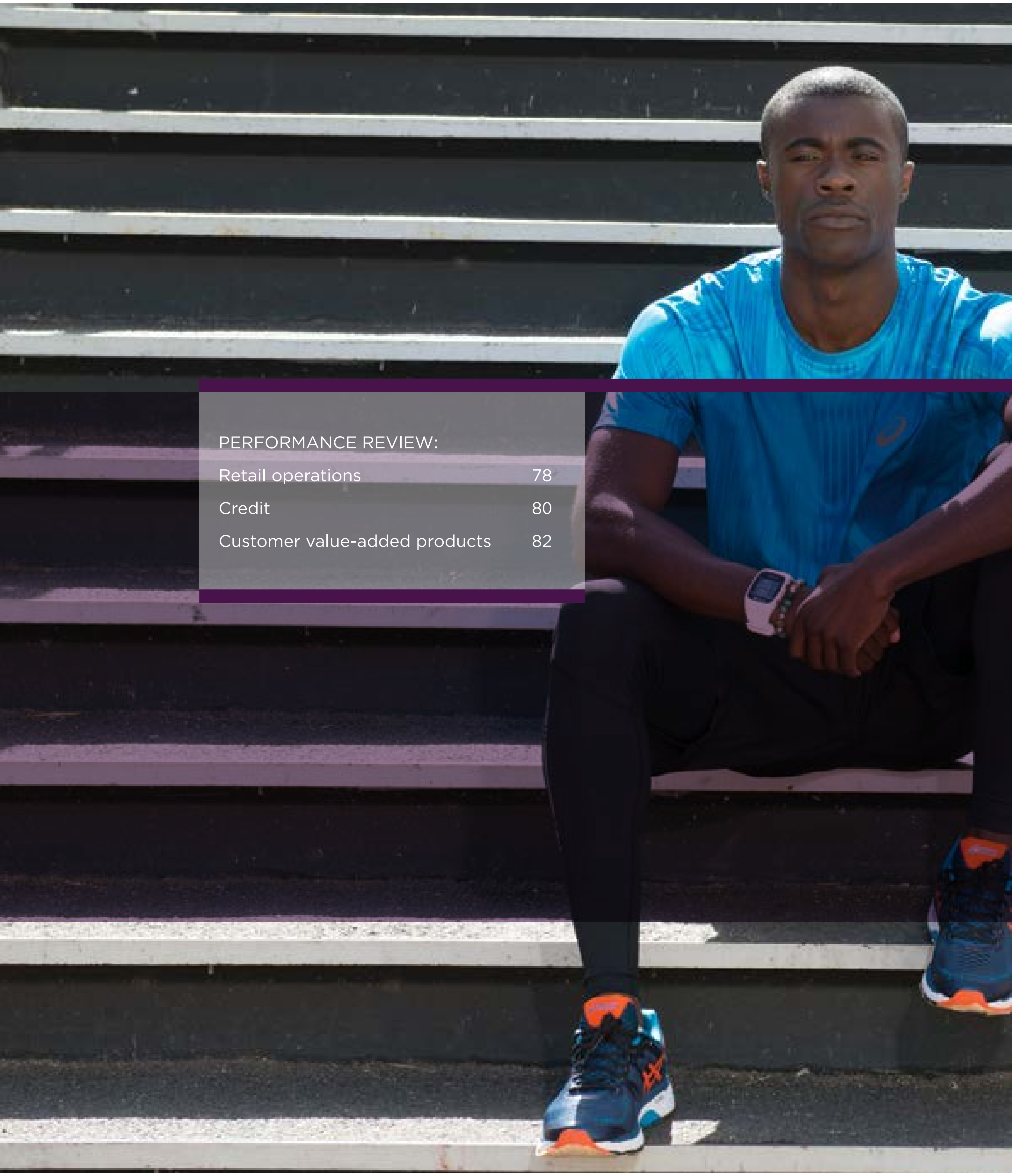
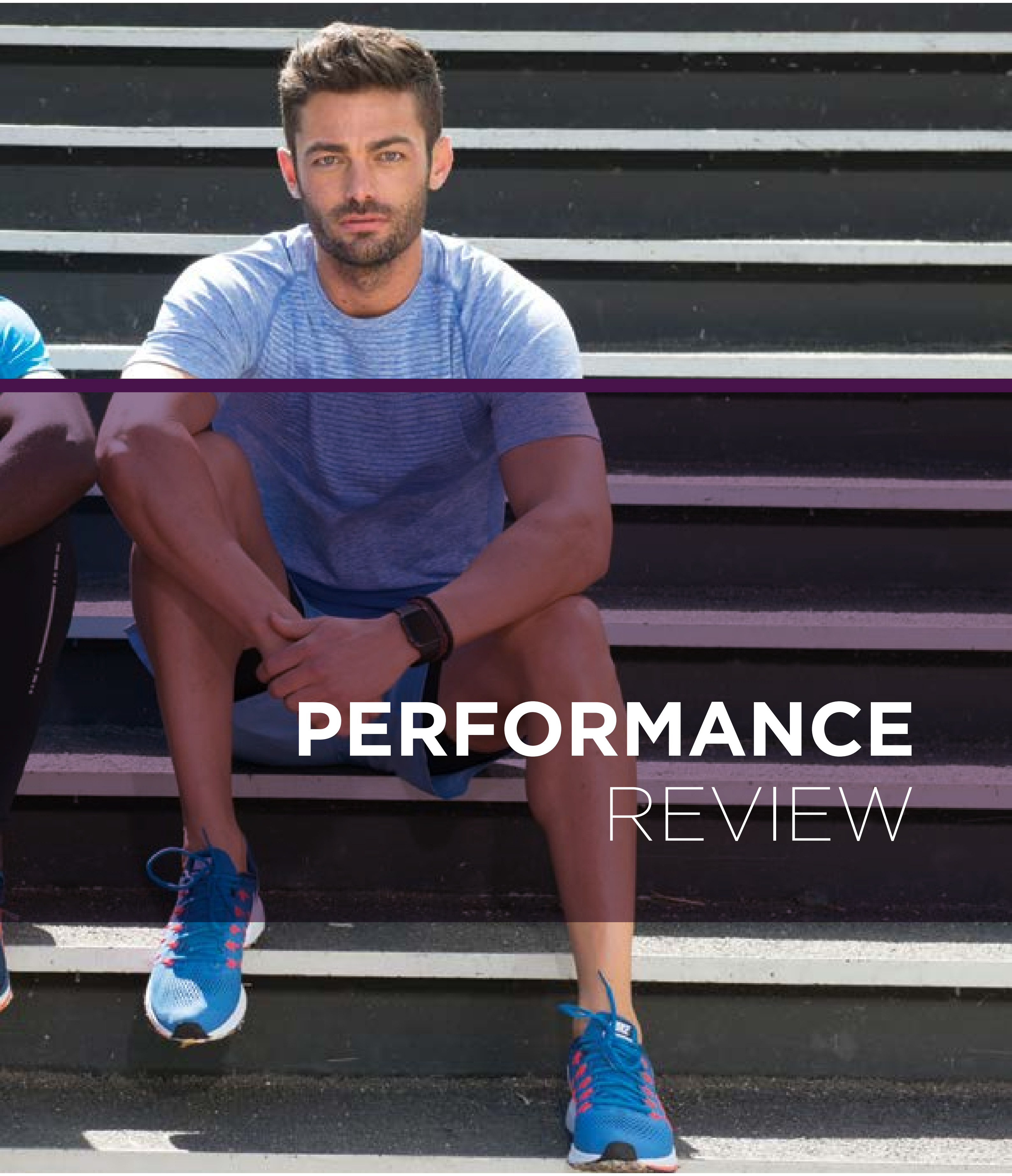


PERFORMANCE REVIEW:



PERFORMANCE REVIEW

PERFORMANCE REVIEW
RETAIL OPERATIONS

Retail highlights

Our footprint continues to expand with RAG in Australia being the latest addition to the brand portfolio post year end. Whereas the traditional TFG business was primarily based in South Africa with a growing African footprint, the geographic reach of the business now extends to many territories outside of the African continent (in developed and emerging market economies).

Between TFG Africa and TFG International, we now have 3 328 outlets in 34 countries with an increasing number of brands selling online.

The turnover contribution from TFG International (including online and outlets) increased to 19,7% as Whistles made its first full-year contribution (acquired in March 2016).

Performance overview

We achieved overall retail turnover growth of 11,6% (14,3% in constant currency) in a year characterised by uncertain economic and political conditions in most of our trading markets. A strength of the Group is the diversification across different merchandise categories, resulting in no major dependency on any particular category.

The merchandise category contributions to turnover remained broadly in line with 2016. Cellphones (8,2% vs 7,9%); clothing and footwear from the Sport division (20,4% vs 18,8%) and clothing and footwear from TFG International (19,7% vs 17,1%) had the most notable movements in contribution.

Clothing delivered a strong overall performance with growth of 13,3%. This merchandise category remains dominated by the TFG Africa contribution (73%) where consumer spending remained under pressure and was impacted by difficult credit conditions as a result of the Affordability Regulations.

Jewellery continued to be a difficult retail area but showed positive turnover growth of 1,4%.

Cellphones showed strong growth of 15,3% due to a market-relevant product range. As indicated above, the category's overall contribution also increased, which negatively impacted the gross margin in TFG Africa as a result of the change in product mix.

Turnover growth of 5,9% in homeware and furniture was limited by discounting in the market, with cosmetics under similar pressure with growth of 2,3%.

Cash represented 60,7% of total turnover compared to 57,2% in 2016. Credit turnover growth of only 2,3% (2016: 5,9%) was achieved due to the impact of the Affordability Regulations on our ability to open new accounts. TFG Africa's cash turnover growth was particularly strong in the first half of the financial year, with the second half affected by a slowdown after the festive season combined with the shift in Easter weekend and the March school holiday.

Turnover by merchandise category performance

CLOTHING TURNOVER GROWTH	JEWELLERY TURNOVER GROWTH	CELLPHONES TURNOVER GROWTH	HOMEWARE AND FURNITURE TURNOVER GROWTH	COSMETICS TURNOVER GROWTH
13,3%	1,4%	15,3%	5,9%	2,3%

Group turnover by merchandise category	2017 Rm	2016 Rm	% GROWTH	% SAME STORE TURNOVER GROWTH (TFG AFRICA)
Clothing	**17 578,7**	15 517,8	13,3	3,0
Jewellery	**1 490,5**	1 470,5	1,4	(0,8)
Cellphones	**1 927,7**	1 672,2	15,3	11,4
Homeware and furniture	**1 434,0**	1 354,0	5,9	(3,2)
Cosmetics	**1 117,8**	1 093,0	2,3	–
Total	**23 548,7**	21 107,5	11,6	2,8

Future focus

01

The Damsel in a Dress, G-Star Australia and RAG acquisitions will drive the geographic diversification of future turnover contribution. RAG has established stores and online channels, providing a strong platform for the expansion of TFG's brands into Australasia. This will provide further earnings and currency hedge while expanding our position in this market.

02

With the negative impact of the credit regulations in our base, we anticipate stronger credit turnover growth in the next year off a low base while still retaining momentum in cash turnover growth.

03

We will continue our focus on supply chain initiatives, including supplier relationships and the optimisation of markdown, to enhance our gross margin across all merchandise categories.

04

Our current year efforts in respect of working capital management and capital allocation will continue in order to further optimise working capital levels throughout the business and to ensure disciplined capital allocation in relation to outlets and projects.

PERFORMANCE REVIEW CREDIT

AFRICA

Credit highlights

During the year under review, the South African economy and credit environment were characterised by significant challenges. The changes to credit legislation implemented during the previous year continued to impact the Group in the year under review with the implementation of the Affordability Regulations leading to a significant reduction in new credit origination. In spite of a flat interest rate environment, lower levels of investment and employment opportunities coupled with stubborn inflationary growth have continued to exert pressure on credit consumers.

The economies in other African countries where credit is offered have reflected differing levels of growth and opportunity. In spite of generally strong growth and the level of credit granted not being impacted by economic or political challenges in the relevant geographies, we still see a cautious approach to expansion in Africa and the continued adoption of conservative lending policies in this regard.

In spite of a challenging macroeconomic arena, and the market constraints generated through regulations, our credit business has continued to perform with resilience premised on appropriate, prudent and deliberate credit strategies, leading to sustained improvements in the quality of our portfolio. The construct of our debtors' book experienced significant improvement, reflecting our improved collections performance over the past few years. A focus on operational excellence and efficiency, has delivered sustainably lower expense levels.

Performance overview

The growth in interest income of 12,8% (2016: 12,9%) is based on a net book growth of 4,6% and the compound effect of interest rate increases in the prior financial year. The repo rate increased by 125 bps over the course of the prior financial year, increasing the average nominal rate in South Africa to 25,2% (2016: 23,3%). The interest yield on the portfolio increased to 21,7% (2016: 20,4%).

Net bad debt has contracted by 5,4% (2016: -7,4%), which is an impressive result. This is primarily due to a slower growth of gross write-offs, and sustained improvements in yields from post-write-off recoveries. Improvements in the effectiveness of collections as well as recoveries continue to be driven through data-enabled strategies. The effect of these strategies on the quality of our debtors' book has become evident over the past year and is reflected in the improved overall quality of the portfolio. Write-off, provisioning and re-age/restructure policies remain consistent with prior years.

Credit costs decreased by 2,9% (2016: 10,2% increase). This improvement has been achieved following increased efficiency enabled through our continued efforts in running an optimised workforce that is more flexible and appropriate for our business needs. There has been an unrelenting focus on operational excellence and, in particular, continued customer-facing process improvements. We have invested in the implementation of advanced, state-of-the-art decision-informing software to enable optimal risk assessment and credit allocation at the point of account origination. We believe this offers us a distinct competitive advantage at the point of customer interface.

Fraud incidences related to account origination as well as the level of disputed transactions remain below targeted levels and continue to reflect improvement on prior years.

We have continued to focus on and invest in the evolution of our Group Analytics team to employ data analytics and insights to improve and enhance commercial decision-making across the TFG Group. Our group analytics capability is maturing and is providing input into customer profiling from an engagement perspective, which optimises store stock allocations and size and range purchase strategies.

Credit performance

INTEREST INCOME
R1 703,8m
(2016: R1 510,7m)
12,8% CHANGE

NET BAD DEBT
R896,1m
(2016: R947,7m)
(5,4%) CHANGE

CREDIT COST
R235,8m
(2016: R242,9m)
(2,9%) CHANGE

PROFIT BEFORE TAX
R571,9m
(2016: R320,1m)
78,7% CHANGE

New regulations prescribing the affordability assessment that has to be undertaken when a consumer applies for credit continue to have an impact on the business and put pressure on new account opening volumes. Consumers who are informally employed and who could not provide acceptable proof of income (as per the regulations) were, as a consequence, denied credit. Account closures and write-offs still exceed the rate at which new accounts are opened, resulting in a reduction in overall account volumes.

As a result, the overall active account base contracted by 5,4% (2016: -4,4%).

Key credit statistics	2017	2016	↑/↓
Number of active accounts ('000)	**2 422,8**	2 560,7	↓
Credit sales as a percentage of total retail sales (TFG Africa) (%)	**48,9**	51,7	↓
Net debtors' book (Rm)	**7 000,7**	6 695,0	↑
Overdue value as a percentage of debtors' book (%)	**13,9**	14,0	↓
Net bad debt write-off as a percentage of credit transactions (%)	**8,2**	8,0	↑
Net bad debt write-off as a percentage of debtors' book (%)	**13,9**	13,4	↑
Net bad debt as a percentage of debtors' book (%)	**11,3**	12,3	↓
Doubtful debts provision as a percentage of debtors' book (%)	**11,8**	13,2	↓
Provision value (Rm)	**936,2**	1 015,0	↓
Percentage able to purchase (%)	**81,8**	81,0	↑

Future focus

01

We will increase our focus on customer experience and service and, in particular, the ease and convenience of account origination and activation in support of the Customer strategic pillar. Aligned with this will be an accelerated deployment of our digital application channel. This channel enables customers to apply for an account online and has an emphasis on fulfilment and sustained engagement to reduce account closures.

02

Given our ability to sustain the improvement in our collection and recoveries results, the quality of our existing debtors' book and improvements in our ability to use data and analytics when opening new accounts, we will look to test alternative account acquisition strategies, including the more extensive use of third-party origination channels. This will enable us to grow our credit sales in a responsible and sustainable manner.

03

We have engaged with the regulator concerning future potential regulatory changes relating to debt forgiveness. TFG remains committed to assisting customers in the interests of sustainable relationships where a mutually beneficial opportunity exists. The regulator has initiated proposals for an increase in their executive administrative powers.

04

Accelerating our investment in group analytics is critical to assist the Credit division and to provide direct input into optimising strategies for the retail trading divisions. This investment will provide returns through stock allocation optimisation and a more informed view of customer preferences. This will inform an increased understanding of customer behaviour over an extended period.

05

Significant resources are being invested to understand the impact of and to prepare us for the implementation of IFRS 9. IFRS 9 is the new standard in respect of impairment of financial assets that replaces IAS 39 and is required to be implemented for all financial years starting on or after 1 January 2018. The principal difference between the standards is that IFRS 9 will be based on an "expected loss" principle while IAS 39 was premised on an "incurred loss" principle where provisions are raised in respect of all trade receivables even before there is any objective evidence of impairment and where there are restrictions on the recognition of revenue in respect of impaired assets. The adoption of IFRS 9 is broadly expected to impact negatively on impairment provisions and revenue.

PERFORMANCE REVIEW CUSTOMER VALUE-ADDED PRODUCTS

AFRICA

Customer value-added products highlights

TFG remains the biggest publisher of monthly magazines in South Africa. The publishing portfolio increased to 15 titles with an average of approximately 1,5 million subscriptions billed monthly. The portfolio is segmented into lifestyle offerings covering the interests of men, women, children, the youth and family. Our publishing categories include cooking, motor, sports, fitness, technology, décor, fashion and travel.

The insurance portfolio, which offers long-term and short-term insurance products mainly to account holders, repositioned and enhanced existing products to meet changing consumer needs. An enhanced TFG retrenchment plan and a fraud alert offering were launched, increasing the portfolio to 15 insurance products.

The One2One (O2O) portfolio, which provides airtime and data contracts to existing account holders via the telemarketing channel, achieved positive growth amid fierce competition.

Performance overview

Publishing portfolio
The past year proved challenging, characterised by difficult macroeconomic conditions coupled with the impact of the new Affordability Regulations. This continued to limit growth in new accounts, with an adverse effect on the size of the account base available as a market for value-added products. Currently, most of the customer value-added products are offered to credit account holders.

The consumption of media across a variety of digital platforms remains a challenge for the publishing industry as advertisers shift their allocation of advertising spend to keep up with consumer media consumption trends. Consumers are also becoming more selective in their spending.

Our efforts to launch new products and activate new sales channels assisted in stabilising the performance of the portfolio. Net income achieved for the year was R180,6 million, down slightly from last year.

The *FitLife* magazine, which was launched in the second half of the year, exceeded expectations with a subscription base of approximately 21 500. An agreement was reached with Caxton magazines whereby the publishing portfolio onsells *Bona* magazine. The TFG subscription base for this magazine is now approximately 16 500. *Motor* magazine subscriptions continue to grow strongly with the latest count being approximately 42 000.

Balanced Life, *Sports Club*, *Soccer Club*, *MyKitchen*, *Kids SuperClub*, *ClubX* and *Tech* magazines remain category leaders in Audit Bureau of Circulations' (ABC) figures.

Production and distribution costs continued to be adversely impacted by volatile exchange rates. The third quarter of the year saw the introduction of a 360 strategy whereby print is supported by a strong digital and social media presence. The strategy is starting to deliver early positive results, particularly through the generation of significant advertising revenue.

Customer value-added product performance

PUBLISHING NET INCOME
R180,6m
(2016: R182,1m)
(0,8%) CHANGE

INSURANCE NET INCOME
R196,0m
(2016: R198,1m)
(1,1%) CHANGE

ONE2ONE (O2O) NET INCOME
R67,4m
(2016: R57,4m)
17,4% CHANGE

TOTAL NET INCOME
R444,0m
(2016: R437,6m)
1,5% CHANGE

NUMBER OF NEW PRODUCT/SERVICE LAUNCHES
4
(2016: 3)

Late in 2016, the portfolio concluded agreements on the distribution of some of its magazine titles via external retailers. The benefits of this strategy will only be evident in the new financial year.

Insurance portfolio

As was the case with the publishing portfolio, challenging macroeconomic conditions, coupled with the negative impact on the volume of new accounts due to the Affordability Regulations, added significant pressure on performance. Net income for the year at R196,0 million was down 1,1% from the previous year.

The insurance portfolio experienced good growth in policy billings following the opening of a new outsourced sales channel. Where appropriate, existing products were repositioned from a value proposition point of view to better meet market demand.

O2O portfolio

The portfolio saw growth of 17,4% in net income, largely due to changes in the business model and the introduction of a more relevant value proposition in the form of bundled products. We successfully launched a bundled product offering that includes airtime, cellphone and insurance options.

New sales strategies in the telemarketing centre contributed to growth in an industry that continues to face significant competition with the major networks competing on price and putting pressure on margins.

Future focus

01

The publishing portfolio is evolving from a traditional print publishing model to a more comprehensive media model. Signs of additional revenue growth followed the launch of the 360 strategy. The new value proposition will be augmented with the portfolio's digital initiatives, which support TFG's e-commerce strategy.

02

Following the successful launches of *Bona* (Caxton magazines) and *SARugby* (Highbury Media) magazines, we will consider similar strategic partnerships with third parties in the next year.

03

The insurance portfolio continues to operate in an industry where the regulatory environment changes and evolves, with a myriad of new requirements to be implemented in the next two years. We will remain vigilant with regard to compliance and will be on the lookout for opportunities arising from any market disruption.

04

The launch of insurance products into the cash market is planned for 2017 following a delay in a new system implementation. The portfolio will be launching new products while extending current products to include family and spousal benefits. We are also considering third-party strategic partnerships, particularly where the third party is able to contribute unique product, service or supply chain competencies to the value proposition.

05

For the O2O portfolio, the challenge remains ensuring a differentiated value proposition in an uncertain economic climate.

06

The O2O portfolio will focus on leveraging the TFG stores environment, including *hi* stores as sales channels. We are also researching the possibility of launching additional value-added services.