



Truworths International Ltd
SOCIAL AND ETHICS
COMMITTEE REPORT

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SOCIAL AND ETHICS COMMITTEE REPORT 2018

INTRODUCTION

The Social and Ethics Committee (the committee) assists the board by monitoring the Group's levels of corporate citizenship, with the aim of promoting high standards and ensuring that the business accounts for its conduct not only in terms of its financial performance but also with regard to its environmental, social and governance (ESG) performance.

The chairman of the committee presents the following report to shareholders for the 2018 financial period, in accordance with the requirements of the Companies Act of South Africa.

COMMITTEE COMPOSITION

The members of the committee for the period were independent non-executive directors Michael Thompson (chairman) and Thandi Ndlovu, and Chief Financial Officer David Pfaff. At the company's annual general meeting (AGM) in November 2017 shareholders confirmed the re-appointment of these committee members.

Routine attendees at committee meetings are the chairman of the Transformation Committee, the chairman of the Sustainability Committee, the Company Secretary and the Legal Adviser (who acts as the secretary of the committee).

Shareholders will be asked to confirm the re-appointment of the current committee members at the company's AGM of shareholders in October 2018.

RESPONSIBILITIES

The objectives and responsibilities of the committee are recorded in its charter and are aligned with the committee's statutory functions. In summary the committee has a duty to:

- Monitor the social, economic, governance, employment and environmental activities of the Group.
- Bring matters relating to these activities to the attention of the board as appropriate.
- Report annually to shareholders on the matters within the scope of its responsibilities.

The specific activities required to be monitored by the committee include the Group's adherence with legislation, regulation and codes of best practice relating to:

- **Social and economic development**, including the Group's standing relative to the United Nations Global Compact Principles, the Organisation for Economic Co-operation and Development's recommendations regarding the combating of corruption, and South Africa's Employment Equity Act and Broad-based Black Economic Empowerment Act.
- **Good corporate citizenship**, including the Group's positioning and efforts in promoting equality, preventing unfair discrimination and combating corruption, the Group's contribution to the development of communities in which it operates or markets its goods and the Group's record of sponsorships, donations and charitable giving.

- **The environment, health and public safety**, including the impacts of the Group's activities and products on the environment and society.
- **Consumer relationships**, including the Group's advertising, public relations and compliance with consumer protection laws.
- **Labour and employment**, including the Group's standing relative to the International Labour Organisation's Protocol on decent work and working conditions, and the Group's employment relationships and contribution to the educational development of its employees.

FUNCTIONING

The committee met four times during the period under review and detail on meeting attendance is included in the Group's Report on Corporate Governance and Application of King IV Principles 2018 on the website www.truworthsinternational.com.

During the period the chairmen (or their delegates) of the Transformation and Sustainability Committees made presentations to the committee on the functions and activities undertaken by these two committees, as well as the tools used to monitor and measure the Group's transformation and sustainability policies, activities and processes. Other members of management also made presentations to the committee on topics falling within the committee's monitoring mandate.

During the reporting period management adopted a holistic framework of matters that should routinely be monitored by the committee. In doing so the committee accepted the principle that

a number of matters could suitably remain to be monitored by the company's board, or by other committees or subsidiary company boards reporting directly to the board. The committee refined this framework during the period under review and the resulting matrix that has been implemented is used by the committee as a tool to monitor ESG initiatives by the Group.

At the committee's request management arranges the committee's meeting agendas so as to align with this matrix so that all matters requiring monitoring by the committee are routinely included on such agendas on a rolling basis, and management reports and presentations to the committee are suitably prepared to achieve this objective. To this end a schedule of specific topics to be reported on at future meetings of the committee is maintained by management and utilised by the committee.

MONITORING

Key issues considered by the committee during the period included:

- Progress made by management towards ensuring the Group achieved a level of compliance on its Broad-based Black Economic Empowerment (BBBEE) generic scorecard by the end of the reporting period, and in particular the initiatives planned and undertaken as regards socio-economic development, skills development, and supplier and enterprise development.
- Electricity-saving activities continued in retail stores to ensure sustainability and cost savings, including use of energy-efficient and LED lighting fixtures in new stores, re-lamping of light fittings in existing stores, reinforcement of disciplines in terms of electricity usage and the installation of meters to monitor electricity usage against adopted benchmarks.
- The submission made by the Group for the 2017 Carbon Disclosure Project (CDP), which enabled the Group to determine its ranking relative to other participants. The Group achieved a category B (2016: B) performance rating in the CDP managed by the National Business Initiative.
- The Group's submission for the June 2018 review of the FTSE/JSE Responsible Investment Top 30 Index, in terms of which the Group again qualified for inclusion based on its FTSE/Russell ESG Rating. The Group achieved an absolute score of 4.1 (2017: 3.9) out of 5 and an apparel retailer subsector relative percentile score of 89 (2017: 92) out of 100, based on its combined performance across the ESG pillars. The Group has accordingly been included in the FTSE4Good Emerging Index 2018.

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- The recycling and income-generating activities continued at the distribution centres in relation to plastic hangers and in-bound cardboard cartons, waste recycling initiatives at the head office and the recycling of cardboard cartons at stores in collaboration with the Group's transport contractor.
- The change management strategies implemented by the Group following acquisitions in order to ensure cultural alignment of employees new to the Group, and overcome the challenges of resistance to change and lack of understanding, noting that key success factors in this regard included active and visible executive sponsorship of the integration process, and open and frequent communication.
- The measures undertaken by management to ensure that no anti-competitive behaviour was undertaken by the Group, including having a competition policy, being aware of the relevant provisions of competition legislation, avoiding exclusivity arrangements with suppliers and landlords, obtaining regulatory approval for all acquisitions undertaken, taking legal advice on competition law matters and participating in industry bodies within the guidelines issued by regulatory authorities.
- The terms and conditions under which the Group transacted with suppliers of goods and services, including the Code of Conduct which suppliers were required to subscribe to as regards environmental, social and labour compliance, the avoidance of conflicts of interest, and the prohibition on bribery and corruption, noting that a process had been proposed and was being piloted whereby Group employees visiting supplier premises assessed adherence with the Code based on observation.
- The measures in place in the Group to combat corruption and bribery, including obtaining supplier adherence to the Group's Code of Conduct which prohibited such behaviour, the adoption of an anti-fraud and corruption policy, conflicts of interest codes and a whistle-blower policy, as well as employee contracts, all of which sought to regulate employee behaviour in this regard, and the monitoring of measures taken by a supplier to remedy governance concerns and address adverse publicity relating to its enterprise development programme.
- The recently developed safety practice manuals which sought to bolster safety features as regards the design, materials and methods of production deployed in the manufacture of children's shoes, bags and accessories sold by the business.
- Recent funding initiatives undertaken by the Group pursuant to enterprise development whereby financing had been provided to black-owned suppliers to purchase metal detection equipment to identify safety hazards such as needles and pins in garments prior to delivery, and to purchase a commercial vehicle to expand the servicing capacity of an electrical contracting firm.
- The achievements in respect of the Group's skills development programme for the reporting period that reflected an ongoing alignment with the needs of the business, an increase in the expenditure incurred on training initiatives, the preference for internally developed training over externally presented courses, the facilitation of the training programme for persons working in the retail stores network by the introduction of e-learning, the internships and bursaries made available to employees, the extensive merchant training programme offered and the enhanced retention in employment at the conclusion of the store training programme of a significant number of previously unemployed trainees.
- The success of the water-saving initiatives undertaken at the Group's head office in response to the prevailing drought conditions in Cape Town, including usage of underground spring water, cessation of car wash facilities, reducing water pressure in the supply line and at tap points, creating awareness of the need for water saving, and various other activities, which had enabled the business to halve its water usage at this location over the past two years.
- The initiatives continued by management to ensure adherence with consumer protection legislation, including in relation to the Group's provision of credit facilities, the conduct of promotional competitions and the merchandise returns policy.

MATTERS BROUGHT TO THE ATTENTION OF THE BOARD

During the reporting period the committee brought the following key matters, amongst others, to the attention of the board through the committee chairman's reports at board meetings:

1. that the committee was continuing its oversight and monitoring to cover the broad scope of the committee's mandate as provided for by statute and its charter;
2. that management had made good progress to improve the Group's BBBEE scorecard, and it was anticipated that the independent verification process that was expected to be completed during September 2018 would confirm that a level of compliance had been attained by the end of the reporting period; and
3. those areas not historically reported on by management to the committee were now being, or were planned to be, covered on a rolling two-to-three-year basis.

CONCLUSION

The committee believes the Group has maintained an acceptable balance during the reporting period between its financial performance on the one hand and its social, economic, governance, employment and environmental responsibilities on the other.

No material non-compliance with legislation and regulation, nor material regulatory fines or penalties relevant to the areas within the committee's mandate, have been brought to its attention during the reporting period.

The activities outlined in this report reflect the Group's initiatives in relation to its responsibility to the society and environment in which it operates, while remaining accountable to shareholders in terms of financial performance.

The committee plans to extend its monitoring activities to specific social, economic, governance, employment and environmental initiatives undertaken in the Group's Office segment, the operations of which are based primarily in the United Kingdom.



Michael Thompson
Chairman
Social and Ethics Committee

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