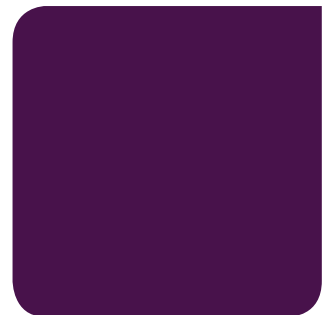


# Sustainability Overview 2014



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ABOUT

**TFG**

1

# About TFG



1.  
About TFG

The group's mission is to be the **leading fashion lifestyle retailer in Africa**, by providing innovative, creative products and by leveraging our portfolio of diverse brands to differentiate our customer offering.

Our talented and engaged people will always be guided by our values and social conscience.

TFG's retail brands retail clothing, jewellery, accessories, sporting and outdoor apparel and equipment, cellular goods and services and homeware to the broad, primarily middle and upper income groups throughout Southern Africa. The ratio of credit sales to total turnover is 57.8%. We also provide a range of financial services offerings.



## OUR VALUES PRIDE<sup>2</sup>

- Professionalism:** We are accountable & drive performance in a creative and innovative way
- Resilience:** We have the courage of our convictions and the boldness to constructively challenge
- Integrity:** Our word is our honour, we are honest and ethical
- Dignity & Respect:** We treat everyone the way we want to be treated
- Empowerment:** We have equal opportunity to grow in a supportive environment
- Excellent Service:** Our customers are our future - we look after them

## NAVIGATIONAL GUIDE

To enable easy referencing and show connectivity, we have developed and applied the following icons:

				
Material issues	Business model	Print report/other sections of the report	Four strategic objectives	Digital channels
				
Five sustainability focus areas	Six capitals	Stakeholders /Investors	Business imperatives	Employees

# About this REPORT



The **sustainability overview** provides insight into TFG's performance and prospects in relation to environmental, social and governance (ESG) issues. The report presents our perspective on what sustainability means for TFG operations and includes information on the progress we have made against five strategic priority areas, namely:

5\*

Five  
sustainability  
focus areas

- Supply Chain
- People
- Optimisation
- Socio-economic development
- Governance

We include relevant case studies and commentary from selected stakeholders.

TFG's sustainability strategy is applicable to all wholly-owned divisions, which reflects the scope of this report.

TFG's sustainability overview is part of a suite of reports within our integrated reporting process and supplements the high-level information included in the TFG Integrated Annual Report 2014. The full suite of reports may be found at [www.tfglimited.co.za](http://www.tfglimited.co.za).

**Integrated Annual Report:** For an integrated overview of our performance, markets and operations, please refer to our Integrated Annual Report which may be found at [www.tfglimited.co.za](http://www.tfglimited.co.za).

**Financial statements:** For further details on our financial performance, the TFG financial statements may be downloaded at [www.tfglimited.co.za](http://www.tfglimited.co.za).

**King Code of Corporate Governance:** A King III compliance register is available on our website at [www.tfglimited.co.za](http://www.tfglimited.co.za).

**Global Reporting Initiative:** The TFG integrated reporting process is aligned with the GRI guidelines. Our GRI - G4 content index may be found at [www.tfglimited.co.za](http://www.tfglimited.co.za).

**Carbon Disclosure Project:** TFG participates in the CDP which provides further insight into our carbon risk and management response. A copy of our latest CDP report may be obtained from the CDP website at [www.cdp.net](http://www.cdp.net).

**Kimberley Process:** Our jewellery division adheres to the Kimberley Process, a global governments, industry and civil society initiative to stem the flow of conflict diamonds.

**Johannesburg Stock Exchange Socially Responsible Investment Index:** TFG is listed on the JSE SRI Index.

Although we make significant effort to ensure the validity and accuracy of information, the non-financial data provided in this overview is not externally assured.

This report contains certain forward-looking statements. These statements are not guarantees of operating, financial or other results which may differ materially from what is expressed or implied by such statements.

We would value your views and feedback on this report. Please email Chris Harries, Head of Sustainability: TFG Finance & Advisory at [Chrisha@tfg.co.za](mailto:Chrisha@tfg.co.za).

# IN CONVERSATION WITH OUR **CEO**

# 2







In conversation with...

# DOUG MURRAY

Chief Executive Officer

2.

In conversation  
with our CEO

## Q What changes have you seen since launching your sustainability strategy in 2012?

We are starting to understand the links better. The ability to respond to uncertainty and a deeper understanding of the broader context are integral to our strategy and thinking. As we work on sustainability and shared value initiatives, the alignment with our culture and core thinking is increasingly clear.

## Q Supply chain localisation is an opportunity to drive both social and business objectives. How would you describe TFG's commitment in this area?

Our initial impetus to localisation was – and remains – the business case. Our commitment is steadfast and we continue to drive this more aggressively than our competitors. Obviously we are aware of the social value associated with localisation: the critical need to address unemployment and poverty. On a national level, we see this as part of an impetus to build a competitive industrial sector, with expansion on the productive side, not simply of the consumer base.

## Q How would you describe your relationship with government in the localisation initiative?

The Department of Trade and Industry's manufacturing competitiveness programme has been successful in creating jobs and new businesses, and our relationship with them has been very positive. But government funding is uncertain and indications are that it may be redirected in the coming year. This will directly impact our ability to drive the training and capacity development of Cut-Make-Trim (CMT) operations. Retailers have a role in rebuilding this industry, but it requires public-private partnership and a long term commitment on all sides. For government to withdraw now risks undermining the significant gains we've achieved over the past few years.

## Q To what extent will your localisation initiatives be impacted by the new BBBEE regulations?

SA companies tend to be aware of the need to address social challenges for their businesses to survive. We want to procure local merchandise, but we can't do that across the board for every product line. People want the latest fashion from Nike and Adidas. Compliance with the new BBBEE regulations will depend on our ability to influence the likes of Nike and Adidas. You have to recognise where power lies: they aren't going to fill in a BBBEE scorecard to keep us happy. While scorecards can play a role, we need more understanding of the nuances of delivering competitive mix of social and financial value in a specific industry.

## Q What does a "mix of social and financial value" look like in the fashion retail space?

It's about localisation, offering responsible credit, optimising logistics, driving ethics into our supply chain. We are not experts yet. We are only starting to work out the metrics that drive these initiatives intelligently across the business. But these are not simply compliance issues. Of course they are underpinned by good governance, but they are as much about intelligent growth as about complying with BBBEE or affordability criteria.



In conversation with...  
*Doug Murray*



2.

In conversation  
with our CEO



### What role do retailers such as TFG play in the area of consumer debt?

We've always seen ourselves as the first point of entry into the responsible credit market. Unfortunately the explosion of micro-lenders has pushed people – including a number of our customers – into unmanageable debt. Our response is showing progress: on the business side we are strengthening the ratio of cash to credit sales. On the social side, we actively seek to rehabilitate our over-indebted customers. Our business model works on sales not interest payments – it's in our interest to help people out of debt as quickly as possible.



### What pressure do you get from your investors on sustainability issues?

At this point we drive our social agenda despite limited investor interest and because long term growth depends on it. Perhaps one day investors will see social delivery as material to competitive performance, but right now social pressures are simply not on their radar. If anything, they question our commitment to investing in local production given the sorry state of the local industry. We don't have the luxury of only thinking short term. And frankly, neither should they. The reality is, capital is more mobile than the complex set of relationships that is needed to create a successful business.



### What is needed for your initiatives to be successful in both business and social terms?

First prize would be a number of developments in government. There's too much reliance on bureaucracy and not enough long term thinking and follow through. If we are pushing for the development of world class manufacturing capacity, we simply can't afford policy fragmentation and bureaucracy. We need public-private partnerships that work over long term cycles – and that addresses all the factors, including import duties on raw materials.



### What's on the road ahead for TFG's sustainability efforts?

We have made progress, but we can do more. Our focus now is on pulling it all together. We'll continue to make the links to the business strategy more explicit and ensure our scorecards reflect that. We need better metrics and these must reflect the value to the business – in terms of cost savings, growth or competitive positioning – in addition to showing social value. These things are not easy to identify, but I believe they will define our culture going forward.



# SUSTAINABILITY CHALLENGES IN THE RETAIL SECTOR

3



# Top 5 sustainability challenges for fashion retail in 2014

# 3.

Sustainability challenges in the retail sector



Material issues

## 1

### ***Pressure on disposable household income***

Consumers continue to face significant pressures as a result of rising inflation, marginal job creation and high debt levels. Unemployment levels at 25.5% (second quarter 2014) show little sign of declining this year.



*Refer socio-economic development on page 28.*

## 2

### ***Unsecured lending under more pressure***

Although unsecured lending has been a focus for the past few years, the African Bank crisis catapulted the issue into the headlines. Retail credit accounts for 3% of household lending and a recent study by the National Credit Regulator indicated that clothing accounts were the most common type of credit used by respondents. Government's affordability regulations are likely to increase costs associated with take-on of credit customers. On the positive side, the value of responsible credit providers should be highlighted.



*Refer Q&A with Doug Murray on page 6 and Peter Meiring, TFG Financial Services Director, page 10.*

## 3

### ***Localisation driven by the need for quick response***

The South African clothing and textile industry has declined significantly in the past 10 years, resulting in job losses and consequent impacts on communities. Government efforts to rebuild the industry are being supported by the emergence of the quick response business model. Responding to the success of Inditex's Zara chain, quick response models aim to improve fashion intelligence by reducing lead times which requires a greater focus on on-shore or near-shore (Lesotho, Swaziland, Mauritius) procurement. Policy responses, such as funding support for training and import duties on raw materials, will need to be addressed.



*Refer Q&A with Doug Murray on page 5 and supply chain localisation on page 20.*

## 4

### ***Supply chains remain in focus for global retailer sustainability efforts***

Dramatic incidents in 2013, including the collapse of the Rana Plaza factory in Bangladesh, refocused international attention on the safety and health of clothing and textile workers. Ongoing focus highlighted both positive and negative impacts associated with trade between emerging and developed markets. As a small market in global terms, South African retailers have relatively little influence over global suppliers. However, supply chain ethics and environmental concerns remain issues for local retailers, requiring a response commensurate with scale.



*Refer supplier ESG performance on page 21.*

## 5

### ***Increasing governance requirements***

Social, governance and environmental issues are giving rise to a range of regulatory requirements, as well as an increasing number of voluntary frameworks. These include the International Integrated Reporting Framework published by the International Integrated Reporting Council (December 2013), changes in the Global Reporting Initiative criteria, and an expansion of the JSE's Socially Responsible Investment Index criteria. An update to the King III Code on Corporate Governance is also in the pipeline. TFG remains committed to exemplary levels of compliance with both legislative and voluntary initiatives.



*Refer Integrated Annual Report on pages 97 - 98 for a regulatory overview.*



*Refer About this report on page 3 for a list of voluntary initiatives.*

# SOCIAL IMPACTS

## across the clothing value chain

**3.**  
Sustainability challenges in the retail sector



Material issues



Business Model

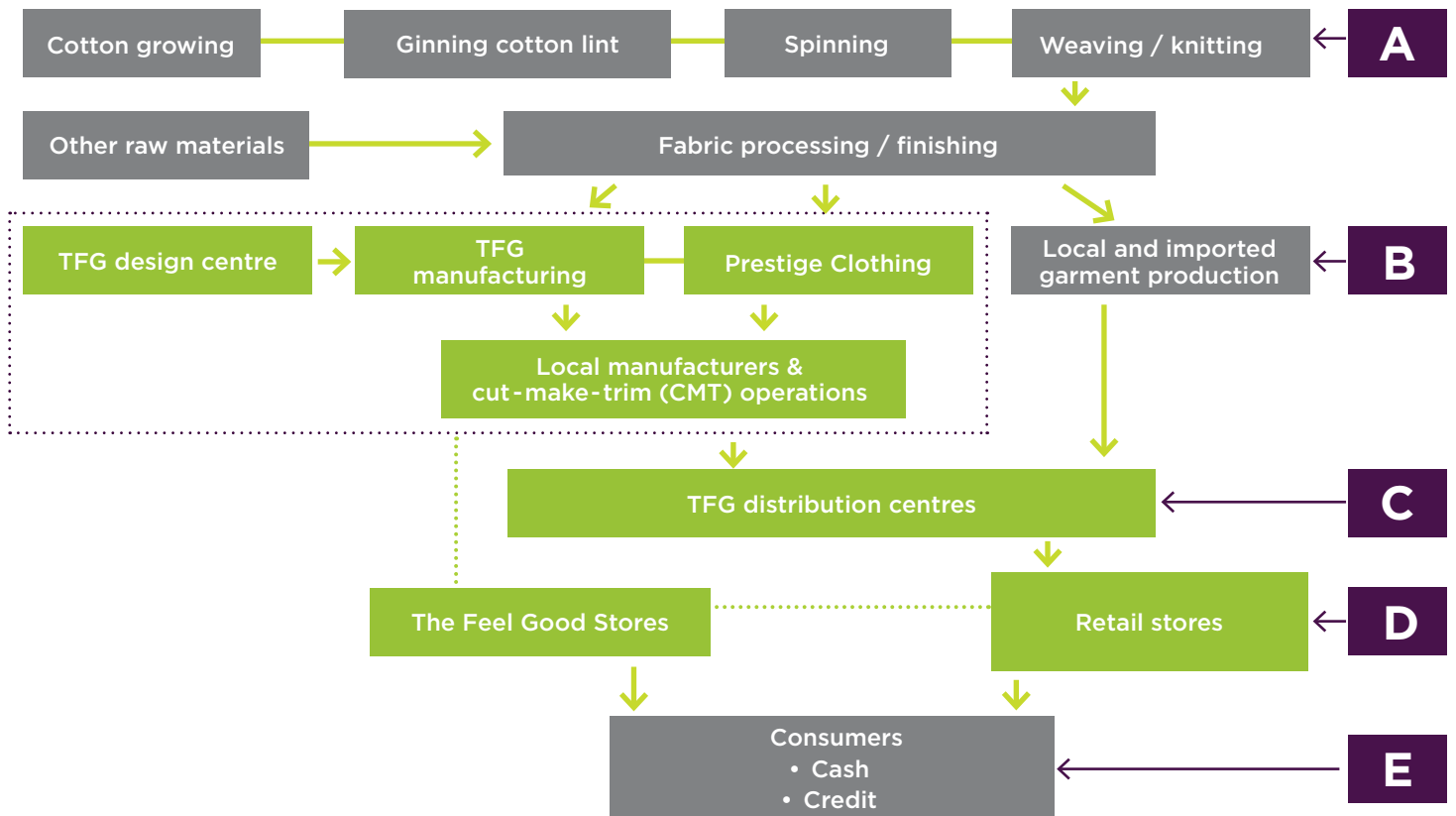


Six Capitals

TFG's clothing value chain provides a perspective on how we impact environmental and social challenges, as well as those societal issues that impact our business.

### Impacts across TFG's clothing value chain

■ Green boxes: these operations are under the direct control of TFG



**A** Upstream activities are associated with significant environmental and social impacts, however our ability to influence offshore activity is limited as the SA market is small in global terms.

**B** We are helping to drive the development of local industry. We increase our influence by including environmental and social requirements in supplier contracts and by auditing both on-shore and off-shore suppliers.

Rebuilding the South African clothing and textiles industry (page 12) and supply chain localisation (page 20).

**C** We are improving efficiency and reducing impacts associated with transportation and logistics

Optimising freight and logistics (page 21).

**D** TFG operations employ 17,898 people. Our stores have introduced energy conservation and waste minimisation practices, while ensuring an attractive shopping environment.

Excess raw materials, rejects and customer returns are repurposed via The Feel Good Stores.

A culture of transformation (pages 23 - 26).

**E** We provide a positive and responsible entry point into the credit market.

In conversation with Peter Meiring, Group Director: TFG Financial Services (pages 10 - 11).

# The business of lending

In conversation with...

## PETER MEIRING

Group Director: TFG Financial Services

3.

Sustainability challenges in the retail sector



Stakeholders  
/Investors



“ Fundamentally, credit should act as an enabler in the economy. Having over-indebted customers works against this principle. We are not a bank – our model is based on transactions, not revolving credit. ”

TFG credit sales to turnover ratio:

58%

2.7 million

active accounts

2.1 million

cash rewards customers



In conversation with...  
*Peter Meiring*



**How is the level of consumer indebtedness impacting TFG?**

Given the current economic conditions, the consumer is under significant pressure from an indebtedness point of view, and our bad debt levels have increased as a result. Fundamentally, credit should act as an enabler in the economy. Having over-indebted customers works against this principle. As we are not a bank, our aim is to get our credit customers back into a buying position as quickly as possible having ample credit available to enable their purchases.



**Do you see these pressures alleviating any time soon?**

It's a challenge - we can assess people's ability to repay based on the information provided and from their payment profile on the credit bureau. Once they are a customer, other credit lenders are able to see the same payment profile and extend more credit to them which in many instances causes them to become over-indebted.



**Do you follow responsible credit granting practices?**

Absolutely, we pride ourselves on being a responsible credit lender. This is done through the use of risk scorecards combined with detailed affordability checks which incorporate bureau data, all of which is done in order to ensure that the consumer has both a willingness and a capacity to manage the credit given to them. However, given the current economic environment with escalating petrol prices and utility bills, previously good paying consumers are experiencing difficulties in meeting all of their credit obligations. This is where our collections department will work with the customer to determine how we can assist and we do offer credit plans to suit most customers.



**Do you educate customers on managing credit?**

We carry content in our publications, and strive to educate our customers. We are often peoples' first line of credit, so we are important in this education process. While government expects credit providers to be more proactive on education, we believe it also has a role to play, particularly through the schools. Currently, the credit education cycle only begins once the customer is already in trouble and defaulting on payments. Clearly this is not a good experience for anyone.



**What about using your contact centres to educate customers?**

This would be a challenge. We are looking to keep talk time to a minimum, so the phone line is not a good educational tool. Customers don't want to hear any more extraneous information than is absolutely necessary - even if it might be useful for them.



**Are you taking the TFG credit model into Africa?**

Our credit model is already running in Namibia, Botswana, Lesotho and Swaziland. Many African countries have a lack of bureau data, which makes us cautious because our credit management techniques are geared to having data available. But there's opportunity out there. In South Africa, people take credit for granted; in other parts of Africa, there is not the same availability of credit particularly in the Retail environment.

# Rebuilding the South African CLOTHING AND TEXTILES INDUSTRY



# 3.

Sustainability challenges in the retail sector



Business imperatives



Stakeholders /Investors

**Opening of local markets** post-1994 saw clothing retailers undergoing a major offshoring drive as goods could be imported more cheaply than those produced locally. Local factory output decreased from R42.9 billion in 1998 to R33.9 billion in 2008 (inflation adjusted figures). Since 2003, approximately 25 000 jobs have been lost. Quotas issued by the government in 2007/8 did little to stem the tide of imports.

More recently, the Department of Trade and Industry (dti) in partnership with the Industrial Development Corporation (IDC) launched the Clothing and Textiles Competitiveness Programme. The programme involved vertical fast fashion clusters which linked a specific retailer to several Cut-Make-Trim (CMT) operations and two horizontal fast fashion clusters (Western Cape and KwaZulu-Natal), which engaged several retailers on pre-competitive issues.

Fortunately, this industry initiative dovetailed with retailers' decision to gear their business models for quick response. Inditex's Zara runs lead times of 21.5 days; the average South African retailer was at 142 days – a difference of nearly four months. This was the driver needed to reduce retail reliance on imports and support local development.

TFG has taken on board this challenge through direct interventions in its supply chain that focus on the creation of these capabilities within selected apparel and footwear supply chains feeding into the Group. These interventions have demonstrated the success of the model – for both local manufacturers and the retailer.



*“The Quick Response model is a life-line for the local manufacturers. It not only holds great benefits for the retailer but it provides a huge opportunity for local manufacturers to become effective, efficient and sustainable suppliers to such retailers.”*

**Elaine Smith –  
DTI Director: Clothing & Textiles**

Despite the success of the programme, there is clearly some way to go. Upgrading supply chains to become Quick Response capable is a major challenge, requiring substantial investment in processes, people, and equipment. The interventions put in place by TFG have created jobs in particular areas of the supply chain, but the overall performance of the South African clothing and textiles industry remains a major concern. “The fact is CMTs, factories and mills are still closing in South Africa,” notes Peter Adams, Head of Supplier Relationships: TFG Merchandise Procurement. “Although the number of units procured locally has increased, we are dealing with fewer factories. And that means fewer jobs.”

There are now approximately 1 000 clothing manufacturing firms, evenly distributed across the formal and informal sectors, the majority in KZN and Western Cape. Recent IDC figures indicate that the sector is stabilising. “When retailers find a midway between keeping the shareholders happy and understanding the importance of keeping the value chain going, South Africa can look forward to a more viable clothing manufacturing sector,” says Elaine Smith, DTI Director: Clothing and Textiles.





...cont

3.

Sustainability challenges in the retail sector

“Going forward, we are more likely to see challenges associated with a supply bottleneck,” says Adams. “As major retailers shift to quick response, competition for locally-produced merchandise will intensify. TFG’s investments in local manufacturing and design will make even more sense in this context.”

“There is a clear alignment of interests. Entrepreneurs want to grow their businesses; retailers need secure supply; the government wants jobs. There has to be a commercial benefit for all, immediately.”

**Professor Justin Barnes -**  
Executive Chairman of Benchmarking  
and Manufacturing Analysts SA  
(who assists with TFG’s fast fashion initiative)



“The importance of the Quick Response model to South African retailers and manufacturers alike cannot be underestimated”, says Professor Justin Barnes, Executive Chairman of Benchmarking and Manufacturing Analysts SA, which is assisting TFG in its Quick Response journey. “It is estimated that 150,000 clothing and textiles jobs can be maintained within South Africa if all the major domestic retailers shift 40% of their purchases to a 42-day Quick Response model”.

“Quick Response has significantly improved local manufacturing opportunities and this has reduced our average lead times and improved our value offering to our retailers significantly. Our constant focus on Lean Manufacturing implementation has led to improved efficiencies and will assist in addressing some of the sustainability challenges faced by our local domestic manufacturers,” says Graham Choice, Head: TFG Design Centre, TFG Manufacturing & Prestige Clothing (Pty) Ltd.

“Localisation is part of TFG’s business strategy,” says Brent Curry, TFG’s Chief Information and Director responsible for sustainability & climate change. “We are building manufacturing capacity, supporting local designers, providing training and capacity development. We will continue our efforts in partnership with government and other organisations.”

Localisation is clearly the sustainability challenge of the future and a significant driver of innovation for retailers who are committed to developing the apparel industry.

For an example of localisation, read the case study on Prestige Clothing on page 22.

## What’s on **OUR RADAR?**

- 1 Greater focus on shared value in our sustainability strategy, demonstrating a clear mix of social and business value
- 2 Continued focus on localisation, with expansion of TFG Manufacturing operations
- 3 Engagement with regulators on localisation efforts and the need to address policy fragmentation, including import duties on raw materials
- 4 Addressing challenges associated with the new BBBEE scorecard and the anticipated revisions to King III
- 5 Enhancing our ability to deal with compliance challenges in other countries



**TFG**

SUSTAINABILITY  
STRATEGY

4

# TFG's sustainability STRATEGY

4.

TFG's sustainability strategy

4

Four strategic objectives

5\*

Five sustainability focus areas

In 2011, TFG's Operating Board approved a group-wide strategic framework and system to track and manage performance on environmental, social and governance (ESG) commitments.

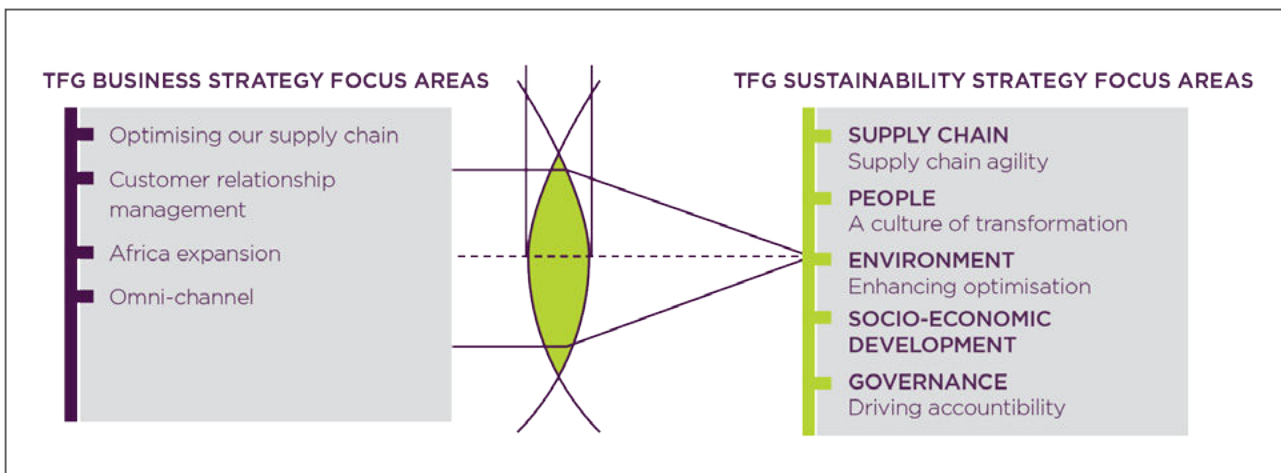
Mindful of the challenging macro-environment, the sustainability strategy avoided audacious goals. To gain traction, it prioritised those commitments that would find resonance in tough operational circumstances. All sustainability commitments had to dovetail explicitly with the core business strategy, as well as helping TFG teams to build the capacity to deliver in a changing world. At the same time, they needed to address material ESG challenges, such as supply chain localisation, reducing energy use and increasing employment potential within the clothing sector.

“Our business approach is fairly even-keeled, working a balance between being conservative and agile. We've been conservative in our strategic positioning around sustainability, but I believe we're moving beyond this now, particularly in the supply chain area.”

**Brent Curry -**

*TFG Chief Information Officer and Director responsible for sustainability & climate change*

Sustainability at TFG is framed around five focus areas (refer below). These focus areas were identified following an analysis of material environmental, social and governance issues, which was undertaken by a selected team of managers from across the group.



*The TFG sustainability strategy views the business strategy through an environmental, social and governance (ESG) lens. It seeks to address societal challenges while enhancing business performance and capabilities.*

“Our sustainability strategy is well-aligned to our business strategy,” says Curry, “but we don't see value in complete integration at this stage. Our business focus areas tend to be project-driven or tactical, while sustainability focus areas drive a longer term framework.”

...cont

Two high-level objectives drive performance for each of the five focus areas. We continue to make progress on establishing measures for each of the focus areas, with some KPIs being revised. Chris Harries, Head of Sustainability: TFG Finance & Advisory acknowledges: "Managing non-financial data is a challenge. It is not simply about tracking data - it is about ensuring that data is material and meaningful, making a tangible contribution to both the business and society. We still consider ourselves in a learning phase."

To ensure alignment with an expanding array of best practice guidelines, numerous additional data elements are tracked for each focus area. See page 3 for an overview of initiatives which guide our efforts. "We used these initiatives initially to scope the sustainability arena," says Harries. "New ESG surveys are launched every year, so our approach is becoming more selective."

A detailed strategic review of sustainability commitments and performance is undertaken every three years. A strategic review is presently underway and will be completed during 2014.

## Defining material issues to inform our strategy



Material  
issues



Six  
Capitals



Stakeholders  
/Investors

A comprehensive materiality process was undertaken to inform the sustainability strategy. Facilitated by external advisors Incite, the analysis engaged a cross-section of managers in systematic consideration of TFG's:

- Core value drivers
- Operational impacts (both positive and negative) on social, natural and human capital
- ESG-related risks and opportunities, and
- Key stakeholder perspectives on ESG issues.

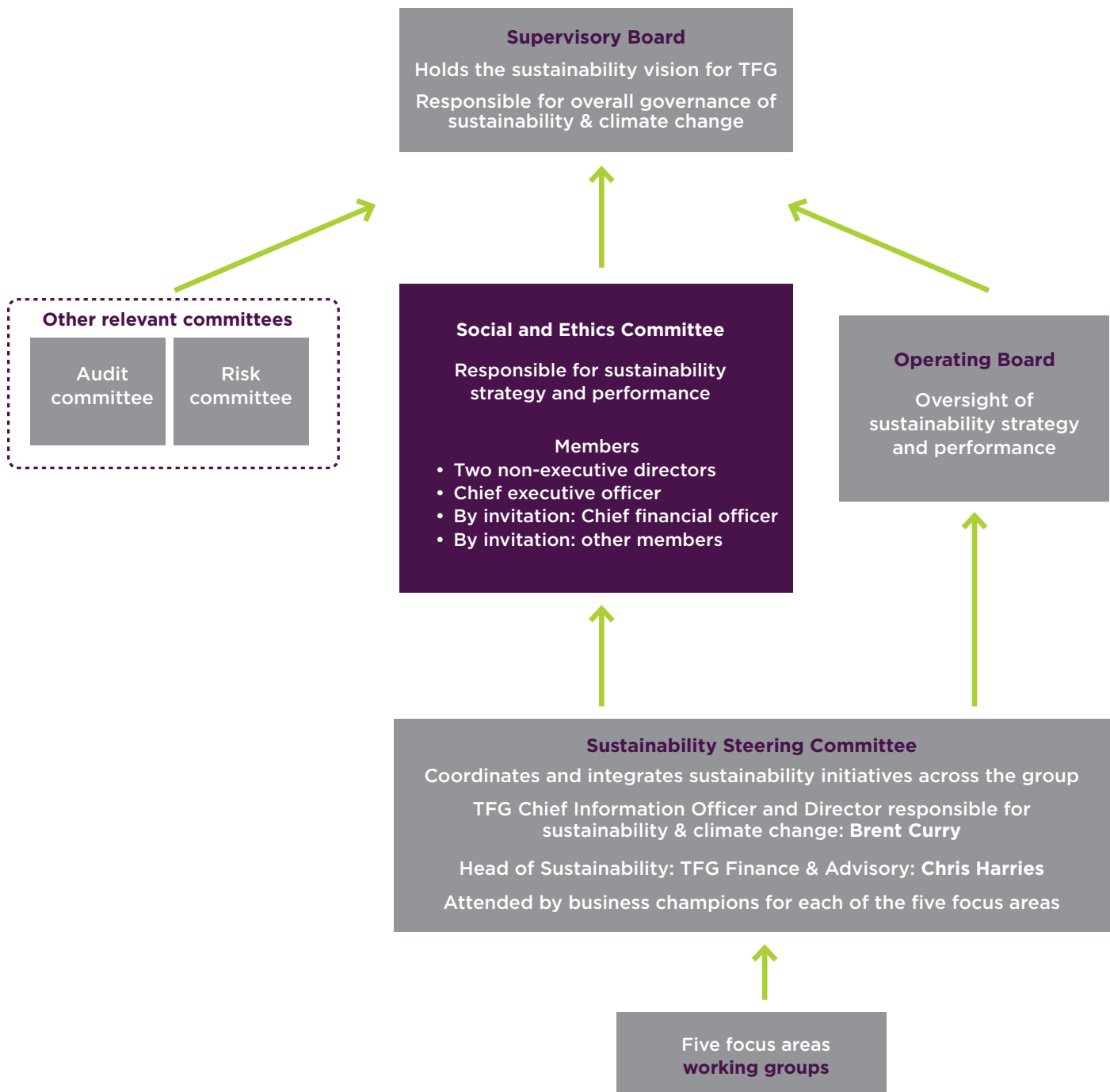
Material environmental, social and governance issues arising from the analysis were clustered into five focus areas which formed the TFG sustainability framework.

Material issues informing the sustainability framework are reviewed annually, drawing on analysis of global sustainability trends, significant sustainability-related risks identified in the enterprise risk management process (see page 39) and our experience of the year's hot topics.

# TFG's sustainability STRUCTURE

4.

TFG's  
sustainability  
strategy



A structure for TFG sustainability was established in 2012. The sustainability steering committee provides a co-ordinating centre and also encourages learning across the group.

# SUSTAINABILITY QUO VADIS?

4.

TFG's  
sustainability  
strategy

In conversation with...

## BRENT CURRY

TFG Chief Information Officer and  
Director responsible for sustainability  
& climate change



Digital  
channels



**What do you see up ahead for sustainability?**

We started out by putting the basics in place, but sustainability must become more integral to our perspective on the future. Our omni-channel strategy takes an integrated, single view of the customer approach. We will increasingly be using predictive analytics to understand what customers want, including their concerns around social or environmental issues.



**Do your customers ask about social or environmental issues?**

Right now, our customers don't ask where the fabrics or garments come from. But a big target market for us is the 16-25 years old. These are digital natives and they expect quick reference to everything. So they will want a QR code that tells them exactly where a garment is made and what it is made of – should they choose to ask. We think it's coming and we are building this into our plans for the future.



**That explains why the CIO is heading up the sustainability portfolio. It's quite unusual.**

We're very future focused, so that's the connection. Our 'store of the future' provides an interactive R&D lab where we test technologies and interactive tools for working with customers, staff and suppliers. We're not generating vapourware here – these are new technologies that we will introduce to our stores and offices within a six to twelve month period.



**It sounds like digital is a big part of your future.**

We've just launched our new smart phone app for Apple, Blackberry and Android, as well as a mobi site. This is the first stage of the omni-channel strategy, which will eventually see us operating a search, select and checkout process by phone (mobile device) or conventional on-line. Customers will be able to search for stock across all our stores and order it.



**Will we see the TFG store network shrinking in the future?**

Although it would decrease our environmental footprint, and perhaps we'll need smaller sites, we are not yet looking at dropping our bricks and mortar expansion plans. We see online as a complementary service potentially delivering about 10% of our sales by 2023.



**Would you say TFG has a sustainability culture?**

Although we've made good progress, most managers in the organisation still regard sustainability as a 'need to do' exercise. We need to shift this. The links to innovation and adaptability are clear but not yet widely appreciated. We will be focusing more strongly on communication in the coming year.



**Will we be reading more about TFG sustainability in the future?**

Yes. Although we tend to be conservative when communicating in the public arena regarding achievements within the group, our sustainability initiatives are gaining momentum and we have many success stories to tell. Sustainability is definitely becoming more aligned to the way we do business.



# SUPPLY CHAIN AGILITY

# 5



# Supply Chain AGILITY



# 5.

Supply chain  
agility



Material  
issues

## Material issues

- Supply chain localisation
- Supplier environmental, social and governance (ESG) performance
- Optimising freight and logistics operations
- Preferential procurement and enterprise development

## Key sustainability objectives

- Support development of local clothing, footwear, textiles industry
- Reduce the use of fuel in the local supply chain

For these objectives, local refers to countries within the Southern African Customs Union (SACU)

## Headlines

- Active engagement in dti fast fashion clusters
- Purchase of Prestige Clothing in March 2012
- Investment in the TFG Design Centre
- Growth in local merchandise procurement (8.1%)
- Improved carton utilisation has reduced the cubic metres of merchandise transported
- Despite store expansion, efficiency measures resulted in a decrease in fuel consumption (-2.3%)

## Looking ahead

- Continued focus on localisation of the apparel supply chain
- Focus on enhanced efficiency and visibility from source to store
- New BBBEE codes could challenge our merchandise-oriented enterprise development initiatives, pushing the focus to non-core enterprises

## SUPPLY CHAIN LOCALISATION

Competitive pressures and the need for quick response are driving localisation. “Of course values are important, but they are not the only driver of this initiative,” says Peter Adams, Head of Supplier Relationships: TFG Merchandise Procurement. “Recognising localisation as a core business driver is probably a far more resilient proposition”.

“Commitment to the development of an effective domestic supply chain and specifically the manufacturing component requires involvement at the coal face. Identifying strategic manufacturing partners and then supporting their development and improvement processes are essential”, says Graham Choice, Head: TFG Design Centre, TFG Manufacturing & Prestige Clothing (Pty) Ltd.

TFG acquired Prestige Clothing in 2012 providing substantial Quick Response manufacturing capabilities in two locations, namely Maitland & Caledon. Having developed the expertise in sustainable quick response capabilities, Prestige Clothing has seen a substantial increase in efficiencies at plant level and due to their improved value offering to their retail customers, has resulted in a greater demand for their capacity and capabilities. This in turn has led to increased employment and a far more scalable and sustainable domestic manufacturing operation.

TFG is investing in local manufacturing to continue this successful model and create a scalable and sustainable supply chain that embraces Lean Manufacturing Principles and Quick Response. To effect the required upgrades at plant level, it is essential that local companies increase their spend on training, technology and capital equipment. Sufficient resources to effect this at scale are always challenging and Government’s incentives have been essential in assisting in addressing this.

Competitive pressures continue to drive the need for QR through local fabric procurement and manufacture. Further investment in local industries will be realised through the establishment of a second TFG’s Fast Fashion Cluster which will roll out over the next three years. The first Fast Fashion Cluster facilitated the application of lean principles and processes at Prestige Clothing which have resulted in significant production efficiency achievements in the past 3 years.

“The QR contribution to the various retail divisions of 26.6% has resulted in a local fabric procurement increase from 40% to 56% in the last year. We have targeted an overall unit growth of 25% and a QR contribution of 60% over the next 3 years”, says Graham Choice, Head: TFG Design Centre, TFG Manufacturing & Prestige Clothing (Pty) Ltd.

“TFG has played a vital role in displaying their commitment to local industry and ensuring compliance when procuring goods. The support and commitment that they have shown to local manufacturers is exemplary and noteworthy and without it, I doubt very much whether the local manufacturers would survive.”

**Elaine Smith** –  
DTI Director: Clothing & Textiles

TFG Design Centre and Manufacturing has taken a more holistic view of the business from concept to customer. Focus will continue on developing an efficient fabric sourcing model to support the retail QR requirements.

The merchandise teams have been re-aligned to be far more customer needs focused to ensure a better service to their retailers.

TFG sees local investment in quick response capability and accelerated learning from global benchmarks as the basis of more resilient competitive advantage into the future.

### SUPPLIER ESG PERFORMANCE

Although we have a strong focus on localisation, TFG continued to procure merchandise from countries in the Middle and Far East, including Bangladesh and China.

TFG's extent of influence over supplier ESG performance varies. Local suppliers are accessible and often highly dependent on TFG procurement, which increases our level of influence; offshore suppliers are further away and procurement levels are usually relatively small. But TFG's supplier take-on process, which includes up front consideration of ethical and ESG criteria, is the same for any supplier.

Our stated intent is for every supplier to become a sustainable, compliant and cost effective merchant. We also aim to limit exposure of the group to operational risks associated with sourcing of product.

### OPTIMISING FREIGHT AND LOGISTICS

Significant improvements in carton utilisation (used for packaging merchandise for distribution) and efficiencies have been offset by store expansion. We opened 132 stores in the 2014 financial year and expect further expansion in coming years. While fuel use per unit delivered initially seemed a good logistics indicator, we are not seeing our efforts reflected in the numbers.

We continue to measure and optimise logistics and fuel use, and are currently in negotiation with forwarding and clearing agents to improve efficiency and visibility of our merchandise from source to store. We are looking at significant improvements in efficiency in global forwarding, better tracking and a reduced carbon footprint.

### PREFERENTIAL PROCUREMENT AND ENTERPRISE DEVELOPMENT

On the BBBEE generic scorecard, TFG achieves the maximum possible score of 15 points for enterprise development and 17.5 points out of 20 for preferential procurement. We seek to link these initiatives to the fast fashion clusters, with particular success at Eddels, a manufacturer of ladies and men's footwear based in Pietermaritzburg (KwaZulu-Natal) and New Coe Knits, based in Cape Town (Western Cape). Currently 42% of our BBBEE procurement spend applies to merchandise purchases.

*“Our challenge is to work a trade-off between established suppliers who can deliver the volume, efficiencies and quality we want and growing small and previously disadvantaged suppliers, who are often more vulnerable to change. We will inevitably undertake a greater mentorship role for small suppliers.”*

**Chris Harries -  
Head of Sustainability:  
TFG Finance & Advisory**

*“Keyed by rapid growth and monthly scorecard ratings, TFG undertakes its own audits of suppliers, including a review of environmental, social and governance performance. While we support, in principle, global collaborations on health, safety and environmental audits, we consider TFG global procurement volumes as insufficient to warrant formal engagement in such initiatives.”*

**Peter Adams -  
Head of Supplier Relationships:  
TFG Merchandise Procurement**

5.

Supply chain  
agility



Payment terms are important in working with smaller suppliers. Suppliers on our enterprise development programme have preferential payment terms to assist with cash flow.

# CASE STUDY:

## PRESTIGE CLOTHING



Stakeholders  
/Investors

# 5.

Supply chain  
agility



Cami line production



**Graham Choice**

Head: TFG Design Centre,  
TFG Manufacturing &  
Prestige Clothing (Pty) Ltd.

In a country that has experienced much volatility and strife in the clothing industry over the past two decades, paying mind to the people who manufacture our garments is key. When standing in one of our stores, with the fabric of one of our garments between your fingers, you could easily forget people like Nadia Jacobs. Nadia is one of our machinists that has been producing ladieswear products for the last 25 years.

Just 15 minutes drive from TFG head office, you will find Prestige Clothing where Nadia works. She was one of the first 25 people employed by the company back in February 1989. Being a citizen of Cape Town, which was once the largest clothing manufacturing hub nationally, she has first-hand experience in the major shifts the clothing industry has experienced. She has knowledge of her industry's staggering loss of 65 000 jobs in the last 15 years. Nadia's career longevity has relied heavily on Prestige Clothing's ability to respond rapidly to its customer's requirements. Theirs' is an evolving market that demands top quality, on trend garments delivered on time and in full at competitive prices. Prestige Clothing's commitment to its people and their skills development as well as their drive for continuous improvement, lean manufacturing principles and total quality management has allowed the company to grow and profit through these trying times.

Prestige Clothing's lean journey started in 2003 and has gone from strength to strength. It has allowed Prestige Clothing to deliver operational excellence and provide an enhanced value offering for TFG Design Centre, its major customer. Prestige Clothing became the shining light and best practice example within TFG's Fast Fashion Cluster manufacturing firms. In 2008 Prestige Clothing further expanded by opening a sister manufacturing plant in Caledon embracing all of its methodologies. This manufacturing facility has created more than 200 jobs in an area where agriculture was the only employment opportunity before.

Unemployed South Africans with no other job opportunities and having no previous garment manufacturing experience were encouraged to join our training unit established on site. Once their skills were sufficiently developed, they were offered employment opportunities within the company. This has been highly successful and could not have been achieved without the assistance or the resources provided by the Fibre Processing and Manufacturing SETA (FP&M SETA).

But Prestige Clothing has not just seen the benefits of success in the form of expanding operations. Throughout its lifetime, Prestige Clothing has received recognition from a number of bodies and institutions including the Minister of Labour, the National Skills Authority, the Cape Peninsula University of Technology and numerous Government Productivity Institutes.

Today, Prestige Clothing provides jobs for five hundred and forty people, including Nadia's daughter Shamiela\*. This shows what a vital role our local industry plays in supporting communities as well as the employment opportunities Prestige Clothing provides for young people. Along with their co-workers, Nadia and Shamiela deliver more than 2.3 million garments of the highest quality each year. Add to this Prestige Clothing's culture of continuous improvement, service excellence and Lean Thinking within the TFG Fast Fashion Cluster and you have a company perfectly placed to better its local competitors and provide a sustainable future not only for Nadia and Shamiela's family but the families of their co-workers too.

*\*Names have been changed.*



A CULTURE OF  
**TRANSFORMATION**

6

# A culture of TRANSFORMATION



6.  
A culture of  
transformation



Material  
issues



Employees

## Material issues

- Providing employment
- Employment equity and diversity
- Skills development and talent pipeline
- Employee health and wellness
- Leadership development
- Building social conscience and a culture of trust

## Key sustainability objectives

- Develop and grow diverse leadership talent to ensure the continuous supply of a capable, competent workforce
- Identify multiple talent sources to achieve corporate transformation goals and ensure critical vacancies are filled

## Headlines

- Opened 132 stores and increased headcount by 303 people
- Ranked 3rd in the 2014 Mail & Guardian Most Empowered company survey within the retail sector

## Looking ahead

- African expansion will see collective bargaining across many legislative regimes
- Increased focus on building a sustainability culture at all levels

## PROVIDING EMPLOYMENT

We employ a total of 17 898 people at our operations and over peak periods many additional contractors.

Employee turnover at head office levels is low, at approximately 15%. At stores, it is approximately 31%. Although this is standard for retail, we anticipate a positive change following changes in the Labour Relations Act.

TFG's participation in learnership programmes has provided on the job experience for previously unemployed youth. Many of these learners are subsequently placed in permanent roles either within TFG or in the industry.

## EMPLOYMENT EQUITY AND DIVERSITY

Representation of total employment equity employees to total employees has increased from 88.9% in 2010 to 90.6% in 2014. Although all other targets were met, employment equity progress at a senior management level continues to be an important focus area.

We have seen good progress with leadership pipelines to develop internal employment equity employees. We continue to allocate TFG shares to key employment equity middle managers.

The representation of women in the workforce remains consistent at approximately 73.6%. Our senior manager population is 47.3% female. The workforce has a young age profile with 82.1% being under the age of 40 and the average age being 31 years. We have made progress with the employment of disabled employees.



“There’s no doubt that sustainability issues are impacting our ability to source the best talent. We engage each year with the University of Cape Town (UCT) Emerging Leaders Group, which includes 200 top students and faculty heads. They don’t ask much about salaries or profitability; they ask about sustainability and transformation. Generation Z are interviewing us – and they expect clear answers.”

**Adele Smith –  
Head of Resourcing & CSI:  
TFG Human Resources**



The highly competitive retail market requires a strong focus on talent management. TFG initiatives include:

- A strong leadership development focus
- Stores and field management development, including full or short programmes, as well as distance learning programmes
- The merchant academy, which provides in-house learning interventions for existing buyers and planners
- The “I AM ME” trainee development programme
- Learnership programmes aimed at addressing both transformation challenges, pipeline needs and the South African Government’s strategy of creating opportunities for employment

Further details on resourcing, skills development and talent management are available in our Integrated Annual Report pages 78-82.

## EMPLOYEE HEALTH AND WELLNESS

We engage an external service provider to ensure optimal management of all aspects of occupational health. Our performance has improved, reflecting fewer incidents and lower associated costs. Wellness offerings are outlined in our Integrated Annual Report page 84 and include an HIV testing and treatment benefit for all permanent employees and psycho-social support for all employees via a helpline.

Contact centres are an important ongoing focus. “Working in a contact centre is tough,” says Peter Meiring, Group Director: TFG Financial Services. “We continually look at what’s happening internationally to make it an easier space. We’ve added playrooms, quiet rooms, chill rooms, meeting rooms, Internet and coaching. But we see contact centres as an effective training ground for first-time job seekers. One year on, contact centre trainees become candidates for our academy and talent pipeline.”

## BUILDING SOCIAL CONSCIENCE AND A CULTURE OF TRUST

Social conscience is part of TFG’s mission and is growing within our culture. We introduced the theme of ‘doing good never goes out of fashion’, which found positive resonance with our employees. We use employee surveys to gauge the issues and sentiment, with survey participation levels of about 80%.

From an employee relations perspective, TFG has historically fairly low levels of unionisation at head office and stores, with stronger representation in manufacturing and call centres. We continue to have a formal relationship with SACCAWU despite low union membership. “Our relationship with SACCAWU is a positive one,” says Senta Morley, Head of TFG Human Resources. “They are organised, they play by the book and so do we.”

SACTWU membership at the Maitland (Cape Town, Western Cape) and Caledon (Western Cape) operations increased marginally in the last year and we are seeing some increase in union recruitment in other areas.

Through our African Expansion strategies, we are entering into formal relationship agreements with unions in a number of the African countries.

# Leadership Development

In conversation with...

## SENTA MORLEY

Head of TFG Human Resources

# 6.

A culture of transformation



*“Certainly, the appetite to pay a premium for merchandise that is differentiated as green or overtly ethical is limited. But conversations are starting to happen around these issues.”*

**Q** What results are you seeing from the new executive developmental programme?

We have 116 executive / senior managers on the programme, which included leadership, strategy and coaching interventions. Our engagement with the UCT Unilever Institute has helped to re-orient our thinking around customers. The point is to really understand customers as people - what they want, how they are different. We have literally seen how this has influenced our thinking and strategy.

**Q** Are customers actually interested in how TFG responds to social and environmental challenges?

I think customers do want a sense that what they buy contributes to society. Certainly, the appetite to pay a premium for merchandise that is differentiated as green or overtly ethical is limited. But conversations are starting to happen around these issues.

**Q** What is your progress on employment equity at leadership levels?

We have not moved backwards, but we are not making the progress we would have liked to see. We're working with a trade-off here in terms of stability. Our strong culture can partly be attributed to the low turnover levels in our senior leadership teams.

**Q** Is diversity useful within your leadership team?

There's been a big drive on diversity in leadership. We identify and celebrate different leadership styles because they provide a critical perspective in a diverse world. We use assessments, training and coaching. This starts at our Board and is filtering through TFG.

**Q** Do TFG leaders fully appreciate the role of business in a broader societal context?

Seeing the business in a broader social context is a logical follow-through on customer-oriented leadership, so it's certainly a focus we'd look at for next year.



SOCIO-  
ECONOMIC  
**DEVELOPMENT**

7

# Socio-economic DEVELOPMENT



**7.**  
Socio-  
economic  
development



Material  
issues

## Material issues

- Unemployment and household debt reduce disposable income levels
- Focus CSI spend into a clear social value proposition
- Capitalise on linkages between CSI spend, talent pipeline and enterprise development requirements
- Active engagement of TFG people to build learning and understanding of the market

## Key sustainability objectives

- Use practical learning experience to create jobs, income generating opportunities and to enhance employability in communities within which TFG operates
- Provide humanitarian relief to communities that have been affected by natural disasters

## Headlines

- Achieved a maximum of 5 points for socio-economic development on our BBBEE scorecard
- The Feel Good Project expanded and a 2nd store opened in Khayelitsha, therefore doubling the training capacity on the project
- In 2013/14, the Feel Good Project trained a total of 81 trainees.
- Solid partnership network including Learn to Earn and other non-profit organisations (NPOs)

## Looking ahead

- Exploring new opportunities / strategies for CSI that are linked to enterprise and supplier development
- Planning in progress to take the Feel Good Project national, to increase training capability and feed into the TFG stores' pipeline
- Develop and implement a CSI strategy in all other African countries
- Align CSI initiatives and strategy with TFG's sustainability strategy

In an environment where social challenges impact market access and expansion, TFG's commitment to social conscience must be seen in action rather than words. "The success of retail is dependent on an economically active population", says Adele Smith, Head of Resourcing & CSI: TFG Human Resources. "Using systemic thinking, CSI shifts from being about charitable donations into a powerful business tool."

This approach goes well beyond points on the BBBEE scorecard or the reputational risk of not being seen to care. It speaks to the foundations of the TFG culture. "TFG is sincere," says Professor Justin Barnes: Executive Chairman of Benchmarking and Manufacturing Analysts SA, who advises on the company's fast fashion cluster. "Management focuses on what is necessary, but they are passionate and have a balanced perspective".



*Doing good never goes out of fashion.*



**7.**  
Socio-economic  
development

## CSI STRATEGY

TFG's CSI funding strategy was launched in 2012, and is aimed at creating opportunity for employment in the communities within which TFG operates. "Our CSI spend continues to be on programmes, projects and organisations who share the objective," says Smith.

A CSI steering committee reviews and decides on funding allocations, with operations taking place through an extensive partnership network.

The Feel Good Project, in partnership with Learn to Earn, continues to go from strength to strength. The project trained 81 unemployed people in the last financial year. The model which is prefaced on customer returns, which are dwindling year on year due to Cut-Make-Trim (CMT) operations improvement on quality, is currently being reviewed.

As previously mentioned, the obvious move is from clothing repair into production. So as part of exploring new opportunities/strategies for CSI that are linked to enterprise and supplier development, we are in talks with Learn to Earn about forming a partnership with their Business Resource Unit.. The partnership will provide the project with the stock it needs, whilst at the same time give budding manufacturers the skills they need to succeed.

## ACTIVATING EMPLOYEE ENGAGEMENT

At TFG we believe that *Doing good never goes out of fashion* so we encourage our staff to become involved and inspired by providing them with a platform to participate and support CSI initiatives.

A culture of philanthropy and community involvement is not only encouraged but incentivised. To help staff with their projects, we make provision for both individual and team grants that they can access on demonstration of active involvement in a community project of choice. The TFG CSI Team also organise on-site volunteer events for staff to participate in year round.

## EXAMPLES OF 2013 EMPLOYEE ENGAGEMENT AND PARTICIPATION INITIATIVES INCLUDE:

In July 2013, TFG once again supported NPO, STOP HUNGER NOW as part of its Mandela Month activities. 80 000 meals worth R200 000 were packaged by staff across 5 venues nationally. All meals packaged were distributed to some of the poorest regions in our country including the Eastern Cape, Mpumalanga, North West and the North Western Cape.

### Other staff initiatives included:

**The June Winter Drive:** 65 boxes of clothing, food and blankets donated by staff were donated to Disaster Relief Agencies, the Red Cross Society of South Africa and Gift of the Givers for distribution to communities affected by winter related disasters.

**Casual Day:** 6 organisations received funding worth R10 000 each and were also invited on-site to sell Casual Day stickers to staff at TFG's corporate Head Office.

**The Good Hope FM Christmas Toy-Toy Drive:** This annual event saw over 400 children at Tygerberg Children's Hospital have a happy Christmas, thanks to gifts donated by staff. In addition to this, TFG also made a donation of R50 000 to the hospital which will be used towards the ICU upgrade.

**Christmas Fair:** Another annual event gives staff the opportunity to give "gifts that give back". To this end, 12 NGOs were invited on-site to sell their wares resulting in sales of over R50 000 for these organisations thus enabling them to continue their good work.

*Doing good never goes out of fashion.*



**7.**  
Socio-economic  
development

**Disaster Relief:** With the support of staff, TFG also actively supports Disaster Relief and in 2013, provided assistance to 4 disasters nationwide. In total 13 636 people were assisted through our Disaster Relief efforts. Some examples included:

- TFG donated R50 000 to the KAYAMANDI fire victims. 1 300 shacks were built giving homes to +/- 4000 people.
- TFG came to the rescue of flood victims from the Nyanga community with a donation of R100 000. Working together with local NGO, Etafeni, TFG provided over 200 families (1000 people) with emergency winter packs.
- TFG assisted tornado victims in the Eastern Cape and together with a local community organisation, provided 60 families with food relief, worth R25 000.
- TFG came to the aid of drought victims in Namibia and enabled the Red Cross to distribute 18 100 meals worth R50 000 to people affected by a harsh drought.

#### INVESTING IN COMMUNITY ORGANISATIONS

A total of R5.3 million was granted to non-governmental organisations in 2013.

Examples of 2013 CSI projects include:

- **Buhle Farmers Academy (R200 000):** To up-skills subsistence farmers so that they can become commercial or semi commercial agricultural farmers
- **Enza Empowering Women (R119 050):** The Clothing Bank is an Enterprise Development Programme aimed at training unemployed women in a small business selling clothing
- **Fisantekraal Centre For Development (R150 000):** The project aims to create opportunities to unemployed people with basic skills (Bake for Profit, Basic Computers, Office Admin. Life Skills and Point of Sale) and helping them find employment
- **LETCEE (R200 000):** The project will train ECD practitioners from the Umzinyathi District - a nodal area with very high levels of poverty and few opportunities for employment
- **MOULD EMPOWER SERVE (R377 500):** R237 500 was allocated for Skills Development project in Johannesburg, Cape Town and Port Elizabeth and R140 000 was allocated for a Veggie Tunnel Farm start-up project that aims to produce nutritional vegetables and to create opportunities for leadership and highly productive teamwork for local street people
- **S. A College for Tourism (R180 000):** A capacity building and economic empowerment programme for marginalised unemployed women in nationally accredited hospitality skills
- **South Africa Business Resource Institute (R100 000):** Provides theoretical and practical training (e.g. Hair Design and Beauty, Leather Development and Shoe Assembling, Construction, Agriculture and Hospitality Studies for identified offenders close to release)
- **Sparrows School Educational Trust (R350 000):** Artisan (e.g. Motor Mechanics) Skills Development Programme for Learners with barriers to Learning
- **The Big Issue (R300 000):** Provides jobs and social upliftment services to unemployed and destitute people
- **The Siyasiza Trust (R250 000):** Promotes Social Enterprises. Funding will be used to train co-operatives linked to the Hands that Rock the Cradle Project in marketing, finance and administration skills

## CASE STUDY: 100UP + PROGRAMME



**7.**  
Socio-  
economic  
development

### TFG AND UCT PARTNER ON **SUPPORT PROGRAMME FOR DISADVANTAGED STUDENTS**

**79 academically gifted students from 20 high schools in Khayelitsha registered for their 1st year at UCT thanks to a support programme called 100UP that focused on high school learners in Grades 10-12.**

100UP+, a brand new TFG initiative further provides these talented young South Africans with the much needed support, skills and confidence to tackle university and campus life in their 1st year at UCT and in so doing, set the course for successfully completing tertiary studies in their chosen field.

TFG believes this to be a programme that drives creating opportunities for employment for many young South Africans.

In close collaboration with UCT's Career Office and Centre for Higher Education, this programme ensures that these students get all the support they need as they commence their journey at UCT!



ENHANCING  
OPTIMISATION  
THROUGH  
**RESOURCE  
EFFICIENCY**

8



# Enhancing optimisation through **RESOURCE EFFICIENCY**

# 8.

Enhancing  
optimisation  
through resource  
efficiency



Material  
issues

## Material issues

- Supporting the store optimization initiative through environmental efficiencies
- Lowering our carbon footprint intensity
- Reducing waste and streamlining resource use
- Contributing to staff awareness and responsibility

## Key sustainability objectives

- Reduce environmental footprint of stores and head offices (with focus on energy and paper usage)
- Reduce packaging from source to customer

## Headlines

- Continued awareness from store managers on the need to conserve electricity
- Total emissions increased over the past five years due to expansion of store network
- Increasing emissions due to new stores being offset by improved intensity
- Improved carton utilisation and carton re-use programme
- Data centre energy usage reduced
- Reduced paper usage by issuing field staff with laptops and improved printer management

## Looking ahead

- Maintain initiatives to reduce group environmental footprint
- Development of an internal environmental portal for staff awareness
- Improving the efficiency and effectiveness of non-financial data collation

As a retailer, environmental impacts associated with our operations are relatively low. More significant environmental impacts are to be found upstream in our supply chain (cotton growing, colour dying, printing and manufacturing) and downstream in customer washing, drying and ultimate disposal of garments. We have greater leverage on direct operations, including stores and local logistics, where key impacts are associated with energy, water and paper consumption, and waste.

“Whilst the financial implications of these impacts are fairly small, we have seen large growth in these expenses over recent years” admits Brad Rothenburg, Head of TFG Property. “Electricity costs account for approximately 6% of store costs and over 1% of turnover. But unless we reduce our own footprint, we can’t justify initiatives to drive responsible environmental practice in our supply chain (refer supply chain ESG performance, page 21). Environmental efforts also inspire a genuine sense of positive action amongst TFG staff”.

The group’s environmental policy is being implemented as part of the sustainability strategy. A green committee of senior managers meets quarterly and reports twice a year to the Social and Ethics Committee.

## CREATING AWARENESS AND RESPONSIBILITY

Resource efficiency is part of a broader business optimisation initiative. “Given the costs, we decided against a massive retrofit programme,” says Rothenburg. TFG’s approach has been to increase feedback to managers and to upgrade technologies when stores are refurbished.

“While we have achieved both impact reductions and savings, the real value of this initiative is the enhanced level of awareness at store level,” suggests Rothenburg. Store managers respond to energy data with queries, both on accounting issues and on practical ways to reduce their consumption.

## LOWERING TFG'S CARBON EMISSIONS

TFG engaged an external consultant to determine and analyse the group's carbon footprint.

Emissions are categorized as:

- "direct" when generated from activities or sources within the organization and which are owned or controlled by the organization; and
- "indirect" when those emissions relate to the company's activities but are emitted from sources owned or controlled by another organization

### NOTE:

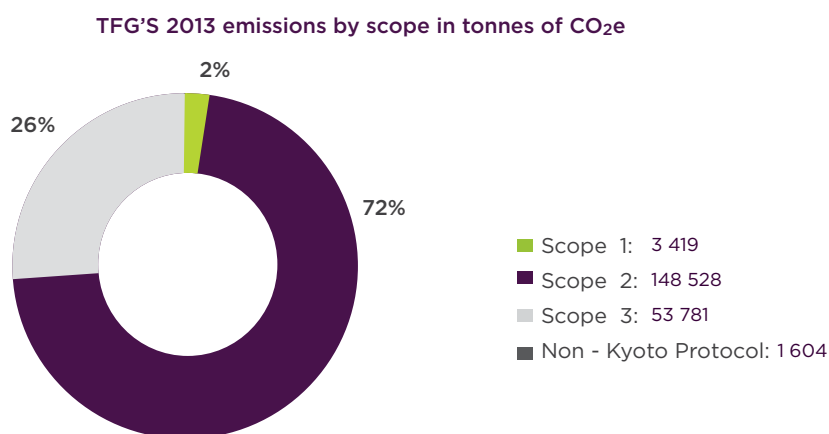
**Scope 1** emissions are from sources owned or controlled by the reporting company such as generators and air-conditioning units.

**Scope 2** emissions are associated with the consumption of purchased electricity, heat or steam from a source that is not owned or controlled by the reporting company such as the electricity utility Eskom.

**Scope 3** emissions are indirect emissions, other than purchased electricity, which can be described as relevant to the activities of the reporting company such as business travel, outsourced transportation and paper consumption.

Purchased electricity is responsible for 72% of our emissions. Further details are below:

### TFG'S CARBON EMISSIONS



TFG's 2013 top five carbon-emitting activities are listed below as a percentage of the entire carbon footprint.

1. Purchased electricity	72%
2. Outsourced transport	8%
3. Employee commuting	6%
4. Consumption of paper for magazines	6%
5. Cardboard packaging	3%

Our efforts at energy reduction have had success with electricity use in terms of total kilowatts consumed only increasing slightly in spite of our space growth of over 6%.

	2013	2012	2011	
<b>Purchased electricity</b>	<b>Kilowatt</b>	<b>151 558 784</b>	<b>150 493 816</b>	<b>165 161 791</b>

Purchased electricity is the major contributor to our footprint and is therefore a focus area. In terms of intensity (efficient usage) we have seen good improvements over recent years.

	2013	2012	2011
Intensity: <b>Emissions per employee</b>	11.71	12.25	13.24
Intensity: <b>Emissions per m<sup>2</sup> (incl stores)</b>	0.29	0.29	0.32
Intensity: <b>Emissions per m Rand EBITDA</b>	61.40	65.15	81.29

# 8.

Enhancing optimisation through resource efficiency

# 8.

## Enhancing optimisation through resource efficiency

**Lighting:** Efforts at head offices, stores and distribution centres have focused on the conversion of lighting systems to lower consumption units, the installation of sensors and behavioural interventions.

**Air conditioning:** Shopping centre air conditioning, over which we have limited control, makes up over half of our carbon footprint, and we continue to address this with our landlords.

**Green IT:** We have reduced power consumption in our data centres by moving to virtualised servers. Expanding data needs required us to grow our capacity and moving to virtual servers enabled us to include more systems in a smaller physical space.

**Carton utilisation:** Optimising carton fill has achieved both cost savings and efficiency improvements. Some of the waste cardboard generated is shredded and utilised for protective packaging, with the balance handed to our contracted waste service providers for recycling.

**Carton re-use:** TFG Logistics work with merchandise suppliers on standardising carton specifications, enabling us to re-use in-bound supplier cartons for dispatching stock to stores. Introduced a few years ago, this initiative reduced costs in excess of R5 million per annum. It also saves time as we are able to cross-dock cartons and have less unpacking to do.

**Merchandise transport:** Transportation of merchandise from distribution centres to the stores is outsourced and we work with transport partners on modelling networks and optimisation opportunities. Optimisation efforts deliver a dual benefit of reducing lead times and kilometres travelled.

**New stores development:** The opening of new stores is the biggest contributor to the growth of the group's carbon footprint. However, new stores make use of new technology and smarter, more efficient systems. "It is encouraging to note that leases increasingly include environmental clauses," says Rothenburg. "The use of natural light and other environmental considerations are becoming standard practice for shopping centre developers, which we strongly support."



### REDUCING WASTE AND STREAMLINING RESOURCE USE

The focus to date has been on paper usage and office and store waste streams. We have reduced our head office paper use following the introduction of a centralised print system. Further reductions were achieved by introducing an electronic stationery ordering system.

"We've changed paper-intensive operations by providing all store managers and field staff with laptops," says Curry. "It's more efficient and we've eliminated month end peaks. We've also introduced a hot-seat system instead of having desks for all field staff. It's part of a drive to a more innovative culture."

"E-statements are still on our wish-list," says Rothenburg. "Our financial services teams have some concerns and marketing distributes promotional material with the mailers."

Our biggest paper user is our publishing unit which issues a range of nine titles, including Sports, Soccer, Kidz, LivingSpace and Balanced Life. Income from publishing rose by 11.7% this year.

Waste reduction efforts continue via recycling drop-off points and a relationship with a local black empowered recycling company. Plastic waste significantly decreased following the elimination of shrink-wrapping of cartons. Residual plastic waste is recycled.

# GOVERNANCE, ETHICS AND ACCOUNTABILITY

## 9



# Governance, Ethics and ACCOUNTABILITY

9.  
Governance, ethics & accountability



Material issues



Stakeholders /Investors

## Material issues

- Understanding and delivering on stakeholder value
- Aligning with best practice in corporate governance and sustainability
- Ensuring identification of ESG-related risks and opportunities
- Strengthening ethics and eliminating corruption
- Implementing sustainability performance management and reporting systems

## Key sustainability objectives

- Establish an effective sustainability management and reporting structure
- Ensure sustainability KPIs are in place and measured quarterly for each focus area

## Headlines

- Effective sustainability governance structure up and running from April 2012
- Strong code of ethics and longstanding whistle-blowing facility
- Integration of environmental and social aspects into annual risk review process
- Listed on the JSE Socially Responsible Investment Index
- First sustainability strategic review was completed by the first quarter of 2014

## Looking ahead

- Formalising our commitment to the ten principles of the United Nations Global Compact and ensuring alignment to our operations
- Improving the efficiency and effectiveness of non-financial data collation
- More focus on communicating sustainability-related information to our stakeholders

## DELIVERING ON STAKEHOLDER VALUE

Value creation depends on the interactions of many stakeholders; value delivery must turn this into a virtuous cycle. Financial value is an important element of this delivery.

Retail turnover increased by 9.8%, with headline earnings up 4.2% (2014: Rm 1 872.3) from the previous year (2013: Rm 1796.6). In relation to our retail turnover, 64.6% (Rm 9145.8) was paid to suppliers for goods and services.

	2014 Rm	2013 Rm
Retail turnover	14 159,0	12 896,4
Paid to suppliers for goods and services	9145,8	8151,5
Value added	5013,2	4744,9

Allocation of value to our primary stakeholders is reflected below.





# 9.

Governance, ethics & accountability

Certainly, value delivery goes well beyond earnings and allocation. Stakeholders expect different kinds of value, and it is our job to ensure delivery on this broad stakeholder value proposition.

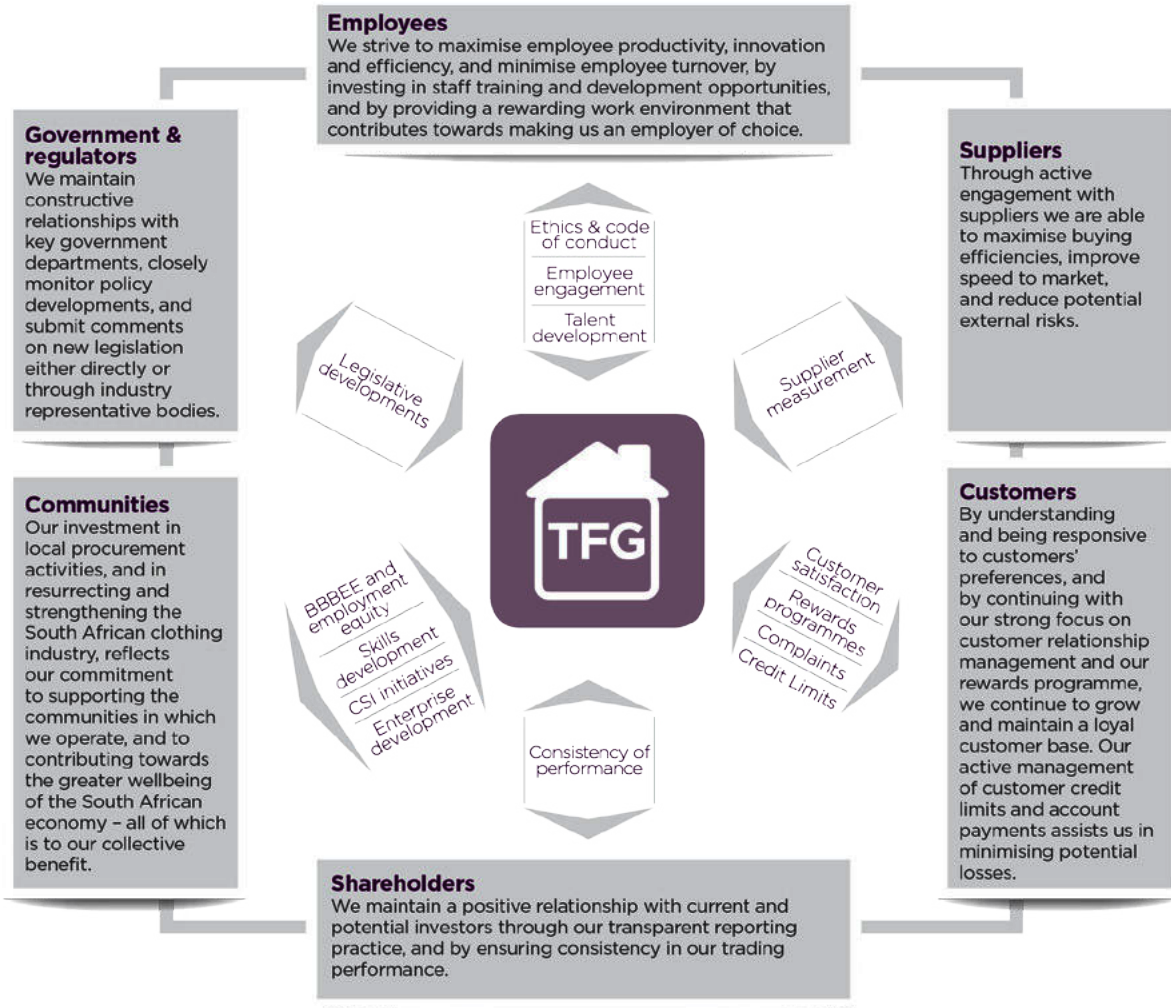
The Board is the ultimate custodian of the corporate reputation of TFG and its relationships with stakeholders and we acknowledge the importance of proactive engagement with them.

For an overview of our group’s engagement with stakeholder groups, please refer below.



## TFG’S ENGAGEMENT WITH STAKEHOLDERS

Stakeholders / Investors



The ability to work in public-private partnership with the dti, the IDC and many small businesses has been inspiring. Initiatives such as the clothing clusters have provided accelerated learning and we believe these forms of engagement will be of increasing importance to our future competitiveness.





## ALIGNING WITH BEST PRACTICE IN GOVERNANCE AND SUSTAINABILITY

The number of guidance frameworks, practice notes and best practice publications on governance and sustainability is considerable and growing.

From a governance perspective, TFG fully supports the principles outlined in the King Code of Corporate Governance for South Africa 2009 (King III) and the listings requirements of the JSE Limited. We retained our listing on the JSE Socially Responsible Investment Index for the fourth consecutive year.

*“TFG sees value in integrated reporting and we continue to explore how to improve communication of strategic performance and prospects.”*

**Dee Sheard -  
Head of TFG Finance & Advisory**

A register documenting the assessment of all 75 principles of King III is available on our website:

[www.tfglimited.co.za](http://www.tfglimited.co.za)

See page 15 for an overview of initiatives which guide our governance and sustainability efforts.

“This supplementary sustainability overview is new for TFG and we look forward to feedback from our stakeholders,” says Sheard.

## IDENTIFICATION OF ESG-RELATED RISKS AND OPPORTUNITIES

Two primary business risks relate directly to socio-economic issues. The first is the high levels of unemployment and strike action which negatively impact our customers’ purchasing power; the second is the increase in affordability-based delinquency from our customers who have been directly impacted by aggressive unsecured lending since 2008. Customers have also been impacted by the subsequent contraction in lending since late 2012.

“A number of environmental issues are on our radar, however the view at this point is that they do not constitute serious risks,” says Mike Wilson, Senior Manager: Enterprise Risk Management. Environmental issues include new legislative requirements, changing resource prices, shifts in customer expectations and impacts on our supply chain and distribution activities. In addition, certain policy measures such as the proposed carbon tax may prompt a general price increase, with a reduction in disposable income and a slowdown in consumer spending.

See page 40 for an overview of our risk identification process.





**STRENGTHENING ETHICS AND ELIMINATING CORRUPTION**

TFG’s code of ethics is aimed at creating a culture of the highest standards of ethics and uncompromising honesty amongst all employees throughout the group. Adopted by the Board, the code is comprehensive and forms an integral part of our employee induction process.

TFG’s whistle-blowing facility has been in place since February 1998 for the reporting of suspected fraud and unethical behaviour. Use is made of an outsourced, anonymous, toll-free hotline. A minimum reward of R10 000 is paid when follow up confirms evidence of fraud or unethical behaviour. During the year, 81 reports were received, resulting in nine dismissals and six resignations before enquiry.

For further information on our Code of Ethics and whistle-blowing policy, please refer to the Integrated Annual Report, pages 112 and 115.

For progress on our sustainability performance management and reporting systems, please refer to the strategy section (refer page 14 of this report).

*“ TFG does not pay bribes. This means it can take longer to get things done, particularly as we expand operations into Africa. But it goes back to doing business with a social conscience. It makes sense in the long run. ”*

**Brent Curry -**  
*TFG Chief Information Officer and Director responsible for sustainability & climate change*

**COMMITMENT TO THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT (UNGC)**

TFG is in the process of formalising its approach and commitment to the above (refer table below).

Subject	Principle	Progress to date
Human Rights	Business should: 1. support and respect the protection of internationally proclaimed human rights 2. make sure that they are not complicit in human rights abuses	<ul style="list-style-type: none"> <li>• Human rights declaration being drafted</li> <li>• Code of ethics being updated</li> </ul>
Labour	Businesses should uphold: 3. the freedom of association and effective recognition of the right to collective bargaining 4. the elimination of all forms of forced and compulsory labour 5. the effective abolition of child labour 6. the elimination of discrimination in respect of employment and occupation	<ul style="list-style-type: none"> <li>• In place</li> <li>• The standard terms and conditions amended to include UNGC principles</li> <li>• The standard terms and conditions amended to include UNGC principles</li> <li>• In place</li> </ul>
Environment	Businesses should: 7. support a precautionary approach to environmental challenges 8. undertake initiatives to promote greater environmental responsibility 9. encourage the development and diffusion of environmentally friendly technologies	<ul style="list-style-type: none"> <li>• Approach being reviewed</li> <li>• Initiatives being identified</li> <li>• No action at present</li> </ul>
Anti-corruption	Businesses should: 10. work against corruption in all its forms, including extortion and bribery	<ul style="list-style-type: none"> <li>• Policy in place</li> </ul>

**ENGAGING TFG MANAGERS IN RISK IDENTIFICATION**

The annual risk review has been revised to achieve greater interaction of TFG managers. A software application facilitates a bottom-up approach, engaging all management teams in assessing the previous year’s risks and identifying additional risks.

Each management team member assesses the likelihood and severity of each risk on an individual basis. A composite score is then obtained which facilitates discussion. Higher level risks feed to the director level, which uses the same system to short list significant risks for the Board.

“A valuable part of the system is that it enables a 360 peer review process to take place within each management team,” notes Mike Wilson, Senior Manager: Enterprise Risk Management.

# CONSOLIDATED NON - FINANCIAL DATA

# 10



# Consolidated NON-FINANCIAL DATA

**10.**  
Consolidated  
non-financial  
data

Focus areas	2014	2013	% Change (if relevant)	2012
<b>Supply Chain</b>				
<b>Support development of local (SACU) clothing, footwear and textiles industry</b>				
Number of units procured*	15,862,200	14,678,724	8.1%	13,843,604
Number of suppliers*	142	149	-4.7%	150
<b>Reduce the use of fuel in the local (SACU) supply chain</b>				
Units transported per litre of fuel used*	9,18	9,17	0,1%	10,12
M3 transported per litre of fuel used	0,034	0,038	-9.9%	0,043
Litres of fuel used per m3 transported	29,6	26,5	11,5%	23,5
Kms per litre of fuel used	2,40	2,35	2,1%	2,37
Units transported per km*	3,83	3,90	-1,8%	4,27
Number of stores	2,111	1,979	6,7%	1,857
<b>People</b>				
<b>Develop &amp; grow diverse leadership talent to ensure the continuous supply of a capable, competent workforce</b>				
<b>Identify multiple talent sources to achieve corporate transformation goals and ensure critical vacancies are filled</b>				
Permanent full time employees	13,265	12,657	4,8%	11,420
Permanent part time employees	110	175	-37,1%	251
Flexitime employees	3,435	3,807	-9,8%	3,951
Contract employees	953	920	3,6%	701
Casual employees	135	146	-7,5%	147
Employee turnover at stores (excluding contractors) %	30,8	32,1	-4,1%	32,4
Total expenditure on employee training and development (R million)	117,6	110,9	6,0%	114,7
Expenditure as % of payroll	6,0	5,8	3,4%	6,8
Total employees trained <sup>1</sup>	117,341	126,021	-6,9%	128,437
Participation in executive development programme	76	40	90,0%	N/A
EE% <sup>2</sup> Top management	10,0	11,1	-9,9%	11,1
EE% <sup>2</sup> Senior management	20,2	19,9	1,5%	16,6
EE% <sup>2</sup> Specialists and middle management	46,3	45,8	1,1%	42,0
EE% <sup>2</sup> Skilled technical and junior management	83,7	82,5	1,5%	81,0
EE% <sup>2</sup> Semi-skilled and unskilled employees	97,4	99,6	-2,2%	96,4
EE% <sup>2</sup> Total	90,6	90,4	0,3%	89,4
% Female employees	73,6	74,8	-1,6%	74,8
% Female employees in senior management positions	47,3	43,3	9,2%	42,5
Work related fatalities	none	none	-	none
Number of classified injuries resulting in work days lost	1,585	1,360	16,5%	1,310
Number of classified injuries	330	306	7,8%	431
Number of classified injuries resulting in three days off or fewer	223	226	-1,3%	322
Number of work days lost due to industrial action	13	none	-	none

# Consolidated NON-FINANCIAL DATA



**10.**  
Consolidated  
non-financial  
data

Focus areas	2014	2013	% Change (if relevant)	2012
<b>Socio-Economic Development</b>				
<b>Use practical learning experience to create jobs, income generating opportunities and to enhance employability in communities within which TFG operates</b>				
TFG black learnerships	543	781	-30,5%	1089
TFG Feel Good Project trainees	81	50	62,0%	Not available
Number of individuals placed <sup>3</sup>	41	14	192,9%	Not available
<b>Provide humanitarian relief to communities that have been affected by natural disasters</b>				
Number of individuals supported	13,636	14,928	-8,7%	Not available
CSI (total spend R million)	5,3	5,0	6,0%	4,7
Merchandise donations for the benefit of the Feel Good Project (R million)	35,0	47,0	-25,5%	22,8
<b>Optimisation</b>				
<b>Reduce environmental footprint of stores and head offices</b>				
Total energy use (DCs, Stores, Offices) kWh*	151,558,784	150,493,816	0,7%	165,161,791
kWh per m2 stores*	225,3	234,6	-3,9%	245,2
kWh per m2 head offices*	123,0	121,1	1,5%	185,1
Total Carbon Emissions (tonnes CO2e)*	207,332	201,837	2,7%	210,048
Scope 1 Emissions (tonnes CO2e)	3,419	3,413	0,2%	3,608
Scope 2 Emissions (tonnes CO2e)*	148,528	148,989	-0,3%	163,510
Scope 3 Emissions (tonnes CO2e)*	53,781	48,411	11,1%	42,039
Non-Kyoto (tonnes CO2e)	1,604	1,024	56,6%	891
Emissions per m2 intensity*	0,29	0,29	0,0%	0,32
Water consumption (Offices and DCs) kl*	76,618	67,302	13,8%	46,458
Paper purchased (A4 equivalent) pages	8,843,000	10,421,000	-15,1%	10,16,500
<b>Reduce packaging from source to customer</b>				
DC waste recycled (tonnes)	219,906	265,755	-17,3%	279,184
Supplier cartons reused*	2,730,296	2,565,791	6,4%	2,505,479
Cartons purchased*	355,387	264,005	34,6%	307,618
<b>Governance, Ethics and Accountability</b>				
Establish an effective sustainability management and reporting structure	Achieved	Achieved	-	-
KPI sustainability metrics agreed and measured	Achieved	Achieved	-	-

## Notes:

1. Number of attendees and not individual employees
2. EE%: % representation of previously disadvantaged groups among permanent employees
3. Number of individuals placed: Refers to those individuals who have become economically active as a result of the training interventions
4. Data in respect of environmental issues is presented one year in arrears
5. SACU:BNLS: South African Customs Union : Botswana; Namibia; Lesotho, Swaziland
6. \*2013 and 2012 restated

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# ABBREVIATIONS



<b>BBBEE</b>	Broad Based Black Economic Empowerment
<b>CDP</b>	Carbon Disclosure Project
<b>CMT</b>	Cut, Make and Trim (manufacture of textile products)
<b>CSI</b>	Corporate Social Investment
<b>DTI</b>	Department of Trade and Industry
<b>DRC</b>	Democratic Republic of Congo
<b>EBITDA</b>	Earnings Before Interest Tax Depreciation and Amortisation
<b>ERM</b>	Environmental Resource Management
<b>ESG</b>	Environmental, Social, Governance (factors influencing responsible investment decisions)
<b>GRI</b>	Global Reporting Initiative Guidelines
<b>IDC</b>	Industrial Development Corporation
<b>JSE SRI</b>	Johannesburg Stock Exchange Socially Responsible Investment Index
<b>King III</b>	King Report on Corporate Governance (3rd Edition)
<b>KPI</b>	Key Performance Indicator
<b>PPP</b>	Private Public Partnership
<b>SACCAWU</b>	South African Commercial, Catering and Allied Workers Union
<b>SACTWU</b>	Southern African Clothing and Textile Workers Union
<b>SACU</b>	Southern African Customs Union (Botswana, Lesotho, Namibia, Swaziland, South Africa)
<b>UCT</b>	University of Cape Town
<b>WDP</b>	CDP's Water Programme