



2017

Application of
King III Corporate
Governance
Principles

W E A R E

TRUWORTHS

INTERNATIONAL

APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2017

This table is a useful reference to each of the King III principles and how, in broad terms, they have been applied by the Group. The information should be read in conjunction with the narrative on the application of these principles, as contained in the Annual Corporate Governance Report 2017 available on www.truworths.co.za/investors.

Item number	King III reference	King III principle	Application of principle
	1	Ethical leadership and corporate citizenship	
1	1.1	The board should provide effective leadership based on an ethical foundation.	The board directs the Group's activities with integrity, by the tone it sets through its actions, decisions, policies and codes, the culture it instils and the example of its directors, thereby demonstrating transparency, accountability, fairness, honesty and responsiveness to stakeholders.
2	1.2	The board should ensure that the company is and is seen to be a responsible corporate citizen.	The board ensures through its Social and Ethics Committee that the Group conducts its affairs in a manner that takes into account the realistic expectations of its stakeholders, and is sensitive to the Group's social, economic and environmental impacts, and ensures that it reports on its material initiatives in this regard in its Integrated Report.
3	1.3	The board should ensure that the company's ethics are managed effectively.	The board has endorsed the code of ethics, business philosophy, ethical values, codes of conduct and disciplinary policies developed by management, and monitors the application and effectiveness thereof through the Social and Ethics Committee.
	2	Boards and directors	
4	2.1	The board should act as the focal point for and custodian of corporate governance.	The board's charter records the board's responsibility for good corporate governance by the Group. The board seeks to practise good corporate governance through its structures, actions and reporting, and the board monitors governance policies and practices in the Group through the Social and Ethics Committee.
5	2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable.	The board understands and executive management appreciates that the Group's strategy, risk, performance and sustainability are interrelated, and ensures that the Group's activities are designed, managed and reported on in an integrated manner.
6	2.3	The board should provide effective leadership based on an ethical foundation.	The board directs the Group's activities with integrity, through its decisions, policies and codes and the example of its directors, demonstrating transparency, accountability, fairness and honesty.
7	2.4	The board should ensure that the company is and is seen to be a responsible corporate citizen.	The board ensures through its Social and Ethics Committee that the Group conducts its affairs in a manner that takes into account the realistic expectations of its stakeholders, and is sensitive to the Group's social and environmental impacts.
8	2.5	The board should ensure that the company's ethics are managed effectively.	The board has endorsed the code of ethics and business philosophy developed by management, and monitors the application and effectiveness thereof through the Social and Ethics Committee.
9	2.6	The board should ensure that the company has an effective and independent Audit Committee.	The board has in place an Audit Committee whose responsibilities are documented in a written charter, whose members are strongly financially literate and constitute independent non-executive directors, whose Chairman is not the Chairman of the board and whose activities, observations and recommendations are reported in writing to the board.
10	2.7	The board should be responsible for the governance of risk.	The board's charter records that it is responsible for risk governance, and the standard agenda items for its meetings include the consideration of the report of the Chairman of the Risk Committee and the Board Risk Status Report.
11	2.8	The board should be responsible for information technology (IT) governance.	The board's charter records that it is responsible for information technology governance, and the standard agenda items for its meetings include the consideration of the reports of the Chairmen of the Risk Committee and of the Audit Committee, which monitor the Group's information technology governance and the Board Risk Status Report.
12	2.9	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	The board is made aware of laws applicable to the Group via presentations made by the Company Secretary at board meetings, has tasked the Internal Audit department to conduct an annual assessment of the Group's compliance with such laws, encourages management to adopt non-binding rules and codes, and monitors Group performance in this regard.
13	2.10	The board should ensure that there is an effective risk-based Internal Audit.	The board, through its Audit Committee, promotes the standing and value of the Group's Internal Audit department, assesses the adequacy of its resources and the effectiveness of its work and engages with management to ensure audit plans are risk based and achieve appropriate coverage of all Group processes, controls and activities.
14	2.11	The board should appreciate that stakeholders' perceptions affect the company's reputation.	The board is sensitive to the fact that the Group's reputation is most important and encourages management to engage meaningfully and frequently with the Group's stakeholders, through a variety of forums and channels, to ensure that negative perceptions are identified and appropriate remedial action is taken.
15	2.12	The board should ensure the integrity of the company's Integrated Report.	The board through its Audit Committee reviews the fairness and adequacy of the disclosures made in the Group's Integrated Report and formally approves the report on the recommendation of that committee.

APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2017

continued

Item number	King III reference	King III principle	Application of principle
16	2.13	The board should report on the effectiveness of the company's system of internal controls.	Based on assurance provided by the Internal Audit department to the Audit Committee and reported to the board, the board reports in the Integrated Report on the effectiveness of the Group's systems of internal control.
17	2.14	The board and its directors should act in the best interests of the company.	The directors are aware of their fiduciary duties to act in the best interests of the company and to avoid conflicts of interest and disclose annually to the board their personal financial interests.
18	2.15	The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Companies Act (71 of 2008, as amended).	To the extent that this may be necessary, the board will consider such proceedings and mechanisms if and when appropriate.
19	2.16	The board should elect a Chairman of the board who is an independent non-executive director. The Chief Executive Officer of the company should not also fulfil the role of Chairman of the board.	The board has since 2004 had a Chairman who is an independent non-executive director, and accordingly the Chief Executive Officer is not the Chairman of the board.
20	2.17	The board should appoint the Chief Executive Officer and establish a framework for the delegation of authority.	The board has appointed the Chief Executive Officer and through the Non-executive and Nomination Committee has communicated the levels of authority delegated to him.
21	2.18	The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	The majority of the board is non-executive, and all non-executive directors are independent in terms of the King III categorisation of directors. The independence of long-standing directors is assessed periodically by the board.
22	2.19	Directors should be appointed through a formal process.	New directors are appointed by the board, based on the recommendations of the Non-executive and Nomination Committee, and their appointments are confirmed by shareholders at the following annual general meeting.
23	2.20	The induction of and ongoing training and development of directors should be conducted through formal processes.	New directors undergo a formal induction programme structured with reference to their experience and requirements, and ongoing director education and development takes place through presentations by management and attendance at board-approved external educational events.
24	2.21	The board should be assisted by a competent, suitably qualified and experienced Company Secretary.	The board is assisted by a Company Secretary and according to the most recent assessment the board is satisfied that he is suitably competent, qualified and experienced for the role.
25	2.22	The evaluation of the board, its committees and the individual directors should be performed every year.	The formal evaluation of the board and individual directors, and the informal assessment of board committees take place annually and the results are reported on at board meetings, discussed by the Chairman with directors individually and disclosed in the Annual Corporate Governance Report 2017 available on www.truworths.co.za/investors .
26	2.23	The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.	The board has established the Social and Ethics Committee, the Audit Committee, the Remuneration Committee and the Non-executive and Nomination Committee as committees of the board in terms of written charters and reporting obligations to the board.
27	2.24	A governance framework should be agreed between the Group and its subsidiary boards.	The board has recorded in writing the respective responsibilities of the board of the company on the one hand and of the boards of its principal operating subsidiaries, Truworths Ltd and Office Holdings Ltd, on the other, and certain governance structures such as the Audit, Remuneration, Risk, and Social and Ethics Committees have a Group-wide mandate.
28	2.25	Companies should remunerate directors and executives fairly and responsibly.	The board believes that the Group's remuneration policy and strategy are designed to ensure that executives are appropriately remunerated, with an acceptable balance between guaranteed and performance-based elements, as well as between short and long-term incentives, and ensures that reward levels benchmark fairly against sector norms.
29	2.26	Companies should disclose the remuneration of each individual director and certain senior executives.	The company discloses in its Integrated Report the remuneration of directors and prescribed officers in accordance with the requirements of the Companies Act (71 of 2008, as amended) and the JSE Listings Requirements.
30	2.27	Shareholders should approve the company's remuneration policy.	The Group's remuneration policy is tabled at the annual general meeting of shareholders for consideration by way of a non-binding advisory vote, and has been suitably approved by shareholders at the most recent annual general meeting.
3		Audit committees	
31	3.1	The board should ensure that the company has an effective and independent Audit Committee.	The company's Audit Committee operates in terms of a written charter, performs the duties prescribed by the Companies Act (71 of 2008, as amended), meets three times annually, considers detailed reports from management, and reports and makes recommendations in writing to the board.
32	3.2	Audit Committee members should be suitably skilled and experienced independent non-executive directors.	The company's Audit Committee comprises financially literate, professionally qualified and commercially astute members, all of whom could be regarded as financial experts, and is constituted only by independent non-executive directors.

APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2017

continued

Item number	King III reference	King III principle	Application of principle
33	3.3	The Audit Committee should be chaired by an independent non-executive director.	The Audit Committee is chaired by an independent non-executive director.
34	3.4	The Audit Committee should oversee integrated reporting.	The Audit Committee does oversee the Group's integrated reporting process, and does review the content of the Integrated Report, recommending same for issue by the board.
35	3.5	The Audit Committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities.	The Audit Committee ensures that it obtains regular and comprehensive assurance from the external auditor, the Internal Audit department and/or management in relation to matters such as financial reporting, legal compliance, adequacy of internal controls, tax risk management and the veracity of risk management processes.
36	3.6	The Audit Committee should satisfy itself of the expertise, resources and experience of the company's finance function.	The Audit Committee annually conducts an assessment in writing and by interview with the Chief Financial Officer to satisfy itself as to the expertise, resources and experience of the company's finance function, and reports on the outcome of this assessment in the Annual Corporate Governance Report 2017 available on www.truworths.co.za/investors .
37	3.7	The Audit Committee should be responsible for overseeing of Internal Audit.	The Audit Committee's mandate imposes an oversight role in regard to Internal Audit, and the committee monitors internal audit resources, activities, findings and coverage plans via the comprehensive reports submitted by Internal Audit management to each committee meeting.
38	3.8	The Audit Committee should be an integral component of the risk management process.	The Audit Committee receives presentations, reports and minutes of the Risk Committee and considers the effectiveness of the risk management process on the Group's financial reporting, while the Chairman of the Audit Committee is a permanent member of the Risk Committee which has oversight responsibility over the Group's risk management programme.
39	3.9	The Audit Committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.	In terms of the Audit Committee's charter and its mode of operation, the Audit Committee is responsible for recommending the appointment of the external auditor, agreeing the external auditor's fees and overseeing the external audit process, including receiving reports on the external auditor's findings during the annual audit.
40	3.10	The Audit Committee should report to the board and shareholders on how it has discharged its duties.	The Audit Committee reports in writing at each board meeting, and reports to shareholders by way of the Audit Committee Report which forms part of the Group's audited annual financial statements, on its activities, findings and recommendations.
4		The governance of risk	
41	4.1	The board should be responsible for the governance of risk.	The board's charter reflects its responsibility for risk governance, and it discharges this responsibility by receiving reports from the Chairman of the Risk Committee at its quarterly meetings, and by making recommendations to management on its risk management programme.
42	4.2	The board should determine the levels of risk tolerance.	The board has adopted the levels of risk tolerance utilised by the Risk Committee and management in determining the Group's risk management framework and the methodology for rating risks in the Group's risk registers.
43	4.3	The Risk Committee or Audit Committee should assist the board in carrying out its risk responsibilities.	The charters of both the Risk and Audit Committees require these committees to assist the board in carrying out its risk governance responsibilities, and they provide this assistance by monitoring the Group's risk management activities.
44	4.4	The board should delegate to management the responsibility to design, implement and monitor the risk management plan.	The board has delegated to the board of the Group's principal operating subsidiaries, Truworths Ltd and Office Holdings Ltd, the responsibility to design, implement and monitor the Group's risk management plan, and the latter boards have appointed the Risk Managers to have line responsibility for this function, and have entrusted the Risk Committee and the Office Risk Committee respectively to monitor their respective Managers' activities and processes.
45	4.5	The board should ensure that risk assessments are performed on a continual basis.	The board receives assurance from the Risk Committee that risk assessments are carried out continually and that the Group's risk registers are updated at least annually by management.
46	4.6	The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	The board receives assurance from the Risk Committee that the process of continual risk assessment by management takes into account emerging and unusual risks not typical of normal operating and environmental conditions.
47	4.7	The board should ensure that management considers and implements appropriate risk responses.	The board receives assurance from the Risk Committee and the Group Risk Manager that management appropriately identifies, manages, transfers and mitigates risks facing the Group.
48	4.8	The board should ensure continual risk monitoring by management.	The board receives assurance from the Risk Committee that it and management continually monitor risks facing the Group.
49	4.9	The board should receive assurance regarding the effectiveness of the risk management process.	The board receives assurance from the Internal Audit department and management, via the Audit Committee and from the Risk Committee, as to the adequacy of the risk management process.
50	4.10	The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	The board ensures that the Group's Integrated Report, as well as its public announcements where necessary, appropriately disclose risk-related information of importance to stakeholders.

APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2017

continued

Item number	King III reference	King III principle	Application of principle
	5	The governance of information technology	
51	5.1	The board should be responsible for information technology (IT) governance.	The written charter of the board records its responsibility for IT governance, and it discharges this duty by monitoring reports on IT governance-related matters provided by the Audit and Risk Committees.
52	5.2	IT should be aligned with the performance and sustainability objectives of the company.	The Group's IT strategy is designed to support the Group's business strategy and with the aim of ensuring that the Group will operate effectively and remain sustainable.
53	5.3	The board should delegate to management the responsibility for the implementation of an IT governance framework.	The board has delegated to the board of the Group's principal operating subsidiaries, Truworths Ltd and Office Holdings Ltd, the responsibility to design, implement and monitor the Group's IT governance plan, and the Truworths Ltd board has appointed the IT Divisional Director to have ultimate line responsibility for this function and the Information Systems (IS) Audit Manager to monitor IT governance activities in South Africa, and has entrusted the Risk Committee to monitor the said Divisional Director's activities.
54	5.4	The board should monitor and evaluate significant IT investments and expenditure.	The board monitors material IT investments through its consideration of the Group's capital expenditure budget, and evaluates the performance of such investments through reports made by management and the Group's IS Audit Manager to the Audit and Risk Committees.
55	5.5	IT should form an integral part of the company's risk management.	The risks associated with the Group's IT infrastructure, applications and networks are identified, managed and mitigated as a key element of the Group's risk management processes that are overseen by the board of the Group's principal operating subsidiaries, Truworths Ltd and Office Holdings Ltd, and by the Group Risk Manager, supported by the Truworths IT Divisional Director and the Office IT Executive.
56	5.6	The board should ensure that information assets are managed effectively.	The board receives assurance from management through the Audit and Risk Committees that the Group's IT assets are suitably safeguarded and effectively deployed, and that the Group has in place a business continuity plan.
57	5.7	A Risk Committee and Audit Committee should assist the board in carrying out its IT responsibilities.	Both the Risk and Audit Committees assist the board in carrying out its IT governance responsibilities, as required by their written charters.
	6	Compliance with laws, rules, codes and standards	
58	6.1	The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	The board has determined that compliance with laws is the minimum standard of conduct, is made aware of applicable laws and regulations and voluntary codes by the Company Secretary, and monitors compliance/adherence through the Audit Committee which receives reports from the Internal Audit department following its annual legal compliance audit.
59	6.2	The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.	The board is made aware of applicable legislation and codes through the legislation updates and presentations made at each board meeting by the Company Secretary, and through material on relevant topics that is distributed to directors from time to time. Through presentations made by management at meetings of the committees of the board the directors are further exposed to the impact of key legislation on the Group's business.
60	6.3	Compliance risk should form an integral part of the company's risk management process.	Compliance risk is a key area of focus of the Group's risk management programme, and business unit heads actively consider regulatory compliance when compiling and annually reviewing the risk registers for their business units.
61	6.4	The board should delegate to management the implementation of an effective compliance framework and processes.	The board has tasked the board of its principal operating subsidiaries, Truworths Ltd and Office Holdings Ltd, with the design and implementation of an effective compliance framework, key elements of which include the appointment and work of the Group's Compliance Officer, the establishment, activities and reporting of the Compliance Committee, the establishment of project teams to ensure compliance with material new legislation and the work of the Company Secretary in making management aware of relevant legislation.
	7	Internal audit	
62	7.1	The board should ensure that there is an effective risk-based Internal Audit.	The Group has a well-established and appropriately resourced Internal Audit function in South Africa that the board considers to be effective and substantially risk-based, and is in the process of further developing appropriate Internal Audit capacity in the UK, in part using outsourced service providers.
63	7.2	Internal Audit should follow a risk-based approach to its plan.	The Internal Audit department's coverage plan is informed by the Group's risk registers, the audit plan of the external auditor and the requirements of top management, and is endorsed annually by the Audit Committee as being appropriately risk-based.
64	7.3	Internal Audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management.	The Internal Audit department annually provides to the Audit Committee a written assessment of the effectiveness of the Group's system of internal controls and risk management programme.
65	7.4	The Audit Committee should be responsible for overseeing Internal Audit.	The Internal Audit department reports on its work, findings and recommendations at each meeting of the Audit Committee, presents its coverage plan annually to the Audit Committee for approval, and the manager of the department periodically meets with the Chairman of the Audit Committee.
66	7.5	Internal Audit should be strategically positioned to achieve its objectives.	The stature of the Internal Audit department within the Group, the appropriateness of its resources, its reporting line to the Chief Executive Officer and its regular reporting to the Audit Committee indicate that the department is well positioned to fulfil its mandate.

APPLICATION OF KING III CORPORATE GOVERNANCE PRINCIPLES 2017

continued

Item number	King III reference	King III principle	Application of principle
	8	Governing stakeholder relationships	
67	8.1	The board should appreciate that stakeholders' perceptions affect a company's reputation.	The board recognises that perceptions of its key stakeholders can impact on the Group's reputation and encourages management to engage meaningfully with such stakeholders with a view to upholding the Group's reputation.
68	8.2	The board should delegate to management to proactively deal with stakeholder relationships.	The board has tasked management with the responsibility of engaging with the Group's key stakeholders, being customers, shareholders and employees, as well as suppliers, regulators and community organisations, of devising suitable forums and communication channels for such interaction and of responding appropriately following such engagements, in the interests of the Group.
69	8.3	The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	The board aims to ensure that the interests of the Group's different stakeholders are suitably considered and appropriately balanced, with a view to ensuring the Group's relevance and sustainability.
70	8.4	Companies should ensure the equitable treatment of shareholders.	The company does not have a controlling or majority shareholder, and has only one class of share, and ensures all shareholders are treated in a fair manner, through the public dissemination of price-sensitive information, its transparent financial reporting and announcements, its dividend policy and its encouragement of shareholder involvement at meetings.
71	8.5	Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	The board and management work to ensure that communication with the Group's stakeholders is frequent, substantive, transparent and credible, recognising that such communication leads to trust and mutual respect and helps to ensure the sustainability of the Group.
72	8.6	The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.	The board encourages management to resolve disputes with customers, suppliers, employees and regulators in an effective and reasonable manner and in appropriate forums including alternative dispute resolution mechanisms, having due regard for contractual and legislative obligations and the best interests of the Group.
	9	Integrated reporting and disclosure	
73	9.1	The board should ensure the integrity of the company's integrated report.	The board ensures the integrity of the Group's Integrated Report by requiring management to draft it in a fair, balanced and transparent manner, through requiring an initial review thereof by the Audit Committee, by subsequent reviews by the Chairmen of the board and the Remuneration Committee, and by the Chief Executive Officer, and by means of reviews conducted by the external auditor and the company's JSE and NSX sponsors.
74	9.2	Sustainability reporting and disclosure should be integrated with the company's financial reporting.	The Group has reviewed its reporting to shareholders and produces an Integrated Report that suitably combines reporting on material sustainability and risk issues with condensed financial reporting, in addition providing annual financial statements and more detailed reports on corporate social responsibility and corporate governance on the Group's website.
75	9.3	Sustainability reporting and disclosure should be independently assured.	The Group is committed to ensuring sustainability reporting is independently assured over a period of time, and whereas assurance on the reporting is currently provided by management and external technical consultants, it is envisaged that Internal Audit assurance will be obtained in the medium-term, and external audit assurance obtained in the long-term.

truworths.co.za
office.co.uk



TRUWORTHS
INTERNATIONAL

ALWAYS
ON TOP
LONDON
NEW YORK CITY
BEVERLY HILLS
TOKYO
AMSTERDAM
BERLIN
SHANGHAI
HONG KONG
SYDNEY
LOS ANGELES
CHICAGO
CAPE TOWN
ROME
JOHANNESBURG
DETROIT
1989
EXSTREAM