

# CORPORATE GOVERNANCE REPORT

TFG remains committed to the highest standards of corporate governance that add value to the business. Transparency and accountability remain the key principles on which all its business activities are conducted. TFG fully supports the governance principles contained in King III, King IV and the Listings Requirements of the JSE. Governance extends beyond regulatory compliance as executive and senior management aims to create and maintain a culture of good governance throughout the Group.

## KING III AND KING IV

TFG has successfully entrenched and continues to apply the King III principles in terms of the composition and functioning of its governance structures and the governance of its day-to-day activities. A register of all 75 King III principles is available on our website.

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TFG is also in the process of assessing the principles of King IV and continually invests in the process. The required corporate governance disclosures required in terms of King IV will be included in the integrated annual report for the year ending 31 March 2018.

## GOVERNANCE STRUCTURES

The non-executive Supervisory Board of TFG embraces the responsibilities imposed by King III and King IV and acknowledges that it is ultimately accountable for the strategy, direction, leadership, governance and performance of the Group. The Supervisory Board also has oversight of the development and approval of, and updates made on, TFG's vision, mission and value statements, significant policies and goals related to economic, environmental and social impacts. The Operating Board is responsible for day-to-day management and operations.

The scope and functioning of the Supervisory Board and board committees are governed by charters. These charters are reviewed and updated regularly. They outline the relevant authority, responsibilities, powers, composition and functioning of the Supervisory Board and its committees.

The Supervisory Board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the 2017 financial year.

## COMPOSITION

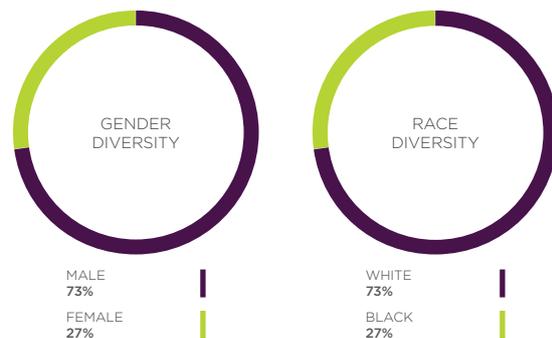
In accordance with King III requirements, the Supervisory Board of Directors of TFG mainly comprises non-executive directors, with the majority being independent.

The Supervisory Board is committed to having a diverse board and, as required by the Listings Requirements, has adopted a policy on the promotion of gender and race

diversity at Supervisory Board level in December 2016. In terms of this policy the Supervisory Board acknowledges:

- that diversity is important in order to provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship and management of the company and TFG as a whole; and
- that a truly diverse board will include and make good use of different skills, regional and industry expertise, background, race, gender and other distinctions between directors.

The graphics below provide a visual outline of our Supervisory Board's diversity:



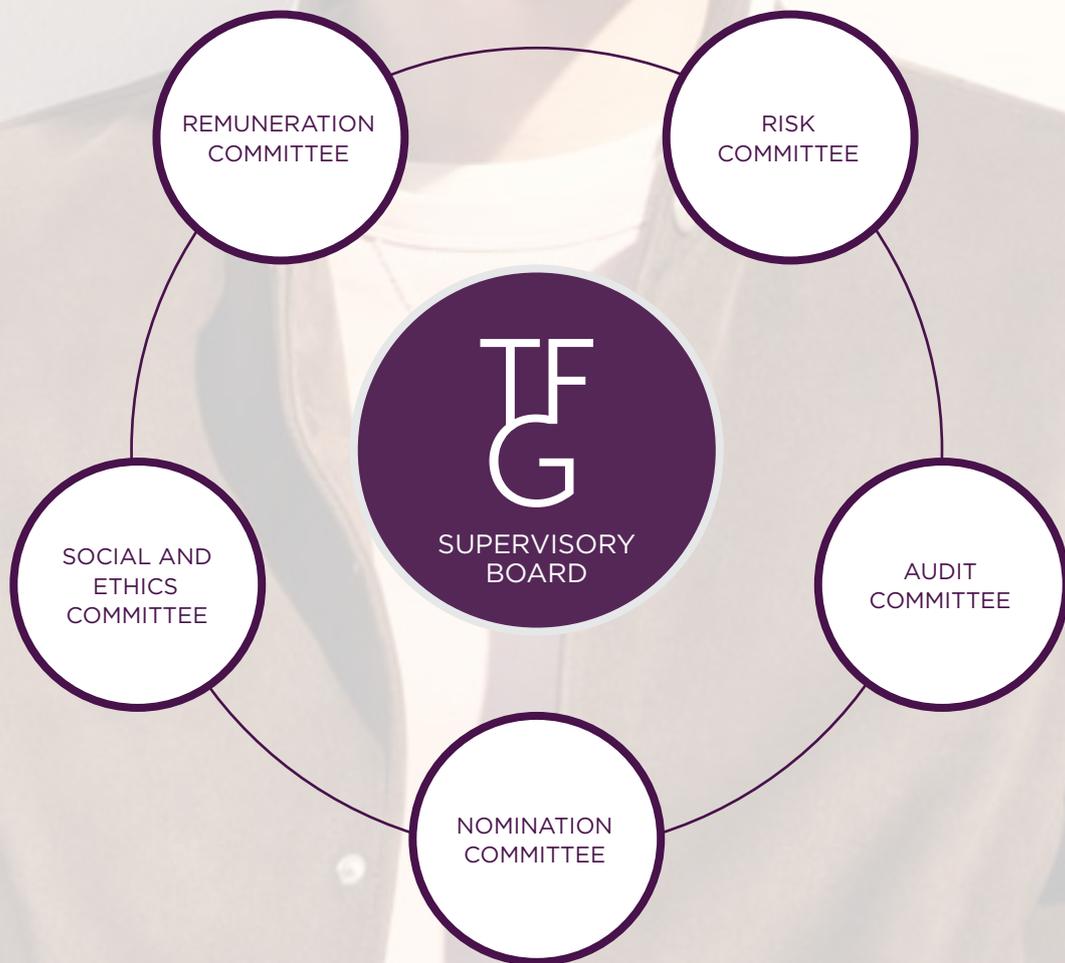
The Nomination Committee gives due consideration to succession planning for all Supervisory Board directors and ensures that all committees are appropriately constituted and chaired. It also addresses gender and race diversity as an explicit element of its oversight work.

The current Supervisory Board structure comprises 11 directors, nine of whom are non-executive directors, of which eight are independent directors and one is not regarded as independent. The remaining two directors are executive directors, namely the Chief Executive Officer and the Chief Financial Officer, and are salaried employees of TFG.

Five committees assist the Supervisory Board in discharging its duties. These committees are the Remuneration, Risk, Audit, Social and Ethics, and Nomination Committees. An overview of the functions of these committees appears later in this report. The composition of the Supervisory Board and its committees appears on page 89.

During the year, an *ad hoc* Finance Committee, comprising both non-executive and executive directors and chaired by Mr G H Davin, was also tasked to assist the Supervisory Board in a number of areas, including specifically considering and investigating all potential acquisition opportunities and their funding.

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## DIRECTORS

The non-executive directors come from diverse backgrounds in commerce and industry (detailed information on the directors and their credentials appears on pages 86 to 89). Their collective experience enables them to provide sound, independent and objective judgement in decision-making that is in the best interests of TFG. They are ultimately responsible for the performance of TFG, its long-term sustainable growth and the enhancement of shared value for all stakeholders. They review and ratify TFG's strategy in addition to monitoring and measuring its performance and the Operating Board members against key performance indicators (refer to the Remuneration Committee report on page 119 and the leadership section in the Strategy performance review on page 68). They provide their opinion and advice regarding the Group's financial, audit, governance, legal compliance and risk management controls. In order to ensure sustainable leadership, they review transformation and succession planning at senior levels and give input on the remuneration process.

All directors exercise unfettered discretion in the fulfilment of their duties, resulting in constructive debate at meetings that continues to yield well-considered decisions. There exists a balance of power and authority among the Supervisory Board of Directors.

### Director appointment and induction

Potential new non-executive directors go through a thorough interview procedure until a suitable candidate has been chosen and appointed. The process is contained in a policy that details the appointment procedure and ensures that appointments are a matter for the Supervisory Board of Directors as a whole, assisted by the Nomination Committee. Newly appointed directors hold office only until the next annual general meeting, at which time their original appointment is confirmed and they stand for re-election at that meeting. Each year, one-third of the existing non-executive directors are subject to retirement by rotation. This is in line with King III and the memorandum of incorporation. The Nomination Committee recommends re-election by shareholders after due consideration is given to the director's attendance at meetings and his/her performance. Non-executive directors have no fixed terms and the performance of all directors is subject to an annual peer review (read more about these evaluations on page 96).

A formal induction programme for new non-executive directors is in place with the objective of maximising their understanding of the Group and enabling them to provide input and make well-informed decisions as quickly as possible.

### *Changes to the Supervisory Board and committees during the 2017 financial year*

There were no changes to the Supervisory Board during the financial year. The only changes to committee composition were in respect of the Risk Committee where Ms B L M Makgabo-Fiskerstrand and Ms N V Simamane were appointed as additional members, and the Audit Committee where Prof F Abrahams was appointed as an additional member. These changes were effective from 1 October 2016.

### Independence assessment

All non-executive directors are required to complete an annual independence questionnaire to assess their independence in terms of the objective independence criteria in King III. Eight of the non-executive directors are independent according to the King III definition of independence.

Of the eight directors that satisfy the objective independence requirements, three have served a term in excess of nine years. The Supervisory Board reviewed the independence of Mr S E Abrahams, Mr M Lewis and Prof F Abrahams and, after due consideration (during the relevant meeting the aforementioned directors recused themselves), concluded that the length of their association with the Group in no way impaired their independence.

### Remuneration and shareholding

The remuneration paid to directors during the current year as well as details of direct and indirect shareholdings are disclosed in the Remuneration Committee report on page 119, which appears later in this report. Information regarding their participation in share incentive schemes (which is limited to executive directors) is also disclosed.

### Dealing in shares

The Supervisory Board complies with the Listings Requirements of the JSE in relation to restrictions on directors and employees trading with TFG shares during closed periods. Restrictions may also be placed on share dealings at other times if TFG is involved in corporate activity or sensitive negotiations.

There is a process in place in terms of the Listings Requirements of the JSE for directors to obtain prior clearance before dealing in TFG shares. All transactions are conducted at the ruling market price on the JSE.

Details of directors' share dealings are disclosed on SENS.

### Directors' interests in contracts

In addition to a formal annual disclosure process, directors are required to make ongoing disclosures of any interests in contracts. During the year under review, the directors had no interest in contracts as contemplated in the Companies Act.

### SUPERVISORY BOARD MEETINGS

The Supervisory Board typically meets five times per year in Cape Town and further meetings are held at short notice when necessary. Proceedings at meetings are directed by way of an agenda. The proposed agenda is circulated in advance of the meeting to allow Supervisory Board members the opportunity to request additional agenda items.

In addition, a comprehensive board pack is distributed to all members prior to meetings to ensure that they are properly informed, able to engage in meaningful discussions and effectively discharge their duties.

All directors have unrestricted access to the Company Secretary and all company records, as well as to independent professional advice at the company's expense in appropriate circumstances.

During the current financial year, the Supervisory Board, *inter alia*, approved projections and results, dividends (including scrip distributions) and acquisitions, reviewed strategy at various levels, focused on current performance and considered report backs from board committees.

### SUPERVISORY BOARD AND COMMITTEE ATTENDANCE

The attendance of the directors at Supervisory Board and committee meetings for the financial year was as follows:

	SUPER- VISORY BOARD	REMUNE- RATION COMMITTEE	RISK COMMITTEE	AUDIT COMMITTEE	NOMINATION COMMITTEE	SOCIAL AND ETHICS COMMITTEE
NUMBER OF MEETINGS	5	4	4	3	2	2
F Abrahams	5	3 <sup>^</sup>	-	1* <sup>^</sup>	-	2
S E Abrahams	5	-	3 <sup>#</sup> <sup>^</sup>	3	2	-
G H Davin	4 <sup>^</sup>	-	-	-	-	-
D Friedland	4 <sup>^</sup>	3 <sup>^</sup>	3 <sup>^</sup>	1 <sup>^</sup>	-	-
M Lewis	5	4	4 <sup>#</sup>	3 <sup>#</sup>	2	-
B L M Makgabo- Fiskerstrand	5	-	2*	2 <sup>^</sup>	-	2
A D Murray	5	4 <sup>#</sup>	4	3 <sup>#</sup>	2 <sup>#</sup>	2
E Oblowitz	5	4	4	3	-	-
N V Simamane	5	-	1* <sup>^</sup>	3	-	2
R Stein	5	-	4	3 <sup>#</sup>	2	-
A E Thunström	5	-	4	3 <sup>#</sup>	-	2 <sup>#</sup>

\* Appointed to committee 1 October 2016.

# Invitee.

<sup>^</sup> Absent with apology.

## CORPORATE GOVERNANCE REPORT CONTINUED

### SUPERVISORY BOARD EVALUATIONS

An annual evaluation of the Supervisory Board, its members and each of the committees is undertaken by way of comprehensive questionnaires sent to all Supervisory Board members. The results are collated and passed on to the Chairman who has a one-on-one interview session with each director to discuss his/her feedback and any areas of concern. The Chairman provides feedback to the Supervisory Board on any actions arising from the evaluation process.

The evaluation is comprehensive, encompassing all aspects of the Supervisory Board's responsibilities. It covers both individual member contributions and the effectiveness of the Supervisory Board and its committees as a whole. The most recent evaluation was conducted entirely by secure electronic means and was completed towards the end of the 2016 calendar year. All action items were attended to, which included ongoing training for non-executive directors, extended time for strategic discussions at Supervisory Board meetings and the enhancement of the format and timing of the annual Supervisory Board evaluation process.

### COMPANY SECRETARY

On 22 May 2016, Ms D Sheard resigned as Company Secretary and Mr D Van Rooyen assumed the position.

As the Company Secretary, Mr D van Rooyen is accountable to the Supervisory Board and all directors have access to his advice and services. He maintains an arm's-length relationship with the Supervisory Board and is not a director of the company. The Company Secretary is independent and functionally reports to the Supervisory Board on company secretarial matters.

The Company Secretary's duties include but are not limited to those listed in section 88 of the Companies Act.

Every year, as part of the annual Supervisory Board evaluation process, the directors assess whether the Company Secretary has fulfilled the required obligations and duties. The annual assessment questionnaire gives directors the opportunity to not only evaluate the Company Secretary but to raise any concerns they may have.

The Supervisory Board believes that the Company Secretary is suitably qualified, competent and an experienced individual who is able to provide the Supervisory Board with the requisite support for its efficient functioning and discharge of its duties as prescribed by the Companies Act, King III and the Listings Requirements.

### SUPERVISORY BOARD COMMITTEES

The Supervisory Board of Directors delegated specific responsibilities to board committees, each with its own charter that defines its responsibilities. The committees aim to review their charters annually and undertake an annual performance evaluation. All committees are chaired by an independent non-executive director.

The board committees meet independently and provide feedback to the Supervisory Board through their Chairpersons. In addition, minutes of all committee meetings are included in the Supervisory Board packs and all directors are given the opportunity to raise any concerns or questions arising from these minutes.

The directors confirm that the committees functioned in accordance with their written terms of reference as contained in their charters during the financial period. An overview of each committee's functioning and responsibilities follows.

AUDIT COMMITTEE	SCHEDULED MEETINGS	RESPONSIBILITY
<p><b>MEMBERS</b> S E Abrahams (Chairman) D Friedland B L M Makgabo-Fiskerstrand E Oblowitz N V Simamane F Abrahams*</p> <p><b>INVITEES</b> M Lewis A D Murray R Stein A E Thunström</p>	Three times per annum	<p>The focus areas of the committee are:</p> <ul style="list-style-type: none"> <li>to review the effectiveness of the Group's systems of internal control, including internal financial control and risk management, and to ensure that effective internal control systems are maintained;</li> <li>to ensure that written representations on internal controls are submitted to the Supervisory Board annually by all heads of retail trading and service divisions (these being representations that provide assurance on the adequacy and effectiveness of the Group's systems of internal control);</li> <li>to monitor and supervise the effective functioning and performance of the internal auditors;</li> <li>to ensure that the scope of the internal audit function has no limitations imposed by executive management and that there is no impairment on its independence;</li> <li>to evaluate the independence, effectiveness and performance of the external auditors, and to obtain assurance from the auditors that adequate accounting records are being maintained;</li> <li>to recommend the appointment of the external auditors on an annual basis;</li> <li>to ensure that the respective roles and functions of external audit and internal audit are sufficiently clarified and coordinated; and</li> <li>to review financial statements for proper and complete disclosure of timely, reliable and consistent information, and to confirm that the accounting policies used are appropriate.</li> </ul>

\* Appointed to the committee on 1 October 2016.

SOCIAL AND ETHICS COMMITTEE	SCHEDULED MEETINGS	RESPONSIBILITY
<p><b>MEMBERS</b> F Abrahams (Chairperson) B L M Makgabo-Fiskerstrand A D Murray N V Simamane</p> <p><b>INVITEES</b> A E Thunström</p>	Twice per annum	<p>The focus areas of the committee are:</p> <ul style="list-style-type: none"> <li>social and economic development, including transformation;</li> <li>good corporate citizenship;</li> <li>the environment, health and public safety;</li> <li>labour and employment;</li> <li>consumer relationships;</li> <li>ethics; and</li> <li>sustainable development initiatives.</li> </ul>

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RISK COMMITTEE	SCHEDULED MEETINGS	RESPONSIBILITY
<p><b>MEMBERS</b> E Oblowitz (Chairman) D Friedland B L M Makgabo-Fiskerstrand* A D Murray N V Simamane* R Stein A E Thunström</p> <p><b>INVITEES</b> M Lewis S E Abrahams</p>	Four times per annum	<p>The committee ensures that:</p> <ul style="list-style-type: none"> <li>• appropriate risk and control policies are in place and are communicated throughout the Group;</li> <li>• the process of risk management and the system of internal control are regularly reviewed for effectiveness;</li> <li>• there is an ongoing process of identifying, evaluating and managing the significant risks faced by the Group, and that this is in place throughout the year;</li> <li>• a formal risk assessment is undertaken annually;</li> <li>• there is an adequate and effective system of internal control in place to manage the more significant risks faced by the Group to an acceptable level;</li> <li>• there is a documented and tested process in place that will allow the Group to continue its critical business processes in the event of a disaster, <i>inter alia</i>, the destruction of a distribution centre, head office or computer facility that affects its activities;</li> <li>• a risk register is maintained and kept up to date; and</li> <li>• appropriate insurance cover is placed and regularly reviewed, and that all uninsured risks are reviewed and managed.</li> </ul>

\* Appointed to the committee on 1 October 2016.

REMUNERATION COMMITTEE	SCHEDULED MEETINGS	RESPONSIBILITY
<p><b>MEMBERS</b> E Oblowitz (Chairman) F Abrahams D Friedland M Lewis</p> <p><b>INVITEES</b> A D Murray</p>	Four times per annum	<p>The Remuneration Committee sets the Group's remuneration strategy, policies and practices. Main focus areas include:</p> <ul style="list-style-type: none"> <li>• recommending, reviewing and approving all remuneration for non-executive directors, executive directors and senior executives;</li> <li>• ensuring a fair balance between fixed and variable remuneration within the company's financial constraints;</li> <li>• reviewing the short-term and long-term incentive to ensure it is market related and supports shareholder value creation; and</li> <li>• overseeing the setting of remuneration at all levels in the Group.</li> </ul>

NOMINATION COMMITTEE	SCHEDULED MEETINGS	RESPONSIBILITY
<p><b>MEMBERS</b> M Lewis (Chairman) S E Abrahams R Stein</p> <p><b>INVITEES</b> A D Murray</p>	Twice per annum	<p>Main functions include:</p> <ul style="list-style-type: none"> <li>• reviewing the Supervisory Board structure, size and composition;</li> <li>• reviewing the nature, size and composition of the Supervisory Board committees;</li> <li>• succession planning;</li> <li>• reviewing the balance between non-executive and executive directors;</li> <li>• ensuring the directors have the required blend of experience, skills and knowledge to support the continued success of the Group; and</li> <li>• ensuring the existence of a formal process of performance evaluation.</li> </ul>



**WHISTLE-BLOWING**

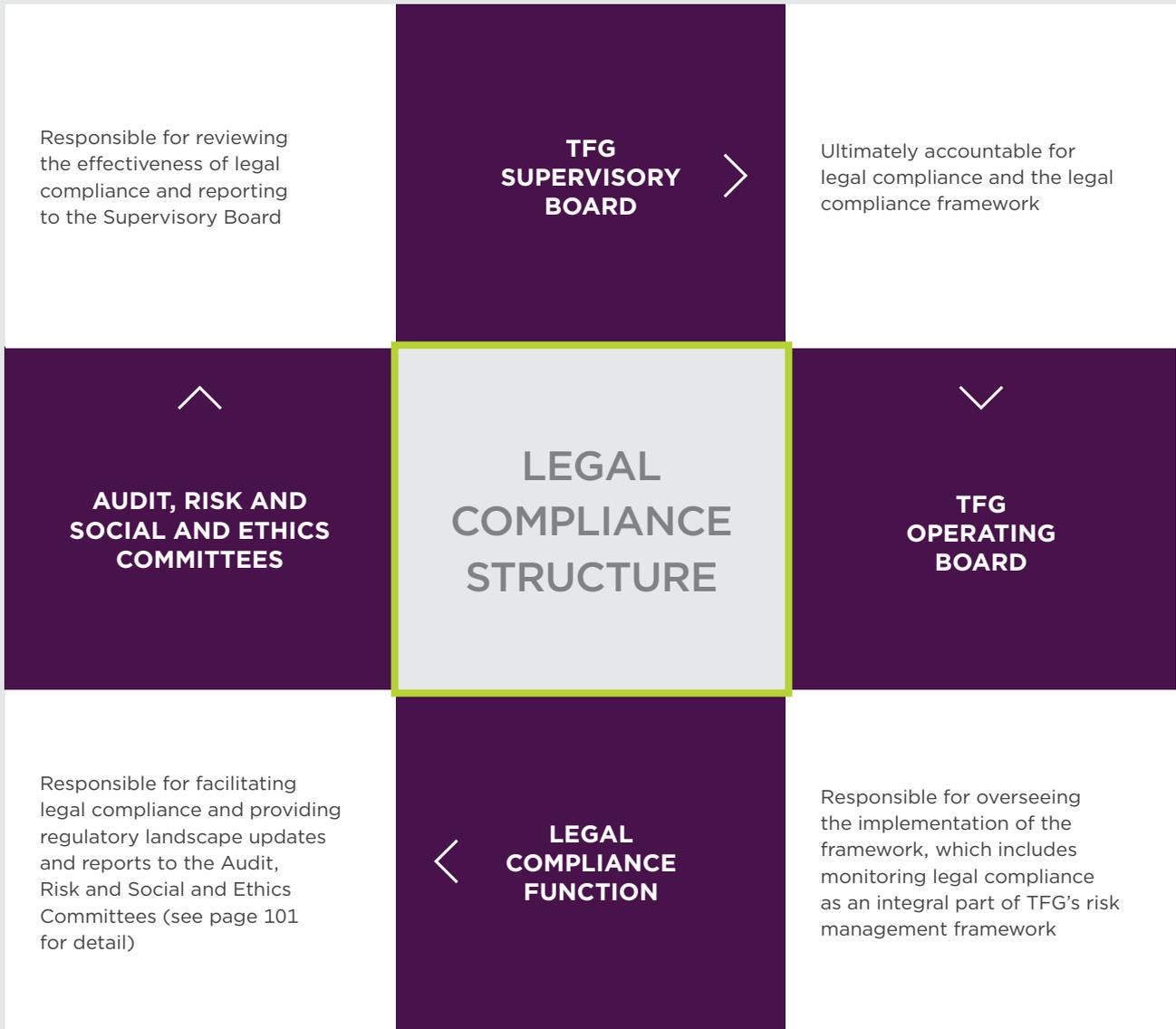
The Group has adopted a zero tolerance approach to fraud, corruption and other forms of crime or dishonesty. During the year, the Group has continued to invest in measures to assist in minimising the number of incidents:

- The Supervisory Board promotes a culture of openness and transparency throughout the organisation in accordance with the Group’s values of trust and mutual respect.

- The Group encourages whistle-blowing through the outsourced Deloitte tip-off anonymous line. A whistle-blowing facility has been in place since February 1998 for the reporting of suspected fraud and unethical behaviour. Reports are submitted to the Group Forensics department for investigation.
- The line is promoted among employees and suppliers.

During the year, 234 reports were received (2016: 141).

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## LEGAL COMPLIANCE

The diagram on the left sets out our legal compliance structure, with ultimate accountability at Supervisory Board level.

The functioning and purpose of the legal compliance function is documented in TFG's Legal Compliance Policy, which is in accordance with chapter 6 of King III and will be revised to be in line with principle 13 in King IV.

The management of legal compliance risk refers to the current and future risk of damage or harm to TFG's business model or objectives, reputation and financial soundness, which arises from not adhering to regulatory requirements.

The responsibilities of the legal compliance function include:

- reporting to the Audit, Risk and Social and Ethics Committees;
- assessing the legal compliance environment of a new country TFG intends to trade in;
- identifying, reviewing and advising TFG on existing, new or draft legislation, including giving recommendations on applicable rules;
- facilitating legal compliance with relevant laws and rules;
- assigning responsibility for areas of legal compliance;
- facilitating legal compliance with internal policies, rules, guidelines and procedures;
- drafting legal compliance risk management plans for key pieces of legislation;
- compiling legal compliance risk registers that form part of the wider risk management process within TFG;
- monitoring legal compliance by the business and reporting on findings to executive and senior management;
- drafting and submitting statutory legal compliance reports to regulators;
- liaising with regulators on regulatory reporting and legislative changes; and
- lobbying policymakers and lawmakers on draft, new or amendments to laws.

During the 2017 financial year, the focus of legal compliance has broadly been on:

- facilitating compliance with amendments to credit legislation;
- attending Parliament, meeting with regulators, policymakers and lawmakers (both in South Africa and elsewhere in Africa) to impact the legislative landscape;
- obtaining regulatory frameworks and rolling out increased regulatory legal compliance measures to stores in African countries and monitoring adherence thereto;
- supplementing store procedures with tools to increase both levels of compliance and access to legal compliance information;
- rolling out legal compliance culture presentations to all trading and service divisions; and
- monitoring legal compliance in call centres, stores and at head office.

The Legal Compliance team has, as part of a more entrenched combined assurance process, either monitored, or assisted and guided senior management to monitor compliance with legislative requirements. Where there are areas of non-compliance, the team meets with senior management to refine or rethink processes to ensure compliance. This includes reviewing or amending training material for employees, assisting quality assurance team members in addressing non-compliance, training employees, which includes rolling out a legal compliance culture presentation, and assisting internal audit with key checklists.

TFG has recently focused on the following new, amended or draft laws or the legislative environment in general:

- South Africa
  - National Credit Act's Affordability Regulations
  - Proposed amendments to the National Credit Act concerning debt relief
  - Numerous financial sector legislative changes affecting TFG's optional customer insurance products
  - Proposed amendments to the Financial Intelligence Centre Act's subordinate legislation
  - Protection of Personal Information Act (partly effective)
- Africa
  - National Equitable Economic Empowerment Bill (Namibia)
  - Consumer Credit Act (Swaziland)

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- Australia
  - Corporations Act
  - Retail Leases Amendment (Review) Bill (New South Wales)
- UK-based operations
  - Brexit-related matters, specifically the EU (Notification of Withdrawal) Act and the possible contents of the Great Repeal Bill
  - Data Protection Act and EU General Data Protection Regulation (not effective)
  - Modern Slavery Act

Of these, TFG will focus on the following in the next financial year (as well as any other legislative developments that may arise and are relevant):

- Proposed amendments to the National Credit Act concerning debt relief
- Financial sector changes affecting TFG's optional customer insurance products
- Proposed amendments to the Financial Intelligence Centre Act's subordinate legislation
- Protection of Personal Information Act (partly effective) and its regulations that are to be drafted
- Brexit-related matters
- Localisation, money laundering and consumer credit legislation in the African countries TFG trades in

### TFG'S COMMITMENTS TO RULES, CODES, STANDARDS, INITIATIVES AND FRAMEWORKS

TFG is affected by, adheres to, or uses as guidance in its operations, non-binding rules, codes, standards, initiatives and frameworks, including:

- Advertising Standards Authority of South Africa - various codes
- Information technology standards and governance frameworks
- Payment Card Industry Data Security Standard
- Europay, Mastercard and Visa Standard for credit and debit payment cards
- Carbon and Water Disclosure Project
- Kimberley Process
- Global Reporting Initiative
- Local procurement policies and initiatives in the African countries TFG trades in

TFG has working groups and project boards in place to ensure that there are impact assessments for significant new laws and amendments. Thereafter, timelines, implementation areas and business owners to implement changes are agreed.

Based on key laws that are effective as at 31 March 2017, there were no material areas of non-compliance.