> “The Group qualified for inclusion in the **JSE Socially Responsible Investment Index** for the third successive year in the 2011 financial period.”

SUSTAINABLE FUTURE IN FASHION

The Group recognises that a range of stakeholders can influence the business, including shareholders, the broader investment community, customers, employees, regulatory bodies, industry associations, trade unions and the communities in which we operate as well as our suppliers of merchandise and services both locally and offshore.

The stakeholders likely to have a material influence are those identified in the Group's vision, namely customers, shareholders and employees.

The Group qualified for inclusion in the JSE Socially Responsible Investment (SRI) Index for the third successive year in the 2011 financial period. Qualification for the Index is based on an independent assessment of the environmental, economic and social sustainability practices, and corporate governance of listed companies. The Group was also recognised as one of the top performing companies in the medium environment impact category of the Index.

Inclusion in the SRI Index is a benchmark of performance relative to listed peers and is an endorsement of current sustainability practices. Integrated reporting, however, requires organisations to adopt a longer-term view and this section of the Integrated Annual Report covers the material topics and influences that are expected to impact on the Group's performance in the next few years.

MATERIAL TOPICS

Following the introduction of King III and integrated reporting, the Group adopted a process to identify material topics which the directors and management believe will enable the Group to sustain growth into the future. This process has been informed by the Group's purpose, values and vision encapsulated in our business philosophy (detailed on pages 8 and 9), as well as the interests of the three key stakeholders, namely our customers, our shareholders, and our employees.

Through this process eight material topics were identified. These are key issues affecting the performance and longer-term viability of the Group, and those issues most likely to influence key stakeholders and their relationship with the Group. The six sustainability focus areas that the Group identified for the 2011 financial period: 'employees', 'shareholders', 'customers', 'suppliers', 'country, regulators, economy, environment and communities' and 'broad-based black economic empowerment' were also considered.

As we currently do not envisage a significant demand over the short to medium-term for products differentiated on ethical or environmental criteria within our sector, our strategy has deliberately not focused on product-related or 'green branding' initiatives.

Material Topics

1 Managing the risk of fashion

2 Managing the risk of credit

3 Maximising supply chain efficiency

4 Expanding retail presence

5 Delivering sustained financial performance

6 Adopting leading information technology systems

7 Being the employer of choice in fashion

8 Accelerating transformation

These material topics are supported by sound operational, risk, governance and sustainability processes. The Group's values guide business practices and interaction with stakeholders.

1 Managing the risk of fashion

Refer to Managing the Risk of Fashion on pages 72 to 74 for further detail.

Strategic objectives for 2011

- Continued organic growth through extension of existing ranges and new concepts.
- Ongoing focus on managing the risk of fashion.

Performance in 2011

- Gross margin at 56.7% (2010: 55.3%).
- Inventory turn at 6.4 times (2010: 6.9 times).
- Ladieswear RLC market share at 22.3% (2010: 21.9%).
- Menswear RLC market share at 22.1% (2010: 21.9%).
- Comparable retail sales growth of 8.9% (2010: 3.6%).

Challenges in delivering on objectives for 2011

- Supply constraints and deterioration of quality standards of merchandise from China.
- Clothing inflation due to the higher cotton prices as a result of cotton shortages.
- Managing the impact of exchange rate fluctuations on imported merchandise.

Key risks and mitigation strategies for 2011

Definition of risk

As a leading apparel retailer the Group needs to ensure quality fashion is provided to customers each season at appropriate margins.

Risk mitigation

- Proven processes and key executive interventions throughout the merchandise life cycle are aimed at managing and mitigating the risk of fashion.
- Markdowns within comparative benchmarks and gross margin within the target range.
- Inventory turn managed within the Group's target range.

Objectives and plans for 2012

- Continued organic growth through extension of existing ranges and new concepts.
- Ongoing focus on managing the risk of fashion.
- Expansion of the Ginger Mary brand internationally on a trial basis.

2 Managing the risk of credit

Refer to Managing the Risk of Credit on pages 82 to 85 for further detail.

Strategic objectives for 2011

- Continued investment in credit systems and processes to manage the risk of credit.
- Continued acquisition of new customer accounts.

Performance in 2011

- Net bad debt decreased to 6.8% of gross trade receivables (2010: 9.8%).
- Doubtful debt allowance decreased to 10.1% of gross trade receivables (2010: 10.7%).
- Credit sales account for 71% of retail sales (2010: 70%).
- 86% of active account holders were able to purchase (2010: 85%).
- 11% growth in active accounts to 2.2 million (2010: 6%).

Challenges in delivering on objectives for 2011

- Managing the debtors' book while consumer debt levels remained high.
- Growing the customer base in an environment of lower consumer demand.
- Impact on consumers' disposable income as a result of rising food, transport and utility costs.

Key risks and mitigation strategies for 2011

Definition of risk

The Group needs to provide credit to customers and grow the active account base to facilitate merchandise sales growth.

Credit needs to be granted in a responsible manner without compromising the health of the portfolio and negatively affecting shareholder returns.

Risk mitigation

- Ongoing growth in active account base.
- Credit-granting processes have been consistently applied using credit scorecards.
- Regular scorecard development and alignment.
- Credit collection strategies constantly refined.

Objectives and plans for 2012

- Further application of data analytics to improve the predictive power of scorecards.
- Continued investment in credit systems and processes to manage the risk of credit.
- Continued acquisition of new customer accounts and growth in active account base.
- Ensure the Group is compliant with the proposed Protection of Personal Information Bill.
- Enhance the digital marketing strategy and customer offering.
- Drive operational efficiencies to improve collections.

3 Maximising supply chain efficiency

Refer to Managing the Risk of Fashion on pages 72 to 74 for further detail.

Strategic objectives for 2011

- Enhance efficiencies along the supply chain to reduce lead times in the merchandising cycle.
- Continued capital investment in distribution capacity.

Performance in 2011

- The Bofors Distribution Centre opened during September 2010.
- Completion of the capital expenditure programme totalling R122 million on distribution facilities over the last three years.
- Further diversification of foreign supply base.

Challenges in delivering on objectives for 2011

- Ensuring optimal efficiency of the Bofors Distribution Centre commissioned in September 2010.
- Minimising supply chain disruption during the transition to the Bofors facility.
- Sustainability of the local merchandise supply chain.
- Improving lead times on the delivery of imported merchandise.
- Managing the impact of higher energy and transport costs.

Key risks and mitigation strategies for 2011

Definition of risk	Risk mitigation
The local supply base could be eroded and unable to meet demand.	• The Group has a base of committed suppliers. • Suppliers are subject to stringent risk assessment to ensure contingency for loss of production facilities and key personnel. • International supply base can be expanded through in-house sourcing expertise.
Growth in the business has resulted in the need to expand distribution and warehousing capacity.	• Bofors Distribution Centre opened during September 2010. • Supply chain disruption adequately managed during transition to the Bofors facility. • Existing Truworths Distribution Centre is planned to be upgraded in 2012 to enhance capacity.
The complexity of the systems and levels of automation at the Bofors Distribution Centre.	• Daily reviews of system performance introduced. • Daily reconciliations of inventory received and dispatched. • System maintenance contracts concluded with service providers.

Objectives and plans for 2012

- Enhance efficiencies along the supply chain to reduce lead times in the merchandising cycle.
- Capital expenditure of R20 million planned for 2012 for continued investment in distribution facilities.
- Commence construction of a third distribution facility.
- Continue to engage with key suppliers on their transformation strategies, environmental impacts and economic sustainability.
- Measure and monitor carbon emissions in distribution centres.

4 Expanding retail presence

Refer to Group Brands on pages 64 to 70 and Store Report on pages 76 to 80 for further detail.

Strategic objectives for 2011

- Capital investment in new stores, refurbishments and expansion.
- Continued expansion of Identity stores and merchandise ranges.

Performance in 2011

- Trading space growth of 5% (2010: 6%).
- 20 (net) stores opened.
- 22 stores renovated or extended and 10 stores relocated.
- 543 stores at period-end (2010: 523).
- R120 million invested in store development.
- Identity retail sales growth of 16.7% (2010: 17.7%).
- Identity comparable store retail sales growth of 9% (2010: 5%).
- Identity trading space growth of 7% (2010: 11%).

Challenges in delivering on objectives for 2011

- Reduced opportunities for new retail space with the slowdown in mall developments.
- Securing additional trading space to expand existing presence in major malls.
- Legislative and logistical restrictions on trading within the rest of Africa.

Key risks and mitigation strategies for 2011

Definition of risk	Risk mitigation
The Group follows a strategy of increasing trading space to grow sales and without new mall development may not meet expansion and sales targets.	• Mall space is continuously reviewed and where necessary existing space is expanded or vacant space secured to increase the brand footprint in those malls.
The drive to secure new retail space may result in space proving to be unproductive or may dilute existing space performance due to cannibalisation.	• A rigorous viability process is followed to ensure that trading space will be productive. • The performance of stores is continually evaluated and should it become necessary unproductive stores are closed.

Objectives and plans for 2012

- Trading space expected to grow by 6%.
- R154 million committed to store development.
- Plan to open 22 (net) new stores including 12 Identity stores.
- Plan to refurbish, relocate or extend 41 stores.
- Measure and monitor carbon emissions in stores.
- Plan to open either corporate or franchise stores in Mauritius, Botswana, Nigeria, Zambia, Angola and Ghana.

5 Delivering sustained financial performance

Refer to Chief Financial Officer's Report on pages 42 to 49 for further detail.

Strategic objectives for 2011

- Improve efficiency ratios across the business.
- Ongoing tight expense control.
- Enhance returns to stakeholders through efficient financial and capital management.
- Investigate appropriate investment opportunities.

Performance in 2011

- Gross margin at 56.7% (2010: 55.3%).
- Trading margin at 28% (2010: 26%).
- Operating margin at 36% (2010: 34%).
- Trading expense growth of 10% (2010: 6%).
- Return on equity at 41% (2010: 40%).
- Return on assets at 46% (2010: 44%).
- Asset turnover at 1.3 times (2010: 1.3 times).
- R1.4 billion returned to shareholders in dividends and share buy-backs.

Challenges in delivering on objectives for 2011

- Effective management of capital to ensure shareholder returns are not negatively impacted by increasing cash resources.
- Identifying appropriate investment and acquisition opportunities.
- Containing occupancy expenses in an environment of rising rental and utility costs.

Key risks and mitigation strategies for 2011

Definition of risk	Risk mitigation
The Group's gross, trading and operating margins are at high levels and the risk exists that these margins cannot be sustained.	• Margins are continuously reviewed against disclosed target ranges and where necessary corrective action is taken to ensure that margins are sustained through the make-up of merchandise and the cutting of costs where possible.
The Group's capital base continues to grow and if the capital is not effectively deployed this could impact on returns to shareholders.	• Ongoing repurchase of shares at levels that are earnings enhancing. • Sourcing potential investment opportunities to complement the current merchandise offering. • Continued investment in the debtors' book. • Continued investment in organic growth. • Review of dividend cover as deemed appropriate.

Objectives and plans for 2012

- Continue to seek opportunities to utilise cash resources.
- Continue to grow shareholder wealth and returns.

Targets for 2012

- Gross margin 54% – 57%.
- Operating margin 33% – 36%.
- Return on equity 40% – 45%.
- Return on assets 44% – 48%.
- Asset turnover 1.2 – 1.5 times.
- Inventory turn 6.0 – 6.5 times.

6 Adopting leading information technology systems

Strategic objectives for 2011

Development and maintenance of industry-leading information systems.

Performance in 2011

- Initial roll-out of the new point-of-sale (POS) system, including the implementation of retail sales audit and store inventory management.
- Enhancement of disaster recovery plans and systems.
- Implementation of the new Truworths website and mobi sites for Truworths and Identity.

Challenges in delivering on objectives for 2011

- The allocation of resources to numerous new initiatives while still maintaining existing systems.
- Co-ordination of projects across the business to ensure appropriate prioritisation.

Key risks and mitigation strategies for 2011

Definition of risk	Risk mitigation
Growth and expansion in the business has resulted in certain systems requiring upgrade or replacement and information technology (IT) capacity increases.	• Project steering committee prioritises IT projects. • R31 million IT-related capital expenditure. • Business continuity plans, disaster recovery facilities and backup processes are in place. • External consultants used to advise on new technology.
A new point-of-sale system is being introduced in stores. The project has change management implications and potential implementation risk.	• Dedicated project management team with internal and external expertise. • Engaged services of change management consultant. • Extended pilot phase will be undertaken to ensure successful implementation. • Phased roll-out of system to stores to limit integration risk. • Project designed to limit impact on merchandise, distribution and customer management systems.
Owing to the scarcity of skills the ongoing support of legacy IT applications poses a risk.	• Register established which maps skills to applications. • Procedures relating to legacy applications documented. • Retention strategies for existing and new key employees, and backup employees recruited. • Contracts concluded with external service providers.

Objectives and plans for 2012

- Continued roll-out of new point-of-sale system in a controlled manner.
- Completion and implementation of a customer account acquisition system.
- Capital expenditure of R40 million committed to IT.
- Enhance IT governance processes across the business in line with King III.
- Continued development of key merchandise and supply chain IT systems.

7 Being the employer of choice in fashion

Refer to Human Capital Report on pages 88 to 92 and Remuneration Report on pages 94 to 99.

Strategic objectives for 2011

- Create a values-based culture which rewards individual and team performance and focuses on employee development and employment equity.
- Continue to invest in employees to be recognised as the employer of choice in fashion retailing.

Performance in 2011

- 17% turnover of permanent employees (2010: 17%).
- 9 521 employees trained (2010: 7 610).
- 55 184 learning interventions (2010: 46 140).
- 3 488 employees trained in scarce skills (2010: 4 601).
- 93% of employees trained were black (2010: 90%).
- 94% of new appointments were black (2010: 91%).

Challenges in delivering on objectives for 2011

- Retaining key employees and managing skills shortages in strategic areas of the business.
- Scarcity of merchandise planning and buying skills nationally.
- Meeting transformation targets at senior management level.

Key risks and mitigation strategies for 2011

Definition of risk

Experienced executives and employees are skilled and in demand both locally and internationally.

Risk mitigation

- Succession management plans for all key executives.
- Competitive remuneration and incentive schemes offered to enhance retention.
- Development programmes to enhance pool of leadership skills.
- Merchant trainee programme develops graduates for roles in merchandise functions and support services.

Objectives and plans for 2012

- Focus on attracting talent and developing high-potential employees.
- Retain talent by enhancing the employee value proposition.
- Progress transformation plans in line with the Employment Equity Plan (2009 – 2014).
- Continue to create a pipeline of succession candidates for key roles in the merchandise division.
- Improve human resource and management information systems to enhance decision-making.
- Introduce four additional long-term incentive schemes following shareholder approval.

8 Accelerating transformation

Refer to Human Capital Report on pages 88 to 92 and Corporate Social Investment Report on our website.

Strategic objectives for 2011

Enhance transformation through improved broad-based black economic empowerment (BBBEE).

Performance in 2011

- Achieved level 6 BBBEE status (self-assessment).
- Employment equity:
  - Black employees 91% (2010: 91%)
  - Female employees 72% (2010: 71%)
- Skills development spend increased 34%.
- Corporate Social Investment (CSI) and enterprise development spend R15 million.

Sustained improvement in transformation

BBBEE category:	2011	2010	2009
Ownership	**0.9**	0.9	1.4
Management control	**2.8**	3.0	2.2
Employment equity	**8.8**	6.7	6.5
Skills development	**12.1**	11.5	10.0
Preferential procurement	**13.5**	12.1	10.6
Enterprise development	**4.9**	4.5	7.7
Socio-economic development	**5.0**	4.8	3.6
Total	**48.0**	43.5	42.0
BBBEE contributor level	**6**	7	7

Challenges in delivering on objectives for 2011

- Identifying ownership models which are appropriate for the Group.
- Attracting black senior executives, particularly women.
- Identifying enterprise development projects which contribute to sustainable transformation.
- Preferential procurement spend reliant on verified scorecards from suppliers.

Key risks and mitigation strategies for 2011

Definition of risk

Compliance with BBBEE codes and regulations is fundamental to the sustainability of the Group.

Risk mitigation

- Employment equity plans and targets to 2014 approved by Department of Labour.
- Preferential procurement practices enhanced.
- Enterprise development strategy developed to support local suppliers.

Objectives and plans for 2012

- Maintain BBBEE level 6 status (self-assessment).
- Continue to analyse shareholding and evaluate ownership proposals.
- Finalise and implement enterprise development programme which will include identification of additional local suppliers as beneficiaries.
- Continue to manage corporate social investments prudently to ensure the sustainability and effectiveness of the CSI programme.
- Continue to engage with suppliers on transformation issues.