



—

***WE ARE FOCUSED  
ON CREATING SUSTAINABLE  
VALUE FOR ALL OUR  
STAKEHOLDERS BY EXECUTING  
OUR CLEARLY ESTABLISHED  
STRATEGIES.***

—



# GROUP OVERVIEW

**R74.3BN**  
Turnover and concession sales



Operating profit by category

**67%**

Clothing and  
General Merchandise



**29%**

Food



**4%**

Financial Services



**44 520**

Employees



More than

**15 MILLION**

customers across the southern hemisphere



**1 487**

Store locations in 14 countries



*Our vision  
is to be one  
of the world's  
most responsible  
retailers.*

Operating profit by geography



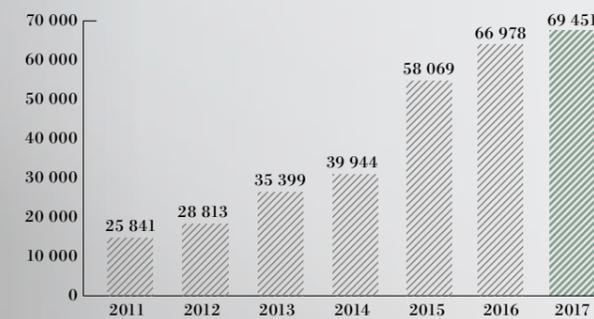
**66%**

**34%**

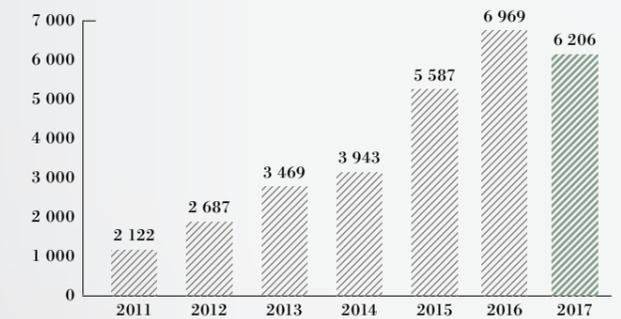
**10**  
YRS

**CELEBRATING  
10 YEARS OF THE  
GOOD BUSINESS  
JOURNEY**

Revenue (R million)



Operating profit (R million)



[Read more about our performance in the Group Chief Executive Officer's report on pages 56 to 61.](#)

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Studio.W, Summer 2017

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# OUR INTEGRATED REPORT

***Woolworths Holdings Limited (WHL or the Group) presents its 2017 Integrated Report: an overview of WHL's performance, value created for stakeholders, and contribution to society for the 52 weeks ended 25 June 2017 and how the Group's strategy, governance, and performance add to the creation of value over the short-, medium-, and long-term. The report has been prepared for the benefit of all our stakeholders, with a particular focus on aspects relevant to those stakeholders who provide us with access to resources of a financial nature.***

## SCOPE AND BOUNDARY OF REPORT

The scope of this 2017 Integrated Report incorporates the financial reporting boundary of the WHL Group - i.e., the performance and data relating to the company and its subsidiaries, associates and operations of the Group throughout South Africa, the rest of sub-Saharan Africa, Australia and New Zealand. The financial performance of Woolworths Financial Services (WFS) is reported as an equity accounted joint venture.

The report also extends beyond financial reporting to include non-financial performance, opportunities, risks, and outcomes attributable to or associated with our key stakeholders, who significantly influence our value creation ability.

As a Group retailing across food, clothing, homeware, and beauty, our business model is based on long-term supplier relationships and a responsibility to influence change throughout the supply chain. We manage our broader business impact through comprehensive social, ethical, and environmental policies and practices. Where aspects of our Good Business Journey programme are more fully developed, the risks, opportunities, and outcomes of those stakeholders impacted are incorporated in both the Integrated Report and the Good Business Journey Report.

## REPORTING FRAMEWORKS AND COMPARABILITY

In compiling this report, we have considered information included in previous reports, legislative reporting requirements and the International Integrated Reporting Council's (IIRC), Framework. We are committed to adopting the IIRC framework in this report. Other reporting frameworks applied, where appropriate, include:

- G4 'core' guidelines of the Global Reporting Initiative, relevant to information provided in the sustainability strategic focus area
- International Financial Reporting Standards, relevant to financial information provided in the Group Finance Director's report

*The contents of this 2017 Integrated Report are broadly comparable with that of the 2016 Integrated Report.*

## 2017 REPORTING SUITE

The 2017 Integrated Report is the key report that provides a holistic view of the Group's business, strategy, and performance, and the creation of value for all stakeholders. This report should be read in conjunction with the more detailed reports highlighted below.

Complementing the Integrated Report are a number of other reports targeted at specific stakeholders. These reports are:

- Annual Financial Statements, providing a more detailed understanding of the financial aspects of our business
- Good Business Journey Report, providing details of our sustainability strategy and a review of performance primarily against non-financial targets for social, transformation, and environmental matters

- Annual General Meeting (AGM) Notice Report, providing the relevant information necessary for shareholders to vote on the resolutions to be tabled at the AGM

The Annual Financial Statements and Good Business Journey Report are available online on our corporate website at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za). Printed copies of these reports can be obtained by emailing [InvestorRelations@woolworths.co.za](mailto:InvestorRelations@woolworths.co.za).

The AGM Notice will be available online on our corporate website at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za) and sent to all shareholders by no later than 30 October 2017.

Supporting documents and compliance information not included in the reports can be accessed on our corporate website at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

## FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking statements which, by their nature, involve risk and uncertainty because they relate to future events and circumstances that may

be beyond the Group's control. The directors therefore advise readers to use caution regarding interpreting any forward-looking statements in the report.

## APPROVAL AND ASSURANCE OF OUR REPORTS

The content of this report is consistent with the indicators used for our internal management and Board reports.

The WHL Audit Committee reviewed the Integrated Report and Annual Financial Statements and recommended them to the Board for approval.

The Social and Ethics Committee and the Sustainability Committee reviewed and recommended the Good Business Journey report.

The Board acknowledges its responsibility for ensuring the integrity of the Integrated Report. The Board has applied its mind to the Integrated Report and considered the operating context, strategy,

and value creation model in this process. It believes that the Integrated Report addresses all material matters that have, or could have, a material effect on the Group's ability to create value, and fairly presents the integrated performance of the Group.

Elements of the information included in our Integrated Report were verified by a combination of internal and external assurance specialists. This assurance covers a significant spread of business operations.

***This 2017 WHL Integrated Report was approved by the Board on 23 August 2017.***


  
**SN SUSMAN**   **I MOIR**  
 Chairman   Group Chief Executive Officer

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## NAVIGATING OUR REPORT

*The icons on this spread are applied throughout the report to improve usability and show the integration between the relevant elements of the report and how we use our strategies and resources to create sustainable value for our stakeholders.*

### STRATEGIC FOCUS AREAS



**build stronger**  
MORE PROFITABLE  
CUSTOMER RELATIONSHIPS



**become a**  
BIG FOOD BUSINESS  
WITH A DIFFERENCE



**towards**  
CONNECTED  
RETAIL



**drive**  
SYNERGIES AND  
EFFICIENCIES ACROSS  
THE GROUP



**be a**  
LEADING FASHION  
RETAILER IN THE  
SOUTHERN HEMISPHERE



**embed**  
THE GOOD BUSINESS JOURNEY  
THROUGHOUT THE BUSINESS

other



Go to page



Go to website

### STAKEHOLDERS



SHAREHOLDERS



SUPPLIERS



DEBT FUNDERS



EMPLOYEES



CUSTOMERS



COMMUNITIES  
AND OTHER

### RESOURCES



FINANCIAL



STAKEHOLDERS



CHANNELS



NATURAL



KNOW-HOW



PEOPLE

# THE WHL GROUP

**Woolworths Holdings Limited**  
is one of the top 40 companies listed on the JSE Limited Securities Exchange (JSE) with operations across the southern hemisphere.

**THE GROUP HAS THREE MAJOR OPERATING DIVISIONS:**

- Woolworths South Africa (Woolworths or WSAI) based in South Africa and operating across 11 countries in sub-Saharan Africa
  - David Jones (David Jones or DJ) based and trading in Australia and New Zealand
  - Country Road Group (Country Road Group or CRG) based in Australia and trading in Australia, New Zealand and South Africa
- Woolworths Financial Services (WFS) is a joint venture between Woolworths and Barclays Africa Group, with Barclays Africa Group owning 50% + 1 share. The WFS board is constituted with directors from both WHL and Barclays Africa Group, with direction on credit policy, risk, and funding aspects received from Barclays and direction on customer integration from Woolworths.
- From 1 September 2017, we will introduce a new regional structure, WHL Australia, for our Australian businesses, David Jones and Country Road Group.

## WOOLWORTHS SA

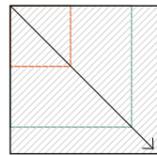
EST.  
**1931**

### PROFILE

Leading South African retailer offering a range of primarily private label products

### TRADING SPACE

● Woolworths 709 000 m<sup>2</sup>



### OFFERING

A selected range of quality clothing and general merchandise, beauty and food products. Financial services are provided through Woolworths Financial Services (WFS)



Loyalty programme  
**3.3M**  
Active  
WRewards members  
(Excluding MySchool base)



**56.8%**  
Group turnover\*



**65.8%**  
Group adjusted profit before interest and tax

## DAVID JONES

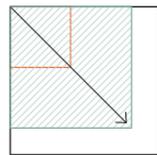
EST.  
**1838**

### PROFILE

One of Australia's leading premium department stores

### TRADING SPACE

● David Jones 473 000 m<sup>2</sup>



### OFFERING

Premium retailer offering leading international and local brands with private label general merchandise and food offering



Loyalty programme  
**2.5M**  
Customers for whom we have collected email addresses



**28.6%**  
Group turnover\*



**19.5%**  
Group adjusted profit before interest and tax



## COUNTRY ROAD GROUP

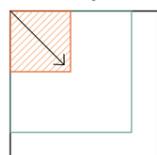
EST.  
**1974**

### PROFILE

Leading Australian speciality retailer

### TRADING SPACE

● Country Road Group 122 000 m<sup>2</sup>



### OFFERING

Stylish, high-quality apparel, accessories, footwear and homeware



Loyalty programme  
**2.1M**  
Active members



**14.6%**  
Group turnover\*



**14.7%**  
Group adjusted profit before interest and tax

\* Including concession sales.



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## OUR PURPOSE, VISION AND VALUES

### OUR PURPOSE

#### ADDING QUALITY TO LIFE

exceptional quality in every product we sell and every experience we deliver, to our customers and our people

### OUR VISION

#### TO BE ONE OF THE WORLD'S MOST RESPONSIBLE RETAILERS

reflects our passionate commitment to doing good business, for our customers, our people and our planet

### OUR VALUES

*Our values inform and underpin the way we do business across our Group. From values-based leadership to passionate brand advocacy, we seek to embed our values across all dimensions of our business.*

*Our values state that we are customer obsessed, inspirational, responsible, collaborative and committed to quality.*

#### CUSTOMER OBSESSED

means that in our world, the customer always comes first

#### INSPIRATIONAL

says we are always looking ahead and taking the lead

#### BEING RESPONSIBLE

is about doing the right thing – always value with values

#### COLLABORATIVE

means we are one team working together

#### QUALITY

is the heart of our business. We are committed to quality, in whatever we do, wherever we do it

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# CREATING VALUE

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access to content*

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# OUR VALUE CREATION PROCESS

**OUR VISION IS TO BE ONE OF THE WORLD'S MOST RESPONSIBLE RETAILERS.**



TO HELP US TO ACHIEVE THIS VISION WE:

1

*Use our values to guide the way in which we manage our resources to create value for the Group*

## OUR VALUES



2

*Define how we determine if we have created or destroyed value for our key stakeholders i.e., those stakeholders which have the most level of interest in the Group's activities and who can influence the strategy of the Group*

SHAREHOLDERS

DEBT FUNDERS

CUSTOMERS

SUPPLIERS

EMPLOYEES

3

*Understand our business model which is reliant on key partnerships and resources, the business activities, and our target customers, the relationship we have with them, and the channels*

4

*Engage with and listen to our stakeholders to understand their needs, wants, and expectations*

SHAREHOLDERS

DEBT FUNDERS

CUSTOMERS

SUPPLIERS

EMPLOYEES

COMMUNITIES AND OTHER

5

*Determine how the stakeholders' needs influence our material issues – both risks and opportunities*

### MATERIAL ISSUES

6

*Review our strategy to address our stakeholders' needs and risks and opportunities from the material issues. We adjust our six strategic focus areas accordingly*

CUSTOMER RELATIONSHIPS

CONNECTED RETAIL

LEADING FASHION RETAILER

BIG FOOD BUSINESS

DRIVE SYNERGIES

EMBED GBJ

7

*Manage our resources to create value and where necessary minimise the potential reduction in value (specifically our natural resources) to ensure a balanced approach to value creation*



8

*Measure how we are achieving and delivering to the six strategic focus areas and the value that we have created for our stakeholders*

8

*Report back to stakeholders on value created*



**OUR GOVERNANCE STRUCTURES AND PROCESSES ENABLE THE OVERSIGHT AND ENSURE THAT THE GROUP IS ON THE RIGHT JOURNEY TO DELIVER TO OUR VISION**

*More detail on the steps in our value creation process can be found on the following pages.*

## VALUE CREATION FOR OUR STAKEHOLDERS

*As a retail group, we contribute to the GDP growth of the countries in which we operate through our business of selling quality clothing, general merchandise, and food products to the middle- and upper-income consumer. In sourcing and selecting the most-wanted merchandise – both private label and external brands – we create opportunities for a number of supporting industries and agriculture, enabling them to grow and also contribute to and increase GDP.*



Woolworths SA, Supplier

<p>CUSTOMERS</p>	<p>Customers are our largest stakeholder base and their purchases are the main source of the revenue that we earn</p>	<p><b>We create value for our customers by:</b></p> <ul style="list-style-type: none"> <li>• Providing safe, reliable and responsibly sourced products</li> <li>• Enhancing their wellbeing and self-confidence through the clothing, footwear, and accessory products</li> <li>• Providing nourishing food options</li> <li>• Giving them access to responsible consumption</li> <li>• Providing them with opportunities to give back to their communities</li> </ul>
<p>EMPLOYEES</p>	<p>It is through the dedication, talent, and knowledge of our employees in South Africa, Australia and New Zealand and rest of Africa that our business exists and creates value</p>	<p><b>In return for their dedication, the Group creates value for our employees through:</b></p> <ul style="list-style-type: none"> <li>• Entitling them to fair and responsible remuneration</li> <li>• Creating additional employment as the Group grows</li> <li>• Recognising diversity, both gender and race, through equal work for equal pay</li> <li>• Providing an opportunity to continued training and upskilling, enabling a more specialised and knowledgeable workforce for the future</li> </ul>
<p>SHAREHOLDERS</p>	<p>The Group is one of the top 40 listed companies on the JSE with a diverse shareholder base</p>	<p><b>Our shareholders expect the Group to create value for them by:</b></p> <ul style="list-style-type: none"> <li>• Delivering a consistent return on their investment</li> <li>• Providing regular dividend income</li> <li>• Managing the business in a responsible manner to ensure sustainability for the short-, medium- and long-term</li> <li>• Practicing good corporate citizenship</li> </ul>
<p>DEBT FUNDERS</p>	<p>Our debt funders are a major source of financial capital to the Group</p>	<p><b>We create value for our debt funders through:</b></p> <ul style="list-style-type: none"> <li>• Ensuring the Group is adequately and appropriately funded to meet its financial obligations and business objectives</li> <li>• Actively managing liquidity, refinancing, interest rate, and counterparty risks</li> <li>• Regular interest payments</li> </ul>
<p>SUPPLIERS</p>	<p>Our strong relationships with our supplier base are a key competitive advantage to the Group</p>	<p><b>We create value through close integration and partnerships with our suppliers by:</b></p> <ul style="list-style-type: none"> <li>• Supporting fair and ethical sourcing of key commodities and products</li> <li>• Assisting suppliers to positively contribute towards the environment and communities in which they operate with various sustainability initiatives</li> <li>• Supporting small enterprise development suppliers by providing them with a regular source of income by sourcing products from them</li> </ul>
<p>COMMUNITIES AND OTHER</p>	<p>With the Group's vision to be one of the world's most responsible retailers, the Group acknowledges that the community in which it operates is an important stakeholder grouping</p>	<p><b>The Group creates value through:</b></p> <ul style="list-style-type: none"> <li>• Tax payments in the countries in which we operate</li> <li>• Enriching the lives of those less privileged members of the community, and specifically in South Africa, supporting the need to address the transformation of the previously disadvantaged</li> <li>• Actively managing the environmental footprint of all our direct and indirect business operations – specifically energy and water usage of our own business and those in the downstream supply chain</li> </ul>
<p> For more information on the stakeholders of the Group see pages 26 and 27.</p>		

## RESOURCES WE USE TO CREATE VALUE

*The IIRC Framework for Integrated Reporting has introduced the concept of reporting how a business creates value through the use of six capitals – financial, manufactured, intellectual, human, social and relationship, and natural capital.*

As a Group we have chosen to refer to the capitals as resources, which are available to the Group and used as inputs to the business model. As a retail Group, we refer to the names of the different resources in a more relevant way to link in with our business model.

Resources may be in abundance or constrained, but are generally available to all businesses. We believe that the activities in our business model use our resources in such a way to optimise value creation. We also recognise the interdependencies between the resources and the trade-offs

between the costs and benefits offered by the resources that we have to manage responsibly.

To assist readers who are familiar with the capital terminology, we explain below how our resources reference to the capitals, and provide a brief explanation of how they are interpreted in our business model.

A unique quality of the Group's business model is the extent to which the Good Business Journey programme supports and nurtures future access to all our resources.

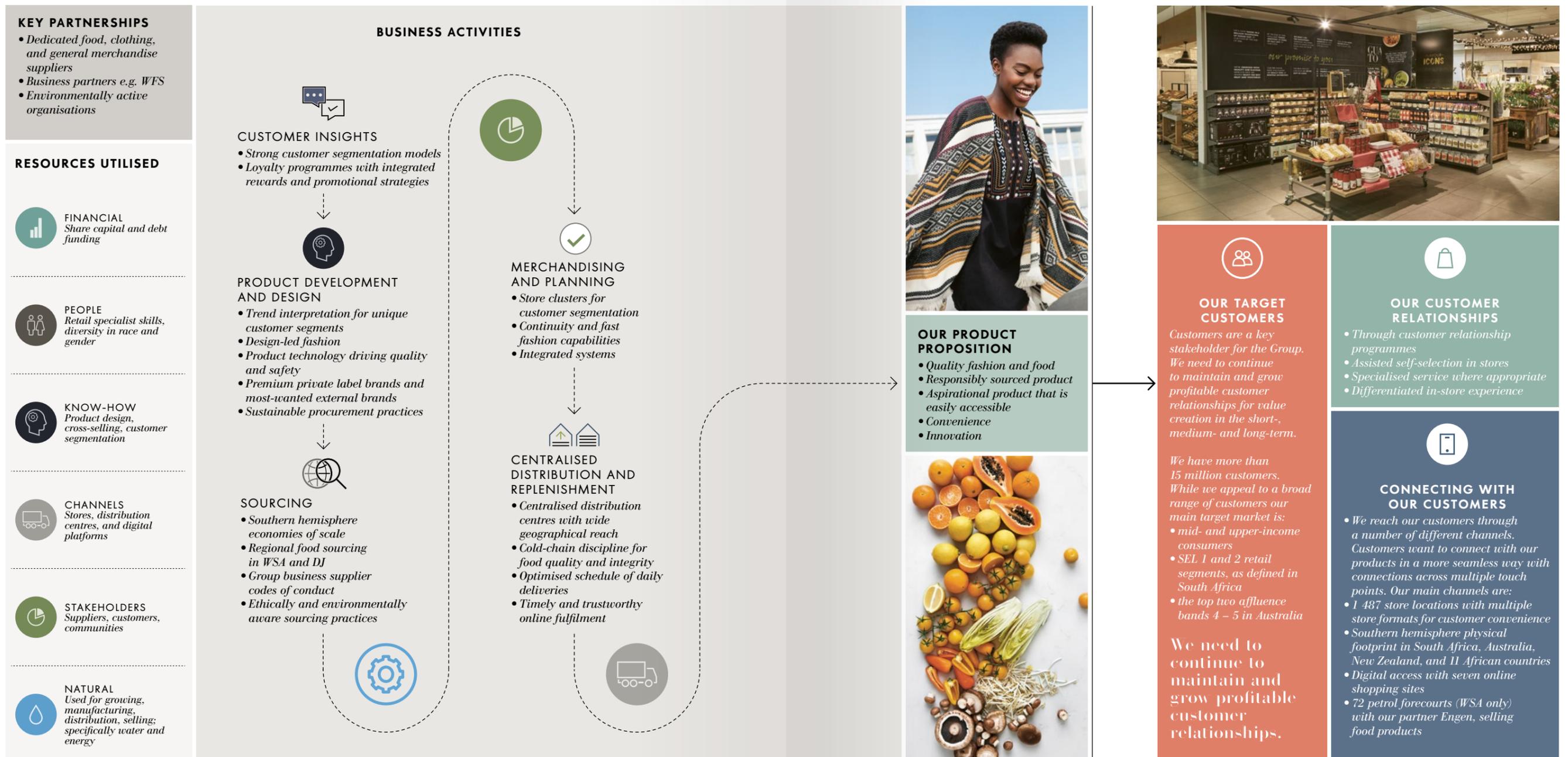
RESOURCES	CAPITALS	WHAT THEY MEAN FOR OUR BUSINESS
 FINANCIAL	FINANCIAL	<i>Equity and debt funding structure of WHL</i>
 PEOPLE	HUMAN	<i>Values-based employment proposition, combined with a compelling employee experience, skills, and leadership</i>
 KNOW-HOW	INTELLECTUAL	<i>Development and design capability of our private label brands. This includes customer database management, cross-selling, customer segmentation and business planning abilities</i>
 CHANNELS	MANUFACTURED	<i>The network of stores, distribution centres, websites, and information technology infrastructure</i>
 STAKEHOLDERS	SOCIAL AND RELATIONSHIP	<i>The relationships that the Group has with our customers, suppliers, business partners, and other stakeholder groups</i>
 NATURAL	NATURAL	<i>The environmental resources used throughout the Group's value chain in the production, manufacturing, distribution, and retailing of our products</i>



# OUR BUSINESS MODEL

*The business of fashion and food retailing follows generic business processes or activities. Additionally, the WHL Group has developed a set of key competencies over the years that enable value creation for all stakeholders and direct the way in which we create value.*

The Group's business model describes how it creates, delivers and captures value. WHL has proven its ability to generate sustainable returns over the short-, medium- and long-term for investors and shareholders.



# RESOURCES, OUTPUTS AND OUTCOMES

RESOURCES USED		<p><b>OUTPUTS</b></p> <p><i>The direct outputs of our business activities are the clothing, homeware and general merchandise, and food products which we sell throughout 1 487 store locations across 14 countries. In all our business activities, we focus on responsible usage of our resources and driving synergies and efficiencies across the Group.</i></p> <p><b>R74.3BN</b></p> <p>Turnover and concession sales</p>	OUTCOMES		
We use the following resources in our business activities to optimise value for our stakeholders			Our business activities collectively create sustainable value for our stakeholders. In the current year, the value created for each stakeholder group is summarised below:		
<p><b>FINANCIAL</b></p>	<p>R19 038 million in shareholder funds</p> <p>R13 325 million interest-bearing borrowings</p>		<p><b>CUSTOMERS</b></p>	<ul style="list-style-type: none"> <li>Providing high quality, innovative and sustainable products to our customers, increasing our sales by 3.0%</li> <li>Expanding our private label brand offering through strategic acquisitions, such as Politix, adding 75 new store locations to the Group real estate portfolio</li> <li>Enhancing our customers' in-store experience through investing in new stores and store refurbishments and developments, including opening new store locations throughout sub-Saharan Africa, Australia and New Zealand</li> <li>69% of Woolworths food and clothing products and 92% of CRG's clothing products have a sustainability attribute</li> </ul>	<ul style="list-style-type: none"> <li>Offering the option of responsible and affordable credit, with 15.6% of sales in South Africa made on in-store cards and credit cards through our WFS joint venture and 14.1% of sales made on credit in David Jones in partnership with Amex</li> <li>Enhancing our online platforms to provide our customers with a consistent and connected retail experience regardless of the channel</li> <li>Offering customers the opportunity to give back to their communities when they shop, contributing R77 million to the MySchool MyVillage MyPlanet programme through 1.2 million active supporters in South Africa</li> <li>Helping customers make healthier food choices by removing sweets and chocolates from Woolworths checkout aisles across South Africa and Africa</li> </ul>
<p><b>PEOPLE</b></p>	<p>The skills and expertise of our 44 520 members of staff throughout sub-Saharan Africa and Australia</p>		<p><b>EMPLOYEES</b></p>	<ul style="list-style-type: none"> <li>Creating new job opportunities throughout the Group</li> <li>Investing over R116 million* in our employees' training and development</li> <li>Delivering fair and responsible remuneration for performance in the form of R10.2 billion in guaranteed pay and related benefits</li> <li>Valuing diversity and inclusion and committing to non-sexism and non-racism across our businesses with systems to enable a diversified workplace</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with BBBEE in South Africa, with a score of level 6</li> <li>Actively engaging with our employees through employee satisfaction surveys                             <ul style="list-style-type: none"> <li>73% responded positively at Woolworths</li> <li>85% responded positively at David Jones</li> <li>76% responded positively at Country Road Group</li> </ul> </li> </ul>
<p><b>KNOW-HOW</b></p>	<p>Product development and design knowledge and expertise</p> <p>Private label brands that provide a competitive advantage</p> <p>Customer Relationship Management programmes which inform all our business decisions</p>		<p><b>SHAREHOLDERS</b></p>	<ul style="list-style-type: none"> <li>Delivering a consistent return on investment, with a three-year total shareholder return of 4%</li> <li>Providing cash dividend income of R3.0 billion</li> <li>Earnings retained of R1.0 billion in the Group in the current year for sustainable, future growth</li> </ul>	
<p><b>CHANNELS</b></p>	<p>1 487 store locations throughout sub-Saharan Africa, Australia and New Zealand</p> <p>4 distribution centres, 3 cross-dock facilities and 1 outsourced online fulfilment centre in South Africa</p> <p>1 national Omni-channel Fulfilment Centre and 1 cross-dock facility in Australia</p> <p>Online platforms and information technology infrastructure</p>		<p><b>DEBT FUNDERS</b></p>	<ul style="list-style-type: none"> <li>Interest payments totalling R1.3 billion</li> </ul>	
<p><b>STAKEHOLDERS</b></p>	<p>The relationships we have with over 15 million customers in the Group, our suppliers, business partners and other stakeholder groups that support our Good Business Journey, governance, reputation and customer loyalty</p>		<p><b>SUPPLIERS</b></p>	<ul style="list-style-type: none"> <li>Assisting in the reduction of our environmental footprint through various initiatives including the WSA Farming for the Future programme in which over 600 primary and secondary suppliers participate</li> <li>Supporting over 44 small enterprise development suppliers in WSA by providing them with a regular source of income by sourcing products from them</li> <li>Payments of R49.9 billion to suppliers of goods and services</li> </ul>	<ul style="list-style-type: none"> <li>Supporting fair and ethical sourcing of key commodities and products                             <ul style="list-style-type: none"> <li>96% Food supplier compliance with Woolworths' Code of Business Principles</li> <li>94% of Woolworths Clothing &amp; GM supplier compliance with Woolworths' Code of Business Principles</li> <li>99% of David Jones private label suppliers have signed the David Jones Supplier Code of Conduct</li> <li>96% Country Road Group supplier compliance with the Code of Labour Practice</li> </ul> </li> </ul>
<p><b>NATURAL</b></p>	<p>636 075* kilolitres water and 377 706* MWh of electricity, raw materials such as cotton and other resources that we use to manufacture and sell our products which we manage under our Good Business Journey</p>		<p><b>COMMUNITIES AND OTHER</b></p>	<ul style="list-style-type: none"> <li>Actively managing the environmental footprint of all our direct and indirect business operations, saving 14%** water and 13%** electricity relative to 2007 in the current year</li> <li>Enriching the lives of those less privileged members of the community with R757 million social contribution across the Group</li> <li>Investing in the regions in which we operate through taxes of R745 million in sub-Saharan Africa and A\$93 million in Australia and New Zealand and capital investments of R1.2 billion in sub-Saharan Africa and A\$132 million in Australia and New Zealand</li> </ul>	

\*WSA only

\*\*WSA stores only

## OUR STAKEHOLDERS

*Sustainable relationships form the foundation of the Group's ability to create value in the short-, medium-, and long-term. We believe that building strong stakeholder partnerships is key to building a more sustainable business and future.*

Our stakeholders, their interests and level of influence in the Group's operations will vary according to geographical location, business area, and the nature of their interest. We recognise that there is a broad range of stakeholders with an interest in the Group, its products, activities, and initiatives and also on whom our business has an impact. This relationship is depicted in the graph across.

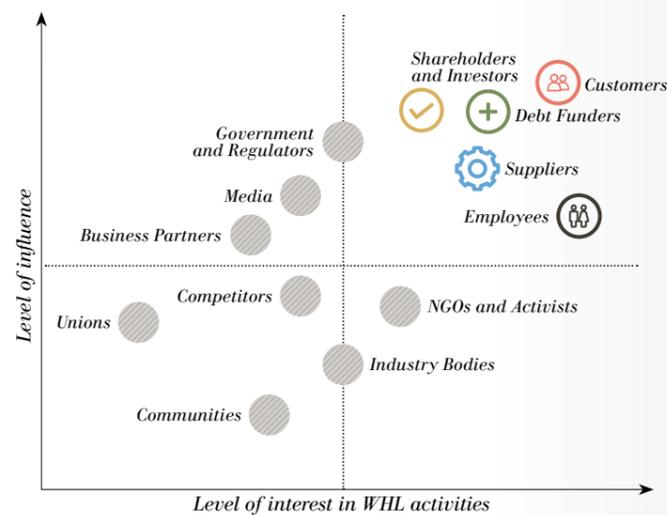
The WHL Group is committed to developing and sustaining quality, long-term relationships with all our key stakeholders. These relationships help foster an environment that helps us build on the growth and prosperity of our Group. The Board is committed to stakeholder engagement with the interactions, monitoring, and implementation of stakeholder engagement being the responsibility of the respective management teams in the Group. Annually the Social and Ethics Committee reviews the self-assessment of stakeholder engagement.

This programme of stakeholder engagement helps the Group better navigate through a complex regulatory, legislative, and political landscape, provides ongoing macro-environmental insights, develops goodwill ambassadors, and ultimately ensures our continued social licence to operate.

Our philosophy is to engage authentically, openly and inclusively with our stakeholders so that we can better understand and benefit from their insights, concerns and priorities, seek areas of potential partnership, mitigate risks to the business, and create mutual trust and respect. Stakeholder engagement must facilitate value creation in order for it to be beneficial to the Group and the stakeholders. We ensure our engagements are based around issues that are both salient for the business and aligned to national priorities.

Woolworths has continued to deepen and expand its relationships with reputable South African industry and other representative organisations, by both sharing our own insights and concerns, and also gaining invaluable information which allows the business to mitigate risks and explore opportunities.

We will continue to enhance and build on our stakeholder engagement function by focusing on developing those relationships that have a material impact on the Group in the short-, medium-, and long-term.



**OUR PHILOSOPHY IS TO ENGAGE AUTHENTICALLY, OPENLY AND INCLUSIVELY WITH OUR STAKEHOLDERS.**

OUR KEY STAKEHOLDERS	HOW WE MEASURE VALUE CREATION	OUR ENGAGEMENT	NEEDS, EXPECTATIONS AND CONCERNS	MATERIAL ISSUE INFORMED
<p>SHAREHOLDERS</p> <p>67 540 shareholders 91% public 9% non-public 45% based offshore</p>	Total Shareholder Return (TSR)	Investor presentations, meetings and roadshows Annual General Meeting	Return on investment Good governance practices	Delivering sustained financial performance Shifts in consumer spending Business transformation in Australia
<p>DEBT FUNDERS</p> <p>R13 325 million interest-bearing borrowings</p>	Regular interest payments	Regular meetings to discuss financial results	Sustainable financial performance	Business transformation in Australia Delivering sustained financial performance
<p>CUSTOMERS</p> <p>In excess of 15 million customers Africa: 11 million Australia and New Zealand: 4 million</p>	Sales growth Average price increase Customer satisfaction % revenue tracked on loyalty cards	Every day in our physical stores or on digital and social media platforms Customer focus groups	Product availability, fashion appeal, value and choice, innovation and service To be a responsible retailer	Trading environment Delivering sustained financial performance Shifts in consumer spending Sustainability
<p>EMPLOYEES</p> <p>44 520 employees Africa: 31 267 Australia and New Zealand: 13 253</p>	Satisfaction survey results Creation of jobs Training and development investment BBBEE level	Regular daily interactions Formal performance assessments, career discussions, training and personal development discussions Annual satisfaction survey	Fair and responsible remuneration for the role that they perform An employee value proposition appropriate for the brand	People, culture and diversity
<p>SUPPLIERS</p> <p>Clothing and GM: &gt; 480 direct suppliers Food: &gt; 800 direct suppliers</p>		Supplier conferences Supplier visits and audits Supplier and Enterprise Development programme in WSA	Continued sustainable performance Key sustainability issues in the supply chain – ethical trade	Trading environment Delivering sustained financial performance Sustainability Business transformation in Australia
<p>COMMUNITIES AND OTHER</p> <p>Government and regulators Industry bodies NGOs and activists</p>	Taxes paid Social contribution	Engagement in South Africa on issues such as the proposed taxation of sugar-sweetened beverages and new liquor legislation – which both have an impact on trade	Responsible corporate citizen	People, culture and diversity Sustainability



# MATERIAL ISSUES, RISKS AND OPPORTUNITIES

*We have identified material issues as being those items that have the potential to significantly impact the performance and sustainability of the Group. Material interests, expectations and concerns of our stakeholder groups, most likely to influence the Group's ability to create sustainable shareholder value, form the primary basis for the determination of our material issues. Stakeholders include customers, employees, investors, providers of financial capital, industry and regulatory bodies, government, and the communities in which the Group has an impact.*

	MATERIAL ISSUE	OVERVIEW	STAKEHOLDERS' NEEDS ADDRESSED
1	The trading environment	Economic growth remains under pressure in both sub-Saharan Africa and Australia and particularly in South Africa	 
2	Consumer spending and behaviour	The face of retail is evolving quickly with customers directing more of their spend online and to experiential purchases. Competition also continues to intensify as northern hemisphere retailers continue to expand into the southern hemisphere	 
3	The digital world	Technology is developing rapidly and impacts all aspects of our business. This also heightens the risk of cyber attacks and compromised infrastructure and data security	 
4	The business transformation in Australia	The business transformation and integration of David Jones will establish us as a leading southern hemisphere retailer	 
5	People, culture and diversity	It is critical to attract and retain talented employees amid intensifying competition	 
6	Delivering sustained financial performance	Our strategies will generate sustainable returns for our investors and shareholders	   
7	Sustainability	Consumers are placing increased importance on retailers' impact on economic development and their contributions towards communities and our planet	   



**IDENTIFICATION OF MATERIAL ISSUES**

The Board and management recognise that risk management, our business model, the interests of key stakeholders, our use of and interaction with the six resources, and the macroeconomic factors in which we operate form a part of the material issues identification process and inform Group strategy. The Board is satisfied that the risk process is effective in continuously identifying and evaluating risks and opportunities and ensuring that these risks are managed in line with business strategy. The material issues highlighted in the report on pages 31 to 37 are agreed by the Board as being those issues which can materially impact the creation of stakeholder value in the short-, medium- and long-term. The material issues highlight both the risks and opportunities, with the risks being extracted from the top key risks identified for the Group.

Risks and opportunities as they relate to the strategic objectives of the Group are identified by management through a formalised and structured process. Defined risk appetite statements and risk tolerance thresholds are utilised to further clarify risk materiality and facilitate risk-based decision making in the context of our strategy.

The top key risks of the Group are updated through a robust revision process on a quarterly basis and are evaluated for completeness and accuracy by the Risk and Compliance department. This process addresses existing as well as emerging and trending risks that may have a negative impact on our strategy execution.

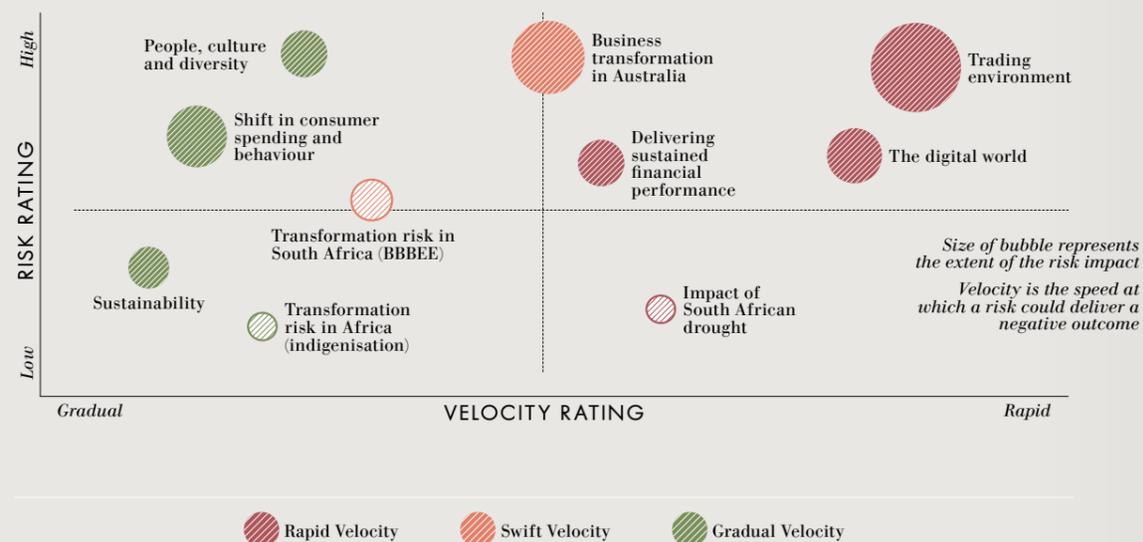
The Risk and Compliance Committee reviews the key risks of the Group and evaluates each issue in the context of the:

- possible impact to the business and stakeholders
- opportunities that may be present
- suitability and effectiveness of risk mitigations and future actions and
- total risk exposure in relation to the Group's risk bearing capacity and risk tolerance

The risk management process is discussed in more detail on page 140.

The graph below illustrates the level of residual risk for each material issue, the extent of the potential risk impact, and the rate at which the material issue could impact value creation.

**ASSESSMENT OF MATERIAL ISSUES**



# 1 THE TRADING ENVIRONMENT

**SOUTH AFRICA**

The South African economy remains under pressure with little relief expected for consumers in the medium-term. Political uncertainty has resulted in the devaluation of the rand and a credit rating downgraded by the rating agencies.

Inflation is expected to moderate from the heightened levels experienced in 2016. However, the credit ratings downgrade and continued political uncertainty, together with tightened credit conditions, higher tax rates, a soft labour market and low growth in household disposable income, continues to suppress consumer confidence.

Significant sustained weakness in the rand could hurt both volume growth and gross margins of food and apparel retailers, with the latter being more exposed to rand weakness.

**AUSTRALIA**

Australia's lower than long-term average growth is expected to continue.

Despite historically low interest rates, the Australian consumer is heavily indebted, making them more sensitive to changes. Recent regulatory intervention has reduced access to interest-only home loans and led to banks re-pricing mortgages which will place further pressure on the consumer. Energy prices are also expected to increase which will directly affect their disposable income through higher electricity costs and indirectly through higher inflation. Additionally, low wage growth, high levels of underemployment and global economic uncertainty have subdued consumer sentiment and spending, both of which are likely to remain at lower levels in the short-term.

In both South Africa and Australia, competition continues to intensify as northern hemisphere retailers continue to expand into the southern hemisphere. In Australia, the imminent arrival of Amazon will further increase competition as it offers brands an alternative channel to bring their products to market.

**Our risks**

- Worsening macro, socio-political risks, particularly in South Africa, negatively impact consumer spending and the Group's profitability
- Negative customer perceptions of price and value
- Aggressive competition from northern hemisphere retailers

**Our opportunities**

- Customer positioning continues to focus on mid-to-upper-income customers whose spending is more resilient during challenging economic times
- Appropriate investment in food prices to improve price perception and retain competitiveness
- Increased scale and Group sourcing in our clothing businesses allow us to unlock additional margin which can be passed on to the consumer to allow for more competitive pricing
- Focus on Key Value Lines (KVL), benchmarking them to competitors to improve price perception
- Expand and introduce new ranges appealing to broader customer market
- Increased focus on speed to market and shorter critical path for design and production

**Strategic focus areas to mitigate risk and maximise opportunity**



# 2

## CONSUMER SPENDING AND BEHAVIOUR

The face of global retailing is evolving quickly, with online shopping experiencing growth rates in excess of in-store shopping, with footfall in malls decreasing by up to 50% in the past five years over busy shopping seasons. Within online shopping, mobile is experiencing the strongest growth. Online shopping has created more price-savvy consumers who expect the in-store experience to add value, be relevant, personalised, and entertaining, while experiencing an efficient and effective online shopping alternative. Mobile and related technologies are enabling consumers to interact with each other and with global retailers directly. This affects every part of the customer journey – from researching products and prices before purchase, to post-purchase feedback.

Along with the rise in online shopping, customers are also increasingly directing their spend towards experiences and entertainment.

### Our risks

- Our product does not meet customer expectations
- Unable to provide our customers with a compelling digital offering
- Delivery of our connected retail experience, particularly mobile, does not meet customer expectations

### Our opportunities

- Deliver a connected retail experience, connecting our customer consistently and seamlessly across multiple channels
- Use loyalty tools to drive more personalised interactions with our customers
- Customer data and analytics from loyalty to inform our business decisions, including product decisions
- Continue to build our design and sourcing processes, people, and capacity to deliver brands which are more design-led and fashion relevant
- Constantly refresh and enhance our strong social media presence in South Africa and Australia
- Balanced real estate growth planned to maximise opportunities

### Strategic focus areas to mitigate risk and maximise opportunity



# 3

## THE DIGITAL WORLD

Technology is developing rapidly and impacts all aspects of our business. Effective systems and processes are critical in reducing costs, increasing flexibility, and driving efficiency and productivity. A common IT platform is a key enabler in unlocking Group synergies.

Customers are also embracing technology, particularly mobile and social media, impacting how retailers communicate and transact with them across all channels.

The ubiquitous nature of technology has resulted in an increased threat of cyber attacks and compromised infrastructure and data security.



### Our risks

- Inability to deliver IT requirements to support the growth of the business
- Cyber attacks, IT infrastructure disruptions and data loss

### Our opportunities

- Increase the focus on the customer and integrated, customer-facing technology, particularly mobile
- Developing a roadmap of Group-wide IT requirements to ensure consistency of services and processes across all entities and protect our business from security threats and business interruptions

### Strategic focus areas to mitigate risk and maximise opportunity



# 4

## THE BUSINESS TRANSFORMATION IN AUSTRALIA

There are numerous transformational initiatives within David Jones and relating to the integration of our businesses in Australia. This includes: refurbishing our flagship Elizabeth Street store; establishing a new designed-for-purpose Australian head office in Melbourne; relaunching the David Jones Food business; introducing new planning and merchandising systems; re-platforming the online website; implementing a new regional loyalty programme; and optimising the performance of our Group private label brands in David Jones stores.

### Our risks

- Inability to unlock David Jones' potential transformational and synergistic benefits
- Trading performance is impacted by management focus on transformational initiatives
- Business and trade disruptions resulting from refurbishment of the Elizabeth Street store, relocation of David Jones head office, and other transformational initiatives

### Our opportunities

- Ensure that acquisition benefits are realised
- Continue to identify additional synergies and benefits across WHL, unlocking further shareholder value
- Leverage core skills across the Group to ensure integration and transfer of knowledge



David Jones, Sydney

### Strategic focus areas to mitigate risk and maximise opportunity



# 5

## PEOPLE, CULTURE AND DIVERSITY

We recognise that attracting and retaining talented employees is critical to delivering our strategy. Competition for talented employees is intensifying, with targeted recruitment and poaching of core talent by local and international retailers offering above market-related salaries.

In South Africa, we have a further obligation to transform WSA in line with the revised BBBEE Codes of Good Practice.

**Competition for talented employees is intensifying, with targeted recruitment of core talent by local and international retailers.**



Woolworths SA, head office

### Our risks

- Inability to attract and retain retail talent
- Failure to transform WSA in line with the BBBEE Codes of Good Practice
- Failure to transform African operations in line with indigenisation legislation

### Our opportunities

- Employee Value Proposition (EVP) designed to attract, inspire, engage, retain, and motivate the right diverse leadership and talent required to deliver to the strategy. The EVP balances remuneration (financial rewards) with non-financial rewards to drive and deliver a high performance culture
- Talent management structures and processes and our broader Group talent pool allow for additional development and secondment opportunities
- Accredited training programmes for staff and senior leadership development programmes to strengthen management talent
- Build on and adapt WSA transformation strategy to align to new BBBEE codes

### Strategic focus areas to mitigate risk and maximise opportunity



# 6

## DELIVERING SUSTAINED FINANCIAL PERFORMANCE

A tough trading environment could lead to margin contraction from increased promotional activity and markdowns and cost growth exceeding sales growth. Through leveraging our scale, driving synergies and implementing our clear, consistent strategies across the Group, we will generate sustainable returns over the short-, medium- and long-term for our investors and shareholders.

**We will generate sustainable returns over the short-, medium- and long-term for our investors and shareholders.**



Woolworths SA, Mall of Africa

### Our risks

- Cost growth is uncontained, leading to negative operating leverage
- Reduced liquidity impacts our ability to maintain or grow the business
- Current trading performance is impacted by management focus on change programmes

### Our opportunities

- Common seasonality, scale, and global sourcing opportunities allow us to enhance margins
- Leveraging Group systems, processes, and structures allows us to improve efficiency and productivity

### Strategic focus areas to mitigate risk and maximise opportunity



# 7

## SUSTAINABILITY

Retailers continue to experience a significant change in mind-set among consumers that doing business is no longer only about profit, but also creating shared value and meeting responsibilities to contribute to economic development and give back to communities and our planet. Continued water shortages will place pressure on input costs in the short term, with prolonged and severe shortages negatively impacting consumers and economic growth in the longer term.

Changing and unseasonable weather patterns are influencing customer shopping patterns with a misalignment of trading seasons and climate.



Woolworths SA, Supplier

### Our risks

- Failure to maintain sustainability leadership position resulting in the loss of competitive advantage and brand deterioration
- Scarcity of supply and increasing cost of natural resources (especially water and energy) impacting our operations and supply chain
- Unable to provide appropriate trans-seasonal merchandise in response to changing weather patterns

### Our opportunities

- Expansion of the Good Business Journey's (GBJ) principles and initiatives throughout the Group
- Revised GBJ targets and commitments will deliver renewed focus
- We form part of a complex and globalised supply chain with the potential to influence both upstream and downstream value chain players in order to drive positive and sustainable change
- Increased focus on speed to market and shorter critical path for design and production

### Strategic focus areas to mitigate risk and maximise opportunity





## STRATEGIC FOCUS AREAS

*We measure our performance in more than just financial terms. We have six strategic focuses that we drive at a Group level. Our long-term success depends on our ability to use our resources to implement the Group's strategy, achieving our targets for each strategic focus area and thereby creating value for all our stakeholders.*

### PERFORMANCE INDICATORS OF OUR STRATEGY AGAINST TARGETS

ACHIEVED ^ PARTIALLY ACHIEVED - MISSED v

		2017		
		WSA	DJ	CRG
	CUSTOMER RELATIONSHIPS			
	Number of active customers*	3.3m ^	2.5m ^	2.1m ^
	% revenue tracked on loyalty cards	75% ^		83% ^
	CONNECTED RETAIL			
	Growth in online sales	33.1% ^	21.9% ^	24.5% ^
	% online sales	0.7% ^	4.3% ^	15.5% ^
	Net new space	3.8% ^	(0.8%) ^	3.4% ^
	LEADING FASHION RETAILER			
	Sales	R13.9bn v	A\$2.2bn v	A\$1.1bn v
	Comparable sales growth	(1.1%) v	(0.7%) v	(0.4%) v
	Gross profit margin	47.9% -	37.0% -	60.3% -
	Return on sales %	15.6% v	6.3% v	9.3% v
	Market share (12mma)**		Increased ^	Increased ^
	Customer perception on fashion and quality***	Improved ^	Improved ^	Improved ^
	BIG FOOD BUSINESS			
	Sales	R27.7bn -		
	Comparable sales growth	4.6% -		
	Gross profit margin	25.1% ^		
	Return on sales %	7.3% ^		
	Market share (12mma)**	Increased ^		
	Customer perception on price***	Improved ^		
	DRIVE SYNERGIES			
	Cost to sell %	22.7% ^	32.2% ^	51.4% ^
	EMBED GBJ			
	% targets achieved on sustainability scorecard	85.0% ^	87.0% ^	65.0% v

\* For David Jones, this represents the number of customers for whom we have collected email addresses

\*\* WSA C&GM market share unavailable; as per Quantum Research for DJ and CRG; as per Nielsen for WSA Food

\*\*\* As per customer surveys by Millward Brown, Leading Edge and Prescience Research for WSA, DJ and CRG respectively



**build stronger  
MORE PROFITABLE  
CUSTOMER  
RELATIONSHIPS**

Our customer insights and data will drive and inform all our business decisions as we become a more customer-obsessed Group. To build on this, we continue to enhance our loyalty proposition and offer our customers a connected retail experience.

**HOW WILL WE ACHIEVE THIS**

- Deepen our understanding of our customers
- Lead the market in customer loyalty and increase membership, retention and spend
- Build and leverage a single view of the customer, enabling customers to be recognised in real time, with delivery of personalised, seamless service across all our channels
- Embed customer insights and analytics across the Group as a core competency

% revenue tracked on loyalty cards



**towards  
CONNECTED  
RETAIL**

We are focused on offering our customers a connected retail experience. This entails connecting our customer seamlessly from our physical store to our digital experience, and helping our staff deliver a consistent, brand-aligned customer experience.

**HOW WILL WE ACHIEVE THIS**

- Increased focus on the customer and integrated, customer-focused technology to move from a 'silo-ed' channel approach to a connected retail experience
- Define the ideal customer experience by format, channel, and services
- Digitally transform stores, improving connectivity to enable staff and customers to engage differently
- Build our digital channels with increasing focus on mobile commerce
- Balance our future real estate growth with the future demand for online

Growth in online sales



**be a  
LEADING FASHION  
RETAILER IN THE  
SOUTHERN HEMISPHERE**

We differentiate ourselves on quality fashion that is relevant to our customers through clearly segmented, design-led ranges and innovation.

**HOW WILL WE ACHIEVE THIS**

- Continue to differentiate products that lead the market in quality, innovation, and sustainability, through a world-class supplier base
- Build fashion credibility by delivering differentiated, design-led ranges
- Grow our private label brands and actively manage concession brands
- Strengthen our value proposition
- Offer the right product, at the right time, at the right place
- Grow margins through Group sourcing

Comparable sales growth



**become a  
BIG FOOD BUSINESS  
WITH A DIFFERENCE**

We are focused on providing our customers with consistent superior quality, flavour, and innovative food at great value.

**HOW WILL WE ACHIEVE THIS**

- Entrench our food authority credentials through freshness, quality, flavour, and innovation
- Offer our customers a comprehensive but edited range of most-wanted and needed items for every shopping occasion
- Maintain our strong private label offering with carefully chosen third-party brands that complement our ranges
- Deliver great value, balancing price with quality, innovation, and sustainability attributes
- Develop and grow supplier partnerships and utilise these partnerships to differentiate our offering
- Provide convenience in product, format, and channel

Comparable sales growth



**drive  
SYNERGIES AND  
EFFICIENCIES ACROSS  
THE GROUP**

A key strategy for the Group is to leverage scale across the southern hemisphere. Through closer integration across business operations, we will drive efficiencies and add significantly to profitability.

**HOW WILL WE ACHIEVE THIS**

- Enhance margins through Group sourcing
- Creation of a single regional corporate structure in Australia
- Co-location of David Jones and Country Road Group in Australian head office
- Leverage real estate in Australia
- Leverage and invest in distribution capacity and capabilities to support growth
- Embed a mindset of continuous improvement in productivity and ongoing cost optimisation

Cost to sell %



**embed  
THE GOOD BUSINESS  
JOURNEY THROUGHOUT  
THE BUSINESS**

Our vision is to be one of the world's most responsible retailers. We will achieve this by entrenching our Good Business Journey programme throughout the Group. Through this programme, we embed sustainability into every aspect of our business model. We have committed to achieving aggressive targets by 2020 and aim to achieve them through focusing on eight sustainability pillars.

**HOW WILL WE ACHIEVE THIS**

- Transformation of our business and supply chain
- Contributing to social development priorities where we operate
- Health and wellness for our customers and our people
- Ethical trade
- Sustainable farming and sourcing of raw materials
- Reducing waste across our business and helping customers to do the same
- Reducing water consumption to manage scarce water resources
- Improving energy efficiency

% targets achieved on sustainability scorecard



AGAINST TARGET

ACHIEVED  PARTIALLY ACHIEVED  MISSED 



# 10 YEARS OF OUR GOOD BUSINESS JOURNEY

In celebration of 10 years of our Good Business Journey programme, we highlight some of the case studies and milestones which we have achieved.

**This is an important celebration which allows us to remind ourselves that business is no longer about profit alone, but about creating shared value and delivering on our commitments and responsibilities to empowering our people and protecting our planet.**



WINNER OF INTERNATIONAL RESPONSIBLE RETAILER AWARD

AS OF 2017, WE HAVE



**PRIMARY PRODUCE, HORTICULTURE, AND WINE SUPPLIERS**  
AND 87 OF OUR SECONDARY SUPPLIERS WORKING AS PART OF THE SCHEME

## FARMING FOR THE FUTURE



Woolworths' pioneering approach to growing food in a sustainable, harmonious way is now in its eighth year.

Farming for the Future manages the entire farming process from the ground up, with soil quality at the heart. Healthy soil requires fewer chemical inputs and more efficient irrigation, resulting in less chemical run-off and soil erosion with positive biodiversity impacts. An independent auditing and certification scheme works with the farmers to continually improve their performance through the development of individual enhancement programmes based on the farmers' individual needs, at no extra cost to the customer.

Read more in our Good Business Journey Report at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).



# 31%

OF WOOLWORTHS COTTON IS RESPONSIBLY SOURCED (BETTER COTTON INITIATIVE AND ORGANIC)



## SUSTAINABLE COTTON

We have set an ambitious Group target that by 2020, all our cotton products will be from sustainable production, including organic and Better Cotton Initiative (BCI) cotton.

Woolworths currently sources 31% sustainable cotton. In collaboration with the Sustainable Cotton Cluster (SCC), governed by Cotton SA and a number of retailers in South Africa, we have also been supporting the renewal of the local South African cotton sector. The SCC has been working to introduce BCI standards and certification at the farm and producer level – enabling a supply of local BCI into our clothing supply chain.

Country Road Group was one of the first Australian retailers to become a member of the BCI, in March 2016, and has been engaging with suppliers to set up strategies for working with BCI-accredited mills and sourcing Better Cotton. With support from CRG's top five cotton suppliers, the business has sourced over 230 tons of Better Cotton to date and is working to convert at least 30% of its cotton products to more sustainable cotton (BCI or organic) in FY2018.

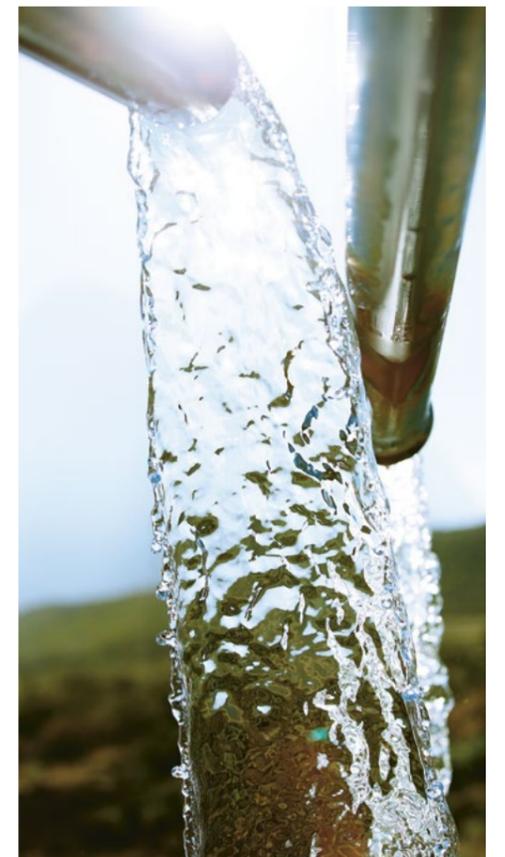
## WATER

Woolworths has been on a journey to drastically reduce the amount of water we use by putting water use into focus in stores, head offices, distribution centres and across the supply chain. Smart water meters are installed in all stores and distribution centres, allowing us to actively monitor our water usage. Through advancements in real estate and store design, Woolworths has achieved a 56% reduction in water consumption in the last 10 years. A grey water treatment plant at Woolworths head office was introduced in 2015, harvesting a spring that runs under the head office complex. It was further expanded in 2017 and now provides 57% to non-potable water uses and reduces our reliance on precious potable water resources.

In response to the severe water shortages in the Cape Town area, the Woolworths Financial Services head office installed 15 000 litre capacity rainwater tanks for non-potable water uses such as toilet flushing, with further expansion planned in the coming year.

We have invested considerable efforts in engaging with our employees in water savings and have also revised cleaning processes to minimise unnecessary potable water consumption, and developed emergency contingency plans.

David Jones and Country Road Group continue to focus on the roll-out of smart water meters into stores and distribution centres, given the importance of water efficiency and drought resilience to the Australian community.



RAISED  
**R10.7M**  
 FOR CHARITY THROUGH SALE  
 OF OUR REUSABLE BAGS

**WORKING TO PROMOTE REUSABLE BAGS**

The use of plastic bags at till points has long been a concern for us, as well as for many of our customers and the government. It is for this reason that a plastic bag levy was introduced by the South African government in 2003. While it has not been feasible to eliminate the sale of plastic bags at till points so far, we have taken a number of steps in order to reduce the impact of single-use plastic bags throughout our operations. Customers are encouraged to buy and reuse one of our cause related polypropylene or recycled plastic reusable shopper totes, and we continue to promote the use of recycled content within our single-use plastic bags.

Reusable bag sales have steadily grown since their introduction in 2011 and remained fairly stable



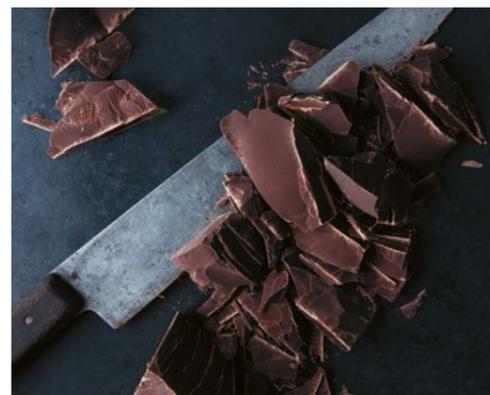
over the past two years, with 1.85 million bags sold per annum. Our ranges of the colourful fabric bags are made using 85% post-consumer PET waste. By selling reusable bags we support 140 jobs and skills development at Woolworths two main reusable bag suppliers – Isikhwama, based in Cape Town, and Gusco, based in Uitenhague.

In 2010, Woolworths introduced limited edition reusable bags that offer customers the opportunity to help save our endangered wildlife and marine life and support community development programmes such as Operational Smile and Qubheka. With our customers' support we have raised over R10 million for these efforts.

**RESPONSIBLY SOURCED COCOA**

A number of years ago, we set out about transforming the cocoa used in our chocolate by sourcing UTZ Certified cocoa. UTZ provides assurance that the cocoa has been grown and harvested responsibly. The programme ensures that farmers learn to improve the quality and yield of their cocoa while reducing their impact on the environment and enabling them to take better care of their families.

We currently source 100% UTZ Certified cocoa for all the Woolworths private label boxed chocolates, slabs and bars, a year ahead of our original timelines. Woolworths has set itself the goal of only using certified sustainably sourced cocoa in all its products by December 2018.



**A COMMITMENT TO NUTRITIOUS FOOD**

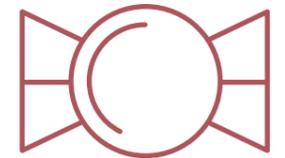


The Good Food Journey is the name we've given to our on-going pursuit to offer South Africa food that's better for our customers, better for the environment and better for the people who produce it.

It encompasses everything from avoiding additives like tartrazine and all other azo-dyes, MSG, aspartame, saccharine and cyclamate in our foods, switching to natural colourants and flavourants, never using mechanically deboned meat, labelling ingredients from potentially GM crop sources and offering more organic and free range choices, to caring for the welfare of animals and promoting healthy eating as part of a healthy lifestyle, which includes reducing the salt in breads, cereals, deli meats and providing nutritional information on most products for customers to make informed choices.

In 2016, Woolworths made a decision to remove all sweets and chocolates from food checkout aisles, reflecting a commitment to providing better alternatives for children and parents at checkout, particularly in light of the many health-related issues faced by children in South Africa today. As of 2017, all stores have implemented the change across South Africa and Africa. This milestone represents a huge transformation for Woolworths, with both operational and financial impact.

**SWEETS REMOVED FROM ALL WOOLWORTHS CHECKOUT AISLES IN SA AND ELSEWHERE IN AFRICA**



**53%**

**OF WOOLWORTHS CLOTHING AND GENERAL MERCHANDISE IS SOURCED FROM WITHIN THE SADC REGION, OVER 90% IN FOODS**

**THE CLOTHING BANK**

Each year, Woolworths donates tonnes of new clothing to the Clothing Bank, one of our partner organisations, and has set up collection stations in some stores for customers to participate. The Clothing Bank aims to empower unemployed women from disadvantaged areas in South Africa through a programme of life skills, financial and career development to start sustainable clothing micro-businesses. The programme was launched in 2010 as an enterprise development programme through R1.5 million start-up capital from Woolworths.

The Clothing Bank not only gives some of the clothing we donate to non-profit organisations, welfare institutions and government services to distribute to the needy – it also empowers unemployed single mothers so they can build better lives for themselves and their children. R44.7 million worth of surplus clothing was donated to The Clothing Bank in the last financial year.





**CAUSE RELATED MARKETING IN ACTION**

In South Africa, the MySchool MyVillage MyPlanet programme has raised R393 million in the last 10 years through 1.2 million active MySchool cardholders and supporters for 8 127 beneficiary schools, NGOs and charity partners.

Through the annual White Shirt Campaign and the sale of The Silver Gift Collection, the total donations raised by Witchery for the Ovarian Cancer Research Foundation (OCRF) has reached over A\$10 million, since first partnering in 2000. Witchery's on-going support has enabled the OCRF to appoint several full-time research scientists and buy vital medical equipment to assist their efforts in finding an early detection test for ovarian

cancer. 2018 marks the 10th anniversary of the White Shirt Campaign.

David Jones ran a number of fundraising campaigns for the National Breast Cancer Foundation in FY2017, which generated more than A\$180 000 in contributions from the business, employees, and customers. Some of these campaigns include sales of Pink Ribbon merchandise through October 2016, donations equivalent to 5% of all sales from Intimate Apparel through October 2016 and May 2017, employee fundraising through the Mother's Day Classic, and customer contributions from the charity auction at the annual Mother's Day High Tea.



**R2.4BN**

IN VALUE CREATED OVER THE LIFE OF OUR BLACK EMPLOYEE EMPLOYMENT SHARE OWNERSHIP SCHEME AND R332M IN DIVIDENDS DISTRIBUTED TO BENEFICIARIES OVER THE LIFE OF THE SCHEME

**BLACK ECONOMIC EMPOWERMENT EMPLOYEE SHARE OWNERSHIP SCHEME (BEESOS)**

On 30 June 2007, we launched our Black Economic Empowerment Employee Share Ownership Scheme in a commitment to socio-economic transformation in South Africa and with the intention of empowering and benefiting Woolworths employees.

The scheme was open to all employees who were employed as at 1 May 2007, with the exception of white employees who already participated in an existing Woolworths share ownership scheme. Shares were allocated to previously disadvantaged employees based on length of service and seniority, with 75% of the scheme beneficiaries working in the stores. The scheme was unlike other broad-based schemes in that employees were not required to pay for the initial share allocations and had the opportunity to receive regular dividend income and capital growth over the eight-year scheme.

The scheme matured on 30 June 2015 and the shares allocated were converted into WHL ordinary shares, which the qualifying employees could retain or sell and benefit from the capital growth. This transaction created R2.4 billion in value for the participants, with R332 million paid out as dividends over the period of the scheme.



**R494M**

WORTH OF ELECTRICITY SAVED TO DATE THROUGH ENERGY EFFICIENCY INTERVENTIONS



**122**



STORES MEET OUR GREEN STORE STATUS AS PER OUR RATING MODEL BASED ON SUSTAINABILITY FEATURES

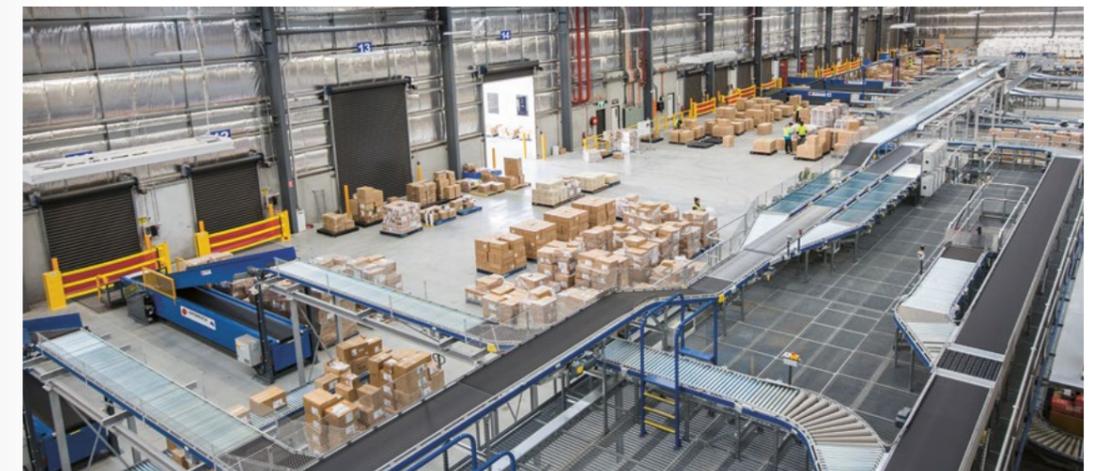
**ENERGY EFFICIENCY AND GREEN BUILDINGS**

Whenever we design a new store, we look at how to include energy-saving elements like natural ventilation, automated lighting systems, and energy-efficient lighting in the building's design. We're also using a natural gas (CO<sub>2</sub>) instead of synthetic gas for store refrigeration because CO<sub>2</sub> has virtually no impact on the earth's ozone layer and a negligible climate impact.

Our approach to green buildings has primarily focused on implementing our own certification programme developed by our real estate team. In South Africa, 122 stores have been assessed and rated to date. The Palmyra store in Cape Town in 2017 became the first retail outlet to achieve a 5-star rating certified by the Green Building Council South Africa (GBCSA), using the Green Star SA - Existing Building Performance Custom Tenant rating tool.

In 2015, Country Road Group's Omni-channel Fulfilment Centre was the first facility in Victoria to receive a 'Five Star Greenstar - Industrial As Built v1' rating from the Green Building Council of Australia (GBCA); and in 2017, David Jones' new store at Barangaroo was accredited as Australia's first Greenstar rated department store, using the GBCA's Interiors assessment tool.

David Jones also achieved a 38% relative reduction in energy achieved from the 2005 benchmark in David Jones' stores, while Woolworths has reduced relative energy usage by over 42% since 2004.



Country Road Group, Omni-channel Fulfilment Centre

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# OUR RESULTS

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access to content*

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# OUR CHAIRMAN'S REPORT

*This year has been a challenging one for the Group. The deeply concerning political and economic landscape in South Africa, the tightening consumer environment in Australia and the on-going migration of David Jones into our world, have each been sizeable challenges in their own right. Each too, will serve to strengthen the Group.*



They have reminded us to refocus on our core strengths – beautiful, wanted merchandise at prices that offer surprising value for money, all within a deep values-based context. Our growing scale and our ability to operate sustainably across two geographies, continue to be core assets that will differentiate us into the future.

This differentiation has never been more relevant as retail evolves into a seamless mix of online and traditional shopping patterns. Our combination of private label, unique merchandise and the very special experience in our departmental stores set us up well for this changing world.

Encouragingly our leadership teams in the operating divisions are generating some real green shoots.

In South Africa, despite the economic climate, the Woolworths Food business continues to gain share of market and is back in volume growth. The teams have stuck to their knitting of

providing outstanding quality, real innovation and correct pricing. They have combined this with improved availability to keep this business different and special for our customers. Clothing too, in Woolies, is performing slightly ahead of what is truly a difficult market. Here, also, the economic headwinds that our customers are feeling and the on-going expansion of top foreign competitors, keep on driving us back to the core set of values which our customers so deeply trust – sourcing beautiful goods with a difference at value for money prices.

Woolworths has again been recognised as the most valued apparel brand in South Africa's Top 50 Brand report for 2017. Brands are valued to determine the most powerful by country, by industry, and against other brands worldwide. We have been rated as one of the strongest brands in the country, receiving an AAA- rating.

David Jones was always predicted to have been a transformational acquisition for the Group. It has itself needed



**David Jones, Foodhall, Bondi Junction**

considerable re-engineering. New systems, new processes, a rejuvenated Food business, and the move to Melbourne where much of Australia's retail talent is based, will all come together to create strong investment returns for our shareholders.

The WHL Board confirmed our plans to invest almost A\$200 million from the funds generated by the sale of the David Jones Market Street property in Sydney to refurbish the company's flagship Elizabeth Street store. We are fortunate to be able to share thinking with international departmental store peers from London to Paris to Bangkok. Their experience in capital cities with big tourism potential has been that magnificent (and effective) flagship stores can indeed be very profitable.

Excitingly too, we have launched our first new David Jones food market in Bondi Junction in Sydney. This has taken good learnings from the Woolworths Food business in South Africa and merged those with both Australian shopping habits and

international trends in food retailing. Our customers are excited, sales are ahead of target and we are seeing a real uplift in apparel sales in the store.

In Country Road Group, despite a tough and ever more competitive environment, a fresh injection of merchant leadership has focused those brands on getting the right goods bought and delivered to our customers ever more quickly during the seasons. This division also leads the Group in online sales and the learnings from that are now being spread to David Jones and Woolworths in South Africa.

For the period, Group sales increased by 3.0% to R74.3 billion. Earnings per share (which includes the profit on disposal of the David Jones Market Street property) increased by 24.8%. Headline earnings per share (HEPS) and adjusted diluted HEPS declined by 7.6% and 7.9% respectively and the total dividend was maintained in line with last year.



### GOVERNANCE FOR VALUE CREATION

We are fortunate to have a strong and diverse Board which continues to guide and oversee our management team in delivering the Group's strategy. Our governance policies and practices continue to be informed by local and international best practices, but most of all they remain underpinned by the deep values of the Group. These give us the primary moral guidance in doing the right thing transparently and openly for all stakeholders.

In September 2016, Chantel Reddiar was appointed as Group Company Secretary and Head of Governance, Risk and Compliance and her insight and knowledge have already contributed towards the quality of our governance structures.

Thina Siwendu, an independent non-executive director, resigned from the Board in February 2017 after her appointment as a full-time judge of the Gauteng Local Division of the High Court, Johannesburg. I would like to express my deep gratitude to Thina for her significant contribution to the Board, particularly for her instrumental role as Chairman of the Social and Ethics Committee. I wish her great success with her new responsibilities. Nombulelo (Pinky) Moholi has assumed the role of Chairman of the Social and Ethics Committee and is already making a significant impact.

Following the announcement of a new, single regional corporate structure and regional leadership team for our Australian businesses, I am pleased to inform shareholders that, in conjunction with his appointment as Chief Executive officer of WHL Australia, John Dixon has now been appointed as an executive director of the WHL Group. John joined us in January 2016 as Chief Executive Officer of David Jones from Marks & Spencer (M&S), where he started his career in 1986. He joined the M&S Board in 2009 as Managing Director of Food and led the turnaround of that business before his appointment as Managing Director of Clothing and Home. We welcome John onto the board.

After serving over 11 years as a Non-executive Director, member of the Audit and Remuneration Committees, and trustee of the Woolworths Holdings Share Trust, Peter Bacon will retire from the Board and Trust at the conclusion of the November 2017 Annual General Meeting. I would like to thank Peter for his remarkable contribution to the Group and wish him well in his future endeavours.

### OUR GOOD BUSINESS JOURNEY – VALUE CREATION FOR OUR SHAREHOLDERS

We place great value on our Good Business Journey, the GBJ, to sustainably deliver real value for all our stakeholders. We celebrated 10 years of this journey during the year. The GBJ was launched in South Africa in 2007 to formalise the greater role that Woolies saw it should play in the world around us. We took a key decision to run our business in a way that added back to the community around us and to the environment that sustains that community.

This has been an enormously successful journey. It has helped us save hundreds of millions of rands of costs and driven greater value for shareholders, staff and suppliers. We have given some billions of rands of date-expired food to the underprivileged and are approaching half a billion rand of direct support for individual schools through our 'MySchool' programme. We have reduced our own electricity and water footprints by over 40% and have dramatically changed the ecological footprint of our Food business in South Africa. We have a strong proven track record in enterprise development and transformation.

This journey is now spreading to David Jones and Country Road Group. They are both reporting considerable positive impact on the communities around them. In each country in which we operate we are finding it easier to recruit top talent who increasingly wish to associate with companies for whom doing good is good business. Ian Moir talks of our vision to be one of the world's most responsible retailers. He and his team's dedication to sustainably create value for all shareholders remains the bedrock of this Group and further differentiates us from our competitors.

**We have reduced our own electricity and water footprints by over 40% and have dramatically changed the ecological footprint of our Food business in South Africa.**



### TOWARDS A VALUES DRIVEN SOUTH AFRICA

I talked last year about the lack of values demonstrated by our South African national leadership. Never before has this been more evident than in the recent firing of Pravin Gordhan by Jacob Zuma in March. As a direct result, the country's credit rating was downgraded and trust in government dropped to an all-time low. The president's apparent concern for his personal interests above those of the country has put incredible strain on the economy. Already hampered by red tape and restrictive labour legislation, it is now exceedingly difficult for business, especially small entrepreneurs, to drive meaningful, inclusive growth and jobs. As ever, the greatest sufferers will be the poor and those millions desperately seeking employment.

I write this report on the morning after the No Confidence Debate. How difficult it is, even for a free nation, to remove corruption when, from what is so widely reported, it starts at the top. As a business leader, I am proud that in the private sector in South Africa we have such strong checks and balances. Our corporate governance is among the best in the world. Whereas in our state institutions, those same checks and balances are being eroded daily - and nowhere more so than in our state-owned enterprises. There is no rational reason for many of these to even exist.

Our privately owned airlines serve the public well, employ thousands, make profit and pay taxes that are then wasted by an unnecessary state-controlled airline. The same is true of PetroSA and much of the electricity generating industry. Most of the ills of these institutions could be eliminated with proper independent governance, independent shareholders and, above all, transparency and accountability for both their boards and their executives.

We are fortunate still to have some key pillars of civil society prepared to act in defence of the South African constitution and its people. We have a proud and independent judiciary which has been handing down critically important judgements,

affirming that the executive needs to act rationally and in the interest of the nation. We have a free press which is showing great courage. They are exposing more and more of the detail of state capture and the links between the Gupta family, the president and some members of his cabinet. We too, have the ballot box and we have civil society itself. That civil society in South Africa has not been at such risk since the days of apartheid. Woolies role in those dark days was to act and speak bravely as a constant agent for change and transformation. We continue to accept that role as part of our values today and will do so for as long as is needed.

We are active in a number of civil and business groups, working together with those areas of government that we feel we can trust. We are also particularly proud of our association with Business Leadership South Africa (BLSA). Under its new leadership BLSA is taking a principled stance in driving transparency in government and in supporting the role of business as our nation's key engine of economic transformation.

The current climate has forced, not just Woolworths, but thousands of other businesses around the country to pull back on capital expenditure and on job creation. The sooner we see a change towards a values-based political and economic leadership, the faster we can all get back to growing our economy and to creating those desperately needed jobs.

Across the Indian Ocean sits Australia. That nation's deep commitment to transparent government, steeped in values and principles, has driven enormous transformational benefits to its citizens. Its culture of accountability is a telling example to South Africa's leaders. Our decision over the past few years to expand our footprint in Australia has been strongly vindicated. There is, though, little doubt that if South Africa were to come back on track from a moral and economic point of view, the Group's southern hemisphere strategy will be doubly powerful.

### THE WAY FORWARD

We see little short-term relief to the current economic headwinds in our markets. Ian and his team are committed to nurturing the green shoots they have created. As we grow, this Group will emerge stronger, leaner and more sustainable into the future. We have over 44 000 dedicated and passionate

employees. They and our suppliers across the globe are each committed to adding quality to the lives of our many millions of customers. On behalf of the Board, I thank them all for their efforts during the year. They are indeed the deepest roots of our value system.



Woolworths SA, Style by SA

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# OUR GROUP CHIEF EXECUTIVE OFFICER'S REPORT

## **2017: A year of challenge and transformation.**

*We are experiencing rapid technological change, altered customer behaviours, and a globalisation of retail competition. We are clear that we need to recognise these challenges and build a future-fit business that will be very different to the one of the past.*



Retail is in the midst of significant structural and cyclical change in the markets in which we operate. Political and economic turmoil in South Africa and a challenging economic environment in Australia are creating a customer lacking in confidence and reluctant to spend. In that context, 2017, and indeed, 2018, will be years of real transformation.

### **PERFORMANCE IN SOUTH AFRICA**

South Africa has experienced a particularly challenging year with political turmoil and low economic growth resulting in the rating agencies' downgrading of the country's sovereign risk rating. Consumer confidence has been significantly depressed as a result of the downgrade and the continued political uncertainty. This has been further exacerbated by stricter credit conditions, higher tax rates, and high levels of unemployment. This lack of growth and consumer confidence directly impacted consumer spending, particularly in the Clothing and General Merchandise markets, and this is reflected in the subdued sales growth of our Clothing and General Merchandise business of 1.4% on last year.

Notwithstanding the difficult trading conditions, we continued to build our fashion credibility with our segmented, brand directed customer experience. We launched (&US) for the Tween demographic and further segmented our womenswear offering by rebranding our modern merchandise as EDITION. We signed contracts with market-leading beauty brands including Chanel, La Mer, Bobbi Brown, Estée Lauder and Clinique, and will continue on the journey of becoming a Beauty destination. Food continued to outperform the market with sales up 8.6% from last year. We have focused on price competitiveness without compromising on the superior quality, innovation, freshness, and sustainability attributes for which we are renowned.

### **PERFORMANCE IN AUSTRALIA**

The Australian retail market continued to be negatively impacted by historically high household debt, low wage growth, and high levels of underemployment. This has led to subdued consumer confidence and, along with increased competition from northern hemisphere entrants, resulted in unprecedented levels of promotional activity in the market.

David Jones sales increased by 1.0% (in Australian dollar terms) on last year. The termination of the Dick Smith electronics concession last year negatively impacted growth by 1.0%. However, despite the reduced consumer confidence and lower footfall, we managed to maintain our relevant market share over this period.

Country Road Group sales, including sales in South Africa, increased by 5.1% (in Australian dollar terms) and by 1.4% excluding the acquisition of Politix. In light of the difficult trading conditions, I am pleased with the turnaround experienced by CRG in the second half of the year, especially in Country Road and Witchery, as new leadership, a more customer-led approach, refreshed marketing, and modernised processes reconnected the brands with their core customers.

### **THE TRANSFORMATION IN AUSTRALIA**

We continue to drive the transformation of David Jones and the growth and turnaround in Country Road Group.

In the current year, we made good progress with numerous key initiatives in David Jones. Our new Customer Relationship Management programme, introduced in July 2016, is a key enabler for us to gain a deeper understanding of our customer and to use this information to inform our business decisions. We have already seen the benefits of more active and targeted customer engagement through increased website visits and direct email communication, which has contributed towards an increase in frequency and spend of our customers. The next stage of this journey includes introducing a new tiered regional loyalty programme in Australia. This will further embed our customer-centric culture and provide us with richer and deeper customer insights from an enlarged regional customer database. These introductions will allow us to attract new customers, drive up-selling and cross-selling opportunities, and optimise our marketing expenditure and promotions through more targeted and direct communication.

The performance of private label, which include the David Jones, Woolworths, and Country Road Group brands, remains one of the key levers in our transformation and growth journey. Woolworths private label brands, including RE, Studio.W, and JT One, now occupy over 100 pads in our stores. The initial performance of the brands was hampered by poor visibility and availability due to system and supply chain issues. However, we have reflected on the lessons learnt, implemented numerous improvements to our processes and refined our pricing and merchandise selection to appeal to our target customers.

With its deep understanding of the Australian customer and its strong design capability, Country Road Group will now assume responsibility for the design of the David Jones private label brand. We will also continue to optimise the space allocation of the brands and remain confident that the private labels will continue to strengthen as the brands gain traction in the market.

In August 2016, we sold the David Jones Market Street building in Sydney for A\$360 million and we will now invest up to A\$200 million in redeveloping our iconic Elizabeth Street store in the heart of the city's dynamic retail precinct. This store will set a new benchmark in Australian and global retail as we bring together a unique combination of contemporary luxury fashion and gourmet food under one roof while maintaining David Jones' proud heritage and history. This will include a new restaurant developed in partnership with renowned Australian chef, Neil Perry.

A three-year lease-back of our Market Street store and a coordinated, phased approach will limit the disruption to our customers. The redevelopment of Elizabeth Street will commence in the second half of 2017, with completion expected in the second half of 2019.

We have made a great start to re-invigorating the David Jones Food business to provide our customers with an authentic food experience that offers consistent superior quality, flavour, and innovative fresh food at good value. This includes a new food store design that creates a food destination that celebrates Australian living and puts eating at the heart of the customer experience. This is reflected in the re-launched Foodhall at Bondi Junction, which opened in August 2017.



*David Jones, Foodhall, Bondi Junction*

We also focused on enhancing our food offering to differentiate ourselves from the traditional supermarket and to bring our customers best-in-class product which supports the best of Australian food. Two production facilities were commissioned by one of our key, exclusive suppliers, which provide us with innovative private label produce and prepared food ranges. Along with our shared Group knowledge and expertise, we will continue to bring our customers the best of the world in foods with premium private label product and excellent food services.

We continue to invest in transformational initiatives in David Jones to reduce the cost of doing business and improve our customer experience. In July 2017, we introduced our new world-class merchandise system, which will optimise trading and reduce markdowns. We will also be implementing a new website platform that will enhance the customer experience by being mobile responsive, quicker and easier to navigate, and provide richer content and online services.

In November 2016, Country Road Group acquired Politix, a leading Australian menswear brand which has a distinctly modern and detailed focus that appeals to a broad base of fashion-conscious men aged 18 to 35. This is consistent with our southern hemisphere retail strategy of building a strong and diversified portfolio of iconic brands.

Scott Fyfe was appointed as the new Chief Executive Officer of CRG in January 2017. Prior to joining CRG, he worked for 20 years at Marks & Spencer in a wide variety of roles spanning buying, merchandising, and sourcing. He has already made positive changes in CRG and I look forward to his further contribution during this exciting time.

We have begun the exciting process of establishing a new designed-for-purpose Australian head office in Melbourne, co-locating the service functions of both David Jones and Country Road Group. The creation of a centre of retail excellence and singular operational hub under common leadership will create substantial financial, operational, and cultural benefits.

**We have made a great start to re-invigorating the David Jones Food business to provide our customers with an authentic food experience that offers consistent superior quality, flavour, and innovative fresh food at good value.**



### APPRECIATION

Our Group now employs more than 44 000 employees in 14 countries who deliver value to our millions of customers on a daily basis. I would like to thank them for their hard work and commitment to meeting our customers' needs and exceeding their expectations. I would also like to thank the Board for their guidance and support during the year, and the management teams of the Group for their leadership and focus on driving the delivery of our strategic objectives.

### OUTLOOK

Market conditions in the year ahead are likely to be constrained by the same economic and political conditions that impacted our performance during the year under review and we will continue to see more structural change both in South Africa and Australia. However, we expect our Food and Clothing businesses in both regions to continue to outperform their respective markets and we will continue to invest in our transformational initiatives, most notably in David Jones.

### THE FUTURE OF RETAIL

Retail is likely to change more within the next five years than it has done in the last fifty years due to rapid technological developments and an increasingly digitally connected customer. These trends will influence the products and services we provide, how we present and sell our products, and even the type of stores we decide to build.

The upcoming generation are strongly supportive of good corporate citizenship. They want to know what retailers care about and how the act of buying can be a force for good. The way in which we speak to our customers will also shift dramatically. Retailers will no longer have the loudest or most important voice – this will belong to the customer – and we will need to pursue personalised, transparent, and active dialogues with our customers. Increased personalisation will extend further into appealing tailored products, services, and rewards. While the rise of online retail cannot be downplayed,

the biggest change in retail may, in fact, be in the physical store. Indeed, a 'one store fits all' notion will seem archaic. Our stores will need to take on many different forms with deliberate variations in formats and offerings to best meet the diverging needs of our customers. Furthermore, the physical store will need to be re-imagined to deliver truly unique in-store experiences and will remain a critical way to engage and connect with customers.

We have clear Group strategic priorities which both address future retail trends and stand us in good stead during the more difficult trading conditions that face us in the immediate future. We remain confident that our strategies will deliver future-fit businesses capable of long-term profitable growth, continued market share gains, and sustainable value creation for all our stakeholders.

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# OUR GROUP FINANCE DIRECTOR'S REPORT

*We are focused on shareholder returns through the effective deployment of capital and ensuring that we deliver on our Group targets.*



## STRATEGIC PRIORITIES

From a Finance point of view, our strategic priorities in 2017 were:

- Achieving our 2017 and medium-term plan targets
- Delivering on our integration and synergy targets
- Focusing on cost management and longer term cost flexibility given the uncertain trading conditions
- Continued strengthening of the balance sheet and ensuring judicious and appropriate allocation of the Group's capital

The 2017 financial year has been described as the toughest since the global financial crisis. Although we continued to maintain or increase market share in the segments in which we operate, the tougher trading conditions in both geographies resulted in a year that was below expectations overall for the Group. The year was characterised by low growth and political and economic uncertainty in SA, and a discretionary retail sector under increasing

pressure in Australia, with lower footfall and declining consumer confidence. Performance in Country Road Group, however, improved in the second half. Our Food business also continues to grow ahead of the market in a tough grocery market, and delivered in excess of our medium-term plan Return On Sales (ROS) targets.

In delivering value for our shareholders, the focus on Group integration synergies was again a priority. A structured process ensures that we are focused on delivering on our transformational projects. We experienced challenges in private label in David Jones, which was exacerbated by the trading conditions referred to earlier. We have also identified and approved new opportunities that were not in our original targets, such as the Elizabeth Street store refurbishment and Food in David Jones. While these will be a drag on earnings in the short-term, we are excited by the initiatives and expect them to deliver substantial returns over the longer term. We were also pleased with the sale

price achieved for the DJ Market Street property, which will partly be used to fund these transformation projects.

Given the sales growth challenges and the increasingly promotion-driven retail environment, we have naturally focused on costs, with comparable store and head office costs well managed across the Group. We have also focused on developing greater cost flexibility in an increasingly uncertain trading environment. This includes a better understanding of cost drivers in our businesses. Each of the businesses requires varying degrees of investment and the growth in the cost base in DJ is a function of the investments in systems, processes, and real estate that is necessary to transform this business. The growth of online is also changing our approach to real estate and we are very focused on getting the right balance between bricks and mortar and online and pulling back on store real estate over the next three to five years, as online grows to c.20% of sales. Our longer term cost efficiency drive has gained significant traction with the relocation of DJ and CRG onto a single campus, the first phase of which starts in August 2017.

The balance sheet was fundamentally impacted by the 2015 acquisitions, changing the capital structure of the business, and requiring more active management of the balance sheet from a governance, liquidity, and risk perspective:

- Gearing continues to be proactively managed on clear Group capital allocation principles and internal covenant measures that are more stringent than the Group's banking covenants
- The debt assumed in South Africa at the time of the acquisitions has been restructured, altering the repayment profiles, covenants, and security, to the benefit of the Group from a cost and liquidity risk perspective. Consideration will be given to listed debt instruments in the future, market conditions permitting
- The Australian debt was amalgamated under a Common Terms Deed resulting in pricing benefits and extended facilities
- A number of measures have been put in place to strengthen the liquidity profile, such as converting uncommitted facilities to committed facilities and increasing the level of longer dated revolving credit facilities

The year ahead will see the continued refinancing of existing debt, broadening the source and type of funding, and managing the risk profile appropriately.

The Group Treasury Committee oversees all treasury activities of the Group and ensures proper governance and direction.

This committee, which meets quarterly and is chaired by myself, is an executive committee which reports into the Group Audit Committee. Members of the committee include the Group CEO and the Group Head of Treasury. The Chairman of the Audit Committee attends the meeting as a permanent invitee.

We have set clear capital allocation principles based on cost of capital and hurdle rates that have been implemented across the Group. Our focus is on improving ROE and ROCE by delivering shareholder returns significantly above the cost of capital. To this end, medium-term ROCE targets have been incorporated into long-term incentive targets.

## OPERATING PERFORMANCE

	2017 %	2016 %
Sales growth, including concession sales	3.0	16.4
Gross profit margin	39.6	40.6
Operating profit margin	8.4	9.7
Adjusted diluted headline earnings per share growth	(7.9)	8.9

The global economy, including South Africa and Australia, faced significant uncertainty during the year under review, resulting in slowing growth, depressed consumer confidence, and constrained spending. Our businesses were not unaffected by these events.

Our first half performance reflected the slowdown in the market, which slowed even further in the second half, resulting in a final year position which was behind the previous year. Our focus on expenses assisted in cushioning the result.

Profit after tax increased by 25.2% on last year to R5 448 million, due to the inclusion of the profit on disposal of the DJ Market Street property in Sydney. Excluding this profit and other property, plant, and equipment impairment, adjusted headline earnings declined by 7.6% to R4 036 million.



## SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	2017 Rm	2016 Rm	% change
<b>Turnover and concession sales</b>	74 273	72 137	3.0
<b>Turnover</b>	67 411	65 004	3.7
Cost of sales	40 739	38 618	5.5
Gross profit	26 672	26 386	1.1
Other revenue	1 944	1 926	0.9
Expenses	22 171	21 330	3.9
<b>Operating profit</b>	6 445	6 982	(7.7)
Net finance costs	1 160	1 186	(2.2)
Earnings from joint ventures and associate	260	250	4.0
<b>Profit before adjustments and tax</b>	5 545	6 046	(8.3)
Adjustments (pre-tax)	1 181	(13)	
Unrealised foreign exchange gains/(losses)	11	(13)	
Profit on sale of property	1 762	–	
Impairment due to sale of property	(342)	–	
Transaction, relocation, write-down and swap close-out costs	(250)	–	
Tax	1 278	1 680	(23.9)
<b>Profit for the year</b>	5 448	4 353	25.2
Other comprehensive income	(3 195)	3 651	
<b>Total comprehensive income for the year</b>	2 253	8 004	
<b>Reconciliation of headline earnings</b>			
Basic earnings attributable to shareholders of the parent	5 446	4 344	25.4
Adjustments for capital items (post-tax)	(1 401)	14	
<b>Headline earnings</b>	4 045	4 358	(7.2)
Adjustments to headline earnings (post-tax)	(9)	9	
<b>Adjusted headline earnings</b>	4 036	4 367	(7.6)

## REVENUE

Group sales, including concession sales, increased by 3.0% (up 4.4% in constant currency), despite difficult trading conditions in Southern Africa and Australia. The second half growth in sales slowed considerably compared with the first half, particularly in the fourth quarter.

C&GM sales increased by 1.4% and declined by 0.9% in comparable stores. Price movement was 6.6%. The growth of online and sales in the rest of Africa contributed positively to sales growth. Food growth remained above market throughout the period, delivering 8.6% growth on last year, with price movement of 8.4%.

DJ sales increased by 1.0% in Australian dollar terms. The termination of the Dick Smith electronics concession last year negatively impacted growth by 1.0%. Sales in comparable stores declined by 0.7% (excluding Dick Smith). CRG sales increased by 5.1% in Australian dollar terms and showed a marked improvement in the second half, reflecting the ongoing improvements to its ranges. The inclusion of Politix from November 2016 positively impacted sales growth; adjusting for this, sales were 1.4% higher. Sales in comparable stores declined by 0.4%. Online sales continue to grow well ahead of the market.

## GROSS PROFIT

Gross profit was up 1.1% on last year, although gross profit margin, at 39.6%, was 100 basis points down on last year. Margin gains across the Group from the benefits of Group sourcing initiatives and a stronger rand were offset by higher apparel markdowns and promotions due to higher promotional activity, as well as the impact of improving consumer value perception in Food through price investment.

## EXPENSES

Group expenses were up 3.9% on the prior year on an adjusted basis. This increase was primarily driven by strategic initiatives in DJ, the inclusion of Politix, and a 3.8% increase in store costs from ongoing store development. Within this, C&GM and Food expense growth was 3.8% and 6.0% respectively.

DJ costs were 4.9% higher, as a result of the commencement of strategic initiatives, including Food and the merchandise systems, which accelerated in the second half. In addition, the rental on the leaseback of the Market Street property contributed significantly to store costs, but also resulted in savings in depreciation and finance costs. CRG costs were 7.7% up on last year mainly due to the inclusion of Politix. We continued to actively manage our occupancy and operating costs through efficiency and synergy benefits to reduce the impact of tougher trade.

## EARNINGS FROM JOINT VENTURE

Profits from Woolworths Financial Services (WFS), our joint venture with Barclays Africa Group, were 4.4% up on last year, with performance impacted by rate adjustments and a higher impairment charge in a challenging collection environment, and implementation costs relating to compliance obligations under the National Credit Amendment Act. The average debtors book grew by 2.1% and the impairment rate was 60 basis points higher than last year, at 6.3%.

## NET FINANCE COSTS

Net finance costs of R1 160 million were 2.2% lower than last year, due to the reduction in the base rates in Australia and settlement of debt out of the proceeds on the sale of the Market Street property in Sydney. We continue to manage our finance cost risk through effective hedging. Net interest cover declined from 7.6 times to 7.3 times.

## TAXATION

The full year tax charge was R1 278 million. The Group's effective tax rate of 19.0% was 8.8% lower than last year due to the effect of the tax base of the Market Street property and other DJ assets attributed on acquisition. These benefits are excluded from the calculation of adjusted headline earnings.

## BASIC AND HEADLINE EARNINGS

Basic earnings increased by 25.4%, due to the inclusion of the profit on the sale of Market Street. Headline earnings and adjusted headline earnings, which exclude this profit and other property, plant, and equipment impairment, declined by 7.2% and 7.6% respectively.



## SEGMENTAL CONTRIBUTION

	2017 Rm	2016 Rm	% change	Constant currency % change
Woolworths Clothing and General Merchandise	2 168	2 306	(6.0)	
Woolworths Food	1 977	1 826	8.3	
Woolworths Financial Services	259	248	4.4	
Woolworths	4 404	4 380	0.5	
David Jones	1 305	1 839	(29.0)	(25.3)
Country Road Group	987	1 035	(4.6)	1.0
<b>Segmental profit</b>	<b>6 696</b>	<b>7 254</b>	<b>(7.7)</b>	<b>(6.0)</b>
Net finance and other costs	(1 151)	(1 208)	(4.7)	
<b>Adjusted profit before tax</b>	<b>5 545</b>	<b>6 046</b>	<b>(8.3)</b>	<b>(6.2)</b>

The Group results reflect the difficult trading performance across all segments, with a positive contribution from Food partially offsetting the downside in apparel.

DJ's profit was negatively affected by difficult trading conditions and the impact of transformation initiative costs. CRG showed a marked improvement in the second half from ongoing improvements to ranges during the year, and ended the year 1.0% up in A\$ terms. Although the Australian businesses contributed 34.2% to Group earnings, their results were impacted by relative strengthening of the ZAR against the A\$, compared to last year. Group profit declined by 6.0% on last year, in constant currency.

The Group's unadjusted operating profit margin declined by 130 basis points to 8.4% and adjusted profit before tax declined by 8.3%, and 6.2% in constant currency.

The segmental results are analysed in more detail further on in this report.

## EARNINGS PER SHARE (EPS)

	2017 cents	2016 cents	% change
EPS	566.7	454.2	24.8
HEPS	420.9	455.6	(7.6)
Adjusted HEPS	420.0	456.6	(8.0)
Adjusted diluted HEPS	417.7	453.4	(7.9)
DPS	313.0	313.0	-
WANOS (millions)	961.0	956.5	0.5

The 24.8% increase in EPS is as a result of the inclusion of the profit on sale of the of Market Street. Headline EPS (HEPS), which excludes the profit and impairment of capital items, declined by 7.6%. Adjusted diluted HEPS decreased by 7.9%, with dilution arising from the unexercised options under the Group's share incentive schemes.

## DIVIDEND PER SHARE (DPS)

The Board approved a final DPS of 180.0 cents, thereby maintaining last year's final and total dividend. This has resulted in the dividend cover reducing to 1.34 times.

Over the past five years, we have returned R11.3 billion to our shareholders in dividends, with an average dividend yield of 3.6%, reflecting the continued growth in the Group's underlying profitability and our commitment to delivering strong shareholder returns.





## SUMMARISED STATEMENT OF FINANCIAL POSITION

	2017 Rm	Restated 2016 Rm	% change	Constant currency % change
<b>ASSETS</b>				
Property, plant and equipment and investment properties	13 846	17 451	(20.7)	(12.2)
Intangible assets	19 595	21 136	(7.3)	4.5
Investment in JVs and associate	1 015	978	3.8	3.8
Inventories	6 990	7 117	(1.8)	5.4
Trade and other receivables and loans	1 368	1 606	(14.8)	(9.3)
Tax and deferred tax assets	392	554	(29.2)	(27.8)
Cash	1 787	1 525	17.2	23.1
<b>Total assets</b>	<b>44 993</b>	<b>50 367</b>	<b>(10.7)</b>	<b>(1.4)</b>
<b>EQUITY AND LIABILITIES</b>				
Shareholders' funds	19 066	19 853	(4.0)	11.9
Borrowings	13 325	15 918	(16.3)	(13.1)
Other non-current liabilities	2 541	2 850	(10.8)	(2.1)
Tax and deferred tax liabilities	684	1 376	(50.3)	(43.2)
Trade and other payables and provisions	9 377	10 370	(9.6)	(3.2)
<b>Total equity and liabilities</b>	<b>44 993</b>	<b>50 367</b>	<b>(10.7)</b>	<b>(1.4)</b>
<b>Net gearing</b>	<b>11 538</b>	<b>14 393</b>	<b>(19.8)</b>	<b>(16.9)</b>

The assets and liabilities of the Australian subsidiaries contained within the Group statement of financial position are impacted by the lower exchange rate at year-end, which was R9.8/A\$ compared to R11.2/A\$ for last year. The decrease in equity is primarily due to the decrease in the foreign currency translation reserve, from the stronger rand at year-end.

The decrease in property, plant, and equipment is due to the sale of the Market Street property. The prior year intangible assets and deferred tax liabilities have been restated as a result of a change in accounting policy, whereby deferred tax liabilities have been retrospectively raised on indefinite life intangible assets (brands and trademarks) in our Australian subsidiaries. Further details can be found in note 10 to the Group Annual Financial Statements Report.

Inventories increased by 5.4% in constant currency, due to the impact of inflation, space growth, and lower sell through in our apparel segments.

## CAPITAL MANAGEMENT AND SHAREHOLDER RETURNS

	2017	2016
ROCE (%)	15.1	16.8
ROE (%)	20.8	25.6
Net debt to equity (times)	0.6	0.7
Net debt to EBITDA (times)*	1.4	1.6
Interest cover (times)*	7.3	7.6

\* Broadly aligned to Bank Covenants; excludes the sale of Market Street

ROCE has decreased from 16.8% to 15.1%, with ROE declining by 4.8% to 20.8%. On a constant currency basis, ROCE and ROE were 14.3% and 19.2% respectively, reflecting a return that is ahead of our cost of capital. However both the ROCE and ROE have been affected by the below expectation profit result.

Net debt has decreased by R2.9 billion to R11.5 billion, due to the settlement of debt out of the proceeds on the sale of Market Street.

The net debt to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) ratio has improved to 1.4 times.

## CAPITAL EXPENDITURE

The Group is in an intensive capital expenditure phase as we continue to invest in key initiatives, particularly in DJ, to deliver Group business transformation, optimisation, and capacity, as well as store and support infrastructure to deliver and support growth.

Total capital expenditure amounted to R2.6 billion, driven mainly by the strategic and transformational initiatives in DJ, ongoing store development across the Group, and supply chain investment in Woolworths.

The Group's operations were expanded in 2017 with trading space increasing by 2.5% to 1 298 000 m<sup>2</sup>, exclusive of 6 000 m<sup>2</sup> space from the Politix acquisition. This was as a result of opening 17 net new store locations and concessions (excluding 75 Politix store locations), as well as the extension of existing stores. Within this, C&GM and Food expanded their footprint by 9 000 m<sup>2</sup> and 17 000 m<sup>2</sup> respectively (2.0% and 7.6% respectively). DJ opened three new stores, and CRG opened six new stores, excluding the Politix acquisition.

## WORKING CAPITAL MOVEMENTS

There was a higher investment in working capital requirements due to new store openings across the Group, and higher inventory balances from the apparel sales shortfall.

## SUMMARISED STATEMENT OF CASH FLOWS

	2017 Rm	2016 Rm
<b>Cash inflow from trading</b>	8 177	8 940
Working capital movements	(615)	(311)
<b>Cash generated by operating activities</b>	7 562	8 629
Investment income received	96	40
Finance costs paid	(1 216)	(1 168)
Tax paid	(1 701)	(1 536)
<b>Cash generated by operations</b>	4 741	5 965
Dividends received	223	169
Dividends paid	(3 015)	(2 464)
<b>Net cash inflow from operating activities</b>	1 949	3 670
Net investment in assets	(2 552)	(2 829)
Proceeds on disposal of property in Sydney	3 677	-
Acquisitions	(711)	-
Other	8	20
<b>Net cash inflow/(outflow) from investing activities</b>	422	(2 809)
Net share issues and costs	(41)	(35)
Net borrowings repaid	(1 966)	(206)
Acquisition of non-controlling interests	-	(85)
<b>Net cash outflow from financing activities</b>	(2 007)	(326)
<b>Net cash inflow for the year</b>	364	535

## SUMMARISED STATEMENT OF CHANGES IN EQUITY

	2017 Rm	2016 Rm
<b>Shareholders' interest at the beginning of the year</b>	19 853	14 297
<b>Movements for the year:</b>		
Total comprehensive income for the year	2 253	8 004
Profit for the year	5 448	4 353
Other comprehensive income	(3 195)	3 651
Shares issued, net of costs	138	2 849
Share-based payments liability and settlements	(163)	(2 534)
Dividends to shareholders	(3 015)	(2 716)
Acquisition of non-controlling interests	-	(47)
<b>Shareholders' interest at the end of the year</b>	19 066	19 853

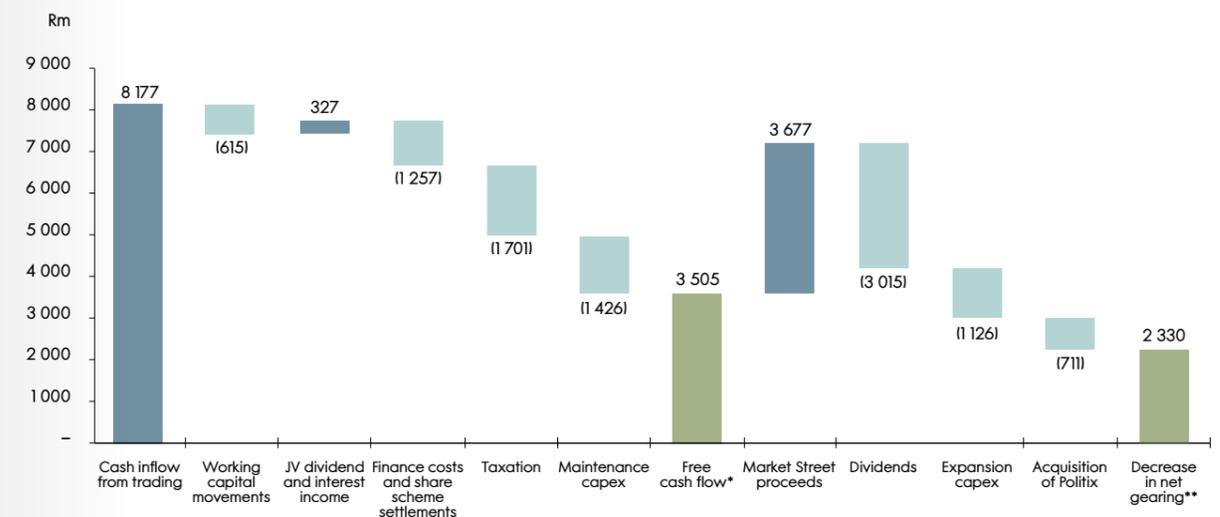
## CASH FLOWS

Cash flows from operations were impacted by the trading results and higher investment in working capital of R615 million. Cash inflow from trading decreased by R763 million to R8 177 million from last year.

The Group paid R1 701 million tax to the various revenue authorities in the jurisdictions in which we operate. We received R3 677 million from the disposal of the Market Street property in Sydney, and utilised a portion to pay down debt in Australia. We utilised R2 552 million of cash generated to invest in infrastructure and other transformational and capital expansion projects and acquired the Politix brand for R711 million.

Free cash flow after capital expenditure to maintain operations, working capital movements, and the payment of finance costs, taxation and dividends was R3 505 million. Free cash flow per share was 364.7 cps.

## CASH FLOW WATERFALL GRAPH



\* Free cashflow per share: 364.7 cps.

\*\* Net gearing excludes R525m currency translation impact.

## OUTLOOK

In South Africa, political uncertainty and negative economic fundamentals are expected to put further pressure on the consumer. Inflation in the first half of the new financial year is expected to decrease further, while credit growth and impairments are expected to be at similar levels to that of the prior year.

In Australia, we are also expecting a continuation of a highly promotional trading environment, as personal finances are under pressure.

Our capex spend in 2018 will increase due to the transformational investments in David Jones and rollover of capex from 2017, totalling approximately R4.7 billion.

We have clear strategies that remain unchanged and we will continue to drive the integration and transformation of our businesses in these difficult trading conditions and in an evolving retail environment.

# SEGMENTAL REVIEWS

## WOOLWORTHS CLOTHING AND GENERAL MERCHANDISE

INCOME STATEMENT	2017 Rm	2016 Rm	% change
Turnover	13 894	13 701	1.4
Cost of sales	7 244	7 085	2.2
Gross profit	6 650	6 616	0.5
Other revenue	19	27	(29.6)
Expenses	4 502	4 338	3.8
Store costs	3 071	2 904	5.8
Other operating costs	1 431	1 434	(0.2)
Adjusted operating profit	2 167	2 305	(6.0)
Earnings from joint venture and associate	1	1	
<b>Adjusted profit before tax</b>	<b>2 168</b>	<b>2 306</b>	<b>(6.0)</b>

Woolworths South Africa's Clothing and General Merchandise sales increased by 1.4%, with price movement of 6.6%. Sales in comparable stores declined by 0.9%, with retail space growing by a net 2.2%. Growth in the second half of the year was lower, as a result of significant political upheaval and its economic impact on the consumer.

Most departments performed ahead of last year, with lingerie and home the better performers. There was also a strong performance in the online channel, while the rest of Africa performance was impacted by the strengthening of the rand.

Despite the increase in promotions and markdowns, we managed to minimise the impact on profitability through sourcing gains from synergies across the Group in using scale and global sourcing opportunities, as well as benefitted from a stronger rand. This resulted in a 40 bps decline in gross profit margin from 48.3% to 47.9%.

The increase in expenses was driven by the 2.0% increase in space and non-comparable expansion costs of the private label brands in DJ stores. Comparable store cost growth was 1.9%. The overall result was a decrease in the operating profit by 6.0% and operating profit margin declined from 16.8% to 15.6%.

**Woolworths South Africa's Clothing and General Merchandise sales increased by 1.4%, with price movement of 6.6%.**

 Read more about Woolworths SA on pages 80 to 97.

## WOOLWORTHS FOOD

INCOME STATEMENT	2017 Rm	2016 Rm	% change
Turnover and concession sales	27 688	25 504	8.6
Concession sales	(613)	(548)	11.9
Turnover – own buy	27 075	24 956	8.5
Cost of sales	20 281	18 586	9.1
Gross profit – own buy	6 794	6 370	6.7
Concession and other revenue	124	115	7.8
Expenses	4 941	4 660	6.0
Store costs	3 513	3 215	9.3
Other operating costs	1 428	1 445	(1.2)
Adjusted operating profit	1 977	1 825	8.3
Earnings from joint venture and associate	-	1	
<b>Adjusted profit before tax</b>	<b>1 977</b>	<b>1 826</b>	<b>8.3</b>

Woolworths South Africa's Food sales growth remained above market throughout the period and increased by 8.6%. Growth in the second half of the year was lower than in the first half, impacted by lower inflation, resulting in price movement for the year moderating to 8.4%. Sales in comparable stores grew by 4.6%, with availability issues, as a result of unseasonal weather, impacting performance.

All categories showed positive growth on last year from increased promotions as we continued to invest in price. There were significant contributions particularly from our groceries and bakery departments, which traded well above last year. The contribution to Food sales from the rest of Africa and growth in

the online channel have also contributed positively.

The gross profit margin declined by 40 bps to 25.1%, as a result of our investment in lower prices to improve our competitiveness, as well as increased levels of targeted promotions, all of which were partially offset by supply chain efficiencies.

Good expense control offset some of the margin deleverage. Store cost growth of 9.3% was driven by a 7.6% increase in space with comparable store cost growth of 2.8%.

The Food business achieved an operating profit growth of 8.3% and the operating margin was maintained at 7.3%.



Woolworths Food sales increased by **8.6%**  
4.6% in comparable stores

## WOOLWORTHS FINANCIAL SERVICES

INCOME STATEMENT	2017 Rm	% to book	2016 Rm	% to book	% change
Interest income	2 123	20.8	1 993	20.0	6.5
Interest paid	633	6.2	580	5.8	9.1
Net interest income	1 490	14.6	1 413	14.2	5.4
Impairment charge	638	6.3	570	5.7	11.9
Risk-adjusted margin	852	8.4	843	8.4	1.1
Non-interest revenue	769	7.5	746	7.5	3.1
Operating costs	906	8.9	902	9.0	0.4
Profit before tax	715	7.0	687	6.9	4.1
Tax	197	1.9	192	1.9	
<b>Profit after tax</b>	<b>518</b>	<b>5.1</b>	<b>495</b>	<b>5.0</b>	<b>4.6</b>
<b>50% equity accounted</b>	<b>259</b>		<b>248</b>		
Average financial services assets	10 194		9 980		2.1
Return on equity	26.4%		26.9%		

The joint venture with Barclays Africa Group contributed R259 million profit after tax to Group profit, 4.4% up on last year. The strong operating performance benefitted from higher yields on the credit card and in-store card portfolios, and from interest rate increases. The National Credit Amendment Act regulations continue to negatively impact growth of new accounts and existing customer balances.

Growth in risk adjusted margin was 1.1%, impacted by higher charge offs in a tougher collections environment. Operating costs were well controlled and supported the 4.1% growth in profit before tax.

The average debtors book grew by 2.1%, with the closing book up 3.3% on last year. The impairment rate was 0.6% higher than last year at 6.3%, with return on equity maintained above our 22.0% medium-term target.

Read more about Woolworths SA on pages 80 to 97.

Read more about Woolworths Financial Services on pages 84, 91 and 97.

## DAVID JONES

INCOME STATEMENT	2017 A\$m	2016 A\$m	% change
Turnover and concession sales	2 214	2 192	1.0
Concession sales	(750)	(758)	(1.1)
Turnover – own buy	1 464	1 434	2.1
Cost of sales	832	782	6.4
Gross profit – own buy	632	652	(3.1)
Concession and other revenue	188	179	5.0
Gross profit	820	831	(1.3)
Expenses	712	679	4.9
Store costs	585	564	3.7
Other operating costs	127	115	10.4
<b>Department store operating profit</b>	<b>108</b>	<b>152</b>	<b>(28.9)</b>
Financial services operating profit	19	18	5.6
<b>Adjusted operating profit</b>	<b>127</b>	<b>170</b>	<b>(25.3)</b>
Net finance costs	3	2	50.0
<b>Adjusted profit before tax</b>	<b>124</b>	<b>168</b>	<b>(26.2)</b>

David Jones sales increased by 1.0% in Australian dollar terms. The termination of the Dick Smith electronics concession last year impacted growth by 1.0%. Sales in comparable stores declined by 0.7% (excluding Dick Smith). While relevant market share has grown, sales growth slowed in the second half, as falling consumer confidence resulted in lower footfall.

Gross profit margin declined by 90 bps to 37.0%, and was impacted by increased promotions and markdowns, partially offset by improved concession rates and the expansion of Group private label brands.

Costs were well controlled, notwithstanding the costs associated with the sale and leaseback of Market Street and execution of transformational projects. This resulted in an operating profit of A\$127 million for the year, and an operating margin of 6.3%, inclusive of profit from financial services.



David Jones, Winter 2017

## COUNTRY ROAD GROUP

INCOME STATEMENT	2017 A\$m	2016 A\$m	% change
Turnover	1 056	1 005	5.1
Cost of sales	419	408	2.7
Gross profit	637	597	6.7
Other revenue	4	4	-
Expenses	543	504	7.7
Store costs	387	369	4.9
Other operating costs	156	135	15.6
Adjusted operating profit	98	97	1.0
Net finance costs	3	2	
<b>Adjusted profit before tax</b>	<b>95</b>	<b>95</b>	<b>-</b>

Country Road Group sales increased by 5.1% in Australian dollar terms and showed a marked improvement in the second half (with sales growth of 10.6% in the second half), notwithstanding the difficult trading conditions. Sales in comparable stores declined by 0.4%. Retail space declined by a net 1.9%, and the inclusion of newly acquired Politix added 3.7% to sales. Country Road's above-market performance reflected the ongoing improvements to ranges during the year.

Despite aggressive promotional activity in the market, gross profit margin improved by 90 bps to 60.3%.

Higher costs resulted from the inclusion of Politix, as well as new store development.

Operating profit ended the year 1.0% ahead of last year, although the second half saw growth of 30.6%. Operating profit margin declined by 0.4% to 9.3%.



Country Road, Summer 2016

Sales increased by  
**5.1%**  
 in Australian dollar terms

 Read more about Country Road Group on pages 112 to 125.

 Read more about David Jones on pages 98 to 111.

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# COMPANY REVIEW

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access to content*

**80** WOOLWORTHS SOUTH AFRICA

**98** DAVID JONES

**112** COUNTRY ROAD GROUP



**WOOLWORTHS SA**



**TO MAKE A  
DIFFERENCE  
BECAUSE WE CARE  
ABOUT OUR  
CUSTOMERS, OUR  
PEOPLE, OUR  
PRODUCTS, OUR  
COMMUNITIES AND  
OUR PLANET.**

## WOOLWORTHS SA

### KEY ACHIEVEMENTS IN 2017

- Implemented a single view of the customer, enabling personalised marketing and improved customer interactions
- Bolstered digital marketing capability
- Launched integrated mobile app with increased functionality and capability
- Implemented a new online fulfilment model in Clothing, improving availability and customer service
- Introduced free Wifi in our stores to improve the digital experience for our customers
- Introduced a new clothing private brand (&US) for tweens, and further segmentation of womenswear under the EDITION brand for modern merchandise
- Introduced luxury beauty brands, and commenced the rollout of a transformed Beauty offering in our top stores
- Continued improvement in price perception, particularly in Food, with price investment in meat and poultry and continued promotions through our Daily Difference
- Launched our first three 'NowNow' format cafés, offering fast, fresh, and natural food to customers

### FINANCIAL PERFORMANCE

Sales, including Food service concessions, increased by 6.1%, and net retail space grew by 3.8%. Adjusted operating profit grew by 0.5%. Return on Sales (ROS) decreased from 11.2% to 10.1%.

		2015 (Rand)	2016 (Rand)	2017 (Rand)	2020 TARGET
<b>WOOLWORTHS</b>	Sales	35.3bn	39.2bn	41.6bn	
	Adjusted operating profit	3.9bn	4.4bn	4.2bn	
	ROS* %	11.0%	11.2%	10.1%	10% - 11%
	Capex	1.4bn	1.5bn	1.2bn	
<b>CLOTHING AND GENERAL MERCHANDISE</b>	Sales	12.5bn	13.7bn	13.9bn	
	Gross profit %	47.4%	48.3%	47.9%	
	Adjusted operating profit	2.1bn	2.3bn	2.2bn	
	ROS* %	16.8%	16.8%	15.6%	16% - 17%
<b>FOOD</b>	Sales (including concessions)	22.8bn	25.5bn	27.7bn	
	Gross profit %	25.7%	25.5%	25.1%	
	Adjusted operating profit	1.6bn	1.8bn	2.0bn	
	ROS* %	7.1%	7.3%	7.3%	7%
<b>WOOLWORTHS FINANCIAL SERVICES</b>	Profit before tax	613m	687m	715m	
	Average financial services assets	9.2bn	9.9bn	10.2bn	
	Return on equity	26.6%	26.9%	26.4%	22%

\*Operating profit as a percentage of turnover and concession sales.

**MEDIUM-TERM TARGET**

**ROS OF 10%-11%**

 Read more about our financial performance in the Group Finance Director's report on pages 62 to 77.



Home

## CLOTHING AND GENERAL MERCHANDISE

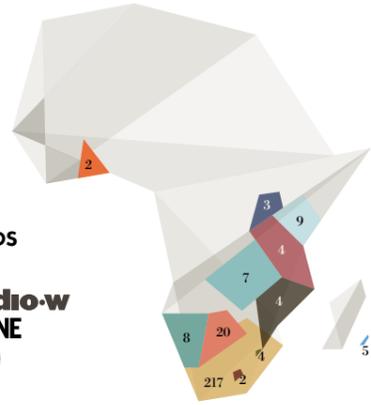
### OFFERING

Women's, Men's and Children's apparel and accessories, Home and Beauty

### GEOGRAPHICAL FOOTPRINT

- South Africa
- Namibia
- Tanzania
- Mozambique
- Mauritius
- Kenya
- Ghana
- Zambia
- Botswana
- Lesotho
- Swaziland
- Uganda

BRANDS RE: **studio-w** **JT&ONE** (&US)



# 282

Store locations



18.7% Contribution to Group turnover\*

32.4% Contribution to Group profit before interest and tax



Woolworths SA, Mall of Africa

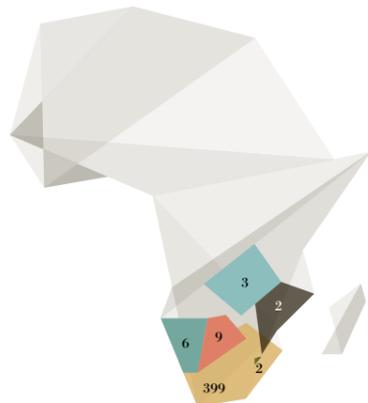
## FOOD

### OFFERING

Fresh produce, Butchery, Bakery, Groceries and Long-life products

### GEOGRAPHICAL FOOTPRINT

- South Africa
- Botswana
- Swaziland
- Mozambique
- Namibia
- Zambia



# 421

Store locations



38.1% Contribution to Group turnover\*

29.5% Contribution to Group profit before interest and tax



Woolworths SA, Waterstone

## FINANCIAL SERVICES

### OFFERING

Woolworths in-store card, credit card, personal loans and short-term insurance

### GEOGRAPHICAL FOOTPRINT

- South Africa
- Namibia

### OWNERSHIP

Joint venture operation with Barclays Africa Group. WHL holding 50% less one share



# 4%

Contribution to Group profit before interest and tax

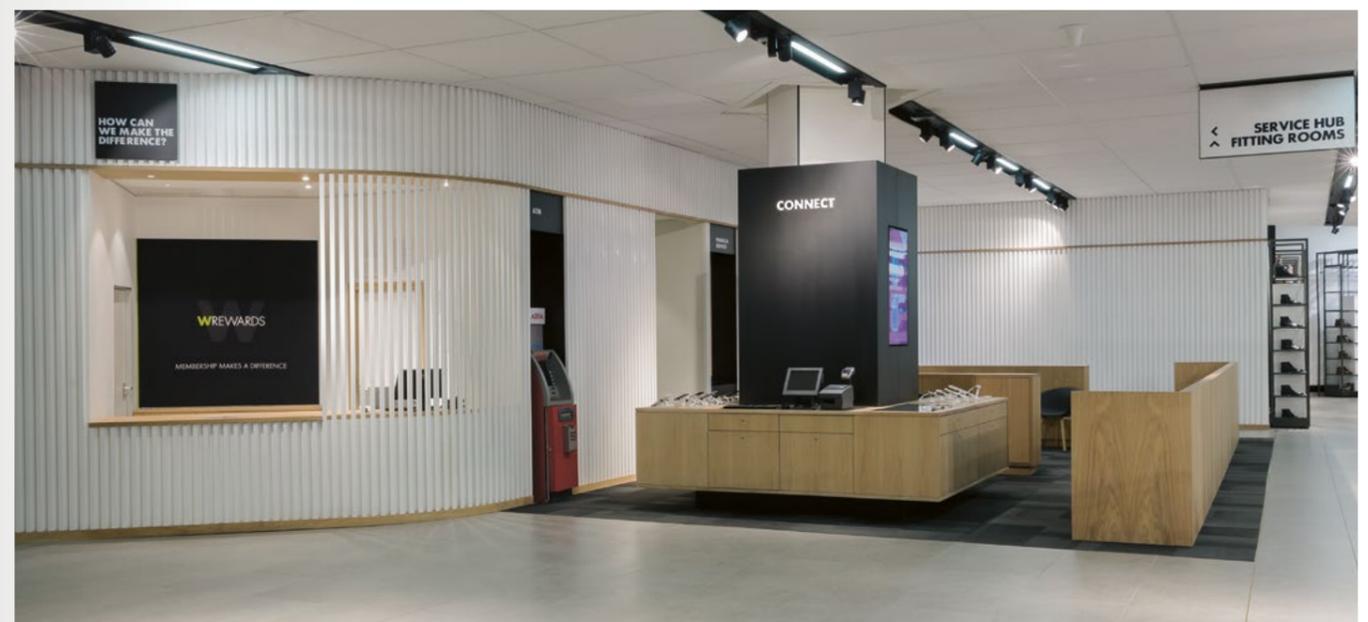
# 41

Number of Financial Services hubs

# 1047

Number of employees

\* Including concession sales.



Woolworths SA, Mall of Africa

# PERFORMANCE FOR 2017



## BUILD STRONGER, MORE PROFITABLE CUSTOMER RELATIONSHIPS

Our WRewards programme continued its strong performance. Customer engagement and relationships are mainly enabled through our WRewards programme, which includes MySchool, our partnership with Vitality, and our own in-store card and credit card. Our engagement with all our WRewards members continued to be personalised with more tailored and relevant marketing and vouchers.

We continued to focus on increasing our penetration of the upper income SEL 1 and 2 (previously termed LSM 8-10) customer target market in South Africa and sub-Saharan Africa.

In the current year, we combined our customer databases to provide a 'single view of the customer'. We made good progress by using this combined database to set the foundation for increasingly consistent and personalised communication with our WRewards members.

We now have an active customer base of 3.3 million customers – up from 3.2 million customers last year. We continue to track 75% of our sales on loyalty cards, while simultaneously growing our active customer base and attracting more younger customers.

We now have an active customer base of

**3.3M** 



## TOWARDS CONNECTED RETAIL

We continued to invest in our channels both physical and online. In the current year, net new space grew by 2.0% and 7.6% in our Clothing and General Merchandise and Food businesses respectively. The growth in space was driven by both new stores and extensions.

In Food specifically, we continue to focus on opening larger format stores while also delivering convenience across all formats and channels. We now have 14 stand-alone large format supermarkets and six more within our full-line stores. We are trading out of 72 Engen forecourt stores and expanded our convenience offering by opening or expanding six forecourt stores in the current year.

The majority of our Food and Clothing and General Merchandise offering can be viewed and purchased online. Food sales comprise the majority of online revenue, however stronger growth in Clothing and General Merchandise is now being experienced. In the current year, online Food sales grew by 21.7% and Clothing and General Merchandise online sales grew by 98.7%. The strong Clothing and General Merchandise sales growth was bolstered by a 'dark store' distribution centre

capability, which we opened in the current year, enabling increased availability and customer service.

We have also implemented a number of key strategies to digitally connect with our customers and our people. This includes the launch of our integrated mobile app with improved capability and functionality, including seamless integration with media content, enhanced search and product information, and the ability to shop online via the app. We implemented free WiFi in over 150 stores which provides the platform to communicate digitally with our customers while they shop in our stores.

We continued to build the Woolworths brand in the African countries in which we operate. In Clothing and General Merchandise, in order to remain appealing to our customers, we focused on providing appropriately tiered and ranged product offerings which are seasonally relevant. In Food, we continued to bolster our in-country sourcing and distribution capabilities, resulting in better quality and availability, particularly for countries that prohibit the sale of imported products.





(&US), Summer 2017



## BE A LEADING FASHION RETAILER IN THE SOUTHERN HEMISPHERE

We continued to build our fashion credibility by offering a more segmented, brand-directed customer experience. Our brands are clearly targeted towards our different customer segments, with RE, Studio.W, JT One, and EDITION appealing to our modern and contemporary customer, and our David Jones branded product targeting our more classic customer. The majority of these brands are also available in our David Jones stores in Australia.

In the current year, we introduced a new brand, (&US), for Tweens (9 to 14 year olds), and further segmented our womenswear offering by rebranding our modern merchandise as EDITION.

Our customers increasingly associate fashion with beauty. We also identified the opportunity to gain market share through capturing more of our current customers' beauty spend and by attracting new beauty customers to our business. In the current year, we began the journey of becoming a Beauty destination by introducing market leading brands, including Chanel, La Mer, Bobbi Brown, Estée Lauder and Clinique.

Our value perception was strengthened through our Key Value Lines (KVLs), increasing the KVL contribution to sales and consistently refreshing the KVLs on offer each season. Regular price surveys were performed to ensure that our prices are sharp and comparable to major competitors. We further strengthened our value perception through WRewards and tactical price promotions.

The current year experienced significant exchange rate volatility. However, our forex exposure was carefully and successfully managed to mitigate the impact on price while maintaining our high quality standards.

## IN THE CURRENT YEAR, WE BEGAN THE JOURNEY OF BECOMING A BEAUTY DESTINATION.



## BECOME A BIG FOOD BUSINESS WITH A DIFFERENCE

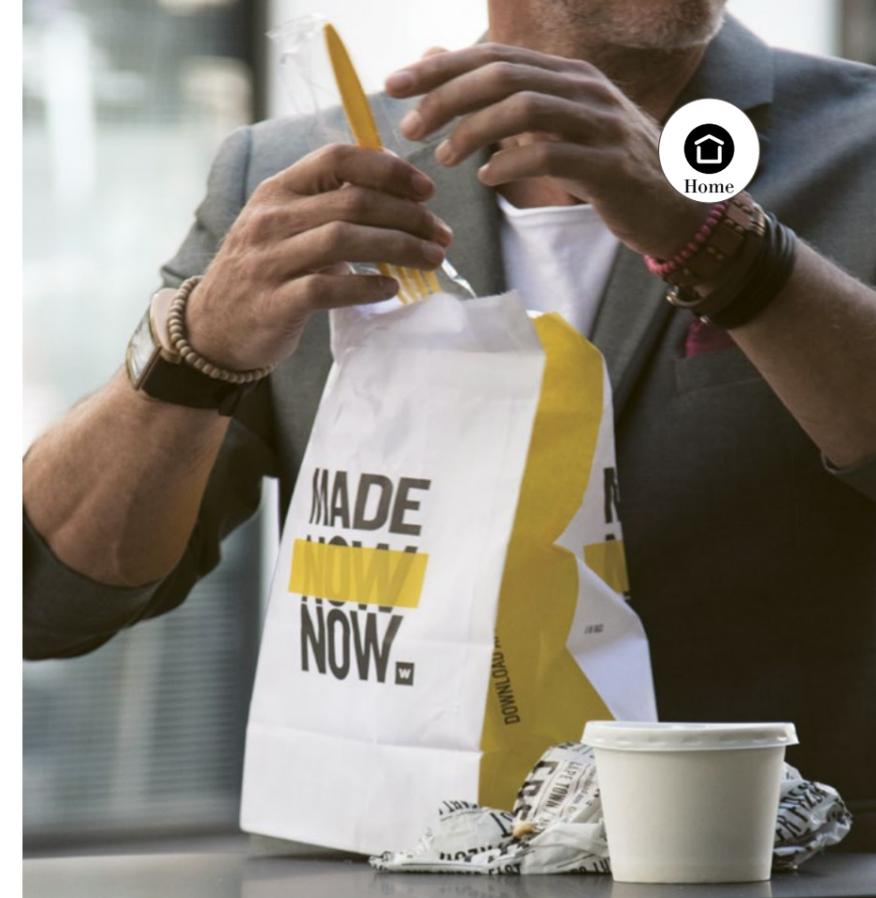
One of our key strategies is to improve price perception in Woolworths by investing in price. We continued to implement an aggressive promotional programme with mid-month and month-end promotions. Meat and poultry were specifically identified as categories in which we needed to invest in lower prices.

We remain focused on driving a 'quality first' mindset in product and across the business through an integrated quality approach which includes the way in which we work with our suppliers and product benchmarking methodology so that we continue to develop best-in-class product attributes. We also continue to focus on innovation. This has enabled continued advances with varieties and technology in produce, a reduction in the sugar and salt in our products, and the introduction of innovative cooking techniques and numerous first-to-market products.

The number of products we offer in our stores has increased significantly in the past few years. In order to encourage our customers to 'complete their shop' with us, we focused on growing our long-life category, which has increased its catalogue by more than 100% since 2009. We continue to evaluate the depth and breadth of our ranges to ensure that we meet our customers' wants and needs.

Our Waterstone store includes our new long-life concepts across wine, chocolate, coffee, gifting, global, and health, and also offers a repositioned fresh offering in the bakery, prepared meals, cheese, meat, and frozen categories. This cements our position as a food authority, while offering a magical in-store customer experience. We have commenced the rollout of tiered formats of the Waterstone store concept throughout our real estate portfolio.

In the current year, we opened three new NowNow café formats in Cape Town, in Longmarket Street, Old Mutual Park, and the V&A Silo building, which offer our customers fast, fresh, and natural food. We also introduced a dedicated app which customers can use to place their orders to further drive convenience as part of the customer experience.



Woolworths SA, NowNow



**PERSONALISED FINANCIAL SERVICES**

We implemented numerous initiatives to make credit applications easier for our customers, drive card acquisitions, and increase credit sales. These include integrating with the retail banks to make customer bank statements digitally available and collaborating with third parties to verify proof of income documentation. The efficiencies achieved from these initiatives show encouraging improvements, although we are still not at the new business growth levels seen pre-National Credit Amendment Act (NCAA). However, we expect continued improvements as we leverage digital solutions to continuously improve the customer experience across all channels.

We continued to enhance our customer experience across our digital channels, including the release of the enhanced Woolworths mobile app which allows customers to perform account queries and initiate credit limit increases via their mobile device.

**DRIVE SYNERGIES AND EFFICIENCIES ACROSS THE GROUP**

Woolworths has four distribution centres across South Africa. These distribution centres distribute both Food and Clothing and General Merchandise to stores throughout South Africa and sub-Saharan Africa.

In the year, our distribution centres were optimised through investment in capacity and end-to-end supply chain efficiencies. We also continued to invest in our systems and processes to provide for growth. In our Food business, we successfully implemented a replenishment system that automates the generation of supplier and store orders to improve availability.

**EMBED THE GOOD BUSINESS JOURNEY THROUGHOUT OUR BUSINESS**

Our Good Business Journey is embedded in everything we do.

Both our Food and Clothing and General Merchandise businesses continue to make good progress in their responsible sourcing of key commodities such as cotton, viscose, cocoa, and palm oil, among others.

The 2017 Good Business Journey Report is available at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

# STRATEGY FOR 2018 ONWARDS



## BUILD STRONGER, MORE PROFITABLE CUSTOMER RELATIONSHIPS

Our focus is on retaining our current customers, acquiring more customers in our target demographic (SEL 1 and 2), and increasing their penetration and spend. We will attempt to understand the different motivators along the customer journey and tailor the relationships we build with our customers with the products and offers we create, and the services we provide in line with their needs.

We will use our combined customer database, and use this to further leverage data and insights. This will drive significant campaign optimisation and personalisation, and inform our product, service, and format strategies.

We will continue to innovate our WRewards loyalty programme, driving customer acquisition, frequency, and spend through compelling loyalty benefits and WFS credit products. We are focused on providing a differentiated loyalty experience across all channels that is based on relationships and is more personalised.



## TOWARDS CONNECTED RETAIL

We are moving towards connected retail by delivering exceptional products and experiences to our customers in a seamless and integrated way. In support of our strategy, we will invest in channels, formats, and geographies and grow our real estate.

While stores will remain the dominant channel for Woolworths in the coming years, our customers are becoming increasingly digitally connected, demanding a connected retail experience. As technology advances, the method of engagement and time spent pre-trip is evolving, with customers researching our products online before buying in-store or online.

We are committed to improving our service for online customers and growing and improving our digital presence. We continue to improve our customers' journey by improving site speed and navigation, adding additional payment methods, offering our full catalogue with

**While stores will remain the dominant channel for Woolworths in the coming years, our customers are becoming increasingly digitally connected, demanding a connected retail experience.**



high availability online, and enhancing our picking and fulfilment processes. We will continue to develop our mobile app, connecting our physical and digital worlds to make it easier for our customers to shop with us and improve their experience.

We will continue to invest in our store footprint. We are, however, focused on ensuring profitable expansion. On average for the next three years, we plan to add 2.3% and 3.7% net new space annually to Clothing and General Merchandise and Food respectively. We will also modernise our physical stores to deliver unique, in-store experiences that cannot be delivered online.

We will continue to build the brand in the rest of Africa by focusing on our top countries and stores, growing space in East Africa and Mauritius, driving country specific marketing activities and local sourcing of fresh food products.



Studio.W, Summer 2017



## BE A LEADING FASHION RETAILER IN THE SOUTHERN HEMISPHERE

In our Clothing and General Merchandise business, our vision is to be the destination for stylish, affordable, quality fashion with 'the difference'. We focus on leading the market in quality, innovation, and sustainability, through a world-class supply base.

We will build our Beauty business as a destination category and experience. We will continue to introduce and roll-out new luxury and prestige brands and will continue to build our strong private label offering. We will enhance our in-store experience through in-store services and the implementation of a clear, tiered format strategy. We will overcome the limited space available for the full Beauty offering in some of our stores by leveraging our digital presence to offer the full range of beauty products online.

We continue to build a 'private brands business' with each brand reflecting its own clear identity and essence. The profile of the South African SEL 1 and 2 market continues to shift towards a younger, black customer. Our private label brands – RE, Studio.W, JT One, and EDITION – are targeted to attract and retain this younger target market. We also recognise the importance of the classic customer through the David Jones Collection, which is targeted towards them. We will remain relevant to our target customer by offering them design-led, fashionable ranges through these clearly segmented brands.

We continue to focus on our design-led approach to developing beautiful product with superior fit, fabric and finish to consistently highlight our difference and ensure that our customers' experience of our product is unique.

We will focus on growing our brands by consistently entrenching their identities across all our channels, including our David Jones stores. We focus on delivering a modern and brand directed customer in-store experience by scaling and tiering our equipment suites and catalogues in our stores.

We actively focus on strengthening our value perception through a combination of KVLs and understanding of 'the difference': the combination of quality, innovation, sustainability, experience and price that underpins our value proposition. Highlighting products through WRewards and using tactical trade promotions are seen as important levers in driving value perception.

We will continue to leverage our scale and integrate our sourcing across the Group. We will continue with our efforts to improve speed to market by increasing the products that we source locally and from neighbouring countries.



*Studio.W, Summer 2017*



## BECOME A BIG FOOD BUSINESS WITH A DIFFERENCE

In our Food business, our vision is to be the destination of choice in our customers' world of food through having the 'mind of a supermarket and the soul of a deli'. We are on a journey to become a big Food business with a difference, maintaining our leadership positioning in fresh produce, innovation, and quality, while ensuring competitively priced products deliver value to our customers.

We will continue to focus on improving our customers' price and value perceptions. We conduct a weekly basket check against the prices of our competitors to ensure that our prices are comparable to other food retailers, and actively identify and address products that erode our value perception. We also leverage our WRewards loyalty programme and undertake marketing initiatives that convey our price competitiveness and our difference to customers. We will continue to invest in price, using data analytics to tailor price and promotions to profitably drive sales.

We have significant market share in the fresh produce and prepared food categories, but we under-index in groceries.

This category accounts for nearly half of the typical basket spend in South Africa. In order to capture a greater share of spend from our existing target customers, we continue to evaluate the breadth and depth of our range, particularly in long-life. Third-party brands sold in Woolworths are selectively chosen to represent our customers' most-wanted brands, encouraging them to complete their shop at Woolworths.

We focus on making the food shopping experience more inspirational, and more relevant and accessible to a younger customer through the rollout and expansion of food services to new channels. We will offer fast, fresh, and natural food to customers through our new NowNow format and by building our café business and in-store service counters, and asserting our dominance and authority in coffee.

We focus on delivering high-quality, ethically sourced products through our Good Business Journey programme, supplier relationships, and the technological innovations implemented in the value chain process.



## PERSONALISED FINANCIAL SERVICES

We are focusing on transforming the WFS customer experience to one that is consistent with and aligned to the Woolworths brand. The WFS customer sees Woolworths and WFS as one, and expects us to deliver one brand experience across all our channels, including stores, the contact centre, online and the mobile app. WFS is an integral part of the Woolworths

connected retail strategy, with mobile functionality and integration with our WRewards programme being key strategic focuses. Our digital roadmap will continue to be a strategic focus, and we will be extending our customer service capabilities across our online and mobile platforms to improve the customer experience and deliver operational efficiencies.



## DRIVE SYNERGIES AND EFFICIENCIES ACROSS THE GROUP

We are investing in our supply chain to enhance store replenishment and online fulfilment capabilities at lower cost with increased control and elimination of capacity risk. This will also facilitate decreased transport costs and improved delivery lead times. We are expanding our capacity through building a new long-life food distribution centre in Cape Town, which will be completed in 2018.

We are implementing world-class merchandise processes and systems, improving availability of products in both Clothing and General Merchandise and Food.

We are also evolving our IT platform to provide flexibility and to support the delivery of innovative, cost-effective and sustainable solutions.

We will focus on scientific retailing to understand what data we require to turn into actionable insights. This includes using predictive analytics in how we engage with our customers, how we invest in price, and how we plan the catalogues and space utilisation in our stores.



## EMBED THE GOOD BUSINESS JOURNEY THROUGHOUT OUR BUSINESS

We will continue to embed our Good Business Journey in everything we do. We need to share more of the stories about our products and also about the people behind the products, encouraging our customers to do the same, while we help them give back to their communities. We will also use our GBJ to enhance our customers' value equation.

We recognise that our partnerships with our suppliers provide us with a competitive advantage, and we are committed to grow and protect these relationships by integrating even more closely with them.

We will contribute towards delivering the Group sustainability commitments by:

- Delivering to our Fishing for the Future commitments
- Continuing to reduce the environmental impact of our supply chain via Farming for the Future
- Reducing food waste by 20%
- Continuing to partner with key charity organisations to make a difference and to provide opportunities for our teams to be involved in supporting local communities
- Continuing to support emerging businesses through our supplier and enterprise development programme.

DAVID JONES



*Witchery, Summer 2017*

—

# AUSTRALIA'S ICONIC DEPARTMENT STORE TRADING FOR OVER 179 YEARS.

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## DAVID JONES

### KEY ACHIEVEMENTS IN 2017

- Continued focus on and progress in our key technology transformation initiatives – launch of new value chain and finance systems in July 2017, and online replatform scheduled for the first half of 2018
- Introduced a Customer Relationship (CRM) programme and implemented use of customer data and insights to inform business decisions
- Commenced process of regionalisation to establish an Australian head office and single regional corporate structure
- Progress in execution of Food strategy and launch of our first flagship Foodhall in August 2017
- Strong online growth
- Sale of Market Street store and focus on Elizabeth Street store redevelopment
- New store openings, including Wellington in New Zealand and our first small-format 'boutique' stores in Barangaroo, Sydney, and James Street, Brisbane

### FINANCIAL PERFORMANCE

Sales, including concession sales, for the year increased by 1.0% in Australian dollar terms. The termination of the Dick Smith electronics concession last year negatively impacted growth by 1.0%. While relevant market share (consisting of department stores and speciality retailers) has increased, sales in comparable stores declined by 0.7%, with retail space declining by a net 0.8%. Adjusted operating profit decreased by 25.3%, due to investments in transformational initiatives, and return on sales decreased to 6.3%.

	2015 (11 months)		2016		2017		2020 TARGET
	A\$	Rand	A\$	Rand	A\$	Rand	
Sales	1.9bn	17.9bn	2.2bn	23.2bn	2.2bn	22.7bn	
Gross profit %	39.6%		37.9%		37.0%		
Adjusted operating profit	161m	1.5bn	170m	1.8bn	127m	1.3bn	
ROS* %	7.6%		7.2%		6.3%		7% - 9%
Capex		496m		1.1bn		1.0bn	

\* Department store adjusted operating profit as a percentage of turnover and concession sales.

**MEDIUM-TERM TARGET**

**ROS OF 7% – 9%**

 Read more about our financial performance in the Group Finance Director's report on pages 62 to 77.



Home

**OFFERING**

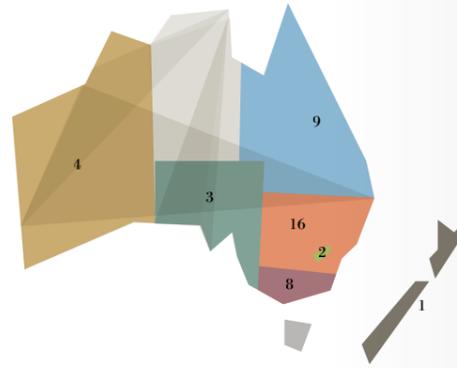
Women's, Men's and Children's apparel and accessories, Home, Beauty and Food

**PRIVATE LABEL BRANDS**

DAVID JONES

**GEOGRAPHICAL FOOTPRINT**

- New South Wales
- Australian Capital Territory
- Victoria
- Queensland
- South Australia
- Western Australia
- New Zealand



# 43

Store locations



# 7 663

Number of employees



Contribution to sales

# 79%

Fashion and Beauty



# 18%

Home



# 3%

Food



**WE SOLD OUR MARKET STREET STORE FOR A \$360 MILLION AND WILL REDEVELOP OUR ICONIC ELIZABETH STREET STORE TO CREATE A WORLD-CLASS, LUXURY DEPARTMENT STORE.**



David Jones, Pacific Fair

# 28.6%

Contribution to Group turnover\*

# 19.5%

Contribution to Group profit before interest and tax



\* Including concession sales.

## PERFORMANCE FOR 2017



David Jones, Summer 2017



### BUILD STRONGER, MORE PROFITABLE CUSTOMER RELATIONSHIPS

Actively managing our customer relationships remains a key focus. Currently 14.1% of sales are made through our Financial Services card and in addition, we have obtained 2.5 million email addresses from our customers, allowing us to communicate with them directly.

In September 2016, our new Customer Relationship Management (CRM) system was introduced, enabling us to use customer data to inform our business decisions and provide a deeper understanding of our customers, to better service their needs. The CRM system allowed us to grow our customer database and improve our ability to actively engage with our customers and communicate with them directly. Our website visits and the number of emails being opened and read have increased as we are able to communicate with our customers in a more personalised and relevant manner and targeted promotions have increased the frequency and spend of our customers' visits.



### TOWARDS CONNECTED RETAIL

Our online channel is growing rapidly, with increased market share and 21.9% sales growth on last year. Online sales as a percentage of total sales are below industry norms, which presents a significant opportunity.

Tactical enhancements to our systems and processes contributed to this growth and these will continue until our new online platform upgrade is complete in the second half of 2017.

With the successful sale of our Market Street, Sydney, building in August 2016 for A\$360 million, our focus shifted to the redevelopment of our iconic Elizabeth Street store which will see the significant transformation of the building through a major refurbishment and internal redesign while maintaining David Jones' proud heritage and history.

We opened our first store outside of Australia in Wellington, New Zealand, at the end of July 2016 to positive customer response. In November 2016, we opened our first small-format 'boutique' city store on 1 400 m<sup>2</sup> in the new Sydney waterfront precinct of Barangaroo. This store offers the Sydney city commuter an edited beauty, apparel, and café offering and

**Our online channel is growing rapidly, with increased market share**

and

**21.9% sales growth on last year.**



provides us with the opportunity to trade off a footprint smaller than our traditional department store format. Our second boutique format store, James Street in Brisbane, Queensland, opened in March 2017.

In a drive to better serve our customers, we continue to roll out and expand our new customer service model. We have redefined store management roles, delineating roles and tasks between selling and non-selling functions as well as incentivising our store staff to encourage improved sales and customer experience. Our training programme provides staff with selling skills that are tailored to the brand and product to enable them to exceed customer service expectations with specialist knowledge. In the current year, over 1 900 specialist in-store roles were appointed and a material shift to full-time hours has been implemented. We continued to successfully roll out our serviced concession model, where David Jones employees service our concession partners' pads in order to further provide consistent and improved customer service and store profitability.



Witchery, Summer 2017



### BE A LEADING FASHION RETAILER IN THE SOUTHERN HEMISPHERE

Our customer insights have enabled us to commence optimisation of brand assortment and marketing promotional plans. We have continued to rationalise and delete underperforming brands and have made good progress in securing vendors who are supplying brands and product exclusively to David Jones across our merchandise groups.

Our private label ranges, including David Jones, Woolworths and Country Road Group brands, remain key levers in the transformation and growth strategies.

The expansion of Country Road Group brands was completed in the prior year. In the current year, the performance of these brands was encouraging despite the difficult trading environment.

Woolworths private label brands, including RE: and Studio.W, now occupy over 100 pads in our stores. While there is still progress to be made, the brands have gained traction and performance has improved as we resolved system and supply chain issues which hampered the initial launch.



### BECOME A BIG FOOD BUSINESS WITH A DIFFERENCE

We have made good progress on our journey to reposition the David Jones Food business. This included the introduction and roll-out of a new Food store design, creating a destination that celebrates Australian living and puts eating at the heart of the customer experience. Elements of this vision are reflected in our Market Street store, where we have partnered with renowned Australian chef Neil Perry to successfully refresh food services including the espresso bar, sandwich bar, hot food counter, juice bar, and our modern café concept, the 'Kitchen'. Our vision is further reflected in the re-launched flagship Foodhall at Bondi Junction, which opened in August 2017. We also opened David Jones cafés in our Wellington store in New Zealand, in our refurbished Macarthur Square store in Regional New South Wales, and in our Barangaroo store in Sydney.

We continued to focus on improving the profitability of our Food business, bringing our customers best-in-class product from Australia and around the world. We have enhanced

our product offering to fulfil our customers' needs and to differentiate ourselves from the traditional supermarket. In the current year, we edited and curated the previous product ranges and increased the number of products that are exclusive to David Jones. At the same time, we have developed and launched our own private label product ranges including fresh, prepared, and long-life ranges to a positive customer response.

Our strategic supplier partnerships progressed well, with two production facilities commissioned in the current year by one of our key suppliers, providing us with the new private label produce and prepared food ranges which were launched.

The implementation of improved and simplified Food business processes continued during the year while significant progress was made towards creating infrastructure and systems that are scalable, robust, and drive efficiencies.

## WE CONTINUED TO FOCUS ON IMPROVING THE PROFITABILITY OF OUR FOOD BUSINESS, BRINGING OUR CUSTOMERS BEST-IN-CLASS PRODUCT FROM AUSTRALIA AND AROUND THE WORLD.



### DRIVE SYNERGIES AND EFFICIENCIES ACROSS THE GROUP

Initiatives identified to reduce the cost of doing business across the Group are well underway.

This includes the introduction of new merchandise and finance systems in July 2017, which will optimise our trading and drive profitability with reduced markdowns.

We also announced a new single regional corporate structure and leadership team for our Australian businesses.

We continued to reduce store occupancy costs through pursuing a collaborative landlord negotiation process across David Jones and Country Road Group.



### EMBED THE GOOD BUSINESS JOURNEY THROUGHOUT OUR BUSINESS

An integrated social responsibility and sustainability strategy, aligned to the Group sustainability strategy, was introduced. The strategy comprises six focus areas, including environment, ethical sourcing, community investment, diversity and inclusion, wellbeing and employee engagement.

 The 2017 Good Business Journey Report is available at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).



# STRATEGY FOR 2018 ONWARDS



## BUILD STRONGER, MORE PROFITABLE CUSTOMER RELATIONSHIPS

With a focus on the mid- to upper-income customer in Australia, we will continue to leverage our single view of the customer enabled by our new CRM platform to gain a deeper understanding of our current and future customers. Our customer data and insights enable us to refine our customer segmentation and improve customer engagement and personalisation as we communicate with them in a more meaningful manner to deliver incremental benefits to our business through increased sales and more profitable and targeted marketing activity. Our customer information and analytics will underpin a clear and integrated marketing strategy that will be consistently executed across all customer touch points.

We will implement a new tiered regional loyalty programme, which includes David Jones (including financial services) and Country Road Group brands. This programme will be specifically designed to engage the broad base of regional customers across our Group. This will facilitate an increased customer-centric culture across the region, which will grow sales and profit across the region and within the brands as we drive up-selling and cross-selling opportunities, optimise marketing expenditure, improve promotional effectiveness and attract new customers to the Group.



## TOWARDS CONNECTED RETAIL

The sale of the Market Street building in Sydney facilitates the approximately A\$200 million redevelopment of the adjacent Elizabeth Street building, creating a 39 000 m<sup>2</sup> luxury department store, bringing together a unique combination of contemporary gourmet food and dining, and multi-level, luxury fashion under one roof. This will include a new restaurant developed in partnership with renowned Australian chef, Neil Perry.

The redevelopment of Elizabeth Street will commence in the second half of 2017, with completion expected in the second half of 2019.

We will limit the disruption to our customers by implementing a coordinated, phased approach with a three-year lease-back of Market Street.

We will continue to develop and execute our integrated digital strategy to drive online sales contribution to at least 10% of total sales by 2020. This includes implementing a new best-practice website platform to increase stability and functionality of the site. The new site will enhance the customer experience by being mobile responsive, quicker and easier to navigate and

provide richer content and online services. It will also improve sales conversion by increasing our digital brand assortment and developing range initiatives such as personalised ranging and buyer's guides, as well as enabling in-store fulfilment. The new platform will significantly enhance our mobile technology platform and ensure alignment with our customer and brand strategies. We will optimise our supply chain processes and leverage Group synergies in customer services and use of the Group's Omni-channel Fulfilment Centre to enhance visibility, availability, and profitability of online sales.

On average, we plan to add 1.1% net new space annually over the next three years. We will continue to right size and refurbish our current store portfolio and establish a long-term portfolio view that takes into account the space requirements for Food, the impact of our digital strategy, space productivity and format strategy principles.

We will continue to transform our in-store service proposition through continued implementation of our in-store customer service model to enable our staff to better serve our customers and exceed their service expectations.





### BE A LEADING FASHION RETAILER IN THE SOUTHERN HEMISPHERE

We will continue to focus on offering a differentiated product proposition enabled by the use of our enhanced customer insights and customer segmentation to optimise our merchandise and brand assortment and to drive targeted marketing campaigns. We will appeal to the mid- to upper-income customer by increasing our exclusivity of key brands, specifically the higher tiered brands, enabled by continuing to exit smaller, underperforming brands.

We will continue to build an appropriate private label offering by growing ranges and improving the performance of our existing private label Group brands by strengthening the product offerings and optimising the space allocation across our store portfolio. Our David Jones private label brand will be designed by Country Road Group and benefit from their strong design capability and deep understanding of the Australian customer. We regularly assess trading performance of our private labels and agree on strategies to optimise sales and profitability.



### BECOME A BIG FOOD BUSINESS WITH A DIFFERENCE

Our vision for David Jones Food business is to be a trusted and inspirational food brand that connects people who love food through an authentic experience that offers consistent superior quality, flavour, and innovation.

We have commenced with the investment in the transformation of our Food business and will spend up to A\$100 million over the next three years to bring our customers the best of the world and the best of local, excellent food services and expert advice.

We will do this by aggressively growing the David Jones brand and targeting our existing David Jones customer base.

We will continue to improve the merchandise on offer by editing existing ranges, driving exclusivity of product, and owning and developing our own David Jones Food brand. This will be enabled by ensuring that we build the best product and technical skills in the market, and by developing key categories with strategic and exclusive suppliers. In Food Services, we have partnered with leading Australian culinary expert, Neil Perry, to offer the best Food Service experience in the marketplace.

We will continue to roll out our new Food store formats, with each format having a different mix between Food Services and Food retail depending on customer profile and location. We will adopt a phased approach to roll out the Food offering down the chain in the format that best suits the customers' needs. Key food store openings include our first flagship Foodhall at Bondi Junction, which opened in August 2017, the Wollongong Food Market, which will open in October 2017, and a new food concept store in Malvern Central, Melbourne, which will open

in March 2018. Our Food Value Chain initiative will enable range and space capacity and planning in August 2018, enabling an improved customer shopping experience.

We are currently relying on our supplier partnerships for our supply chain capability and will assess the potential for a future-state centralised distribution model in the longer term. We will continue to build a scalable and robust value chain by streamlining the food systems, processes, and supply chain.

## OUR VISION FOR THE DAVID JONES FOOD BUSINESS IS TO BE A TRUSTED AND INSPIRATIONAL FOOD BRAND THAT CONNECTS PEOPLE WHO LOVE FOOD THROUGH AN AUTHENTIC EXPERIENCE THAT OFFERS CONSISTENT SUPERIOR QUALITY, FLAVOUR, AND INNOVATION.



David Jones, Foodhall, Bondi Junction



### DRIVE SYNERGIES AND EFFICIENCIES ACROSS THE GROUP

Our combined Group presence provides us with opportunities to drive synergies, leverage scale, and minimise costs to improve profitability.

We are establishing a new designed-for-purpose Australian head office in Melbourne, co-locating both David Jones and Country Road Group. This will provide us with a centre of retail excellence and a single operating hub. This will drive cooperation and creative collaboration, and harness advantages of scale and proximity to improve operational effectiveness, while investing in infrastructure and resources for future growth. The relocation to the head office campus is expected to be completed by the end of 2018.

We will also leverage our scale in our sourcing platform across the Group. We are able to drive margin gains from Group sourcing as we develop world-class supplier partnerships

to drive improved product development, flexibility, price accessibility, and speed to market.

We will leverage our new value chain merchandising systems to enable better stock management and improve stock-turn and reduce markdowns. The systems will also provide an improved view of brand profitability, which will enable more efficient decision-making.

We are developing a future-state regional supply chain strategy including the use of Country Road Group's purpose built Omni-channel Fulfilment Centre in Melbourne. A centralised supply chain will transform our logistical operations and improve our in-store availability, enhance stock management, reduce online fulfilment costs, and drive material cost efficiencies.



### EMBED THE GOOD BUSINESS JOURNEY THROUGHOUT OUR BUSINESS

David Jones' Good Business Journey forms a key component of the corporate strategy and consists of six work streams that support and align with the key focus areas of WHL's Good Business Journey. We will continue to evolve and implement our Good Business Journey.

COUNTRY ROAD GROUP



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**AUSTRALIA'S  
LEADING  
DESIGN-LED  
PORTFOLIO OF  
BRANDS, PROVIDING  
A CONNECTED  
RETAIL  
EXPERIENCE.**

—

COUNTRY ROAD GROUP

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**KEY ACHIEVEMENTS IN 2017**

- Acquisition of leading menswear brand, Politix
- Re-establishment of clearly defined customer-led strategies for each brand
- Encouraging performance, particularly in Country Road and Witchery, through improved design and merchandising capabilities
- Successful growth in digital with CRG online sales continuing to outperform the market and on track to reach 20% online sales contribution by 2020
- Commenced process of regionalisation, including establishing Australian head office and single regional corporate structure and leadership team

**FINANCIAL PERFORMANCE**

Sales increased by 5.1% in Australian dollar terms and showed a marked improvement in the second half, notwithstanding the difficult trading conditions. Sales in comparable stores were 0.4% lower. Retail space declined by a net 3.4%, and the inclusion of newly acquired Politix added 3.7% to sales. Adjusted operating profit increased by 1.0% and return on sales decreased to 9.3%.

	2015		2016		2017		2020 TARGET
	A\$	Rand	A\$	Rand	A\$	Rand	
Sales	0.9bn	9.1bn	1.0bn	10.6bn	1.1bn	10.8bn	
Gross profit %	60.9%		59.4%		60.3%		
Adjusted operating profit	111m	1.1bn	97m	1.0bn	98m	1.0bn	
ROS* %	11.7%		9.7%		9.3%		12%
Capex**		936m		517m		348m	

\* Operating profit as a percentage of turnover.  
\*\* Excluding Politix acquisition.

**MEDIUM-TERM TARGET**

**ROS OF 12%**

 Read more about our financial performance in the Group Finance Director's report on pages 62 to 77.

## COUNTRY ROAD GROUP

### OFFERING

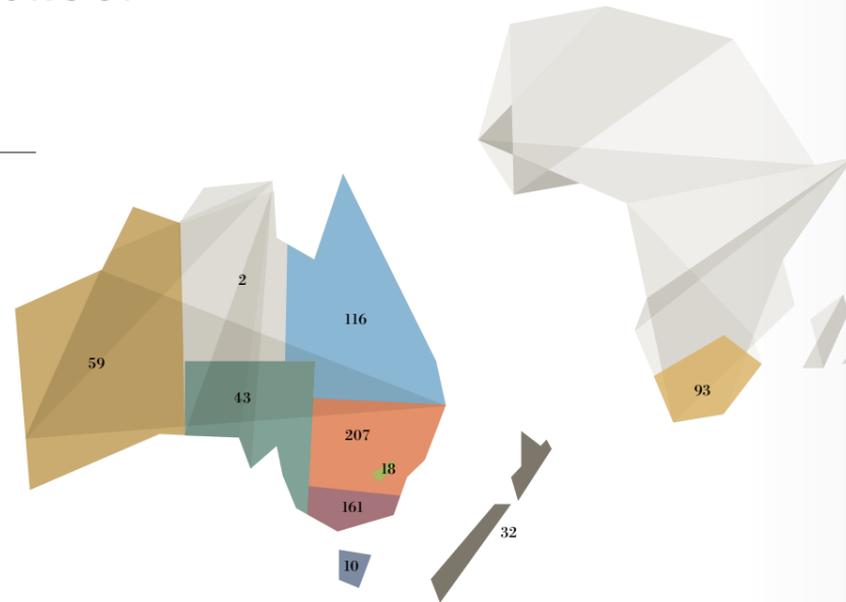
Women's, Men's and Children's apparel and accessories and Home

### BRANDS

COUNTRY ROAD  
WITCHERY  
TRENERY  
MIMCO  
POLITIX

### GEOGRAPHICAL FOOTPRINT

- South Africa
- New South Wales
- Australian Capital Territory
- Victoria
- Queensland
- South Australia
- Western Australia
- New Zealand
- Tasmania
- Northern Territory



Country Road Group

# 5 590

Number of employees



# 14.6%

Contribution to Group turnover\*

# 14.7%

Contribution to Group profit before interest and tax



COUNTRY ROAD

ONE OF AUSTRALIA'S MOST ICONIC LIFESTYLE BRANDS FOR WOMEN, MEN, CHILDREN AND HOME. THE COUNTRY ROAD BRAND IS RENOWNED FOR STYLISH, HIGH-QUALITY APPAREL, ACCESSORIES AND HOMEWARE.



# 210

Store locations



TRENERY

DESIGNED FOR WOMEN AND MEN WHO APPRECIATE THE BEAUTY OF SIMPLE, SOPHISTICATED COLLECTIONS THAT ARE MODERN IN APPROACH AND CLASSIC IN STYLE.



# 110

Store locations



WITCHERY

LEADING AUSTRALIAN BRAND WITH A FOCUS ON FASHIONABLY DESIGNED, HIGH QUALITY WOMENSWEAR, ACCESSORIES AND CHILDRENSWEAR. POSITIONED AS THE 'STYLE AUTHORITY'.

# 207

Store locations



POLITIX

LEADING AUSTRALIAN MEN'S FASHION BRAND THAT COMBINES INNOVATIVE DESIGN, AN EXCEPTIONAL TAILORED FIT, AND ULTRA ATTENTION TO DETAIL.

# 75

Store locations



# 139

Store locations



MIMCO

ONE OF AUSTRALIA'S LEADING DESIGNER BRANDS POSITIONED AS AN ACCESSIBLE LUXURY ACCESSORIES BRAND, DESIGNED WITH QUIRK.

\* Including concession sales.

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# PERFORMANCE FOR 2017



Politix, Summer 2017



## BUILD STRONGER, MORE PROFITABLE CUSTOMER RELATIONSHIPS

Country Road Group continued to leverage its successful loyalty programme. Our active customer base has increased by 100 000 to 2.1 million customers, allowing us to track 83% of sales on loyalty cards.

During the year, Mimco launched a new and improved tiered loyalty programme which increased the frequency of customer purchases. Our customer relationships continued to be enhanced by further embedding customer experience management throughout Country Road Group. This included more direct and personalised customer brand communication and events along with individualised loyalty member journeys and tailored offers which differentiate our brands in a market of generic discounting.

Last year, we introduced new measures for customer satisfaction including a customer experience measure and a brand equity measure which provides consistent metrics across our brands. In the current year, we had our first view of data for a 12-month period and were able to derive actionable insights and analytics to all levels of the business to further drive our brands' strategies.



## TOWARDS CONNECTED RETAIL

Country Road Group continued to outperform the market across all brands in online sales growth, with growth of 24.5% in the past year. Online sales now represent 15.5% of total sales. The customers' digital experience continued to be improved by increasing the speed and functionality of mobile and desktop sites and strong tactical initiatives such as exciting product launch pages, improved stock management principles, and alternative online payment method options. This drove online sales by attracting new customers to the brand and increasing the online basket size and the frequency of online customer visits. We also encouraged international online sales by integrating with a cross-border solution partner to provide a localised experience to international customers. After successfully launching and expanding Country Road Group brands in David Jones last year, we focused on improving the profitability of these brands in David Jones stores. A new marketing plan was introduced to include initiatives specifically tailored to David Jones stores, such as exclusive weekend offers.

Country Road Group continued to outperform the market across all brands in online sales growth, with growth of **24.5%** in the past year

Online sales now represent **15.5%** of total sales



### BE A LEADING FASHION RETAILER IN THE SOUTHERN HEMISPHERE

In the year, the improvement of CRG's performance, particularly in Country Road and Witchery, were key focuses. A new Country Road Group CEO, Scott Fyfe, and new managing directors for all of the brands were appointed. The impact of new leadership has already begun to bear fruit and is reflected in the encouraging performance of the brands in the second half of the financial year.

Across our brands, we improved our offering by focusing on the fashionability, quality, and fit of our products to exceed our customers' expectations. This included the introduction of better trans-seasonal products, increased newness, and more exciting and design-led ranges to address changing weather patterns and to differentiate our brands from our competitors.

Several new trading disciplines were introduced in order to provide consistent information on key performance metrics. We also launched an app that delivers daily sales to our teams to provide them with timely, accurate information. These changes enable us to identify and act upon trading opportunities and ensure that we focus on full-price trading and are less reliant on discounting. We also introduced a new marketing plan that is transparent across all brands, which has improved our planning to optimise our sales and promotions.

In November 2016, we acquired Politix, a market-leading Australian designer menswear business. Politix is a modern brand with a clear point of view which appeals to a broad base of fashion-conscious men aged 18 to 35. This acquisition is consistent with our southern hemisphere strategy of building a strong and diversified portfolio of iconic brands.



### DRIVE SYNERGIES AND EFFICIENCIES ACROSS THE GROUP

As noted under David Jones, we began the process of establishing a new designed-for-purpose Australian head office in Melbourne and of introducing a new single regional corporate structure supported by a strong regional leadership team.

We continue to benefit from our purpose-built Omni-channel Fulfilment Centre in Melbourne as all Country Road Group

stores and online fulfilment is run from the same location. The centralised approach has reduced end-to-end handling costs due to improved labour productivity and the consolidation of transport costs. The centre is a key enabler for future growth across the Group as it serves to support growth in online sales as well as growth in David Jones.



### EMBED THE GOOD BUSINESS JOURNEY THROUGHOUT OUR BUSINESS

The Country Road Group's Good Business Journey programme is aligned with WHL's key focus areas. Good Business Journey 2020 targets have been integrated into the balanced scorecard and performance management processes, and progress is monitored by an executive steering committee to ensure the integration of sustainability into 'business as usual'.

Significant progress has been made towards improving traceability through the supply chain and working with suppliers to source more sustainable raw materials, including cotton, cellulose, leather, wool, and timber. Collaboration with

a range of charity partners as well as initiatives that promote the empowerment of impoverished artisans through fair work opportunities, has resulted in a growing community contribution.

Country Road Group has received positive ratings in a number of external assessments, including a B+ rating in the Baptist World Aid 2017 Ethical Fashion Report and a rating of 4.2 out of 5 from the Australian Packaging Covenant.

The groundwork we established in the current year will stand us in good stead on our GBJ journey.

The 2017 Good Business Journey Report is available at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).



# STRATEGY FOR 2018 ONWARDS



## BUILD STRONGER, MORE PROFITABLE CUSTOMER RELATIONSHIPS

We focus on the mid- to upper-customer in Australia, New Zealand, and South Africa. We aim to lead the market with an experience that grows our customer base by re-engaging with our customers and rewarding their loyalty. We will continue to improve the functionality of our Customer Relationship Management programme and optimise and enhance our current loyalty programmes by leveraging the customer insights and using customer segmentation to inform all our business decisions and improve our customer engagement. We will maximise our sales and profitability by driving more personalised, targeted marketing to our loyal customers and reducing generic discounting. While we will establish a customer connection unique to each Country Road Group brand, the combined customer databases across all our brands allows us to drive revenue synergies through cross-shopping opportunities. We will also introduce a loyalty programme for our newly acquired brand, Politix. Together with David Jones, we will define and launch a new tiered regional loyalty programme which encapsulates David Jones and all Country Road Group brands.



## TOWARDS CONNECTED RETAIL

An increasing portion of our sales is being made online. We will drive online sales while improving the profitability of our physical stores by implementing a clear channel strategy to optimise our channel mix and enhance profitability by balancing store and online growth.

We will grow online sales aggressively to more than 20% of total Australian sales by 2020 through continual investment in innovative digital development to provide a truly connected retail experience to our customers. This includes focusing on digital accessibility and personalisation through enhanced mobile platforms, targeted communication based on customer behaviour, and integrating the digital experience with stores. We will improve our customers' digital experience by offering new delivery

**We will grow online sales aggressively to more than 20% of total Australian sales by 2020 through continual investment in innovative digital development to provide a truly connected retail experience to our customers.**

options, enabling faster and easier returns of online purchases, and enabling effortless payment options.

We will continue to leverage our Omni-channel Fulfilment Centre to optimise our fulfilment processes.

We will look to potentialise international market opportunities to drive sales and brand awareness, focusing initially on Asia, the United Kingdom and North America.

We will optimise space and improve store trading densities and profitability by churning our store portfolio and reducing our retail store footprint in Australia by closing non-profitable stores. We will drive concession sales growth through new pads, including introducing Politix into David Jones stores. We will continue to work with David Jones to drive profitability in our expanded David Jones footprint.





## BE A LEADING FASHION RETAILER IN THE SOUTHERN HEMISPHERE

The Country Road, Trenery, Witchery, Mimco and Politix brands are positioned to appeal to the mid-to upper-tier consumer of the Australian specialty fashion market.

We have defined clear brand identities and customer-led strategies for each brand. Our products are the heartbeat of our business and we will differentiate ourselves from our competitors and offer a superior proposition to the brands' specific target customers. We continue to focus on the design, quality, and fit of our merchandise to deliver style with authority. We will also deliver this 'style authority' in David Jones private label merchandise as we assume responsibility for its design.

Constant and predictable discounting influences customers' shopping behaviour and erodes brand

loyalty. We will ensure that we deliver consistent value for money to our customers and become less reliant on promotional activity by introducing a clear pricing strategy and continuing to implement a defined promotional plan across the brands. We will continue to implement standardised ways of working and sound merchandising principles to ensure that the right product is at the right place at the right time, thereby decreasing stock holding and markdowns to improve profitability. We will be more flexible in our buying decisions so that we can react promptly to market trends and our customers' wants and needs. This will ensure newness in our offering and also increase the availability of key looks.



## DRIVE SYNERGIES AND EFFICIENCIES ACROSS THE GROUP

As outlined under David Jones, we are creating an Australian head office in Melbourne, Australia, which will achieve substantial financial, operational and synergy benefits across the Group. We will also continue to create a flexible, agile, performance-focused and trusted workforce by attracting and retaining talented employees and building their capability, underpinned by our compelling Employee Value Proposition.

We will continue to integrate Politix into the Group and derive benefits by sharing best practice, leveraging Group scale in real estate negotiations, optimising sourcing and supply chain, and aligning our systems.

We will continue to optimise our end-to-end value chain with effective store profiling and critical path management, end-to-end stock visibility and improved allocations. This will lead to improved reporting, productivity, efficiency, and speed to

market. We will optimise our supply chain and logistics to efficiently improve stock availability and to drive speed to market as well as ease of purchase and return for our customers. This includes operations in our Omni-channel Fulfilment Centre where we will continue to focus on further driving labour productivity and cost savings.

We will develop a world-class supply base to deliver aspirational product that is 'on brand, on margin and on time' by leveraging the Group's sourcing capability and by building closer relationships with our suppliers by reducing the number of agents we use and establishing new direct sources.

We will continue to consolidate and align our IT systems and infrastructure to support our connected retail strategy and our Group integration.



## EMBED THE GOOD BUSINESS JOURNEY THROUGHOUT OUR BUSINESS

Country Road Group remains focused on designing and delivering sustainable product to our customers, and extending this commitment to our recently acquired brand, Politix.

Country Road Group will contribute towards delivering the Group sustainability commitments by:

- Continuing to drive operational efficiencies and savings related to energy, water and waste, with a particular focus on designing green stores and integrating sustainability into the new head office in Melbourne
- Partnering with our suppliers to drive positive social, ethical, and environmental change 'beyond compliance'
- Continuing to empower impoverished artisans through fair work opportunities
- Designing products with sustainability attributes
- Driving responsible sourcing strategies for all key commodities: cotton, cellulose, leather, wool and timber
- Continuing to partner with key charity organisations to make a difference and to provide opportunities for our teams to be involved in supporting local communities



**WE HAVE DEFINED  
CLEAR BRAND  
IDENTITIES AND  
CUSTOMER-LED  
STRATEGIES FOR  
EACH BRAND.**

**126**

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# OUR GOVERNANCE

*Click on page number for quick  
access to content*

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**132** OUR GOVERNANCE REPORT

**142** OUR SOCIAL AND ETHICS COMMITTEE REPORT

**146** OUR REMUNERATION REPORT



# DIRECTORATE



**BOARD OF DIRECTORS AND GROUP SECRETARY**

*from left to right:*

- |                                                                                                                                             |                                                                                                                                                                                        |                                                                                                                                                                                        |                                                                                                                                                                                                              |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>LORD ROSE (68)</b><br/><i>(British)</i><br/>Independent Non-executive Director<br/>Expertise: Retail<br/>Joined the Board in 2011</p> | <p><b>ANDREW HIGGINSON (60)</b><br/><i>(British)</i><br/>Independent Non-executive Director<br/>Expertise: Retail<br/>Joined the Board in 2012</p>                                     | <p><b>PETER BACON (71)</b><br/><i>(British)</i><br/>Independent Non-executive Director<br/>Expertise: Business leadership, hotels, gaming and leisure<br/>Joined the Board in 2006</p> | <p><b>JOHN DIXON (49)</b><br/><i>(British)</i><br/>Chief Executive Officer – David Jones (WHL Australia from 1 September 2017)<br/>Expertise: Retail<br/>Joined the Board in 2017</p>                        |
| <p><b>IAN MOIR (58)</b><br/><i>(Australian)</i><br/>Group Chief Executive Officer<br/>Expertise: Retail<br/>Joined the Board in 2010</p>    | <p><b>HUBERT BRODY (53)</b><br/><i>(South African)</i><br/>Independent Non-executive Director<br/>Expertise: Business leadership, finance and banking<br/>Joined the Board in 2014</p> | <p><i>seated:</i><br/><b>ZARINA BASSA (53)</b><br/><i>(South African)</i><br/>Independent Non-executive Director<br/>Expertise: Banking and finance<br/>Joined the Board in 2011</p>   | <p><b>SIMON SUSMAN (67)</b><br/><i>(South African)</i><br/>Non-independent, Non-executive Director and Chairman<br/>Expertise: Retail<br/>Joined the Board in 1995 and was appointed as Chairman in 2011</p> |

**GROUP COMPANY SECRETARY**

- |                                                                                                                                                                    |                                                                                                                                                                     |                                                                                                                                                                                              |                                                                                                                                                                                                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>CHANTEL REDDIAR (42)</b><br/><i>(South African)</i><br/>Group Chief Operating Officer<br/>Expertise: Operations and finance<br/>Joined the Board in 2014</p> | <p><b>SAM NGUMENI (49)</b><br/><i>(South African)</i><br/>Group Chief Operating Officer<br/>Expertise: Operations and finance<br/>Joined the Board in 2014</p>      | <p><b>NOMBULELO MOHOLI (57)</b><br/><i>(South African)</i><br/>Independent Non-executive Director<br/>Expertise: Business leadership and telecommunications<br/>Joined the Board in 2014</p> | <p><b>PATRICK ALLAWAY (56)</b><br/><i>(Australian)</i><br/>Independent Non-executive Director<br/>Expertise: Finance and banking<br/>Joined the Board in 2014</p>                                                |
| <p><b>REEZA ISAACS (48)</b><br/><i>(South African)</i><br/>Group Finance Director<br/>Expertise: Retail and finance<br/>Joined the Board in 2013</p>               | <p><b>ZYDA RYLANDS (52)</b><br/><i>(South African)</i><br/>Chief Executive Officer – Woolworths South Africa<br/>Expertise: Retail<br/>Joined the Board in 2006</p> | <p><i>seated:</i><br/><b>GAIL KELLY (61)</b><br/><i>(Australian)</i><br/>Independent Non-executive Director<br/>Expertise: Business leadership and finance<br/>Joined the Board in 2015</p>  | <p><b>TOM BOARDMAN (67)</b><br/><i>(South African)</i><br/>Independent Non-executive Director, Lead Independent Director<br/>Expertise: Business leadership, banking and retail<br/>Joined the Board in 2011</p> |



“  
**WE HAVE  
CLEAR GROUP STRATEGIC  
PRIORITIES WHICH  
BOTH ADDRESS THE FUTURE  
RETAIL TRENDS AND STAND  
US IN GOOD STEAD DURING  
THE MORE DIFFICULT  
TRADING CONDITIONS IN THE  
IMMEDIATE FUTURE.**  
”

**WHL EXECUTIVE COMMITTEE**

*from left to right:*

**REEZA ISAACS**  
*Group Finance Director*

**SCOTT FYFE**  
*Chief Executive Officer -  
Country Road Group*

**CHANTEL REDDIAR**  
*Group Company Secretary*

**SAM NGUMENI**  
*Group Chief Operating Officer*

*seated:*  
**IAN MOIR**  
*Group Chief Executive Officer*

**JOHN DIXON**  
*Chief Executive Officer -  
David Jones*

**ZYDA RYLANDS**  
*Chief Executive Officer:  
Woolworths South Africa*

**RALPH BUDDLE**  
*Director: Strategy and Business  
Development*

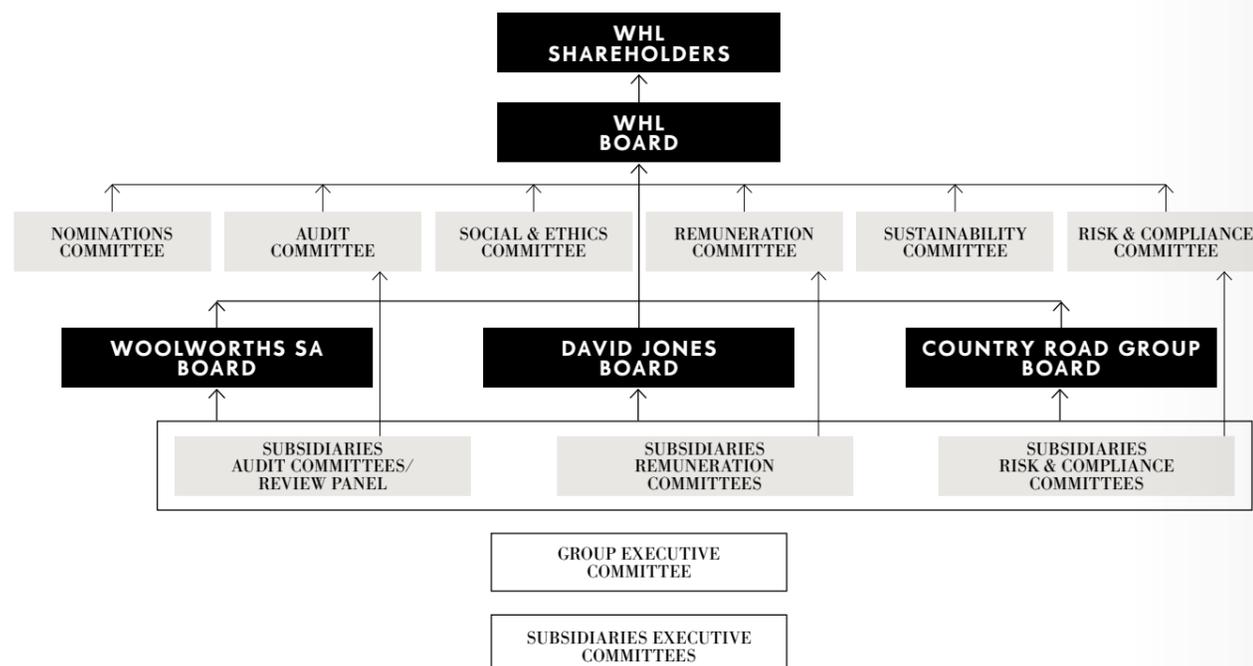
# OUR GOVERNANCE REPORT

## GOVERNANCE FRAMEWORK AND STRUCTURE

As a Group that has always been associated with quality, we likewise believe in demonstrating quality governance practices. As such, we remain committed to a governance philosophy that advocates high standards of leadership, ethics, integrity, accountability, and responsibility. Our governance philosophy is underpinned by our values, purpose, and vision as the foundation. We then build on the regulatory, legal, and governance requirements of the various jurisdictions within which we operate, always seeking to evolve and mature our governance practices beyond simply legislative compliance. This is best epitomised by our Good Business Journey (GBJ), a culmination of our corporate citizenship endeavours, which celebrated its 10th anniversary this year and which is reported on in our GBJ report. Our governance framework presents an

overview of the philosophy, principles, and practices on the basis of which the Group is managed and controlled to achieve its purpose of 'Adding Quality to Life'. The framework adopted by the Group articulates how decisions are made in compliance with legal and regulatory requirements. Our governance structure, as graphically represented below, is supported by further details available on our website at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

The Board is positioned to fulfil its strategic role for the Group, supported by the Woolworths South Africa and WHL Australia governance structures, which are in the process of being aligned with common structures adopted in the two regions where appropriate. This will further drive streamlined decision-making for value creation.

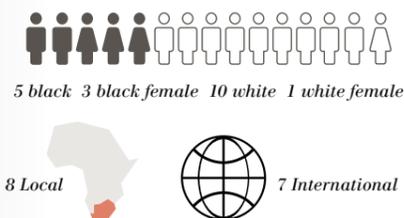


## USING OUR GOVERNANCE FRAMEWORK FOR VALUE CREATION

We believe that the Group's governance framework and supporting structures support the overall value creation of WHL. The Board composition, governance framework, and the roles and responsibilities of the committees are not merely focused on compliance with the relevant laws and regulations, but also add value in driving outcomes that support the Group's vision to be one of the world's most responsible retailers.

We believe that the governance framework, practices, and processes create value for the Group through:

### • A DIVERSE AND TRANSFORMED BOARD



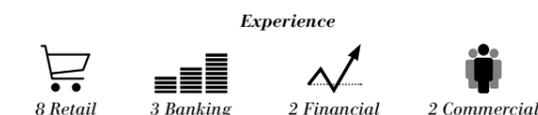
The Group has a Board which is diverse in terms of race, gender, nationality, business acumen, and tenure. This diversity provides for challenging and robust discussion and assists in reaching decisions, which consider the resources that the Group uses and the trade-offs that may need to occur.

The Board has approved a diversity policy which addresses diversity attributes generally and with specific voluntary targets set for both gender and race. The targets have been set at maintaining a minimum of 33% black and female representation respectively, with higher aspirational targets by 2020. While the black representation target was met, changes to the Board during the year have resulted in the gender representation falling below target. The Board has factored this into their succession planning.

**The Board and committees add value in driving outcomes that support the Group's vision to be one of the world's most responsible retailers.**

### • SKILLS AND EXPERIENCE FOR THE FUTURE

The Board reviewed the ideal composition of skills and experience for the future against its current experience mix:



The Board concluded that it would benefit from the inclusion of a skill set that was experienced in the digital e-commerce environment in order to future fit its composition.

Succession planning at Board level is important to ensure we have the right skills, continuity and experience for the future. The Nominations Committee regularly reviews Board and committee succession. The Board has an agreed process and policy in place for appointing directors.

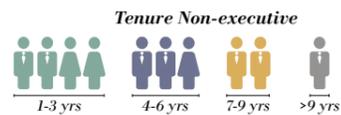
With the importance of the Australian operations to the Group, David Jones' CEO John Dixon was appointed to the WHL Board as an executive director.

Thina Siwendu resigned from the Board in February 2017 on her appointment as a full-time judge of the Gauteng local Division of the High Court. She was also the Chairman of the Social and Ethics Committee. Relying on our succession plans, we were able to fill this key chairmanship position with Nombulelo Moholi, who was a member of this committee. To further promote integrated thinking, Nombulelo was also appointed to the Sustainability Committee.



Number of members Attendance %

• BOARD REFRESHING AND TENURE



As set out in WHL's Memorandum of Incorporation (MOI), non-executive directors may serve office for a period of nine years, unless otherwise extended by the Board on an annual basis. In 2016, the Board extended the tenure of Peter Bacon for a further year to November 2017. Peter will retire from the Board at the conclusion of the November 2017 Annual General Meeting (AGM).

Succession plans for key Board positions have been finalised and will ensure that appropriate plans are put in place to ensure that the succession of these key roles takes place with controlled handovers.

• HIGH PERFORMING DIRECTORS

Informal performance evaluations of individual directors takes place on an ongoing basis. A formal review by the Chairman is conducted annually. This year the Group conducted an external evaluation process utilising the services of independent consultants, The Board Practice. As part of this process an individual peer review was conducted on each director. The result of the peer review was shared with the Board Chairman who discussed the findings with each director. The review of the Chairman is carried out by the Lead Independent Director. The performance review of executive directors is carried out by the Board Chairman insofar as their Board performance is concerned. Their performance review as executives is carried out by the Group CEO as part of management's performance appraisal process and overseen by the Remuneration Committee. Their executive performance appraisal results inform the short-term performance incentive scheme as a modifier to the final incentive payments made. The Group CEOs performance is reviewed by the Nominations Committee and also influences his potential short-term performance incentive payment.

• INDEPENDENT THINKING



The Board is constituted of 15 directors, ten non-executive directors and five executive directors. The responsibilities of the Chairman and Group Chief Executive Officer are clearly defined and separate.

All the non-executive directors are considered independent, with the exception of the Chairman, Simon Susman, who is classified as non-independent by virtue of his shareholding in WHL. A majority of independent non-executive directors ensures that independent thinking is brought to the Board and committee deliberations, and all directors continue to exercise objective judgement.

All Board committees are chaired by independent non-executive directors.

The independence of non-executive directors is reviewed annually by the Nominations Committee. The Board applied the direction provided by King IV in its determination of a director's independence, taking cognisance of the independence definition and recommended practices. All non-executive directors standing for re-election are considered to be independent.

• AN ENGAGED AND COMMITTED BOARD



Active participation in and attendance at Board and committee meetings is vital for an effective governance structure. We believe that we have committed directors and this is reflected by the 97% attendance record by directors for all Board (including dedicated strategy) and committee meetings. The committees' attendance is shown in each committee review on pages 137 to 139.

• AN EFFECTIVE BOARD PROCESS

An external performance evaluation of the Board and its committees, including at subsidiary level, was conducted by independent consultants, The Board Practice. Regular external evaluations provide a useful independent view of the manner in which the activities of the Board can be improved. The evaluation focused on various themes, including: strategy alignment; risk management; succession planning; Board composition and structure; Board dynamics and culture; partnership with the Exco; and efficiency of core Board processes.

The results from the Board evaluation are shown in the diagram below. A rating of 4 is considered best-in-class practice.

Key findings from the evaluation included:

- positive feedback in respect of the workings of the Board, with an upward trend in effectiveness and professionalism
- areas highlighted for improvement related to succession planning, which was already under consideration by the Board.

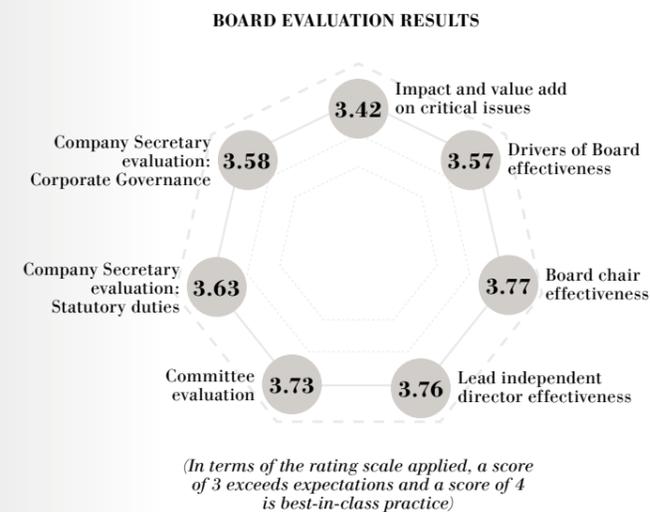
• FOCUSED AND INFORMED DELIBERATIONS

Group and subsidiary Board and committee meetings are held quarterly and Board telecons are scheduled during the quarter in order to keep the Board apprised of developments between Board meetings. Dedicated strategy meetings are held twice a year. The WHL Board meetings are held alternately in South Africa and Australia to ensure that directors receive adequate exposure to the respective local senior management teams and retail markets within which the Group operates.

Board committees and their membership have been constituted to allow for dedicated and focused deliberations regarding the various aspects of the business model and material issues, supported by the relevant skills, expertise, and diversity of the committee membership.

A number of directors are members of more than one committee which facilitates integration and promotes the level of integrated thinking required to ensure that deliberations take into account the resources available and stakeholder interests.

Regular presentations by senior management in the Group provide directors with an opportunity to interrogate and form a first-hand view of matters under discussion. Directors also have access to external consultants and/or specific assurance providers to independently inform and advise them on their deliberations as necessary. This is supported by the Group's extensive Combined Assurance Model.





Strategy meetings Number of meetings Number of members Attendance %

**CORPORATE CITIZENSHIP**

Our values support the shift in King IV towards wider stakeholder inclusivity and enhanced corporate citizenship which underpin our reporting and engagement approach to a wider group of stakeholders. Doing business is about creating shared value and meeting responsibilities to contribute to economic development and give back to communities and the environment for the benefit of the wider stakeholder group. As referenced earlier, the GBJ, officially launched in 2007, is testament to our focus on value creation as a good corporate citizen. The Group remains on the FTSE/JSE Responsible Investment Index. We actively communicate and engage with all stakeholders including the investment community, providing updates on strategic developments and implementation.

**KING APPLICATION**

Consistent with prior years, all principles recommended by King III were applied, with one exception – the election of an Independent Director as Chairman of the Board. The WHL Chairman, Simon Susman, is classified as a Non-independent Director by virtue of the number of WHL shares he holds. In mitigation, the position of Lead Independent Director has been maintained and is held by Tom Boardman. The Lead Independent Director oversees matters discussed by the Board when the Chairman may, or is seen to have, a conflict of interest. King IV was released on 1 November 2016 and a self-assessment was conducted against the relevant principles as well as the related recommended practices. While the effective date for disclosure on the application of King IV is only in respect of financial years starting on or after 1 April 2017, the Board is satisfied that the Group is already in substantive alignment with the principles and are mindfully overseeing the adaptation of relevant practices. The Board is fully committed to the four governance outcomes, namely: an ethical culture; good performance; effective control; and legitimacy. Pertinent in this regard is the newly constituted Executive Information Management Committee which will develop the Information Management Policy for the Group to serve as the framework to manage information more effectively and strategically. The Board has further elected to introduce the separate non-advisory votes on the remuneration policy and the implementation reports.

Our King III assessment is available at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

**BOARD AND COMMITTEES**

The Board is the custodian of corporate governance within the Group and leads by setting the tone at the top. Its role and responsibilities include steering the business and determining the Group's strategic direction. It interrogates and approves the strategy developed by management as well as the policies and plans which give effect to the strategy. The deliberations of the Board are guided by a Board charter and the Board committees are mandated by their respective committee terms of reference.

The activities and matters discussed at Board and committee meetings are guided by annual work plans which balance relevant reviews over the course of a financial year. The charter and terms of reference are reviewed and updated on an annual basis to adopt best practice, and include specific statutory requirements. This year, the review focused on alignment with King IV. Recommended practices not addressed were identified and mindfully evaluated to form the basis of recommendations for changes. These recommendations were discussed with the respective committee chairmen following which the appropriately updated terms of reference were approved by the Board.

All committees reviewed their responsibilities as set out in the respective terms of reference and are satisfied that they have carried these out during the year. The Board charter and respective committee terms of reference are available on our website at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

The Board oversees and monitors implementation and execution by management in terms of the delegation of authority. Finally, the Board ensures accountability for the Group's performance through, among others, reporting and disclosure.

The Board charter and committees' terms of reference are available at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

**ROLES AND MEMBERSHIP OF THE BOARD AND ITS COMMITTEES**

**BOARD**



The material issues discussed by the Board are determined by assessing the external environment, the needs and expectations of our key stakeholders, and other significant topics and/or events. Discussions held in the various committees enable the Board discussions to be more focused on strategic issues.

This year, presentations from senior management included plans for enhancing current operations to cater for new business opportunities. These presentations not only provide the Board with an opportunity to interrogate matters under discussion in more detail but also an opportunity to engage with management.

Key focus areas for 2017:

- The challenging trading environment in both South Africa and Australia
- Strategies in a digital world
- Group transformation initiatives arising from the David Jones acquisition
- Volatile political environment in South Africa
- Streamlining a governance structure in Australia by simplifying the corporate structure
- King IV assessment and impact analysis

**NOMINATIONS COMMITTEE**



The role of the Nominations Committee is to assist the Board with the nomination, election, and appointment of directors and ensure a transparent and accountable process to determine an optimally diverse Board and committee composition. The committee ensures that there is appropriate succession planning for the Chairman and directors.

**Members:** Tom Boardman (Chairman), Zarina Bassa, Gail Kelly, Lord Rose, and Simon Susman.

Key focus areas for 2017:

- External Board and committees evaluation, and addressing findings
- Succession planning for directors and Executive Committee members
- Recommendation of executive director appointment
- Approval of the Group CEOs performance objectives and assessment of outcomes
- Formulated the Board Diversity Policy
- King IV assessment, identification of relevant recommendations, and alignment of terms of reference

**AUDIT COMMITTEE**



The role of the Audit Committee, in addition to its statutory duties in line with the Companies Act 71 of 2008, as amended, is to provide independent oversight of the effectiveness of internal financial controls and system of internal controls. This assists the Board in monitoring the integrity of the Group's Annual Financial Statements and related external reports. The committee further oversees the effectiveness of the Group's external and internal assurance functions and services that contribute to ensuring the integrity of the Group's financial and integrated reporting.

**Members:** Hubert Brody (Chairman), Patrick Allaway, Peter Bacon, Zarina Bassa, and Andrew Higginson.

Key focus areas for 2017 (more detail is provided in the Audit Committee report):

- Politix acquisition by CRG
- Market Street property sale
- Capex scenario planning in respect of the Elizabeth Street property development
- Monitored the controls over and implementation of new systems in Australia
- The Domestic Medium Term Note Programme design and implementation
- Discussion of Mandatory Audit Firm Rotation/Audit Quality Indicators and audit partner rotation
- King IV assessment, identification of relevant recommendations, and alignment of terms of reference

The 2017 Annual Financial Statements are available at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).



Number of meetings Number of members Attendance %

**REMUNERATION COMMITTEE**



The role of the Remuneration Committee is to ensure the employee value proposition promotes fair, responsible, transparent remuneration and reasonable employment practices within the Group while adopting a stakeholder inclusive approach. This includes the review of executive performance and remuneration. It is also to ensure the establishment of an appropriate remuneration framework and adoption of remuneration policies which aim to attract and retain top talent, support the Group's long-term strategy, and drive sustainable performance.

**Members:** Tom Boardman (Chairman), Patrick Allaway, Peter Bacon, Zarina Bassa, Andrew Higginson, Gail Kelly, Nombulelo Moholi, Lord Rose, and Simon Susman.

Key focus areas for 2017 (more detail is provided in the Remuneration Report):

- Succession planning and talent management
- Review of executive remuneration
- Proactive engagement with key shareholders
- Approval of the framework for fair and responsible pay aligned to King IV
- Long-term incentive scheme review including performance conditions
- Short-term incentive scheme application in the current trading environment
- King IV assessment, identification of relevant recommendations, and alignment of terms of reference

Go to page 146 for the Remuneration Report.

**RISK AND COMPLIANCE COMMITTEE**



The role of the Risk and Compliance Committee is to assist the Board to set the direction for the manner in which risk is approached and addressed. The committee also oversees and directs the Group's implementation of an effective policy and plan for risk management and compliance. This encompasses both opportunities and associated risks when developing strategy within Board approved risk tolerance and appetite levels. This review includes the potential positive and negative effects of the same risks on the achievement of the Group's strategic objectives.

**Members:** Zarina Bassa (Chairman), Patrick Allaway, Hubert Brody, John Dixon, Andrew Higginson, Reeza Isaacs, Gail Kelly, Nombulelo Moholi, Ian Moir, Sam Ngumeni, Lord Rose, Zyda Rylands, and Simon Susman.

Key focus areas for 2017:

- Approval of the Group risk appetite framework
- Reviewed the key risk profile to ensure alignment with the Group's performance objectives and risks emanating from the strategy
- Assess completeness of the risks covered in the Combined Assurance Model
- Reviewed operational risks, including information technology risks in particular given the number of projects in progress
- Update of various Group policies such as the Business Continuity Management policy; Product Safety and Recall Policy; and the Compliance Policy
- Review of implementation results of the Business Continuity Management Policy
- King IV assessment, identification of relevant recommendations, and alignment of terms of reference

**SUSTAINABILITY COMMITTEE**



The role of the Sustainability Committee is to ensure that the Group's sustainable development strategy positions the Group as a leader in retail where it has operational presence. It further ensures that the sustainability initiatives and objectives are effectively integrated into the business and that the Group operates in an environmentally responsible manner.

**Members:** Lord Rose (Chairman), Tom Boardman, Gail Kelly, Nombulelo Moholi, Ian Moir, Zyda Rylands, and Simon Susman.

Key focus areas for 2017 (more detail is provided in the GBJ report):

- Oversight of the process in achieving the 2020 GBJ targets
- Oversight of development of GBJ in Australia to align across the Group
- King IV assessment, identification of relevant recommendations, and alignment of terms of reference

The 2017 Good Business Journey Report is available at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

**SOCIAL AND ETHICS COMMITTEE**



The role of the Social and Ethics Committee is to ensure that the Group's activities support its intent to be a responsible corporate citizen. It further assists the Board in setting the tone for an ethical organisational culture by overseeing the Group's conduct, approach and manner in which the business is conducted with due regard to value creation in society. To achieve this, the committee addresses its statutory requirements and also assesses the trends in industry to identify areas of focus that further embed good governance.

**Members:** Nombulelo Moholi (Chairman), Tom Boardman, Ian Moir, Zyda Rylands, and Simon Susman.

Key focus areas for 2017 (more detail is provided in the Social and Ethics Committee Report):

- Oversight of stakeholder engagement practices
- Monitoring Group social development initiatives
- Monitoring human capital transformation with specific reference to Employment Equity and skills development
- Approval of the appointment of a new BEE verification agent
- Overseeing the Group's Enterprise and Supplier Development initiatives
- Updating the Group's Anti-bribery and Corruption Policy
- King IV assessment, identification of relevant recommendations, and alignment of terms of reference

Go to page 142 for the Social and Ethics Committee Report.



Woolworths SA, Waterstone

## STRUCTURES SUPPORTING THE BOARD AND ITS COMMITTEES

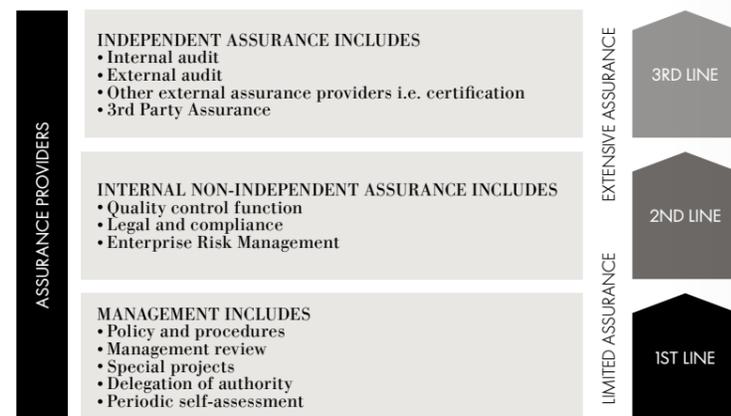
### RISK AND COMPLIANCE MANAGEMENT

The Board recognises that risk management is an integral part of sound corporate governance. To this end the Group applies an integrated approach to risk management, which is aligned to international best practice frameworks including ISO 31000 and COSO Enterprise Risk Management (ERM). This integrated approach is defined in the WHL ERM Policy, which articulates and gives effect to the approach and direction on ERM. The process of risk management is applied by the Board, management, and employees in setting and achieving the Group's strategic objectives in accordance with the WHL ERM Framework.

The responsibility for designing, implementing and monitoring the risk management plan is delegated to management. The Head of Group Risk and Compliance ensures that the risk management plan is executed consistently across all companies in the Group.

Key risks are tabled and reviewed on a quarterly basis by the Risk and Compliance Committee. Risk metrics and indicators are defined for all risks, with the risk management process embedded in the Group's business operations. Risk exposures are measured against formalised risk appetite statements which are further aligned to the company's strategic objectives in accordance with the strategic, financial, and performance imperatives of the Group.

The Board is satisfied that the risk process is effective in continuously identifying and evaluating risks and ensuring that these risks are managed in line with business strategy.



The material issues highlighted in the report on pages 29 to 37 are agreed by the Board as being those issues which can materially impact the creation of stakeholder value in the short-, medium- and long-term. The material issues highlight both the risks and opportunities, with the top key risks being extracted from the Group's key risk register.

The Group's combined assurance management framework is tabled on an annual basis to ensure that the Board is comfortable with the level and type of assurance that is obtained over the key risks. Assurance of the effectiveness of internal controls is obtained from the various assurance providers in a co-ordinated manner to avoid duplication of effort. The Group continues to adopt the three lines of defence model in determining the focus of assurance providers on key risks.

Distinctions are made between assurance providers or functions that own and manage risks, functions that oversee the risk, and functions that provide independent assurance. In order to fully maximise the benefits obtained from combined assurance, the nature of assurance provided is further assessed using the two dimensions of coverage and effectiveness.

Compliance with statutory and legislative requirements is managed through an integrated compliance framework. The compliance monitoring plan is approved on an annual basis. The plan provides objective assurance that material legislation applicable to the Group has been monitored and ensures that process and compliance controls are in place to manage compliance risk.

Group-wide regulatory requirements are identified, assessed, and categorised and controls implemented, monitored, and reported in terms of the processes set out in our compliance framework. The business monitors and anticipates changes to any regulations that could impact our business strategy and

operations. Action plans are tracked, monitored, and reported to the Risk and Compliance Committee on a quarterly basis.

The Group has not breached any material regulatory requirements and has not failed any statutory obligations that it is aware of.

### GROUP COMPANY SECRETARY

The Board is cognisant of the duties of the Group Company Secretary and an environment exists in which the Group Company Secretary is able to ensure that Board procedures and relevant regulations are fully adhered to. The directors have unlimited access to the advice and services of the Group Company Secretary.

As reported in the prior year, the Board appointed Chantel Reddiar as the Group Company Secretary with effect from 5 September 2016.

The Board has assessed the competence and expertise of the Group Company Secretary, and is satisfied that she has the appropriate qualifications and experience required by the Group, and as detailed in the Companies Act 2008, JSE Listings Requirements, and the King III Code. The Board process is managed by the Group Company Secretary. She is supported by the governance, risk, legal and compliance business units. The Board is satisfied that the Group Company Secretary maintained an arm's length relationship with the Board throughout the year.

### ETHICS AND GOVERNANCE POLICIES

In the current climate of constant change and given the number of alleged governance failures associated with state capture in South Africa, it is imperative to embed ethics and good governance within the business. The WHL values (see page 13) and derivations of these at the subsidiary level, underpin behaviour and decision-making processes across the Group from recruitment and training of staff to contracting with suppliers. They form a material part of each employee's performance appraisal assessment and a code of conduct is included in all of the Group's supplier contracts.

The Group maintains a number of governance policies on conflicts of interest, gifts, entertainment, insider trading and price-sensitive information. There is a zero-tolerance policy toward fraud, theft, corruption, or any illegal behaviour. These

areas are covered in induction programmes. Policies are revised as and when necessary and this year saw the revision and alignment of the conflicts of interest policy to create one Group policy based on our values. Following approval of the policy, a Group-wide training initiative was undertaken to reinforce good governance. Aspects covered included: conflicts of interest, making risk-based decisions, human rights in a digital age, anti-bribery and corruption, cyber security, and good governance.

Another Group initiative saw the consolidation of whistle blowing mechanisms. Quarterly reports on alleged fraud incidences and investigations are produced across the Group. We will continue to reinforce the governance of ethics throughout our business and our value chain.

### EVOLVING GOVERNANCE

As we continue to grow as a global business, so does our governance evolve. In the short-term, the evolution includes the right sizing of the governance structures as we embark on the execution of Group simplification initiatives including corporate structure and alignment of processes and policies.

The governance journey continues underpinned by our values, purpose, and vision which provide a strong foundation on which to build.

# SOCIAL AND ETHICS COMMITTEE REPORT

*As a responsible corporate citizen, our commitment to ethical leadership and the demonstration of sound corporate governance practices remains underpinned by the Group's values.*

Our values present the foundation on which the Group seeks to include shareholder and broader stakeholder considerations. We insist on the same values-based behaviour on the part of our suppliers and other stakeholders with whom we do business. Our approach to responsible business is evidenced by the Board's commitment to create sustainable value for all stakeholders.

## ROLE OF THE COMMITTEE

The role of the committee is to ensure that the Group's activities support its vision to be one of the world's most responsible retailers and to assist the Board in setting the tone for an ethical organisational culture. This is achieved by overseeing the Group's conduct, approach, and manner in which the business is conducted with due regard to value creation opportunities. To achieve this, the committee oversees the Group's activities in relation to social and economic development, good corporate citizenship, customer relations, labour and employment, which

includes skills development and health and safety. Environmental issues fall within the remit of the Group's Sustainability Committee. The committee approved a three-year rotational workplan in August 2015 that ensures significant focus is applied to key deliberations.

Details of the committee composition and meetings can be found in the Corporate Governance Report and the committee's terms of reference are available on our website at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

## HIGHLIGHTS AND ACTIVITIES OF THE 2017 FINANCIAL YEAR

### PEOPLE TRANSFORMATION

Our people resources are at the forefront of driving a successful Group strategy. We have emphasised focus on retaining and growing talent across the business, transformation within the South African context, and gender diversity within the Australian context.

This year, Zyda Rylands, our Woolworths South Africa CEO, was awarded the inaugural Woman of the Year Award by the World Retail Congress, held in Dubai. Zyda has grown up in the business and her achievement is testament to the success of our people transformation initiatives.

Employment equity and transformation strategies have been reviewed within the South African context and progress monitored against targets. The Group employs 44 520 people. This comprises 31 267 employees in WSA, the majority of these in South Africa, 7 663 employees in DJ and 5 590 employees in CRG. The expanded Group presents opportunities for employees to gain experience across sub-Saharan Africa, Australia and New Zealand which further assists the Group to attract a talented and diverse workforce.

The Group's business model is built on differentiation through product and customer experience. This means that the Group requires talent with deep technical and specialist retail skills which are not always readily available in the market. Our transformation strategy is therefore premised on a philosophy of 'retain, develop and grow from within'. Skills development continues to be a key focus area for us as an enabler of this strategy.

WHL has historically achieved great success as one of the leaders in skills development in the retail sector and it remains our intention to make sure that we have a workforce that is skilled with the right capabilities to deliver our business and transformation strategy. Due to the changing Skills Education Training Authorities (SETA) landscape, management have been tasked to review WSA's funding principles and model so that the delivery of our skills development and transformation strategies are not compromised.

The demand for talent continues to escalate and we have seen increased turnover, especially in the middle management

and specialist categories. One of the Group's key strategies is therefore to continuously review its employee value proposition across the Group.

Governance workshops were conducted across the Group to embed the relevant ethical principles such as avoiding conflicts of interest, doing the right thing, protecting your rights in a digital age, and making risk-based decisions. These workshops were well received and will be extended to wider audiences within the business.

### SOCIAL DEVELOPMENT – UPLIFTING OUR COMMUNITIES

The Group remains committed to creating positive societal impacts given the role of business as an integral part of society.

WSA's social development strategy is aligned both to the Group's core business strategy and to the national development priorities of South Africa. We strive to make a meaningful difference through the activities of The Woolworths Trust, The MySchool MyVillage MyPlanet programme, and other community and non-governmental organisation partnerships. This work continues to contribute to building WSA's social equity.

The Group's corporate social responsibility in the rest of its African operations is receiving further focus as part of the broader Good Business Journey. The Woolworths Trust will play an oversight role to ensure alignment and delivery on agreed principles. Stores in these jurisdictions are currently active in their communities and are supporting charities through surplus food and clothing donations. Opportunities for employees to get involved in more community initiatives are being investigated and will form part of a flagship social development programme that aligns to the corporate CSI strategy.

The DJ Community Investment strategy forms one of the six pillars of DJ's Good Business Journey and supports a number of charities that align with key cause areas of wellbeing and empowerment.

CRG has prioritised social development as one of their seven Good Business Journey focus areas and supports a range of charities through the various brand community partnerships. CRG has recently developed and finalised its Charitable

Donations Policy and Brand Community Partnership Principles, to govern their approach to making charitable donations, and developing, managing, and evaluating brand community partnerships. CRG is aiming to donate 0.5% of sales to charitable causes by 2020.

The total social contribution across the Group geographies during the 2017 financial year amounted to R757 million (2016: R693 million).

### HEALTH AND PUBLIC SAFETY

The safety of all stakeholders in our stores and at our places of work remains of paramount importance.

The Risk and Compliance Committee continues to review the Group's compliance with applicable health and safety laws. Health and public safety matters are considered in some detail by the committee, and the Group's compliance department actively monitors and reports on compliance with the relevant legislation in this regard.

### HUMAN RIGHTS DECLARATIONS

The Group remains committed to monitoring that the operational entities and its suppliers operate in a way that respects workers' rights, maintains safe working conditions, upholds local employment laws, and protects the environment and the welfare of animals.

The Group-wide ethics hotline, which is administered independently of the Group, is just one of the mechanisms within which stakeholders can anonymously report any alleged infringements of human rights protections.

### CUSTOMER RELATIONS

As customers are a key stakeholder, the Group is committed to nurturing its relationships with them. The committee is responsible for overseeing that the Group operates within the ambit of the relevant consumer laws.

All customer complaint matters were timeously managed and investigated. We assure our customers and shareholders that we have reviewed our quality checking processes where appropriate.

**IN APRIL 2017,  
WE CELEBRATED 10 YEARS  
SINCE THE INCEPTION OF  
OUR GOOD BUSINESS JOURNEY  
PROGRAMME.**

#### BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

The committee oversees the Group's efforts in South Africa in relation to transformation and the various elements that comprise the BBBEE scorecard. The Group's BBBEE verification is completed in September each year, following the conclusion of the financial year-end. As such, the contributor level attained for the FY2016, as independently assessed in September 2016, resulted in a Level 6 contributor status. The Group's rating was negatively impacted given that its supplier base had to conduct revised verification exercises. The management team is endeavouring to assist these suppliers through education and awareness of the requirements of the revised BBBEE Codes and will continue to improve this rating.

WSA continues to develop relevant strategies and set improved targets as a sign of its commitment to effect the intended transformation through the BBBEE Codes framework and scorecard. Woolworths' transformation strategy seeks to make an impact focusing broadly on:

- People transformation
- Supply chain transformation
- Social development

The transformation strategy takes a long-term view with continuous capacity building and education, specifically on the Enterprise and Supplier Development strategy. There have been several notable achievements in this regard and we refer readers to the Good Business Journey Report for further detail.

 The Group's BBBEE scorecard for 2017 will be available on [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za) as soon as the verification has been finalised.

#### SUSTAINABILITY

In April 2017, we celebrated 10 years since the inception of our Good Business Journey (GBJ) programme. This milestone was marked through the invigoration of the GBJ's strategic focus areas across the business, reflecting and celebrating achievements to date, and incorporating lessons learnt to ensure that we are able to meet our new 2020 targets.

The GBJ was a first of its kind in South African retail, whereby sustainability became a strategic platform for the business with publicly announced targets. Over the last 10 years the GBJ has set new standards across its eight focus areas of transformation, social development, health and wellness, ethical sourcing, sustainable farming, waste, water, and energy.

As one of the strategic focus areas, the Group continues to embed the GBJ programme into DJ and CRG. Progress on the GBJ is included as a metric on all of the businesses' strategic scorecards. The drive to more local sourcing from Southern Africa has also assisted WSA to reduce lead times in production, thereby supporting the Group's strategy to be a leading fashion retailer in the southern hemisphere.

All environmental matters are monitored through the Sustainability Committee, which ensures that the sustainability initiatives and objectives are effectively integrated into the business and that the Group operates in an environmentally responsible manner.

The GBJ Report, published as part of the Group's integrated reporting, is a comprehensive report setting out detailed information relating to the Group's sustainability initiatives, and we encourage you to read through the report which is available on the website at [www.woolworthsholdings.co.za](http://www.woolworthsholdings.co.za).

#### CONCLUSION

The committee confirms that it has discharged its responsibilities appropriately. This was further evidenced by the results of the external evaluation of the committee's performance this year, which reflected that the committee was performing effectively.

Management have confirmed that there has been no material non-compliance with legislation or regulations which are within the remit of the committee's mandate. In addition, there have not been any infringements of the relevant governance codes, and as such the committee has concurred that the Group remains a responsible corporate citizen as aligned to our stated vision to be one of the world's most responsible retailers.

We continue in our efforts to further create value and contribute positively to the environmental, social, and

governance imperatives of the jurisdictions within which we operate. WHL has retained its inclusion in the FTSE/JSE Responsible Investment Index for 2017/2018, and has been included for the sixth year in succession in the Dow Jones Sustainability Index 2016/2017, a globally respected sustainability index. The Group has attained a number of various awards in recognition of its endeavours as it continues along its journey of value creation for all stakeholders.

The committee has considered, in some detail, the principles and practices advocated by the King IV Report on Corporate Governance and we believe, having mindfully considered the recommendations, that the Group is already, in substance, practicing the relevant King IV recommendations, and, more importantly, achieving the desired governance outcomes including ethical leadership.

*On behalf of the committee, we also extend our appreciation to the previous chairperson, Thina Siwendu, who chaired the committee until February of this year and contributed to the outcomes detailed in this report.*

N MAHOLI

Chairman of the Social and Ethics Committee



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# OUR REMUNERATION REPORT

## THIS REPORT COMPRISES THREE SECTIONS:

### SECTION 1

*A report of material matters covered by the committee during the year from the Chairman of the Remuneration Committee*

### SECTION 2

*The remuneration philosophy, policy, and framework tabled at the Annual General Meeting (AGM) for a non-binding advisory vote by the Group's shareholders*

### SECTION 3

*The implementation of the remuneration policy in the 2017 financial year, tabled at the AGM for a separate non-binding advisory vote by the Group's shareholders*

## SECTION 1:

### REMUNERATION COMMITTEE CHAIRMAN'S REPORT

This report highlights the material matters dealt with by the Remuneration Committee and summarises the Group's approach to fair, responsible and transparent remuneration and the manner in which this promotes the achievement of the Group's overall strategic outcomes. It also addresses the Group's performance for the year ended 30 June 2017 as well as the corresponding remuneration outcomes.

#### FAIR AND RESPONSIBLE REMUNERATION

During the year we have taken steps to materially align our remuneration reporting with the King IV Report on Corporate Governance (King IV). The King IV principle of remuneration governance outlines that the Group should ensure that the remuneration is fair, responsible and transparent to achieve its strategic objectives and positive outcomes in the short-, medium-, and long-term.

The committee has previously considered the remuneration policy in line with the value creation intent for employees, the underlying values of the Group, and the social and transformational pillar of the Good Business Journey. It therefore believes that much of what has been done is in line with the

King IV remuneration governance principle. The application of the policy has always been reviewed taking into account both general and executive remuneration in considering the ethics of pay. A 'fair pay barometer' has been developed to explain the key elements which it has considered and to articulate the outcomes in a transparent manner. More details on fair pay remuneration and the barometer can be found on pages 151 and 161.

The Remuneration Report sets out remuneration arrangements for the Executive Directors on one hand, and management and general staff on the other hand, as recommended by King IV.

#### PERFORMANCE AND IMPACT ON REMUNERATION OUTCOMES IN 2017

As highlighted in the Group CEO and FD reports, the Group has experienced weakened financial performance for the year. Consumer confidence in South Africa has been negatively affected by the low GDP growth, the announcement of a technical recession, and political uncertainties. In Australia,

performance has also been constrained. As a result, the financial performance conditions of both the short- and long-term incentive schemes have been negatively impacted. More detail on the Group's overall financial performance can be found in the FD's Report on pages 62 to 77.

#### GROUP SHORT-TERM INCENTIVE BONUS

The Group's adjusted Profit before tax (aPBT) of R5.5 billion, did not meet the required minimum or on-target trigger for the purposes of the Group short-term incentive bonus scheme. As this condition acts as a gatekeeper for the payment

of incentives, no STI payments are to be paid for FY2017. Participants in the store (WSA, DJ, and CRG) and supply chain (WSA) schemes received performance bonus payment in line with the achievement of their triggers.

#### WHL LONG-TERM INCENTIVE SCHEME

For the three years to 30 June 2017, the Group achieved a compound annualised adjusted Headline Earnings per Share (HEPS) growth of 5.2% per annum which is below the required growth of 6.0% per annum. Total Shareholder Return (TSR) performance against the comparator group has been between the lower and median percentile. The partial achievement of TSR and the non-achievement of HEPS has

resulted in the 2014 long-term incentive allocations (Long Term Incentive Plan - LTIP) vesting in proportion to the level of performance achieved.

The required HEPS growth for the Share Appreciation Rights Scheme (SARS) allocated in August 2014 was not achieved and therefore this offer has lapsed in its entirety. More detail is set out in Section 3 of this report.

#### CHANGES TO THE REMUNERATION POLICY FOR THE 2018 FINANCIAL YEAR

The committee has reviewed the 2017 remuneration policy against market practice, feedback from shareholders, and fit for purpose requirement, and will implement the following changes for the 2018 financial year.

REMUNERATION ELEMENT	CHANGE	REASON FOR CHANGE
<b>LONG-TERM INCENTIVE SCHEME (LTI)</b>	<p>Discretion has been provided to award Restricted Share Plan (RSP) awards within the 36-month period before retirement date. This change was effective from September 2016.</p> <p>The committee has reviewed the weighting of the performance conditions for the Performance Share Plan (PSP) allocations and proposed the following changes:</p> <ul style="list-style-type: none"> <li>Return on Capital Employed (RoCE) be increased to 30%</li> <li>TSR weighting decreased to 20%</li> </ul> <p>Headline Earnings per Share (HEPS) weighting remain at 50%</p> <p>The committee will consider the relevance of TSR in future and this performance condition may be replaced with a free cash flow measure depending on consideration of independent external advice and further engagement with shareholders.</p>	<p>Recognises that executive decision-making has a long-term impact. It has become market practice for retiring employees to retain unvested LTIs for vesting in the future.</p> <p>Weightings are more in line with market practice among companies similar in size and industry.</p> <p>Shareholders have expressed the significance for strong RoCE measures in line with international trends.</p>
<b>NON-EXECUTIVE DIRECTOR (NED) FEES</b>	Fees payable to NEDs for the period 1 January 2018 to 31 December 2018 will be exclusive of SA VAT.	The South African Revenue Services earlier this year published a binding rule which clarifies the tax treatment with regards to NEDs.



### INDEPENDENT EXTERNAL ADVICE

As in previous years, the committee actively sought independent external advice on remuneration trends and market benchmarks. This year PwC provided advice on local and global remuneration trends, and DG Capital provided benchmarking data for guidance on Executive remuneration and Non-executive Directors' fees. The Remuneration Committees in DJ and CRG received independent external remuneration advice from PwC and Mercer. The committee is satisfied that these advisors were independent and objective.

### NON-BINDING ADVISORY VOTE

#### 2016 VOTING

The Group's remuneration policy received the support of 69.9% of shareholders who voted at the 2016 AGM.

Prior to the voting at the AGM, members of the committee engaged with shareholders and institutional investors regarding components of the remuneration policy. Specific concerns were raised by various shareholders regarding the large once-off increase in guaranteed pay for the Group CEO. This payment was a once-off event which was necessary to calibrate his remuneration to the market.

A query was received regarding the performance conditions applied to the RSP allocations to the Group CEO. It was noted that the policy specifies the performance conditions which are aligned to the PSP allocations made to Executive Directors.

We extend our appreciation to those shareholders that have engaged with us on our remuneration policy during the year.

#### 2017 VOTING

In line with King IV, we will table our remuneration policy and implementation report for two separate non-binding advisory votes at the upcoming AGM. If 25% or more of the shareholders vote against either resolution at the AGM, the Board will invite dissenting shareholders to engage with the committee on their issues.

The committee remains confident that the Group's remuneration philosophy and policies are aligned to its strategy and have contributed to the Group's growth and resilience in a challenging economic climate. We are also satisfied that the remuneration policy achieved its objectives in the 2017 financial year.

The committee is pleased to present the remuneration philosophy and policy of the Group on pages 150 to 159 and the implementation report on pages 160 to 173 to shareholders for separate non-binding advisory votes.

We invite shareholders to engage with us prior to the 2017 AGM on any concerns/queries they may have regarding our remuneration policy. Shareholders can submit these requests to [Governance@woolworths.co.za](mailto:Governance@woolworths.co.za).

TA BOARDMAN

Chairman of Remuneration Committee





## SECTION 2: REMUNERATION PHILOSOPHY, POLICY AND REWARD FRAMEWORK

This section of the report specifically deals with the remuneration of the Group Chief Executive Officer (Group CEO), Executive Directors and key senior executives (Execs) members. Disclosure is also provided in line with the requirements of South African legislation and King IV. The policy applies on a Group-wide basis. In order to provide a more comprehensive view, policies applicable either to different levels of employees and/or different geographic areas are included where appropriate.

### THE FOLLOWING COLOURS ARE USED IN THE REMUNERATION REPORT TO DENOTE THE FOLLOWING:

REMUNERATION	GUARANTEED PAY (GP)	VARIABLE PAY (VP)	SHORT-TERM INCENTIVES (STI)	LONG-TERM INCENTIVES (LTI)	DIRECTORS' FEES
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### REMUNERATION PHILOSOPHY

The Group's remuneration philosophy is to ensure that employees are rewarded appropriately for their contribution to the execution of the strategy of the Group. As an integral component of the Employee Value Proposition (EVP), the remuneration policy has been designed so that it will continue to attract, engage, retain, and motivate the right, diverse talent required to deliver sustainable profit growth.

The remuneration policies are designed to achieve alignment between the Group's business strategy and the behaviours of all employees measured against the values of the Group. The policies recognise and reward individual responsibility, performance and behaviour in the achievement of the Group's goals. These policies are applicable to all Group employees and participation in short- and long-term incentive schemes is dependent on an individual's role and level within the Group.

The remuneration policy and the implementation thereof are focused on achieving a fair and sustainable balance between GP, STIs, LTIs and retention schemes for these employees. The fair and responsible application of the remuneration policy (on a Group-wide basis) is guided by the King IV principles relating to fair and responsible remuneration, which have been adopted by the Group. More detail in this regard is set out below.

### FAIR AND RESPONSIBLE REMUNERATION

The following section sets out the manner in which the Group's remuneration policy addresses fair and responsible remuneration for executive management in the context of overall employee remuneration. The Group has taken a number of innovative approaches to measuring fair and responsible remuneration in a manner which is relevant to its business model. This will be reviewed and improved over time in line with best practice and governance guidelines.

Some of the principles driving fair and responsible remuneration are:

- consideration given to minimum wage legislative requirements
- equal pay for work of equal value specifically addressing any income disparities based on gender and race
- all permanent employees of the Group participate in some form of short-term incentive scheme (excluding supply chain employees in Australia)
- all permanent employees participate in equal measure on product discounts
- specific corporate initiatives are applied to enhance work experience and improve the EVP for employees

### FAIR PAY BAROMETER

The Group has developed a barometer to measure the fair and responsible remuneration principles for management, store staff, and supply chain staff which spans multiple territories where the Group does business.

The principles and measurement methodology are explained below:

PRINCIPLE	APPLICATION OF PRINCIPLE	MEASUREMENT
<b>MINIMUM WAGE</b>	The Group measures the in-country business unit's respective positioning relative to minimum wage legislation	Pay position relative to minimum wage of the specific country
<b>ANNUAL SALARY INCREASES (GP)</b>	Application of differentiated salary increase percentages per geographic boundary	Actual GP % increases per geographic boundary for management and store staff respectively
<b>EQUAL PAY FOR WORK OF EQUAL VALUE</b>	The Group will continue to address any income disparities based on gender and race	Annual salary increases awarded categorised by gender and race. Race is measured for VWSA only
<b>STI SCHEME</b>	All permanent employees of the Group to participate in some form of incentive scheme	Consolidated costs of STIs paid across the Group as a % of Group aPBT

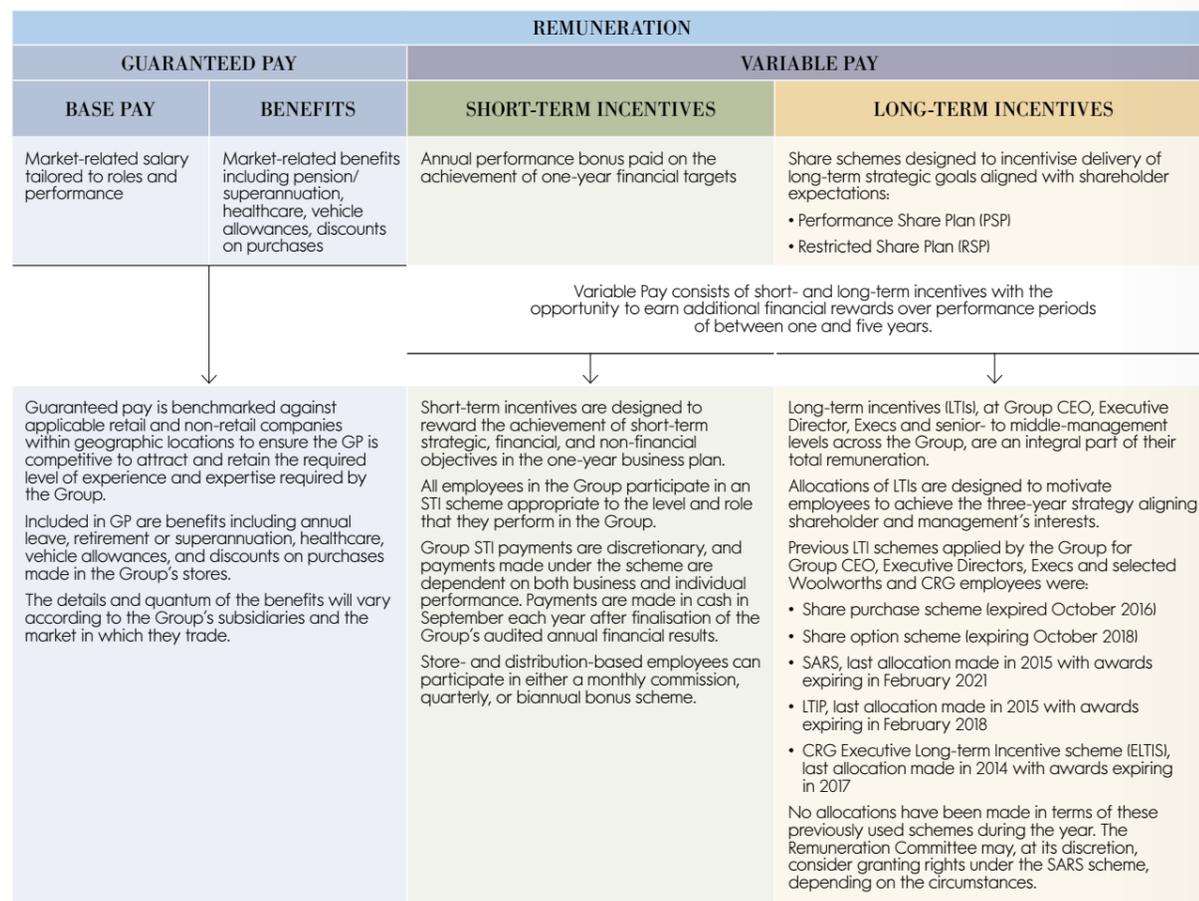
*The implementation of the barometer is covered in section 3 of the Remuneration Report on page 161.*

## WHL HAS TAKEN A NUMBER OF INNOVATIVE APPROACHES TO MEASURING FAIR AND RESPONSIBLE REMUNERATION IN A MANNER WHICH IS RELEVANT TO ITS BUSINESS MODEL.



## REMUNERATION FRAMEWORK

The WHL EVP framework balances remuneration (financial rewards) with other non-financial rewards to drive and deliver a high performance culture. The remuneration component of the EVP framework is made up of two elements: Guaranteed Pay and Variable Pay, as illustrated below:



## REMUNERATION MIX AND ALIGNMENT TO STRATEGY

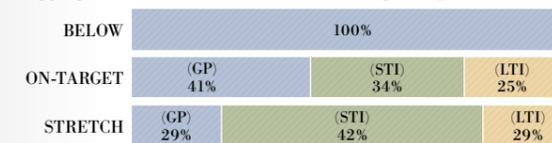
### REMUNERATION MIX

To maintain a high performance culture and an alignment with shareholders through value creation, the total reward mix for the Group CEO, Executive Directors, Execs and senior management is geared towards a higher percentage of variable pay 'at risk' for the achievement of stretch goals.

The chart below illustrates the potential remuneration mix for the aggregate of the Group CEO and Executive Directors at below, on-target, and stretch levels.

The 'below' level assumes no vesting of annual LTI allocations and no STI payments. On-target level assumes 50% vesting of annual LTI allocations and on-target STI performance. Stretch assumes 100% vesting of annual LTI allocations and stretch STI performance.

#### Aggregated Executive Directors (including Group CEO)



### ALIGNMENT TO STRATEGY

The goals and performance measures are aligned with Group, company, and individual performance. The Group performance conditions, for STI and LTI, underpinning the vesting of 'at risk' remuneration, have been selected as measures that encourage sustainable growth, without undue excessive risk taking.

While the performance measures of both the STI and LTI are financial in nature, the achievement of non-financial outcomes is incorporated in the measurement of individual employee performance. At an individual level, 40% of their Integrated Performance Management (IPM) rating is achieved by measuring the behaviours they display in the manner in which they carry out their job. The expected behaviours are aligned to the Group's values. Many of these individual measures are linked to the achievement of the Good Business Journey programme outcomes, driving business transformation, customer service, and environmental and social transformation and development outcomes.

The table below illustrates how the measures at an individual, company, and Group level support the Group's strategy and are aligned to expectations of shareholders in creating sustainable growth and value creation.

SHORT-TERM INCENTIVES			STRATEGIC FOCUS AREAS	LONG-TERM INCENTIVES
GROUP METRIC	COMPANY/BUSINESS AREA METRIC	INDIVIDUAL METRICS (EXAMPLES)		SHAREHOLDER METRICS
aPBT	EBIT	Market growth/share	Build stronger, more profitable customer relationships	HEPS
		Net promoter score	Towards connected retail	
		Online sales	Be a leading fashion retailer in the southern hemisphere	
	Direct Profit	Retail space growth	Become a big food business with a difference	TSR performance
		Transformation of DJ	Drive synergies and efficiencies across the Group	
		Water reduction	Embed the Good Business Journey throughout our business	RoCE
		Employment equity		

## EXECUTIVE DIRECTORS

### REMUNERATION POLICY APPLICABLE TO 2017 FINANCIAL YEAR

The table below sets out the components of the remuneration framework which have been applied by the Group in the 2017 financial year for the Group Chief Executive Officer (Group CEO), Executive Directors, and key senior executives (Execs). Components of the framework may differ

between the three main operating subsidiaries of the WHL Group and where elements are different, the details per subsidiary are highlighted. The remuneration framework is applied to all Group employees, with LTI components not available to lower management when the 'line-of-sight' is not easily attributable to those roles.

	GUARANTEED PAY		SHORT-TERM INCENTIVES	LONG-TERM INCENTIVES	
	BASE SALARY	RETIREMENT/SUPERANNUATION, HEALTHCARE AND OTHER BENEFITS	SHORT-TERM PERFORMANCE BONUS	PERFORMANCE SHARE PLAN	RESTRICTED SHARE PLAN
<b>PURPOSE AND LINK TO STRATEGY</b>	Market-related level of remuneration with consideration to specific requirements of the role.	Benefits and allowances of a compulsory and non-compulsory nature appropriate to the market and contribute to well-being of employees, in line with EVP.	Motivate executives and senior management to achieve short-term strategic, financial, and non-financial objectives in the one-year business plan.	Motivate employees to achieve three-year strategy aligning shareholder and executive interests.	Retain and motivate employees who are key to the delivery of the Group's long-term strategy. Enables the recruitment of key executives to address value forfeited on resignation from a previous employer.
<b>MECHANICS</b>	<p>Reviewed annually against retail peer companies in South Africa, Australia and other countries in which the Group trades.</p> <p>Market conditions, company performance, internal comparability, individual performance and responsibility are taken into consideration.</p> <p>Includes performance against financial and non-financial objectives and individual behaviour against Group values.</p> <p>No obligation to increase base salary.</p> <p>Audited GP for Group CEO and Executive Directors is shown on page 167.</p>	<p>Benefits include:</p> <ul style="list-style-type: none"> <li>retirement funding, superannuation</li> <li>healthcare</li> <li>motor vehicle allowance and vehicle leasing options</li> <li>product discount on purchases made in the Group's stores</li> <li>other benefits as per specific country</li> </ul>	<p>The target is determined annually in advance.</p> <p>STI calculated as follows:</p> <ul style="list-style-type: none"> <li>Group CEO: 100% based on Group performance</li> <li>Group COO and Group FD: 100% based on Group performance</li> <li>Executive Directors and Execs: 50% – 75% based on Group performance with remaining 50% – 25% based on Company and/or specific business area performance</li> </ul> <p>IPM and specific company EBIT performance are multipliers for the final calculations.</p> <p>On-target performance percentage of GP:</p> <ul style="list-style-type: none"> <li>Group CEO: 100%</li> <li>Group COO and Group FD: 80%</li> <li>WSA, DJ and CRG CEOs: 80%</li> <li>Execs: 30% – 50%</li> </ul> <p>Payments commence when threshold incentive trigger is achieved. Earnings potential is applied on a sliding scale between threshold, on-target, and stretch performance.</p> <p>Audited STI for Group CEO and Executive Directors is shown on page 167.</p>	<p>Participants are entitled to the delivery of conditional awards in shares after three years from date of grant provided that certain performance conditions are met.</p> <p>Vesting occurs subject to the achievement of performance conditions over a three-year performance period.</p> <p>Vesting occurs on a linear scale in accordance with an agreed threshold and stretch target.</p> <p>Participants receive a payment settled in equity on vesting equal to the value of dividends paid on the vested shares during the vesting period.</p> <p>PSP allocations for Executive Directors are shown on page 164.</p>	<p>Participants allocated the unrestricted delivery of shares after a three- to five-year period from the date of grant or shorter period at the discretion of the Remuneration Committee.</p> <p>Vesting occurs on condition that the participant is still in the employ of the Group on the expiry of the agreed vesting period and any applicable performance conditions are achieved.</p> <p>Staggered vesting occurs from year three to year five. The Remuneration Committee has the discretion to amend vesting periods where appropriate.</p> <p>Participants entitled to receive dividends during the vesting period.</p> <p>RSP allocations are not awarded to Australian-based employees.</p> <p>RSP allocations for Group CEO are shown on page 164.</p>
<b>OPPORTUNITY AND MAXIMUM LIMIT</b>	Base salary reviewed in context of company and Group performance, CPI, and affordability.	Some benefits and the quantum of the benefits will vary according to Group's subsidiaries and the market in which they trade.	<p>Stretch performance allocations of GP capped at:</p> <ul style="list-style-type: none"> <li>Group CEO: 125%</li> <li>Group COO and Group FD: 150%</li> <li>WSA CEO: 150%</li> <li>DJ and CRG CEOs: 125%</li> <li>Execs (WSA): 150%</li> </ul>	<p>Grants are made annually at the discretion of the Remuneration Committee based on GP at grant date.</p> <p>Allocations capped at:</p> <ul style="list-style-type: none"> <li>Group COO and Group FD: 100%</li> <li>WSA, DJ and CRG CEOs: 100%</li> <li>Execs (WSA): 46% to 79%</li> <li>DJ and CRG Exco: 46%</li> </ul>	<p>Grants are made at the discretion of the Remuneration Committee based on GP at grant date.</p> <p>Allocations:</p> <ul style="list-style-type: none"> <li>Group CEO: 150%</li> <li>Other categories: <ul style="list-style-type: none"> <li>The Remuneration Committee has the discretion to determine the minimum and maximum award</li> </ul> </li> </ul> <p>Allocations limited to the Group CEO, Executive Directors, Group Execs and selected core and scarce employees.</p> <p>The Group CEO receives an annual allocation of RSP with performance conditions in line with those of the PSP.</p> <p>No retesting of performance conditions. Awards lapse if performance conditions are not achieved.</p>
<b>PERFORMANCE CONDITIONS</b>	Adjustments influenced by individual performance metrics aligned with strategy and behaviours to Group values.	N/A	<p>Target: % growth of Group aPBT and/or company EBIT.</p> <p>Group aPBT acts as a gatekeeper for profit pool accumulation.</p> <p>In finalising STI payments, the Remuneration Committee may exercise discretion to mitigate any unintended consequences.</p>	<p>Group measures weighted:</p> <ul style="list-style-type: none"> <li>HEPS: 50%, TSR: 30%, RoCE: 20%</li> </ul> <p>HEPS performance condition:</p> <ul style="list-style-type: none"> <li>minimum threshold for 30% vesting</li> <li>stretch target for 100% vesting</li> </ul> <p>TSR performance condition:</p> <ul style="list-style-type: none"> <li>TSR performance of WHL is equal to or below the median quartile (i.e. if 50% of peer group perform better than WHL no vesting of TSR condition)</li> <li>TSR performance of WHL is equal to or exceeds the upper quartile performance (or 75% of our peers) 100% vesting</li> </ul> <p>RoCE performance condition:</p> <ul style="list-style-type: none"> <li>minimum threshold for 30% vesting</li> <li>stretch target for 100% vesting</li> </ul> <p>Stretch target based on average three-year projected performance.</p> <p>No retesting of performance conditions. Awards lapse if performance conditions are not achieved.</p>	100% vesting on condition that the participant is still in the employ of the Group at the vesting dates.
<b>OTHER</b>			<p>All employees in the Group participate in an STI scheme at different levels of % of GP at on-target and stretch level. A percentage of Group performance is included in the STI calculation regardless of the participant's employer company.</p> <p>Group STI payments are made in cash in September each year after the finalisation of WHL audited annual financial results.</p> <p>Store and supply chain employees participate in gain-share or commission schemes appropriate to their employer company. Cash payments may be made monthly, quarterly, and biannually dependent on the scheme.</p> <p>The Remuneration Committee has the discretion to exercise reasonability and discretion to pay ex gratia payments where extraordinary value has been created by executives.</p>	<p>Peer group consists of a selection of JSE-listed companies based on PwC closeness metric approach that selects peer group based on following factors: sector, EBITDA, total assets, market capitalisation and price earnings ratio.</p> <p>Rules governing cessation of employment, change in control and delisting as per scheme rules aligned with King III recommendations.</p> <p>LTIIP allocations granted up to February 2015 have two measures equally weighted between HEPS and TSR.</p>	<p>Rules governing cessation of employment, change in control and delisting as per scheme rules aligned with King III recommendations.</p> <p>Shares are purchased on the open market and held by third-party in escrow.</p>
<b>NO. OF PARTICIPANTS</b>			40 697 excluding Politix	672	42



## EXECUTIVE DIRECTORS (CONTINUED)

### SERVICE CONTRACTS AND NOTICE PERIODS

It is the policy that the Executive Directors and Execs have employment agreements with the company which may be terminated with notice periods of between three and six months. The Group CEO has a 12-month notice period. Employment agreements may also include restraint of trade agreements.

Expatriate Execs are employed on fixed-term contracts subject to obtaining and maintaining applicable work permits.

## VOTING ON REMUNERATION FRAMEWORK, AND SHAREHOLDER ENGAGEMENT

### VOTING ON REMUNERATION POLICY

The committee will apply the King IV principles regarding the endorsement of the remuneration policy and its implementation from the 2017 AGM onwards. The remuneration policy (section 2) and the implementation thereof (section 3) will be tabled for approval in two advisory non-binding votes in separate shareholder resolutions.

### SHAREHOLDER ENGAGEMENT

The committee has always engaged proactively and in good faith with the Group's shareholders and relevant proxy advisory services regarding the remuneration policy using various methods of engagement. The committee will continue to do so irrespective of the percentage of shareholders voting in favour of the remuneration policy.

In line with King IV, should the approval of the remuneration policy or the implementation report not achieve the shareholder support of 75% majority, the results of the shareholder engagement will be communicated in section 1 of the 2018 Remuneration Report applying the guidelines in King IV.

The committee is confident that the remuneration policy is aligned with market best practice, and is subject to a robust review each year against best practice. However, where it is clear that the remuneration policy should be reconsidered in order to adapt to changing business realities and to maximise shareholder value, or where shareholders have raised legitimate concerns regarding an aspect of the remuneration policy, the committee will consider amending certain aspects of the Group remuneration framework.

## WOOLWORTHS HOLDINGS SHARE TRUST

The Woolworths Holdings Share Trust, managed by two trustees – Independent Non-executive Directors – administers the utilisation of shares for the purposes of the long-term incentive share schemes. The Trust is guided by the Trust Deed and share scheme rules, in compliance with the Johannesburg Stock Exchange Limited (JSE) Listings Requirements, and was approved by shareholders in November 2010.

The maximum number of shares available for allocation in terms of the LTI share schemes is 85 000 000, representing approximately 8% of the current issued share capital.

In any one financial year, the maximum market value of grants and/or offers in terms of the LTI schemes may not exceed 250% (face value) of an individual's GP (excluding RSPs). The aggregate total number of shares awarded to an individual participant in terms of the LTI scheme may not exceed 12 700 000.

Shares allocated to participants under the LTI schemes may be purchased on the open market or new shares may be issued. Shares and grants may not be awarded or exercised during a closed period.





## NON-EXECUTIVE DIRECTORS

### REMUNERATION POLICY

The table below sets out the remuneration policies applied by the Group for the 2017 financial year for Non-executive Directors.

These policies are also applicable for the 2018 financial year and form the underlying basis for the fees tabled for shareholder approval at the AGM to be held on 28 November 2017.

NON-EXECUTIVE DIRECTOR REMUNERATION			
	CHAIRMAN	DIRECTORS AND LEAD INDEPENDENT DIRECTOR	BENEFITS
PURPOSE	A market-related fee to attract and retain experienced and diverse Non-executive Directors.	Fees to reflect the additional responsibilities undertaken through membership of committees. Committee Chairmen receive an additional amount.	
MECHANICS	<p>Fees are reviewed annually against retail peer companies in South Africa, Australia, and the United Kingdom.</p> <p>Directors based in the United Kingdom are paid directors' fees in sterling and directors based in Australia are paid in Australian dollars.</p> <p>Non-executive Directors who perform a similar role for the main operating subsidiaries are remunerated for those functions – Patrick Allaway and Gail Kelly are Non-executive Directors of DJ and CRG. Zarina Bassa is a Non-executive Director of WSA.</p> <p>Fees reflect the time commitment, demands and responsibility of the role.</p> <p>The Board believes that it is appropriate to propose an annual fee structure as the directors are required to provide input on an ongoing basis throughout the year that is not confined to attendance at meetings.</p> <p>Fees are proposed by Executive Directors based on independently benchmarked fees.</p> <p>The Remuneration Committee recommends the fees to the Board for final approval by shareholders.</p> <p>Audited Non-executive Directors' fees for the 2017 financial year are shown on page 172.</p>	<p>Non-executive Directors receive product discount on purchases made in WHL Group stores.</p> <p>No other benefits are provided.</p> <p>Non-executive Directors do not participate in any STI or LTI schemes.</p> <p>The Chairman receives post-retirement healthcare by virtue of him previously holding the role of Group CEO and retiring from that position.</p>	
PAYMENTS	Fees are paid quarterly in arrears in cash.		

### PROPOSED NON-EXECUTIVE DIRECTORS' FEES

As explained in the Chairman's Report on page 148, the proposed fees for the Non-executive Directors have been independently benchmarked by an external remuneration consultant, DG Capital. The proposed fees have been benchmarked with the average of: the top quartile for South African retail companies; the median of the Top 30 companies on the JSE; and the median for the Top 8 companies (those with >40% of revenue earned external of South Africa) on the JSE. Fees for international directors were benchmarked against directors' fees paid in the United Kingdom and Australian retail markets.

The proposed fees (exclusive of South African VAT) for the calendar year 1 January 2018 to 30 December 2018 are shown in the table below:

	Current approved fees (R000's)	Proposed fees (R000's)	% increase
Chairman	1 585.5	1 728.2	9.0%
Lead Independent Director	625.0	662.5	6.0%
South African-based director	367.5	400.6	9.0%
United Kingdom-based director (paid in £)	£75.0	£75.9	1.3%
Australian-based director (paid in A\$)	A\$155.0	A\$158.9	2.5%
Audit Committee chairman	325.5	345.1	6.0%
Audit Committee member	178.5	189.2	6.0%
Nominations Committee chairman	168.0	178.1	6.0%
Nominations Committee member	105.0	111.3	6.0%
Remuneration Committee chairman	220.5	233.8	6.0%
Remuneration Committee member	115.5	122.4	6.0%
Risk and Compliance Committee chairman	220.5	233.7	6.0%
Risk and Compliance Committee member	115.5	122.4	6.0%
Social and Ethics Committee chairman	178.5	189.2	6.0%
Social and Ethics Committee member	105.0	111.3	6.0%
Sustainability Committee chairman	178.5	189.2	6.0%
Sustainability Committee member	105.0	111.3	6.0%
Attendance at Executive Treasury Committee meetings	42.0	44.5	6.0%
Hourly rate for additional services	R5 040	5 342	6.0%

### SERVICE CONTRACTS

Non-executive Directors do not have service contracts, but serve the company through a letter of appointment, which may be terminated without liability for compensation. Directors must be elected by shareholders at an AGM on a rotational basis, usually being three-year intervals.

### SECTION 3: APPLICATION OF REMUNERATION POLICY FOR THE YEAR ENDED 30 JUNE 2017

This section of the report specifically deals with the remuneration for the Group CEO, Executive Directors, and Non-executive Directors. Where appropriate, details are included for Execs and other employees.

The Board reviewed the executive structure within the Group and concluded that the prescribed officer roles are held by Executive Directors.

#### COMPLIANCE WITH THE REMUNERATION POLICY

The Remuneration Committee monitored the implementation of the remuneration policy throughout the year, and is of the view that the Group was in material compliance with the 2017 remuneration policy (as set out in the 2016 Integrated Report).

#### FAIR AND RESPONSIBLE REMUNERATION

As explained earlier, a remuneration barometer was introduced during the year to show the Group's fair and responsible remuneration policies.

It is pleasing to note that the Group continues to make significant progress in terms of managing 'the ethics of pay'. The barometer shown on the opposite page explains the application for FY2017.

The barometer reflects the actual GP increases in the three geographic areas in which the Group trades and shows the comparison to that of the Executive Directors.

In South Africa, the annual GP increase continues to address any historic disparities of gender, race, and employee category. Staff and store management received short-term performance bonuses, with head office categories not entitled to receive bonuses this year due to the non-achievement of the Group trigger.

In Australia, there are no notable disparities with gender. Store staff increases were higher than management and they also received bonuses.

In the rest of Africa, the implementation of the Group's remuneration philosophy is in its infancy.

#### GROUP CEO AND EXECUTIVE DIRECTORS

##### REMUNERATION MIX

The chart below has been prepared on the same basis as the chart on page 153 representing the potential mix of GP, STI and LTI compared with the actual mix achieved for the year ended 30 June 2017. The chart reflects the composition for the aggregation for the Group CEO and Executive Directors.

Aggregated Executive Directors (including Group CEO)

ACHIEVED



ON-TARGET



STRETCH



##### GUARANTEED PAY

	GUARANTEED PAY % INCREASE
Group CEO and Executive Directors	4.83%
Key Senior Executives	
South Africa	6.62%
Australia	7.89%
Management South Africa	4.97%
Management Australia	2.17%
Staff South Africa	6.59%
Staff Australia	2.40%

GP increases are referenced to inflation for the differing geographic areas. Increases were effective 1 October 2016.

The aggregated GP increase for the Group CEO and Executive Directors was below that of staff and management. Appointments and promotions into new senior executive roles in South Africa and Australia have impacted the average GP increase.

## FAIR AND RESPONSIBLE PAY BAROMETER



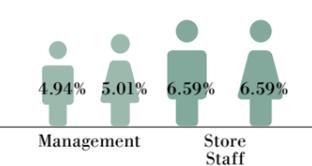
Home

### SOUTH AFRICA

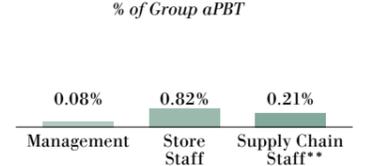
#### DIFFERENTIATED ANNUAL SALARY INCREASES\*



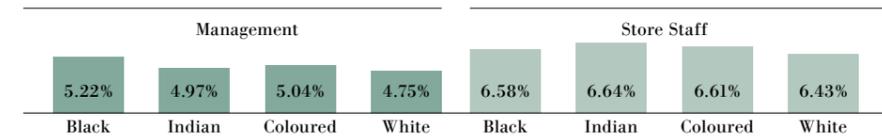
#### ANNUAL SALARY INCREASES BASED ON GENDER\*



#### SHORT TERM INCENTIVES % of Group aPBT



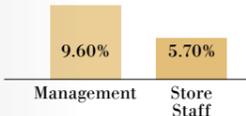
#### ANNUAL SALARY INCREASES BASED ON RACE\*



MINIMUM WAGE Store Staff: above legislative minimums

### REST OF AFRICA

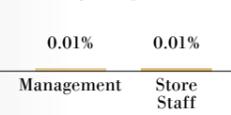
#### DIFFERENTIATED ANNUAL SALARY INCREASES\*



#### ANNUAL SALARY INCREASES BASED ON GENDER\*



#### SHORT TERM INCENTIVES % of Group aPBT



MINIMUM WAGE Store Staff: on or above legislative minimums

### EXECUTIVE DIRECTORS

#### DIFFERENTIATED ANNUAL SALARY INCREASES\*

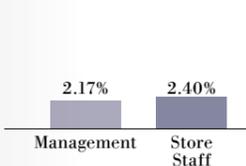


#### SHORT TERM INCENTIVES % of Group aPBT

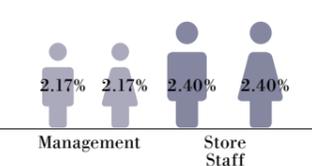


### AUSTRALIA AND NEW ZEALAND

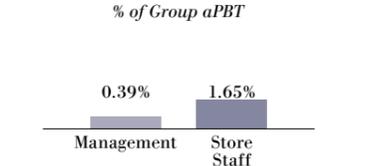
#### DIFFERENTIATED ANNUAL SALARY INCREASES\*



#### ANNUAL SALARY INCREASES BASED ON GENDER\*



#### SHORT TERM INCENTIVES % of Group aPBT



MINIMUM WAGE Store Staff: on or above legislative minimums

PERMANENT EMPLOYEES  
\* % increase effective 1 October 2016

\*\* Supply Chain staff, applicable to WSA only, belong to a union and received an across-the-board 10% increase.



**SHORT-TERM INCENTIVES**

**METHODOLOGY**

The framework and mechanics of the STI scheme explained below was applied to all employees in the Group for the 2017 financial year.

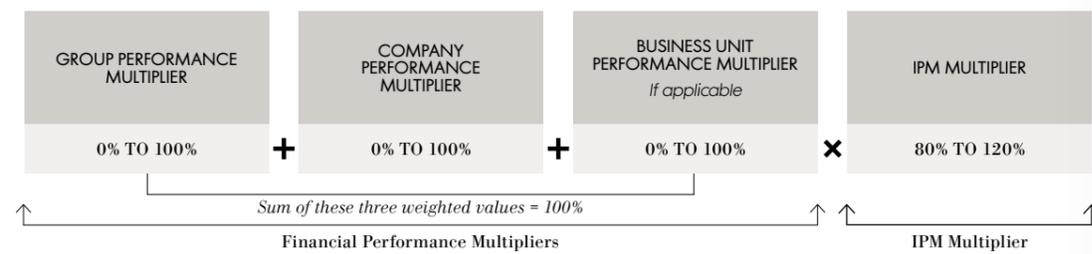
The STI is calculated as follows:

- Group CEO: 100% based on Group performance
- Group COO and Group FD: 100% based on Group performance
- Executive Directors and Execs:
  - 50% – 75% based on Group performance with remaining
  - 50% – 25% based on company and/or specific business area performance

Individual performance scores (IPM) and specific company EBIT performance are multipliers for the final payments. Business unit modifiers are applicable for employees at levels below Execs.

The high-level design of the STI scheme is as follows:

- incentives are calculated at a business unit level taking into account the scheme design and parameters
- a principle of budgeted pre-incentive profit is used across all units as the trigger for on-target incentives
- a gatekeeper of 93% of Group aPBT for threshold bonuses is built into the scheme
- at the Group level (as a top-down approach), a final measure is built into the scheme to ensure affordability and threshold performance, i.e. 93% achieved



**THE GROUP SHORT-TERM INCENTIVE TRIGGER WAS NOT ACHIEVED, NO PERFORMANCE BONUS PAYMENTS IN FY2017.**

**PERFORMANCE FOR THE PERIOD**

As explained in the FD's report, the Group achieved aPBT of R5.5 billion. The performance conditions for the short-term performance bonus were tested to determine if the minimum incentive trigger had been achieved. As the gatekeeper for any entity to pay a corporate STI is the achievement of >93% of Group aPBT, no bonuses for FY2017 will be paid.

The analysis of the STI calculations for the Group CEO and Executive Directors based on Group, company, and individual performance are shown in the table below.

	PERFORMANCE AGAINST STI TARGETS				ACHIEVEMENT LEVEL	RESULTANT BONUS %
	WEIGHTING	BELOW	THRESHOLD	TARGET STRETCH		
GROUP PERFORMANCE aPBT	50%–100%	●			84%	
COMPANY PERFORMANCE	50%					
WOOLWORTHS SOUTH AFRICA aEBIT			●		93%	
DAVID JONES aEBIT		●			70%	
COUNTRY ROAD GROUP aEBIT		●			90%	

INDIVIDUAL PERFORMANCE MULTIPLIER					
Ian Moir			●	100%	0%
Reeza Isaacs			●	100%	0%
Sam Ngumeni			●	100%	0%
Zyda Rylands			●	100%	0%
John Dixon			●	100%	0%



**LONG-TERM INCENTIVES**

**LTI ALLOCATIONS DURING 2017**

The allocations for the Group CEO and Executive Directors for components of LTI were approved by the Remuneration Committee during the 2017 financial year and are shown in the table below.

LTI allocations made to Executive Directors and Execs were made in line with the percentage allocations described in the remuneration policy table on pages 154 and 155.

More detail on LTI shares held by the Group CEO and Executive Directors can be found on pages 168 to 171.

	LONG-TERM INCENTIVES						TOTAL ALLOCATIONS NUMBER
	PSP AWARDS			RSP AWARDS			
	BASIS	NUMBER	FACE VALUE R000's	BASIS	NUMBER	FACE VALUE R000's	
Ian Moir				150% of GP	318 442	27 000	318 442
Reeza Isaacs	100% of GP	55 498	4 876				55 498
Sam Ngumeni	100% of GP	60 324	5 300				60 324
Zyda Rylands	100% of GP	73 982	6 500				73 982
John Dixon	100% of GP	220 852	19 404				220 852
<b>Total</b>		<b>410 656</b>	<b>36 080</b>		<b>318 442</b>	<b>27 000</b>	<b>729 098</b>

**VESTING OF 2014 LTI ALLOCATIONS**

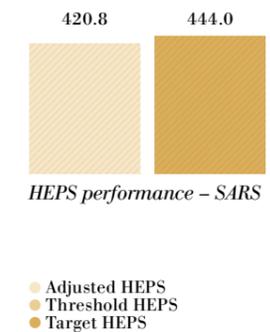
The performance conditions for the SARS and LTIP August 2014 allocations were tested to determine if vesting had been achieved.

**SARS SCHEME**

The performance condition for SARS is HEPS growth of CPI plus 6% over the three year performance period.

The graph alongside shows the target HEPS which was required for the full vesting of the August 2014 SARS, against adjusted HEPS.

Adjusted HEPS achieved was 420.8 cps, 5.2% below the target HEPS of 444.0 cps. Based on the outcome, the August 2014 allocations have not vested. Retesting of performance conditions is not allowed for these allocations, and consequently the allocation will lapse.



**LTIP (NOW CALLED PSP) SCHEME**

The performance conditions for LTIP are:

- 50% based on HEPS growth of CPI plus 5% per annum and
- 50% based on TSR performance compared to the peer group TSR performance.

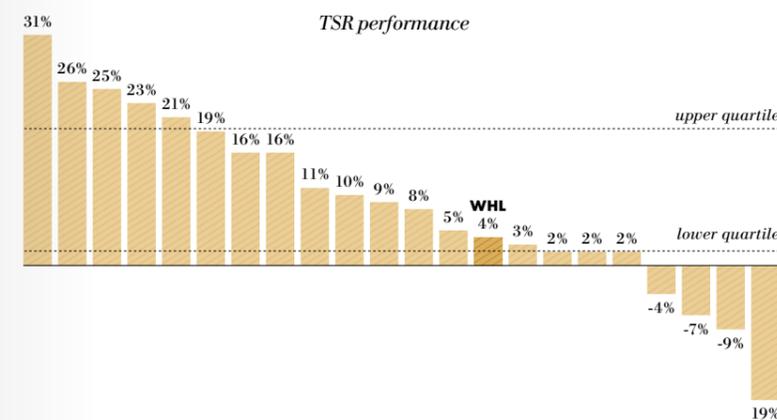
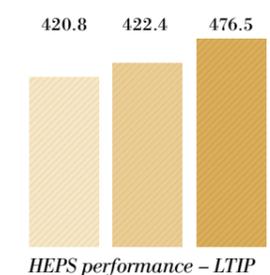
The graph alongside shows the target HEPS which was required for the full vesting of the August 2014 LTIP against adjusted HEPS.

Adjusted HEPS achieved was 420.8 cps, 11.7% below the target HEPS of 476.5 cps and the threshold HEPS of 422.4 cps.

The graph below compares the TSR performance of the company to the TSR index of the peer group at the lower and upper quartiles.

Actual TSR performance for WHL was 4% growth, marginally above the lower quartile of the peer group performance. TSR vesting is therefore at 26.2% and accounts for 50% of the performance conditions.

The TSR, together with the HEPS performance has resulted in the LTIP 2014 allocations vesting at 13.1% for all participants of the LTIP scheme.



**Actual TSR performance for WHL was 4% growth, marginally above the lower quartile of the peer group performance.**



## LONG-TERM INCENTIVES (CONTINUED)

### COUNTRY ROAD GROUP ELTIS SCHEME

The CRG Executive Long-term Incentive Scheme (ELTIS) was in operation prior to CRG becoming a wholly owned subsidiary of WHL. The last allocations from this scheme were granted during 2014.

The performance conditions for the 2014 allocations have been tested to determine if vesting was achieved. The performance condition is EPS growth of CPI plus 2% compounded over the three-year performance period.

The performance conditions for the 2014 allocations have not been met and consequently no vesting will occur.

### PAYMENTS FOR LOSS OF OFFICE OR TERMINATION OF EMPLOYMENT

The committee confirms that they did not have to consider any payments made to Executive Directors for loss of office or termination of employment in the year ended 30 June 2017.

### UTILISATION OF SHARES HELD BY WOOLWORTHS HOLDINGS SHARE TRUST

In line with the JSE requirements, an analysis of the shares utilised for the purposes of LTI is shown in the table below:

Opening balance available	19 425 070
Allocations made to participants	(2 938 696)
Exercised/lapsed	3 413 100
Sold by participants	(1 165 677)
Closing balance available	18 733 797

# 18.7M

 shares available for LTI

## EXECUTIVE DIRECTORS' REMUNERATION FOR YEAR ENDED 30 JUNE 2017 (AUDITED)

As detailed in Section 2 on pages 150 to 159, remuneration paid to Executive Directors of Woolworths Holdings Limited in connection with the affairs of the company and its subsidiaries during the year ended 30 June 2017 and comparatives for 30 June 2016 are set out below:

Notes	GUARANTEED PAY			SHORT-TERM INCENTIVES	LONG-TERM INCENTIVES		RETENTION	REMUNERATION
	Base salary R000's	Benefits (1) R000's	Total guaranteed pay R000's	Performance bonus R000's	Fair value of shares, options, SARS, LTIP and PSP granted (2) R000's	Interest-free loan benefit (3) R000's	Fair value of restricted shares (4) R000's	Total remuneration R000's
<b>2017</b>								
Ian Moir	18 673	135	18 808	-	470	-	15 397	34 675
Reeza Isaacs	4 752	373	5 125	-	1 326	-	831	7 282
Sam Ngumeni	5 369	422	5 791	-	1 549	91	100	7 531
Zyda Rylands	6 532	372	6 904	-	2 015	101	-	9 020
	<b>35 326</b>	<b>1 302</b>	<b>36 628</b>	-	<b>5 360</b>	<b>192</b>	<b>16 328</b>	<b>58 508</b>
AUSTRALIA-BASED (AMOUNTS EXPRESSED IN A\$000's)								
John Dixon (5)	1 564	287	1 851	-	410	-	-	2 260
<b>2016</b>								
Ian Moir	16 430	196	16 626	14 960	3 317	-	18 845	53 748
Reeza Isaacs	4 348	579	4 927	3 241	2 261	-	2 056	12 485
Sam Ngumeni	4 539	837	5 376	4 228	2 859	255	403	13 121
Zyda Rylands	5 218	1 012	6 230	4 447	3 429	500	-	14 606
	<b>30 535</b>	<b>2 624</b>	<b>33 159</b>	<b>26 876</b>	<b>11 866</b>	<b>755</b>	<b>21 304</b>	<b>93 960</b>

### NOTES

- Benefits include retirement, healthcare, related benefits, long-service awards and discounts received on purchases made in Group stores. Benefits for John Dixon includes categorisation of leave benefits in line with Australian statutory requirements.
- IFRS2 Share-based payments have been used to equate the annual expense value of shares, SARS, LTIP and PSP held at the end of the financial year.
- The interest-free loan relates to the purchases of shares under the Woolworths Holdings Share Trust. The benefit has been calculated at 8.0% (2016: 7.396%) (averagel) on the value of the outstanding loan. All loans were paid-up during the course of the year.
- IFRS2 Share-based payments have been used to equate the annual expense value of RSP shares.
- John Dixon was appointed as an Executive Director on 18 May 2017; his remuneration is disclosed for the full year in Australian Dollars.



## DIRECTORS' PARTICIPATION IN SHARE SCHEMES

Shares purchased, options granted, and SARS, LTIP, PSP and RSP awards allocated to Executive Directors in terms of the Woolworths Holdings Share Trust which had not been exercised at June 2017 are set out below:

IAN MOIR														
SCHEME	Award date	Vesting date	As at 30 June 2016		Awarded		Forfeited		Sold or transferred			As at 30 June 2017		
			NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	REALISATION VALUE (1) RANDB	VESTED	UNVESTED	TOTAL
SARS	26 Aug 2010	29 Aug 2013	117 823	19.85					117 823	81.26	9 573 932			-
	25 Aug 2011	28 Aug 2014	87 468	27.89								87 468		87 468
	23 Aug 2012	27 Aug 2015	72 288	51.48								72 288		72 288
	29 Aug 2013	29 Aug 2016	103 755	56.06								103 755		103 755
<b>Total</b>			<b>381 334</b>						<b>117 823</b>		<b>9 573 932</b>	<b>263 511</b>		<b>263 511</b>
LTIP	29 Aug 2013	29 Aug 2016	154 964	60.72	13 924	86.76	33 777	86.76	135 111	84.19	11 374 671			-
<b>Total</b>			<b>154 964</b>		<b>13 924</b>		<b>33 777</b>		<b>135 111</b>		<b>11 374 671</b>			<b>-</b>
RSP	09 Oct 2014	09 Oct 2017	258 210	69.71									258 210	258 210
	05 Jan 2015	16 Feb 2019	284 000	92.14					71 000	70.84	5 029 541		213 000	213 000
	27 Aug 2015	27 Aug 2018	186 126	96.71									186 126	186 126
	25 Aug 2016	26 Aug 2019			318 442	84.79							318 442	318 442
<b>Total</b>			<b>728 336</b>		<b>318 442</b>				<b>71 000</b>		<b>5 029 541</b>	<b>975 778</b>		<b>975 778</b>
<b>Total</b>			<b>1 264 634</b>		<b>332 366</b>		<b>33 777</b>		<b>323 934</b>		<b>25 978 143</b>	<b>263 511</b>	<b>975 778</b>	<b>1 239 289</b>

(1) Realisation value: Taxable value realised by the individual on sale or transfer of awards.

REEZA ISAACS														
SCHEME	Award date	Vesting date	As at 30 June 2016		Awarded		Forfeited		Sold or transferred			As at 30 June 2017		
			NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	REALISATION VALUE (1) RANDB	VESTED	UNVESTED	TOTAL
SARS	29 Aug 2013	29 Aug 2016	43 396	56.06					43 396	83.10	3 605 995			-
	15 Sep 2014	15 Sep 2017	25 115	74.06									25 115	25 115
<b>Total</b>			<b>68 511</b>						<b>43 396</b>		<b>3 605 995</b>		<b>25 115</b>	<b>25 115</b>
LTIP	29 Aug 2013	29 Aug 2016	48 042	60.72	4 318	86.76	10 471	86.76	41 889	84.19	3 526 534			-
	15 Sep 2014	15 Sep 2017	27 208	74.06									27 208	27 208
<b>Total</b>			<b>75 250</b>		<b>4 318</b>		<b>10 471</b>		<b>41 889</b>		<b>3 526 534</b>		<b>27 208</b>	<b>27 208</b>
RSP	01 Jun 2013	24 Aug 2017	52 420	73.92									52 420	52 420
<b>Total</b>			<b>52 420</b>										<b>52 420</b>	<b>52 420</b>
PSP	27 Aug 2015	27 Aug 2018	37 581	96.70									37 581	37 581
	11 Feb 2016	14 Feb 2019	9 990	93.69									9 990	9 990
	25 Aug 2016	26 Aug 2019							55 498	87.86			55 498	55 498
<b>Total</b>			<b>47 571</b>		<b>55 498</b>								<b>103 069</b>	<b>103 069</b>
<b>Total</b>			<b>243 752</b>		<b>59 816</b>		<b>10 471</b>		<b>85 285</b>		<b>7 132 529</b>		<b>207 812</b>	<b>207 812</b>



### DIRECTORS' PARTICIPATION IN SHARE SCHEMES (CONTINUED)

SAM NGUMENI														
SCHEME	Award date	Vesting date	As at 30 June 2016		Awarded		Forfeited		Sold or transferred			As at 30 June 2017		
			NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	REALISATION VALUE (1) RANDB	VESTED	UNVESTED	TOTAL
SHARE PURCHASE	23 Aug 2006	23 Aug 2011	33 050	13.30					33 050	13.30	439 565			-
	14 Nov 2006	14 Nov 2011	190 216	15.74					190 216	15.74	2 994 000			-
<b>Total</b>			<b>223 266</b>						<b>223 266</b>		<b>3 433 565</b>			
SARS	25 Aug 2011	28 Aug 2014	34 987	27.89					34 987	72.43	2 533 972			-
	23 Aug 2012	27 Aug 2015	29 095	51.48					29 095	72.43	2 107 237			-
	29 Aug 2013	29 Aug 2016	28 281	56.06					28 281	72.43	2 048 283			-
	15 Sep 2014	15 Sep 2017	55 092	74.06									55 092	55 092
<b>Total</b>			<b>147 455</b>						<b>92 363</b>		<b>6 689 492</b>			<b>55 092</b>
LTIP	29 Aug 2013	29 Aug 2016	32 031	60.72	2 879	86.76	6 982	86.76	27 928	84.19	2 351 191			
	15 Sep 2014	15 Sep 2017	59 682	74.06									59 682	59 682
<b>Total</b>			<b>91 713</b>		<b>2 879</b>		<b>6 982</b>		<b>27 928</b>		<b>2 351 191</b>			<b>59 682</b>
RSP	23 Aug 2012	25 Aug 2017	13 906	59.25					6 953	87.67	609 570			6 953
<b>Total</b>			<b>13 906</b>						<b>6 953</b>		<b>609 570</b>			<b>6 953</b>
PSP	27 Aug 2015	27 Aug 2018	40 848	96.70									40 848	40 848
	11 Feb 2016	14 Feb 2019	10 858	93.69									10 858	10 858
	25 Aug 2016	26 Aug 2019			60 324	87.86							60 324	60 324
<b>Total</b>			<b>51 706</b>		<b>60 324</b>								<b>112 030</b>	<b>112 030</b>
<b>Total</b>			<b>528 046</b>		<b>63 203</b>		<b>6 982</b>		<b>350 510</b>		<b>13 083 878</b>			<b>233 757</b>

(1) Realisation value: Taxable value realised by the individual on sale or transfer of awards.

ZYDA RYLANDS														
SCHEME	Award date	Vesting date	As at 30 June 2016		Awarded		Forfeited		Sold or transferred			As at 30 June 2017		
			NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	REALISATION VALUE (1) RANDB	VESTED	UNVESTED	TOTAL
SHARE PURCHASE	23 Aug 2006	23 Aug 2011	129 699	13.30					129 699	13.30	1 724 997			-
	04 Oct 2006	04 Oct 2011	291 758	13.71					291 758	13.71	4 000 002			-
	<b>Total</b>		<b>421 457</b>						<b>421 457</b>		<b>5 724 999</b>			<b>-</b>
SHARE OPTION	17 Aug 2008	17 Aug 2013	65 279	8.81									65 279	65 279
	<b>Total</b>		<b>65 279</b>										<b>65 279</b>	<b>65 279</b>
SARS	27 Aug 2009	27 Aug 2012	107 000	11.35					107 000	87.67	9 380 594			-
	25 Aug 2011	28 Aug 2014	53 538	27.89								53 538	53 538	
	23 Aug 2012	27 Aug 2015	38 304	51.48								38 304	38 304	
	29 Aug 2013	29 Aug 2016	40 790	56.06								40 790	40 790	
	15 Sep 2014	15 Sep 2017	32 358	74.06									32 358	32 358
<b>Total</b>			<b>271 990</b>						<b>107 000</b>		<b>9 380 594</b>	<b>132 632</b>	<b>32 358</b>	<b>164 990</b>
LTIP	29 Aug 2013	29 Aug 2016	46 199	60.72	4 152	86.76	10 070	86.76	40 281	84.19	3 391 161			-
	15 Sep 2014	15 Sep 2017	35 055	74.06									35 055	35 055
<b>Total</b>			<b>81 254</b>		<b>4 152</b>		<b>10 070</b>		<b>40 281</b>		<b>3 391 161</b>			<b>35 055</b>
PSP	27 Aug 2015	27 Aug 2018	105 073	96.70									105 073	105 073
	25 Aug 2016	26 Aug 2019			73 982	87.86							73 982	73 982
<b>Total</b>			<b>105 073</b>		<b>73 982</b>								<b>179 055</b>	<b>179 055</b>
<b>Total</b>			<b>945 053</b>		<b>78 134</b>		<b>10 070</b>		<b>568 738</b>		<b>18 496 754</b>	<b>197 911</b>	<b>246 468</b>	<b>444 379</b>

### JOHN DIXON

SCHEME	Award date	Vesting date	As at 30 June 2016		Awarded		Forfeited		Sold or transferred			As at 30 June 2017		
			NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	NUMBER	PRICE RANDB	REALISATION VALUE (1) RANDB	VESTED	UNVESTED	TOTAL
PSP	11 Feb 2016	11 Feb 2019	216 523	93.69									216 523	216 523
	25 Aug 2016	26 Aug 2019			220 852	87.86							220 852	220 852
<b>Total</b>			<b>216 523</b>		<b>220 852</b>								<b>437 375</b>	<b>437 375</b>



## NON-EXECUTIVE DIRECTORS' FEES AND EMOLUMENTS (AUDITED)

Emoluments paid to Non-executive Directors of Woolworths Holdings Limited in connection with the affairs of the company and its subsidiaries during the year ended June 2017 and comparatives for June 2016 are set out below.

### 2017

NON-EXECUTIVE DIRECTORS										
	Notes	Directors' fees R000's	Audit Committee member R000's	Remuneration Committee member R000's	Risk and compliance Committee member R000's	Nominations Committee member R000's	Sustainability Committee member R000's	Social and ethics Committee member R000's	Benefit (1) R000's	Total non-executive directors' remuneration R000's
Simon Susman	(2)	1 547	-	113	112	103	103	103	82	2 163
Patrick Allaway	(3)	3 106	174	113	113	-	-	-	-	3 506
Peter Bacon		359	174	113	-	-	-	-	14	660
Zarina Bassa	(4)	1 091	175	113	215	102	-	-	14	1 710
Tom Boardman		588	-	215	-	164	103	102	19	1 191
Hubert Brody	(5)	658	318	-	112	-	-	-	-	1 088
Andrew Higginson	(6)	1 294	174	113	113	-	-	-	-	1 694
Gail Kelly	(7)	2 335	-	113	113	102	102	-	4	2 769
Nombulelo Moholi	(8)	359	-	112	113	-	-	121	28	733
Lord Rose	(9)	1 294	-	112	113	103	174	-	-	1 796
Thina Siwendu	(10)	223	-	-	84	-	76	130	15	528
		<b>12 854</b>	<b>1 015</b>	<b>1 117</b>	<b>1 088</b>	<b>574</b>	<b>558</b>	<b>456</b>	<b>176</b>	<b>17 838</b>

### NOTES

- Benefits are discounts received on purchases made in WHL Group stores.
- Simon Susman receives post-retirement healthcare by virtue of him previously holding the role of Group CEO and retiring from that position. Benefits of R82 294 (2016: R117 062) include the following:
  - post-retirement healthcare benefit of R30 740 (2016: R37 428); and
  - discounts received on purchases made in WHL Group stores of R51 554 (2016: R79 634).
- Patrick Allaway's director's fees are paid in Australian Dollars as an Australian resident. Directors' fees earned include fees as a Non-executive Director for David Jones and Country Road Group of A\$150 000 (2016: A\$150 000).
- Zarina Bassa's director's fees earned include fees as a Non-executive Director for Woolworths of R732 857 (2016: R357 500). Zarina was appointed a Non-executive Director for Woolworths on 4 February 2016.
- Hubert Brody's director's fees earned include fees for the attendance at the Treasury Committee and Chairman of Woolworths Audit Review Panel of R299 300 (2016: R186 000).

### 2016

NON-EXECUTIVE DIRECTORS										
	Notes	Directors' fees R000's	Audit Committee member R000's	Remuneration Committee member R000's	Risk and compliance Committee member R000's	Nominations Committee member R000's	Sustainability Committee member R000's	Social and ethics Committee member R000's	Benefit (1) R000's	Total non-executive directors' remuneration R000's
Simon Susman	(2)	1 293	-	104	99	79	89	89	117	1 870
Patrick Allaway	(3)	3 201	146	104	99	-	-	-	105	3 655
Peter Bacon		309	147	104	-	-	-	-	10	570
Zarina Bassa	(4)	667	147	-	193	79	-	-	18	1 104
Tom Boardman		436	-	203	-	128	89	89	18	963
Hubert Brody	(5)	495	217	-	99	-	-	-	-	811
Andrew Higginson	(6)	1 278	147	104	98	-	-	-	1	1 628
Gail Kelly	(7)	1 841	-	79	77	50	70	-	116	2 233
Mike Leeming	(11)	174	123	-	44	29	-	-	10	380
Nombulelo Moholi		309	-	104	99	-	-	89	19	620
Lord Rose	(9)	1 278	-	104	99	79	163	-	-	1 723
Thina Siwendu		309	-	-	98	-	89	163	19	678
		<b>11 590</b>	<b>927</b>	<b>906</b>	<b>1 005</b>	<b>444</b>	<b>500</b>	<b>430</b>	<b>433</b>	<b>16 235</b>

- Andrew Higginson's director's fees are paid in Sterling as a British resident.
- Gail Kelly's director's fees are paid in Australian Dollars as an Australian resident. Directors' fees earned include fees as a Non-executive Director for David Jones and Country Road Group of A\$75 000 (2016: A\$56 250). Gail was appointed to the board on 1 October 2015.
- Nombulelo Moholi was appointed as Chairman of the Social and Ethics Committee on 15 February 2017 and a member of the Sustainability Committee on 18 May 2017.
- Lord Rose's director's fees are paid in Sterling as a British resident.
- Thina Siwendu resigned from the board on 15 February 2017.
- Mike Leeming retired from the Board on 26 November 2015.

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**WHL**

