements		**(468)**	(476)
Cash generated from operations		**2 805**	2 178
Interest and dividends received		**1 303**	1 070
Finance costs		**(177)**	(4)
Tax paid		**(1 092)**	(1 099)
Cash inflow from operations		**2 839**	2 145
Dividends paid		**(1 441)**	(1 698)
Net cash from operating activities		**1 398**	447
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant, equipment and computer software		**(599)**	(380)
Net acquisition of businesses		**(2 559)**	(270)
Other investing activities		**22**	6
Net cash used in investing activities		**(3 136)**	(644)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds on shares issued		**32**	65
Loans repaid		**(2 613)**	–
Loans received		**4 485**	–
Other financing activities		**(1)**	(2)
Net cash from financing activities		**1 903**	63
Net increase/(decrease) in cash and cash equivalents		**165**	(134)
Cash and cash equivalents at the beginning of the period		**1 462**	1 588
Net foreign exchange difference		**(35)**	8
CASH AND CASH EQUIVALENTS AT THE REPORTING DATE		**1 592**	1 462
Key ratios			
Cash flow per share	(cents)	**675.5**	515.5
Cash equivalent earnings per share	(cents)	**759.0**	642.9
Cash realisation rate	(%)	**89**	80

* Earnings before interest received, finance costs, tax, depreciation and amortisation.

The cash inflow from operations of R2.8 billion was utilised to fund dividend payments of R1.4 billion, capital expenditure of R599 million and the acquisition of Office.

Cash paid less cash acquired relating to the acquisition of Office.

Interest-bearing borrowings of R4.5 billion were raised to fund operating activities, while existing Office debt was settled and refinanced.

Increase in cash flow per share mainly due to the increased cash flow from trading and cash EBITDA.

Cash equivalent earnings per share increased 18%, compared to basic earnings per share increasing 13% on the prior period.

The net effect of the increase in cash flow per share and cash equivalent earnings per share resulted in a cash realisation rate of 89% compared to 80% in the prior period.

OPERATIONAL REVIEW

TRUWORTHS: MARKET-LEADING BRAND PORTFOLIO	78
TRUWORTHS: MANAGING THE RISK OF FASHION	84
TRUWORTHS: OPTIMISING SUPPLY CHAIN EFFICIENCY	86
TRUWORTHS: MANAGING THE RISK OF CREDIT	88
TRUWORTHS: TEN-YEAR REVIEW OF CREDIT PERFORMANCE	92
TRUWORTHS: MANAGING RETAIL PRESENCE	94
TRUWORTHS: HUMAN CAPITAL REPORT	98
OFFICE OPERATIONAL REPORT	102

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 standard.

TRUWORTHS: MARKET-LEADING BRAND PORTFOLIO

Through its organic and acquisitive brand expansion strategy, Truworths has assembled a market-leading portfolio of fashion clothing and footwear brands, owning some of South Africa's most sought-after ladieswear, menswear and kidswear fashion brands.

Note: This report is Truworths specific as Office is dealt with in the Office Operational Report. All references in this report are therefore to 'Truworths' rather than to 'the Group'.

TRUWORTHS' BRAND STRATEGY

Customers are offered fashion styling of an international standard across a diversified portfolio of aspirational brands that appeal to the different lifestyles of youthful, fashionable South Africans.

Core to the brand strategy is the focus on developing and growing exclusive in-house brands. These are complemented by a small collection of specialist third party brands, principally in jeanswear, intimatewear and footwear.

Each brand has a clearly defined profile which ensures the merchandise has a distinctive signature.

Truworths constantly reviews its portfolio of brands to identify new categories of merchandise that offer opportunities to meet customer needs. This could include merchandise for different occasions or lifestyles, different degrees of fashionability, or a different value offering.

EXPANDING BRAND PORTFOLIO

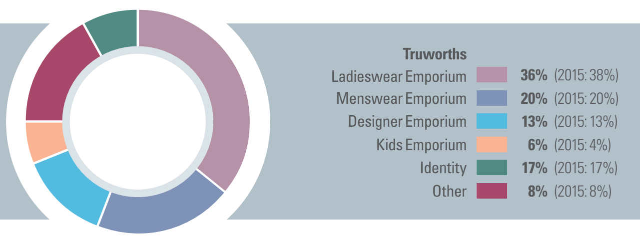
Truworths and Truworths Man are the core brands and are supported by the following internally developed mainstream brands:

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

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 established brands, **Young Designers Emporium** (2003) and **Uzzi** (2006), with kidswear brands, **Earthchild** and **Naartjie**, and ladieswear brand, **Earthaddict**, being acquired in the 2015 reporting period.

RETAIL SALES CONTRIBUTION



Truworths Ladieswear Emporium

TRUWORTHS, ginger mary, ESSENCE, FINNIGANS, BASIA, LUCIA ROSATI, hey Betty, OBRSPORT, Inwear, Emily Moon, TRS, maternity, OUTBACK RED, peep, TR NY, INTRIGUE, SKINY

Truworths Menswear Emporium

TRUWORTHS MAN, UZZI, HEMISPHERE ORIGINAL JEANSWEAR, MOSHOW, studio, exstream, Trench

SPECIALIST BRANDED EMPORIUM STORES

Customers can shop for these multiple fashion brands in a single location, known as the Truworths emporium store. The emporium store concept has evolved along with the expansion of the brand portfolio, and customers now have access to four specialist 'sub-emporiums' within the Truworths emporium:

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

All four specialist emporiums were included together for the first time in the Mall of Africa, South Africa's largest first phase shopping centre development which opened in April 2016.

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 standard.

Truworths Designer Emporium

DANIEL HECHTER PARIS, LTD, EARTHADDICT

Truworths Kids Emporium

LTD KIDS, naartjie kids, EARTH CHILD

	TRUWORTHS LADIESWEAR EMPORIUM	TRUWORTHS MENSWEAR EMPORIUM
	TRUWORTHS	TRUWORTHS MAN
Brand description	**Truworths Ladieswear Emporium** offers a range of fashionable leisurewear, formalwear, eveningwear, lingerie, shoes and accessories designed for the youthful, modern, fashion-conscious women.	**Truworths Menswear Emporium** caters for the entire wardrobe requirements of modern, fashion-conscious, youthful men by offering a range of exclusive brands that encompass formalwear and leisurewear, in addition to a range of shoes, underwear and accessories.
Brand profile	Youthful women across all ages and lifestyles	Youthful men across all ages and lifestyles
Supporting brands and ranges	Outback Red, OBR Sport, TRS, TRNY, Hey Betty, Truworths, Inwear, Ginger Mary, Basix, The Look, Finnigans, Truworths Collection, Lucia Rosati, Essence, Truworths Glamour, Emily Moon, Zeta, Truworths Maternity, Intrigue, Skiny and Peep	Truworths Man, Uzzi, Hemisphere, Hemisphere Sport, Studio, Trench, Moskow and Exstream
Retail sales for 2016	R4.8 billion	R2.7 billion
Retail sales growth on prior period	9.3%	13.7%
Retail sales contribution	36% (2015: 38%)	20% (2015: 20%)
Compound retail sales growth over last three years	6%	11%
Number of Emporium stores or departments within Emporium stores	339 Truworths emporium stores 332 Inwear departments 2 Ginger Mary stand-alone stores 274 Ginger Mary departments	34 Truworths Man stand-alone stores 315 Truworths Man departments 53 Uzzi stand-alone stores 183 Uzzi departments

	TRUWORTHS DESIGNER EMPORIUM	TRUWORTHS KIDS EMPORIUM
	DANIEL HECHTER PARIS, LTD, EARTHADDICT	LTD KIDS, EARTH CHILD, naartjie kids
Brand description	**Daniel Hechter** is a French designer brand of high-quality and modern yet timeless designs for men and women. The collection offers a refined sense of style combined with a French touch and the sophistication of classic European styling, superior tailoring and luxurious fabrics. **LTD** is an eclectic collection of easy yet sophisticated leisure-time dressing for men and women. LTD is a versatile leisure-inspired range that has an urban feel with sophisticated undertones. In keeping with this philosophy, LTD captures key international and local trends but always adds its unique handwriting that sets it apart. Extra emphasis is placed on fabric, design and detail. **Earthaddict** offers natural quality leisurewear for women. The garments offer a sense of sophistication and ease through the use of natural, luxurious fabrics and minimalistic styling. Any woman can wear Earthaddict and feel confident, comfortable and natural.	**LTD Kids** is a uniquely designed range of smart and casual children's clothing that is of exceptional quality for the fashion and brand conscious parent and child. A variety of vibrant and soft colours are offered across the different brands paying special attention to detail, allowing for ease of wardrobe building. **Earthchild** strives to be the leading natural fashion brand in South Africa, offering authentic, premium styled quality clothing for kids from newborn to ten years. Earthchild is independent, uncompromising and wholesome, garments are fresh and on trend, but still irrefutably classic. **Naartjie Kids** offers locally designed, fun and playful fashion for kids, from newborn to twelve years. Naartjie's distinctive designs, high quality fabrics and comfortable styling have made it a brand that's loved by parents and kids alike.
Brand profile	Youthful woman and men across all ages and lifestyles	Kids, toddlers and babies
Supporting brands and ranges	Daniel Hechter man and Daniel Hechter woman, Earthaddict, LTD ladieswear and LTD menswear	LTD Kidswear, Max and Mia, Zigy, Earthchild and Naartjie
Retail sales for 2016	R1.7 billion	R816 million
Retail sales growth on prior period	14.8%	78.6% (24.9% excluding Earthchild and Naartjie)
Retail sales contribution	13% (2015: 13%)	6% (2015: 4%)
Compound retail sales growth over last three years	7%	53% (28% excluding Earthchild and Naartjie)
Number of Emporium stores or departments within Emporium stores	3 Daniel Hechter stand-alone stores 352 Daniel Hechter departments 2 LTD stand-alone stores 176 LTD departments 15 Earthaddict stand-alone stores 4 Earthaddict departments in Earthchild stand-alone stores	29 Naartjie stand-alone stores 29 Earthchild stand-alone stores 169 LTD Kids departments 14 Full Truworths Kids Emporiums

	TRUWORTHS OTHER	IDENTITY	YDE
	elements TRUWORTHS BEAUTY DESTINATION	IDENTITY	the young designers emporium
Brand description	Included in other are Truworths Elements, Jewellery and Cellular. **Truworths Elements** offers a range of premium international skincare, cosmetics and fragrance brands. Truworths Elements is a fresh and uncluttered beauty destination, focusing on highly sought-after prestigious brands for fashion-conscious customers, where they can enjoy the expertise of trained specialist cosmetic consultants. **Truworths Jewellery** offers a selection of quality fine jewellery, trendy fashion jewellery and leading international watch and sunglass brands. The merchandise appeals to youthful women, across broad lifestyle spectrums, who view jewellery and accessories as an integral part of fashion. The range includes gold, silver and faux jewellery collections, as well as a broad assortment of formal and leisure-inspired watch and sunglass brands.	**Identity** offers a range of young, affordable, trendy, forward 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 labelled ranges in a branded space. The emporiums are aimed at fashion-forward customers aged 16 to 35 and offer clothing, shoes, bags and accessories. YDE operates from independent stand-alone stores.
Brand profile	Ladies and men	Young ladies and men	Young ladies and men in the 16 – 35 age group
Supporting brands and ranges	MAC, Estée Lauder, Clinique, Clarins, Revlon, Kangol, Elizabeth Arden, Aramis and Hugo Boss, as well as niche fashion and salon brands	Identity man, Identity woman and Identity shoes	Various designers
Retail sales for 2016	R1.1 billion	R2.2 billion	R292 million
Retail sales growth on prior period	7.6%	12.0%	1.7% decrease
Retail sales contribution	8% (2015: 8%)	17% (2015: 17%)	Agency sales, so therefore not included in retail sales
Compound retail sales growth over last three years	8%	11%	2%
Number of Emporium stores or departments within Emporium stores	73 Truworths Elements departments 155 Truworths Jewellery departments	244 Identity stand-alone stores	20 YDE stand-alone stores

TRUWORTHS: MANAGING THE RISK OF FASHION

Even in the current constrained consumer environment, Truworths increased retail sales by 14% and the gross margin reached 55.3%.

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Truworths strives to create winning merchandise ranges across the brand portfolio season after season, by predicting the latest fashion trends and then interpreting them into new and enticing clothing and accessories.

Rigorous processes are followed by the merchandise team to manage and mitigate the risk of fashion throughout the product life cycle, from forecasting and interpretation of international fashion trends, designing garments, planning and assorting ranges, sourcing and engaging suppliers, applying the highest quality standards, and managing production across the supply chain until the merchandise ultimately reaches stores.

Even in the current constrained consumer environment, Truworths increased retail sales by 14% and the gross margin reached 55.3%, highlighting the success achieved in managing the risk of fashion during the reporting period.

YOUTHFUL FASHIONABLE CUSTOMER

Truworths has an enviable portfolio of exclusive market-leading brands which are collectively housed in one shopping environment to create the unique emporium store.

The business targets 'one customer' who is youthful and fashionable, and the combination of exclusive brands aims to cater to the varied lifestyle needs of this customer, from leisure to work, to eveningwear, and every aspect of her/his life.

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

FORECASTING FASHION TRENDS

The Truworths ladieswear and menswear Fashion Studios drive the merchandise forecasting process. The Studios research international fashion trend information from a wide range of sources, including fashion fairs, online subscriptions and by following local and global street trends.

Designers work in partnership with buyers to track trends and formulate the main fashion directions for each new season. A design and customisation process is completed for each brand, providing direction on colour, fabric, print and trim in line with the latest emerging trends. Travel to northern hemisphere retailers and ongoing insights from consultants in the major fashion capitals of the world supplement these seasonal processes.

CONSISTENT FASHION FORMULA

A consistent merchandise buying and planning formula is applied for every six-month season. Developed over many years, this process is constantly refined to remain relevant in the fast-changing fashion retail environment. Checks and balances at critical stages in the process limit the risk of fashion failure.

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

Merchandise is sourced from a combination of local and international suppliers based on a carefully considered methodology that provides flexibility and reliability. Through each step in the process there is a focus on maintaining exacting quality standards that customers both value and expect.

The proven merchandise philosophy of buying 'wide not deep' offers customers an extensive range of garments and styles to meet the multiple lifestyle needs of the customer. A limited quantity of each item and size ensures exclusivity, heightens fashionability and provides customers with an ever-changing shopping experience.

Merchandise processes are supported by leading-edge systems and technology. The current retail merchandising system is being upgraded to provide the capability and flexibility to support strategic initiatives such as e-commerce, multi-country expansion, customer loyalty and the integration of acquisitions, including Office. A product life cycle management system has been purchased for implementation, which is scheduled to commence in the new reporting period, providing advanced process management and control capability for product sourced locally and internationally.

ENHANCING BUYING PROCESSES

Buying processes have been updated in recent years to align with the growth and increasing complexity of the business, and to continue to meet the challenges of the changing global fashion retail market.

These updated processes, which were applied in the creation of the summer 2015 and winter 2016 fashion ranges, have enhanced both the productivity and efficiency of the buying teams.

There has also been a focus on strategic procurement to capitalise on opportunities both locally and in various different countries of origin to expand the product range and to improve efficiencies in the timeline.

EXPANDING KIDSWEAR OFFERING

Expanding the kidswear offering is one of Truworths' strategic growth drivers. Following the successful integration of Earthchild and Naartjie during the period, both brands have been incorporated with LTD Kids in the newly developed specialist Truworths Kids Emporium. These are three aspirational, upmarket brands, yet each has a different profile.

The merchandise team has focused on growing the LTD Kids range. Good growth in the LTD Kids sub-brands Max and Mia, and Zigy, contributed to kidswear retail sales increasing by 25% and by 79% including Earthchild and Naartjie.

SUPERIOR QUALITY FASHION

Truworths' quality standards are recognised as being among the best in the fashion industry. Central to the quality assurance process is an in-house fabric and garment testing laboratory. The laboratory is accredited by South Africa's Council for Scientific and Industrial Research (CSIR), providing assurance that the laboratory's methods and results are aligned with international standards.

The quality assurance team partners with local and international suppliers to ensure merchandise is manufactured to consistent quality and prescribed safety standards. Quality assurance workshops are held with both local and international suppliers to ensure alignment with Truworths' expectations and standards.

The international quality assurance team has increased its offshore travel to work more closely with new and existing sources of supply, and ensure manufacturers achieve these exacting quality standards.

TRUWORTHS: OPTIMISING SUPPLY CHAIN EFFICIENCY

Truworths achieved year-on-year supply chain efficiency improvements of 4% during the period, following a 5% gain in the previous year.

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The merchandise team is constantly seeking ways to optimise efficiencies across the supply chain by shortening lead times and improving speed to market of merchandise, balancing local and offshore supply, and increasing productivity in inventory management.

Truworths achieved year-on-year supply chain efficiency improvements of 4% during the period, following a 5% gain in the previous year.

EXPANDING DISTRIBUTION CAPACITY

The capacity of Truworths' three main distribution centres in Cape Town was significantly expanded during the period to manage the organic growth in the business and to integrate the recent acquisitions of Naartjie and Earthchild. The project included the installation of additional semi-automated materials handling equipment and major changes to the product flow through the facilities.

A new warehouse management system was implemented at the end of the reporting period to improve stock management and measurement in the distribution centres, and to enable new distribution methods. Notwithstanding initial challenges resulting in merchandise allocation delays, the benefits of this system will be realised from the new reporting period onwards.

In response to the need to expand warehousing and distribution capacity, construction of a third owned distribution centre will commence in the 2017 reporting period at a total projected cost of between R400 million and R450 million. The commencement date has been deferred to enable the project team to optimise the design of the centre which is to be constructed across two adjoining sites currently separated by a public walkway, subject to local authority approval.

Located adjacent to the largest distribution centre, the new facility will cater for the organic growth needs for several years and will also allow Truworths to implement more innovative methods of distribution and merchandise allocation. The distribution centre is currently scheduled for completion in the 2020 reporting period.

BENEFITS OF LOCAL SUPPLY

Local supply allows for faster speed to market which is critical for a high fashion retailer.

Domestically manufactured product offers shorter lead times as local suppliers can respond quickly to replenishing popular selling styles during a season. Quick response and fast fashion models developed with key suppliers continue to enable Truworths to improve speed to market and to react more rapidly to customer buying patterns. Buyers can also make late styling changes as close as possible to the time of delivery to ensure that the ranges reflect the latest trends.

The majority of the quick response suppliers is based in South Africa or in neighbouring Southern African Development Community (SADC) countries, resulting in shorter lead times owing to the proximity of these countries.

Truworths Manufacturing, the in-house manufacturing division which outsources production mainly to local cut-make-trim (CMT) suppliers, has shown good growth over the past year and is now one of the larger suppliers to Truworths. This division focuses mainly on menswear and kidswear, with the Naartjie Manufacturing division being successfully integrated into Truworths Manufacturing during the period.

RATIONALE FOR IMPORTING PRODUCT

Foreign manufacture offers a wider variety of merchandise and greater technical detail in clothing at more reasonable prices than local supply. However, imported merchandise can take up to six weeks to be shipped from the East and hence has a disadvantage in terms of a slower speed to market.

Products are generally imported in merchandise categories where Truworths is unable to source local products that meet the required quality standards at competitive prices. Shoes, fashion accessories, lingerie, knitwear and denim generally have a higher proportion of imports. Despite the weakening Rand during the reporting period resulting in a higher cost of foreign made goods, Truworths has not been able to revert to local manufacturing as the technical ability to produce similar products in South Africa at affordable prices is still not being achieved.

Management has continued to focus on improving procurement from the Far East. More frequent travel to the East to improve working relationships and communication, and to give suppliers a better understanding of Truworths' processes, has resulted in improved lead times from this region.

The Truworths internal sourcing function is now a highly successful division within the Truworths supply chain, playing a strategic part in procuring a broad range of merchandise for the chain. It has become one of the largest suppliers to the business, sourcing product from manufacturers in Mauritius, Madagascar and the East.

STRENGTHENING SUPPLIER RELATIONSHIPS

The merchandise team actively engages with local and offshore manufacturers to strengthen relationships and create alliances.

Risk in the supply chain is mitigated by monitoring the volume of merchandise being supplied by each manufacturer. Truworths has a diversified supplier base which limits over-exposure to individual suppliers.

An enhanced supplier scorecard has been developed to better measure key supplier performance. This will assist Truworths in growing volumes with better-performing manufacturers and will identify weaknesses in certain suppliers that can be addressed through a collaborative process.

A web-based portal provides access to suppliers, to enhance communication between Truworths and its suppliers, and to create further efficiencies in the supply chain.

A Truworths code of conduct is incorporated in all supplier agreements and this binds manufacturers to comply with ethical business standards, labour legislation, international health and safety standards, environmental legislation and treaties to which South Africa is a signatory.

TRUWORTHS: MANAGING THE RISK OF CREDIT

In this environment it was pleasing that Truworths increased its share of the credit wallet among clothing retailers to its highest level ever.

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Credit sales growth of 11% off a stable active account base

Credit sales as a percentage of retail sales 69% (2015: 70%)

Significant impact on performance from new affordability assessment regulations

New account acceptance rates declined to 24% (2015: 30%)

Net bad debt to book improved to 12.4% (2015: 12.5%)

Doubtful debt allowance to book improved to 12.3% (2015: 12.5%)

DETERIORATING CREDIT ENVIRONMENT

After showing an encouraging improvement in the early part of the reporting period the South African credit environment deteriorated as the worsening economic conditions and new affordability assessment regulations impacted on the credit health of consumers in the second half.

The TransUnion Consumer Credit Index, which is a measure of consumer credit health, declined from 52.1% in the fourth quarter of the 2015 calendar year to 46.1% in the first quarter of the 2016 calendar year, the lowest level in three years. The Index declined, albeit at a slower rate, in the second quarter of the 2016 calendar year to 47.1% as higher consumer inflation and rising interest rates impacted loan repayment behaviour.

In this environment it was pleasing that Truworths increased its share of the credit wallet among clothing retailers to its highest level ever.

CREDIT AN ENABLER OF SALES

Credit is offered to customers across all Truworths brands in South Africa, Namibia, Botswana and Swaziland.

Truworths uses credit as an enabler of sales to customers in its mass mainstream middle-income market, as opposed to operating a financial services business. Many customers have limited access to bank credit and credit cards, and are therefore reliant on store credit to buy better quality fashion merchandise.

Truworths aims to ensure that the cost of credit is balanced by interest revenue, as was the case in the reporting period where the total cost of credit was R1 277 million and total income from credit amounted to R1 273 million.

Cost of credit	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Total trade receivables interest	**1 204**	969	828	724	630
Trade receivables interest charged	**1 111**	889	754	646	553
Notional interest	**93**	80	74	78	77
Financial services income*	**69**	67	59	61	44
Total income from credit	**1 273**	1 036	887	785	674
Total cost of credit	**(1 277)**	(1 110)	(1 082)	(877)	(648)
Internal and external collection costs**	**(488)**	(395)	(389)	(335)	(283)
Net bad debt and change in doubtful debt allowance	**(789)**	(715)	(693)	(542)	(365)
Cost of credit: (cost)/surplus	**(4)**	(74)	(195)	(92)	26

* Includes annual account service fee income which is charged to account customers and is included in the annual financial statements under other income.

** Includes internal collection related costs such as salaries which are disclosed in the annual financial statements under employment costs and other operating costs.

Truworths is increasingly targeting more affluent cash customers, many of whom use credit cards, by broadening its ranges and product offerings, developing an e-commerce platform and loyalty programme, and through its recent acquisitions which appeal to more affluent customers.

IMPACT OF AFFORDABILITY REGULATIONS

The National Credit Regulator introduced new affordability assessment regulations in South Africa with effect from September 2015, aimed at ensuring that consumers are not over-indebted through unaffordable credit agreements.

Credit providers are now required to undertake an affordability calculation based on the assumed minimum living expenses of applicants, validate the declared income with documented proof of income and obtain credit bureau information within seven days of granting new credit or increasing an existing credit limit.

The new affordability assessment regulations introduced a standard requirement for all credit applicants to provide their three most recent bank statements or salary advices or other forms of proof of income to validate their income. A large number of Truworths' customers are self-employed or work in the informal sector and are unable to provide the prescribed documentation, while others have found the administrative burden too inconvenient and do not follow through with account opening.

This new requirement has resulted in the credit application acceptance rate declining to 24% from 30% in the prior period and an estimated loss of at least R200 million in credit sales for the reporting period.

Prior to the introduction of the new regulations cash sales grew by 26% and credit sales by 18%. Cash sales subsequent to the implementation of the regulations grew by 19% while credit sales growth slowed to 8%.

Mitigation strategies have been implemented to attempt to limit the impact of the regulations on credit sales. All store staff have been trained on the process of collecting proof of income documentation from customers, with stores empowered with technology to assist customers. Call centre staff are supporting stores by contacting customers who have not provided the relevant documentation and assisting them through the process.

CAPPING OF INTEREST RATES

Regulations capping the maximum interest rate that can be charged on new credit agreements were introduced with effect from May 2016. As Truworths offers credit as an enabler of sales, management took a decision not to levy additional fees at this stage on customer accounts to compensate for the loss of interest revenue.

CREDIT PERFORMANCE IN 2016

Gross trade receivables on the debtors book, including Truworths, Identity and YDE, grew by 11.6% to R5.8 billion. The growth in the book is attributable to Truworths' credit sales growing by 11.0% over the prior period.

Credit sales contributed 69% (2015: 70%) to retail sales in Truworths for the period.

Overdue accounts as a percentage of the total debtors book remained at 14%.

The doubtful debt allowance as a percentage of gross trade receivables has improved to 12.3% from 12.5% in the prior period. Net bad debt as a percentage of gross trade receivables improved to 12.4% (2015: 12.5%) as a result of improved collections. The increase in the monetary value of the doubtful debt allowance, together with an increase in collection costs, contributed to trade receivable costs increasing by 14% to R1 092 million (2015: R960 million).

CREDIT RISK MANAGEMENT

All credit strategies across the portfolio, from new account acquisition to credit 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 in the portfolio.

Challenger credit strategies are then developed with the goal of outperforming the existing approach. These challenger strategies are closely monitored and, once performance confirms that they deliver a better outcome, they are then applied to a larger portion of the portfolio.

Developments this year include:

- A suite of challenger strategies has been developed and implemented for new account applications that leverage more predictive scorecards that were developed by the internal analytics department.
- Enhancements to the process that proactively manages a customer's credit limit through the life of her/his account.
- Commissioning of new technology in the call centre that supports customer acquisition, customer retention and collections.
- Continued focus on improving the efficiency and effectiveness of processes to obtain proof of income documentation from customers by using all contact channels.

ENHANCING OMNI-CHANNEL OFFERING

In line with the strategy to develop an omni-channel retail capability, Truworths is enhancing the customer experience, as well as order fulfilment and payment systems on its e-commerce platform.

The shop front website is being developed to offer a broader online product catalogue, ultimately providing access to the full range of merchandise available in flagship stores as well as unique online-only product.

The new e-commerce platform and online store is expected to launch in the second half of the 2017 reporting period.

Truworths has invested in a customer engagement platform for its new loyalty rewards programme which is aimed at increasing both the basket size and frequency of shopping of account and cash customers. As a credit retailer Truworths has unique insight into its customers' buying behaviour and preferences, and this platform will enable multi-channel customer communication and allow for personalised offers and promotions. The current testing phase will continue into the 2017 reporting period to enable Truworths to evaluate the impact of the loyalty programme on profitability.

MANAGING CREDIT RISK IN 2017

The rising interest rate cycle is expected to continue and current market consensus indicates the likelihood of a further 25 basis point increase in the repurchase (repo) rate in the second half of the 2016 calendar year. This is not expected to have a material impact on portfolio delinquency and Truworths will benefit from the resultant increase in interest income.

Plans to enhance credit risk management in the 2017 reporting period include:

- Further improve processes and systems to collect new affordability assessment documentation.
- Launch the new loyalty programme for both credit and cash customers to offer personalised promotions and increase purchasing frequency and basket size.
- Relaunch e-commerce with significantly enhanced functionality, order fulfilment, communication and payment capabilities to facilitate omni-channel retailing.
- Develop predictive models and strategies across the credit portfolio to respond to the changing economic and trading environment.
- Continue to invest in technology to unlock the value in the vast customer data available internally and externally.
- Commence development of new collections software.

TRUWORTHS: TEN-YEAR REVIEW OF CREDIT PERFORMANCE

TRADE RECEIVABLE STATISTICS		10-year average	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Group												
Number of active accounts	(000's)		**2 658**	2 672	2 586	2 554	2 411	2 194	1 975	1 856	1 783	1 689
Growth in number of active accounts	(%)	7	**(1)**	3	1	6	10	11	6	4	6	24
Trade receivables (before doubtful debt allowance)	(Rm)		**5 838**	5 229	4 720	4 221	3 794	3 333	2 835	2 550	2 296	2 048
Credit sales as a % of retail sales	(%)	71	**69**	70	71	72	73	71	70	69	70	73
Qualifying payment	(%)	90	**90**	90	90	90	90	90	90	90	90	90
Applications granted credit	(%)	34	**24**	30	26	31	38	38	33	39	40	41
Active account holders able to purchase at period-end	(%)	84	**82**	83	83	82	84	86	85	84	84	85
Overdue values as a % of trade receivables	(%)	14.4	**13.9**	14.0	14.2	15.1	13.2	12.7	13.6	16.1	17.0	14.6
Net bad debt as a % of credit sales	(%)	6.1	**8.0**	7.9	8.0	6.0	4.5	3.9	5.6	6.8	6.3	3.6
Net bad debt as a % of trade receivables	(%)	10.3	**12.4**	12.5	12.9	10.4	7.9	6.8	9.8	11.9	11.3	6.6
Doubtful debt allowance as a % of trade receivables	(%)	11.2	**12.3**	12.5	12.5	12.0	10.6	10.1	10.7	11.9	11.9	7.9
Trade receivables interest as a % of trade receivables	(%)	18	**21**	19	18	17	17	16	17	22	21	16
Truworths												
Number of active accounts	(000's)		**2 061**	2 068	2 039	2 054	1 971	1 866	1 747	1 668	1 633	1 574
Growth in number of active accounts	(%)	5	**–**	1	(1)	4	6	7	5	2	4	22
Trade receivables (before doubtful debt allowance)	(Rm)		**4 807**	4 307	3 960	3 584	3 264	2 961	2 577	2 348	2 147	1 940
Credit sales as a % of retail sales	(%)	74	**70**	72	73	74	76	75	74	74	77	79
Applications granted credit	(%)	36	**25**	32	27	33	42	41	33	40	42	43
Identity												
Number of active accounts	(000's)		**567**	574	519	474	415	305	207	167	126	98
Growth in number of active accounts	(%)	26	**(1)**	11	9	14	36	47	24	33	29	61
Trade receivables (before doubtful debt allowance)	(Rm)		**994**	886	727	607	501	345	233	178	125	90
Credit sales as a % of retail sales	(%)	49	**60**	62	59	58	55	47	40	37	34	33
Applications granted credit	(%)	30	**23**	28	25	25	34	32	31	35	34	36
YDE												
Number of active accounts	(000's)		**30**	30	28	26	25	23	21	21	19	17
Growth in number of active accounts	(%)	12	**–**	7	8	4	9	10	–	11	12	55
Trade receivables (before doubtful debt allowance)	(Rm)		**37**	36	33	30	29	27	25	24	21	18
Credit sales as a % of retail sales	(%)	24	**28**	27	24	25	25	24	23	21	21	20
Applications granted credit	(%)	57	**36**	51	54	52	65	63	60	64	63	62

TRUWORTHS: MANAGING RETAIL PRESENCE

Truworths expanded its retail presence to 770 stores across South Africa and the rest of the African continent as it continues to follow a strategy of investing in new trading space to promote sales growth and gain market share.

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Retail footprint increases to 770 stores (2015: 747 stores)	Net 23 new stores opened across all brands (2015: 44 stores)
Truworths Kids Emporium launched, housing three kidswear brands	Footprint in the rest of Africa now 47 stores
Total retail trading space up 4.0% to 363 000 m²	Trading space growth of 3% planned in 2017

A total of 40 stores were opened across all brands, including 11 Truworths emporium stores and 16 Identity stores. In the current economic environment Truworths has rationalised the store portfolio and closed 13 underperforming stores in South Africa and four in Nigeria owing to the restrictions relating to clothing imports.

The growth in total trading space for the reporting period slowed in line with expectations, increasing by 4.0% (2015: 6.1% excluding Earthchild and Naartjie) to 363 000 m².

Truworths continues to capitalise on opportunities in new malls being developed in previously under-serviced residential suburbs and previously under-developed areas of rural South Africa.

Securing space in prime locations in top-performing malls is more challenging than in regular malls due to the demand for prime space. Truworths already has a presence in prime locations in all the top-performing malls and continues to secure prime space in new malls without compromising its demanding space requirements.

During the period 13 stores were either expanded or relocated to positions with improved trading prospects. A further 17 stores were renovated and upgraded in their current locations.

Management continues to increase store productivity by reducing space in selected stores when leases fall due for renewal, with 12 stores being reconfigured by decreasing leased space to grow trading densities. In addition, seven stores were partly reconfigured in their existing space to grow trading densities, with one or more of Earthaddict, Earthchild and Naartjie added to the existing footprint in some stores.

In the 2017 reporting period trading space is projected to increase by approximately 3% with the planned net opening of 25 new stores. Average rental escalations are anticipated to remain at the current 7% level. Capital expenditure in Truworths of R301 million has been committed to the store expansion, renovation and upgrading programme.

EMPORIUM STORES

The emporium stores offer customers an exciting fashion retail experience in ideal positions in the centre of the fashion court where they can shop for an innovative and adventurous blend of colour, fabric and fashion styling of international standard.

The Truworths emporium store allows customers to shop for multiple fashion brands in a single store and encourages cross-shopping between these brands. The mainstream brands such as Truworths, Truworths Man, Uzzi, Daniel Hechter, Ginger Mary, Inwear and LTD, and their sub-brands, retain their unique identity and fashion styling within the emporium.

Enticing stores and internationally styled merchandise position Truworths as an aspirational destination for quality fashion apparel. Creative merchandise displays in long window frontages, often with multiple entrances, showcase the latest looks and the breadth of fashion on offer, and are designed to attract customers and encourage them to purchase.

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: Truworths Ladieswear, Truworths Menswear, Truworths Designer and Truworths Kids. Refer to the Truworths: Market-leading Brand Portfolio report for detail on the brands housed in each of the emporium formats.

The first Truworths Kids Emporium store housing LTD Kids, Earthchild and Naartjie was launched in October 2015 and a further 13 stores opened within existing Truworths emporiums during the period. These three aspirational kidswear brands offer significant growth potential and management is targeting to open 100 kidswear emporiums over the next five years.

All four specialist emporiums have been included in the Mall of Africa, South Africa's largest single-phase shopping centre development which opened in April 2016. Truworths has trading space of over 3 300 m² in this mall.

IDENTITY AND YDE STORES

As the Identity and YDE brands are targeted at a different customer profile to Truworths' shoppers, these brands are not included in Truworths emporium stores but are marketed through independent chains operating from stand-alone stores.

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

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

Corporate stores	Number of stores Projected 2017	2016	2015	Trading space (m² 000's) Projected 2017	2016	2015
Truworths Emporium	**348**	339	334	**274**	266	258
Identity	**255**	244	230	**70**	68	65
Uzzi	**54**	53	52	**4**	4	4
Earthchild and Earthaddict	**45**	44	41	**3**	3	3
Truworths Menswear Emporium	**36**	34	34	**12**	11	10
Naartjie	**29**	29	28	**3**	3	2
YDE	**21**	20	21	**7**	7	7
Daniel Hechter	**3**	3	3	*****	*	*
LTD	**2**	2	2	*****	*	*
Ginger Mary	**2**	2	2	*****	*	*
Total	**795**	770	747	**374**	363	349

* Trading space less than 1 000 m².

ONLINE STORE

Truworths currently has a limited online store offering for account customers only, generating sales equivalent to a small retail store.

A new e-commerce platform is being developed to expand Truworths' omni-channel retail capability to allow cash and credit customers to shop effortlessly across a range of digital devices.

The first phase is the design of a new shop front website. This will offer a broader online product catalogue, ultimately providing access to the full range of merchandise available in flagship stores as well as unique online-only product. Other initiatives to improve the customer experience include the development of new order fulfilment and payment solutions.

The new e-commerce platform and online shop is expected to launch in the second half of the 2017 reporting period.

PRESENCE IN THE REST OF AFRICA

Truworths continued to follow its strategy of incremental expansion into the rest of Africa while gaining further insight into local trading conditions and continuing to assess market potential.

During the period Truworths and Identity stores were opened in Zambia (Lusaka), Kenya (Nairobi) and Nigeria (Warri), and an Identity store in Namibia (Swakopmund). Regulatory changes in Nigeria resulted in trading no longer being viable and the four stores in the country were closed. The store footprint in the rest of Africa totalled 47 at the end of the period.

Trading conditions across the continent were impacted by lower commodity prices and weakening currencies in most countries in which Truworths trades. Despite the continued economic slowdown, stores in Botswana, Kenya and Mauritius performed well.

The focus for the 2017 reporting period will mainly be on increasing the store footprint in established territories such as Namibia, Botswana and Kenya. Zambia also has potential for further expansion while Truworths is evaluating entering Tanzania, Mozambique and Angola for the first time.

TRUWORTHS: HUMAN CAPITAL REPORT

In striving to be recognised as the retail employer of choice Truworths is committed to investing in its human capital to enable employees to deliver high standards of performance and sustained value creation across the business.

Total employees **up 5.8%** to 12 037 (2015: 11 374)	Employee turnover increased to 16% (2015: 13%)
Employee turnover at head office remained at 10% (2015: 10%)	**R107 million** invested in skills development (2015: R103 million)
10 682 employees trained (2015: 10 592)	Black employees comprise **93%** of total employees (2015: 93%)
Female employees account for **72%** of total employees (2015: 71%)	Over 5 000 employees participated in staff satisfaction survey

Note: This report is Truworths specific as Office is dealt with in the Office Operational Report. All references in this report are therefore to 'Truworths' rather than to 'the Group'.

Significant enhancements have been made to human resources practices to improve Truworths' ability to attract and retain employees, and enhance employee engagement and satisfaction levels.

The remuneration packages of full-time employees in specialised roles were converted to total guaranteed remuneration packages (TGP) to allow employees greater freedom of choice in determining benefit contributions. This has ensured that remuneration remains highly competitive in the marketplace.

Additional benefits were introduced for longer-serving flexi-time employees to improve retention and align these employees to their permanent counterparts, ensuring equality in line with the recent labour law amendments. Further enhancements were made to the flexible working hours policy and leave policies.

These widespread changes are aimed at creating a great environment in which to work and have been well received by employees.

A voluntary employee satisfaction survey was conducted across the business and the results analysed by two independent specialist firms, the results of which survey support the view that employees enjoy working at Truworths. The level of employee participation was high relative to the South African benchmark and the survey indicated that 94% of employees are proud to work for Truworths. The summary comments of the analyses are outlined below:

"On the basis of our analysis and our experience in South Africa and the retail sector, your results are generally good. No questions are below the norm, the majority are above and a few in line with what we would expect to see. There are no red flag warning signs in your data."

"On the contrary, there are some real strengths; in particular there seems to be a strong culture of teamwork and co-operation where employees can openly share ideas with managers, feel rewarded for what they do and believe they deliver a good customer experience. Additionally, there are high levels of confidence in the executive team and a very strong sense of pride in Truworths."

Truworths human capital at a glance		**2016**	2015
Total employees		**12 037**	11 374
Full-time employees		**5 364**	4 447
Flexi-time employees		**6 673**	6 927
Permanent employee turnover	(%)	**16**	13
Employee absenteeism (days)	(%)	**1.7**	1.6
Skills development expenditure	(Rm)	**107**	103
Skills development spend per employee trained	(R'000)	**10.0**	9.7
Total employees trained		**10 682**	10 592
Black employees as a % of employees trained	(%)	**94**	94

VALUES

Truworths' business philosophy and values underpin the human capital management strategy and define the way in which management interacts with employees. These values are incorporated into everyday working life at Truworths, from recruitment to training and development, employee relations and recognition programmes. In performance development discussions management not only assesses performance against goals, but also monitors how employees are aligned with Truworths' values.

EMPLOYMENT EQUITY

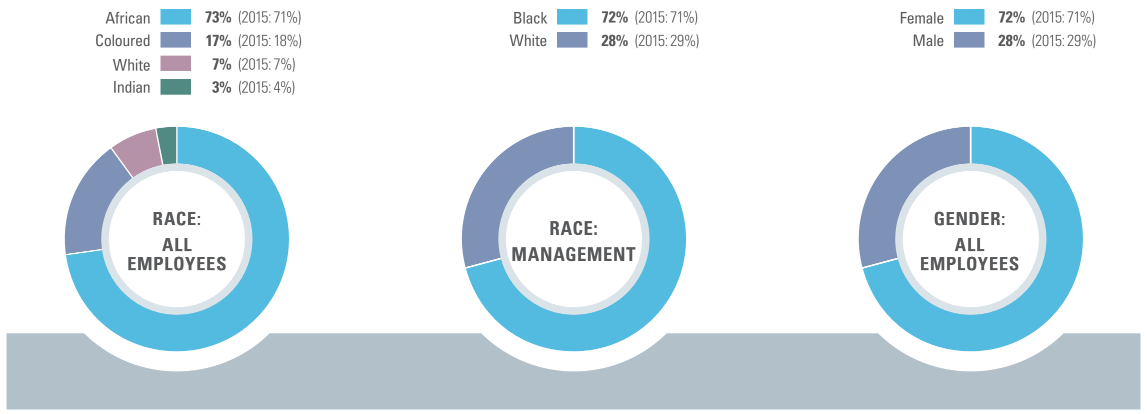
The Employment Equity Plan 2014 – 2019 guides the Truworths strategy to transform the South African employee base to reflect the demographics of South Africa and ensure that the workplace is free of discrimination.

As an equal opportunity employer Truworths focuses on investing in talent and recognising excellence, with employees being encouraged to realise their potential regardless of race or gender.

Truworths met its annual Employment Equity Plan targets for 2016 and continued to make steady improvement, although it remains a challenge to recruit black talent at senior management levels. The focus has therefore been on developing internal talent to demonstrate commitment to sustainable transformation.

Gender representation shows 72% of employees are female and this is generally evident across all levels up to senior management.

EMPLOYMENT EQUITY IN SOUTH AFRICA



TALENT AND SKILLS DEVELOPMENT

Truworths continued to demonstrate its commitment to developing talent linked to productivity and to the succession requirements of the business. The major focus remains on areas of scarce skills, including merchant specialist skills and retail managers. This has enabled Truworths to maximise opportunities in the skills development element of the generic BBBEE scorecard and achieve 18.5 out of a possible 25 points.

Over R107 million (2015: R103 million) was invested in developing internal talent and creating opportunities for unemployed learners. In the reporting period 92% of the total employees and 94% of black employees were trained, in line with the 2015 reporting period.

Training and skills development programmes are mainly developed in-house, enabling us to provide content specific to our needs, ensuring cost efficiencies and protecting intellectual capital.

Through the collaboration with the Wholesale and Retail Sector Education and Training Authority, Truworths continues to invest in learnership programmes, particularly for entry-level positions. Over 1 300 (2015: 1 000) people, including 50 people with disabilities, were registered on accredited learning programmes in the reporting period, with 438 learners completing their qualifications in the period.

The merchant training programme continues to be regarded as the most comprehensive and aspirational programme in the industry. This enables Truworths to attract the best candidates for the programme and to build a strong pipeline of talent for the merchandise division in an environment where it continues to be a challenge to find skills and experience.

Operational training has focused on preparation for the implementation of the new affordability assessment regulations in terms of the National Credit Act which have had wide-reaching implications for the business.

EMPLOYEE REMUNERATION

The achievement of Truworths, team and individual performance remains central to driving remuneration strategies. The changes outlined in this report are aimed at ensuring that Truworths is able to attract, motivate and retain high-performing employees.

In addition to specialised full-time employees converting to TGP, as outlined earlier, flexi-time employees in South Africa were converted from weekly to monthly paid employees with a benefit allowance to ensure equity with their full-time counterparts.

A new job evaluation system was introduced to ensure consistent and equitable reward principles are followed that take into account the complexity and skills required for a position, the employee contribution to the business and individual performance levels relative to the market.

Truworths has had a long-standing relationship agreement with the South African Commercial, Catering and Allied Workers Union (SACCAWU) and annually negotiates wages and substantive conditions for the approximately 550 employees in South Africa who form part of the bargaining unit.

All employees are aware of their rights of freedom of association and right to belong to a union of their choice. However, union membership across Truworths remains relatively low at 7%, with membership in South Africa being 7% (2015: 7%). No time was lost to industrial action during the reporting period.

The remuneration of executive and non-executive directors is covered in the Remuneration Committee Report.

OFFICE OPERATIONAL REPORT

Office is a leading young fashion footwear retailer in the UK offering strong in-house brands and global third party brands through the Office and Offspring chains.

MARKET-LEADING BRANDS

Office is a fashion-forward footwear specialist, providing style-conscious customers with innovative shoes for every occasion. The product range has been created by the in-house design team and global brand partnerships. Office's reputation as a fashion leader on the British high street is enhanced by selling exclusive styles from global brands such as Adidas, Nike, Converse and Timberland.

Offspring has been a leader in the UK sneaker market since its launch in 1996, filling a gap in the market for fashion sportswear and being positioned as a 'sneaker boutique'. Offspring has since led the way in product collaboration with an extensive collection of special projects with brands such as Adidas, Converse, Nike and Vans continuing to show Offspring as a footwear leader in both the fashion sportswear and sneaker arenas.

In the 2016 reporting period Office accounted for 93% of total sales and Offspring 7%.

Office also offers the specialist Poste and Ask the Missus (mens), and Poste Mistress (ladies) brands.

Third party brands comprised 67% of total sales across Office and Offspring, own-brand products 23% and exclusive third party brands 10% of sales.

Third-party brands

In-house brands

SALES CONTRIBUTION

MANAGING THE RISK OF FASHION

Young fashionable customer

Office is the footwear brand for the young, fashionable consumer. Whether customers are shopping for branded footwear or Office's own label product, they expect to find a skilfully selected range of 'must-have' brands reflecting current trends.

Proven fashion formula

Office has specialist teams across a mix of product from 'heels through to sneakers' that ensure the brand is relevant regardless of current trends. This fashion philosophy is driven by a consistent buying and merchandising process developed over many years that allows the teams to continually develop their knowledge of the brands, product and markets, which is now being enhanced with Truworths' buying, planning and sourcing knowledge.

Office is able to offer a stable of the best global brands with exclusive access to limited edition product through strong brand relationships. These relationships have been developed over many years and Office works closely with its partners to develop branded exclusives. Office is recognised as an important, strategic account with its branded product partners who value the team's understanding of the market.

Office's own-brand product is primarily sourced from Spain, Italy, Portugal, Brazil, India and China. Specialist 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 look and quality, while also meeting the required pricing, order flexibility and supply reliability. This approach is supported by frequent factory visits by buying and design teams to ensure that supplier relationships are maximised while understanding factory capabilities and honing the overall design process.

Office aims to balance longer lead sources against short lead-time product sourced from European suppliers that allows 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 evolving 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.

Forecasting fashion trends

Designers and buyers work closely with key suppliers to track trends and ensure the products 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 monitored to ensure the 'must-have' items are available.

Initial information used to formulate seasonal trends is expanded throughout the season as further trends become evident, with the buying teams being constantly updated on fast react items and trends.

Superior quality fashion

Customers expect quality footwear and the buying and technical teams work with suppliers to ensure that the product meets or even exceeds all European Union (EU) testing standards as well as Office's own rigorous quality control process.

The buying and technical teams consider both aesthetics and fit in developing products and ensure that the best of both is achieved. Office 'trial wear' large volume orders, and safety test to maximise sales and minimise customer returns.

Frequent visits are undertaken to suppliers' factories to review manufacturing, ethical and quality standards.

Office is committed to providing customers with product manufactured under ethical working conditions. This means footwear should be produced lawfully, through fair and honest dealing, in decent conditions and without exploiting people or damaging the environment.

All own brand suppliers and manufacturers are required to adhere to the Office code of conduct which is based on International Labour Organisation conventions and recommendations. The code is designed to be fair and achievable, and to promote the ongoing development of suppliers.

OPTIMISING SUPPLY CHAIN EFFICIENCY

Merchandise is held across Office's 29 000 m² of UK warehouse space. UK store merchandise is replenished five days per week based on an algorithm of each store's sales. Merchandise in stores in Ireland and Germany are replenished three times per week.

Online sales are fulfilled directly from all warehouses, allowing Office to meet each demand opportunity such as next day home or work delivery, international delivery and 'click and collect' from store.

The quick response relationship with European suppliers is core to Office's supply chain strategy.

Several key suppliers have developed strong relationships with the Office buyers, designers and senior management and have been integral to the quick-response model that allows late styling changes to be made based on the latest sales and trend information.

Key suppliers hold leathers and other components that can be adapted quickly based on sales reactions. European factory suppliers source leathers and other materials from local suppliers so lead times are minimal.

Frequent travel is undertaken to close-to-home sources including Spain, Italy and Portugal, as well as to longer lead-time sources, to improve communication and relationships, and speed up product development.

Risk in the supply chain is minimised by spreading volume across a group of key suppliers.
The collaborative partnerships with top suppliers, who consider their relationship with Office as integral to their own business, ensure that exceptional service levels are achieved.

MANAGING MULTI-CHANNEL RETAIL PRESENCE

Office is a multi-channel retailer with a portfolio of 159 stores and concessions in the UK, Republic of Ireland and Germany, and a fast-growing e-commerce business which accounts for 24% of sales across a range of digital platforms.

The Office brand has 131 outlets (stores and concessions) in the UK, with 7 stores in Germany and 5 in the Republic of Ireland. Offspring has 16 outlets.

Trading space was increased by 2.4% to 15 600 m² at June 2016 following the opening of 6 and the closure of 8 stores during the reporting period.

Store location and design

External market data is used to regularly review the 250 most popular shopping locations to evaluate the best opportunities to open Office stores. New markets, including retail parks and affluent market towns, are considered as opportunities for growth for both the Office and Offspring brands.

The concession strategy for both the Office and Offspring brands involves working closely with concession partners to review performance and assess the need to either open new space and expand or relocate existing space within the host store portfolio. Concessions are currently held with Selfridges, House of Fraser and Topshop/Topman.

The Office store design has evolved with the aim of improving light and ambience for the customer to shop and to ensure the product is the hero. Fixtures and fittings are therefore carefully considered with the customer and product in mind.

Offspring is a different concept to Office. Each store is unique and local architecture is included in the shopfit, for example exposed brick walls, stripped floorboards and ceiling beams, which has the advantage of also being cost-efficient.

Office stores are typically between 80 to 150 m² while Offspring stores are typically between 75 to 95 m².

Online channel

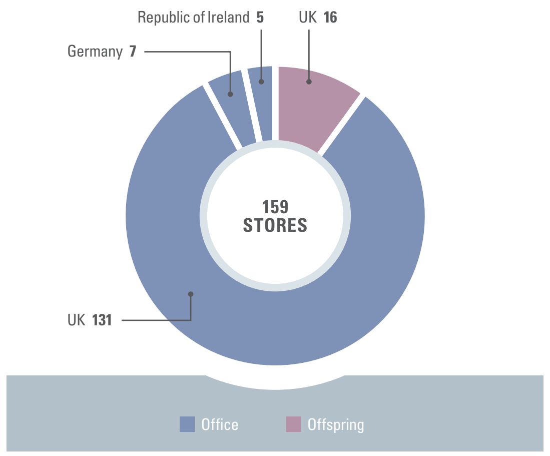
Office operates a sophisticated e-commerce model where continual innovation and development have been the drivers of success in this fast-moving and evolving sales environment. Office was rated in the top 1% of retailers researched in the 2016 Internet Retailing UK Top 500 report.

The e-commerce model continues to be enhanced with the focus on website design and functionality, customer relationship management, convenience and delivery capability, while also developing the mobile and in-store digital offering.

After the successful launch of the German language website during the period, further international websites will be developed, initially focused on Europe.

Office has an extensive social media presence across Facebook, Twitter and Instagram.

STORES BY BRAND AND LOCATION



HUMAN CAPITAL

Developments in 2016

Employee retention has become a key focus for the retail operations division following the increase in the legislated national living wage in the UK which is making the retail environment more competitive in terms of remuneration and benefits for all employees.

Flexible working hours were introduced at the head office in London to aid work-life balance and improve retention, while remaining ahead of the competition.

Training has focused on Office's service values being rolled out to all stores together with toolkits to enable managers to continue to train and develop their teams and needs to be reinforced during 2017.

The first workforce management system was introduced to improve efficiency, accuracy and centralisation of time and attendance data for store operations, with over 500 employees trained in the use of the system.

Employee recruitment has been enhanced by introducing the ability to automate the selection of candidates and matching their skills and experience. This will improve the current manual process and increase efficiency and accuracy in sourcing suitable candidates for roles within Office.

The appointment of employees from stores to positions at head office has enabled Office to transfer significant store and customer knowledge to the

EMPLOYEE PROFILE

Total Office employees: 3 020 (2015: 3 128) central functions, with 33% of head office employees having previously worked in stores.

Plans for the 2017 reporting period

Employee recruitment and retention remains a challenge for the business. Reward packages for all employees will be reviewed to ensure Office remains competitive as an employer in the buoyant London employment marketplace.

Brexit has created uncertainty relating to immigration and future employment of EU residents. The potential for labour shortages in the UK will be dependent on new legislation introduced once the UK exits the EU.

New and pending legislation in the UK is likely to increase payroll and compliance costs in the year ahead, including the new apprenticeship levy, the governmental pension contributory scheme, and the national living wage and national minimum wage.

Changing data protection legislation in the UK will be a key focus, particularly in relation to integration planning.

INTEGRATION AND EXPANSION PLANS

The focus of the integration plan in the 2017 reporting period will be on applying Truworths' retail principles, processes and systems within Office, where appropriate.

Stock management is a key focus with the aim of improving stock flow from the warehouse to stores to improve stock turn. Target weeks of stock and stock turn measures will be implemented to monitor performance.

The integration benefits are expected to start being realised midway through the 2017 reporting period.

Currently Office does not have stand-alone stores in many of the top UK retail destinations which creates the opportunity for sustained store expansion. Trading space is expected to increase by approximately 6% in 2017 with the planned opening of 11 and closure of 5 stores. Capital expenditure of R31 million has been earmarked for store development in the 2017 reporting period.

The Office store concept is currently being redesigned and modernised, and this design will be implemented in all new stores and upgrades.

Management plans to open approximately 15 to 20 stores over the next three years across the UK and Germany, while closing less profitable stores and relocating others as opportunities arise.

Office will evaluate expansion into neighbouring European countries in the medium-term.

Office will be introduced into South Africa under the Office London brand in the second half of the 2017 calendar year.

SHAREHOLDERS' DIARY

Annual general meeting	3 November 2016	
Reports		
Annual results for the period ended 26 June 2016 announced	18 August 2016	
Preliminary report for the period ended 26 June 2016 mailed	23 September 2016	
Interim results for the period ended 25 December 2016 announced	16 February 2017*	
Dividends	**Dividend declared**	**Dividend paid**
In respect of the period ended 26 June 2016 (Dividend number 37)	18 August 2016	19 September 2016
For the period ended 25 December 2016 (Dividend number 38)	16 February 2017*	20 March 2017*

* 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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Webber Wentzel
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