



SUSTAINABILITY OVERVIEW 2015

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INTRODUCTION



ABOUT TFG

The group's mission is to be the **leading fashion lifestyle retailer in Africa whilst growing our international footprint** 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 which in turn enables our employees to implement our strategies, deliver our products and services and thereby create value for our stakeholders.

TFG is one of the foremost independent chain-store groups in South Africa. We have 18 retail brands that trade in clothing, jewellery, accessories, sporting and outdoor apparel and equipment, cellular goods and services and homeware and furniture to the broad, middle- and upper-income market throughout 2700+ stores. We trade predominately in southern Africa as well as Ghana, Nigeria and Zambia through our various TFG retail brands and also internationally in 19 countries (UK and Ireland plus 17 other international countries) through Phase Eight. The ratio of credit sales to total turnover is 53%. We also provide a range of customer value-added products which are primarily sold through our call centre.

Merchandise is sourced both locally and internationally. In addition we have an in-house design and manufacturing facility which co-ordinates production through our own factories as well as through various independent cut, make and trim factories.

OUR VALUES **PRIDE²**

TFG believes that teamwork, coupled with professionalism, in all aspects of retailing will continue to be the foundation for the future.

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

TO BE THE
LEADING FASHION
LIFESTYLE RETAILER
IN AFRICA WHILST
GROWING OUR
INTERNATIONAL
FOOTPRINT

TFG

ABOUT THIS REPORT

The **sustainability overview report** 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:

- **Local supply chain development**
- **Employee empowerment**
- **Resource efficiency**
- **Socio - economic development**
- **Governance, ethics and accountability**

We include relevant commentary from selected stakeholders.

TFG's sustainability strategy is applicable to all wholly-owned divisions, which reflects the scope of this report. It does not apply to TFG's recent acquisition of Phase Eight.

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 2015. The full suite of reports may be found at 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.

Financial statements: For further details on our financial performance, the TFG financial statements may be found at www.tfglimited.co.za.

King Code of Corporate Governance: A King III register is available on our website at 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.

Carbon Disclosure Project (CDP): TFG participates in the CDP which provides further insight into our carbon risk and management response. The CDP website is www.cdp.net.

Carbon Footprint Report: TFG's carbon footprint report may be found at www.tfglimited.co.za.

Kimberley Process: Our jewellery division adheres to the Kimberley Process, a global government, 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 TFG Sustainability at Chrisa@tfg.co.za.



IN CONVERSATION WITH CEO DOUG MURRAY



TFG IS NOW SEEKING TO DRIVE A SHARED VALUE STRATEGY. WHY HAVE YOU MADE THIS CHANGE?

We are starting to understand the links better. When we reviewed the shared value approach, we realised that we were already geared in that direction. Our ability to respond to uncertainty and a deep understanding of context has always been integral to our strategy. By making this more overt in our strategy, we are seeking to drive greater alignment on shared value across our culture. We see shared value as a logical basis for thinking and acting strategically.

LOCAL SUPPLY CHAIN DEVELOPMENT IS AN OPPORTUNITY TO DRIVE BOTH SOCIAL AND BUSINESS OBJECTIVES. HOW WOULD YOU DESCRIBE TFG'S COMMITMENT IN THIS AREA?

We are excited about the developments in our supply chain. Our initial impetus to local supply chain development 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 this initiative: 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.

HOW WOULD YOU DESCRIBE YOUR RELATIONSHIP WITH GOVERNMENT IN THE LOCAL SUPPLY CHAIN DEVELOPMENT 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.

TO WHAT EXTENT WILL YOUR LOCAL SUPPLY CHAIN DEVELOPMENT INITIATIVES BE IMPACTED BY THE AMENDED BBBEE CODES?

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 amended BBBEE codes 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 a competitive mix of social and financial value in a specific industry.

WHAT DOES A "MIX OF SOCIAL AND FINANCIAL VALUE" LOOK LIKE IN THE FASHION RETAIL SPACE?

It's about local supply chain development, 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.

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 FOR THE FASHION RETAIL SECTOR

1 BIG SUSTAINABILITY QUESTIONS APPEAR ON THE AGENDA FOR GLOBAL RETAILERS

Sustainability is becoming more mainstream. A high consumer profile places global garment retailers in the spotlight, forcing them to engage with the link between sustainability and brand. At the same time, more global retailers are moving into South Africa, as they eye potential expansion into the continent.

These trends are placing the big sustainability questions on the agenda of South African retailers. Questions such as: “How do we move from a linear production model to a circular one?” and “How can our growth help millions of people across our value chain to improve their lives?” are getting airtime more than ever before.

Leading global retailers are seeking to tackle these challenges, both pre-competitively and as potential brand differentiators.

TFG RESPONSE:

We are inspired by these developments and recognise the significant role multinational retailers can play in addressing large-scale social and environmental challenges, particularly in Africa. We see a convergence between sustainability and intelligent growth strategies through the field of shared value. This is certainly relevant for organisations seeking to grow in emerging markets where social challenges exert significant impact on the competitive landscape.

While big questions are important, it is equally important that our efforts are targeted to ensure efficient use of resources. We see our commitment to local supply chain development and our support of black-empowered garment and textile businesses as an important starting point in addressing these big questions.

Cross-references: sections: sustainability strategy, local supply chain development

2 GLOBAL SUPPLY CHAINS REMAIN IN FOCUS WITH NEW PARTNERSHIPS AND APPROACHES EMERGING

Supply chain sustainability remains in the spotlight across virtually every sector. Pressing challenges include issues of ethics and human rights, worker health and safety, fair wage initiatives and environmental management. Sustainable supply chain services is a fast-growing industry in itself, with digital and mobile solutions emerging for third-party certification, product tracing, resource-sharing and analytics (for example, fair wage assessment and life-cycle assessment).

TFG RESPONSE:

Our procurement from suppliers in South Asia and the Far East requires us to stay abreast of many developments in the sustainable supply chain arena. As a small market in global terms, we see a benefit from the increasing global focus and pre-competitive response to these challenges. For example, we are aware that many of our international suppliers are subject to audits and certification by large global retailers and brands. This enables us to focus and leverage our supplier engagement efforts on local manufacturers. Going forward, we anticipate strategic engagement with both national and global initiatives that deliver practical solutions to supply chain challenges across the sector.

Cross-reference: local supply chain development

3 NATIONALLY, INITIATIVES TO SUPPORT LOCAL SUPPLY CHAIN DEVELOPMENT CONTINUE TO BE HAMPERED BY POLICY FRAGMENTATION

Although several initiatives – such as the national clothing clusters – show positive signs, we have not yet turned the corner on the local supply chain development challenge in South Africa. 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. Yet retailers remain challenged by a fragmented and uncertain policy and implementation environment. Particular concerns include import duties on raw materials, inadequate policing of illegal imports, and implications of the amended BBBEE codes.

TFG RESPONSE:

Local supply chain development is integral to our strategy. We appreciate the efforts of numerous stakeholders working together to make a growing local industry a reality in South Africa. At the same time, we are aware that progress could be better and will continue to challenge ourselves and engage stakeholders on ways to make it easier.

4 INCREASING ESG REQUIREMENTS MAY LIMIT FOCUS ON INNOVATIVE SOLUTIONS

Regulatory challenges are compounded by shifts and duplication in the voluntary compliance space, such as King III, Johannesburg Stock Exchange listing requirements, and global initiatives such as the Global Reporting Initiative, the CDP and the United Nations Global Compact. While each clearly plays an important role, achieving conformance across multiple platforms impacts internal resources, limiting the time companies spend innovating to actually address these challenges.

TFG RESPONSE:

We support and recognise the need for good governance and the guidelines and codes that frame it. Our internal teams are driving the development of more efficient online systems for environmental, social and governance (ESG) data capture and submission; however, we are becoming more discerning in how we respond to

the burgeoning demand for data in the ESG space. We are aware that the social value we deliver through our business is dependent primarily on how much we are able to innovate with the many stakeholders across our supply chain.

Cross-references: sections: local supply chain development, governance, ethics and accountability

5 SOUTH AFRICANS FACE CONTINUED PRESSURE ON DISPOSABLE HOUSEHOLD INCOME

Over the next few years, we foresee a further squeeze on disposable household income as critical policy interventions to address social challenges gain momentum. Significant investment is needed in the next five years to address urgent needs such as electricity, water supply and unequal access to basic services. South Africa's twin deficit – in the current account and budget – as well as low levels of domestic savings are likely to put upward pressure on prices as social investments are made. This will have an inevitable impact on households, and particularly the poor.

TFG RESPONSE:

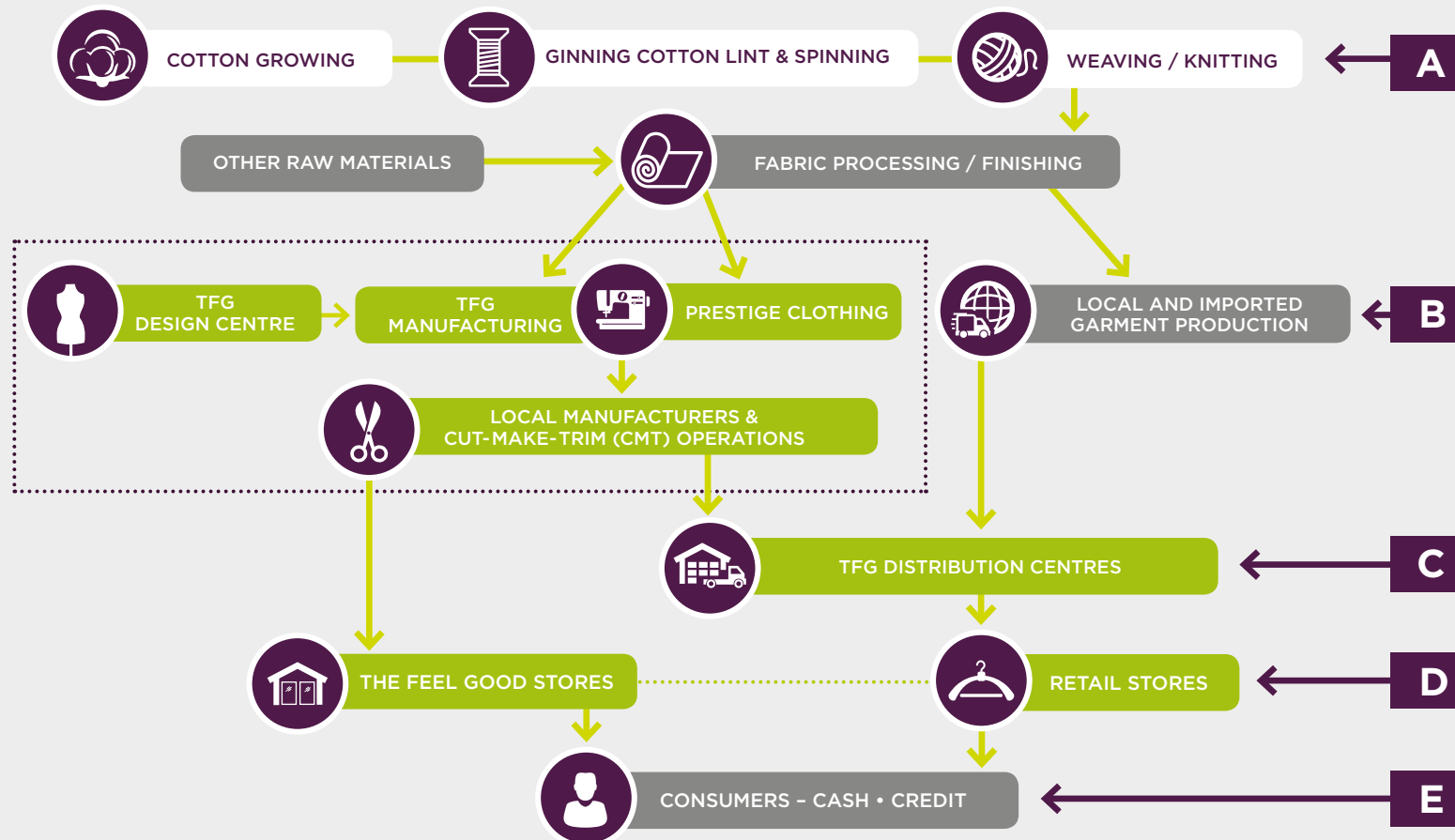
This overarching challenge requires a level of awareness in everything we do. It remains at the core of our sustainability and business strategy, focusing our thinking and our drive to greater innovation and social value delivery. It impacts our risk environment (driving responsible credit), sales strategy (a shift to cash sales), operations (optimising to deliver quality fashion at lower prices); supply chain practices (driving local development and supporting small businesses); and social investment strategy (strategic support of initiatives that deliver talent into the sector and promote entrepreneurship). **Cross reference: section: socio-economic development**

SOCIAL IMPACTS

ACROSS THE CLOTHING VALUE CHAIN

IMPACTS ACROSS TFG'S CLOTHING VALUE CHAIN

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.



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 Our shared value drive focuses on the development of our local supply chain. We increase our influence by including environmental and social requirements in our supplier contracts and by auditing both on-shore and off-shore suppliers.

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

D TFG operations employ 18,885 people - this number excludes Phase Eight. 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.

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

In 2011, TFG's operating board approved a group-wide sustainability strategic framework which positioned the business in relation to the material environmental, social and governance issues associated with its operations. Five focus areas were identified which included the monitoring and management of our performance on ESG commitments.

The strategic framework was informed by a comprehensive materiality process, which was facilitated by external advisers Incite, with the participation of a cross-section of managers.

In 2014, TFG undertook with Incite a detailed review of its sustainability strategy. Given evidence of consolidation across our five focus areas, TFG's operating board agreed to re-orient the strategy to a more competitive 'shared value' position which links the focus areas overtly to growth and innovation drivers in the business.

The revised strategy prioritises local supply chain development, enabling TFG to focus on creating shared value – in both financial and social terms – within our core supply chain strategy.

The five focus areas are:

- **Local supply chain development**
- **Employee empowerment**
- **Resource efficiency**
- **Governance, ethics and accountability**
- **Socio-economic development**

Further details on the five focus areas may be found in the section – Focus Areas.

In summary, TFG's revised strategy deepens the Group's ability to:

- **Address the way value is created and shared amongst its stakeholders;**

- **Link the sustainability effort directly to growth and innovation drivers in the business;**
- **Show measurable results in both financial and social terms;**
- **Benchmark itself against global best practice in the shared value arena;**

WHAT IS A SHARED VALUE STRATEGY?

Michael Porter and Mark Kramer published **Creating Shared Value** in Harvard Business Review in 2011. Shared value is a business strategy that improves the profit formula or creates a tangible new market opportunity by addressing societal challenges (such as local unemployment, inequality, or wasteful use of resources).

Shared value innovates across the value chain to increase productivity, create new markets or create enabling environments, for example through cluster developments. To qualify as shared value, initiatives must produce measurable results in both financial and social terms.

The SA retail sector's **Competitiveness Improvement Clusters** are an example of shared value, with retailers and manufacturers working together to enhance the productivity and viability of local industries. Please refer to the Local Supply Chain Development section for further information on TFG's engagement in the clusters.

TFG's **local supply chain development strategy** is an example of shared value because it aims to grow a resilient local manufacturing base in a context of high unemployment.

“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

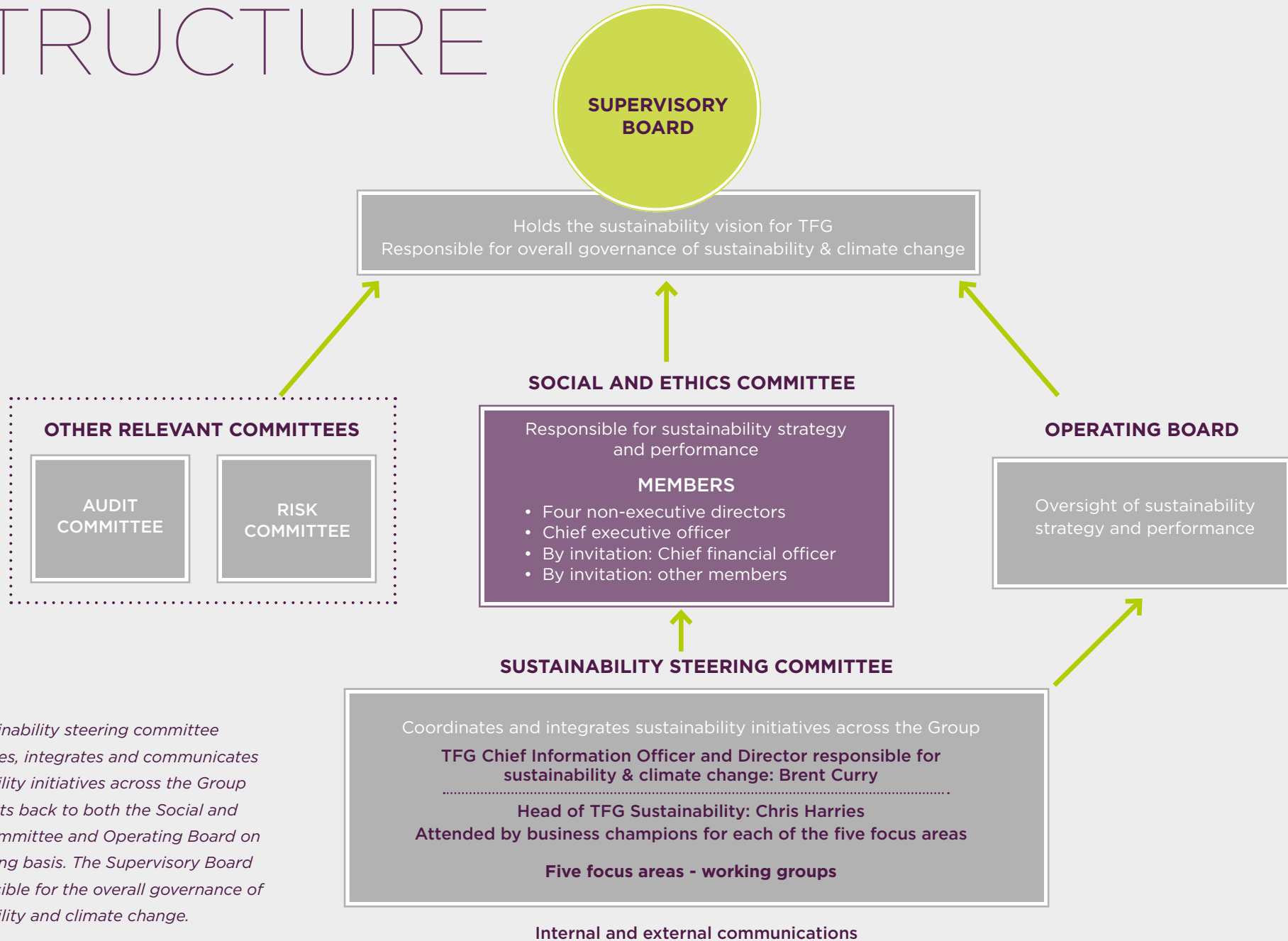
TFG Chief Information Officer and Director responsible for sustainability & climate change

WHAT'S ON OUR RADAR?

- 1 Greater focus on shared value in our sustainability strategy, demonstrating a clear mix of social, business and financial value
- 2 Continued focus on local supply chain development, with expansion of TFG Manufacturing operations and the social value associated with it
- 3 Engagement with regulators on local supply chain development efforts, the need to address policy fragmentation, including import duties on raw materials and to establish public-private long term partnerships
- 4 Address the challenges associated with the amended BBBEE codes and the anticipated revisions to King III
- 5 Finding a sustainability management solution to ensure that our metrics accurately reflect our social, business and financial values
- 6 Enhancing our ability to deal with compliance challenges in other countries



TFG's SUSTAINABILITY STRUCTURE



The sustainability steering committee coordinates, integrates and communicates sustainability initiatives across the Group and reports back to both the Social and Ethics Committee and Operating Board on an on-going basis. The Supervisory Board is responsible for the overall governance of sustainability and climate change.

IN CONVERSATION WITH BRENT CURRY

TFG CHIEF INFORMATION OFFICER AND DIRECTOR
RESPONSIBLE FOR SUSTAINABILITY & CLIMATE CHANGE



WHAT DO YOU SEE UP AHEAD FOR SUSTAINABILITY?

We started by adopting a conservative and consolidation approach to our sustainability commitments which dovetailed with our core business strategy. We recently undertook a strategic review of the progress we had achieved to date in implementing this sustainability strategy and have decided to “shift” it to a more competitive ‘shared value’ approach which will start to link it directly to growth and innovative drivers in the business. Our priority focus area will be local supply chain development.

DO YOUR CUSTOMERS ASK ABOUT SOCIAL OR ENVIRONMENTAL ISSUES?

Currently 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 know it is coming and our omni-channel strategy takes this into account with 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 and/or environmental issues.

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 are currently introducing to our stores and offices.

IT SOUNDS LIKE DIGITAL IS A BIG PART OF YOUR FUTURE?

We launched with our first brands on our E-Commerce platform, late last year and we are currently in a roll out phase across all our brands. This is all part of the Group's omni-channel strategy, which will eventually see us operating a complete 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.

In addition to this, numerous business processes have been 'digitised' to allow for a more customer eccentricity. For example, we launched with a Mobile Digital New Account Application solution late last year which allows customers to apply for a TFG account, using a mobile device.

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 on-line (which is currently being rolled out in certain of our brands) as a complementary service and plan to deliver a complete integrated, secure omni-channel customer experience by 2018. Phase Eight which we acquired earlier this year has an established on-line business which accounts for approximately 17% of their total revenue. We will also be drawing upon their experience in this regard.

WOULD YOU SAY TFG HAS A 'SUSTAINABILITY' CULTURE?

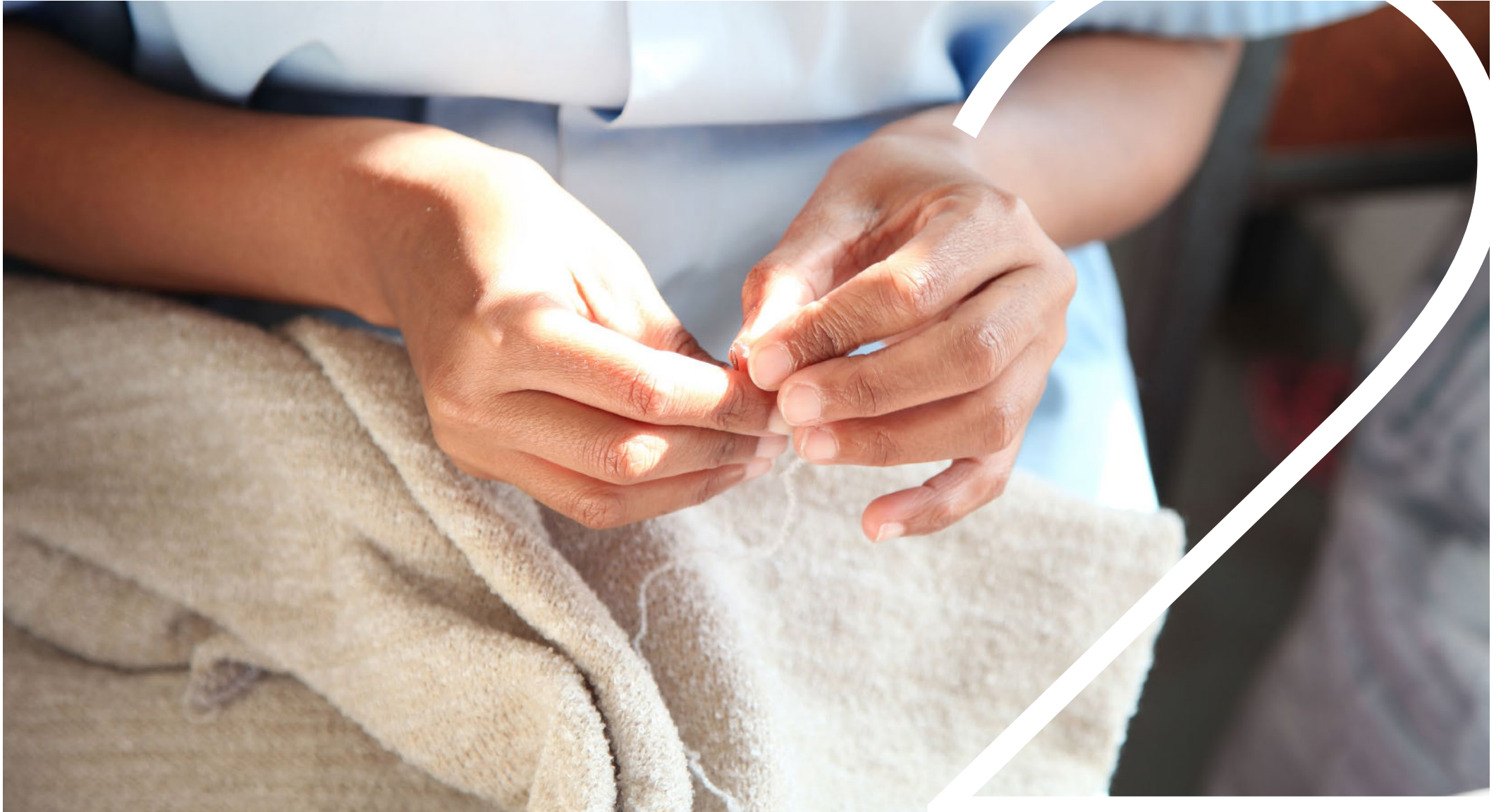
We are making progress, but most managers in the organization still regard sustainability as a 'need to do' exercise. This needs to change and we believe the shared value orientation will make it easier. The links to innovation and adaptability are clear but not yet widely appreciated. Our ability to understand and act on these links is critical to implementation and our sustainability messaging.

WILL WE BE READING MORE ABOUT TFG SUSTAINABILITY IN THE FUTURE?

Absolutely. 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.



FOCUS AREAS



LOCAL SUPPLY CHAIN **DEVELOPMENT**

MATERIAL ISSUES

- Developing local capacity across the fashion value chain
- Supply chain efficiency and Quick Response business model
- Public-private partnership in local cluster developments
- Innovating to create shared value

KEY SUSTAINABILITY OBJECTIVES

- Increase procurement from local manufacturers
- Increase efficiency, productivity and competitiveness of local suppliers

HEADLINES

- SA-manufactured units increased
- Growth in local merchandise procurement
- Improved efficiency at TFG Manufacturing facility
- Minister sees TFG Manufacturing Maitland as “factory of the future”
- Active engagement in the fast fashion clusters

LOOKING AHEAD

- Continued focus on local supply chain development in support of shared value strategy
- New TFG Manufacturing facility to be built in Caledon (Western Cape)
- Seeking to apply a developmental approach across the full fashion value chain

WHY LOCALISATION IS IMPORTANT

One of TFG’s strategic objectives is to optimise our supply chain capability allowing us to offer customers a wider range of in-demand products and a compelling rewards programme. Our response focused on the local and regional supply chain and its continued development, with initiatives to enhance buying and procurement processes, develop strategic suppliers and increase the percentage of orders on a Quick Response timeline. Progress over the past three years has highlighted local supply chain development as the primary driver of our shared value strategy.

The social imperative for the strategy lies in the collapse of SA’s clothing manufacturing sector in the early 2000s – a disastrous outcome of trade liberalisation following membership of the World Trade Organization in 1994 and China’s entry onto the world market. The competitive imperative lies in the need to reduce our lead times from concept to store, enhancing retail sales and reducing markdown.

TFG’s local supply chain development strategy

TFG’s strategy combines vertical integration (linking in-house design, pre-production, manufacturing and logistics capabilities), a productivity drive within our supply chain and strong support for the Competitiveness Improvement Clusters. These elements work together to create a shared value platform, delivering both social and financial value that is measurable, scalable and growth-oriented.

The strategy has yielded new black-owned manufacturing operations in the Western Cape, the establishment of a large local production facility – called “the factory of the future” by Minister of Economic Development, Ebrahim Patel – and a steady increase in the value offering of high quality local merchandise into TFG’s fashion retail stores.

In support of our growth commitments, construction begins this year on a further large manufacturing facility in Caledon (Western Cape).

While low value apparel products can be easily sourced anywhere in the world, this approach attracts risk associated with longer lead times, currency fluctuations, questionable quality, reliability of supply and logistical challenges. It is imperative that South Africa restores its local manufacturing capability. According to Graham Choice, Head of TFG Manufacturing, TFG Design and Prestige Clothing, this can only succeed if local manufacturers develop the reliability and efficiency of world-class suppliers. This insight underpins ongoing innovation efforts across TFG’s local supply chain, aimed at building resilience and continually improving the competitiveness of manufacturers and suppliers.

This developmental approach will ultimately be applied across the full value chain – linking fabric mills, manufacturers, auxiliary suppliers, TFG Design centre and TFG retailers – in creating sustainable social and financial value. TFG’s manufacturing strategy has substantially progressed the implementation of this objective and is currently working with local mills on increasing their capacity to convert greig materials (base fabrics before colour and print is applied) to the season’s hottest in-demand products.

LOCAL SUPPLY CHAIN DEVELOPMENT

KEY ELEMENTS OF LOCAL SUPPLY CHAIN DEVELOPMENT

Clusters initiatives

The potential for a cluster strategy arose ten years ago as clothing manufacturers acknowledged the dire challenges facing their industry. “The idea came from Dr Justin Barnes of B&M Analysts, who had spearheaded similar initiatives in the automotive sector,” says Choice, at that stage Head of Prestige Clothing and a supplier to TFG. This concept was supported initially by a few progressive CEO’s of clothing manufacturing businesses in Cape Town. Prestige Clothing rose to the fore of the Cape Town Clothing Cluster, a member - and provincial government funded initiative that applied lean principles pioneered in the auto industry to improve its value offering to customers. In 2012, Prestige Clothing with its two factories in Maitland and Caledon was acquired by TFG.

Efficiency improvements

Lean manufacturing cuts waste, reduces energy consumption and creates faster, easier and more effective processes. “In the past, managers assumed that workers would be more productive if they sat behind one another so they couldn’t talk,” says Choice. “Of course, that simply increased throughput time and required complicated transport mechanisms.” TFG Manufacturing’s Maitland factory is a leading example of modular manufacturing. This progressive approach has significantly enhanced production line efficiency resulting in labour output pricing comparable to China.

Public-private partnership

Critical government support for the SA clothing and textile industry was provided in the form of Department of Trade and Industry (dti) productivity incentives, dti funding for the Cape and Kwazulu-Natal clothing clusters as well as two TFG Fast Fashion clusters. TFG received further SETA funding to upgrade supply chain capabilities, enabling the

development of new curricula for clothing manufacturing qualifications based on TFG’s production innovations.

Learning and mentoring

“We cannot be an island of efficiency in a sea of inefficiency,” says Choice. The Maitland factory has become a cornerstone of testing and learning for the local apparel manufacturing industry, hosting visitors from within and beyond TFG’s own supply chain, including cut make and trim operators, embroiderers and printers. Bursaries have been provided for production management and design qualifications. TFG holds competitions to identify young designers for tomorrow, while TFG Design’s Cutting-edge Academy develops and fast-tracks employees who show particular promise.

Enterprise and supplier development initiatives provide TFG’s manufacturing partners with mentoring, assistance with accessing development funding for equipment, and zero-interest loans to help with the purchase of yarns and fabric. Clyde Newman, CEO of Newman Clothing, started in his garage with one knitting machine in 2001. With TFG’s support, his knitwear business has expanded into four operational units, providing employment for more than 300 people.

Rebuilding trust

Animosity between competitor companies across the apparel value chain was inevitable as the industry deteriorated and job losses mounted. “We needed to rebuild trust,” says Choice. “At the same time, we had to rationalise the supply chain and build suppliers that are both competitive and sustainable.” This delicate process continues in the face of intense competitive pressure, which is why Choice is confident that retailers, clothing manufacturers, textile companies, government and trade unions will soon be sitting around the table to form a sorely needed but as yet absent National Clothing and Textile development strategy.

LOOKING AHEAD

TFG’s shared value strategy is still developing, but it is scalable and geared for growth. Looking ahead, we want to demonstrate to the broader apparel industry what can be achieved when there is public-private sector collaboration. Our ability to succeed is unequivocally based on partnerships – with the national employer bodies, trade unions, government ministries, higher education and SA Revenue Service. By working effectively with these stakeholders, we will not only contribute to improving the lives of many South Africans, but also enhance our supply chain and its ability to support the competitive advantage of our retailers.



IN CONVERSATION WITH GRAHAM CHOICE

HEAD OF TFG MANUFACTURING,
TFG DESIGN AND PRESTIGE CLOTHING



TFG MANUFACTURING DECIDED TO LOCATE ITS SECOND MANUFACTURING FACILITY IN CALEDON. WHY?

Caledon (Western Cape) gave us an opportunity to address the challenge of rising costs and high levels of unemployment in the rural areas. Rentals were lower than in metro areas; the 1.5-hour drive to Cape Town was not enough to impact Quick Response; and there were more than 4,500 unemployed young women in the area.

WAS THE FACTORY INUNDATED BY JOB SEEKERS?

Actually, the youth of Caledon were not too excited about factory jobs. They had never worked in factories – no one was qualified to work a sewing machine. We started out employing just six people; today we have trained and employed over 250 employees, and there are queues of people wanting to join us. The targeted growth for the Caledon facility is 500 employees in the next three years, but this figure might double if our sales justify the introduction of a night shift.



WHAT DID YOU DO TO ACHIEVE THAT TURNAROUND?

We built a training school and factory, but more than that we built a culture based on creating effective behaviours – an environment where people wanted to work. We subsidise transport for workers who live in surrounding towns; provide monthly food hampers; and each staff member gets to buy one appliance or piece of furniture and pay us back – interest-free – every year. These and other “bread and butter” benefits count for a lot and are enormously appreciated by our employees.

ISN'T IT RISKY TO HAND OUT INTEREST-FREE LOANS FOR HOUSEHOLD GOODS?

It is an interest free loan, but we use their future holiday pay as collateral. Our employees are acquiring a critical asset that improves their standard of living and our risk is limited. It's a “win-win” benefit. We created a relationship with Tafelberg Furnishers: they get 500 customers and we make it work for our employees, which includes a two-year guarantee and free delivery. We know it's successful because the number of our employees with garnishee orders has reduced by 50% since its introduction.



WHERE HAVE YOU HAD TO IMPROVE?

One concern from employees is that we weren't communicating effectively. In an environment of constant change this is an imperative. Factory managers have a tough job in a challenging work place. While they possess many unique skills, communication may not be at the top of the list. We needed to find a way to address that, so we created Radio Prestige. We've employed a top dee-jay (DJ) who does news, birthday wishes and delivers a great playlist. He reports to Human Resources and together with management is helping to enhance our communication of TFG's and Prestige Clothing's message on a daily basis.

WHAT LIES AHEAD?

TFG has just approved their investment contribution for a R50 million high-tech factory, along the lines of our flagship Maitland operation. We are proud to announce that it will be built in Caledon. It's green – using solar, energy saving motors on every machine and passive lighting – and we've scrutinised every report to find the savings that will make it the most efficient build possible. We expect to move into the new facility in December 2016.

EMPLOYEE EMPOWERMENT

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 169 stores and increased headcount by 987 people (excluding Phase Eight)
- Ranked 3rd in the 2015 Business Report 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

“Recognising the potential of both current and future employees is critical to our success. We employ many different generations and they ask different questions. Generation Z are interviewing us – They don’t ask much about salaries or profitability; they ask about sustainability and transformation – and they expect clear answers.”

Zani Mashinini
Head of Learning and Resourcing

PROVIDING EMPLOYMENT

We employ a total of **18 885** people (excluding Phase Eight) at our operations and over peak periods many additional contractors.

Employee turnover at head office levels is low, at approximately 8%. At stores, it is approximately 28%. Although this is standard for retail, we anticipate a positive change following changes to 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 90.56% in 2014 to 91.65% in 2015. 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 72%. Our senior manager population is 51% female. The workforce has a young age profile with 82.5 % being under the age of 40 years and the average age being 31 years. We have made progress with the employment of disabled employees.

SKILLS DEVELOPMENT AND TALENT PIPELINE

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 SA government’s strategy of creating opportunities for employment

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

EMPLOYEE HEALTH AND WELLNESS

At TFG, we recognise that there are multiple elements that contribute to our employees’ overall well-being. During 2015, the aim is to increase awareness in three areas namely, physical well-being, financial well-being and emotional well-being.

Well-being structures in place include a trauma helpline providing daily psycho-social support, a disease management programme which provides guidance and support to employees and line management, an HIV treatment programme accessible by all employees, as well as on-site clinics supporting occupational and primary health needs at our head office in Cape Town and distribution centres.

Through the various well-being initiatives we look to increase awareness of critical risk factors across the three focus areas, to influence behaviour changes that will improve overall well-being.

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 unionization at head office, stores and distribution centres, 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. Through our African expansion strategies, we are entering into formal relationship agreements with unions in a number of the African countries.

IN CONVERSATION WITH SENTA MORLEY

HEAD OF TFG HUMAN RESOURCES



WHAT RESULTS ARE YOU SEEING FROM THE NEW EXECUTIVE DEVELOPMENT PROGRAMME?

We have a number of our senior executives and 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.

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.

WHAT IS YOUR PROGRESS ON EMPLOYMENT EQUITY AT LEADERSHIP LEVELS?

Although we are not making the progress we would have liked to see, we are certainly not regressing. 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.

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.

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 theme we have started incorporating into a number of our development initiatives.

“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.”

Senta Morley
Head of TFG Human Resources



SOCIO-ECONOMIC DEVELOPMENT

MATERIAL ISSUES

- Unemployment and household debt reduce disposable income levels
- Optimise the operations of CSI flagship projects and enterprise development requirements
- Create awareness and actively engage TFG employees to support our communities

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 severe winter seasons and natural disasters

HEADLINES

- Achieved a maximum of 5 points for socio-economic development on our BBBEE scorecard
- Launched a bursary partnership with SA's leading fashion institute, Fedisa
- In 2014/15, the Feel Good Project trained and graduated a total of 61 trainees
- Established a 3 year funding relationship with 3 NGO's
- Launched the CSI Africa funding strategy in Namibia and Ghana

LOOKING AHEAD

- Work with TFG retail brands to establish their CSI brand strategy
- Launch project blanket initiative to support disaster relief affected communities
- Continue with the launch of CSI in African countries where we operate
- Launch a payroll giving scheme to allow easy access for TFG staff to donate

“The profitable growth of our Group is closely linked to the economic and social sustainability of our communities, which is why it is so important to integrate sustainability into our core business strategy. CSI is a critical part of meeting both our business strategy & our customer expectations.”

Kathryn Sakalis

Head: TFG Marketing & E-commerce.

Doing good never goes out of fashion.

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. “We have chosen key partners who share our focus in order to successfully use our CSI funding in the most effective way” says Sakalis.

The Feel Good Project, in partnership with Learn to Earn, continues to grow from strength to strength. The project trained and graduated 61 unemployed people in the last financial year. Our aim is to optimize our relationship with Learn to Earn in order to increase the number of trainees placed within our stores.

We have established 5 additional partners to join us on our CSI journey; Fedisa, University of Cape Town, University of Western Cape, Buhle Farmers, Etafeni & MES. Our aim is to provide a sustainable funding source over a long term period to ensure that our funding makes a significant difference in the lives of the beneficiaries.

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 2014 EMPLOYEE ENGAGEMENT AND PARTICIPATION INITIATIVES INCLUDE:

In July 2014, TFG once again supported the NPO, STOP HUNGER NOW as part of its Mandela Month activities. 180 000 meals worth R500 000 were packaged by staff across 12 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: TFG partnered with MES (Mould, Empower, Serve) on the hope for winter drive where staff were encouraged to donate jerseys, blankets and scarves. In total R140 000 was donated to MES.

Casual Day: 9 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.

Toys for Tots Drive: This annual event saw over 500 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.

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 R28 000 for these organisations thus enabling them to continue their good work.

Disaster Relief: With the support of staff, TFG also actively supports Disaster Relief and in 2014, provided assistance to 4 disasters nationwide. In total 9828 people were assisted through our Disaster Relief efforts. In addition, TFG donated R100 000 towards the Volunteer Wildfire Services.

INVESTING IN COMMUNITY ORGANIZATIONS

TFG aims to create shared value by investing a total of R8.6 million in organizations who share our mission in developing opportunities for employment.

Examples of 2014 CSI projects include:

- **Buhle Farmers Academy (R300 000):** To up-skill subsistence farmers so that they can become commercial or semi-commercial agricultural farmers
- **MOULD EMPOWER SERVE (R700 000):** To provide a platform for job rehabilitation opportunities where participants receive a monetary benefit for work done, whilst being part of a developmental process that aims towards furthering skills development and job placement
- **Etafeni Day-Care Centre (R450 000):** This multi-purpose day-care centre is based in Nyanga (Western Cape) and aims to see to the needs of vulnerable children, the needs of those who care for them, and the needs of the community
- **Nelson Mandela Rhodes & Children's Fund (R250 000 each):** Ever since the passing of Mandela, TFG has committed to contribute to the Nelson Mandela Children's Home & Nelson Mandela Rhodes Foundation
- **Roundabout Water Solutions (R150 000):** Our CEO decided to take on the challenge by doing the ice bucket challenge! As a result, TFG decided to support Roundabout Water Solutions where a water tank was built at the Biokemisetso School in Kroonstad (Free State) to allow learners access to clean water that they previously didn't have access to
- **University of Cape Town (R520 000):** In 2014, TFG part sponsored the launch of the 100UP+ project. This project aims to bridge the transition from school to university life for those academically gifted 100UP+ students who have been accepted and are enrolled at UCT. TFG is in its 2nd year of funding
- **University of Western Cape (R1 000 000):** To build a chemical sciences building that will support successful academic projects, research & student learning needs. TFG has supported this project to allow the necessary opportunities this building will produce
- **Greyton Transition Town (R120 000):** To inspire and empower the people of Greyton (Western Cape) and neighbouring communities to work together to achieve sustainability and resilience in the face of rising energy and food costs, economic crisis and environmental degradation. TFG donated towards their soup kitchen in support of their basic food needs.

CASE STUDY: YOUR FASHION FUTURE

TFG has partnered with SA's leading fashion institute, FEDISA, to develop an exclusive TFG bursary programme **Your Fashion Future**

This bursary is unique and is aimed at developing empowered fashion professionals taking "concept to consumer" supported by a sound academic foundation in fashion.

Main Objectives:

- To enable students who needed financial assistance to access FEDISA
- To address the critical skills shortage by proactively building future talent pipelines
- To proactively drive transformation in our business

Bursary details:

The TFG bursary programme will fund 2 students every year (starting Jan 2015) for the next 3 years (ending 2017).

The value of the total investment is R4.2million over 5 years.

One of our bursary students, Azraa Howell, says 'I am a dedicated arts student who believes in creativity and the values design teaches one. I consider the TFG/FEDISA bursary to be a life changing opportunity. I believe that the bursary will enhance my educational goals and broaden my horizons and help me to realize my full potential in the fashion industry. I am forever grateful to TFG and FEDISA'.



RESOURCE EFFICIENCY

MATERIAL ISSUES

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

KEY SUSTAINABILITY OBJECTIVES

- Reduce the environmental footprint of stores and head offices (with a focus on energy and paper usage)
- Reduce packaging from source to customer
- Reduce the use of fuel in the local supply chain

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 the carton re-use programme has reduced carton usage by 3.8%, with units shipped increasing by 7.9%
- Despite a store expansion of over 6.0% and a total mileage increase of 0.5%, efficiency measures resulted in a decrease in fuel consumption (-0.1%)
- 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” says Brad Rothenburg, Head of TFG Property. “Electricity costs account for approximately 6% of store costs and over 1% of turnover. Unless we reduce our own footprint, we can't justify initiatives to drive responsible environmental practice in our supply chain. 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.

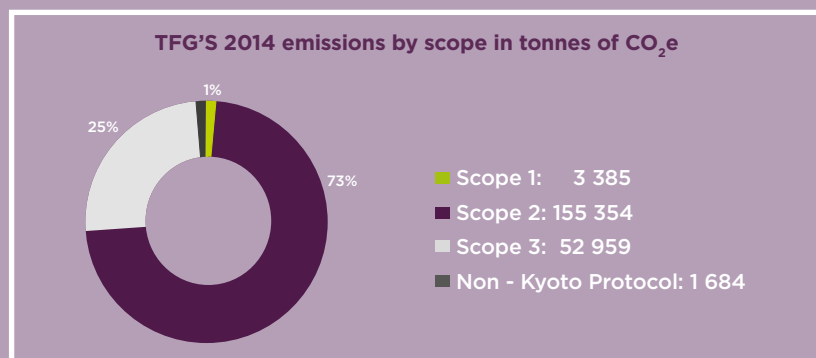
Scope 2: emissions are associated with the consumption of purchased electricity, heat or steam from a source that is not owned or controlled by the reporting company such as the electricity utility Eskom.

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.

RESOURCE EFFICIENCY

Purchased electricity is responsible for over 70% of our emissions. Further details are below:

TFG'S CARBON EMISSIONS



TFG's 2014 top five carbon-emitting activities are listed below as a percentage of the entire carbon footprint.

Purchased electricity	73%
Outsourced transport	7%
Employee commuting	6%
Consumption of paper for magazines	5%
Cardboard packaging	3%

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

		2014	2013	2012
Purchased electricity	Kilowatt	156 150 783	151 738 956	150 493 817

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.

	2014	2013	2012
Intensity: Emissions per employee	11.92	11.47	12.25
Intensity: Emissions per m2 (incl stores)	0.27	0.28	0.29
Intensity: Emissions per m Rand EBITDA	73.52	74.55	65.15

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 utilization: Optimizing carton fill has achieved both cost savings and efficiency improvements. Some of the waste cardboard generated is shredded and used for protective packaging, with the balance given 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.

Optimising freight and logistics: We continue to measure and optimise logistics and fuel use, and are in the process of improving 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.

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 landlords are seeing the benefits of "green" buildings", 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."

In March 2015 TFG piloted an e-statement solution that uses an e-mail as well as a mobile platform. This initiative will be rolled out to the entire credit base over time. As much as it is an eco-friendly and technologically efficient solution it also allows our customers to be timeously informed of their payment obligations and to any brand-specific promotional activity. In light of the postal strikes in last year, the group aims to ensure that communication with customers can be maintained at all times.

Our biggest paper user is our publishing unit which issues twelve titles, including Sports, Kidz, LivingSpace, Balanced Life and MyKitchen.

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

GOVERNANCE, ETHICS & ACCOUNTABILITY

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 for each focus area

HEADLINES

- Effective sustainability governance structure up and running from April 2012
- Strong code of ethical conduct 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 during 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

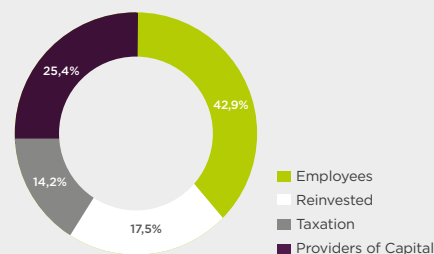
Value creation depends on the interactions of many stakeholders; value delivery must turn this into a virtuous cycle. Financial value is an important element of this delivery.

Retail turnover increased by 13.6%, with adjusted headline earnings per share from continuing operations up 9.7% (2015: 897,9 cents) from the previous year (2014: 818,7 cents). In relation to our retail turnover, 66.3%. (Rm 10 668.3) was paid to suppliers for goods and services.

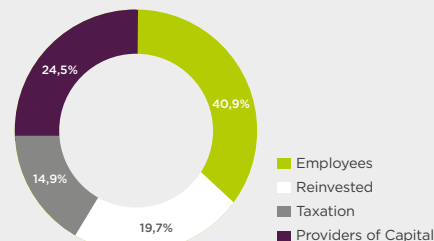
	2015 Rm	2014 Rm
Retail turnover	16 085,9	14 159,0
Paid to suppliers for goods and services	10 668,3	9 145,8
Value added	5 417,6	5 013,2

Allocation of value to our primary stakeholders is reflected below.

VALUE ADDED STATEMENT (2015)



VALUE ADDED STATEMENT (2014)



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

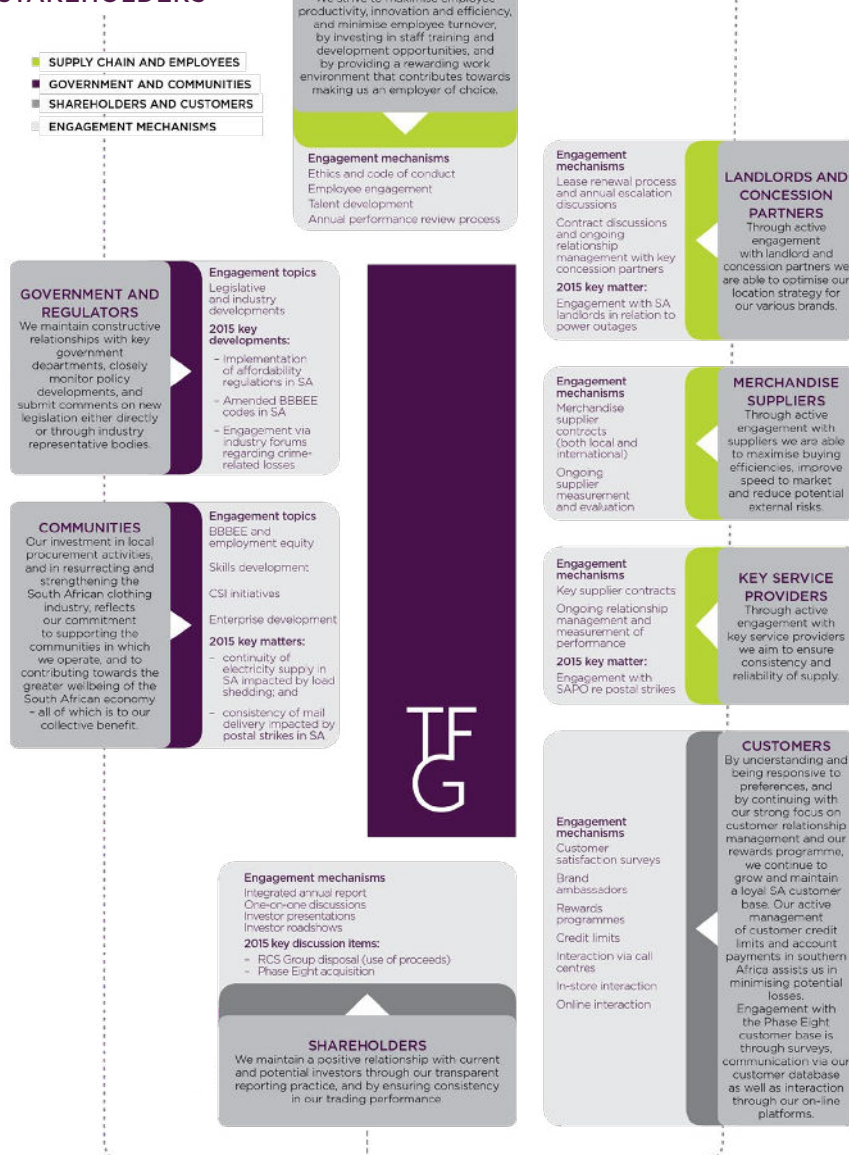
The board is the ultimate custodian of the corporate reputation of TFG and its relationships with stakeholders and we acknowledge the importance of proactive engagement with them.



GOVERNANCE, ETHICS & ACCOUNTABILITY

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

TFG'S ENGAGEMENT WITH STAKEHOLDERS



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 fifth consecutive year.

A register documenting the assessment of all 75 principles of King III is available on our website: www.tfglimited.co.za

“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

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: Operational Risk. Environmental issues include 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.



A full table reflecting stakeholder engagement is available on our website: www.tfglimited.co.za

Although there is a strong focus on local supply chain development, TFG continues to procure merchandise from countries in South Asia and the Far East. It is therefore important that regardless of the country of origin, our supplier take-on process which includes up front consideration and declaration of ethical and ESG criteria is consistent and complied with in order to limit the Group's exposure to operational risks associated with the sourcing of product.

STRENGTHENING ETHICS AND ELIMINATING CORRUPTION

TFG's code of ethical conduct 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, 114 reports were received, resulting in 8 dismissals, 1 disciplinary warning and 18 resignations before enquiry.

For further information on our code of ethical conduct and whistle-blowing policy, please refer to the Integrated Annual Report, pages 100 and 102.

“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)

Subject	Principle	Progress to date
Human Rights	Businesses 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"> Human rights declaration for employees adopted Human rights statement for suppliers adopted and new supplier take-on pack refers to UNGC Code of ethical conduct adopted
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"> In place The standard terms and conditions amended to include UNGC principles The standard terms and conditions amended to include UNGC principles In place
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"> Approach being reviewed Initiatives being identified Initiatives taking place such as e-commerce platform, mobile digital new account application solution and e-statement solution
Anti-corruption	Businesses should: 10. work against corruption in all its forms, including extortion and bribery	<ul style="list-style-type: none"> Anti-corruption policy in place and training initiatives commenced

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: Operational Risk.

NON-FINANCIAL DATA



NON-FINANCIAL DATA

Focus areas	2015	2014	% Change	2013	2012
Local supply chain development					
Support development of local (SACU) clothing, footwear and textile industry					
Number of units procured ¹	18 900 936	16 551 182	+14,2%	Not available	Not available
Number of suppliers ¹	236	253	-6,7%	Not available	Not available
Employee Empowerment					
Develop & 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					
Permanent full time employees	13 767	13 265	+3,8%	12 657	11 420
Permanent part time employees	334	110	+203,6%	175	251
Flexitime employees	4 268	3 435	+24,3%	3 807	3 951
Contract employees	424	953	-55,5%	920	701
Casual employees	92	135	-31,9%	146	147
Employee turnover at stores (excluding contractors) %	36,0	30,8	+16,9%	32,1	32,4
Total expenditure on employee training and development (R million)	120,6	117,6	+2,6%	110,9	114,7
Expenditure as % of payroll	5,4	6,0	-10,0%	5,8	6,8
Total employees trained ²	117 737	117 341	+0,3%	126 021	128 437
Participation in executive development programme	78	76	+2,6%	40	N/A
EE% ³ Top management	8,3	10,0	-17,0%	11,1	11,1
EE% ³ Senior management	20,6	20,2	+2,0%	19,9	16,6
EE% ³ Specialists and middle management	47,2	46,3	+1,9%	45,8	42,0
EE% ³ Skilled technical and junior management	84,8	83,7	+1,3%	82,5	81,0
EE% ³ Semi-skilled and unskilled employees	97,9	97,4	+0,5%	99,6	96,4
EE% ³ Total	91,7	90,6	+1,2%	90,4	89,4
% Female employees	72,0	73,6	-2,2%	74,8	74,8
% Female employees in senior management positions	50,9	47,3	+7,6%	43,3	42,5
Work related fatalities	none	none	0,0%	none	none
Number of work days lost	1 614	1 685	-4,2%	1 360	1 310
Number of incidents	427	330	+29,4%	306	431
Number of incidents resulting in three days off or less	318	223	+42,6%	226	322
Number of work days lost due to industrial action	none	13	-	none	none
Socio-Economic Development					
Use practical learning experience to create jobs, income generating opportunities and to enhance employability in communities within which TFG operates					
TFG black learnerships	784	543	+44,4%	781	1 089
TFG Feel Good Project graduates	61	81	-24,7%	50	Not available
Number of graduates placed ⁴	35	41	-14,6%	14	Not available

Focus areas	2015	2014	% Change	2013	2012
Socio-Economic Development					
Provide humanitarian relief to communities that have been affected by severe winter seasons and natural disasters					
Number of individuals supported	9 828	13 636	-27,9%	14 928	Not available
CSI (total spend R million)	8,6	5,3	+62,3%	5,0	4,7
Merchandise donations for the benefit of the Feel Good Project (R million)	32,1	35,0	-8,3%	47,0	22,8
NPAT %	2,1%	2,0%	+5,0%	2,7%	1,6%
Resource Efficiency					
Reduce environmental footprint of stores and head offices⁵					
Total energy use (DCs, Stores, Offices) kWh	156 150 783	151 738 956	+2,9%	150 493 817	165 161 792
kWh per m2 stores ⁶	214,6	225,4	-4,8%	234,6	279,9
kWh per m2 head offices ⁶	129,5	124,2	+4,3%	121,1	129,2
Total Carbon Emissions (tonnes CO2e) ¹	213 382	203 079	+5,1%	201 838	210 048
Scope 1 Emissions (tonnes CO2e)	3 385	3 419	-1,0%	3 413	3 608
Scope 2 Emissions (tonnes CO2e) ¹	155 354	144 275	+7,7%	148 989	163 510
Scope 3 Emissions (tonnes CO2e)	52 959	53 781	-1,5%	48 411	42 039
Non-Kyoto (tonnes CO2e)	1 684	1 604	+5,0%	1024	891
Emissions per m2 intensity ¹	0,27	0,28	-3,6%	0,29	0,32
Water consumption (Head offices and DCs) kl	64 481	76 618	-15,8%	67 302	46 458
Head office/DCs paper used (A4 equivalent pages) ⁶	9 981 078	Not available	-	Not available	Not available
Reduce packaging from source to customer					
DC waste recycled (kgs) ⁶	218 118	151 959	+43,5%	248 838	232 307
Supplier cartons reused	2 606 879	2 730 296	-4,5%	2 565 791	2 505 479
Cartons purchased	361 005	355 387	-1,6%	264 005	307 618
Reduce the use of fuel in the local (SACU) supply chain					
Units transported per litre of fuel used	9,91	9,18	+8,0%	9,17	10,12
M3 transported per litre of fuel used	0,035	0,034	+2,9%	0,038	0,043
Litres of fuel used per m3 transported	28,8	29,6	-2,6%	26,5	23,5
Kms per litre of fuel used	2,41	2,40	+0,4%	2,35	2,37
Units transported per km	4,12	3,83	+7,6%	3,90	4,27
Number of stores	2280	2 111	+8,0%	1 979	1 857
Governance, Ethics and Accountability					
Establish an effective sustainability management and reporting structure	Achieved	Achieved	-	Achieved	-
KPI sustainability metrics agreed and measured	Achieved	Achieved	-	Achieved	-
Notes: <ol style="list-style-type: none"> 2014 restated Number of attendees and not individual employees EE%: % representation of previously disadvantaged groups among permanent employees Number of graduates placed: refers to those graduates who have become economically active as a result of the training interventions Data in respect of environmental issues is presented one year in arrears 2014-2012 restated 					

ABBREVIATIONS

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

