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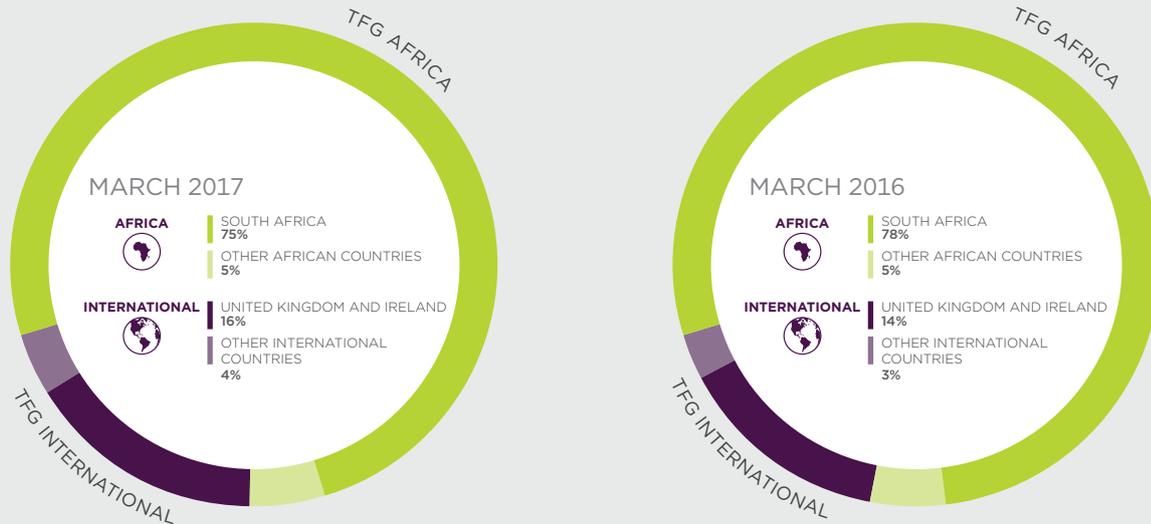


OUR OPERATING ENVIRONMENT

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.



OUR MATERIAL MATTERS

TFG's material matters are a combination of risks, opportunities and issues that can, directly or indirectly, affect the Group's ability to create sustainable value in the short, medium and long term.

With our expanding footprint and changing dynamics in our external operating environment, we casted a wider net among our business units for input into the material matters, following an externally facilitated workshop with key internal stakeholders. This included revisiting our previously identified material matters and running two further workshops with a range of specialists and senior managers, including TFG International.

As a result of these workshops, the material matters below were identified as most relevant to the 2017 financial year and these were evaluated against our strategic risk register.

Matters were identified using the <IR> Framework's process guidance and apply to both TFG Africa and TFG International, albeit with different levels of likelihood and impact. The material matters, set out below, are grouped according to their nature and indicate the following:

- an increasing or constant level of likelihood and impact; and
- the applicable term for the material matter.

OPERATIONAL

FINANCIAL LOSS DUE TO CRIME AND SHRINKAGE

TREND



TERM*

S - M

Retailers over the world battle with continued high levels of crime. South African retailers in particular battle with shoplifting, burglaries and armed robbery. These are operational security challenges, mainly at store and warehouse level, and are best managed through a culture of zero tolerance and high awareness among employees.



Read more about our risk management response to this material matter in the Risk Committee report on page 116.

EXCHANGE RATE VOLATILITY

TREND



TERM*

S - M

Exchange rate volatility has a significant impact on profitability for TFG and affordability for customers. The global financial instability therefore impacts purchasing power and could limit our ability to remain price competitive. The geographic diversification of revenue streams, currencies and supply chain initiatives assist in mitigating this. Our policy in respect of purchasing forward cover is reviewed regularly to ensure it remains relevant and provides the best possible protection against currency fluctuations for committed and future orders.



Read more about the impact of a volatile exchange rate in the Chief Financial Officer's report on page 58.

STRATEGIC

UNCERTAINTY OF ECONOMIC AND POLITICAL CLIMATE

TREND



TERM*

M - L

TFG is predominantly exposed to uncertain and, at times, unstable economic and political environments in South Africa and the United Kingdom. This typically results in constrained growth and, in the case of South Africa, consumers are facing rising debt costs following the country's sovereign downgrade. A stagnant economic climate negatively affects TFG's customers' purchasing power and influences their ability to settle accounts.

Brexit and acts of terrorism impacted investor confidence in Europe while youth unemployment and social inequality remain concerning in South Africa as the country prepares for elections in 2019. These factors all impact interest rates, inflation and our ability to raise and afford capital.



Read more about our operating environment as context to this material matter on page 46.

FASHION TRENDS AND SUPPLY CHAIN

TREND



TERM*

S - M

As we aspire to be the leading fashion lifestyle retailer in Africa whilst growing our international footprint, our ability to offer, predict and deliver according to the latest trends is essential for value creation. Our fashion-forward brands are premised on our market-leading in-house capabilities in clothing and store design. Our ability to generate profits furthermore relies on being able to quickly interpret fashion trends - supported by a quick response capability in our supply chain. This is increasingly enabled by localisation, further supported by our local supply chain division TFG Design which includes our Prestige clothing factories in Maitland and Caledon.



Read more about quick response, localisation and our supply chain in the online Sustainability overview report.

* S - M (short to medium term) and M - L (medium to long term).

OUR MATERIAL MATTERS CONTINUED

STRATEGIC CONTINUED

GROWTH ACROSS OUR VARIOUS MARKETS AND CHANNELS

TREND

TERM*

M - L

Growing our international footprint and delivering an integrated, secure omnichannel customer experience across our various brands are all strategic objectives for TFG. Changing retail trends demand that we are flexible in the ways in which we engage with our customers, and that we are able to meet their expectation of positive experience and value. Group turnover increased by 11,6% since 2016, which is an indication of healthy growth.



Read more about growth and performance in the Chief Executive Officer's report on page 54.

TALENT MANAGEMENT: ATTRACTING, RETAINING AND DEVELOPING KEY TALENT

TREND

TERM*

S - M

We realise that our ability to create value depends on our people. The Group has to retain and develop its core and critical skills pool, but also has to attract the best talent in the industry. The South African-specific imperative is to ensure that we attract and retain employment equity candidates through the TFG culture and employee benefit offering.

The highly competitive retail market requires a strong focus on talent management, which includes talent acquisition by way of proactively identifying future incumbents for leadership positions in the pipeline, and talent development programmes developing our future leaders.



Read more about talent management in Our people on page 38 and in the leadership section in the Strategy performance review on page 68.

REGULATORY

COMPLEXITY OF THE REGULATORY ENVIRONMENT

TREND



TERM*

M - L

The regulatory environments we operate in is becoming increasingly complex and costly, which heightens the compliance and risk profiles for the Group. We have to understand, interpret and apply differing regulatory requirements in multiple jurisdictions.

We recognise that non-compliance can lead to fines, business interruption, financial loss and reputational damage.



Read more about legal compliance in the Corporate governance report on page 92.

* S - M (short to medium term) and M - L (medium to long term).