Cha**IRMAN’S REPORT**

The financial year under review has witnessed significant developments in our group. There was continued and substantial investment in South Africa and Africa, new brands were added, further progress in respect to the integration of Phase Eight was made, and Whistles, a contemporary fashion brand based in the UK, was acquired. In addition, our omnichannel continued its successful roll-out.

Against this backdrop, I am pleased to introduce our 2016 integrated annual report.

**INTEGRATED REPORTING**

We seek to continually improve our integrated reporting and, with this in mind, made some refinements to the structure of this year’s report. Our integrated report presents a holistic view of the group, its operations and the broader societal matters that impact our business. We strive to communicate through our report all the factors that materially affect our ability to create value for all our stakeholders over time.

We believe we provided sufficient context in our report to enable our stakeholders to understand the key socio-economic, governance and environmental trends that may affect the group and to appreciate, from a balanced perspective, the impact of our operations on the resources and relationships we rely on in order to create value for our stakeholders.

In reading the report, I would like to draw your attention to the fact that, while the geographical spread of our operations is far broader than in previous years, the commentary in this report remains focused on the African (and in particular South African) operating environment as this continues to be the most significant geographical region for the group. Furthermore, certain products and services such as credit and customer value-added products are not available internationally. Certain key performance indicators such as Broad-based Black Economic Empowerment (BBBEE) targets and sustainability initiatives like local supply chain development are also unique to our South African operating environment. To assist the reader, we will make use of the following icon to identify report content that pertains only to our African operations. This has also been included in the navigational icons on the previous page.

**ECONOMY AND OPERATING ENVIRONMENT**

The economic environment during the past financial year proved most challenging. The global economic outlook remained uncertain, dominated by many factors including the outcome of the British referendum and concerns about the Chinese economy, with their impact on global growth, commodity prices and currencies.

The domestic economy likewise faced headwinds. The outlook for consumer spending remains weak as consumers face rising inflation, interest rate hikes and high unemployment rates. As a result, consumer confidence is
THE BOARD BELIEVES THAT THE STRATEGIC INITIATIVES UNDERTAKEN OVER THE LAST TWO YEARS POSITION THE GROUP WELL TO DELIVER INCREASED SHAREHOLDER VALUE OVER THE MEDIUM TO LONG TERM.

MICHAEL LEWIS
CHAIRMAN

at low levels. Of further concern is the political uncertainty in South Africa and the related volatility of the Rand. The outlook for the South African economy weakened with the Bureau for Economic Research (BER) projecting gross domestic product (GDP) growth for the 2016 calendar year of 0,4%. In addition, the expectation is that inflation will remain outside the 4% - 6% target range for some time.

PERFORMANCE OVERVIEW OF THE YEAR
The economic conditions referred to above provided a challenging trading environment during the past year. Despite this, our group performed well and produced a strong result with growth in adjusted headline earnings per share from continuing operations of 17,6%. Our turnover grew by 31,2% to R21,1 billion, which included turnover growth of 11,6% from our African operations.

The board is pleased with the performance of the group during the year and the progress that was made with our various strategic initiatives. Further details on our strategy and performance are provided in our Chief Executive Officer’s report on page 44, while our detailed financial performance is discussed in our Chief Financial Officer’s report on page 50.

VALUE CREATION
While value creation relates to all our stakeholder groupings, our shareholders are the primary group at which this report is aimed. We achieved shareholder value creation through the following:

• Ongoing focus on key strategic objectives, which enabled the group to produce earnings growth well in excess of that suggested by the current economic climate (5-year CAGR in HEPS of 14,5% against GDP growth in the same period of 2,1%), through:
  - our growth strategy that encompasses both organic growth and acquisitions that supported a healthy top-line growth and was assisted by investment in our customer Rewards programme in South Africa;
  - strict margin management and focus on local manufacturing that ensured the effect of exchange rate volatility on margin was curbed; and
  - a focus on cost control, while not forsaking investment required to support future expansion.
• Key strategic decisions over the last few years, which fundamentally shifted the business from being purely South African based (albeit with an expanding African footprint) with an independent financial services business (in the form of the RCS Group) to a more focused retail business with a far broader geographical spread. In so doing:
  - the understanding of our business by investors as a purely retail business rather than a combination of retail and financial services improved;
  - the business diversified in terms of geographical spread, market segment (Phase Eight appeals to the upper market segment) and cash sales contribution; and
  - the group, through the Phase Eight business, created a platform for further international expansion, a good example of which is the recent bolt on acquisition of Whistles.

The board believes that the strategic initiatives undertaken over the last two years position the group well to deliver increased shareholder value over the medium to long term.

GOVERNANCE AND LEADERSHIP
TFG remains committed to high standards of corporate governance, with accountability and transparency being key guiding principles in all decision-making. As is outlined more fully in the corporate governance report, management and the board continue to be guided by the principles contained in the King III code and the Listings Requirements of the Johannesburg Stock Exchange (JSE). Our detailed compliance with the King III principles is available on our website and we remain abreast of developments in relation to the draft King IV.

In addition to its usual oversight of governance, the board placed particular focus this year on the integration of Phase Eight. While good progress was made, this will continue to receive focus next year as the Whistles operations are fully integrated.

As announced on SENS, we appointed Graham Davin as an independent non-executive director effective from 5 November 2015. Graham has extensive international financial and broad business experience. We believe this experience will be particularly useful given the expanded geographical footprint of our business. We welcome him to the board and look forward to his contribution.

I would also like to take this opportunity to thank Dee Sheard, our previous Company Secretary, for her contribution to our group and the key role she played over many years. As was announced on SENS, Dee resigned as Company Secretary with effect from 22 May 2016 and Darwin van Rooyen has been appointed in this role from 23 May 2016.

PROSPECTS
It gives me great pleasure to note that this year marks the 75th year of TFG trading on the JSE. The business has weathered many storms in its history and despite the muted growth prospects for the South African economy in the year ahead, the board is firmly of the view that the group is well-poised for success in the future, with clear strategies in place under the direction of sound leadership.

APPRECIATION
On behalf of the board I would like to thank:

• Doug Murray for his outstanding leadership of the group during the year;
• the senior executive team members for their skilled and professional management;
• all our employees for their excellent performance, commitment and hard work during the year;
• our customers for their continued loyal support;
• our shareholders for their support and confidence in the future of the group;
• our suppliers, advisors and business associates for their contribution to the growth of the business; and
• my fellow directors for their insight, guidance and valuable input.

Michael Lewis
Chairman
29 June 2016