2017 INTEGRATED REPORT

WE ARE

TRUWORTHS INTERNATIONAL

CONTENTS

WE ARE 100

2017 marks the founding of Truworths 100 years ago.

We are immensely proud of this milestone and thank all our stakeholders who have contributed to our first century.

On page 5 we feature some of the innovations, developments and game changers over the past 100 years which have brought Truworths to where it is today.

100
WE ARE
001

WE ARE 001

2017 is even more significant as it also marks the start of our next 100 years.

As a high fashion retailer we always look to the seasons ahead to identify the latest international style trends that will continue to set us apart and ensure Truworths remains synonymous with high-quality fashion, aspirational brands and unrivalled service.

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 Group has changed its terminology from 'credit' to 'account' when discussing 'non-cash and non-credit card' customers

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 2017

Annual Results Presentation 2017

10-Year Review, Ratios, Share Statistics and Definitions

GOVERNANCE REPORTING

Annual Corporate Governance Report 2017

Social and Ethics Committee Report 2017

Application of King III Principles 2017

SUSTAINABILITY REPORTING

Social and Environmental Report 2017

ANNUAL GENERAL MEETING

Notice to Shareholders (included in the Preliminary Report)

Form of Proxy

GROUP WEBSITES

Truworths: www.truworths.co.za

Office: www.office.co.uk

REVIEW OF 2017

Tough economic and trading conditions in the SA and UK markets and uncertainty in the UK in the aftermath of the Brexit vote

Sales in Truworths declined marginally, on a 52-week basis, owing to pressure on consumer spending

Good progress with Office integration contributed to better stock management and improved inventory turn

Loyalty programmes (TruRoyalty and iDream) launched in Truworths with over 2 million participating non-account customers

Achieved all board-approved financial targets

Group retail sales remained unchanged in constant currency, with Office included for 52 weeks in the prior period and on a 52-week basis

Affordability assessment regulations resulted in active customer accounts declining in Truworths

Strong cash generation, with trading expenses, inventory and debtors book well managed and gross profit margin steady

New Truworths e-commerce platform developed and website on track to be launched in 2018

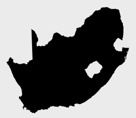
WE ARE FASHION FORWARD

KEY FINANCIAL FEATURES

- Return on assets increased to 26%
- Operating profit up 1% to R4.2 billion
- Pro forma 52-week diluted headline earnings per share down 6%
- Net asset value per share up 8%
- Cash generated from operations up 8% to R3.0 billion

OUTLOOK FOR 2018

SOUTH AFRICA



SA trading environment to remain challenging

Affordability regulations remain a risk to growing account sales

Political uncertainty and further pressure on consumers' disposable income

Truworths' performance expected to improve marginally given the relatively low base set in 2017, the low to negative product inflation outlook, stability in the debtors book, exciting new merchandise ranges, ongoing cost-containment efforts and the higher trading space growth

UNITED KINGDOM

UK trading environment to remain uncertain, with low economic growth prospects

Ongoing benefits from integration of Office with focus on retail processes

Encouraging outlook for world economic growth over next 12 to 18 months

OUR APPROACH TO REPORTING

Truworths International is committed to the principles and philosophy of integrated reporting, and through our 2017 Integrated Report we aim to continue to provide a balanced view of our ability to create value in the short, medium and long-term.

Our Integrated Report is aimed primarily at our shareholders, who are the providers of financial capital, as well as the investor community locally and abroad. While other stakeholder groups influence our business, most notably our customers, employees, suppliers, financiers and regulators, their needs and interests are addressed through other forms of targeted communication.

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MATERIAL ISSUES

Since the introduction of integrated reporting seven years ago we have disclosed the material issues which the directors believe could have the most significant impact on the Group's ability to create sustainable value for our stakeholders. In determining these material issues the directors consider several internal and external factors, including the Group's strategy, the needs, expectations and concerns of our main stakeholders and the economic and trading environment.

The risks relating to the material issues are also disclosed together with medium-term opportunities to provide our shareholders with insight into the growth drivers of the business. (See Material issues, risks and opportunities on pages 17 to 25.)

These material issues are reviewed annually during the course of the board's strategic planning process. Following the 2017 review the board confirmed that fashion risk, supply chain efficiency, retail presence and managing the risk of the book remain the material issues for Truworths. Owing to the significant impact of Office on the Group, specific material issues have also been identified for this business. These are fashion risk, supply chain efficiency and retail presence.

REPORTING SCOPE AND BOUNDARY

This report covers the integrated performance of the operations of Truworths International and its subsidiaries for the 53-week period ended 2 July 2017.

Results are reported for the Truworths and Office operating segments. Truworths operates primarily in South Africa and has a retail presence in eight other African countries. Office operates principally in the United Kingdom, with a small store base in Germany and the Republic of Ireland, and a fast-growing e-commerce presence.

All Group financial reporting complies with International Financial Reporting Standards, the South African Companies Act and the JSE Listings Requirements. The information in the summarised financial statements included in the Integrated Report has been extracted from the Group's 2017 annual financial statements. The summarised financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, IAS 34: Interim Financial Reporting, the South African Companies Act (71 of 2008, as amended) and the Listings Requirements of the JSE. Management has applied the guiding principles of the King Code of Corporate Principles 2009 (King III).

The Group is only required to apply and report according to the King IV Report on Corporate Governance (King IV) in the 2018 financial period. Substantial progress has been made in aligning governance practices with King IV and selective disclosures in terms of King IV have been applied in the Integrated Report.

INTEGRATED REPORTING FRAMEWORK

We continue to apply the guiding principles of the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC). The framework recommends reporting in terms of the capital resources applied in the creation of value.

The most significant forms of capital relevant to the Group are financial, intellectual, human, manufactured, and social and relationship capital, and to a lesser extent, natural capital. The impact of these six capitals on the Group and their role in value creation is covered in the relevant sections of this report.

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

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 appear 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 evaluated each year to ensure we continue to report in line with best global practices.

DIRECTORS' APPROVAL

The directors accept full responsibility for the Integrated Report and confirm that the Integrated Report fairly represents the Group's performance for the period under review as well as the growth strategies, material issues, risks and opportunities, and prospects that have, or could have, a material impact on the Group's ability to create and sustain value for our stakeholders.

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

Hilton Saven
Independent Non-executive Chairman

Michael Mark
Chief Executive Officer

MATERIALITY

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

OUR APPROACH TO REPORTING continued

MEASURING VALUE CREATION FOR OUR KEY STAKEHOLDERS

OUR VALUE STATEMENT

We recognise our responsibility to create and sustain value for our stakeholders over the short, medium and long-term by transforming the inputs from the six capitals through our business activities and interactions into the outcomes identified in Our Vision for our shareholders, our customers and our employees. Importantly, we recognise that value creation is not limited to financial value, which principally benefits our shareholders, but includes the functional, economic and emotional utility value derived by our customers, our employees and other stakeholders. Ultimately we believe that value creation is interdependent and that shareholders' value is the outcome of creating value for our customers, employees, suppliers, financiers, regulators and the communities in which we operate.

	1	2	3
Stakeholder	**Shareholders** are the principal providers of financial capital, which underpins our entire business operation	**Customers** are the consumers of our products and our primary source of revenue, enabling us to create financial value for our shareholders	**Employees** represent our human capital applied in the creation of quality internationally inspired fashion to fulfil the needs of our customer, and in the provision of all business support services needed to achieve this objective
Key outcomes	• Increase total shareholder return • Delivering sustainable growth in value	• Exceeding customer expectations for fashion, quality and service	• Employee satisfaction • Employees being proud to work at Truworths and Office • Transforming our workforce through employment equity and gender equality
Measurement	• Share price appreciation and growth in dividends • Long-term growth in diluted headline earnings per share	• Truworths: Measure the customer experience in-store • Office: Net Promoter Score (measures customers' likelihood of recommending Office)	• Annual turnover rate of permanent employees • Percentage of employees proud to work at Truworths and Office (based on employee satisfaction survey) • Percentage of employees from designated groups (South Africa only)

GROUP PROFILE

WE ARE TRUWORTHS INTERNATIONAL

Truworths International Ltd is an investment holding and management company which has been listed in the General Retailers sector on the JSE and on the Namibian Stock Exchange since 1998.

Based in Cape Town, South Africa, its main operating companies, Truworths Ltd (Truworths, operating primarily in South Africa) and Office Holdings Ltd (Office, operating primarily in the United Kingdom), are leading cash and account retailers of fashion clothing, footwear and related merchandise.

The business was founded in 1917 when The Alliance Trading Company opened its first store on a site not far from the Group's present head office in Cape Town.

THE EARLY DECADES

The business changed its name to Truworths Fashion House in 1935. Truworths Ltd was incorporated in 1940 and by the 1950s the chain had expanded to 80 stores. Accounts were introduced into the business in 1955 and sales reached R1 million for the first time in 1959. Truworths continued to expand across South Africa and by the late 1970s had a footprint of 280 specialised boutique stores.

BUILDING OUR BRANDS

The 1980s saw the rapid expansion of the brand portfolio with the launch of Daniel Hechter (1984), Inwear (1986), Truworths Man (1988) and Truworths Jewellery (1989). In the 1990s further in-house brands were launched, namely LTD (1992), and Identity and Elements (1999). Ginger Mary followed in 2004 and Hey Betty in 2011. Organic brand expansion has been complemented by the acquisition of Young Designers Emporium (2003), Uzzi (2006), and Earthaddict, Earthchild and Naartjie (2015). During 2017 Truworths opened Office London in South Africa and acquired Loads of Living[1].

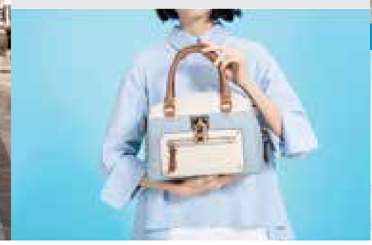
IDENTITY

DEFINING THE FASHION COURT

Truworths introduced the emporium store concept into the South African retail market in 2004. These exciting and visually appealing large-format stores house multiple brands, fashion concepts and lifestyles in a single store and ensure that Truworths defines the fashion court in major malls across the country.

INTERNATIONAL RECOGNITION

One of the highlights of the Group's illustrious history was being recognised as the Emerging Market Retailer of the Year at the 2010 World Retail Awards in Berlin, Germany, after being placed second in 2009.



OFFSHORE EXPANSION

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

WE ARE 100

One hundred years after its founding Truworths International is today one of the largest retailers in Africa, with 781 stores across the continent as well as 156 Office stores and concessions in the United Kingdom, Germany and the Republic of Ireland, together with a fast-growing online presence. Retail sales reached R18.5 billion and operating profit R4.2 billion, with financial and operating metrics among the highest of fashion retail companies worldwide.

WE ARE 001

As we enter the 2018 financial year, which marks the start of our next hundred years, we remain committed to our business philosophy. This has seen our Group thrive in the good times and prove resilient in tough times, but never waiver in our commitment to exceed the expectations of our customers, our shareholders and our employees.

Our next century started with the opening of Office London in South Africa and the acquisition of Loads of Living as part of the implementation of our diversification strategy. We have also introduced the loyalty programmes, TruRoyalty and iDream, and are about to launch our new e-commerce platform and websites, which will position the Group well for the future.

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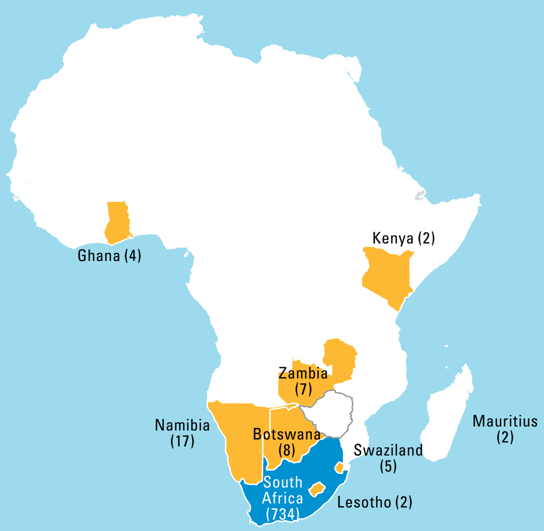
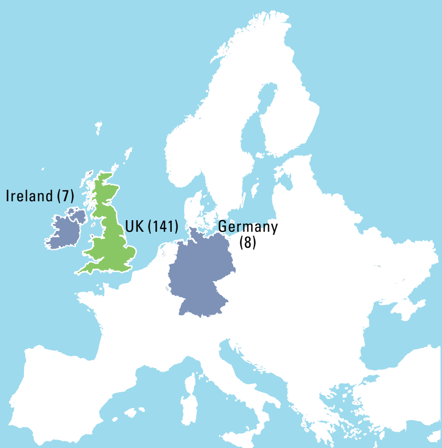
[1] Subject to Competition Commission approval at the time of preparing this report.

GROUP PROFILE continued

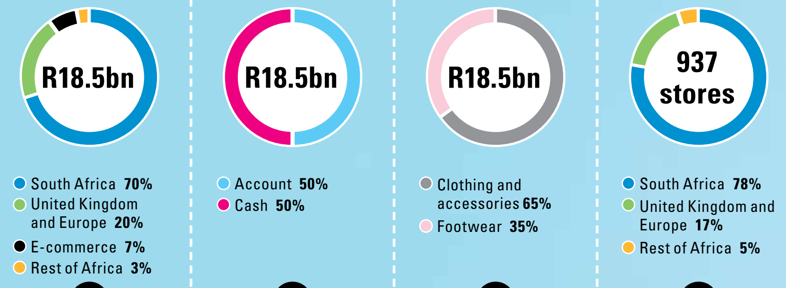
STORE FOOTPRINT





TRUWORTHS INTERNATIONAL

Retail sales | Cash: account sales | Product mix | Store locations



WE ARE TRUWORTHS

MARKET POSITIONING

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

BRANDS

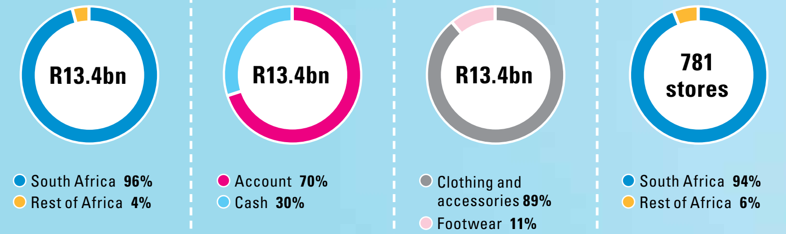
Exclusive own brands include Truworths, Truworths Man, Inwear, Identity, Daniel Hechter, LTD and many others. Specialist chains YDE, Uzzi, Earthaddict, Earthchild and Naartjie were acquired to complement own brands. Office London was launched in South Africa in August 2017.

STORE FOOTPRINT

Retail footprint of 734 stores across all brands in South Africa and additional 47 stores in eight other African countries.

ACCOUNTS

Accounts are offered to customers across all brands in South Africa, Namibia, Swaziland and Botswana. The active account customer base exceeds 2.5 million.



www.truworths.co.za

WE ARE OFFICE

MARKET POSITIONING

Leading fashion footwear retailer in the United Kingdom. Targeted at fashionable 16 to 25 year olds at the mid-level price range.

BRANDS

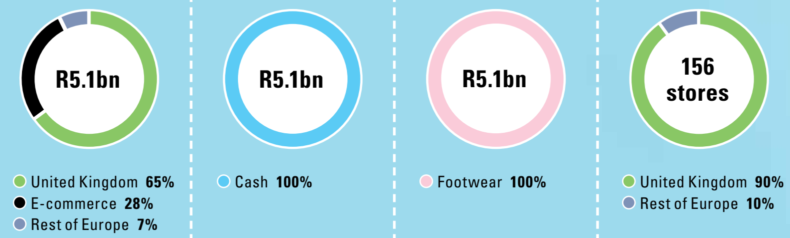
Private label and major global third party footwear brands sold through Office and Offspring.

STORE FOOTPRINT

Office has 156 stores in the United Kingdom, Germany and the Republic of Ireland, including 38 concession outlets in high-profile department store retailers.

ONLINE RETAIL

Fast-growing e-commerce business accounts for 28% of Office sales across a range of digital platforms.



www.office.co.uk

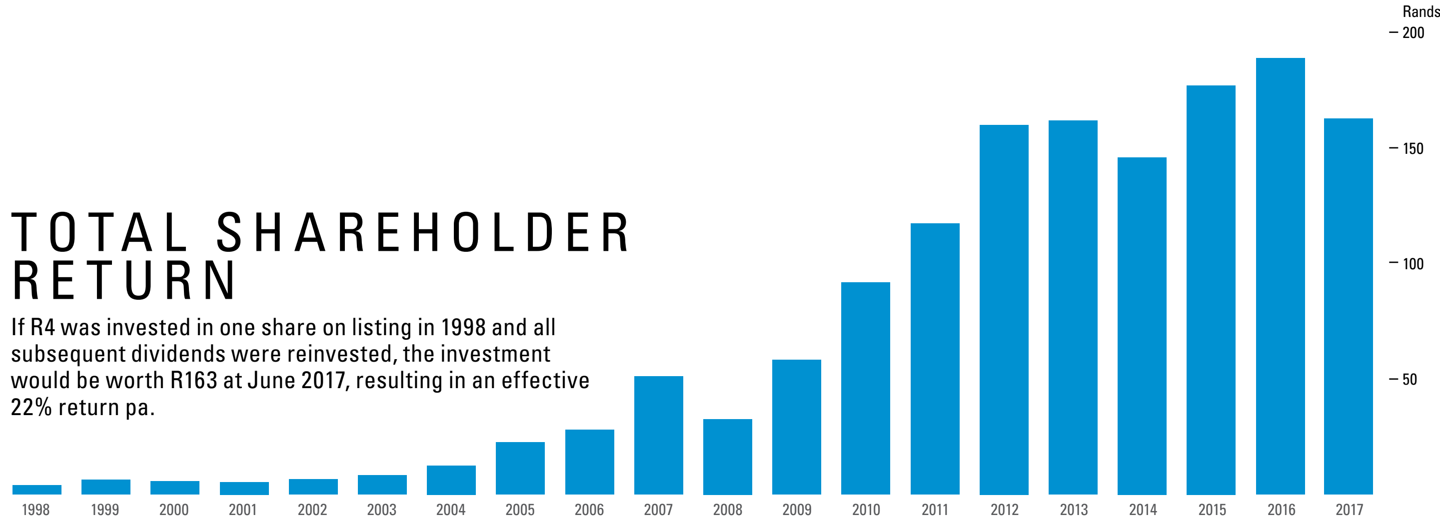
INVESTMENT CASE

Truworths International offers investors equity exposure to the retail sectors in South Africa and the United Kingdom, together with its mass middle to upper-income customer base spread across developed and emerging markets, and a diversified product, sales, earnings and country risk profile. Management believes the following factors should enable Truworths International to continue to deliver competitive returns and value for shareholders through share price appreciation and growth in dividends.

Group Strategy; Value-creating Business Model; 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 R163 at June 2017, resulting in an effective 22% return pa.



Cumulative growth in investment since listing (dividends reinvested)

ORGANIC AND ACQUISITIVE GROWTH

Strong organic growth complemented by strategic acquisitions in SA and the UK to extend fashion offering

Proven ability to integrate acquisitions and improve efficiencies and profitability of businesses acquired

TRUWORTHS

OFFICE

HIGHLY CASH-GENERATIVE BUSINESS

Strong free cash flow with R13 billion generated from operations in past five years

ACTIVE CAPITAL MANAGEMENT

Shareholder returns enhanced through capital of R9 billion being returned to shareholders in dividends and share buy-backs in past five years

WELL-INVESTED STORE BASE AND SUPPLY CHAIN

Capital expenditure of R2 billion invested over past five years, mainly in stores, supply chain and information technology

DIVERSIFICATION

Group retail sales increasingly diversified across sales channels, product categories, geographic store locations and cash:account payments

Earnings base partially diversified into hard currencies with Office contributing 12% of Group earnings in the 2017 financial period

TRUWORTHS

OFFICE

INTERNATIONALLY COMPETITIVE METRICS

Margins and return ratios are among the highest in the fashion retail industry worldwide

MANAGING THE RISK OF FASHION

Exclusive fashion brands across all retail formats

Gross margin at globally competitive level, averaging 54.6% over past five years

High level of clothing and footwear market share

MANAGING THE RISK OF THE BOOK

Account sales are offered across all Truworths brands in South Africa, Namibia, Botswana and Swaziland as an enabler of sales

- Over 5.3 million customers, including inactive accounts able to shop
- 2.5 million active account customers
- 2 million non-account loyalty customers

Proven track record of managing the risk of the book through tough credit cycles

EXPANDING RETAIL PRESENCE

Omni-channel retail offering in SA and UK

Portfolio of 937 well-located stores mainly in SA and the UK

Fast-growing online business in Office

New best-of-breed e-commerce platform to be launched in SA

HIGHLY EXPERIENCED AND SKILLED RETAIL MANAGEMENT TEAMS

Directors, executives and managers are highly experienced and skilled in the fashion retail industry and are able to adapt to changing environmental dynamics

INTERNATIONAL EXPANSION STRATEGY

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

Strong financial position and low gearing allows flexibility to raise debt and/or capital to pursue acquisition opportunities in the medium-term

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RETAIL TRADING ENVIRONMENT

INTRODUCTION

Trading conditions in the Group's two major markets proved challenging in the past year and overall retail sales reflect the deteriorating state of the consumer economy in South Africa and the prevailing uncertainty and environment of low growth in the United Kingdom.

The South African environment has been marked by political uncertainty, muted economic growth, credit-rating downgrades and negative consumer sentiment, while the economic environment in the United Kingdom has been dominated by the impact of the decision to withdraw from the European Union.

RETAIL TRADING IN SOUTH AFRICA

Consumer confidence recorded its 10th consecutive negative quarter, with sentiment measuring -9 in the second quarter of calendar 2017. Business confidence is at its lowest level since the financial crisis in 2009.

Currently over 6.2 million South Africans are jobless and the prospects for job creation are severely limited by the lack of economic growth in the country. The national unemployment rate was at a 13-year high of 27.7% in the first and second quarters of calendar 2017.

While the consumer credit market has stabilised, the National Credit Regulator's affordability assessment regulations continue to have a marked impact on credit-based retailers.

Although Truworths has implemented action plans to mitigate the severity of the impact of the affordability assessment regulations, these have continued to restrict the opening of new customer accounts and limit account sales. The court proceedings initiated by Truworths and two other listed retailers was heard in August 2017 with judgment pending at the date of preparation of this report.

Interest rates remained stable throughout the 2017 financial period, but shortly after the period-end, were reduced by 25 basis points to 10.25%, which is positive for credit consumers.

Truworths directly or indirectly imports approximately 65% of its fashion merchandise and is therefore exposed to the volatility of the Rand/US dollar exchange rate. While the Rand appreciated against the US dollar during the 2017 financial period, product inflation in Truworths peaked at around 16% for the summer 2016 season owing to the sharp depreciation in the Rand in the previous financial period. There is a lag effect on inflation as orders for forthcoming seasons and forward exchange contract rates are secured well in advance. However, product inflation moderated in the second half of the reporting period to average 12% for the full 2017 financial period.

RETAIL TRADING IN THE REST OF AFRICA

Truworths has 47 stores in 8 countries in the rest of Africa. Trading conditions have been extremely challenging owing to the depreciating currencies and weakening consumer economies in most of the countries in which Truworths trades. In addition, commodity-based economies like Ghana and Zambia have been severely impacted by continued pressure on commodity prices. The environment in Ghana has resulted in trading no longer being viable and the process to close the four stores in the country has started. Despite the muted growth in retail sales in most territories, Truworths is committed to its strategy of cautious growth in Africa and will be expanding its store footprint in Kenya and Namibia while opening its first stores in Mozambique in the 2018 financial period.

RETAIL TRADING IN THE UNITED KINGDOM

The decision in June 2016 for the UK to end its membership of the European Union created widespread uncertainty and contributed to volatile trading conditions over the past year.

Consumer sentiment was negatively affected in the aftermath of Brexit, with UK consumer confidence in June 2017 measuring the lowest in the past year. However, business confidence has recovered from the low levels immediately after the Brexit referendum.

The depreciating value of the pound post-Brexit has been one of the main contributors to the increase in the UK inflation rate which reached 2.9% in May, the highest level since mid-2013.

The weaker pound has also reduced the Group's foreign revenues and profits when translated into Rand.

The BDO High Street Sales Tracker, which measures like-for-like sales across over 80 UK retailers with a total of more than 10 000 stores, indicates that retail sales increased in only four of the past 12 months. Fashion retail sales, covering footwear, clothing and accessories, grew by 1.4% for June 2017 but have remained under pressure throughout the year and showed a decline in nine of the 12 months.

Nonetheless, online sales in the UK have continued the strong growth trend of recent years and increased at a rate of over 20% in six of the past 12 months.

Besides the overarching advantages of convenience and choice, online sales in the UK also benefit from periods of adverse weather and busy trading times such as Christmas, Black Friday and celebratory holidays when shoppers prefer to avoid crowded high streets and malls. In the year under review online sales have also been boosted by international customers taking advantage of the weaker pound post-Brexit. E-commerce sales in Office, accounted for 28% of the footwear retailer's total sales in the period under review.

RETAIL TRADING IN THE REST OF EUROPE

Office has 15 stores across the rest of Europe: eight in Germany and seven in the Republic of Ireland. The German economy has remained buoyant, expanding for the past 12 consecutive quarters to June 2017. Consumer spending has been bolstered by unemployment being at a record low since 1980 with confidence levels at their highest since the global financial crisis in 2008/9. The Republic of Ireland has one of the fastest-growing economies in the Euro zone. Buoyant consumer spending has been supported by a nine-year low in the unemployment rate and confidence levels at a post-Brexit peak. However, the weakening of the pound against the euro has meant that the solid revenues generated by the Irish and German businesses have not translated into sterling bottom-line growth.

WE ARE ON TREND

/CREATING **SUSTAINABLE VALUE**

BUSINESS PHILOSOPHY

Our Business Philosophies for our Truworths and Office segments drive our business model and ensure the Group 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 Philosophies comprise three synergistic elements – our Purpose, our Values and our Vision – which work together as one system.

OUR PURPOSE
defines our customer and the merchandise, account, 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

The 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.

A separate Business Philosophy was developed during the period for Office in the UK to position the retailer as a global brand at the forefront of fashion footwear and highlights differentiating features. The Office Business Philosophy is based on the same three synergistic elements contained in the Truworths' Business Philosophy, but these have been specifically redeveloped with Office's stakeholders in mind.

BUSINESS PHILOSOPHY continued

TRUWORTHS

OFFICE

OUR PURPOSE

Youthful fashionable South Africans want to look attractive and to feel successful and confident.

Truworths entices them into exciting and visually appealing retail emporiums which are staffed by passionate and knowledgeable team members and which offer wide ranges of curated and tasteful fashion of superb quality and intrinsic value.

The ranges of unique aspirational fashionable brands are an innovative and adventurous blend of colour, fabric, fashion styling of world-class standard.

The youthful UK and European customer wants to be fashionable and well informed on international fashion footwear trends.

Originating in London, the fashion capital of the world, Office satisfies this need as the world authority on fashionable footwear by offering a broad curated range of the latest trend and 'in demand' footwear styles and brands for women, men and kids, staffed by fashion footwear experts to create an exciting world-class experience for customers.

OUR VALUES

We are stimulated by innovation and passion in an environment where learning and sharing with team members is encouraged, where new ideas are welcomed, and where contribution excellence is celebrated and rewarded.

OUR VISION

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

... for our employees 'I am totally committed because my team members and I are encouraged to contribute innovatively and are generously rewarded for excellence.'

... for our Truworths customers

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

... for our Office customers

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

VALUE-CREATING BUSINESS MODEL

As a retailer of fashion clothing, footwear and related merchandise, the Group's business model is to procure merchandise from third party suppliers and to sell it to consumers for cash or on account through its network of retail stores and e-commerce platforms. The essence of the Group's purpose is to provide exclusive and aspirational apparel brands to youthful fashionable consumers.

The successful execution of this business model will create value for the Group's primary stakeholders, notably its shareholders, customers and employees, and other stakeholders including suppliers, financiers, landlords and the governments of the countries in which it operates. Several features of the business model distinguish the Group from its industry peers, which arguably provide a sustainable competitive advantage.

INPUTS

The capitals of value creation

Inputs constitute the **financial**, **manufactured**, **intellectual** and **human capitals** available to and utilised by the Group as well as the **social and relationship capital** evident in the important relationships and partnerships with stakeholders. Through its supply chain, which outsources the manufacturing and transportation processes to suppliers, the Group is indirectly involved 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. The Group's operations, to a lesser extent, utilises water and carbon-depleting energy sources in its head offices, distribution centres and stores.

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

M **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 (including websites) throughout the business.

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

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

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

N **NATURAL CAPITAL** relates to environmental resources which impact on the Group's prosperity.

S SOCIAL AND RELATIONSHIP CAPITAL

Customers

Shareholders

Suppliers

Employees

Regulators

SUPPLY CHAIN

Business activity
- Operate a centralised distribution model (Truworths in Cape Town, South Africa and Office in Kilmarnock, Scotland and Greenford, London)
- Receive imported and locally manufactured merchandise from suppliers at distribution centres for onward distribution to stores and e-commerce customers
- Distribute merchandise via third party distribution networks

Output/outcome
- Optimal stock levels to satisfy customer demand
- Efficient supply chain which meets targeted inventory turn levels

MERCHANDISE

Business activity
- Predict/interpret latest trends in fashion apparel and footwear
- Design/develop and source own-branded exclusive fashion merchandise from both local and foreign suppliers
- Collaborate with third party brands on trends and exclusive styles (Office)
- Consistently create new and enticing ranges

Output/outcome
- Unique and aspirational own brands
- Fashion styling of international standard
- Broad curated range of latest 'in-demand' fashion footwear with exclusive third party product lines (Office)

STORES AND E-COMMERCE

Business activity
- Offer a portfolio of exclusive ladies, mens and kidswear fashion and fashionable footwear including third party exclusives
- Stock, display and sell merchandise in stores (operating from leased premises) and concession outlets
- Emporium store concept showcases multiple brands in one store (Truworths)
- Grow trading space to gain market share and promote sales
- Complement store sales with e-commerce merchandise offering, service online customers and provide convenient delivery and collection options
- Leverage customer loyalty through targeted marketing

Output/outcome
- Enticing store and online shopping environments
- Encourage brand cross-shopping

HUMAN CAPITAL H

MANUFACTURED CAPITAL M

F FINANCIAL CAPITAL

Shareholder funding

Working capital funding

INTELLECTUAL CAPITAL I

NATURAL CAPITAL N

ACCOUNTS (TRUWORTHS)

Business activity
- Offer accounts in selected countries to enable retail sales in addition to credit cards and cash
- Account granting and approval functions centralised at head office
- Collections and customer engagement through stores and call centres
- Increase basket size and frequency of purchases through loyalty programme offering for cash and account customers

Output/outcome
- Balanced cash and account sales mix
- Debtors book managed within acceptable risk levels
- Customer loyalty through understanding and reacting to customer information

OUTPUTS

Our products

The Group's value-creating business model is focused on producing fashion clothing, footwear and related merchandise of international styling and quality and a broad range of 'in-demand' fashion footwear to cater to every lifestyle need of our customers. An inevitable consequence of the creation of these outputs is the creation of waste in the supply chain as part of the production, packaging and transportation processes, mostly undertaken and managed by our suppliers.

OUTCOMES AND TRADE-OFFS

Impact of business activities on capitals

Management believes that the outcomes achieved in the 2017 reporting period have created value for our stakeholders, as evidenced by increases in the **financial**, **manufactured**, **human**, **social and relationship** and **intellectual capitals** deployed by the Group, with concomitant but acceptable levels of reduction in **natural capital**. The impact of our business activities on the capitals, including the Group's actions to enhance or mitigate these impacts, are outlined on the next page.

SEE NEXT PAGE

EXTERNAL FACTORS IMPACTING VALUE CREATION

Several factors that are partially or wholly outside the control of the Group could have a significant impact on our ability to create and sustain value for our stakeholders. The most significant of these external factors are listed on page 14 and are covered in more detail throughout the Integrated Report.

VALUE-CREATING BUSINESS MODEL continued

F FINANCIAL CAPITAL

Continued access to financial capital through investor and financial market confidence

Key outcomes

- Sale of merchandise of R18.1 billion
- Diluted headline earnings per share of 661 cents
- Net asset value per share up 8% to 2 201 cents
- Net debt to equity at 18%
- Cash generated from operations up 8% to R3 billion
- Return on equity at 31%
- Annual dividend per share 452 cents

Actions to enhance or mitigate outcomes

Ongoing active management of the Group's financial capital base through:

- Strategic acquisitions to supplement organic growth
  - – Office integration progressing well and results consolidated for a full year in the 2017 reporting period
  - – Post year-end acquisition of Loads of Living, subject to Competition Commission approval (at the time of preparing this report), to further diversify the Group's product offering
- Reinvestment of profits in capital infrastructure to promote and sustain growth
- Share buy-backs of R101 million to enhance shareholder returns
- Dividends paid of R1.5 billion

Chief Financial Officer's report (page 45)

M MANUFACTURED CAPITAL

Ongoing investment in the Group's stores, distribution capacity and e-commerce platforms to promote and sustain growth

Key outcomes

- Capital expenditure of R467 million, mostly on stores and IT infrastructure (refer to intellectual capital alongside)
- Construction of new distribution centre delayed due to delays in obtaining local authority approvals

Actions to enhance or mitigate outcomes

- Continued investment in the Group's store network to promote and sustain growth, with trading space growth of 1.5%
- New Office store design finalised for roll-out during 2018 financial period
- Office London stores launched in South Africa
- Distribution capacity sufficient in the medium-term
- Truworths e-commerce orders to be picked from selected large emporium stores to avoid pressure on distribution capacity

Optimising supply chain efficiency (pages 56 and 66)
Managing retail presence (pages 58 and 65)

I INTELLECTUAL CAPITAL

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

Key outcomes

- Alignment of Office's business processes (including retail methodology) with Truworths resulting in improved inventory turn and lower inventory levels in Office
- New Truworths e-commerce platform prepared for launch in 2018 financial period
- Launched Truworths (TruRoyalty) and Identity (iDream) loyalty programmes with more than 2 million non-account members
- New Truworths warehouse management system issues resolved post-implementation

Actions to enhance or mitigate outcomes

- Developed an Office-specific business philosophy to ensure alignment with the Group's strategic direction
- Impact of business process alignment enhanced through implementation of sophisticated merchandise planning system, with further systems alignment to follow in future
- Leveraged Office's extensive expertise in online retailing in the development process of the new Truworths e-commerce platform and websites
- Extensive loyalty programme planning and piloting undertaken to refine loyalty offering and test account and non-account customer preferences
- Collaborated with warehouse management system vendor and sanctioned post implementation audit of systems configuration and process efficiencies by external consultant

Managing the risk of fashion (pages 55 and 64)
Optimising supply chain efficiency (pages 56 and 66)
Managing the risk of the book (page 57)

H HUMAN CAPITAL

Employment creation, employee development through skills training and workplace experience, the promotion of fair labour practices and providing job security in difficult economic times

Key outcomes

- R2 billion paid to employees
- 11 563 employees at Truworths and 3 031 employees at Office
- R105 million spent on employee skills development across the Group
- 1 124 people trained through learnership (workplace experience) programmes at Truworths
- 124 employees on the merchant training programmes across merchandise buying, planning and quality control in Truworths
- No referrals of unfair discrimination or employment equity non-compliance

Actions to enhance or mitigate outcomes

- All management and specialised full-time employees now on total guaranteed packages (TGP) at Truworths
- Extended benefits to longer-serving flexible staff
- Consolidating significant changes made to human resources practices in prior period and making minor enhancements as deemed appropriate
- Reduced the number of permanent and flexible positions where natural attrition has occurred to avoid retrenchments
- Amended performance appraisal system to simplify the process to improve balancing hard and soft measurements
- Actively engage with tertiary institutions and invested additional funds in bursary programme to attract top talent

Human capital reports (pages 60 and 66)
Remuneration Committee report (page 37)
Social and environmental report

S SOCIAL AND RELATIONSHIP CAPITAL

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

Key outcomes

- 93% black employees in South Africa (2016: 93%)
- 73% female employees in Truworths (2016: 72%) and 61% in Office (2016: 59%)
- R5.4 million invested in CSI projects through the Group's CSI trusts
- Engaged regulators on key matters including National Credit Regulator, Department of Labour and revenue authorities
- Undertook wage negotiations with union
- Zero days lost due to industrial action

Actions to enhance or mitigate outcomes

- Focused on developing internal talent to demonstrate commitment to sustainable transformation in South Africa
- Met annual Employment Equity Plan targets for 2017 in South Africa
- Entered into new CSI initiatives and partnerships to achieve a broader spread of investment across identified focus areas
- Ongoing focus on improving gender representivity, including formulating and adopting a board gender diversity policy
- Concluded annual wage and substantive negotiations with SACCAWU for the 2017 period

Human capital reports (pages 60 and 66)
Social and environmental report
Social and Ethics Committee report

N NATURAL CAPITAL

Depletion of environmental resources through our business operations (directly) and supply chain (mostly indirectly)

Key outcomes

- Store electricity carbon emissions of 177 kg per m² in South Africa (2016: 178 kg per m²)
- Electricity consumption intensity in South Africa decreased 4%, 1% and 8% respectively at head office, stores and distribution centres
- Scope 3 (upstream transportation and distribution, purchased goods and services, business travel and waste from operations) carbon emissions measured in metric tonnes increased marginally by 1.8%
- Recycled in excess of 10 million hangers during the period
- 86% increase in recycled cardboard
- Total water consumption in South Africa of 20 168 kilolitres (2016: 19 817 kilolitres)

Actions to enhance or mitigate outcomes

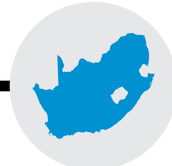
- Included YDE and Uzzi in carbon footprint calculations for the first time (previously measured Truworths and Identity only)
- All stores renovated during the period received energy-efficient lighting as well as electricity meters. Energy-efficient LED lighting also rolled out to a selection of 27 Identity stores
- Completed testing of LED lighting in Identity stores for roll-out to other stores over the next few years
- Several initiatives implemented in relation to international and domestic transportation by both Truworths and third party logistics providers
- Ongoing consolidation of import shipments improving efficiencies. In excess of 80% of international cargo is moved in full container loads
- Implemented water-saving initiatives at Group head office amidst drought in Western Cape, South Africa
- Set recycling targets for the first time

Social and environmental report

VALUE-CREATING BUSINESS MODEL continued

EXTERNAL FACTORS IMPACTING VALUE CREATION

Several factors that are partially or wholly outside the control of the Group could have a significant impact on our ability to create and sustain value for our stakeholders. The most significant of these external factors are listed below and are covered in more detail throughout the Integrated Report.



South Africa

- **Low economic growth**
- **Political instability**
- **Sovereign credit-rating downgrade**
- **Declining consumer disposable income**
- **Negative consumer sentiment**

In the past year the South African environment has been dominated by low economic growth, high unemployment, deteriorating prospects, political instability, allegations of state capture and growing tensions within the ruling party. These factors have collectively contributed to the country's credit rating being downgraded to sub-investment status. Economic conditions have also led to declining consumer disposable income and negative consumer sentiment.

- **Exchange rate volatility impacting merchandise pricing**

Volatility in the Rand/US dollar exchange rate impacts value creation as 65% of fashion merchandise is imported. Product inflation in Truworths peaked at around 16% for the summer 2016/2017 season. This follows the 23% depreciation in the Rand in the 2016 financial period in the aftermath of the dismissal of the minister of finance in December 2015, when the currency declined by as much as 38%. There is a lag effect on inflation as orders for forthcoming seasons and forward exchange contract rates are secured well in advance.

- **Regulations impacting credit retailers**

Affordability assessment regulations introduced by the National Credit Regulator in 2015 continue to restrict the opening of new customer accounts and consequently limit account sales in Truworths. The regulations require customers to provide documentary proof of income and many of Truworths' mass middle-market customers are either self-employed or work in the informal sector and cannot provide formal proof of income.

United Kingdom

- **Impact of Britain's vote to exit the European Union**
- **Depreciating value of the pound driving inflation**
- **Post-Brexit uncertainty and declining consumer confidence**

The outcome of the referendum in June 2016 for Britain to end its membership of the European Union contributed to widespread uncertainty and the weakening of the pound, which in turn resulted in inflation reaching a four-year high. Weakness in the pound resulted in increased costs of euro-denominated imports and other costs. The weaker pound has also reduced the Group's foreign revenues and profits when translated into Rand.

GROUP STRATEGY

Truworths International aims to be a world-class omni-channel retailer of fashion clothing, footwear, related merchandise and homeware, operating in both the southern and northern hemispheres. The strategy is aimed at ensuring a diversified mass market customer base in both developed and emerging market countries. The successful implementation of this strategy will result in an even more diversified earnings profile, improved returns for shareholders, and more value being created for its other stakeholders.

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

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

26%
RETURN ON ASSETS
TARGET 2017: 22% – 27% | 2018: 22% – 27%

31%
RETURN ON EQUITY
TARGET 2017: 30% – 35% | 2018: 26% – 31%

52.6%
GROSS MARGIN
TARGET 2017: 51% – 55% | 2018: 51% – 55%

23.3%
OPERATING MARGIN
TARGET 2017: 21% – 25% | 2018: 20% – 25%

4.5 times
INVENTORY TURN
TARGET 2017: 3.0 – 4.0 times | 2018: 3.5 – 4.5 times

1.1 times
ASSET TURNOVER
TARGET 2017: 0.9 – 1.3 times | 2018: 0.9 – 1.3 times

18%
NET DEBT TO EQUITY
TARGET 2017: 25% | 2018: 25%

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, macroeconomic conditions and competitive forces. The strategies are reviewed and amended annually.

The following growth strategies should be considered in conjunction with the Group's value-creating business model (page 12), and the Material issues, risks and opportunities for Truworths (page 19) and Office (page 23). The progress made against the delivery of these strategies is covered throughout the Integrated Report.

	TRUWORTHS INTERNATIONAL		TRUWORTHS				OFFICE				
Medium-term strategic growth drivers	**Truworths and Office integration and collaboration**	**Strategic acquisitions**	**Account activities and portfolio optimisation**	**Develop omni-channel retailing capability and launch e-commerce platform**	**Product procurement and supply chain management**	**Strategically aligned diversification**	**Business philosophy**	**Marketing, customer engagement and loyalty**	**Product and planning**	**Expansion and growth strategy**	**E-commerce**
Delivering against our strategy in 2017	• Merchandising processes aligned to ensure best practice and consistent methodology • Implemented sophisticated merchandise planning system in Office • Office inventory turn increased from 2.7 times at June 2016 to 3.4 times at June 2017 (in pound sterling) • Office significantly reduced levels of marked down stock • Leveraged Office's extensive expertise in online retailing in the development process of new Truworths e-commerce platform and websites	• Investigated several strategic acquisition possibilities in conjunction with our advisers	• Several strategic account granting strategies to mitigate impact of affordability assessment regulations appear to be bearing fruit • Implemented strategies to grow sales to long-term customers • Improved collections performance in latter stages of the financial period • Launched loyalty programmes	• Ongoing development of new e-commerce platform ahead of launch in 2018 financial period • Launched TruRoyalty and iDream loyalty programmes with more than 2 million non-account members	• Enhanced supplier scorecard to improve performance measurement • Resolved implementation issues with new warehouse management system • Developed new picking technology and customised order management system for e-commerce channel • Continued engagement with local authorities on approvals for third distribution centre	• Rolled out 18 Kids emporiums within larger emporium stores (LTD Kids, Earthchild and Naartjie) • Developed Office London concept for roll-out in the South African market during the 2018 financial period • Ongoing development of new e-commerce shop front website ahead of launch in 2018 financial period	• Developed Office Business Philosophy for roll-out in 2018 financial period	• Developed new Office mobile app for launch in 2018 financial period to improve shopping functionality and customer insight	• Inventory turn increased from 2.7 times at June 2016 to 3.4 times at June 2017 (in pound sterling) • Significantly reduced levels of marked down stock • Maintained supplier relations through ongoing engagement and collaboration	• Collaborated with Truworths on new store design concept • New 'in-store look-up' functionality further integrates the store and online channels	• E-commerce accounted for 28% of total sales • Continued investment in online marketing contributed to significant e-commerce traffic increase • Introduced new delivery options for international customers and expanded delivery destinations network • Expanded online range • Introduced 'in-store look-up' functionality

GROUP STRATEGY continued

Medium-term strategic growth drivers / Priorities and plans for 2018

TRUWORTHS INTERNATIONAL

Truworths and Office integration and collaboration

- Continue to align operating models of Truworths and Office, including policies, systems, measurement processes and business intelligence
- Integration phased over three years to extract optimal value while limiting risk
- Collaborate on the introduction of Office into South Africa through the launch of Office London footwear chain

Strategic acquisitions

- Complement organic growth with acquisition of fashion businesses, with a focus on the UK and Europe, that meet the board's investment criteria
- Acquired Loads of Living[1] (South Africa) in August 2017 to further diversify the Group's product offering and earnings base by expanding into the lucrative South African market for sophisticated linen and homeware
- Integrate the Loads of Living business into the Group's systems, procedures and structures

TRUWORTHS

Account activities and portfolio optimisation

- Continued focus on account acquisition from generating applications to opening accounts
- Account limit management of good-spending, good-paying customers
- Enhance technology to improve collections (hosted contact centre, new collections system)
- Transition to omni-channel customer engagement and next phase of migration to digital communication
- Deeper and wider use of predictive analytics across the customer life cycle

Develop omni-channel retailing capability and launch e-commerce platform

- Develop integrated omni-channel capability with defined store and online strategy
- Launch e-commerce platform in first half of 2018 financial period with the relaunch of website for online shopping, with significantly enhanced functionality
- Develop digital channels to increase customer engagement and grow online sales
- Leverage the benefits of the recently launched loyalty programmes
- Ongoing and close collaboration with the Office e-commerce team in the UK to leverage their experience in the more mature UK online market

Product procurement and supply chain management

- Implement process enhancements to facilitate quicker turn around and to maximise flexibility to react to style sales performances to contain markdowns
- Careful selection and management of strategic stock fabric that can be utilised for in-season trading to reduce lead times
- Strengthen relationships with key local suppliers with understanding of Truworths' processes to improve flexibility and capability to change styles based on trend or trade, very close to delivery
- Focus on consolidating certain product types across the chain in order to leverage price benefits, and creating continuity and enhanced productivity for suppliers
- Continued growth and investment in our in-house manufacturing division

Strategically aligned diversification

Kidswear

- Expand specialist Truworths Kids emporiums

Office London stores

- Office London introduces a range of branded and in-house designed footwear in South Africa, drawing inspiration from the success of Office in the United Kingdom
- Opened 10 stores in South Africa in August 2017
- In-store offering to be complemented by online offering going live in the new financial period. Online offering will include wider range and will be available to cash and account customers

OFFICE

Business philosophy

- Roll out Office Business Philosophy to employees

Marketing, customer engagement and loyalty

- Build customer understanding across stores, digital and customer service to develop more consistent, personal and relevant communication
- Develop customer-centric, loyalty-based marketing programme to drive new and repeat purchases and incremental sales

Product and planning

- Define and document buying processes clearly and ensure new processes are streamlined
- Perform a review of the supply chain
- Focus on management of slow-moving stock

Expansion and growth strategy

- Agree most profitable sales and growth opportunities across all channels in the UK and internationally, while identifying new markets and new partnership opportunities
- Roll out new store design to first three stores during August to October 2017

E-commerce

- Grow revenue and profit by creating an omni-channel shopping experience that encapsulates the Office DNA and delivers to the high expectations of the Office customer

[1] Subject to Competition Commission approval at the time of preparing this report.

MATERIAL ISSUES, RISKS AND OPPORTUNITIES

MATERIAL ISSUES

Every year the directors determine the key issues which are likely to have the most material impact on the Group's ability to create and sustain value for our stakeholders. In identifying these issues the directors consider external factors, including the economic and trading environments in the countries in which the business operates, the Group's strategy as well as the needs, expectations and concerns of key stakeholders (refer to Our approach to reporting on page 3).

Truworths

The directors confirm that the material issues for Truworths for the 2018 financial period are unchanged, these being fashion risk, supply chain efficiency, account risk management and retail presence.

Office

Material issues have been disclosed for Office for the first time, with the directors determining that these material issues are fashion risk, supply chain efficiency and retail presence. The directors confirm that the material issues for Office for the 2018 financial period are unchanged.

The sections that follow also include report-backs against the objectives and plans for Office for the 2017 financial period. Although these objectives and plans were not disclosed in the Group's 2016 Integrated Report, they were nonetheless set and are disclosed this year to provide a gauge of the performance against them over the period under review.

All financial metrics quoted for Office are pound sterling-based, unless otherwise indicated.

RISKS

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

OPPORTUNITIES

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

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

MAJOR RISKS

TRUWORTHS

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 affordability assessment regulations on account sales and productivity	
Moderate			Availability of skilled IT human resources for support, projects and business intelligence Loss of key executives and senior employees	Effectively manage risk of the book	
Unlikely			Increasing competition from international retailers entering South Africa	Distribution and warehousing capacity constraints Dependency on the warehouse management system and throughput A major cybersecurity incident that might lead to the loss of sensitive information	
Rare				Loss of head office building Availability of key IT systems that enable daily trade Loss of distribution facilities and inability to access the distribution centre, e.g. due to civil action	

OFFICE

LIKELIHOOD / CONSEQUENCE	Insignificant	Minor	Moderate	Major	Catastrophic
Almost certain					
Likely		Payment Card Industry Data Security Standard (PCI DSS) compliance		E-commerce and store strategy to deal with risk of web sales substituting store sales	
Moderate			Capability and resourcing of the internal audit function to mitigate risk at a head office and store level, including the risk of fraud and management override	IT system capability and capacity to support current operations and future growth	
Unlikely			The uncertainty of the impact that Brexit could have on the business Compliance with the Data Protection Act	Management of merchandise and buying decisions Absence of formalised disaster recovery and business continuity plans	
Rare					

RISK RATING BASED ON RESIDUAL RISK

TRUWORTHS

Managing the risk of fashion

Refer to Managing the risk of fashion on page 55 for more detail.

Performance against objectives and targets in 2017

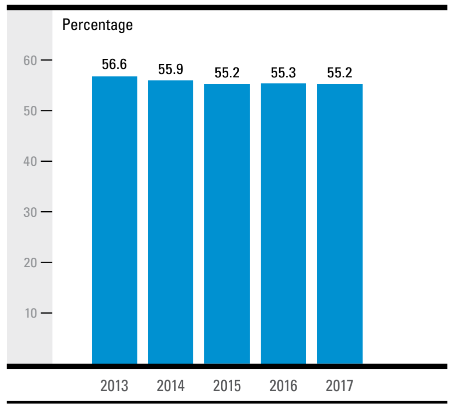
OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Ongoing focus on managing the risk of fashion.	• Continued focus on tried and tested conceptualisation, planning and procurement processes to reduce fashion risk. • Tailoring understanding of international trends to the unique South African market.
Adapt ranges to counter the impact of currency devaluation on merchandise pricing.	• Focus on consolidating fabric purchases to offer better value by achieving better prices while maintaining quality.
Ongoing implementation of the product life cycle management system.	• System will be implemented in the 2018 financial period.
Ongoing development of the new merchandise management system.	• Project delayed until the 2018 financial period owing to other priorities, including new warehouse management system, launch of e-commerce and Office integration.
Further development of offshore sourcing processes.	• Continued focus on early product development in specific merchandise categories with a longer lead time due to greater complexity.
Development of an e-commerce platform and offering.	• Scheduled for launch in first half of 2018 financial period.
Continue the integration of Office into Truworths' retail processes, where appropriate.	• Implemented planning tool to assist with sales planning as well as inventory and markdown management. • Applied inventory management experience to set targets for inventory levels and turn, which has resulted in better inventory turns and improved sales.

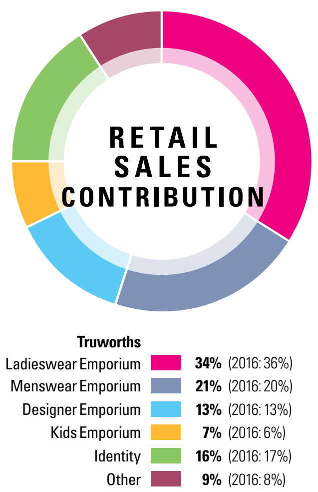
TARGETS FOR 2017	PERFORMANCE AGAINST TARGETS
Group gross margin 51% – 55%	Gross margin at 52.6%
Truworths gross margin 54% – 57%	Gross margin at 55.2%

Challenges encountered in 2017

- Managing the impact of high product inflation on imported merchandise caused by the devaluation of the Rand.
- Managing stock levels in an environment of lower-than-expected sales.
- Countering extensive and continuous product discounting by competitors.

GROSS MARGIN





Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Truworths aims to provide quality fashion to customers each season at appropriate margins. This covers buying processes, fashion monitoring, supplier relationships and ensuring Truworths has skilled buying and planning resources.	• Apply proven forecasting and design processes and key executive interventions throughout the merchandise life cycle aimed at managing and mitigating the risk of fashion. • Manage suppliers to ensure risk is spread across the supply chain. • 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. • Achieve better prices in order to offer better value by consolidating fabric sourcing across brands while maintaining product quality.
Increased international competition.	• Monitor impact of the international brands targeting the Truworths mass middle-market customer. • Constant brand and product innovation, with Office London and e-commerce platform launch in 2018 financial period.
Marked increase in counterfeit merchandise could impact on sales.	• Monitor counterfeit product in the market and attempt to identify 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.
Exchange rate volatility on imported merchandise creates challenges in managing retail selling prices.	• Forward exchange contracts are used to cover all merchandise imports so price points can be determined at the time of placing orders. • Continue to seek opportunities for local supply to reduce reliance on imports including continued investment in Truworths Manufacturing. • Improve procurement processes, consolidate fabric sourcing and adjust product ranges to limit product inflation. • Acquisition of Office has diversified the Group's currency risk which can provide a hedge against the volatile Rand.

Medium-term opportunity

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

Objectives and plans for 2018

- Ongoing focus on managing the risk of fashion.
- Continued consolidation of fabric sourcing and manufacturing to improve value offering for customers.
- Leverage the benefits of fabric and supplier consolidation to improve speed to market.
- Offer merchandise promotions linked to loyalty programme.
- Refocus brand positioning and differentiation between brands offered in the emporium stores.

Targets for 2018

Group gross margin
51% – 55%

Truworths gross margin
54% – 57%

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

TRUWORTHS

Optimising supply chain efficiency

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

Performance against objectives and targets in 2017

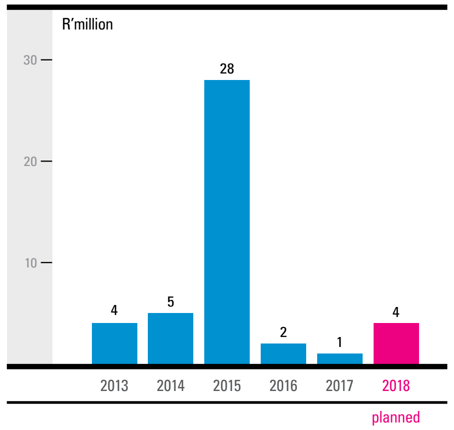
OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Capital expenditure of R97 million planned for distribution expansion and development, mainly on the initial phase of the new distribution centre.	• Construction of the third distribution centre delayed owing to delays with local authority planning approvals. • Owing to lower-than-expected sales and a reduction in unit volume, distribution capacity was not under pressure.
Leverage benefits of new warehouse management system.	• The new system provides more accurate data on the stock position across the distribution centres and improved reporting on warehouse productivity.
Integrate enhanced e-commerce offering into the supply chain.	• Planning completed ahead of the scheduled launch of the e-commerce platform in the first half of the 2018 financial period.

TARGETS FOR 2017	PERFORMANCE AGAINST TARGETS
Inventory turn • Group: 3.0 times – 4.0 times • Truworths: 4.5 times – 5.5 times	• Group: 4.5 times • Truworths: 5.2 times
Improve distribution centre productivity by 1% – 3%.	Efficiency levels unchanged owing to the challenges experienced during the implementation of the new warehouse management system and processes, as well as a reduction in unit volumes.

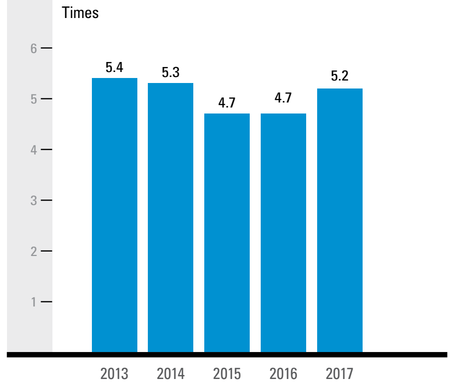
Challenge encountered in 2017

- The implementation of the new warehouse management system in the distribution centres caused delays in stock reaching stores in the early stages of the financial period.

CAPITAL EXPENDITURE ON DISTRIBUTION FACILITIES



INVENTORY TURN



Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Organic and acquisitive growth in the business could result in the need to expand distribution and warehousing capacity.	• E-commerce orders to be picked from a selection of large emporium stores which will avoid further pressure on distribution centre resources. • Ongoing monitoring of distribution centre capacity.
Suppliers not operating to contracted standards of ethical behaviour could result in reputational damage and interruption of supply.	• Truworths code of conduct for suppliers incorporated in all supplier agreements. • Manufacturers are required to comply with ethical standards, labour, health and safety, and environmental legislation.
Dependency on the warehouse management system and throughput.	• Warehouse management system stable. • Up-skilled business resources at the distribution centre to support the Truworths IT team. • Focus on process re-engineering to ensure the main distribution centre is able to cope during major peaks. • Agreements in place with third party warehousing facilities that can store imported goods to mitigate pressure that could result from high volume deliveries, allowing us to manage the flow of these goods into our distribution centres.

Medium-term opportunity

- Continue to invest in and grow the Truworths Manufacturing division to enhance local supply capabilities.

Objectives and plans for 2018

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

Targets for 2018

Group inventory turn
3.5 – 4.5 times

Truworths inventory turn
4.5 – 5.5 times

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

The Group has changed its terminology from 'credit' to 'account' when discussing 'non-cash and non-credit card' customers. Management has to adopt a more generic description of the financial product offering that now incorporates a loyalty programme, in order to distinguish the offering from bank credit used by customers in the form of debit and credit cards.

TRUWORTHS

Managing the risk of the book

Refer to Managing the risk of the book on page 57 for more detail.

Performance against objectives and targets in 2017

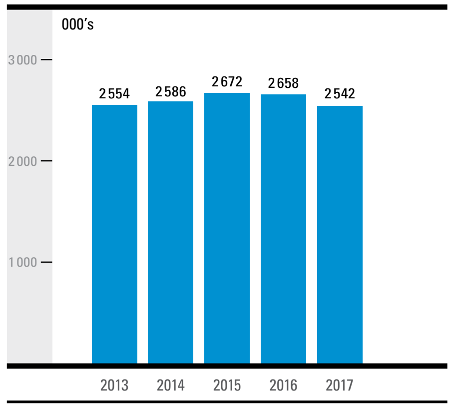
OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Develop predictive models and strategies across the account portfolio to respond to the changing economic and trading environment.	• New models developed and implemented. • Existing models rebuilt and implemented. • New strategies developed and implemented. • Strategy performance post-implementation is in line with expectations.
Continue to invest in technology to unlock the value in the vast customer data available internally and externally.	• Improved big-data solutions evaluated and proof-of-concepts in progress. • Next generation business intelligence tools evaluated.
Commence development of new collections software.	• Extensive business requirements analysis completed. • Project will move into development phase during the 2018 financial period.
Further improve processes and systems to collect affordability assessment documentation.	• Marginal improvements have been made, but the reluctance and inability of customers to share this information remains the biggest obstacle.
Launch a loyalty programme for both account and cash customers to offer personalised promotions and offers that increase purchase frequency and basket size.	• Truworths (TruRoyalty) and Identity (iDream) loyalty programmes launched in second half of the financial period. • Over 2 million non-account loyalty members.
Relaunch e-commerce with enhanced functionality, order fulfilment, communication and payment capabilities to facilitate omni-channel retailing.	• Truworths e-commerce platform to be launched in first half of the 2018 financial period, including updated website and online store. • Extensive catalogue of Truworths, Identity, kidswear and Office London ranges to be available online.

TARGETS FOR 2017	PERFORMANCE AGAINST TARGETS
Maintain number of active customer accounts.	• Active account base declined by 4% to 2.5 million owing to impact of the affordability assessment regulations. • Truworths increased market share of active accounts. • Year-on-year growth in new accounts opened in second half of financial period.
Maintain the doubtful debt allowance at existing levels of around 12.5%.	• Doubtful debt allowance increased to 12.7% (2016: 12.3%).
Improve frequency of purchase and basket size from cash and account customers.	• Frequency of shopping unchanged. • Average basket value of active account customers increased by 9%. • Average basket value of cash customers increased by 8%.

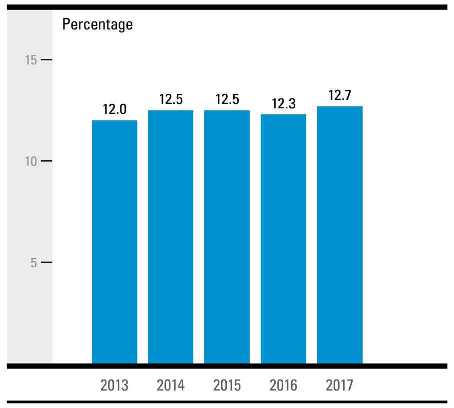
Challenges encountered in 2017

- Managing the impact of income verification requirement of the National Credit Regulator's affordability assessment regulations on account sales.
- Growing account sales and the active account base as disposable income declined in a deteriorating economic environment.

GROUP NUMBER OF ACTIVE ACCOUNTS



DOUBTFUL DEBT ALLOWANCE AS A % OF GROSS TRADE RECEIVABLES



Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Inability to effectively manage account 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 account.	• Apply account granting processes consistently, using advanced analytics, scorecards and models. • Review account management, collections and acquisition strategies regularly and refine to leverage new data and predictive models. • Implement and maintain best-of-breed account management tools that accurately execute account policies, processes and strategies.
National Credit Regulator's income verification requirements contained in the affordability assessment regulations are materially impacting account granting and, consequently, sales.	• Continue to improve profitability of account 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 JSE-listed retailers against National Credit Regulator and the Minister of Trade and Industry to challenge certain aspects of the regulations. Court case heard in August 2017 with judgment pending.

Medium-term opportunities

- Offer integrated omni-channel retailing with a clear store versus online strategy.
- Increase the number of active account holders.

Objectives and plans for 2018

- Grow new account sales while maintaining new account quality standards.
- Improve sales from existing customers through account limit management and customer reactivation.
- Improve collections through more effective use of call centre technology.
- Reduce cost of customer engagement through more efficient targeting and communication.
- Continue to review loyalty programmes based on customer experience.
- Launch online store.

Targets for 2018

Increase the number of new accounts opened year-on-year

Maintain the doubtful debt allowance at 12.7%

Grow the number of loyalty members to above 6 million

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

TRUWORTHS

Managing retail presence

Refer to Managing retail presence on page 58 for more detail.

Performance against objectives and targets in 2017

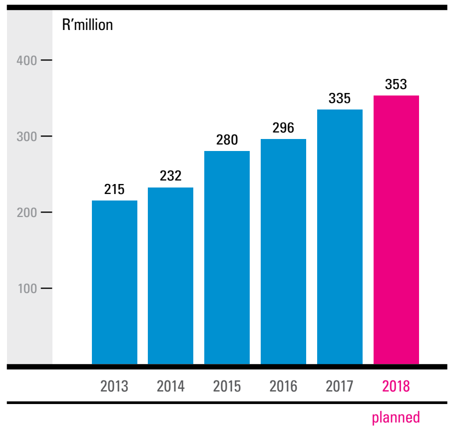
OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Trading space expected to grow by approximately 3%.	• Trading space growth of 1.6%. • Net 11 stores opened. • 781 stores at period-end (2016: 770).
R332 million committed to store development.	• R335 million (2016: R296 million) invested in store development.
Evaluate store opportunities in the rest of Africa.	• 47 stores in the rest of Africa. • No new stores opened in the rest of Africa during the period due to economic environment. • Continuous evaluation of store performance in the rest of Africa.
Continued expansion of Truworths Kids emporiums.	• Truworths Kids Emporium footprint expanded to 32 (within larger emporium stores).

TARGETS FOR 2017	PERFORMANCE AGAINST TARGETS
Store electricity carbon emissions of 170 kg per m² (South Africa only).	• Carbon emissions of 177 kg per m² (South Africa only).
Roll out 28 Truworths Kids emporiums.	• Opened 18 Truworths Kids emporiums (within larger emporium stores).

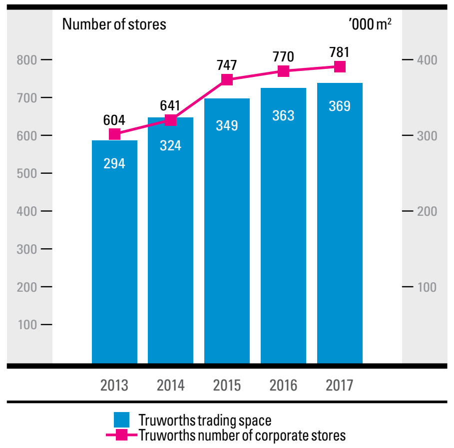
Challenge encountered in 2017

- In certain existing locations in good-performing malls Truworths is overtrading and unable to secure additional space.

STORE DEVELOPMENT CAPITAL EXPENDITURE



GROWTH IN STORE BASE



Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Consolidation of landlords and an increased demand for space, as a result of the increased presence of international retailers, impacting price and availability of retail space, particularly in larger malls.	• 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. • New malls present opportunity in prime positions.
Failure to successfully launch the e-commerce platform could impact sales growth.	• Best-in-class e-commerce platform to be launched. • Extensive pilot project undertaken to minimise risk of failure upon implementation.

Medium-term opportunities

- Consolidate trading space to improve operating efficiency and trading densities by renovating key stores and reprofiling stores by adding new brands.
- Develop digital channels to increase customer engagement and grow online sales, leveraging the benefits of the recently launched loyalty programme.
- Ongoing roll-out of the emporium format.
- Continued cautious expansion in the rest of Africa.

Objectives and plans for 2018

- Trading space expected to grow by approximately 4%.
- R353 million committed to store development.
- Launch Office London in SA.
- Launch new e-commerce platform.
- Continued expansion of Truworths Kids Emporium footprint.

Targets for 2018

Store electricity carbon emissions of 174 kg per m² (South Africa only)

Trading space growth of 4%

OFFICE

Managing the risk of fashion

Refer to Managing the risk of fashion on page 64 for more detail.

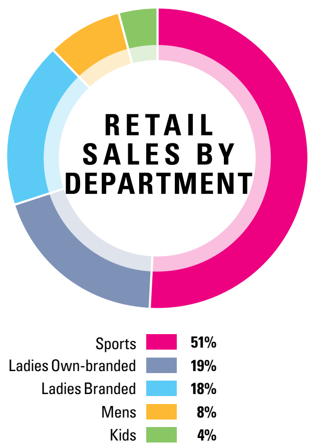
Performance against objectives and target in 2017

OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Ongoing focus on managing the risk of fashion.	• Retail sales grew by 4.5% despite tough trading conditions (52-week basis: 2.5%). • Gross margin improved from 45.6% (excluding exceptional items) to 46.0%. • Buying and merchandise teams focused on delivering the most relevant and fashionable footwear product to the marketplace.
Gain leverage from Truworths' expertise.	• Buying processes aligned with Truworths and now more robust. • Implemented new merchandise management planning system similar to that of Truworths.
Continue to work closely with key suppliers to track trends and ensure our products reflect the latest look.	• Trend information 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 monitored to ensure the 'must have' items are available. • Collaborated on the launch of many branded products.
Commitment to providing customers with product that is manufactured under ethical working conditions.	• Specifically with regard to the awareness of modern slavery and human trafficking, Office applies a code of conduct across its own-label supply chain that is based on the International Labour Organisation conventions and recommendations. • All own-brand suppliers and manufacturers are required to adhere to the code of conduct. • A formal statement by the board supporting Office's commitment to preventing modern slavery and human trafficking is published on the website.
Reduce reliance on key brands.	• Brand dependency is diversified across a wide range of brands.

TARGET FOR 2017	PERFORMANCE AGAINST TARGET
Gross margin of 44% – 47%	Gross margin at 46.0%

Challenges encountered in 2017

- Initial uncertainty following the Brexit vote dampened product demand in the early stages of the financial year.
- Brexit concerns also contributed to the devaluation of sterling which impacted the price of euro and US dollar imports.
- Change in supply operations and reduced customer demand for certain brands was mitigated by planned diversification of reliance across brands.



Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Need to ensure that Office remains at the forefront of the UK footwear fashion market.	• London heritage and consumer demographic ensures Office is among the first to identify continual changes in footwear fashion. • Embedded relationships with major brands and collaboration on development of certain product ensures that Office is able to track trends and ensure that product reflects the latest look. • Continued customer feedback through store employees, social media and customer polling. • Specialist own-brand suppliers identified based on their ability to deliver the most exclusive desirable product at the best quality, coupled with required order flexibility and supply reliability.
Possible increased competition from new entrants into the market.	• Maintain close ties with branded footwear suppliers. • Develop exclusive ranges with certain brands. • Extend social media footprint to provide a more 'lifestyle' offering to brands.

Medium-term opportunities

- Leverage the merchandise management system to support implementation of best-practice systems and processes.
- Provide greater flexibility for merchandise initiatives and improve integration.
- Develop customer-centric, loyalty-based marketing programme to drive new and repeat purchases and incremental sales.

Objectives and plans for 2018

- Ongoing focus on managing the risk of fashion.
- Ongoing development of the new merchandise management system.

Target for 2018

Gross margin of 44% – 47%

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

OFFICE

Optimising supply chain efficiency

Refer to Optimising supply chain efficiency on page 66 for more detail.

Performance against objectives and target in 2017

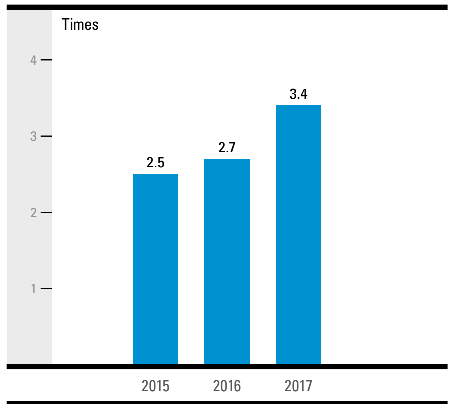
OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Reduce inventory levels while maintaining depth and range of product to meet customer demand.	• Inventory levels 17% lower at June 2017 compared to the prior period-end. • Inventory turn increased from 2.7 times at June 2016 to 3.4 times at June 2017 (in pounds). • Levels of marked-down stock reduced by 17.5%.
Alignment with Truworths' retail processes and methodologies.	• Extensive engagement between Office's and Truworths' teams with emphasis on merchandise to ensure best practice and consistency in methodology.
Continue to improve product availability and efficiency to online customers.	• Express and standard delivery options extended to international customers. • Growth of 'click & collect' activity from store. • Increase in number of 'ship from store' orders allows more store stock to be made available for selling online.

TARGET FOR 2017	PERFORMANCE AGAINST TARGET
Inventory turn 2.5 – 3.0 times	Inventory turn 3.4 times

Challenges encountered in 2017

- Managing the impact of the devaluation of sterling on product pricing following the Brexit vote at the start of the financial year.
- Reducing stock levels to achieve inventory turn targets without negatively impacting sales.

INVENTORY TURN



Key risk and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Office is exposed to exchange rate volatility on imported merchandise.	• Foreign exchange hedging policy to reduce the adverse impact of currency fluctuations. • Net exposure to euro 11% and US dollar 3%. • Natural internal hedge as stores in Germany and the Republic of Ireland are euro-based.

Medium-term opportunity

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

Objectives and plans for 2018

- Create capacity for further investment in new stock by further reducing aged stock holdings while maintaining improved inventory turn ratios.
- Optimise benefits of new merchandising system.

Target for 2018

Inventory turn of 3.0 – 3.5 times

OFFICE

Managing retail presence

Refer to Managing retail presence on page 65 for more detail.

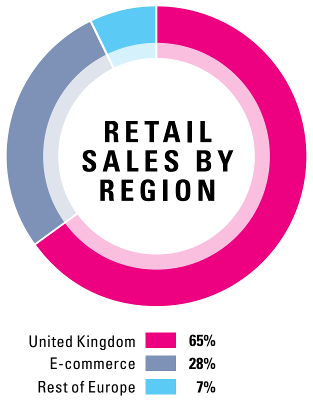
Performance against objectives and target in 2017

OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Optimise physical retail presence.	• Trading space decrease of 0.4% (2016: 2.4% growth). • Net three stand-alone stores opened (five stores opened and two closed). • Latest international store opened in Essen, bringing German store footprint to eight.
Optimise concession store presence.	• Opened two and closed eight concession outlets.
Trial new store design.	• New store design concept being piloted as part of expansion and refurbishment of existing store in Arndale, Manchester.
Continue to expand e-commerce presence.	• E-commerce now 28% of total sales. • 76.5 million visits to Office's websites, an increase of 11% (2016: 69.2 million). Growth driven by continuous development in web and mobile design and functionality, channel expansion, aggressive product launch calendar and competitive delivery and service.

TARGET FOR 2017	PERFORMANCE AGAINST TARGET
Trading space growth of 1%	Trading space decrease of 0.4%

Challenges encountered in 2017

- Business rates (a tax levied by local authorities in respect of non-domestic properties) are usually revalued every five years, but the UK Government postponed the revaluation scheduled for 2015 until 2017, delaying the impact of the increased costs to business.
- The revaluation of business rates in the UK with effect from April 2017 has resulted in an overall increase of approximately 4% in the business rates payable across the store portfolio. However, certain stores have incurred larger increases, notably in central London where increases have been significantly higher.
- A number of five-year rent reviews came up during the period, resulting in escalated rental expenses.



Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Managing the balance between e-commerce and store profit contribution to the business.	• New store concept rolled out during August 2017. • Managing cost base very closely. • Ability to manage e-commerce's flexible cost base as the business develops.
The planned implementation of General Data Protection Regulation (GDPR) from May 2018 will change laws relating to the collection, storage and usage of customer data relating to the e-commerce site.	• Currently in discussion with legal advisers to improve processes and implement required changes to systems and processes.

Medium-term opportunities

E-commerce:

- Customer experience: focus on website design, functionality and removing customer struggle points to further increase conversion rates. Includes improving delivery options and offering customers additional ways to pay, including international payment options.
- Extend sales of Office products via third party marketplace and concession websites.
- Customer marketing and relationship management: continued investment in online marketing to drive new customer acquisition and development of customer relationship programmes to increase retention.

Physical stores:

- Open 10 – 15 new stores in the UK by the end of 2019.
- Open approximately 5 new stores in Europe over the next three years.

Wholesale:

- Expand the wholesale channel.

Objectives and plans for 2018

E-commerce:

- Continue investment in digital marketing to drive new and repeat purchases.
- Improve customer experience by introducing new Office mobile app, adding new currencies on website to support international sales and enabling customers to check stock levels in-store.
- Ongoing transformation of the look of all digital platforms to ensure a consistent brand experience across all channels, particularly social media.

Physical stores:

- Trading space growth of 2%.
- New store design concept to be incorporated in all new and refurbished stores.

Target for 2018

Trading space growth of 2%

MANAGING STAKEHOLDER ENGAGEMENT

Management is proactive in responding to the needs, expectations and concerns of stakeholders, recognising that several groups impact on our ability to create value over the short, medium and long-term.

These stakeholders 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.

Stakeholder engagement focuses primarily on the five key stakeholder groups that management believes are most likely to influence the delivery of the Group's strategy and to impact on the material issues within the business:

	1	2	3	4	5
	SHAREHOLDERS	**CUSTOMERS**	**EMPLOYEES**	**SUPPLIERS**	**REGULATORS**
Reasons for engaging	Principal providers of financial capital	Buyers of merchandise; source of revenue	Providers of talent and skills	Providers of merchandise and other goods and services (including financiers and landlords)	Custodians of legislative and regulatory requirements, and providers of licences to trade
Source of engagement	GROUP	TRUWORTHS AND OFFICE	TRUWORTHS AND OFFICE	TRUWORTHS AND OFFICE	TRUWORTHS AND OFFICE
Primary contact with stakeholders	CEO and CFO, together with senior finance management	Store management and employees, call centre and customer relationship employees	Line management, co-ordinated through the Human Resources Department	Executives, merchandise buyers and management	Executive directors and finance, legal and account risk executives

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, differ according to the needs of the business and the expectations, concerns and preferences of each stakeholder.

STAKEHOLDER ENGAGEMENT

1

TRUWORTHS INTERNATIONAL

SHAREHOLDERS

Local and international institutional and private investors as well as fund managers and analysts

More about our stakeholders

5 113 shareholders

62% of shares held outside South Africa

Refer to the Shareholder Information section of the Group Audited Annual Financial Statements 2017 for further information

Engagement issues in 2017

- Tough trading in current economic climate
- Impact of affordability assessment regulations on account sales and revenue growth
- Product pricing strategy and margin impact in environment of high product inflation
- Progress and synergies with integration of Office in the UK
- Capital management
- CEO succession
- Trading outlook and earnings growth prospects

Addressing engagement issues in 2017

- Five trading updates provided to investors
- 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 on request

MANAGING STAKEHOLDER ENGAGEMENT continued

TRUWORTHS

STAKEHOLDER ENGAGEMENT

2 CUSTOMERS

Account and cash customers in South Africa and in the rest of Africa

More about our stakeholders

Youthful, fashionable consumers

2.5 million active account customers

2.0 million non-account TruRoyalty and iDream loyalty programme members

Engagement issues in 2017

- Fashion appeal
- Product quality
- Customer service and experience
- Merchandise pricing

Addressing engagement issues in 2017

- 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
- In-store customer interaction
- Electronic and social media communication, including targeted e-mail communication, SMS, fashion blog, Facebook, Twitter and Instagram
- Advertising and promotions
- Monthly account customer billing and marketing communications
- Engagement with account and loyalty customers by the call centre to assess customer satisfaction
- Customer focus groups

3 EMPLOYEES

All full-time and flexi-time employees

More about our stakeholders

11 563 employees

73% female; **27%** male

93% black; **7%** white (in South Africa)

Refer to the Human capital report on page 60 and Social and Environmental report for further information

Engagement issues in 2017

- Opportunities for advancement and career progression
- Consistent and equitable rewards
- Effective communication from senior management
- Training and skills development
- Financial performance of the business, business strategy and trading outlook
- Policies and procedures

Addressing engagement issues in 2017

- CEO Talk
- Employee roadshows, results presentations and in-store broadcasts
- Electronic staff communications
- Employee magazine
- Employment equity forums

4 SUPPLIERS

Local and international suppliers of merchandise and other goods and services

More about our stakeholders

Diversified base of many local and foreign merchandise suppliers

45% of clothing produced in South Africa

65% of merchandise imported, mainly from China, India, Mauritius and Madagascar

Engagement issues in 2017

- Supplier lead times
- Security of supply
- Supplier performance
- Ethical procurement standards
- Compliance with health and safety standards
- Fair and transparent pricing

Addressing engagement issues in 2017

- Audits of supplier manufacturing facilities
- Supplier scorecard to measure key supplier performance
- Truworths code of conduct incorporated in all supplier agreements
- Web-based portal to enhance communications with suppliers

5 REGULATORS

Government departments, regulatory bodies and local authorities in all countries of operation

More about our stakeholders

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

Engagement issues in 2017

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

Addressing engagement issues in 2017

- Together with two other major listed retailers, instituted legal action against the NCR and the Minister of Trade and Industry in 2016 to have the affordability regulations reviewed. The matter was heard in August 2017 with judgment pending.
- Submission of quarterly NCR statistical returns
- Formal and informal engagement with revenue authorities on tax compliance and industry matters
- Submission of returns and payment of taxes by relevant due dates
- Responding to tax queries within required deadlines
- Filed employment equity progress reports with Department of Labour
- Co-operated with Department of Labour's store and regional office inspections

MANAGING STAKEHOLDER ENGAGEMENT continued

OFFICE

STAKEHOLDER ENGAGEMENT

	2 CUSTOMERS	3 EMPLOYEES	4 SUPPLIERS	5 REGULATORS
	Customers in the United Kingdom, Germany and the Republic of Ireland, and both national and international online customers	All full-time and part-time employees	International suppliers of branded and own-label merchandise	Government departments, regulatory bodies and local authorities in all countries of operation
More about our stakeholders	Targeting youthful UK and European customers	954 full-time and 2 077 part-time employees 61% of employees are female Refer to the Human capital report on page 66.	A large portfolio of key branded suppliers, including Nike, Adidas, Converse, Vans, Ugg, Timberland, Birkenstock, Reebok, Puma, Toms and Ted Baker	Most significant regulatory body is the UK tax authority, HMRC
Engagement issues in 2017	• Offer in-demand leading-fashion footwear • Continue to offer merchandise of high quality • Remain competitive • Offer a wide range of merchandise • Offer a world-class store experience • Offer quick e-commerce delivery	• Want to feel rewarded • Opportunities for advancement and career progression • Want to feel engaged with Office's performance	• Maximise sales opportunities • Maximise brand exposure • Obtain feedback on product performance and fashion trends • Annual audits of own-branded supplier manufacturing facilities • Office code of conduct incorporated in own-branded supplier manual	• Ongoing compliance • Filings made by due date
Addressing engagement issues in 2017	• Focused on well-established merchandise strategy to provide leading-fashion footwear to the youthful UK and European customer • Provide a curated range of latest trend and 'in-demand' footwear of high quality and at competitive prices • Provision through online portal for both 'click & collect' and next day delivery • Collaborated on the launch of many branded products to appeal to our target customers • In-store customer interaction • Electronic and social media communication, including targeted e-mail communication, SMS, fashion blog, Facebook, Twitter and Instagram	• Employee engagement survey conducted across both stores and head office • Introduced regular communication • Informer, Commercial and Opportunist weekly newsletters regarding performance, operations and vacancies	• Sales of branded product increased 3.6% to £226 million • Customer polling started in June 2016	• Remained abreast of legislative and regulatory requirements • Submitted all material filings and payments by relevant due dates • Engagement with relevant tax authorities as and when required

WE ARE ON POINT

/GOVERNANCE

CHAIRMAN'S REPORT

Hilton Saven
Independent Non-executive Chairman

Great strides have been made over the 2017 reporting period in delivering the Group's strategy of becoming a world-class omni-channel retailer of fashion clothing and footwear.

This year marks the centenary of the founding of Truworths and it has been a year of investment in future growth. Good progress has been achieved with the integration of Office, while the Group has continued its investment in stores, information technology and distribution infrastructure, introduced a customer loyalty programme and developed a new e-commerce platform with enhanced functionality to launch early in the 2018 reporting period. Shortly after the period-end, Office London footwear stores were launched in South Africa and the Group acquired the upmarket South African linen and homeware chain, Loads of Living.

The Group's financial performance has been tempered by factors in the external environment that have collectively had a significant impact. These are primarily the deteriorating economic and political landscape in South Africa, the fallout following the Brexit vote in the United Kingdom and onerous credit regulations which have restricted growth in the Truworths account base.

The Group's operating profit increased by 1% to R4 billion and diluted headline earnings per share were virtually unchanged at 661 cents. The annual dividend was maintained at 452 cents per share.

Cash generated from operations increased by 8% to R3 billion and was used to fund mainly dividend payments of R1.5 billion, capital expenditure of R467 million, share buy-backs of R101 million and loan repayments of R324 million.

The Group remains committed to pursuing its strategy of complementing organic growth with the acquisition of fashion and related businesses. Cash resources of R2 billion at the end of the financial period position the Group favourably to take advantage of opportunities in these turbulent economic times.

COMPELLING INVESTMENT CASE

The board believes Truworths International is an attractive proposition for equity investors seeking exposure to the fashion retail sectors in both South Africa and the United Kingdom.

The acquisition of Office in the UK has strengthened the investment case by creating a more diversified business, with the Group's customer base spread across developed and emerging markets, and a diversified product, sales, earnings and country risk profile. Office provides access to developed northern hemisphere markets and a platform for further organic and acquisitive offshore growth.

The Group is highly cash-generative with a strong balance sheet, achieves internationally competitive financial and operating metrics, has an expanding retail presence in all its markets as well as in the growing e-commerce arena, and has one of the most highly rated management teams in the sector.

Although short-term performance has been constrained, this does not detract from our investment case of proven organic and acquisitive growth, and track record of delivering sustainable wealth for shareholders.

In the past five years the Group has generated R13 billion cash from operations, invested R2 billion in organic growth through capital expenditure, returned R9 billion to shareholders through dividends and share buy-backs, and invested R3 billion in acquisitions.

GOVERNANCE ENHANCING VALUE

We believe the Group's governance standards are in line with best practice, not only in South Africa but also internationally. The board views governance as more than a compliance discipline, and rather as a means of improving corporate performance and ultimately enhancing value for our stakeholders.

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 again included in the Top 30 Index and achieved 100% for the governance pillar on the FTSE environmental, social and corporate governance (ESG) ratings scorecard.

The directors are committed to diversity at board level in the belief that this will lead to balanced decision-making and a deeper understanding of the needs of our mass middle-income target market. A board gender diversity policy was adopted during the reporting period, with the directors setting a voluntary target of achieving 30% female representation on the board in the medium-term. An important element of this policy is to consider the development and promotion of female executives within the Group to become potential board candidates.

The Group's ongoing commitment to improving disclosure and enhancing reporting was again recognised in the EY Excellence in Integrated Reporting Awards. The Group's 2016 Integrated Report was ranked seventh among the top 100 companies by market capitalisation on the JSE, again being the only retailer in the top ten. This continues the Group's proud performance in the EY reporting awards in which it has now been ranked in the top ten for ten consecutive years. 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.

We have continued to align our reporting to shareholders with the requirements of the International Integrated Reporting Council's Framework which is now the global reporting benchmark. Given the Group's large offshore shareholder base, it is particularly relevant that we strive to report in terms of this international standard.

Locally the introduction of the King IV Report on Corporate Governance during the reporting period should ensure that South Africa's corporate sector remains at the forefront of global governance practice, further increasing the attractiveness of local companies to international investors.

The revised King code aligns with governance and regulatory developments both locally and internationally since King III was introduced in 2010. The board is confident that the code will be seamlessly applied across the business in the months ahead and we will report according to the code from our 2018 financial period onwards.

BOARD AND MANAGEMENT

Our board is active and engaged, confirmed by the 100% attendance at board meetings during the reporting period. We have an appropriate balance between our six independent non-executive and three executive directors, with the non-executive directors being closely aligned with the executive team. A formal assessment of the independence of our non-executive directors during the reporting period confirmed that they are correctly categorised as independent when benchmarked against all applicable regulatory standards.

Independent non-executive director Khutso Mampeule resigned from the board in March 2017 and we thank him for his contribution over the past three years.

Doug Dare, Director: Buying and Merchandising of Truworths, was appointed as an executive director of Truworths International in August 2016. Doug brings over 30 years of experience in merchandise management and planning, retail operations and marketing to the board.

While the board extended our CEO, Michael Mark's, employment contract with the Group, succession planning remains a priority for the board. The strong senior leadership team in Truworths provides the Group with CEO succession candidates and we will also consider recruiting externally to broaden the depth of talent and our pool of potential successors.

ACKNOWLEDGEMENTS

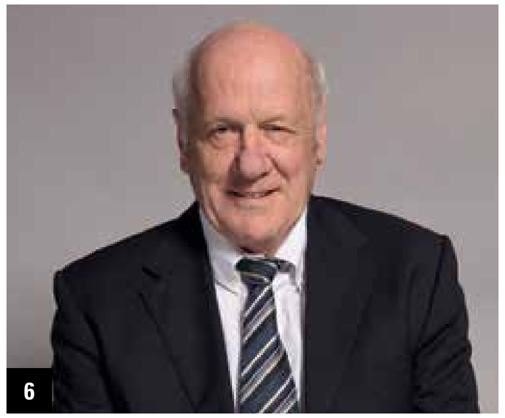
Thank you to Michael Mark and his executive teams in Truworths and Office for their inspired leadership during a particularly challenging year, not only for the Group but also for the retail sector in general.

My fellow non-executive directors have a wealth of experience across a diverse range of disciplines. I thank them for their ongoing counsel and commitment to the highest standards of oversight.

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

Hilton Saven
Independent Non-executive Chairman

TRUWORTHS INTERNATIONAL BOARD OF DIRECTORS



1 HILTON SAVEN (64)

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

Non-executive director: Lewis Group Ltd, Monarch Insurance Company Ltd, Praxity-Global Alliance Ltd (UK), Praxity IVZW (Belgium)

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 (64)

BCom, MBA, ACMA

Chief Executive Officer

Executive Director

Executive Chairman: Truworths Ltd, since March 1998

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

Chairman and non-executive director: Office Holdings Ltd

Trustee: Truworths Chairman's Foundation

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 THANDI NDLOVU (62)

BSc, MBChB

Independent Non-executive Director

Construction executive and businesswoman

Chairperson: Motheo Construction Group of companies

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

Member of the Council of the South African Forum of Civil Engineering Contractors (SAFCEC) and Chair of the Construction Sector Transformation Committee of the Black Business Council in the Built Environment (BBCBE)

Appointed to the board in February 2001

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

4 ROB DOW (60)

BSc (Hons), Dip. Acc (Dist), CA

Independent Non-executive Director

Investment adviser and business consultant

Non-executive director: Kensani Capital (Pty) Ltd and subsidiaries, Morella Investments (Pty) Ltd, Tiradeprops (Pty) Ltd and subsidiaries, Phetogo Investment Holdings (Pty) Ltd and subsidiaries, San Michelle 304 (Pty) Ltd

Member and director of non-profit companies: Herschel Girls School (Cape Town), St Mary's School for Girls (Johannesburg)

Trustee: Truworths International Ltd Share Trust

Appointed to the board in February 1998

Chairman of Remuneration Committee and member of Audit Committee, and Non-executive and Nomination Committee

5 MICHAEL THOMPSON (74)

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 TONY TAYLOR (70)

BA

Independent Non-executive Director

Retail executive and businessman

Executive: Pepkor Retail Ltd

Non-executive director: PBT Group Ltd

Appointed to the board as an executive director in February 1999. Retired as an executive director and became a non-executive director on 1 April 2010, and qualified to be classified as an independent non-executive director with effect from 1 April 2013.

Member of Non-executive and Nomination Committee

7 RODDY SPARKS (58)

BCom (Hons), CA (SA), MBA

Independent Non-executive Director

Director of companies

Chairman: University of Cape Town College of Accounting Advisory Board

Non-executive director: Trencor Ltd, Imperial Holdings Ltd, Regent Life Assurance Company Ltd, Regent Insurance Company Ltd, Phembani Group (Pty) Ltd, and Ashburton Fund Managers (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

8 DOUG DARE (56)

BBusSc

Director: Buying and Merchandising

Executive Director

Director: Truworths Ltd

Employee since June 1984

Appointed to the board in August 2016

9 DAVID PFAFF (52)

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

GROUP LEADERSHIP

TRUWORTHS INTERNATIONAL EXECUTIVE COMMITTEE

MICHAEL MARK (64)
BCom, MBA, ACMA

Executive Chairman

Employee since July 1991

Appointed to the board in July 1991

DAVID PFAFF (52)
BCom, CA (SA), Dip Soc (Oxon)

Chief Financial Officer

Employee since April 2013

Appointed to the board in September 2013

DOUG DARE (56)
BBusSc

Director: Buying and Merchandising

Employee since June 1984

Appointed to the board in July 1999

SARAH PROUDFOOT (49)
National Diploma in Clothing Design

Director: Merchandise Ladieswear

Employee since March 2001

Appointed to the board in March 2016

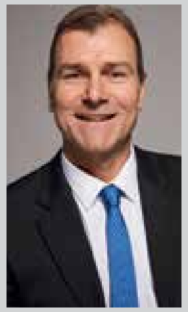
SEAN FURLONG (56)
Diploma in Marketing Management

Director: Planning and Logistics

Employee since February 1989

Appointed to the board in March 2016

TRUWORTHS DIVISIONAL DIRECTORS



TONY MIEK (54)
PG Diploma in Accounting

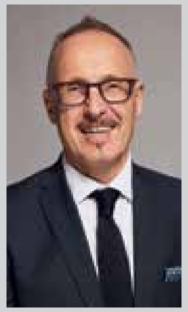
Divisional Director: Real Estate, Store Design and Visual Presentation

Employee since December 2005

In current position since August 2006

Director: **Young Designers Emporium (Pty) Ltd**

Chairman of Sustainability Committee

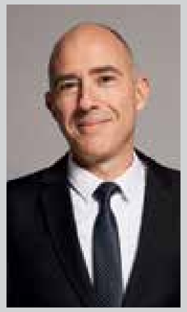


STEVE WIDEGGER (53)
Diploma in Business Management

Divisional Director: Merchandise

Employee since February 1987

In current position since August 2006

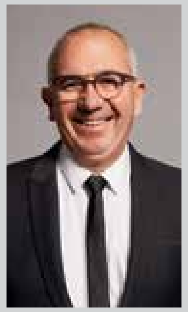


NEVILLE KOPPING (54)
BCom

Divisional Director: Merchandise

Employee since March 2006

In current position since March 2008

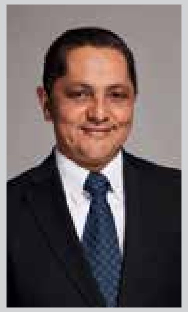


MARK FORSTER (57)

Divisional Director: Merchandise

Employee since May 1999

In current position since March 2008



MARK SMITH (52)
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 (55)
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 (52)
BSc (Accounting), MSc (Financial Management)

Divisional Director: Retail Operations

Employee since March 2015

In current position since May 2015

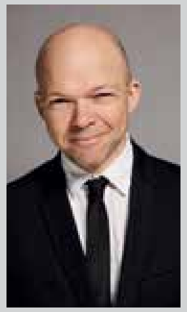
Member of Risk Committee and Transformation Committee

JONNI KATZ (48)

Divisional Director: Earthchild/Earthaddict and Office London SA

Employee since March 2015

In current position since June 2015



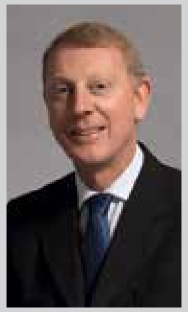
GARY BARNARD (41)
BSc (Electro-Mechanical Engineering)

Divisional Director: Account Risk

Employee since June 2002

In current position since August 2015

Member of Risk Committee



CHRIS DURHAM (61)
FCIS, PG Dip. Adv. Co Law (UCT)

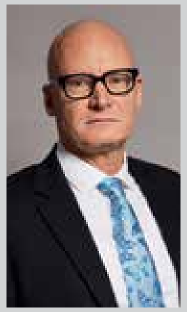
Divisional Director: Company Secretary

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



GAVIN TEIXEIRA (51)

Divisional Director: Merchandise

Employee since 2004

In current position since September 2016

OFFICE MANAGEMENT

BRIAN MCCLUSKEY (55)
CA

Chief Executive Officer

Director: **Office Holdings Ltd**

Employee since February 2005

In current position since January 2006

KERRY-LEE VAN DER MERWE (41)
BAccSci (Hons), CA (SA)

Finance Director

Director: **Office Holdings Ltd**

Employee since June 2016

In current position since June 2016

GHASSAN HODEIB (45)

Buying Director

Employee since February 1996

In current position since January 2004

JONATHAN KUTNER (44)

Merchandising Director

Employee since March 2004

In current position since March 2004

GOVERNANCE CREATING AND PROTECTING VALUE

BOARD CONTRIBUTION TO STRATEGIC DELIVERY AND VALUE CREATION

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

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

In the 2017 financial period the board re-endorsed the Group's strategy of aiming to be a world-class omni-channel retailer of fashion clothing, footwear, related merchandise and homeware, operating in both the southern and northern hemispheres. The board confirmed that this strategy is aimed at ensuring a diversified mass-market customer base in both developed and emerging market countries. The board noted that the successful implementation of this strategy should result in a diversified earnings profile, improved returns for shareholders, and more value being created for its other stakeholders.

During the period under review the board confirmed that fashion risk, supply chain efficiency, retail presence and managing the risk of the book remain the material issues for the Truworths segment. Owing to the importance of the Office segment to the Group, the specific material issues of fashion risk, supply chain efficiency and retail presence have been identified for this business.

The board confirmed the following medium-term growth strategies for the Group:

- Truworths and Office integration and collaboration
- Strategic acquisitions that meet the board's investment criteria
- Account activities and portfolio optimisation within Truworths
- Omni-channel retailing capability and e-commerce platform within Truworths
- Product procurement and supply chain management within Truworths
- Strategically aligned product, brand and store diversification within Truworths
- Implementation and communication of the business philosophy within Office
- Marketing, customer engagement and loyalty within Office
- Optimisation of product and planning within Office
- Store, concession and partnership expansion and growth within Office
- E-commerce expansion and optimisation within Office

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

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

1 SHAREHOLDERS

- Share price appreciation and growth in dividends
- Long-term growth in diluted headline earnings per share

2 CUSTOMERS

- Truworths: Measure the customer experience in-store
- Office: Net Promoter Score (measures customers' likelihood of recommending Office)

3 EMPLOYEES

- Annual turnover rate of permanent employees, indicating satisfaction
- Percentage employees proud to work in the Group (based on employee surveys)
- Percentage of employees from designated groups, indicating diversity (South Africa only)

Board deliberations

During the period under review board deliberations included the following:

NOTED

Key issues

- Progress being made to integrate the Office business into the Group and implement a governance framework within the Office business
- Management's plans to implement a customer loyalty programme during the year
- The Group's plans and budget to implement a world-class e-commerce platform during 2018

Routine matters

- The general annual declarations made by directors regarding their personal financial interests
- The quarterly analysis of the company's shareholders and beneficial owners of shares
- Various presentations by management relating to different aspects of the Group's business

CONSIDERED

Key issues

- The progress made and steps being taken to ensure adequate succession planning for key executives, especially the Chief Executive Officer
- Some of the issues that would require consideration to achieve alignment between the Group's governance framework and the King IV recommendations

Routine matters

- The quarterly financial reports and forecasts presented by the Chief Financial Officer
- The quarterly reports of the chairmen of the Audit, Remuneration, and Social and Ethics Committees
- The quarterly presentations of the Risk Committee chairman, together with the top risk matrix
- The quarterly presentations by the Company Secretary on new relevant legislation/regulations
- The quarterly analysis by the Chief Financial Officer of published competitor financial metrics
- How management was performing against the financial targets and key performance indicators

APPROVED

Key issues

- Executive management's growth strategies for the Truworths and Office business segments

Routine matters

- The Group's operational and capital expenditure budgets by business segment
- The Group's Audited Annual Financial Statements, Integrated Report, and Preliminary Report on the Audited Group Annual Results
- The Group's Interim Report and all results announcements on SENS and in the media
- The Group's interim, scrip and final dividends and the company's dividend cover
- The Group's financial and strategic targets for executive incentive scheme purposes

AUTHORISED

Key issues

- Executive management to explore various potential acquisition targets
- Executive management to conclude the Loads of Living business acquisition
- Executive management's decision to embark on litigation against the National Credit Regulator and the Minister of Trade and Industry, together with two other listed retailers, relating to aspects of the affordability assessment regulations

Routine matters

- Executive management to undertake share repurchases within defined parameters
- Executive management to issue and list shares pursuant to share incentive scheme transactions within defined parameters

RESOLVED

Key issues

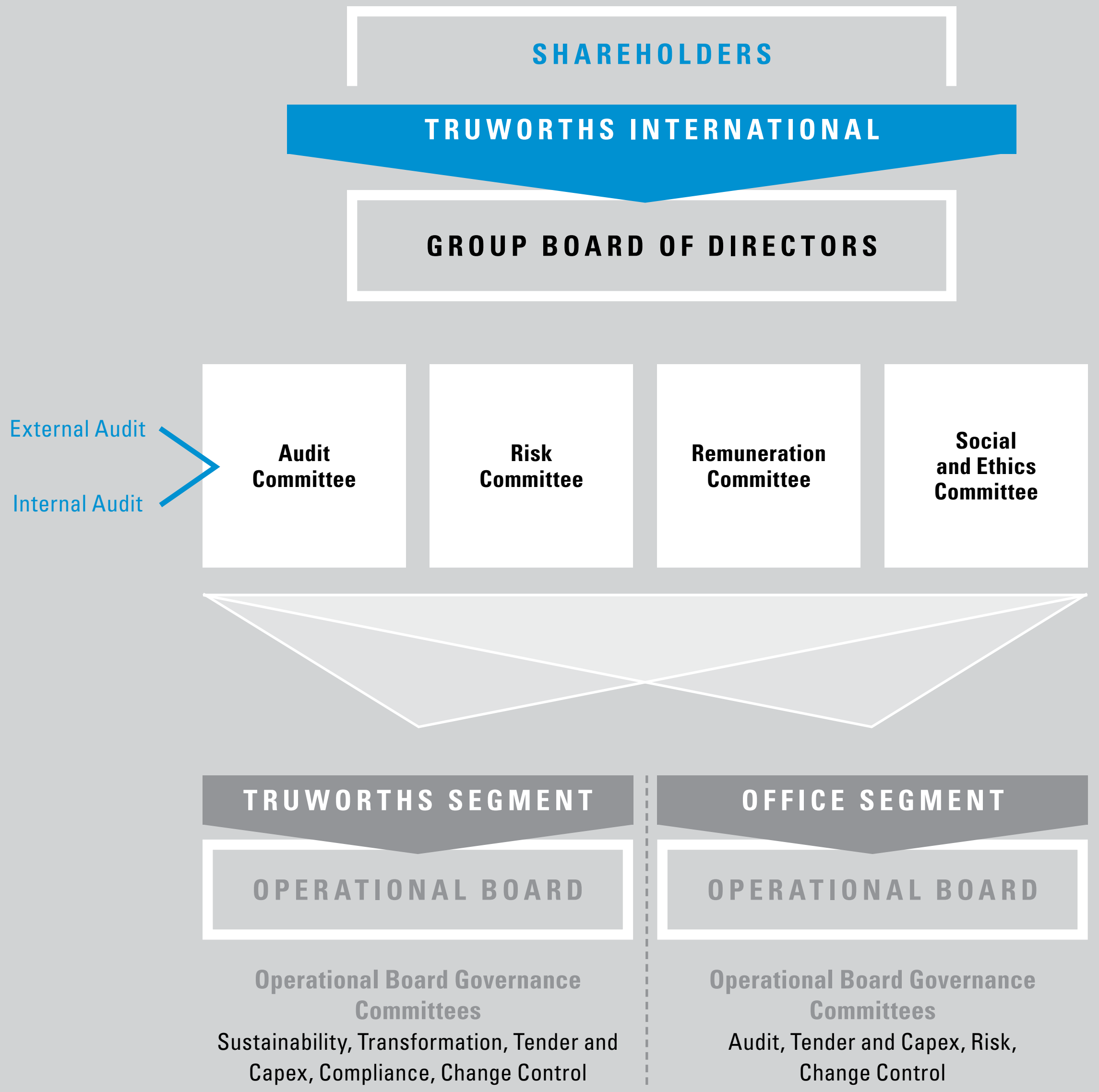
- To adopt a board gender diversity policy and target
- To appoint the Truworths Director: Buying and Merchandising as an executive director of the company

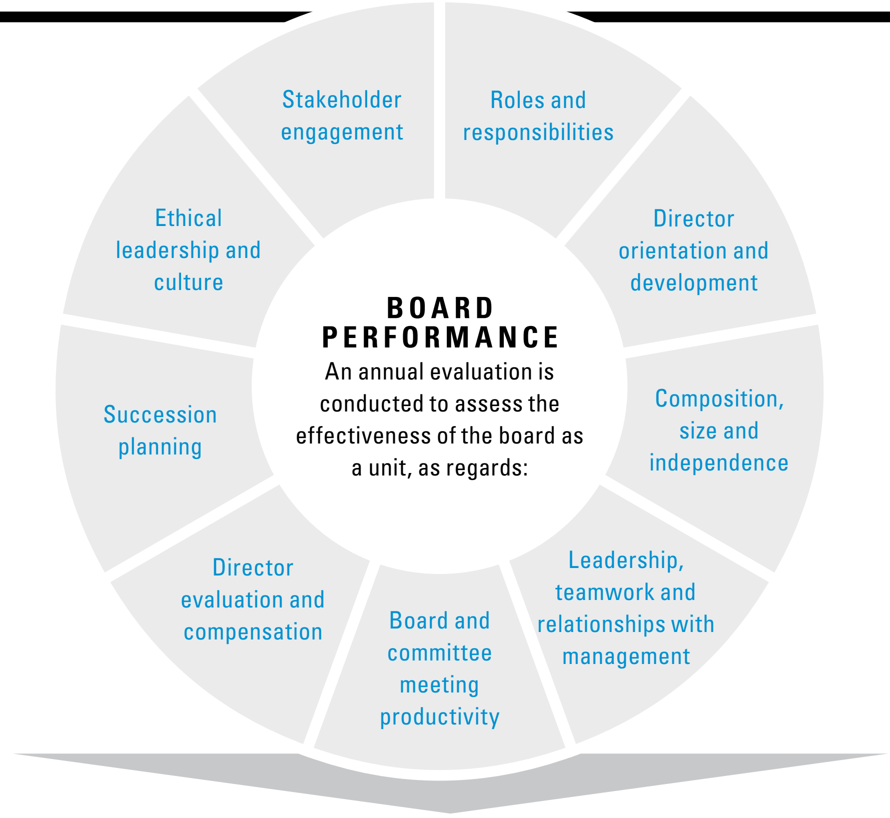
Routine matters

- To conduct a structured evaluation of the independence of the non-executive directors

BOARD AND GOVERNANCE PROCESSES

GOVERNANCE FRAMEWORK





The evaluation concluded that the board's overall functioning and governance were excellent and, amongst others, indicate that:

- the board believes that it is important to continue to evolve its composition by breadth of skill and by race and gender and continues to be mindful of the proportion of non-executive to executive directors;
- succession planning remains an important area of focus with particular attention to continue to be given to the succession plan for the Chief Executive Officer;
- the board is satisfied with the level of ethical behaviour and proper compliance standards throughout the organisation; and
- the board is satisfied that there is a high level of consideration of its various constituencies.

BOARD PRIORITIES FOR THE 2018 PERIOD

- Ensure that the board provides ethical leadership so that the Group operates within a culture of integrity and compliance.
- Ensure that the Group's international and local acquisition strategy maintains momentum in a low growth environment.
- Ensure that the Group's strategies for managing its key risks and suitably dealing with its material issues are appropriately implemented and regularly reviewed.
- Ensure that progress as regards succession planning for the Chief Executive Officer is made.
- Ensure that the performance of executive management against financial targets is regularly reviewed.

GOVERNANCE CREATING AND PROTECTING VALUE continued

SUMMARISED GOVERNANCE REVIEW

This report is a summary of corporate governance matters within the Group and should be read in conjunction with the more detailed Annual Corporate Governance Report 2017 available at www.truworths.co.za/investors.

During the 2017 financial period the Group continued to practise corporate governance at a high level, aimed at adding value to the business as well as facilitating the Group's sustainability, generating long-term shareholder value and benefiting other stakeholders.

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

An independent assessment of the Group's standard of governance is provided by the annual evaluation process for the FTSE/JSE Responsible Investment Top 30 Index, which relies on publicly available information. In the reporting period the Group again qualified for inclusion in this index attaining 100% (2016: 100%) for the corporate governance theme of the FTSE environmental, social and governance (ESG) ratings scorecard.

The directors confirm that during the 2017 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 and complied with the JSE Listings Requirements can be viewed at www.truworths.co.za/investors.

KING IV

The Group has commenced the process of assessing the impact of the King IV principles and welcomes the move towards an outcomes-based approach to corporate governance. While some changes to the Group's governance processes have already been brought about, the work involved to align the Group's governance structures, policies and processes with the King IV-recommended practices is ongoing.
The corporate governance disclosures relating to King IV that are required by the JSE Listings Requirements with effect from 1 October 2017 will be made in the Group's Integrated Report for the period ending 1 July 2018.

GOVERNANCE ADDING VALUE AT TRUWORTHS

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

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

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

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

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

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

BOARD AND COMMITTEE MEETING ATTENDANCE

Director	Status	Board	Audit Committee	Remune-ration Committee	Risk Committee	Non-executive and Nomination Committee	Social and Ethics Committee	Annual General Meeting
Hilton Saven	I	4/4#		4/4		4/4#		1/1
Rob Dow	I	4/4	3/3	4/4#		4/4		1/1
Michael Thompson	I	4/4	2/3#		3/4	4/4	3/3#	1/1
Thandi Ndlovu	I	4/4				4/4	3/3	1/1
Tony Taylor	I	4/4				4/4		1/1
Roddy Sparks	I	4/4	3/3			4/4		1/1
Khutso Mampeule*	I	3/3				4/4		1/1
Michael Mark	E	4/4			4/4#			1/1
David Pfaff	E	4/4			4/4		3/3	1/1
Doug Dare**	E	4/4						1/1
% attendance 2017		100	89	100	92	100	100	100
% attendance 2016		100	100	100	92	100	89	100

= Chairman E = Executive I = Independent non-executive * = Resigned March 2017 ** = Appointed August 2016

GOVERNANCE CREATING AND PROTECTING VALUE continued

GOVERNANCE DEVELOPMENTS IN 2017

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

Governance element	Governance development
Social and Ethics Committee	The committee adopted and structured its meeting agendas according to a board-approved framework to facilitate 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.
Non-executive director independence assessment	A formal written evaluation process was adopted and implemented by the board to assess the independence of non-executive directors with reference to regulatory measures or guidelines regarding independence.
Risk governance	The reporting by the Risk Committee to the board of the company has been enhanced to encompass reporting on risk management initiatives in and the top risk register of the Office business.
Board gender diversity policy	The board developed and adopted a gender diversity policy at board level, including the adoption of a medium-term target in this regard.
Risk governance in Office	The risk management process has been embedded into the Office business operations, and initiatives such as the functioning of a Risk Committee, the work of the Risk Officer, the conduct of a risk assessment process and the creation of risk registers for business units within the Office business have been further developed.
Office Audit Committee	The functioning of the Audit Committee established in Office has gathered traction and has added value to the financial reporting and internal control management processes.
Information technology (IT) governance	The IT governance processes have been extended to the Office business, including the involvement of the IT Audit Manager in promoting and monitoring IT governance, the routine consideration of IT governance matters on the agendas for Audit Committee meetings and the embedding of good IT governance practices in operations.
Anti-bribery and corruption policies	The Group's policies, and contracts with suppliers, agents and employees aimed at combating bribery and corruption were amended.

Governance element	Governance development
Supplier codes of conduct	The supplier codes of conduct for both local and international suppliers have been reviewed and further amended to reinforce the Group's zero tolerance approach to any forms of bribery and corruption, and insistence on full legislative compliance, especially as regards employee rights and protections.
Consumer and credit legislation compliance	Management implemented new processes in response to consumer and credit legislation changes, including the affordability assessment regulations under the National Credit Act, and commenced processes to ensure compliance with the Consumer Credit Act in Swaziland.
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.
Operational governance	The Group's operational governance within Office was embedded through the implementation of the Group's change control procedures, and the Group's lease and capital expenditure approval processes.
Procurement governance	The procurement policy governing the processes and authorisation levels that relate to the purchase of goods and services by the Truworths business has been reviewed and amended, as has the charter of the Tender and Capex Committee and the Tender and Contracts Approval Policy.
Tax risk governance	Management reviewed its Group-wide transfer pricing policy and inter-company agreements, and commenced the process of extending these policies to transactions between the Office and Truworths businesses to ensure cross-border transactions take place on an arm's length basis and the profit allocation reflects the underlying economic activities.
Sustainability reporting	The Group's reporting on environmental, social and governance issues was critically reviewed and upgraded through the publication of a comprehensive Social and Environmental Report.

2018 GOVERNANCE PRIORITIES

Board and governance priorities for the 2018 financial period will include:

- Further progressing the Group's application of the King IV principles.
- Further developing the corporate governance framework within the Office business.
- Further improving the Group's compliance with the regulatory requirements in the foreign territories in which it conducts operations.
- Further developing the Group's tax risk governance framework by reviewing and extending the Group's transfer pricing policy and the reporting of tax-related information to revenue authorities.
- Further extending the reporting by management to the Social and Ethics Committee and implementing an effective dashboard to enable the committee to monitor progress on key environmental, social and governance initiatives.
- The development by the board of a policy on the promotion of racial diversity at board level, including giving consideration to targets to be set for achieving such diversity.

The board will continue to follow an approach of continuous incremental improvement as regards governance practices and structures, to ensure the reasonable expectations of stakeholders as regards the Group's corporate governance standards are met.

REMUNERATION COMMITTEE REPORT

SECTION A: REPORT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Remuneration is an increasingly complex issue, and practices and policies continue to be enhanced. Such practices and policies aim to entrench a high-performance culture across the Group, ensure sustained value creation and align performance and reward with our business philosophies. The achievement of Group, team and individual performance 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, 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 (Remuneration Committee 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:

- Reviewed and approved the remuneration of the executive directors of Truworths International, and directors, divisional directors and key executives of principal subsidiaries (collectively referred to as 'executives').
- Reviewed and approved the short-term incentive payments to executives for the 2016 financial period.
- Reviewed and approved the short-term incentive targets for the 2017 financial period.
- Based on a benchmarking exercise, reviewed and recommended for approval by shareholders the non-executive directors' remuneration for the 2017 calendar year.
- Approved the issue of share-based awards in terms of the 2012 share scheme.
- Confirmed that all long-term remuneration allocations and payments were made in accordance with the rules of the long-term incentive schemes.
- Agreed and recommended for approval by the board the performance targets for the relevant share schemes in respect of awards being made in the current reporting period.
- Reviewed and amended the employment contract of the CEO prior to the announcement of his contract extension in 2016.
- Reviewed and recommended for approval to the Office Remuneration Committee the new Office share scheme rules.

The committee plans to undertake the following in the 2018 reporting period:

- 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.
- Review the current short-term incentive model to ensure that it remains relevant in its measures of shareholder growth requirements as well as rewarding high-performing employees.
- Implement and further refine reward policies, practices and communication for performance in store and account operations.
- Ensure the committee's composition and functioning is aligned with King IV.

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.

Rob Dow
Chairman: Remuneration Committee

REMUNERATION COMMITTEE REPORT continued

APPROVAL OF REMUNERATION POLICY AND IMPLEMENTATION REPORT

In terms of the King IV principles and the JSE Listings Requirements, the Group's remuneration policy and implementation report as set out in sections B and C which follow are required to be approved by way of separate advisory non-binding votes at the annual general meeting of the company.

Should 25% or more of the votes cast be against each or both of such non-binding ordinary resolutions, the company undertakes to engage with shareholders as to the reasons therefor.

SECTION B: REMUNERATION POLICY

Remuneration philosophy and principles

The Group's remuneration philosophy is aimed at driving 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 remuneration, 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:

- 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:

- Alignment of the executives' and shareholders' interests.
- Promotion of a culture of executive share ownership.
- Promotion of excellence in individual executive performance.
- Retention of executives.

The core principle of the Group's performance management process is the effective alignment of Group strategic objectives (refer to Group strategy on page 15) 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 awards	Performance awards
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 shares • Share appreciation rights	• Performance share plan shares • Performance appreciation rights • Office performance equity plan options • Office cash-settled phantom option scheme
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, and 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, thereby 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)
- Strategic goals

For incentive purposes, Group targets for ROA, EBIT growth and strategic goals 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.

Non-financial strategic goals include:

- Response to the affordability regulations in South Africa
- Introduction of Office London into South Africa
- Integration of Office into the Group
- Implementation of a new brand vision for each buying division

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 (STIs)

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

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

Non-financial targets are based on the long-term strategic goals of the business. The scheme is self-funded and the short-term incentives are only paid if the Group exceeds the financial performance targets after the cost of the incentives 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 short-term incentive is guaranteed. STIs are in the form of cash and the employees must be in service (and not in their notice period) on the date of payment.

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 (45% in the case of other executive directors) is paid on the achievement of an on-target performance level. Short-term incentive payments are capped at a maximum of 130% of guaranteed annual remuneration in the case of the CEO and 80% in the case of other executive directors with a sliding scale between the threshold and the maximum.

REMUNERATION COMMITTEE REPORT continued

Multiple of annual guaranteed earnings for STI purposes	Below threshold	Threshold	On-target	Maximum
CEO	0%	0%	70%	130%
Executive directors	0%	12%	45%	80%

The STI in respect of the 2017 reporting period, determined with reference to Group earnings before interest and tax (EBIT) with the performance hurdles set at 100% of the targeted Group EBIT, only became payable if the threshold EBIT 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. The CEO, CFO and Merchandise director, all of whom are executive members of the board, did not qualify to receive a STI as the threshold targets were not met.

Long-term incentives

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

The Group operates four share-based LTI schemes in terms of the 2012 share plan and has introduced an additional Office performance equity plan and an Office cash-settled phantom option scheme.

Retention awards	Performance awards
Restricted share plan shares	Performance share plan shares
Share appreciation rights	Performance appreciation rights
	Office performance equity plan options
	Office cash-settled phantom option scheme

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

- The maximum aggregate allocation resulting from all the schemes is limited to 10% of 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 restricted share plan scheme and share appreciation rights scheme have no performance conditions, and are utilised to support the retention of key executives and employees.
- The performance share plan scheme and performance appreciation rights scheme have performance targets, and are utilised to support and reward good long-term decision-making and financial performance.
- The Office performance equity plan takes the form of options with performance targets and these are utilised to support the retention of and reward key executives and employees involved in Office.
- Office cash-settled phantom options are awarded to support the retention of and reward key executives and employees directly contributing to the achievement of Office's short, medium and long-term strategic goals.
- Awards can be made across all six schemes and can vest over a period of up to six years.
- Where awards lapse, there is no replacement compensation.
- The committee assesses and approves all Group performance targets to ensure that the interests of all stakeholders are appropriately considered, and financial targets are set as an incentive for employees to perform, and simultaneously for the business to achieve stretch goals.
- All unvested shares and options, as well as unvested and unexercised vested rights are forfeited upon an employee's resignation or dismissal in terms of the scheme rules.
- Retention-focused long-term incentives awarded to existing executive directors may not make up more than 50% of the total long-term incentive allocations in any particular year. These will only be issued in exceptional circumstances as the intention is for all awards to executive directors to be performance linked.
- Performance-focused long-term incentives issued to executive directors will be subject to corporate performance targets.
- Based on shareholder engagement, financial performance hurdles for long-term incentives have been amended to include ROA, EBIT and non-financial strategic goals. Financial targets make up 70% of the weighting.
- The committee regularly monitors the overall actual and forecast impact of these schemes on Group earnings.
- Loans to employees pursuant to the legacy 1998 share option scheme have been discontinued (historical loans will remain in place until they are repaid in 2020).

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. 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 and options under the 2012 share plan and Office performance equity plan.

Non-executive directors' remuneration

Non-executive directors receive fixed fees for services rendered as directors and as members of board committees. These fees are based on an assessment of the non-executive directors' time commitment, responsibilities, skills and experience. All non-executive directors receive the same base board fees, regardless of their length of service. In line with best governance and remuneration practice, non-executive directors may not participate in Group 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.

SECTION C: APPLICATION OF THE REMUNERATION POLICY IN 2017

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.

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 committee annually reviews and approves any payment allocation made. While the Group's performance did not meet all the STI targets for the reporting period, the committee decided to pay reduced awards to certain high-performing employees and where individual performance targets were achieved. An amount of R28 million was 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 long-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 performance targets for the relevant share schemes in relation to awards being made in the 2017 reporting period.

The performance measures for awards made to executive directors in November 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 Office equity performance plan and the Office cash-settled phantom option scheme were reviewed and recommended by the committee for approval by the Office Remuneration Committee.

Share scheme allocations in the 2017 financial period

Scheme	Number of participants	Value of awards
Restricted share plan (with no performance targets)	298	R36m
Performance share plan (with performance targets)	27	R17m
Performance appreciation rights plan (with performance targets)	8	R2m
Office performance equity plan and Office cash-settled phantom option scheme	20	£2.5m

REMUNERATION COMMITTEE REPORT continued

Executive directors' remuneration

					Post-retirement benefits	Long-term benefits			
	Months paid	Salaries R'000	Performance bonus R'000	Allowances R'000	Pension contributions R'000	Interest benefit on share scheme loans R'000	Total remuneration R'000	Fair value of equity-based awards granted R'000	Loans pursuant to the 1998 share option scheme R'000*
2017									
Michael Mark	**12**	**9 100**	**–**	**76**	**–**	**3 460**	**12 636**	**9 658**	**43 254**
David Pfaff	**12**	**4 393**	**–**	**8**	**–**	**–**	**4 401**	**2 430**	**–**
Doug Dare	**10**	**2 986**	**–**	**20**	**–**	**96**	**3 102**	**2 358**	**1 443**
Total		**16 479**	**–**	**104**	**–**	**3 556**	**20 139**	**14 446**	**44 697**
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

* No further loans pursuant to the 1998 share option scheme are being granted. Prior loans will remain in place until they are repaid in 2020.

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

Non-executive directors' remuneration

The total fees paid to non-executive directors in respect of the 2017 financial period are detailed below.

	Total directors' fees		
	Months paid	**2017 R'000**	2016 R'000
Hilton Saven	12	**995**	878
Rob Dow	12	**610**	565
Thandi Ndlovu	12	**368**	337
Michael Thompson	12	**723**	653
Tony Taylor	12	**340**	315
Roddy Sparks	12	**470**	435
Khutso Mampeule	9	**253**	305
Total		**3 759**	3 488

The proposed fees of non-executive directors for the 2018 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 2018 R'000	Proposed % increase
Non-executive chairman	**925**	**9**
Non-executive director	**300**	**3**
Audit Committee chairman	**270**	**6**
Audit Committee member	**145**	**7**
Remuneration Committee chairman	**140**	**–**
Remuneration Committee member	**90**	**6**
Risk Committee member (non-executive only)	**90**	**6**
Non-executive and Nomination Committee chairman	**110**	**5**
Non-executive and Nomination Committee member	**65**	**8**
Social and Ethics Committee chairman	**65**	**8**
Social and Ethics Committee member (non-executive only)	**35**	**17**

WE ARE CONFIDENT

/PERFORMANCE REVIEW

CHIEF EXECUTIVE OFFICER'S REPORT

Michael Mark
Chief Executive Officer

R4.2bn OPERATING PROFIT

31% RETURN ON EQUITY

26% RETURN ON ASSETS

WE ARE 100 AND WE ARE 001

2017 is a momentous year for the Group. Not only does it mark the founding of Truworths 100 years ago but, even more significantly, it is also the start of our next 100 years of leading fashion.

We are immensely proud of reaching our first century of operation when looking back on the achievements which have brought us to where we are today. Truworths International is one of the largest apparel retailers in Africa, has a growing presence in the United Kingdom, generates retail sales of over R18 billion and has financial and operating metrics among the highest of its fashion retail peers worldwide.

However, as a high fashion retailer our focus is always on the future, looking to the seasons ahead to ensure we continue to exceed the expectations of our customers for quality internationally styled fashion.

BUSINESS PHILOSOPHY

As Truworths embarks on its next 100 years we remain committed to our business philosophy which has seen us thrive in good times and prove resilient in tough times.

This business philosophy drives the Truworths business model and ensures that we remain aligned with our strategic direction. While we change tactics to adapt to market conditions, competitive forces, environmental challenges and opportunities, our business philosophy remains intact and has not changed since being introduced more than two decades ago.

More recently a business philosophy has been developed for Office, confirming the brand's core purpose of being the world authority on fashion footwear.

CHALLENGING ENVIRONMENT

Our business philosophies have never been more relevant than in the current constrained retail environment.

Over the past year Truworths was impacted by pressure on consumer spending in the depressed economic climate in South Africa, while uncertainty in the United Kingdom in the aftermath of the Brexit vote contributed to volatile trading conditions for Office.

The retail trading environment locally has created stress in the market and led to increased markdown and promotional activity, as well as the closure of retailers and the down-scaling of others.

The affordability assessment regulations in SA continued to restrict new account growth and limit account sales. The onerous administrative burden requiring customers to produce documentation to verify their income contributed to the Truworths active account base declining by 4% to 2.5 million. Account granting strategies have been implemented in an attempt to mitigate the impact of the regulations and have largely arrested the decline in the number of active accounts in the second half of the financial period. The court proceedings initiated by Truworths and two other listed retailers against the National Credit Regulator and the Minister of Trade and Industry was heard in August 2017, with judgment pending.

RESILIENT PERFORMANCE

Despite these adverse trading conditions the Group achieved all the board-approved financial targets set at the start of the year.

Group retail sales for the 53 weeks increased by 9% to R18.5 billion, with Truworths contributing sales of R13.4 billion and Office R5.1 billion (£294 million). On a fully comparable basis retail sales for the period were unchanged.

The Group's retail footprint increased to 937 stores following the opening of a net eight new stores during the year. The store footprint comprises 734 stores in South Africa, 141 in the United Kingdom, 47 in the rest of Africa, eight in Germany and seven in the Republic of Ireland (including 38 concession outlets). Overall, trading space grew by 1.5%.

The Group's gross margin reduced by 30 basis points to 52.6%, with the results of the lower-margin Office business included for the full period compared to only 31 weeks in the prior period. Truworths' gross margin remained stable at 55.2% (2016: 55.3%), with the Office margin strengthening to 46.0% (2016: 45.6%, excluding exceptional items).

While the South African credit market continues to stabilise, large credit retailers have experienced a reduction in the number of active accounts. It is most encouraging that Truworths increased its market share of, and showed year-on-year growth in, the number of new accounts opened in the second half of the reporting period.

The Group's debtors book was unchanged at R5.8 billion. Overdue values as a percentage of the total debtors book and the percentage of active account holders able to purchase at the period-end were unchanged at 14% and 82% respectively, while the new account acceptance rate has increased from 24% to 26%. The doubtful debt allowance increased to 12.7%, up from 12.3% at June 2016.

Operating profit increased by 1% to R4.2 billion while the operating margin decreased to 23.3% from 24.9% owing to higher trading expenses and Office being included for the full 53 weeks.

A detailed analysis of the financial performance is included in the Chief Financial Officer's report on page 45.

SHARPEN THE SAW

We continually re-energise and reinvigorate the business to maintain our market leadership. In response to the tough market conditions we are currently experiencing the Group has embarked on a programme to 'sharpen the saw'.

Customer loyalty programmes were launched for Truworths (TruRoyalty) and Identity (iDream) in the second half of the period, aimed at increasing the customer's basket size and frequency of shopping. The programmes have attracted over 2 million non-account customers in addition to the 2.5 million active account customers who are automatically members of the programmes.

Office has been re-energised under its strong leadership team and is poised for growth. The world-class Office e-commerce platform and online offering is being further enhanced, while a totally modernised store design is being implemented for new stores.

Systems are being upgraded to remain at the forefront of technology, while new supply chain systems and refined processes are benefiting margin management, inventory control and ensuring faster lead times.

Shortly after the end of the reporting period the Group acquired Loads of Living[1], an upmarket South African linen and homeware chain, and also launched Office London footwear stores in South Africa. The new e-commerce platform for Truworths and Office London is scheduled for launch in the first half of the new financial period (refer to short-term growth strategies on the next page).

[1] Subject to Competition Commission approval at the time of preparing this report.

CHIEF EXECUTIVE OFFICER'S REPORT continued

SHORT-TERM GROWTH STRATEGIES

TRUWORTHS INTERNATIONAL

Integration of Office
Good progress has been made with the ongoing integration of Office into the Group, with the business reporting lower stock levels and an improved inventory turn following alignment with Truworths' retail processes and systems. Office has generated cash from operating activities of approximately £50 million (approximately R850 million) since acquisition and it is estimated that the Group's share of the equity value of R3.4 billion will be paid back over a period of five to six years.

TRUWORTHS INTERNATIONAL

Acquisitions
The Group will continue to pursue its strategy of complementing organic growth with the acquisition of fashion businesses that meet the board's investment criteria, with the primary focus on the United Kingdom and Europe. The acquisition of the Loads of Living chain of 14 stores in South Africa will accelerate the Group's entry into the fashion homeware market. Management plans to upgrade the store design, review the product range and expand the store base to ensure that the Group becomes a meaningful player in this market within the next five years.

TRUWORTHS

Launch of Office London
Based on the success of Office in the United Kingdom the Group has introduced Office London into the South African market, with 10 stores being opened during August 2017. The in-store offering of branded and in-house designed footwear will be complemented by an online offering.

TRUWORTHS

Expand kidswear presence
The Kids Emporium concept is unique in South African retail and houses the LTD Kids, Earthchild and Naartjie brands. A further 18 Kids Emporiums were opened in the 2017 financial period, increasing the footprint to 32. Customer response to the kidswear offering creates the opportunity for sustained store expansion for several years.

TRUWORTHS

E-commerce and online shopping
Truworths will be launching its new e-commerce site in the first half of the 2018 financial year. Through the online store customers will ultimately have access to the full range of Truworths, Identity, kidswear and Office London merchandise, with several payment options and delivery choices to ensure a convenient customer experience. The recently launched TruRoyalty and iDream customer loyalty programmes will be aligned with the new online offering.

OFFICE

Expanding retail presence and e-commerce
Office plans to expand its store footprint in the UK by opening 10 to 15 stores in the next two years, and about 5 stores in Europe over the next three years. The current e-commerce offering will be enhanced to offer customers an omni-channel shopping experience while a loyalty-based marketing programme is being developed to drive new and repeat purchases.

WE ARE 100: OUTLOOK

Trading conditions in our two major markets of South Africa and the United Kingdom will remain constrained in the year ahead, although there are encouraging signs in the outlook for world economic growth over the next 12 to 18 months.

Political uncertainty and the increased pressure on consumers' disposable income will ensure that the South African trading environment remains challenging.

Despite these headwinds we expect Truworths' performance to begin to show early signs of improvement in the 2018 financial period. Factors currently driving the prospects on the upside are the low to negative outlook for product inflation, stability in the debtors book, ongoing cost containment and the relatively lower base set in the 2017 financial period.

The continued impact of the affordability regulations remains a concern as they unreasonably restrict Truworths' ability to open new accounts and to grow account sales. We do, however, expect the Truworths' active account base to slowly increase in the 2018 financial period.

The trading environment for Office in the UK is expected to remain uncertain, with low economic growth prospects. We do, however, expect to realise ongoing benefits from the integration of Office, which will continue in the 2018 financial period.

We remain committed to investing for long-term growth and capital expenditure of R636 million (Truworths R493 million and Office R143 million) has been committed for the year ahead. Trading space is expected to grow by approximately 4% (Truworths 4% and Office 2%).

APPRECIATION

Thank you to our Chairman, Hilton Saven, and my fellow directors for their insight and counsel, and for sharing their collective wisdom.

The executive teams in Truworths and Office have again demonstrated outstanding leadership in particularly difficult trading conditions and I commend them on a job well done. I also extend my appreciation to our employees in Truworths and Office for their commitment and teamwork.

Thank you to our customers for making us their first choice for quality fashion apparel and footwear. We look forward to your continued support as we embark on our next hundred years of business.

M Mark

Michael Mark
Chief Executive Officer

FIVE-YEAR REVIEW OF FINANCIAL PERFORMANCE

Period Number of weeks			2017 53	2016 52	2015 52	2014 52	2013 52
Returns and margin performance		5-year average*					
Gross margin	(%)	55	**53**	53	55	56	57
Trading margin	(%)	20	**15**	17	21	23	26
Operating margin	(%)	29	**23**	25	31	32	35
Return on equity	(%)	35	**31**	35**	35	37	39
Return on assets	(%)	35	**26**	24**	38	42	46
Inventory turn	(times)	4.6	**4.5**	3.3**	4.7	5.3	5.4
Asset turnover	(times)	1.2	**1.1**	1.0**	1.2	1.3	1.3
Net debt to equity	(%)	25	**18**	33	–	–	–
Net debt to EBITDA	(times)	0.5	**0.4**	0.6	–	–	–
Return on invested capital (ROIC)	(%)	22	**17**	17@	24	25	26
Weighted average cost of capital (WACC)	(%)	13	**13**	13	14	14	13
ROIC divided by WACC	(times)	1.6	**1.3**	1.3	1.7	1.8	2.0
Statements of comprehensive income		5-year compound growth (%)*					
Sale of merchandise	(Rm)	15	**18 065**	16 654	11 290	10 458	9 765
Trading expenses	(Rm)	21	**(7 086)**	(6 240)	(4 116)	(3 668)	(3 202)
Trading profit	(Rm)	2	**2 708**	2 851	2 373	2 408	2 548
Profit before tax	(Rm)	4	**3 915**	3 946	3 437	3 357	3 366
Headline earnings	(Rm)	5	**2 836**	2 806	2 471	2 410	2 408
Statements of financial position							
Non-current assets	(Rm)	41	**6 559**	7 413	1 876	1 360	1 280
Cash and cash equivalents	(Rm)	6	**2 055**	1 592	1 462	1 588	1 325
Trade and other receivables	(Rm)	9	**5 256**	5 281	4 637	4 182	3 766
Inventories	(Rm)	23	**1 916**	2 401	1 074	863	787
Other current assets	(Rm)	39	**353**	374	108	83	113
Total assets	(Rm)	18	**16 139**	17 061	9 157	8 076	7 271
Total equity	(Rm)	10	**9 450**	8 625	7 504	6 642	6 224
Non-current liabilities	(Rm)	118	**4 709**	5 481	192	88	96
Current liabilities	(Rm)	19	**1 980**	2 955	1 461	1 346	951
Total equity and liabilities	(Rm)	18	**16 139**	17 061	9 157	8 076	7 271

Period Number of weeks			2017 53	2016 52	2015 52	2014 52	2013 52
Statements of cash flows		5-year compound growth (%)*					
Cash inflow from operations	(Rm)	13	**2 987**	2 839	2 145	2 542	2 198
Capital expenditure	(Rm)	16	**467**	599	380	289	270
Share performance							
Basic earnings	(cents per share)	5	**659.9**	667.1	591.2	575.9	570.8
Headline earnings	(cents per share)	5	**662.0**	667.6	593.8	576.8	570.8
Diluted headline earnings	(cents per share)	5	**660.9**	665.9	592.1	569.3	560.7
Cash flow	(cents per share)	13	**697.2**	675.5	515.5	608.4	521.0
Cash equivalent earnings	(cents per share)	6	**766.3**	759.0	642.9	634.8	604.9
Net asset value	(cents per share)	9	**2 201**	2 032	1 791	1 605	1 490
Dividends declared	(cents per share)	7	**452**	452	405	385	362
Dividend cover	(times)		**1.5**	1.5	1.5	1.5	1.6
Number of shares in issue	(000's)		**442 059**	436 183	429 328	422 640	463 806
Number of shares in issue (net of treasury shares)	(000's)		**429 410**	424 456	418 960	413 774	417 765
Weighted average number of shares	(000's)		**428 370**	420 263	416 149	417 757	421 905
Cumulative shares repurchased#	(Rm)		**3 030**	2 929	2 929	2 929	2 439
Cumulative shares repurchased#	(000's)		**96 541**	95 041	95 041	95 041	88 842
Closing share price	(cents per share)		**7 150**	8 769	8 649	7 490	8 695

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

* Impacted by the acquisition of Office. Net debt ratios reflect two-year averages.

** The 2016 ratios were previously based on the results of the Group including 12 months of Office's profits, excluding any exceptional non-recurring items. However, these have now been based on the actual Group results as disclosed.

@ The 2016 ratio is based on the results of the Group including 12 months of Office's profits, excluding any exceptional non-recurring items.

\# 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 10-Year Review, Ratios, Share Statistics and Definitions are available on the website at www.truworths.co.za/investors.

CHIEF FINANCIAL OFFICER'S REPORT

During the 2017 reporting period the Group encountered tough economic conditions in the South African and United Kingdom markets with Truworths' account sales continuing to be impacted by the affordability assessment regulations. While Group retail sales were slower than expected and effectively remained unchanged on the prior period (on a 52-week basis and in constant currency), the Group demonstrated good management of costs, margins, inventory and debtors. The business remained strongly cash generative with a healthy cash balance and robust balance sheet at the end of the period.

David Pfaff
Chief Financial Officer

52.6% GROSS MARGIN

up 8% NET ASSET VALUE PER SHARE

R3.0bn CASH GENERATED FROM OPERATIONS UP 8%

100 WE ARE 100

In this environment it is pleasing that the Group achieved all seven of its published financial and operating targets set for the 2017 period.

The Group's operating profit increased by 1% to R4.2 billion and diluted headline earnings per share (HEPS) were 1% lower at 661 cents.

Cash generated from operations increased by 8% to R3.0 billion and the Group's cash balance was 29% higher at R2.1 billion at the end of the financial period.

Importantly, the directors have shown their confidence in the Group's prospects in this challenging trading environment and maintained the annual dividend at 452 cents per share, with a dividend cover of 1.5 times.

KEY RISKS IMPACTING OUR FINANCIAL PERFORMANCE

The Group's ability to create value for shareholders is impacted by several factors in the operating environment. These factors or risks are monitored on a continuous basis to ensure the Group is able to identify and implement appropriate mitigating strategies as part of its financial risk management policies and overall risk governance strategy.

Risk	**VOLATILE MACROECONOMIC AND POLITICAL ENVIRONMENT**	**EXCHANGE RATE VOLATILITY AND DEPRECIATING CURRENCIES**	**AFFORDABILITY ASSESSMENT REGULATIONS**
Impact	**Low economic growth, political instability and the sovereign credit-rating downgrades in South Africa, and Brexit in the United Kingdom, collectively contribute to declining consumer disposable income and negative consumer sentiment, which in turn have a direct impact on the Group's ability to grow sales revenue.**	**Exchange rate volatility has a direct impact on the cost of imported goods, specifically in Truworths where approximately 65% of all merchandise is imported and US dollar denominated, which in turn constrains sales growth in an economy dominated by uncertainty and growing pressure on consumers' disposable income.** **The weaker pound has increased the cost of euro-denominated imports and other inputs incurred by Office, and reduced the Group's foreign revenues and profits when translated into Rand.**	**The introduction of additional credit affordability assessment regulations in September 2015 has inhibited our ability to grow the number of active accounts, resulting in pressure on account sales.**
How we are responding	• Diversifying the brand offering through the launch of Office London in South Africa and acquisition of Loads of Living. • Expand kidswear offering. • Complement organic growth with acquisition of fashion businesses, with a focus on the United Kingdom and Europe. • Launched TruRoyalty and iDream loyalty programmes in Truworths. • Enhanced Office's online offering and preparing to launch enhanced e-commerce platform and websites in Truworths across all brands. • Focus on cost containment through tight financial control to mitigate the bottom-line impact of subdued top-line growth.	• All import orders are covered using forward exchange contracts in terms of the Group's currency risk management policy. • The gross profit margin is protected through forward cover, by planning in value rather than units to contain markdowns and through quick reaction to sales performance.	• Together with two other major listed retailers, Truworths instituted legal action against the National Credit Regulator and the Minister of Trade and Industry in 2016 to have the affordability regulations reviewed. The matter was heard in August 2017, with judgment pending. • Introduced several strategic initiatives to reduce the gap between number of account applications and number of new accounts opened. • Focus on improving sales from existing customers through account limit management and customer reactivation. • Grow cash sales base by introducing brands that are aimed at attracting more affluent cash customers.

CHIEF FINANCIAL OFFICER'S REPORT continued

ANALYSIS OF FINANCIAL PERFORMANCE

The following analysis of performance aims to demonstrate how the Group's financial capital has been increased, decreased or transformed through the Group's operating and investing activities in the 2017 reporting period, and how the effective management of this capital is expected to contribute to value creation for shareholders in the short, medium and long-term.

In line with the general practice in the South African retail industry, the Group manages its operations in accordance with a retail calendar, which treats each financial year as an exact 52-week period. This treatment effectively results in the 'loss' of a day (or two days in a leap year) each calendar year. These days are brought to account every four to seven years by including a 53rd week in the financial reporting calendar, as is the case for the 2017 financial period.

All results are reported for the 53-week period and, where relevant, performance for the 52 weeks has been included to allow for meaningful comparison with the prior financial period and to ensure transparent reporting to shareholders. For more detail refer to note 12 in the 2017 Preliminary Report on the Audited Group Annual Results available at www.truworths.co.za/investors.

It is also important to note that the prior period results include the non-comparable 31 weeks' results of the Group's UK business, Office, which was acquired in December 2015.

The following review of financial performance for the 53-week period ended 2 July 2017 should be read together with the Group's Audited 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 financial performance objectives for the forthcoming financial 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.

	Actual 2017	Target 2017	Target achieved	Local benchmark*	Global benchmark**
Gross margin (%)	52.6	51 – 55	√	44.3	56.1
Operating margin (%)	23.3	21 – 25	√	16.6	14.9
Return on equity (%)	31	30 – 35	√	30	29
Return on assets (%)	26	22 – 27	√	26	22
Inventory turn (times)	4.5	3.0 – 4.0	√	3.8	3.3
Asset turnover (times)	1.1	0.9 – 1.3	√	1.6	1.6
Net debt to equity (%)	18	25	√	–	–

* The local benchmarks are based on the average ratios for comparable JSE-listed apparel retailers for the 2017 period.

** The global benchmarks are based on the average ratios for global fashion retailers, H&M and Inditex, for the 2016 period.

Statements of comprehensive income

Sale of merchandise

Group retail sales increased by 9% (6% on a pro forma 52-week basis) to R18.5 billion, with cash sales growth of 16% and account sales growth of 2%.

Account sales comprised 50% (2016: 53%) of retail sales for the period.

Group sale of merchandise, which comprises Group retail sales, together with wholesale and franchise sales and delivery fee income, less accounting adjustments, grew 8% (6% on a pro forma 52-week basis) to R18.1 billion (2016: R16.7 billion).

Group trading space increased by 1.5% following the opening of a net eight stores. At the end of the period the Group had 937 stores (including 38 concession outlets) (2016: 929 including 44 concession outlets).

Divisional sales	2017 53 weeks Rm	Pro forma 2017 52 weeks Rm	2016 52 weeks Rm	Change on prior period 53 on 52 weeks %	Change on prior period 52 on 52 weeks %
Office@	**5 081**	**4 984**	3 751	35	33
Truworths Ladieswear Emporium	**4 672**	**4 556**	4 794	(3)	(5)
Truworths Menswear Emporium	**2 813**	**2 736**	2 713	4	1
Identity	**2 129**	**2 075**	2 186	(3)	(5)
Truworths Designer Emporium‡	**1 696**	**1 657**	1 680	1	(1)
Truworths Kids Emporium#	**896**	**878**	816	10	8
Other^	**1 185**	**1 159**	1 075	10	8
Group retail sales	**18 472**	**18 045**	17 015	9	6
Delivery fee income	**53**	**52**	34	56	53
Wholesale sales	**50**	**50**	–	n/a	n/a
Franchise sales	**8**	**8**	9	(11)	(11)
Accounting adjustments	**(518)**	**(518)**	(404)	28	28
Sale of merchandise	**18 065**	**17 637**	16 654	8	6
YDE agency sales	**278**	**274**	292	(5)	(6)

@ Office sales for the prior period represents the 31 weeks since acquisition and were translated at a significantly higher average exchange rate (R/£ 22.15) compared to the current period's 53-week sales (R/£ 17.27).

‡ Daniel Hechter, LTD and Earthaddict.

\# LTD Kids, Earthchild and Naartjie.

^ Cellular, Truworths Jewellery and Cosmetics divisions.

Gross margin

The Group's gross margin was 52.6% (2016: 52.9%). The lower gross margin of Office, which is now consolidated for the full period, compared to only 31 weeks in the prior period, has impacted the Group's gross margin.

Trading expenses

Trading expenses increased 14% to R7.1 billion (2016: R6.2 billion) and constituted 39.2% (2016: 37.5%) of sale of merchandise. The increase is principally due to the financial results of Office only being included for 31 weeks in the prior period. For further detail on trading expenses refer to the Truworths and Office sections in this report.

Interest received

Interest received increased 15% to R1.5 billion (2016: R1.3 billion), resulting mainly from increases totalling 125 basis points in the South African repo rate since the commencement of the prior period.

Operating profit

Operating profit increased 1% to R4.2 billion while the operating margin decreased to 23.3% from 24.9% owing to the increase in trading expenses.

Finance costs

Interest-bearing borrowings were raised in Truworths five months into the prior period to fund operating expenditure, and therefore Group finance costs have increased to R295 million (2016: R208 million).

Earnings

HEPS and diluted HEPS declined marginally by 1% to 662.0 cents and 660.9 cents respectively. Relative to the prior period's adjusted diluted HEPS[1] of 688.2 cents, diluted HEPS decreased 4%. Excluding the 53rd week's performance from the period, the pro forma diluted HEPS for the 52-week period decreased by 6% to 626.0 cents.

Statements of financial position

The Group's financial position remains strong, with net asset value per share increasing by 8% to 2 200.7 cents (2016: 2 031.8 cents).

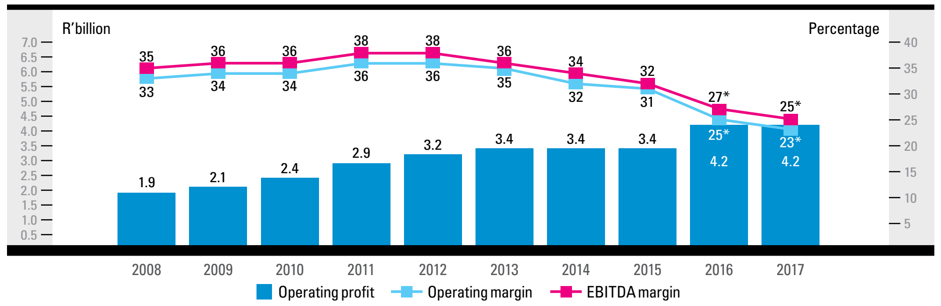
Goodwill and intangible assets decreased 14% and 16% respectively, mainly due to the weakening of the pound sterling.

Inventories decreased by 20% to R1.9 billion at the end of the period. Gross inventory decreased 18% and inventory turn improved to 4.5 times (2016: 3.3 times). The inventory of Office reduced from £57 million at the prior period-end to £47 million due to the strategic focus on optimising the Office stock holding. The Office inventory turn improved to 3.4 times in pound sterling (2016: 2.7 times, compared to 2.5 times in 2015 prior to being acquired by the Group). Excluding the inventory of Office, gross inventory decreased 5% and inventory turn increased to 5.2 times (2016: 4.7 times).

Interest-bearing borrowings at the period-end decreased to R3.8 billion from R4.4 billion at the prior period-end as a consequence of scheduled loan repayments, the settlement of the Office short-term funding, as well as a more favourable pound sterling translation rate.

Included in non-current liabilities is a liability of R400 million (2016: R562 million) in relation to put options granted to the non-controlling management shareholders in Office, while

OPERATING PROFIT TREND



* Impacted by the acquisition of Office.

1. Diluted HEPS adjusted to exclude the impact of the once-off Office transaction-related costs in the prior period.

CHIEF FINANCIAL OFFICER'S REPORT continued

derivative financial assets of R11 million (2016: R15 million) represent the call options of the Group over the shares in question.

Trade and other payables decreased 25% to R1.6 billion (2016: R2.2 billion) because creditor payments for June 2017 were made before the period-end compared to June 2016 when such payments were made after the period-end.

Capital management

The Group's capital management activities focused on the continued investment in the organic growth of the business and on returning funds to shareholders through dividend payments and share buy-backs.

During the period the Group generated R3.0 billion in cash from operations and this funded mainly cash dividend payments of R1.5 billion, capital expenditure of R467 million, share buy-backs of R101 million and loan repayments of R324 million. At the end of the period the Group had cash and cash equivalents of R2.1 billion, an increase of 29% on the prior period-end.

The Group's net debt to equity ratio at the end of the period was 18% (2016: 33%) and 0.4 times EBITDA (2016: 0.6 times).

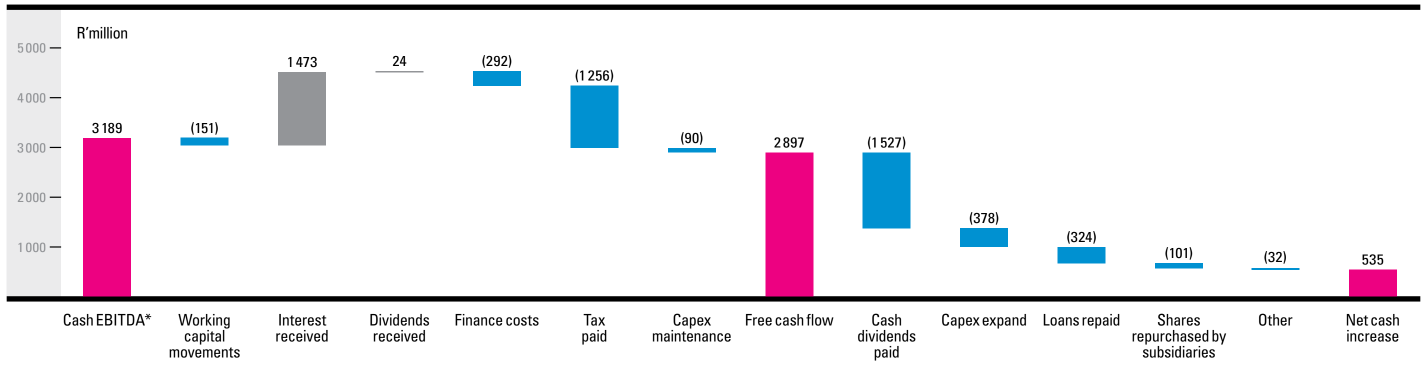
The net debt to equity ratio at the period-end is comfortably below the Group's medium-term targeted net debt to equity ratio of 25%.

TRUWORTHS AND OFFICE BUSINESS SEGMENTS

Management monitors the operating results of the Truworths and Office 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 with reference to revenue and profit after tax.

2017		Truworths Rm	Office Rm	Consoli-dation entries Rm	Group Rm
Total third party revenue		14 699	5 163	(4)	19 858
Third party		14 695	5 163	–	19 858
Inter-segment		4	–	(4)	–
Sale of merchandise		12 907	5 158	–	18 065
Retail sales		13 391	5 081	–	18 472
Accounting adjustments		(497)	(21)	–	(518)
Wholesale and franchise sales and delivery fee income		13	98	–	111
Depreciation and amortisation		277	112	–	389
Employment costs		1 438	656	–	2 094
Occupancy costs		1 361	794	–	2 155
Trade receivable costs		1 207	2	–	1 209
Other operating costs		875	368	(4)	1 239
Interest received		1 477	1	–	1 478
Operating profit		3 763	447		4 210
Finance costs		253	42	–	295
Profit for the period		2 514	352	–	2 866
Profit before tax		3 510	405	–	3 915
Tax expense		(996)	(53)	–	(1 049)
Gross margin	(%)	55.2	46.0	–	52.6
Trading margin	(%)	17.5	8.6	–	15.0
Operating margin	(%)	29.2	8.7	–	23.3
Inventory turn	(times)	5.2	3.5	–	4.5
Account:cash sales mix	(%)	70:30	0:100	–	50:50

GROUP CASH FLOW ANALYSIS



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

TRUWORTHS

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

Statements of comprehensive income

Sale of merchandise

Sale of merchandise remained unchanged at R12.9 billion, and decreased by 2% to R12.6 billion for the comparable 52-week period on a pro forma basis.

Retail sales in Truworths increased 1% to R13.4 billion (but declined by 2% to R13.1 billion for the comparable 52-week period) with cash sales contracting by 2% and account sales growing by 2%. Account sales comprised 70% (2016: 69%) of retail sales. Product inflation averaged 12% for the period.

The South African operations accounted for 96% (2016: 96%) of the Truworths segment's retail sales with the 47 stores in the rest of Africa contributing the balance.

Retail space increased by 1.6% as a net 11 new stores were opened.

The trading density remains among the highest in the local retail sector at R37 261 per m² p.a. (2016: R37 350 per m² p.a.).

Gross margin

The gross margin remained stable at 55.2% (2016: 55.3%).

Trading expenses

Excluding the foreign exchange movements in both years, trading expenses increased 6% and reflect the positive impact of management's cost-saving initiatives.

Analysis of trading expenses	2017 Rm	2016 Rm	Change %
Depreciation and amortisation	277	259	7
Employment costs	1 438	1 426	1
Occupancy costs	1 361	1 265	8
Trade receivable costs	1 207	1 092	11
Other operating costs	875	694#	26*
Total trading expenses	5 158	4 736	9**

\# R794 million less R100 million of once-off transaction fees on-charged to Office.
* 7% excluding the impact of foreign exchange gains and losses in both periods.
** 6% excluding the impact of foreign exchange gains and losses in both periods.

- Depreciation and amortisation increased by 7% mainly as a result of capital expenditure of R407 million. Excluding non-comparable stores, depreciation increased 5%.
- Employment costs grew by 1%. Excluding non-comparable stores and other non-comparable costs (incentives and share scheme expenses), employment costs increased 5%.
- Occupancy costs increased by 8% driven by trading space growth of 1.6%, average rental escalations of 7% and utility cost increases of 10%. Comparable occupancy costs increased by 5%.
- Trade receivable costs increased by 11% and the doubtful debt allowance increased from 12.3% to 12.7% of gross trade receivables. Net bad debt as a percentage of gross trade receivables increased from 12.4% to 15.0% as a result of no growth in the book and increased bad debts resulting from high account sales growth in the prior period. Trade receivable income of R1 426 million exceeded the trade receivable costs of R1 385 million by R41 million.
- Other operating costs increased by 26%, but excluding the foreign exchange movements in both years (2017: losses of R93 million; 2016: gains of R34 million), other operating costs increased by 7%.

Interest received

Total interest received increased by 15% to R1 477 million. Trade receivable interest, excluding notional interest, increased by 13% to R1 260 million owing to increases totalling 125 basis points in the South African repo rate since the commencement of the prior period.

Finance costs

Trading operations have been partly financed through interest-bearing borrowings since December 2015. Finance costs increased to R253 million (2016: R171 million) due to the interest incurred on these borrowings for the full 12 months in the current period.

Trading and operating profit

Trading profit decreased by 15% to R2.3 billion (2016: R2.7 billion) and the trading margin declined from 20.6% to 17.5%.

Operating profit (profit before finance costs and tax) decreased by 5% to R3.8 billion (2016: R4.0 billion), with the operating margin reducing from 30.7% to 29.2%.

CHIEF FINANCIAL OFFICER'S REPORT continued

OFFICE

This analysis covers the financial performance of the Office business segment, which operates in the United Kingdom, Germany and Republic of Ireland.

Statements of comprehensive income

Sale of merchandise

Sale of merchandise increased by 6% to £299 million (R5.2 billion) and by 4% on a pro forma 52-week basis relative to the comparable prior period.

Retail sales grew by 5% to £294 million (R5.1 billion) (increase of 3% for the comparable 52-week period) relative to the comparable prior period's retail sales of £281 million (R6.0 billion). Of these retail sales, £169 million (R3.8 billion) was included in the Group's results for the prior period with effect from the December 2015 acquisition date. Trading space decreased by 0.4%.

E-commerce sales showed continued strong growth and now account for 28% of total retail sales.

The United Kingdom accounted for 92% of retail sales, Germany 5% and the Republic of Ireland 3%.

Retail sales	2017 53 weeks £m	2017 52 weeks £m	Number of stores 2017	2016 52 weeks £m	Number of stores 2016
United Kingdom	271	266	141	261	147
Germany	14	14	8	11	7
Republic of Ireland	9	9	7	9	5
Total	294	289	156*	281	159*

* Includes 38 concession stores (2016: 44).

Gross margin

The gross margin strengthened to 46.0% (2016: 45.6% excluding exceptional items).

Trading expenses

Analysis of trading expenses	2017 53 weeks £m	2016 52 weeks £m#	Change %
Depreciation and amortisation	6.5	5.8	12
Employment costs	38.0	37.7	–
Occupancy costs	45.9	41.1	12
Other operating costs	21.5	20.6	4
Total trading expenses	111.9	105.2	6

Excluding exceptional items.

- Depreciation and amortisation increased by 12%, owing to a change in the depreciation policy during the 2016 financial period to align with Truworths, resulting in a lower base. Excluding this policy alignment, depreciation and amortisation decreased by 2%.
- Employment costs remained unchanged compared to the prior period. The increase in UK minimum wages and higher recruitment costs was partially off-set by a decrease in headcount as well as savings in store employment costs due to lower sales resulting in reduced incentives being paid.
- Occupancy costs increased by 12%. Rent review releases during the 2016 period resulted in a lower base while a net three stores were closed during the current period. Costs were impacted by further recognition of onerous lease provisions in the reporting period, whilst the depreciating value of the pound sterling against the euro resulted in increased costs of stores in Germany and the Republic of Ireland. Comparable occupancy costs increased by 4%.
- Other operating costs were 4% higher because of increased sales-related e-commerce costs.

Operating profit

Operating profit increased by 7% to £26 million (decreased 1% on a pro forma 52-week basis) with the operating margin (excluding exceptional items) increasing from 8.5% to 8.7% (decreasing to 8.2% on a pro forma 52-week basis).

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 R71 million (2016: R82 million) was invested in the upgrading and installation of new IT systems and infrastructure.

The Group has committed R132 million for Truworths' and Office's IT capital expenditure for the 2018 reporting period.

Truworths

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

- Completed and stabilised the implementation of a new automated warehouse management system
- Implemented systems that support the new customer loyalty programmes for Truworths and Identity
- Improved processes to open new accounts that align with the affordability assessment regulations
- Continued the development of the new e-commerce solution, which will be launched in the first half of the 2018 financial period
- Started the development of the Office London South Africa website and in-store improvements to provide for omni-channel customer experience
- Implemented a new customer master data management application bringing all customer-related information into a single mastered environment

Key projects for the new reporting period will include upgrading core components of the retail merchandising systems and enabling centralised pricing strategies across all channels. Omni-channel capabilities will continue to be enhanced with broader online offerings.

Office

The main focus during the reporting period was enhancing Office's e-commerce capability while the merchandising planning system was implemented towards the end of the financial year.

IT priorities for the 2018 reporting period are:

- Merchandising: improved commitment visibility, business analytics reporting and style performance system
- E-commerce: online multi-currency transacting; enhancement of payment gateway; store stock visibility; improved delivery options and enhanced in-store pricing
- Finance: replacement of the financial accounting system and implementation of e-procurement
- Supply chain: replacement of the warehouse system

GROUP TARGETS AND PLANS FOR 2018

The financial and operating targets have been reviewed for the 2018 reporting period. Three of the targets have been revised, while the targets for gross margin, return on assets, asset turnover and net debt to equity remain unchanged. These targets are as follows:

		Targets 2018	Targets 2017
Gross margin	(%)	51 – 55	51 – 55
Operating margin	(%)	20 – 25	21 – 25
Return on equity	(%)	26 – 31	30 – 35
Return on assets	(%)	22 – 27	22 – 27
Inventory turn	(times)	3.5 – 4.5	3.0 – 4.0
Asset turnover	(times)	0.9 – 1.3	0.9 – 1.3
Net debt to equity	(%)	25	25

Capital expenditure of R636 million (Truworths R493 million and Office R143 million) has been committed for the 2018 financial period and will be utilised mainly as follows:

- R431 million for new stores and the expansion and refurbishment of existing stores
- R132 million for information systems
- R39 million for buildings
- R23 million for head office refurbishment

Trading space is planned to increase by approximately 4% (Truworths 4% and Office 2%). This has been revised down from the 5% previously reported as a result of the development of some shopping malls in South Africa being delayed.

Product inflation for Truworths is expected to be low to negative and for Office approximately 3% to 4% in the 2018 reporting period.

The trading outlook for Truworths and Office as well as the Group's prospects for the 2018 financial period are covered in the Chief Executive Officer's report on page 42.

APPRECIATION

Thank you to our shareholders and the broader investment community both locally and internationally for their continued investment and interest in the Group. I also extend my appreciation to the finance teams in Truworths and Office for their dedication and professionalism, and for ensuring that the Group maintains its high standard of financial reporting and disclosure.

David Pfaff
Chief Financial Officer

100 WE ARE 100

SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS

The information in these summarised Group annual financial statements has been extracted from the Group's 2017 Audited Annual Financial Statements and the Preliminary Report on the Audited Group Annual Results.

SUMMARISED GROUP STATEMENTS OF FINANCIAL POSITION

		2 Jul 2017 Rm	26 Jun 2016 Rm
ASSETS			
Non-current assets		**6 559**	7 413
Property, plant and equipment		**1 637**	1 622
Goodwill		**1 552**	1 805
Intangible assets		**3 037**	3 631
Deferred tax		**229**	230
Derivative financial assets		**11**	15
Other non-current assets		**93**	110
Current assets		**9 580**	9 648
Inventories		**1 916**	2 401
Trade and other receivables		**5 256**	5 281
Cash and cash equivalents		**2 055**	1 592
Other current assets		**353**	374
Total assets		**16 139**	17 061
EQUITY AND LIABILITIES			
Total equity		**9 450**	8 625
Non-current liabilities		**4 709**	5 481
Interest-bearing borrowings		**3 641**	4 042
Put option liability		**400**	562
Other non-current liabilities		**668**	877
Current liabilities		**1 980**	2 955
Interest-bearing borrowings		**144**	366
Contingent consideration obligation		**62**	42
Other current liabilities		**1 774**	2 547
Total liabilities		**6 689**	8 436
Total equity and liabilities		**16 139**	17 061
Number of shares in issue (net of treasury shares)	(millions)	**429.4**	424.5
Net asset value per share	(cents)	**2 200.7**	2 031.8
Key ratios			
Return on equity	(%)	**31**	35
Return on capital	(%)	**46**	51
Return on assets	(%)	**26**	24
Inventory turn	(times)	**4.5**	3.3
Asset turnover	(times)	**1.1**	1.0
Net debt to equity	(%)	**18.3**	32.6
Net debt to EBITDA	(times)	**0.4**	0.6

Total additions of R431 million, of which R377 million was spent on plant and equipment.

Impacted by the weakening of the pound.

Impacted by the weakening of the pound.

Computer software of R37 million was purchased.

Group inventories decreased 20%.

Excluding Office, gross inventory decreased 5% due to good inventory management and assisted by the end-of-season sale in week 53. Inventory turn increased to 5.2 times (2016: 4.7 times).

Inventory in Office decreased 17% in pounds from £57 million in the prior period to £47 million. Inventory turn improved to 3.4 times (2016: 2.7 times on a 12-month basis) due to strategic focus and effort to optimise inventory holding.

Trade and other receivables remained unchanged. The allowance for doubtful debts increased to 12.7% (2016: 12.3%) of gross trade receivables.

Cash generated from operations increased 8%, mostly due to larger reduction in inventory compared to the prior period (assisted by pound weakness) and no growth in trade receivables, off-set to some extent by a reduction in trade creditors due to payment before period-end (2016: payment after period-end).

Reduced by R623 million due to the scheduled repayments of debt, the settlement of the Office working capital facility and the impact of the weakening of the pound.

Put options granted to the non-controlling management shareholders in Office. These give the holders the right to sell their shares in a subsidiary in tranches at the end of the 2019, 2020 and 2021 financial years.

Trade and other payables, included in other current liabilities, reduced 25% due to payment of creditors before period-end (2016: payment after period-end).

All Group published financial targets have been achieved. Refer to the Chief Financial Officer's report on page 46.

The net debt to equity ratio at the period-end is comfortably below the Group's medium-term targeted net debt to equity ratio of 25%.

SUMMARISED GROUP STATEMENTS OF COMPREHENSIVE INCOME

		53 weeks to 2 Jul 2017 Rm	Pro forma 52 weeks to 25 Jun 2017@ Rm	52 weeks to 26 Jun 2016* Rm
Revenue		**19 858**	**19 428**	18 231
Sale of merchandise		**18 065**	**17 637**	16 654
Cost of sales		**(8 562)**	**(8 362)**	(7 837)
Gross profit		**9 503**	**9 275**	8 817
Other income		**291**	**291**	274
Trading expenses		**(7 086)**	**(7 071)**	(6 240)
Trading profit		**2 708**	**2 495**	2 851
Interest received		**1 478**	**1 476**	1 288
Dividends received		**24**	**24**	15
Operating profit		**4 210**	**3 995**	4 154
Finance costs		**(295)**	**(290)**	(208)
Profit before tax		**3 915**	**3 705**	3 946
Tax expense		**(1 049)**	**(992)**	(1 129)
Profit for the period		**2 866**	**2 713**	2 817
Attributable to:				
Equity holders of the company		**2 827**	**2 677**	2 804
Holders of the non-controlling interest		**39**	**36**	13
		2 866	**2 713**	2 817
Basic earnings per share	(cents)	**659.9**	**624.9**	667.1
Headline earnings per share	(cents)	**662.0**	**627.0**	667.6
Adjusted headline earnings per share	(cents)	**662.0**	**627.0**	690.0#
Diluted basic earnings per share	(cents)	**658.8**	**623.9**	665.4
Diluted headline earnings per share	(cents)	**660.9**	**626.0**	665.9
Adjusted diluted headline earnings per share	(cents)	**660.9**	**626.0**	688.2#
Gross margin	(%)	**52.6**	**52.6**	52.9
Trading expenses to sale of merchandise	(%)	**39.2**	**40.1**	37.5
Trading margin	(%)	**15.0**	**14.1**	17.1
Operating margin	(%)	**23.3**	**22.7**	24.9
Reconciliation of headline earnings per share:				
Basic earnings per share	(cents)	**659.9**	**624.9**	667.1
Impairment of fixed and financial assets	(cents)	**2.1**	**2.1**	–
Loss on disposal of property, plant and equipment	(cents)	**–**	**–**	0.5
Headline earnings per share	(cents)	**662.0**	**627.0**	667.6
Reconciliation of diluted weighted average number of shares:				
Weighted average number of shares	(millions)	**428.4**	**428.4**	420.3
Add: Dilutive effect of share options and share appreciation rights	(millions)	**0.7**	**0.7**	1.1
Diluted weighted average number of shares	(millions)	**429.1**	**429.1**	421.4

@ In line with the practice generally prevailing in the South African retail industry, the Group manages its internal accounting and retail operations in accordance with a retail calendar, which treats each financial year as an exact 52-week period. This treatment effectively results in the 'loss' of a day (or two in a leap year) per calendar year. These days are brought to account every four to seven years by including a 53rd week in the financial reporting calendar. The Group's earnings are higher as a result of trading during this week.

Although the Group has reported financial results for 53 weeks to 2 July 2017, it is useful and good governance to also report pro forma information for a 52-week period, so as to facilitate comparisons against the prior and next years' 52-week period results.

The unaudited pro forma 52-weeks information for the period ended 25 June 2017 has been prepared for illustrative purposes only, to indicate how such information compares to the actual audited results of the Group for the prior 52-week period ended 26 June 2016.

Refer to note 12 in the Preliminary Report on the Audited Group Annual Results for the 53 weeks ended 2 July 2017 for more information.

* Includes the results of Office for 31 weeks.

\# Adjusted for the once-off Office transaction-related costs.

Group sale of merchandise, which comprises the sum of retail sales, delivery fee income, wholesale sales and franchise sales, less accounting adjustments, grew by 8.5% (5.9% on a pro forma 52-week basis). The prior period includes the results of Office for 31 weeks.

Trading expenses increased 13.6% and constituted 39.2% (2016: 37.5%) of sale of merchandise. The increase is principally due to the financial results of Office only being included for 31 weeks in the prior period. Excluding the once-off Office transaction-related costs in the prior period as well as the Office expenses and Truworths' foreign exchange gains and losses in both periods, trading expenses increased 6.2% and reflect the positive impact of management's cost-saving initiatives.

Interest received increased by 14.8%, resulting mostly from increases totalling 125 basis points in the South African repo rate since the commencement of the prior period. Trade receivable income (R1 426 million) exceeded the cost of the book (R1 385 million) by R41 million.

Interest-bearing borrowings were raised in Truworths five months into the prior period to fund operating expenditure, and therefore Group finance costs have increased to R295 million.

Headline earnings per share (HEPS) and diluted HEPS decreased marginally by 0.8% to 662.0 cents and 660.9 cents respectively. Relative to the prior period's adjusted diluted HEPS of 688.2 cents, diluted HEPS decreased 4.0%. Excluding the 53rd week's performance from the period, the pro forma diluted HEPS for the 52-week period decreased by 6.0% to 626.0 cents from 665.9 cents in the prior period.

The Group's gross margin was 52.6% (2016: 52.9%), principally due to Office, which operates at a lower gross margin, being consolidated for the full period, compared to only 31 weeks in the prior period. Excluding Office, the Group's gross margin remained stable at 55.2%.

Operating profit increased 1.3% to R4.2 billion while the operating margin decreased to 23.3% from 24.9% owing to the increase in trading expenses. Excluding Office, the operating margin decreased to 29.2% (2016: 30.7%).

SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

SUMMARISED GROUP STATEMENTS OF CHANGES IN EQUITY

	2 Jul 2017 Rm	26 Jun 2016 Rm
Balance at the beginning of the period attributable to the equity holders of the company	**8 625**	7 504
Total comprehensive income for the period	**2 223**	2 608
Profit for the period	**2 866**	2 817
Other comprehensive losses for the period	**(643)**	(209)
Cash dividends paid	**(1 527)**	(1 441)
Shares repurchased	**(101)**	–
Utilisation of treasury shares in respect of the exercise of options in terms of the 1998 share option scheme	**8**	–
Premium on shares issued in terms of the 1998 share option scheme	**–**	32
Share-based payments	**61**	52
Acquisition of non-controlling interest	**(1)**	–
Acquisition of subsidiary – holders of non-controlling interest	**–**	432
Movement in/(recognition of) put option liability	**162**	(562)
Balance at the reporting date attributable to the equity holders of the company	**9 450**	8 625
Comprising:		
Share capital and premium	**706**	706
Treasury shares	**(939)**	(882)
Retained earnings	**10 212**	8 903
Non-distributable reserves	**(529)**	(102)
Total equity attributable to the equity holders of the company	**9 450**	8 625
Dividends (cents per share)		
Cash final – payable/paid September	**182**	182
Cash interim – paid March	**270**	270
Total	**452**	452

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

Movement in (2016: Recognition of) the present value of the amount payable on exercise of the put options granted to the non-controlling management shareholders in Office.

Increase mostly due to an increase in the debit balance of the foreign currency translation reserve.

The total cash dividend for the period and dividend cover at 1.5 times, remained unchanged.

SUMMARISED GROUP STATEMENTS OF CASH FLOWS

		53 weeks to 2 Jul 2017 Rm	52 weeks to 26 Jun 2016 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flow from trading and cash EBITDA*		**3 189**	3 273
Working capital movements		**(151)**	(468)
Cash generated from operations		**3 038**	2 805
Interest and dividends received		**1 497**	1 303
Finance costs		**(292)**	(177)
Tax paid		**(1 256)**	(1 092)
Cash inflow from operations		**2 987**	2 839
Cash dividends paid		**(1 527)**	(1 441)
Net cash from operating activities		**1 460**	1 398
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant, equipment and computer software		**(468)**	(599)
Net acquisition of businesses		**–**	(2 559)
Other investing activities		**(29)**	22
Net cash used in investing activities		**(497)**	(3 136)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds on shares issued		**–**	32
Shares repurchased by subsidiaries		**(101)**	–
Loans repaid		**(324)**	(2 613)
Loans received		**–**	4 485
Other financing activities		**(3)**	(1)
Net cash (used in)/from financing activities		**(428)**	1 903
Net increase in cash and cash equivalents		**535**	165
Cash and cash equivalents at the beginning of the period		**1 592**	1 462
Net foreign exchange difference		**(72)**	(35)
CASH AND CASH EQUIVALENTS AT THE REPORTING DATE		**2 055**	1 592
Key ratios			
Cash flow per share	(cents)	**697.2**	675.5
Cash equivalent earnings per share	(cents)	**766.3**	759.0
Cash realisation rate	(%)	**91**	89

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

Reduction in working capital movements mostly due to a larger reduction in stock compared to the prior period (assisted by pound weakness) and no growth in trade receivables, off-set to some extent by a reduction in trade creditors due to payment before period-end (2016: payment after period-end).

The cash inflow from operations of R3 billion was mostly utilised to fund dividend payments of R1.5 billion, capital expenditure of R468 million, share buy-backs of R101 million and loan repayments of R324 million.

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

1.5 million shares bought back.

Cash and cash equivalents increased 29% on the prior period-end.

Increase in cash flow per share mainly due to the increased cash flow from operations, which has benefited from a reduction in the outflow in respect of working capital movements.

Cash equivalent earnings per share increased 1%, compared to basic earnings per share decreasing 1% on the prior period.

/OPERATIONAL REVIEW

TRUWORTHS

TRUWORTHS

MARKET-LEADING BRAND PORTFOLIO

Truworths owns an enviable portfolio of market-leading fashion clothing brands, offering some of South Africa's most sought-after ladieswear, menswear and kidswear brands.

TRUWORTHS' BRAND STRATEGY

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

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 licensed brands, mainly in men's denim, lingerie 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 or, in the case of kidswear, a different target group.

Truworths		
Ladieswear Emporium	**34%**	(2016: 36%)
Menswear Emporium	**21%**	(2016: 20%)
Designer Emporium	**13%**	(2016: 13%)
Kids Emporium	**7%**	(2016: 6%)
Identity	**16%**	(2016: 17%)
Other	**9%**	(2016: 8%)

EXPANDING BRAND PORTFOLIO

Truworths and Truworths Man are the core brands and are supported by a range of internally developed mainstream brands:

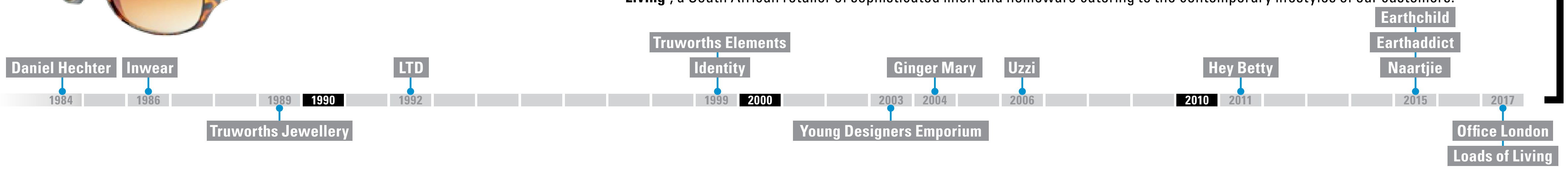
- **Inwear** (launched in 1986)
- **Truworths Jewellery** (1989)
- **LTD** (1992)
- **Truworths Elements** (1999)
- **Identity** (1999)
- **Ginger Mary** (2004)
- **Hey Betty** (2011)

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 **Young Designers Emporium** (2003), menswear brand **Uzzi** (2006), kidswear brands **Earthchild** (2015) and **Naartjie** (2015), and ladieswear brand **Earthaddict** (2015).

The portfolio has been extended with the launch in August 2017 of **Office London**, the South African offering of the UK fashion footwear brand owned by the Group. Originating in London, the fashion capital of the world, Office London is a world authority on fashionable footwear and offers a wide selection of third party branded athleisure footwear, some of which is exclusive to Office, complemented by a limited selection of in-house designed own-brand fashion footwear. The shoes are showcased in modern, light and energetic stores in the top retail locations in South Africa.

Truworths' brand offering will be further extended in the 2018 financial period following the acquisition in August 2017 of **Loads of Living**[1], a South African retailer of sophisticated linen and homeware catering to the contemporary lifestyles of our customers.



SPECIALIST BRANDED EMPORIUM STORES

Customers can shop for these multiple fashion brands in a single location, 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 branded emporiums within the Truworths emporium:

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

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

Identity and YDE

Identity and YDE operate from stand-alone stores and are not included in emporium stores as they target a different customer profile to Truworths' shoppers.

Coolest fashion brands

Identity was again voted the Coolest South African Fashion Brand in the Sunday Times Generation Next awards for 2017. Uzzi was ranked second and LTD fourth. Now in its thirteenth year, the Generation Next survey polls the opinions of the youth market in the country across a range of brand and product categories.

Truworths Ladieswear Emporium

Truworths Menswear Emporium

Truworths Designer Emporium

Truworths Kids Emporium

[1] Acquisition subject to Competition Commission approval at the time of preparing this report.

TRUWORTHS

MARKET-LEADING BRAND PORTFOLIO continued

	TRUWORTHS LADIESWEAR EMPORIUM	TRUWORTHS MENSWEAR EMPORIUM	TRUWORTHS DESIGNER EMPORIUM	TRUWORTHS KIDS EMPORIUM
	TRUWORTHS	TRUWORTHS MAN	DANIEL HECHTER PARIS, LTD, EARTHADDICT	LTD KIDS, EARTH CHILD, naartjie kids
Brand description	**Truworths Ladieswear Emporium** offers a range of aspirational and fashionable leisurewear, denim, formalwear, eveningwear, lingerie, shoes and accessories designed for the youthful, modern, fashion-conscious woman.	**Truworths Menswear Emporium** caters for the entire wardrobe requirements of modern, fashion-conscious, youthful men by offering a range of exclusive aspirational brands that encompass formalwear and leisurewear, in addition to a range of shoes, underwear and accessories.	**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. It 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 is offered across the different brands paying special attention to detail, allowing for ease of wardrobe building. **Earthchild** strives to be the leading nature-inspired 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 women across all ages and lifestyles	Youthful men across all ages and lifestyles	Youthful women and men across all ages and lifestyles	Kids, toddlers and newborn
Supporting brands and ranges	Outback Red, OBR Sport, TRS, TRNY, Hey Betty, Truworths, Inwear, Ginger Mary, Basix, Finnigans, Truworths Collection, Essence, Truworths Glamour, Emily Moon, Zeta, Truworths Maternity, Intrigue, Skiny and Peep	Truworths Man, Uzzi, Hemisphere, Hemisphere Sport, Studio, Trench, Moskow and Exstream	Daniel Hechter, Earthaddict and LTD	LTD Kidswear, Max and Mia, Zigy, Earthchild and Naartjie
Retail sales for 2017	R4.7 billion	R2.8 billion	R1.7 billion	R896 million
Retail sales growth on prior period	2.5% decrease	3.7%	1.0%	9.8%
Retail sales contribution	35% (2016: 36%)	21% (2016: 20%)	12% (2016: 13%)	7% (2016: 6%)
Compound retail sales growth over last three years	3%	9%	6%	46% (24% excluding Earthchild and Naartjie)
Number of Emporium stores or departments within Emporium stores	**344** Truworths Emporium stores **336** Inwear departments **281** Ginger Mary departments **2** Ginger Mary stand-alone stores	**314** Truworths Man departments **37** Truworths Man stand-alone stores **194** Uzzi departments **52** Uzzi stand-alone stores	**355** Daniel Hechter departments **3** Daniel Hechter stand-alone stores **195** LTD departments **2** LTD stand-alone stores **12** Earthaddict stand-alone stores **6** Earthaddict departments in Earthchild stand-alone stores	**196** LTD Kids departments **32** Full Truworths Kids Emporiums within Truworths Emporium stores **31** Earthchild stand-alone stores **27** Naartjie stand-alone stores

TRUWORTHS

MARKET-LEADING BRAND PORTFOLIO continued

	TRUWORTHS OTHER	IDENTITY	YDE
	 elements TRUWORTHS BEAUTY DESTINATION	 IDENTITY	 the young designers emporium
Brand description	Included in this category 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 and trendy fashion for men and women and is the brand for those who want to be wearing up-to-date fashion. Identity caters for the fashion-aware and value-conscious youth market. Identity operates from independent stand-alone stores.	**The Young Designers Emporium (YDE)** showcases South Africa's young, cutting-edge fashion talent. As an agent, YDE markets the clothing and lifestyle products of emerging designers and suppliers. The unique trading formula of YDE provides an exciting platform for young designers to present their own-label ranges in a branded space. The emporiums are aimed at fashion-forward customers aged 16 to 35 years and offer clothing, shoes, bags and accessories. YDE operates from independent stand-alone stores.
Brand profile	Ladies, men and kids	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, Coty, Gatineau and Aramis, as well as niche fashion and salon brands	Identity man, Identity woman and Identity shoes, bags, lingerie and accessories	Various designers
Retail sales for 2017	R1.2 billion	R2.1 billion	R278 million
Retail sales growth on prior period	10.2%	2.6% decrease	4.8% decrease
Retail sales contribution	9% (2016: 8%)	16% (2016: 17%)	Agency sales, so therefore not included in retail sales
Compound retail sales growth over last three years	9%	7%	3% decrease
Number of Emporium stores or departments within Emporium stores	**74** Truworths Elements departments **159** Truworths Jewellery departments	**248** Identity stand-alone stores	**21** YDE stand-alone stores

TRUWORTHS

MANAGING THE RISK OF FASHION

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

Truworths aims to produce winning ranges across its brand portfolio season after season, offering customers internationally-styled fashion of superior quality at competitive prices.

Truworths' proven merchandise philosophy of buying 'wide not deep' on the majority of its ranges offers customers an extensive range of garments and styles, while a limited quantity of each item and size ensures exclusivity.

Consistent processes are followed by the merchandise and buying teams to manage and mitigate the risk of fashion throughout the product life cycle. This includes forecasting and interpreting international fashion trends, tailoring these trends to the unique South African market, designing garments, planning and assorting ranges, sourcing and engaging suppliers, and managing production across the supply chain until the merchandise reaches stores and, finally, the customer.

Success and failure is ultimately measured by what sells and what does not.

THE YOUTHFUL FASHIONABLE CUSTOMER

Truworths targets 'one customer' who is youthful and fashionable and, through its exclusive market-leading brands, aims to cater to the varied lifestyle needs of this customer, from leisure to work, to eveningwear, and in every aspect of her or his life.

In addition, the business also targets the kidswear market and has an expanding presence through its multiple exclusive aspirational kidswear brands.

Fashion is aimed at making customers look attractive and successful and feel enthused with confidence, regardless of their age or size. This single customer view eliminates the risk of segmenting the market that arises from 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 trade fairs, online subscriptions and social media, as well as by following global and local street trends.

Merchandise 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. Season-ahead travel to the northern hemisphere, together with ongoing insights from consultants in the major fashion capitals of the world and online fashion intelligence, supplement these seasonal processes.

ROBUST 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 and updated to align with the growth and complexity of the business, and to continue to meet the challenges of the global fashion retail market. Checks and balances at critical stages in the process limit the risk of fashion failure.

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

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

TECHNOLOGY DRIVING EFFICIENCY

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

A new style performance measurement tool has been implemented across the merchandise departments which enables merchants to quickly and efficiently identify the sales performance of individual styles as well as trends across styles.

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 quality assurance laboratory is accredited by South Africa's Council for Scientific and Industrial Research (CSIR), providing assurance that the laboratory's methods and results are aligned with international standards.

The quality assurance team partners with local and international suppliers to ensure merchandise is manufactured to consistent quality and prescribed standards. Quality assurance workshops are held with both local and international suppliers to ensure alignment with Truworths' expectations and standards. All quality standards and manuals are made available on the web-based supplier portal.

The international quality assurance team works closely with offshore suppliers to ensure these exacting quality standards are achieved. During the reporting period a small quality assurance function was established in Mauritius to manage quality standards and processes with manufacturers in that country.

MANAGING FASHION RISK IN 2017

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

One of the major challenges during the 2017 financial period was managing the impact of high product inflation on imported merchandise as a result of the sharp devaluation of the Rand during the prior period and subsequent currency volatility, which also impacted the cost of imported fabric used by local manufacturers. As Truworths imports approximately 65% of all merchandise, managing the volatility of the Rand against the US dollar is a challenge. However, the impact of high product inflation has been compounded this year as consumers are under extreme financial pressure.

The new Truworths and Identity loyalty programmes have created the opportunity to launch value offerings without any material impact on margins while at the same time providing insight into customer preferences, behaviour and creating the opportunity for targeted marketing.

Management has adopted a strategy to consolidate fabric purchases across departments to achieve better prices while maintaining quality standards. The benefits of this strategy should gain momentum in the 2018 financial period.

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

Owing to the increasingly tough trading conditions and deteriorating consumer economy, Truworths had to carefully manage its levels of stock in an environment of lower-than-expected sales.

Despite these challenges during the reporting period Truworths again proved its ability to manage the risk of fashion, with the gross profit margin being stable at 55.2% (2016: 55.3%) and stock well managed with the inventory turn improving to 5.2 times from 4.7 times in the prior period.

INTEGRATION OF OFFICE

The integration of Office into Truworths' retail processes is starting to reap rewards. Truworths has applied its extensive stock management experience and in-house developed tools to set targets for inventory levels and turn for Office. A planning tool was implemented in Office to assist with sales planning as well as inventory and markdown management. This working relationship has contributed to better inventory turn and improved sales in Office.

The Truworths merchandise and buying team has collaborated closely with its counterparts at Office in the United Kingdom in developing the Office London brand which launched its first stores in South Africa in August 2017.

OPTIMISING SUPPLY CHAIN EFFICIENCY

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

Speed to market is critical for a high fashion retailer and Truworths is constantly striving to optimise efficiencies across the supply chain by shortening lead times, balancing local and offshore supply, and tightly managing inventory levels.

MERCHANDISE SOURCING AND SUPPLY

Directly and indirectly imported product accounts for approximately 65% of total merchandise orders, with China being the main source of supply for Truworths. Locally manufactured product is, however, the preferred source of supply owing to its faster speed to market relative to offshore sourcing. Approximately 45% of Truworths' clothing is manufactured in South Africa. Unfortunately it is often not possible to source merchandise locally that meets the required quality standards at competitive prices.

Benefits of local supply

Local supply offers shorter lead times as suppliers can respond quickly to replenishing popular selling styles during a season. Quick response and fast-fashion models which have been developed with key local suppliers 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 before committing to orders to ensure that the ranges reflect the latest trends.

Truworths Manufacturing, the in-house manufacturing division which outsources production to local and SADC cut-make-trim (CMT) suppliers, has continued to show good growth over the past year and is now an important supplier to Truworths. The manufacturing division has continued to make improvements on lead time management adding to quick response and fast fashion capabilities. In addition, the division has achieved an average lead time of eight weeks across all categories of merchandise that it delivers. Furthermore, direct engagement with service providers and fabric and trim suppliers has resulted in improved efficiencies and cost reductions. Our ongoing investment in Truworths Manufacturing presents an opportunity to further enhance our local supply capabilities.

Rationale for importing product

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, fully fashioned knitwear, winter outdoor jackets, kidswear and denim generally have a higher proportion of imports.

Foreign manufacture generally offers a wider variety of merchandise and greater technical detail in clothing at more reasonable prices than local supply.

However, the disadvantage of imported merchandise is that it can take up to six weeks to be shipped from the East and therefore has a slower speed to market with repeat orders of popular ranges.

The Truworths internal sourcing division is now a highly successful division within the Truworths supply chain, playing a strategic role in sourcing a broad range of merchandise for the chain. It has become the largest 'supplier' to the business, sourcing product from manufacturers in the East as well as in Mauritius and Madagascar.

MANAGING SUPPLIER RELATIONSHIPS

Truworths has a diversified supplier base and regularly and closely monitors the units of merchandise being supplied by each manufacturer to reduce risk by limiting over-exposure to individual suppliers.

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

An enhanced supplier scorecard has been developed to better measure key supplier performance. This assists Truworths in growing volumes with better-performing manufacturers and identifies weaknesses in certain suppliers that can be addressed through a collaborative process. Suppliers will, in the future, be given access to the supply performance reports to assist them in improving and managing their own performance.

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

TECHNOLOGY DRIVING PRODUCTIVITY

The new warehouse management system implemented in the distribution centres at the end of the previous financial period is now fully operational and is starting to realise benefits. While the new system resulted in delays in merchandise being allocated to stores in July and August 2016, these challenges were soon overcome. The new technology provides greater visibility of the stock position across the distribution centres and is improving the measurement and management of productivity in the distribution centres.

SUPPLY CHAIN FOR ONLINE SHOPPING

The launch of the Truworths e-commerce platform and upgraded website in the first half of the 2018 financial period will offer customers an extensive catalogue of Truworths, Identity and Office London ranges online.

Shoppers will have the option of both home delivery and 'click & collect' in store.

Online orders will be fulfilled from some of the large Truworths emporium stores, rather than through the distribution centres. New picking technology and a custom-designed order management system, together with a cost-effective delivery model, are planned to ensure that the new channel is efficient and profitable, while providing a world-class customer experience.

EXPANDING DISTRIBUTION CAPACITY

In last year's Integrated Report shareholders were advised of the plans to commence with the construction of a third Truworths distribution centre in Cape Town. Construction has been delayed as local authority planning approval has not yet been granted for the new building which will be constructed across two adjoining sites currently separated by a public walkway.

The delay in starting the building of the new distribution centre has not impacted the business. Higher-than-expected product inflation and slower sales in the period under review resulted in a reduction in unit volume throughput, which was adequately managed within the existing distribution infrastructure. Management is comfortable that current distribution centre capacity will be sufficient to meet operational requirements over the medium-term.

Truworths also has agreements in place with third party warehousing facilities that can store imported goods to mitigate distribution capacity pressure that could result from high volume deliveries. This allows Truworths to effectively manage the flow of merchandise into its distribution centres.

TRUWORTHS

MANAGING THE RISK OF THE BOOK

The Group has changed its terminology from 'credit' to 'account' when discussing 'non-cash and non-credit card' customers. Management has to adopt a more generic description of the financial product offering that now incorporates a loyalty programme, in order to distinguish the offering from bank credit used by customers in the form of debit and credit cards.

Refer to Material issues, risks and opportunities on page 21 for more detail.

Account sales comprise 70% of retail sales (2016: 69%)

Continued impact of affordability assessment regulations

Active account base down 4% to 2.5 million accounts

New account acceptance rate improved to 26% (2016: 24%)

Net bad debt to gross trade receivables increased to 15.0% (2016: 12.4%)

Doubtful debt allowance to gross trade receivables increased to 12.7% (2016: 12.3%)

ACCOUNTS AN ENABLER OF SALES

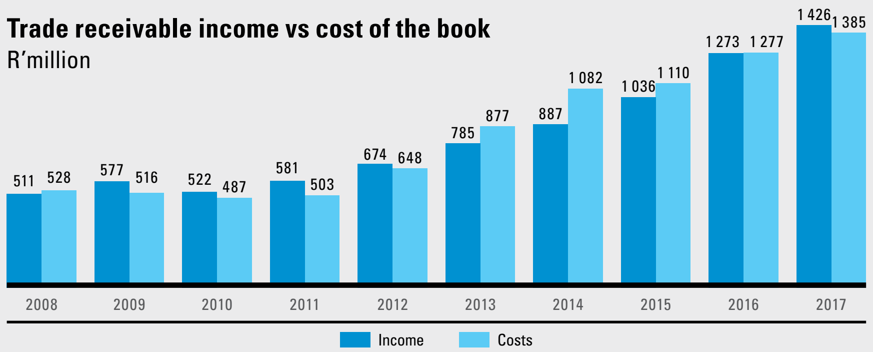
Purchases on account are offered to customers across all Truworths brands in South Africa, Namibia, Botswana and Swaziland.

Truworths uses accounts 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 accounts to buy better-quality fashion merchandise.

Truworths aims to balance the cost of the book with trade receivable income, as was again the case in the reporting period where the total trade receivable income amounted to R1 426 million, exceeding the total cost of the book of R1 385 million by R41 million.

Truworths is increasingly targeting more affluent cash customers, many of whom use credit cards, by broadening its ranges and product offerings, introducing a loyalty programme and developing an e-commerce platform, which is scheduled to launch in the first half of the 2018 financial period.

Trade receivable income vs cost of the book
R'million



STABILISING CREDIT ENVIRONMENT

The South African credit market stabilised in the second half of the financial period despite the deteriorating economic conditions in the country, showing early signs of improvement across key indicators.

The TransUnion Consumer Credit Index, which measures consumer credit health, increased from 50.8% in the first quarter of the 2017 calendar year to 53.8% in the second quarter. This is a pleasing sign and, if it continues, may indicate improved debt repayment.

There is likely to be caution in credit markets in the months ahead following South Africa's credit-rating downgrades in April 2017.

While there has been a reduction in the number of active accounts across the large credit retailers, Truworths has increased its market share of total active accounts to 23% (source: Principa).

IMPACT OF AFFORDABILITY ASSESSMENT REGULATIONS

The affordability assessment regulations introduced by the National Credit Regulator in September 2015 have continued to restrict Truworths' ability to open new accounts and to grow account sales.

The affordability regulations introduced a standard requirement for all credit applicants to provide their three most recent bank statements, 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.

While Truworths supports the principle of these regulations, the onerous requirement to provide documentation has had the unintended consequence of denying access to credit to many otherwise creditworthy customers.

The regulations have contributed to the Truworths active account base declining by 4% to 2.5 million accounts during the reporting period.

Account granting strategies have been implemented to mitigate the impact of the regulations. Early indications are that the mitigating actions are having some positive impact with the decline in active accounts being arrested in the last few months of the financial period, and new accounts opened showing year-on-year growth for the second half of the financial period, albeit off a lower base.

Legal action was jointly instituted with two other JSE-listed retailers against the National Credit Regulator and the Minister of Trade and Industry. The court case was heard in August 2017, with judgment pending.

BOOK PERFORMANCE IN 2017

Gross trade receivables on the debtors book, including Truworths, Identity and YDE, were unchanged at R5.8 billion. Account sales contributed 70% (2016: 69%) to retail sales in Truworths for the period.

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

The doubtful debt allowance as a percentage of gross trade receivables has increased to 12.7% from 12.3% at June 2016. Net bad debt as a percentage of gross trade receivables increased to 15.0% (2016: 12.4%). This was as a result of the book showing no growth while bad debts increased owing to high account sales growth in the prior period. The increase in net bad debts was partially off-set by the relatively lower increase in the monetary value of the doubtful debt allowance, resulting in trade receivable costs increasing by 11% to R1 207 million (2016: R1 092 million).

MANAGING THE RISK OF THE BOOK

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

Challenger account 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.

E-COMMERCE AND ONLINE SHOPPING

Truworths will be enhancing the customer experience through the development of its e-commerce platform as part of the omni-channel retail strategy. The upgraded website and online shop will be launched in the first half of the 2018 financial period. New order fulfilment and payment solutions are being incorporated into the shop front website and customers will be offered an extensive catalogue of Truworths, Identity and Office London ranges online.

Customers will have several payment options, including the Truworths account card, as well as having a choice of home delivery or 'click & collect' in store.

The recently launched TruRoyalty and iDream customer loyalty programmes will be aligned with the new Truworths online offering.

Strategies to grow sales from long-term customers with good sales and payment history have proven successful during the period.

The strategic focus on collections through enhanced systems, outsource partners and internal resources has contributed to an improved collections performance in the latter stages of the reporting period. While the collections environment has been tough owing to market conditions this was compounded by slower sales growth in Truworths, which placed pressure on the collections teams to improve the quality of the book.

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

LOYALTY PROGRAMMES LAUNCHED

The TruRoyalty (Truworths) and iDream (Identity) customer loyalty programmes were launched in the second half of the financial period. These programmes are aimed at attracting and retaining customers while increasing both the basket size and frequency of shopping of account and cash customers.

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

All account customers and account applicants automatically become loyalty programme members, while cash customers can join the programme at no cost. At the end of the reporting period the loyalty programmes, TruRoyalty and iDream, had over 2 million non-account customers.

MANAGING THE RISK OF THE BOOK IN 2018

The credit environment is expected to improve marginally in the year ahead, based on the trends noted in the second half of the financial period. Truworths will maintain its strict risk criteria and expects the net bad debt to gross trade receivables ratio to improve.

The active account base is anticipated to stabilise as the 2017 base includes a full year of the affordability assessment regulations. Account strategies are being implemented to improve sales from existing customers through a combination of account limit management and reactivation of dormant customers. Truworths also plans to improve collection rates through the use of more advanced contact centre technology.

TRUWORTHS

MANAGING RETAIL PRESENCE

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

Truworths has continued to follow its strategy of cautiously investing in new trading space to promote sales growth and gain market share.

Store footprint increased to 781 stores (2016: 770 stores)

Net 11 new stores opened across all brands (2016: 23 stores)

Footprint in the rest of Africa unchanged at 47 stores

Total retail trading space up 1.6% to 369 000 m²

Approximately 4% trading space growth planned for 2018

DEFINING THE FASHION COURT

Truworths aims to define the fashion court in major shopping malls by trading from the best positions in these fashion courts and to be recognised as one of the leading fashion anchor tenants.

This strategy also applies to stores on main streets in cities and towns where Truworths aims to be at the heart of the fashion retail zone.

Enticing stores and internationally styled merchandise position Truworths as an 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.

GROWING FOOTPRINT IN SOUTH AFRICA

A total of 24 stores was opened across all brands, with 13 stores in South Africa being closed, bringing the national store footprint to 734.

Kidswear is a strategic growth driver for Truworths. A further 18 Kids Emporiums, housing LTD Kids, Earthchild and Naartjie, were opened within existing emporium stores, increasing the footprint to 32.

During the reporting period, 21 stores were either expanded or relocated to positions with better trading prospects. A further 11 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 five stores being reconfigured by decreasing leased space to grow trading densities.

Truworths continues to capitalise on opportunities in new malls being developed in previously under-developed areas.

Rental escalations averaged 7% during the reporting period. While the arrival of international retailers in South Africa is providing landlords with greater negotiating power in major malls, the recent demise of some local retailers and withdrawal of foreign retail brands is placing pressure on landlords.

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

	Number of stores		Trading space (000's m²)	
Corporate stores	**2017**	2016	**2017**	2016
Truworths Emporium	**344**	339	**271**	266
Identity	**248**	244	**69**	68
Uzzi	**52**	53	**4**	4
Earthchild and Earthaddict	**43**	44	**3**	3
Truworths Menswear Emporium	**37**	34	**12**	11
Naartjie	**27**	29	**2**	3
YDE	**21**	20	**7**	7
Daniel Hechter	**3**	3	**–***	–*
LTD	**2**	2	**–***	–*
Ginger Mary	**2**	2	**–***	–*
Naartjie and Earthchild	**2**	–	**–***	–
Total	**781**	770	**369**	363

* Reflects as zero due to rounding.

STORES IN THE REST OF AFRICA

Trading conditions in some countries of operation in the rest of Africa have been extremely challenging owing to depreciating currencies and weakening consumer economies across the continent. The store base remained at 47 as no new stores were opened during the reporting period.

Truworths is committed to its strategy of cautious growth in the rest of Africa. The store footprint will be expanded in the 2018 financial period with the opening of the first two stores in Mozambique, two additional stores in Kenya and one in Namibia. The process to close the four stores in Ghana by December 2017 has been initiated.

MANAGING RETAIL PRESENCE continued

RETAIL PRESENCE IN 2018

Store expansion

Truworths plans to open approximately a net 45 new stores across all brands in the 2018 financial period, with trading space projected to increase by approximately 4%.

This includes the launch of the fashion footwear brand, Office London, in South Africa. The first 10 Office London stores were opened early in the new financial period.

Average rental escalations are anticipated to remain at the current approximately 7% level. Capital expenditure of R353 million has been committed to the store expansion, renovation and upgrading programme.

Launch of new online store

The new Truworths e-commerce platform and online store, which is planned for launch in the first half of the 2018 financial period, will enable both account and non-account customers to shop effortlessly across a range of digital devices. Customers will ultimately have access to the full range of Truworths, Identity and Office London merchandise online.

New order fulfilment and payment solutions are being incorporated into the shop front website and customers will have the option of selecting home delivery or 'click & collect' in store. The recently launched Truworths (TruRoyalty) and Identity (iDream) customer loyalty programmes will be integrated with the new Truworths online offering.

MULTIPLE STORE FORMATS

Stores are designed to offer customers an exciting fashion retail experience where they can shop for an innovative and adventurous blend of colour, fabric and fashion styling of international standard.

Truworths emporium stores

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

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

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

Emporium stores are located in central positions in shopping malls and generally have three to five entrances, with maximum shop frontage and windows showcasing the broad range of brands and merchandise.

Identity and YDE stores

Identity and YDE operate from stand-alone stores. These brands are not included in emporium stores as they target a different customer profile to Truworths' shoppers.

Identity appeals to 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 desiring designer labels and styling. The store design creates a strong point of differentiation from competitors.

Office London stores

The first 10 Office London stores were opened in South Africa during August 2017. The store design encapsulates the essence of what is new and fun, using a disparity of materials and contrasting rough and smooth surfaces to create a playground for the discerning, style-conscious customer.

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

TRUWORTHS

HUMAN CAPITAL REPORT

Number of employees down 4% to 11 563 (2016: 12 037)

In South Africa black employees comprise 93% of total employees (2016: 93%)

Female employees account for 73% of total employees (2016: 72%)

Employee turnover increased to 17% (2016: 16%)

Employee turnover at Truworths head office unchanged at 10% (2016: 10%)

R105 million invested in skills development (2016: R107 million)

11 386 employees trained (2016: 11 721)

100 WE ARE 100

In the current constrained retail trading environment Truworths' human resources department has focused on maintaining its investment in training and development, and other practices aimed at attracting and retaining employees, and enhancing employee engagement and satisfaction levels.

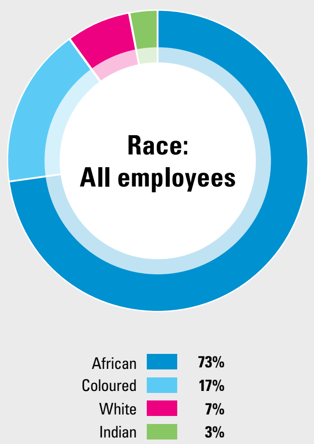
Management has focused on consolidating the significant changes to human resources practices in recent years. One of the priorities has been to enhance the understanding of the new remuneration package structures to ensure employees maximise the value from their remuneration packages and make informed decisions following the transition to total guaranteed packages (TGP).

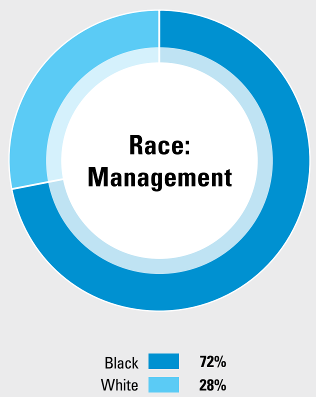
The introduction of TGP is one of the factors that has contributed to maintaining labour turnover at acceptable levels at head office. The extension of benefits to longer-serving flexi-time staff in the previous reporting period has contributed to a reduction in labour turnover among this group from 37% to 30%. While labour turnover at head office has been stable in the reporting period, retention of key employees remains an area of risk especially in the current difficult trading environment.

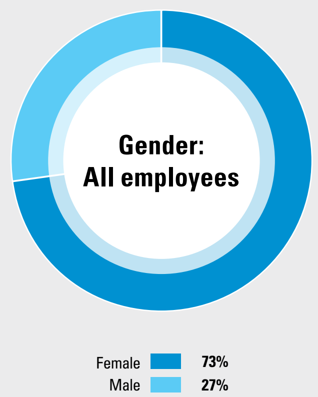
The Truworths workforce comprises a core component of full-time roles and a larger component of flexi-time employees whose hours are dependent on demand. The number of full-time and flexible positions has been reduced through natural attrition and this has enabled Truworths to avoid retrenching staff.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

Truworths' human capital at a glance		2017	2016
Total employees		**11 563**	12 037
Full-time employees		**5 267**	5 364
Contract employees*		**160**	99
Flexi-time employees		**6 136**	6 574
Full-time employee turnover	(%)	**17**	16
Full-time employee absenteeism	(%)	**1.9**	1.8
Skills development expenditure (excluding levies)	(Rm)	**105**	107
Skills development spend per employee trained	(R'000)	**9.3**	9.2
Total employees trained		**11 386**	11 721
Black employees as a % of employees trained in South Africa	(%)	**96**	94

* Contract employees include interns and post retirement contractors







VALUES

The Truworths business philosophy and values underpin the human capital management strategy and have been central to guiding the business through the current challenging trading environment. These values are incorporated into everyday working life at Truworths, from recruitment to training and development, employee relations, recognition programmes and performance appraisals. The performance appraisal system has been amended to simplify the process and improve the balance between hard and soft performance metrics, including the extent to which employee behaviour is aligned to Truworths' values.

TRUWORTHS

HUMAN CAPITAL REPORT continued

EMPLOYMENT EQUITY

The Employment Equity Plan 2014 – 2019 guides the Truworths strategy to transform the Group's South African employee base to reflect the demographics of the country 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. Refer to the Social and Ethics Committee report and the Social and Environmental report (available at www.truworths.co.za/investors) for information regarding the role played by the Transformation Committee.

Truworths met its annual employment equity plan targets for 2017 and continued to make steady progress in aligning the staff profile to regional and national demographics, although it remains a challenge to recruit black talent at senior management level. The focus therefore remains on developing internal talent to demonstrate commitment to sustainable transformation. The success of this approach is reflected in black representivity at junior management levels being 87% and 40% at middle management level. We are on track to meet our 2018 quantitative targets and affirmative action objectives.

Gender representation shows 73% of employees are female and this is evident across all levels up to middle management, while 40% of senior managers are female. Truworths is committed to improving representivity, and facilitating the accommodation and career progression of differently-abled people who currently comprise 1% of its workforce.

There were no referrals of unfair discrimination or employment equity compliance orders in the reporting period.

TALENT AND SKILLS DEVELOPMENT

Truworths continued to demonstrate its commitment to developing talent linked to the succession requirements of the business. This commitment is confirmed by the skills development element of the Broad-Based Black Economic Empowerment (BBBEE) scorecard, on which more detail is available in the Social and Environmental report (available at www.truworths.co.za/investors). The investment in training was R105 million (2016: R107 million) and 96% of staff were trained during the period.

The merchant graduate training programme continues to attract the top talent from fashion design colleges and tertiary institutions owing to its reputation as one of the most comprehensive programmes in the industry. This programme ensures that the business has an adequate pipeline of talent for scarce roles in the merchandise division, with 86% of the current merchants having progressed through this programme.

Additional funds have been invested in the bursary programme to ensure that Truworths continues to attract top talent and enhance employee retention, while achieving its employment equity and transformation objectives.

The learnership programme provides a pipeline for entry level positions and through collaboration with the Wholesale and Retail Sector Education and Training Authority, 1 124 (2016: 1 374) people were registered on accredited programmes in the reporting period. We have absorbed unemployed learners into flexi and full-time roles either post or during their learnerships, thus impacting the number of learnerships we were able to offer in the January 2017 intake.

As most training programmes are developed and run internally, Truworths is able to achieve economies of scale in its training initiatives and also protect its intellectual capital in the highly competitive retail market.

Mobile and video technology has been successfully rolled out to deliver training programmes to stores. This has resulted in us being able to speedily roll out high-impact, short, targeted training interventions to a multi-sited audience. We are also able to assess real-time which employees have completed their learning initiatives and the degree to which the training initiative has been understood through assessments that form part of our e-learning suite.

EMPLOYEE REMUNERATION

The achievement of Truworths, team and individual performance remains central to driving remuneration strategies. All management and specialised full-time employees are now on TGP, which enable these employees to tailor the structure of the ratios of benefits to suit their personal lifestyles.

The percentage of staff that receives retirement benefits has increased from 41% to 59%.

The remuneration of executive and non-executive directors is covered in the Remuneration Committee report on page 40.

TRADE UNION RELATIONSHIP

Truworths concluded annual wage and substantive negotiations with the South African Commercial, Catering and Allied Workers Union (SACCAWU) for the 2017 period as has been the case for every year of the relationship agreement since 1990. SACCAWU represents 10% (2016: 7%) of all South African employees. Membership of SACCAWU has been stable for many years but this year has seen an increase in membership in the bargaining unit from 16% to 22%. The growth in union membership has been in business units where we converted flexi-time roles to full-time roles over the last two years. Union membership amongst our flexi-time employees has traditionally been low as they do not form part of the bargaining unit and this may partially account for the increase in membership in this group.

All employees are made aware of their right of freedom of association, including the right to belong to a union of their choice. There is no material union membership in other African operations and therefore Truworths only has a relationship agreement with SACCAWU.

Despite the difficult labour negotiating climate this year no time was lost to internal industrial action. However, the business has been impacted by industrial action in the external environment, specifically protest action related to transport.

OFFICE

WE ARE
READY

/OPERATIONAL REVIEW

OFFICE

OFFICE

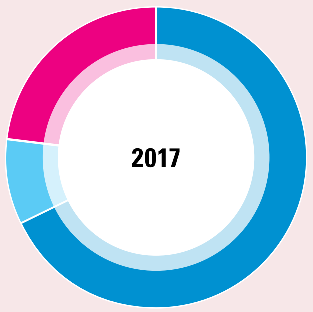
MARKET-LEADING BRAND PORTFOLIO

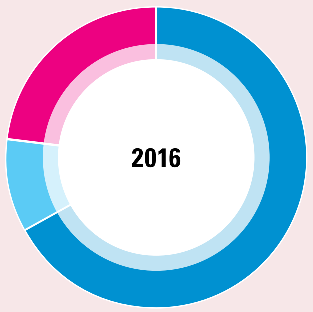
Office is a fashion-forward footwear specialist, providing customers who want to be fashionable and well informed on international fashion footwear trends, with a broad curated range of the latest trend and 'in-demand' footwear.

Offspring 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 period the Office brand accounted for 89% (2016: 93%) of sales while Offspring accounted for 11% (2016: 7%).

Third party brands (non-exclusive products) comprised 68% (2016: 67%) of sales across Office and Offspring, while own-brand (made to order) products accounted for 23% (2016: 23%) and exclusive third party products accounted for 9% (2016: 10%).





Third-party brands

adidas, ASICS Tiger, asics, BIRKENSTOCK, Blowfish Malibu, Clarks Originals, CONVERSE, Dr. Martens AirWair, FRED PERRY, havaianas, HUNTER, LACOSTE, New Balance, Nike, NIKE, ONITSUKA TIGER, PUMA, Reebok Classic, Solillas Balearic Islands, SUPERGA, TED BAKER LONDON, Timberland, TOMS, UGG, VAGABOND SHOEMAKERS, VANS "OFF THE WALL", VANS

Own-brands

OFFICE, Mistress, POSTE, ASK THE MISSUS

OFFICE

MANAGING THE RISK OF FASHION

Refer to Material issues, risks and opportunities on page 23 for more detail.

Office is a strategic global partner to the world's major footwear brands. From its heritage in the fashion capital of London to its expanding presence and customer demographic, Office is ideally placed to collaborate with the leading international footwear brands to deliver the most relevant and fashionable product into the marketplace.

YOUTHFUL FASHIONABLE CUSTOMER

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

PROVEN FASHION FORMULA

Office has specialist teams across a mix of product from 'heels through to sneakers' that ensure the brand is relevant. 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, and this has been enhanced with Truworths' buying, planning and sourcing knowledge over the past year.

A sophisticated new merchandise planning system was implemented during the second half of the year.

Office is able to offer a range of the best global brands and, in addition, 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 enjoys product priority on best sellers as well as being able to apply a shared risk approach that gives the business the ability to return and cancel product should the need arise.

Office's own-brand product is sourced mainly from Europe, 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 optimised while understanding factory capabilities and honing the overall design process.

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.

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

The buying and design process is constantly 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.

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 testing standards as well as Office's own 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.

Regular 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. Specifically with regards to the prevention of modern slavery and human trafficking, Office applies a code of conduct across its own-label supply chain that is based on the International Labour Organisation conventions and recommendations. A formal statement by the board supporting Office's commitment to prevent modern slavery and human trafficking is published annually on its website.

All own-brand suppliers and manufacturers are required to adhere to the Office code of conduct. The code is designed to be fair and achievable, and to promote the ongoing development of suppliers.

OFFICE

MANAGING RETAIL PRESENCE

Refer to Material issues, risks and opportunities on page 25 for more detail.

Office is an omni-channel retailer with a portfolio of 156 stores and concession outlets in the United Kingdom, Germany and the Republic of Ireland, and an e-commerce business which accounts for 28% of sales across a range of digital platforms.

Office has 141 outlets (105 stores and 36 concessions) in the United Kingdom, with eight stores in Germany and seven outlets (five stores and two concessions) in the Republic of Ireland. Included in the above are 17 Offspring outlets.

Trading space decreased by 0.4% during the period.

STORES

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.

During the reporting period Office opened four stand-alone stores while closing one and relocating one store. The latest international store was opened in Essen in north-west Germany, bringing the footprint in that country to eight. Office's second retail park location store was opened in July 2016 in Leicester and, based on the success of this store, further retail park opportunities are being evaluated.

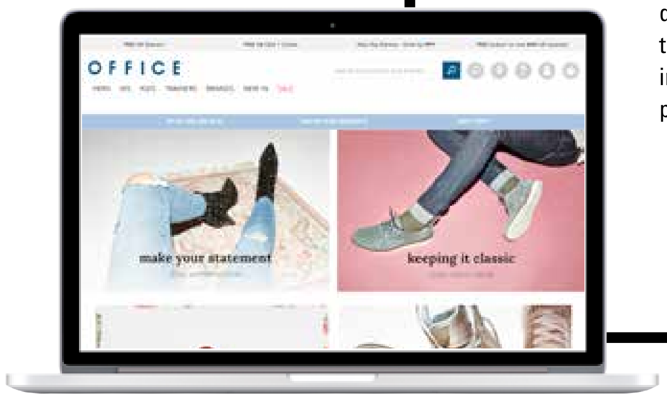
ONLINE PRESENCE

E-commerce accounted for 28% of Office's total retail sales for the period.

Continuous development in web and mobile design and functionality, channel expansion, strong marketing, an aggressive product launch calendar and competitive delivery and service have been among the drivers of success.

The investment in online marketing to drive profitable new traffic contributed to 76.5 million visits to Office's websites, with the majority of visits to the site coming through smartphones. The new Office mobile app was launched in August 2017 with improved shopping functionality as well as new marketing and customer insight. Office has also benefited from strong international growth through the Office Germany website and from exports from the UK site. Online concessions including Selfridges and Topshop, as well as e-commerce marketplaces like Amazon and eBay, have also driven traffic.

Management has also focused on driving profitable new traffic through investment in online marketing so as to improve customer retention and therefore increase the purchasing frequency of existing customers while continuing to develop and improve ordering with enhanced delivery options to optimise customer convenience. This includes the addition of express and standard delivery options for international customers, while growing the 'click & collect' option from stores and increasing the range of store stock available for online selling. Growth of in-store delivery options and increased visibility of store stock through the 'in-store look-up' functionality on the website will further integrate the store and online channels from a customer perspective.



CONCESSIONS

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

Concessions are currently held with Selfridges, House of Fraser and Topshop/Topman.

During the reporting period Office opened two new concessions under the Offspring fascia in Brown Thomas (owned by Selfridges) in Dublin while closing eight concessions with House of Fraser.

STORE LEASES

The revaluation of business rates (a tax levied by UK local authorities in respect of non-domestic properties) with effect from 1 April 2017 has resulted in an overall increase of approximately 4% in the rental rates payable across the store portfolio. However, certain stores have incurred larger increases, notably in central London where increases have been higher.

Business rates are usually revalued every five years, but the UK Government postponed the revaluation scheduled for 2015 until 2017, delaying the impact of the increased costs to businesses.

Leases are typically concluded on a ten-year basis, with an upward-only rent review on the fifth anniversary. Certain leases may include a break clause in year five. During the period a number of rent reviews were conducted resulting in increased rental costs.

STORE DESIGN

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 centre of focus. Fixtures and fittings are therefore carefully considered with the customer and product in mind.

A new store design concept is being rolled out which aims to modernise the store interior display with the focus on increasing density on the walls and improving the customer experience.

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 range in size between 80 m² and 150 m² while Offspring stores are typically between 75 m² to 95 m².

OFFICE

OPTIMISING SUPPLY CHAIN EFFICIENCY

Refer to Material issues, risks and opportunities on page 24 for more detail.

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

Several key branded footwear 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.

With regard to own-brand footwear, 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 to ensure lead times are minimal.

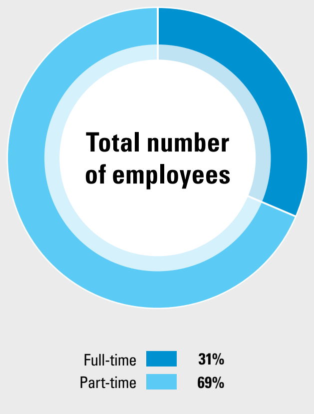
Frequent travel is undertaken to close-to-home sources including Spain, Italy and Portugal, as well as to longer lead time sources, to improve communication and relationships, and speed up product development.

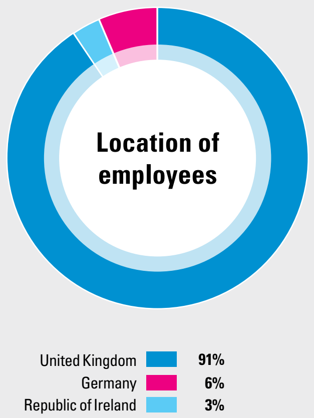
Risk in the supply chain is minimised by spreading volume across a group of key suppliers. The collaborative partnerships with top suppliers, who consider their relationship with Office as integral to their own businesses, ensure that exceptional service levels are achieved.

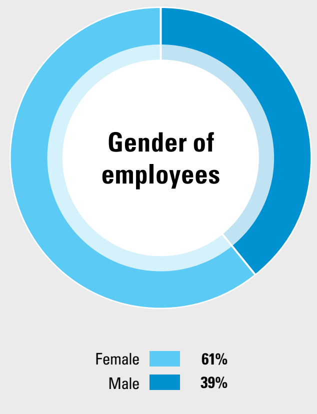
All product is delivered to either the main warehouse in Kilmarnock, Scotland or Greenford, London prior to being distributed to stores or internet customers via third party distribution networks. Optimal stock levels are held between stores and the warehouse facilities to meet both store and online customer needs.

HUMAN CAPITAL REPORT

Office human capital at a glance		2017	2016
Total employees		**3 031**	3 020
Full-time employees		**954**	903
Part-time employees		**2 077**	2 117
Skills development expenditure	(£'000)	**47**	160
Skills development spend per employee trained	(£)	**303**	178
Total employees trained		**155**	900







The reduction of skills development expenditure in 2017 was due to the roll-out of the new payroll system in 2016 requiring significant staff training. However the spend per employee trained showed a marked increase, reflecting the investment made in the employees trained.

An employee engagement survey was conducted across the business, applying the same methodology as is used by Truworths. Based on the outcome of the voluntary survey, several projects will be delivered which are aimed at enhancing employee engagement and satisfaction levels.

Service remained the key focus for the training department during the year and this contributed to the store customer satisfaction surveys reporting an average of 61 Net Promoter Score (a measure of how likely customers would recommend Office to a friend, acting as a proxy for customer satisfaction).

The introduction of the apprenticeship levy will provide Office with access to government-approved training and nationally recognised qualifications for selected employees. The levy will initially be invested in training junior management in stores and a partnership has been established with Lifetime Training to deliver the apprenticeship levy funded training.

Employee retention remains a risk for the business and rewards packages are being reviewed and benchmarked across the market to ensure Office continues to offer competitive remuneration and benefits. The legislated national living wage and national minimum wage will increase again in April 2018 and the business will need to respond appropriately to remain competitive in the retail marketplace.

WE ARE
FRESH

/SHAREHOLDER INFORMATION

SHAREHOLDERS' DIARY

Annual general meeting	2 November 2017	
Reports		
Annual results for the period ended 2 July 2017 announced	17 August 2017	
Preliminary report for the period ended 2 July 2017 published	29 September 2017	
Preliminary report for the period ended 2 July 2017 mailed	29 September 2017	
Interim results for the period ending 31 December 2017 to be announced	22 February 2018*	
Dividends	*Dividend declared*	*Dividend paid*
In respect of the period ended 2 July 2017 (Dividend number 39)	17 August 2017	18 September 2017
For the period ending 31 December 2017 (Dividend number 40)	22 February 2018*	19 March 2018*

* These are approximate dates.

ADMINISTRATION

Truworths International Ltd
Registration number 1944/017491/06
Tax reference number 9875/145/71/7
JSE code: TRU
NSX code: TRW
ISIN: ZAE000028296

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

Registered office
No. 1 Mostert Street, Cape Town, 8001, South Africa

Postal address
PO Box 600, Cape Town, 8000, South Africa

Contact details
Tel: +27 (21) 460 7911 Telefax: +27 (21) 460 7132
www.truworths.co.za
www.office.co.uk

Principal bankers
The Standard Bank of South Africa Ltd
Lloyds Bank plc

Auditor
Ernst & Young Inc.

Attorneys
Bernadt Vukic Potash and Getz
Edward Nathan Sonnenbergs
Spoor & Fisher
Webber Wentzel
Bowman Gilfillan
Shoosmiths

Sponsor in South Africa
One Capital Sponsor Services (Pty) Ltd

Sponsor in Namibia
Merchantec Capital Namibia (Pty) Ltd

Transfer secretaries
In South Africa
Computershare Investor Services (Pty) Ltd
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, South Africa
PO Box 61051, Marshalltown, 2107, South Africa
Tel: +27 (11) 370 5000 Telefax: +27 (11) 688 5248
www.computershare.com

In Namibia
Transfer Secretaries (Pty) Ltd
Robert Mugabe Avenue No. 4
Windhoek, Namibia
PO Box 2401, Windhoek, Namibia
Tel: +264 (61) 22 7647 Telefax: +264 (61) 24 8531

Investor relations
David Pfaff (CFO)
Tel: +27 (21) 460 7956
Graeme Lillie (Tier 1 Investor Relations)
Tel: +27 (21) 702 3102

Directors
H Saven (Chairman)§‡, MS Mark (CEO)*, DB Pfaff (CFO)*, DN Dare*, RG Dow§‡, CT Ndlovu§‡, RJA Sparks§‡, AJ Taylor§‡ and MA Thompson§‡
* Executive § Non-executive ‡ Independent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