



Truworths International Ltd
REPORT ON CORPORATE
GOVERNANCE AND APPLICATION
OF KING IV PRINCIPLES 2018

TRUWORTHS

INTERNATIONAL

2018

REPORT ON CORPORATE GOVERNANCE AND APPLICATION OF KING IV PRINCIPLES 2018

INTRODUCTION

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

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

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

The directors confirm that during the 2018 reporting period the Group has in all material respects voluntarily applied the King IV Report on Corporate Governance for South Africa, 2016 (King IV) principles and complied with the mandatory corporate governance provisions in the JSE Listings Requirements. A narrative of how the Group has applied the King IV principles and complied with the JSE Listings Requirements is set out in this Report.

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

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.

Truworhts' 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.

GOVERNANCE DEVELOPMENTS IN 2018

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

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

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BOARD OF DIRECTORS

Board structure

The board functions in terms of a written charter and the complementary roles and responsibilities of the boards of Truworths International, the JSE and NSX-listed investment holding and management company, and its South African and United Kingdom retailing subsidiaries, Truworths Ltd (Truworths) and Office Holdings Ltd (Office), are formally documented.

The Truworths International board provides direction and leadership to the Group and is ultimately accountable for the overall governance, performance, strategy and affairs of the Group.

Operational responsibility for the Group's South African and United Kingdom retailing businesses has been delegated to the Truworths and Office boards respectively, which boards are accountable for the ongoing management of these businesses.

Board composition

The Group has a unitary board structure with eight (2017: six) non-executive directors and three (2017: three) full-time salaried executive directors at the end of the reporting period. Mr Hans Hawinkels and Ms Maya Makanjee were appointed to the board as independent non-executive directors during the period.

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

Biographical details of the directors appear on page 28 of the 2018 Integrated Annual Report.

Board appointments

Directors are appointed by the board in a formal and transparent manner. The Non-executive and Nomination Committee, in consultation with the Chief Executive Officer, considers suitable candidates and nominates persons for appointment as directors to the boards of Truworths International, as well as to the boards of Truworths and Office, taking into account the skills set and diversity of current board members and business requirements.

One-third of the company's directors, both executive and non-executive, are required to retire by rotation at the annual general meeting (AGM) of shareholders. Retiring directors may offer themselves for re-election. Directors appointed during the period are required to have their appointments ratified at the following AGM. Details of these directors are given in the Notice of the AGM and included in the Preliminary Report posted to shareholders and published on the website www.truworthsinternational.com.

Directors generally have no fixed term of appointment. The contract of the Chief Executive Officer, Michael Mark, is subject to a six-month notice period by either party. The salient features of this contract are disclosed in note 30.1 of the Group Audited Annual Financial Statements.

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

Director independence

All non-executive directors, including the Chairman, are independent in terms of the King IV definition and the guidelines outlined in the JSE Listings Requirements.

The independence of all, particularly long-serving, non-executive directors was formally assessed by the board during the reporting period, as recommended by King IV. Based on this assessment, which is based on regulatory requirements and guidelines relating to independence, the board confirms that all non-executive directors are correctly categorised as independent.

The board notes that the qualifications, experience, personal characteristics, and integrity of the independent non-executive directors, together with the facts that they:

- have no contractual, consulting or family relationships with the Group;
- are not representatives of any major institutional shareholders of the company;
- are not financially dependent on the fees they earn as non-executive directors;
- are not participants in the Group's share and other incentive schemes; and
- are not involved in external charities that benefit from donations by the Group,

and other relevant considerations, ensure that their judgement in relation to Group matters is exercised independently and in an unfettered manner.

Board and director evaluations

An annual evaluation is conducted to assess the effectiveness of the board as a unit and the individual contributions of the directors. The Chairman discusses results of the evaluations with the directors individually and agrees suitable developmental plans, where necessary. The results of the evaluation of the Chief Executive Officer are distributed to all board members and considered by them. The board effectiveness evaluation concluded that the board's overall functioning and governance were excellent. The evaluation assesses effectiveness as regards:

- fulfilment of the board's role and responsibilities;
- the board's composition, size and independence;
- director orientation and development;
- board leadership, teamwork and relationships with management;
- board and committee meeting productivity;
- director evaluation and compensation;
- succession planning;

- ethical leadership and culture; and
- stakeholder engagement.

The findings indicate that:

- generally the board members feel that the board functions extremely effectively and is well versed on the business and governance issues, and the Group's strategy;
- the board is satisfied that it works effectively with the CEO and other executives;
- the board's role and responsibilities have been clearly defined, performance objectives are in place, issues are prioritised and discussed timeously, whilst operational and financial performance is effectively monitored;
- the board acts independently, and is appropriate in terms of size and composition and believes that it is important to continue to evolve its composition by breadth of skill as well as by race and gender;
- the board feels that board members are effectively retained. The orientation and development of new board members are an area of focus;
- leadership, teamwork and management relations on the board are excellent and remain an area of strength;
- board and committee meetings are productive and allows for appropriate issues to be raised as is necessary. There is an opportunity to allocate more time to meetings to cover a broader set of issues;
- board members are suitably compensated;
- succession planning remains an important area of focus with particular attention continued to be given to succession for the Chief Executive Officer;
- the board is satisfied with the level of ethical behaviour and proper compliance standards throughout the Group; and
- the board is satisfied that there is a high level of consideration of its various constituencies, including shareholders, employees, customers, suppliers and communities.

Chief Financial Officer evaluation

Based on a formal written evaluation conducted at the end of the reporting period, the Audit Committee is satisfied that the expertise and experience of the Chief Financial Officer, who is an executive director of the company, is appropriate to meet the responsibilities of the position.

Company Secretary

The Company Secretary works to ensure that board and committee procedures and charters and relevant legislation and regulation are observed, and is responsible for preparing meeting agendas and recording minutes. The Company Secretary also provides guidance to directors on governance, compliance and fiduciary responsibilities.

Based on the outcome of a formal written assessment conducted by the Chairman, Chief Executive Officer, Chief Financial Officer

and Audit Committee Chairman, the board is of the opinion that the Company Secretary possesses the requisite competence, knowledge and experience to carry out the duties of a secretary of a public company. In line with the principles of King IV, the Company Secretary is not a director of the company and in the view of the directors is suitably independent of the board to be an effective steward of the Group's corporate governance programme.

Finance function assessment

During the reporting period the Audit Committee conducted a formal assessment regarding the expertise, resources and experience of the Group's finance functions, within both the Truworths and Office businesses.

Based on a consideration of the qualifications, participation in continuing professional education and the nature, duration and relevance of the experience of key managers in the Group's finance departments, as well as a review of the staff complement, functional responsibilities and information systems of the departments, the Audit Committee is satisfied as to the appropriateness of the collective expertise and experience of the Group's finance function and the adequacy of its human and technological resources. The Audit Committee was further satisfied that the Group has established sound financial reporting procedures and that such procedures operated as intended during the reporting period.

Board gender diversity

During the prior reporting period the voluntary target set by the board was that at least 10% of the board of the company should comprise females in the short-term, and that at least 30% of the board of the company should comprise females in the medium-term.

At the reporting period-end two of the eleven, or 18%, of the board members were females, and hence the company has achieved its short-term target.

Board race diversity policy

During the reporting period the board formulated and adopted a race diversity policy to inform the composition of the board. Salient features of this policy are that:

- the company supports the principles and aims of racial diversity at board level, believing that such diversity will enhance decision-making by the board, will promote the empowerment of black South Africans and will strengthen the representivity of the company's leadership;
- the voluntary target set by the board is that at least 30% of the board of the company should comprise black directors in the medium-term;
- the Non-Executive and Nomination Committee will annually review the voluntary target, measure the black director representation on the board against the voluntary target, and make recommendations in relation to the development and promotion of black executives within the businesses of the Group with a view to their qualifying to become potential board candidates.

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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	2/2 ^{**}	4/4 [#]		1/1
Rob Dow	I	4/4	3/3	4/4 [#]		4/4		1/1
Michael Thompson	I	4/4	3/3		4/4	4/4	3/3 [#]	1/1
Thandi Ndlovu	I	4/4				4/4	3/3	1/1
Tony Taylor	I	4/4		2/2 ^{**}		4/4		1/1
Roddy Sparks	I	4/4	3/3 [#]		2/2 ^{**}	4/4		1/1
Hans Hawinkels*	I	2/2				2/2		
Maya Makanjee*	I	2/2						
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 2018		100	100	100	100	100	100	100
% attendance 2017		100	88	100	92	100	100	100

= Chairman E = Executive I = Independent non-executive * = Appointed February 2018 ** = Appointed November 2017

BOARD COMMITTEES

The directors have delegated specific responsibilities to committees to assist the board in meeting their oversight responsibilities. The committees, which operate in terms of written charters and whose chairmen report at each board meeting, are as follows:

Truworths International Audit Committee

OBJECTIVES AND FUNCTIONS	COMPOSITION AND EXPERTISE
<p>Information on the Audit Committee is included in the Audit Committee Report, which has been incorporated in the Group's Audited Annual Financial Statements as required by the Companies Act. The Audit Committee:</p> <ul style="list-style-type: none"> aims to ensure the maintenance of adequate accounting records and effective financial reporting and internal control systems; aims to ensure compliance of published financial reports with relevant legislation, reporting standards and good governance; aims to ensure Group assets are safeguarded; has oversight of fraud and information technology; confirms the nomination and appointment of the external auditor, ensuring such appointment is legislatively compliant; approves the terms of engagement and fees paid to the external auditor; assesses the independence of the external auditor and its suitability for re-appointment, taking into account the findings of technical reviews conducted by IRBA, the audit profession regulator; defines and considers the non-audit services that may be rendered by the external auditor; considers the findings arising from the annual financial statements audit; monitors the functioning and approves the coverage plan of internal audit; reviews risk and tax management programmes and initiatives; fulfils the function of Audit Committee to Group subsidiaries and charitable trusts; reviews the expertise, resources and experience of the Group's finance function and the expertise and experience of the Chief Financial Officer; and recommends to the board the approval of the Integrated Annual Report, Audited Annual Financial Statements, Preliminary Report and Interim Report. 	<p>Chairman: Roddy Sparks</p> <p>Other committee members: Two independent non-executive directors</p> <p>The Board Chairman, Chief Financial Officer, Company Secretary, Internal Audit Executive, IT Audit Manager, Finance Executive and External Audit partner and senior manager attend committee meetings by invitation.</p> <p>The Company Secretary acts as the committee secretary.</p> <p>All committee members hold recognised financial or business degrees or diplomas and are either professionally qualified chartered accountants or masters in business administration. In view of their qualifications and vast experience they are considered to have the financial expertise necessary to fulfil the responsibilities of an audit committee member.</p>

Truworths International Remuneration Committee

OBJECTIVES AND FUNCTIONS	COMPOSITION
<ul style="list-style-type: none"> Ensures senior executives and non-executives are rewarded in accordance with the Group's compensation objectives, with particular attention to retention, performance and international practice. Advises, recommends and reviews reward strategies and policies, including evaluation methodologies. Determines the remuneration packages of executive directors and non-executive directors to support the Group's strategic objectives. Reviews and approves compensation of executive and non-executive directors and senior executives. Approves awards under share and cash incentive plans. Ensures alignment of the compensation and incentive plans with the Group's business strategies and values. Reviews and approves the Group's remuneration policy and implementation report for publication. 	<p>Chairman: Rob Dow</p> <p>Other committee members: Two independent non-executive directors</p> <p>The Chief Executive Officer attends by invitation and recuses himself when matters relating to his own remuneration are discussed or when required to do so by the Chairman.</p> <p>The Group's remuneration policy and implementation report are disclosed in the Remuneration Committee Report in the Integrated Annual Report.</p> <p>The Truworths Remuneration Manager acts as the committee secretary.</p>

Truworths International Non-executive and Nomination Committee

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

Truworths International Social and Ethics Committee

OBJECTIVES AND FUNCTIONS	COMPOSITION
<ul style="list-style-type: none"> Monitors activities in relation to social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships and labour and employment. Makes recommendations to and brings matters to the attention of the board in relation to these activities. Reports to shareholders at the company's annual general meeting in relation to such activities. 	<p>Chairman: Michael Thompson</p> <p>Other committee members: One independent non-executive director One executive director</p> <p>The chairmen of the Truworths Transformation and Sustainability Committees, the Company Secretary and the Legal Adviser (who acts as the committee secretary) attend meetings as invitees.</p>

Truworths International Risk Committee

OBJECTIVES AND FUNCTIONS	COMPOSITION
<ul style="list-style-type: none"> Identifies, assesses, mitigates and manages significant risks facing the Group. Develops risk management mechanisms which demonstrably enable dynamic risk identification, mitigation and communication, as well as business continuity. Maintains functionally effective systems of internal control which are designed to safeguard Group assets and investments, and support business sustainability. Monitors and assesses key risk areas and key performance indicators regularly, including reviewing and updating the Group's register and matrix of top risks. Ensures that management maintains a comprehensive register of the risks facing the Group, reflecting the risk owners and the controls implemented to mitigate or transfer such risks. Monitors the Group's initiatives and programmes in relation to information technology governance and information security. 	<p>Chairman: Michael Mark</p> <p>Other committee members: Three independent non-executive directors One executive director</p> <p>Certain divisional directors and executives attend and make presentations at committee meetings as invitees.</p> <p>The Company Secretary acts as the committee secretary.</p>

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Board committee evaluations

During the reporting period the board committee charters were amended to ensure alignment with recommendations of King IV and JSE Listings Requirements as regards committee size, composition and tenure, and to provide for committee performance to be evaluated annually.

Key findings of the evaluation process are that each committee is functioning well overall and meeting the objectives of its charter. The focus areas of improvement for each committee are as follows:

Non-executive and Nomination Committee

- The committee's role and responsibilities could be further defined, and the scope of its authority emphasised.
- A greater focus on communication with stakeholders regarding remuneration matters will be beneficial.
- Members believe that it is important to continue to enhance its structure and evolve its composition by breadth of skill and by race and gender.
- There is a focus on enhancing the process of reviewing progress to goals by establishing wider benchmarks.

Risk Committee

- Focus can be given to communicating expectations regarding members' responsibilities.
- The composition of the committee ensures that a wealth of skills and experience can be leveraged to the benefit of the Group and that there is adequate independence from management.

Remuneration Committee

- Members feel that a greater focus on communication with stakeholders regarding remuneration matters will be beneficial.
- Whilst the orientation and development of new committee members is effectively implemented through adequate communication of key information, there is opportunity to more clearly define expectations regarding members' responsibilities.

Audit Committee

- Members have more than adequate information about the Group's key financial risk issues and the committee's role. There is, however, an opportunity to more clearly communicate individual member's responsibilities.
- An area of focus is to ensure that performance benchmarks are well communicated and that there is a credible process in place for reviewing the committee's progress in meeting goals.

Social and Ethics Committee

- The committee acts independently and is appropriate in terms of size and composition. The members believe that it is important to continue to enhance its structure and evolve its composition by breadth of skill, and by race and gender.
- While a credible process is followed to review committee progress in meeting its goals, there is opportunity to have more benchmarks by which to evaluate its performance.

Other committees and forums

Within the Group, in both the Truworths and Office businesses, are a number of standing committees and forums whose function is to ensure high levels of governance in relation to their specific areas of mandate. All such structures are constituted by written charters, are responsible for reporting on their activities and decisions either directly or indirectly to the boards of the Group's two principal operating subsidiaries, namely Truworths and Office, and whose composition is determined by the boards of these companies.

Included in these committees and forums are:

- Truworths Sustainability Committee
- Truworths Transformation Committee
- Office Risk Committee
- Office Audit Committee
- Office Remuneration Committee
- Truworths Tender and Capital Expenditure Committee
- Office Tender and Capital Expenditure Committee
- Truworths Change Control Committee
- Office Change Control Committee
- Truworths Compliance Committee
- Truworths Accounting Forum
- Truworths Tax Forum
- Truworths Investment Committee

These committees and forums add value and integrity to the Group's operational decision-making, given that they have narrowly prescribed terms of reference, are able to focus on specialist topics and are constituted in the main by divisional directors and executives in the Group.

ACCOUNTABILITY AND COMPLIANCE Risk management

Risk governance and management are integral elements of the Group's corporate governance framework.

These elements aim to ensure business specific operational and strategic risks, emerging risks, as well as risks posed by the external environment, are adequately and timeously identified and mitigated. The board confirms that the Group's risk management, mitigation and monitoring processes have been effective in limiting the impact of risks on the business during the period.

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

The overall risk profile of the Group has not changed materially in the period under review. The key risks facing the Group in 2019, together with mitigation strategies, are covered in the Material Issues, Risks and Opportunities report in the 2018 Integrated Annual Report.

Internal and External Audit

Details of the internal audit function and systems of internal control, as well as the external audit function, are covered in the

Audit Committee Report in the Group Audited Annual Financial Statements, available at www.truworthsinternational.com.

While the Truworths business maintains a full internal audit team for both head office and store audits, this newly established function for the Office business was outsourced to a professional audit firm during the reporting period.

These internal audit functions report directly to the Audit Committee and the Office Audit Committee respectively on proposed upcoming and planned investigations as well as results and findings from completed audits.

External auditor rotation

The board noted the proposed introduction of mandatory external auditor rotation in South Africa in 2023. Ernst & Young Inc. (EY) and its predecessor firms have been the Group's external auditor since 1975, while PricewaterhouseCoopers (PwC) audits the entities constituting the Office business.

The Audit Committee considered a tender process, with a view to a possible change in external auditor, but believed it to be premature. Office is scheduled to migrate to a new accounting system during the 2019 period, and the imminent adoption of new accounting standards that will materially impact on the Group's financial reporting could result in complexities and costs for a new audit firm. The impact of recent changes in finance function senior personnel was also considered. The committee therefore agreed to reconsider the tender process ahead of mandatory auditor rotation.

The Audit Committee is satisfied with the ongoing independence, impartiality, competence, resources, service levels and objectivity of EY and notes the additional independence that results from PwC's engagement on the Office audit. The high levels of financial reporting maintained by the Group over an extended period, as evidenced by awards received, and the Group's robust internal control environment, further indicate that the audit process and the assurance it provides remain sound.

INFORMATION TECHNOLOGY GOVERNANCE

The monitoring of information technology (IT) governance remains a responsibility of a number of forums within the Group, including the Truworths and Office Audit Committees and Risk Committees:

- The Audit Committee considers the efficacy of IT controls, policies and processes in so far as these might pose a risk to the financial reporting process, and the effectiveness of financial controls.
- The Risk Committee monitors management's initiatives to ensure that IT risks including emerging cybersecurity risks are managed appropriately so as not to pose a threat to the continuity of the Group's operations.

Personal share dealings

Directors and employees are prohibited from dealing in the company's shares during two formal closed periods, as well as during other periods declared as being prohibited periods by the board. The closed periods commence approximately two weeks before the end of the interim (December) and annual (June) financial periods and end 24 hours after the financial results are disclosed on the Stock Exchange News Service (SENS). All share dealings by directors, executives, the Company Secretary and other designated persons in possession of price-sensitive information, are governed by the Group's share dealing code and require prior written clearance by the Chief Executive Officer or Chairman. The share dealings of company directors, the Company Secretary and directors of major subsidiaries are announced on SENS in accordance with the JSE Listings Requirements.

LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

Ethics

The board leads the Group and directs its activities with integrity, by the tone it sets through its actions, decisions, policies and codes, the culture it instils and the example of its directors, thereby demonstrating transparency, accountability, fairness, honesty and responsiveness to stakeholders.

The Group's values are core to its business philosophy and guide the way the Group conducts its business and interacts with all stakeholders. A Business Ethics and Integrity Code was issued during the reporting period and details the Group's code of ethical and acceptable conduct, with the values supporting all aspects of this Code. This Code has been communicated to employees and has been published at www.truworthsinternational.com.

The board has endorsed the Business Ethics and Integrity Code, as well as the Group's business philosophies for its Truworths and Office segments. The board has also endorsed the Group's ethical values, codes of conduct and disciplinary policies developed by management, monitoring the application and effectiveness thereof through the Social and Ethics Committee.

During the period some incidents of non-compliance by employees with the Group's Business Ethics and Integrity Code were reported and dealt with in terms of the Group's disciplinary procedures. These resulted in formal warnings and in serious instances gave rise to dismissal from employment and cases being reported to the relevant national police service.

Leadership

The board leads the Group effectively:

- by understanding the purpose of the Group's business; the industry in which it operates and the Group's local and international competitors; the resources and capital at its disposal; the environmental, social, governance and regulatory framework in which it operates; and the major risks faced by the Group's business segments;

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- by ensuring its members have the requisite skills, experience and diversity, and are appropriately exposed to different facets of the Group's operations; and
- by requiring board members to avoid or disclose conflicts of interest, act with care and diligence, and take steps to prepare suitably for and be engaged at board meetings.

Corporate citizenship

The board ensures through its Social and Ethics Committee that the Group conducts its affairs in a manner that takes into account the realistic expectations of its stakeholders, and is sensitive to the Group's social, economic and environmental impacts, and ensures that it reports on its material initiatives in regard to good corporate citizenship in its Human Capital Report (in its Integrated Annual Report), as well as in its Social and Environmental Report.

These reports provide detail on the Group's environmental and social initiatives and how these are monitored, including upholding of human rights, corporate social investment, prevention of fraud, corruption and bribery, consumer protection, environmental sustainability measures, employment equity, transformation, skills development, fair labour practices, occupational health and safety, etc.

The Group's Social and Environmental Report and the Social and Ethics Committee Report are available at www.truworthsinternational.com

WHISTLE-BLOWING

King IV recommends companies to apply mechanisms to combat theft, fraud and other unethical practices. The Group has an ethics hotline in each of its Truworths and Office segments, and these are managed in partnership with an external service provider.

Truworths

Employees are eligible for an award of up to R5 000 for reporting unethical behaviour to the hotline that leads to the prosecution and/or dismissal of the perpetrator. In the 2018 financial period six awards were made (2017: five). A total of 141 reports was received in the 2018 financial period (2017: 121).

Office

No awards are paid for reporting unethical behaviour. A total of four reports was received in 2018 (2017: four).

COMPLIANCE GOVERNANCE

The board has determined that compliance with laws is the minimum standard of conduct, is made aware of applicable laws and regulations and voluntary codes by the Company Secretary, and monitors compliance/adherence through the Audit Committee which receives reports from the Internal Audit department following its annual legal compliance audit.

The board is made aware of applicable legislation and codes through the legislation updates and presentations made at each board meeting by the Company Secretary, and through material on relevant topics that is distributed to directors from time to time. Through

presentations made by management at meetings of the committees of the board the directors are further exposed to the impact of key legislation on the Group's business.

Compliance risk is a key area of focus of the Group's risk management programme and business unit heads actively consider regulatory compliance when compiling and annually reviewing the risk registers for their business units.

The board has tasked the board of its principal operating subsidiaries, Truworths Ltd and Office Holdings Ltd, with the design and implementation of an effective compliance framework, key elements of which include the appointment and work of the Group's Compliance Officer; the establishment, activities and reporting of the Compliance Committee; the establishment of project teams to ensure compliance with material new legislation; and the work of the Company Secretary in making management aware of relevant legislation.

The Group had no instances of material non-compliance with legislation during the reporting period. No material fines or penalties were incurred, nor were there any instances of prosecutions of Group companies or its directors/officers for failure to comply with any applicable legislation or regulation.

ANTI-BRIBERY AND CORRUPTION

The boards of Truworths and Office have adopted and have oversight of the anti-bribery and corruption policy that is applicable to and has been communicated to all employees. The policy deals, inter alia, with bribery, embezzlement, fraud, extortion, abuse of power, conflicts of interest and abuse of confidential information. The policy is supported with various avenues to report issues, including line management, the whistle-blowing hotline and the CEO Talk facility whereby incidents can be reported anonymously directly to the CEO. Furthermore a fraud response action plan has been adopted by the board to provide guidance to management as to the actions to be taken when incidents of fraud have been alleged or detected.

Political contributions or donations to political parties are not permitted by the Group. No reports of corruption or bribery involving the Group were received during the period, neither were any fines or penalties imposed on the Group by government authorities in relation to corruption or bribery.

During the prior reporting period the Truworths business updated its Codes of Conduct for local and foreign suppliers to further underscore that the Group had a policy of zero tolerance towards bribery and corruption, and that involvement in such practices was grounds for termination of contractual relationships with such suppliers.

COMPETITIVE CONDUCT

The Group operates in a highly competitive industry which has relatively low barriers to entry, a multitude of customers and has recently witnessed the entry of a number of international apparel retailers into South Africa, as well as increased competition from operators in the informal and semi-formal sectors. As the Group

strives to be the retailer of choice in its market segment, it is highly protective of confidential information, trade secrets, methodologies and supplier networks.

Interaction with other retailers is therefore generally restricted to forums in which co-operation at an industry level is necessary for the purposes of making representations to government, or for the sharing of information and ideas about issues facing the industry at large. Such forums typically have a public profile, are open to membership by any retailer and conduct their activities in a transparent manner in the form of non-profit organisations governed by written constitutions.

The Group is a founding member of the National Clothing Retail Federation of South Africa (NCRF). The constitution of this body specifically provides that the principle of competition shall not be compromised through their activities. Consequently no sharing of information or co-operation in any form that could lessen the ability of retailers to compete with one another is permitted.

The board is satisfied that the Group has not entered into any arrangements with competitors that unlawfully restrict competition or could be said to constitute collusion, and is confident that it has not entered into any arrangements which could be prohibited by the Competition Act of South Africa. All South African business acquisitions undertaken by the Group have been approved by the Competition Commission in South Africa. No fines or prosecutions have been incurred by the Group for anti-competitive practices or non-compliance with that Act, nor has the Group been the subject of any enquiries or investigations by the competition authorities during the period.

2017 AGM VOTING RESULTS

At the AGM of the company's shareholders held on 2 November 2017 all the ordinary and special resolutions, as set out in the notice of the AGM, were approved by the requisite majority of shareholders. The required special resolutions were not required to be lodged with the Companies and Intellectual Property Commission.

The shares in issue eligible to vote at the AGM were 429 779 470 (voteable shares). This number was calculated as the total number of the company's shares in issue, less treasury shares as defined in the JSE Listings Requirements.

The number of shares represented at the AGM either by shareholders personally present, or through letters of representation and by proxy, was 254 040 161, representing 59.11% of the voteable shares.

The votes cast in favour of the resolutions ranged from 87% to 100%, as reflected in the announcement published on the JSE's news service, SENS, on the date of the AGM.

REMUNERATION GOVERNANCE

Information relating to remuneration governance is provided in the Remuneration Report as well as in the Human Capital Report, which are both incorporated in the Group's 2018 Integrated Annual Report available at www.truworthsinternational.com.

STAKEHOLDER RELATIONSHIPS

The board recognises that perceptions of its key stakeholders can impact on the Group's reputation and encourages management to engage meaningfully with such stakeholders with a view to upholding the Group's reputation.

The board has tasked management with the responsibility of engaging with the Group's key stakeholders, being customers, shareholders and employees, as well as suppliers, regulators and community organisations, of devising suitable forums and communication channels for such interaction and of responding appropriately following such engagements, in the interest of the Group.

The board aims to ensure that the interests of the Group's different stakeholders are suitably considered and appropriately balanced, with a view to ensuring the Group's relevance and sustainability.

The board ensures all shareholders are treated in a fair manner, through the public dissemination of price-sensitive information, its transparent financial reporting and announcements, its dividend policy and its encouragement of shareholder involvement at meetings.

The board and management work to ensure that communication with the Group's stakeholders is frequent, substantive, transparent and credible, recognising that such communication leads to trust and mutual respect and helps to ensure the sustainability of the Group.

The board encourages management to resolve disputes with customers, suppliers, employees and regulators in an effective and reasonable manner and in appropriate forums including alternative dispute resolution mechanisms, having due regard for contractual and legislative obligations and the best interests of the Group.

Details on stakeholder engagement are provided in the Building Quality Stakeholder Relationships report on pages 22 and 23 in the Group's 2018 Integrated Annual Report, available at www.truworthsinternational.com.

2019 GOVERNANCE PRIORITIES

Governance priorities for the 2019 financial period will include:

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

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

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