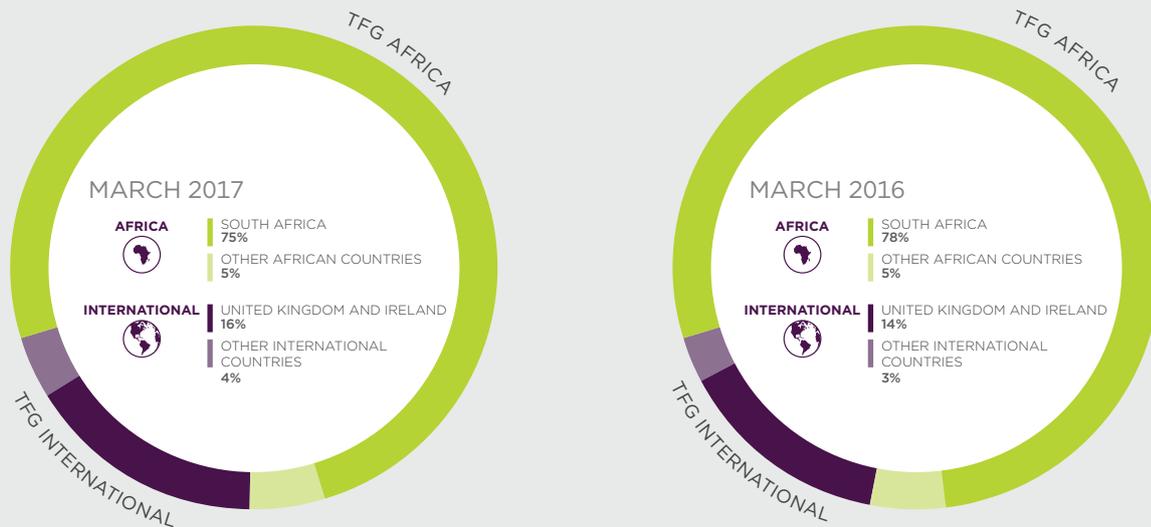


# OUR OPERATING CONTEXT

TFG's operating context is best explained with reference to its geographic spread as illustrated below:

## TURNOVER BY GEOGRAPHIC SPREAD



As indicated above, our exposure is mostly in South Africa, followed by the United Kingdom (England, Scotland, Wales and Ireland). All geographic locations had challenging trading conditions during the year as a result of local and global factors, as well as uncertain economies. The key factors that impacted the Group during the year were:

### Global

- Varying symptoms of economic and political uncertainty were evident across the globe, with defining moments ascribed to president Donald Trump's election in the United States, the United Kingdom's decision to leave the European Union, and elections in the rest of Europe.
- While China is in a gradual slowdown, several emerging markets are dealing with the consequences of lower commodity demands. This has significantly affected growth in many African countries whose economies are commodity driven.
- Diverging views of climate change outcomes are disrupting collective efforts to mitigate risks. This is already evident in unprecedented droughts and flooding and has a direct impact on, for example, food security and inflation, putting pressure on consumers' disposable income.

### FASHION RETAIL INDUSTRY TRENDS\*

- In most economies, weak growth impacts customer spending and leads to accelerated technological innovation as retailers pursue growth and customers search for value and convenience. Consequently, retail formats are changing and on-demand fulfilment is becoming a business qualifier. Customers are seeking new products and experiences as a condition for engagement and loyalty.
- As retail competition intensifies, traditional models are disrupted and the pressure on pricing and margins increases. On the other hand, economic volatility and exchange rate impacts are drivers of product inflation.
- Global fashion trends include a deceleration in watches and jewellery, while athleisure is one of the fastest-growing clothing categories. Other noteworthy trends include genderless fashion offerings and significant growth in the plus-size fashion segment. The responsible consumption trend is also driving launches of environmentally and socially conscious fashion.

\* Source: *The State of Fashion 2017 (The Business of Fashion and McKinsey & Company)*; *Global Powers of Retailing 2017 (Deloitte)*.

## South Africa

**INTEREST  
RATE\***  
**10,5%**  
(March 2016:  
10,5%)

**CPI^**  
**6,1%**  
(March 2016:  
6,3%)

**GDP#  
(DEC 2016)**  
**0,3%**  
(Dec 2015:  
1,3%)

- The political uncertainty in South Africa has ultimately led to the downgrade of South Africa's sovereign rating to sub-investment grade ("junk status") by rating agencies Standard & Poor's, Fitch and Moody's. This has further constrained economic growth and exacerbated high levels of unemployment.
- The upward interest rate cycle from the previous financial year (a total of 125 bps between July 2015 and March 2016) has stabilised and there were no interest rate increases during the current year.
- Although the Rand strengthened against both the GBP and USD currencies during the year, it remains volatile.
- Increased complexity of the regulatory environment and the interpretation thereof has led a to conservative trading approach.
- The implementation of the Affordability Regulations, that became effective towards the end of September 2015, negatively impacted credit turnover across the South African retail industry.

\* Prime lending rate at 31 March (South African Reserve Bank).

^ Annual headline consumer price inflation (Statistics South Africa).

# Gross domestic product - growth rate based on constant 2010 prices, seasonally adjusted and annualised (Statistics South Africa).

## United Kingdom

**INTEREST  
RATE\*\***  
**0,25%**  
(March 2016:  
0,5%)

**CPI^^**  
**2,3%**  
(March 2016:  
0,5%)

**GDP##  
(DEC 2016)**  
**1,8%**  
(Dec 2015:  
2,2%)

- The political and economic uncertainty relating to the outcome and impact of Brexit negotiations remains a factor in the UK economy.
- The interest rate reduced from 0,5% to 0,25% during August 2016. Although this rate is likely to remain flat in the short term, the higher inflation currently being experienced could result in a rate hike.
- The Pound remains weak and volatile compared to its pre-Brexit levels.
- The increased complexity of the UK regulatory environment and the interpretation thereof has led to a conservative trading approach.
- Rapid swing towards online shopping within the United Kingdom in particular.

\*\* Official bank rate (Bank of England).

^^ Annual consumer price inflation (House of Commons Library).

## Real gross domestic product, seasonally adjusted, percentage change on year (House of Commons Library).

## Our response

- We continue to invest in our Rewards & More loyalty programme, which is aimed at stimulating cash and credit sales in TFG Africa.
- Our diversification across cash and credit turnover, geography, portfolio of brands and merchandise categories positions us well for future growth.
- Our investment in group analytics provides direct input into optimising strategies for our TFG Africa retail trading divisions. Further information on the benefit of the Group Analytics team is provided in the Performance review: Credit on page 80.
- We expand and enhance our customers' omnichannel experience in South Africa and the United Kingdom.
- We enhance existing customer value-added products and expand the portfolio to ensure we continue to meet our changing customer needs.

To provide further context for our operating environment, Our corporate profile on page 14 gives a breakdown of our exposure in terms of merchandise categories, cash and credit turnover and capital market exposure.

