

## Group Finance and Administration

The Group Finance and Administration division is a centralised service division that provides a support function to the other divisions within the group. The division comprises the following areas of responsibility:

### Financial accounting and corporate reporting

This department is responsible for:

- the collating and production of the group's interim and annual financial statements;
- corporate communications and shareholder reporting;
- ensuring compliance with all required accounting standards and statutory requirements; and
- liaison with the external auditors.

### Management accounting

Management accounting is responsible for:

- control of the group's financial accounting systems and internal controls;
- co-ordination and consolidation of all the group's financial planning, including annual budgets and quarterly re-projections;
- divisional financial reporting to enable accurate management decision-making; and
- all operational financial reporting at store, area, regional and divisional level.

### General finance and administration

General finance and administration is responsible for:

- processing and payment of all merchandise, expense and rental transactions;
- ensuring all stores deposit the correct amounts daily; and
- administration of store and head office inventory and claims.

After the initial successful implementation of SAP Financials, it is Group Finance's intention to investigate the use of other modules within SAP to obtain the full benefits of the integration capabilities of the system.

### Treasury

This department is responsible for managing the group's foreign exchange and funding policies. The department ensures that the group's funding needs are provided for with adequate credit lines, appropriate financial instruments at the lowest cost and that the daily cash management is optimised. Investments and interest-rate risk are managed within the parameters laid down by the board and in consultation with the Financial Director. The department, in conjunction with the Taxation department, assist with various commercial initiatives that impact on the group.

### Taxation

This department is responsible for all aspects of the group's taxation compliance. By its nature, it is staffed by highly skilled experts who constantly remain abreast of current and pending legislation.

### Secretarial and administration

This department is responsible for:

- maintenance of the group's statutory records;
- administration of the Foschini Group Retirement Fund;
- administration of the group's trademarks;
- administration relating to the preparation and signing of the group's store leases;
- the group's compliance function; and
- provision of legal assistance/advice to other areas within the group as required.

## Service Divisions

## Risk management

The risk management department is responsible for the following functions:

- managing and controlling the risk management process, as defined by the risk committee and as required by the Code of Corporate Practices and Conduct;
- appropriate insurance placement for the group;
- the administration of all group insurance claims and the compilation of comprehensive loss statistics;
- control over the group business continuity planning process; and
- facilitation of inter-divisional store security meetings as well as the hosting of similar informal meetings with other retailers to allow a cross pollination of loss prevention information and strategies.

A detailed risk analysis is contained in the Corporate Governance report.

## Procurement

The group procurement process ensures that best practice is followed in all areas of the purchasing process throughout the group. Quarterly procurement reportbacks are made to the procurement committee, comprising three members of the operating board and two senior managers. In addition, the procurement manager ensures that the BEE procurement strategy as defined by the transformation committee is implemented. Further details of initiatives in this regard are contained in the Sustainability Report.

## Group payroll

This department is responsible for the accurate and timeous payment of salaries to over 15 000 of the group's employees across all employment categories.

Further efficiencies will be achieved through the implementation of a time and attendance and staff scheduling system which is being piloted and will be rolled out to stores in 2008. In addition, the web-based human resources self-service system will be enhanced to further improve service and processing time.

## Group Audit Services

The Group Audit Services (GAS) department's primary responsibility is to support the group's commitment to strong corporate governance and sound internal control. While management is responsible for the development, implementation and monitoring of effective control systems, GAS assists management in fulfilling this commitment. This is done by evaluating the adequacy and effectiveness of controls to support management in its pursuit of sustainable achievement of business objectives, and includes the appraisal of performance measures, the reliability of management information, operational controls and the safeguarding of assets. An Internal Audit Charter, approved by the audit committee and conforming to the International Standards for the Professional Practice of Internal Auditing as defined by the Institute of Internal Auditors (IIA), determines the mission and scope of the function.

Although GAS is responsible to the Group Financial Director for administrative matters, GAS reports to the audit committee of the board of directors. The 17 staff members are responsible for the audits of all group operations:





*Brent Curry*

### Group Audit Services continued

- The head office and information system (IS) audit teams co-operate closely to provide internal audit services for the group's head office operations. This includes financial areas, such as accounts payable and the large credit operations, as well as non-financial areas, including shopfitting and distribution centres. In addition, the IS audit team conducts technical reviews covering Foschinidata areas such as database administration and networks. The audit teams also make extensive use of technology, such as automated scanning and data interrogation tools to improve assurance reporting to management. In addition, auditors often become involved when new computer systems are developed to ensure that cost-effective controls are considered at both the system design stage (prior to implementation) and during the system implementation to reduce the risk of business interruption.
- Current store audit coverage is between 15% and 20% of group stores per year (approximately 25% of all stores' turnover), but maximum leverage is obtained by ensuring that at least 85% of all the area managers experience a minimum of one audit every year. The audited store's administrative performance can then be benchmarked against that of other stores in the same trading division. Store audit has developed a scoring system for store audit results that enables management to evaluate the administrative health of stores both within and across trading divisions. Given the geographic spread of stores, as far afield as Namibia and Botswana, the planning of visits is crucial in ensuring that the planned coverage is met. The experience and professionalism of the store auditors has contributed significantly to the success of the store audit team which regularly runs control workshops for field and store management.

GAS is committed to providing quality internal audit services at a competitive cost. This is done by measuring and monitoring audit productivity and other performance factors, and keeping abreast of international trends. Key initiatives to improve both efficiency and effectiveness are the increased automation of audit processes by implementing an electronic working papers system and providing internal auditors with a mobile work environment. The international audit and consulting firm PricewaterhouseCoopers (PwC) recently performed a quality assurance review of GAS. This review found the department to "generally conform" to all of the standards promulgated by the international IIA. This is the highest compliance rating that can be awarded. The report by PwC also found that the department compared favourably against the benchmarks set by the best international audit groups in the retail sector.

### Foschinidata

Foschinidata is responsible for the group's information and communication technology (ICT) function with an objective of adding value to the group by providing strategic and cost-effective ICT solutions, whilst improving operational efficiencies and supporting future growth strategies through providing relevant, timeous user-defined information.

Using a combination of fully-integrated third-party solutions and in-house developed software, Foschinidata (in conjunction with its outsource partners) is well structured to deliver ICT solutions to the group. Achievements during the period under review bear testimony to the capacity of the group to deliver large, technically challenging projects, utilising leading-edge technologies and architecture on time and within budget.

2007 was again a rewarding year for the ICT division, with the following key advances being made:

- replacement of our legacy financial system with SAP financials;
- completion of our infrastructure upgrade, with the adoption of the latest Microsoft applications and operating systems, as well as the Microsoft Operations framework, in order to standardise on technology platforms and enhance our IT security controls;
- implementation of a New Accounts Application system in our FG financial services division;
- implementation of the JDA merchandise planning system, called Arthur AIM, in our Foschini stores division. All trading divisions have now been converted on to one standard version per division, of Arthur AIM, thus simplifying application support;
- implementation of a new callcentre "knowledge base" system called ITSM, for the IT division;
- continued progress on the delivery of an electronic time and attendance system for the group stores and distribution centres;
- development and implementation of various credit-related systems and changes, in order to be compliant with the requirements of the National Credit Act (NCA);
- implementation of a JDA Product Size Scaling system, in our Markham division, in order to improve on the product size allocation to our stores. This system will be rolled out to our remaining trading divisions during the 2008 financial year; and
- development and implementation of an Electronic Style Card system for our Exact! division which will also be rolled out to our remaining trading divisions during the 2008 financial year.

Taking cognisance of the strategic importance of effective information and communication technology in retail, the group's investment for the period under review was again substantial, with capital expenditure of R67 million and operating expenses of R163 million, representing a constant 2,3% of sales. Despite the numerous planned initiatives for 2008, both capital and operational expenditure will broadly be in line with the previous year.

The group's reliance on IT for its day-to-day operations means that IT security, risk management and governance are key focus areas for Foschinidata. Foschinidata meets this business requirement by adopting best-practice methodologies for system delivery and support via the ITIL service delivery framework and the Cobit model for IT governance. Our disaster recovery plans are updated and tested on a regular basis and we also ensure the implementation and upgrading of intrusion prevention and IT security tools on our networks and devices.

With a clearly-defined ICT strategy in place, aligned with the group's vision and business requirements, our key initiatives for 2008 centre on:

- successful replacement of our legacy Sales Audit system with the windows Biztalk system;
- continued progress and piloting of the electronic Time and Attendance system in our stores;

- possible further changes to various credit systems to meet NCA compliance;
- development of systems for new credit products;
- commencement with the development of an integrated electronic funds transfer (EFT) system with our Point-of-sale (POS) system at store level;
- the rollout of the JDA Size Scaling system to the retail divisions; and
- the rollout of the Electronic Style Card system to the retail divisions.

There will also be a continuing focus on keeping up to date with and aligning new projects to support supply chain initiatives.

### Distribution and Logistics

The group's distribution and logistics team is responsible for the management of stock received from suppliers and distributing it to stores efficiently and productively. This year 44,2 million units were distributed.

The two new distribution centres (DCs) built in 2005 provided better space utilisation and supported @home's growth. A further 18 000 square metres of land, owned by the group, is available for development when required.

The DCs, based near the group's head office in Parow East, Cape Town, handle the entire group's stock distribution, including receiving, storage, picking, packing and despatching of stock. There are seven DCs in total, each responsible for the following business areas:

- **Tygerberg DC:** Foschini, Donna-claire, fashionexpress and Luella footwear, @home, @homelivingspace and customer returns
- **Ndabeni DC:** Exact!, Markham and style accumulation
- **Sports DC:** DueSouth, Totalsports and Sportscene
- **Foschini DC:** Foschini, Donna-claire and fashionexpress apparel
- **Jewellery DC:** American Swiss, Sterns, Matrix and Foschini jewellery
- **Cloth Store:** Cloth for local clothing production
- **Shopfitting DC:** Shopfitting stock for the group

The Cloth Store was moved from Montague Gardens to Epping during 2007 in order to improve logistics between CMTs and head office, as well as providing more space.

The group continues to utilise HRP Distribution Services' hubs to cross-dock all stock, other than jewellery and @homelivingspace furniture, to stores in the various regions across South Africa, Swaziland, Namibia and Botswana. This outsourced contract expires in March 2008. For our jewellery business we utilise RAM Hand-to-Hand Couriers, who also have a contract that expires in March 2008. For @homelivingspace we extended our contract with Bolt to March 2008. The group will go out to tender for the clothing, jewellery and @home transport contracts towards the end of the 2007 calendar year.

A dedicated systems development team, which maintains and develops systems that ensure higher levels of productivity, supports this area.

The supply chain and logistical demands from our trading divisions have necessitated a review of our logistics systems. We have gone out to tender to replace our current warehouse management systems, that have been modified substantially since initially being implemented in 1999. Better process flexibility to support our changing supply chains is envisaged.

The DCs are further supported through materials handling systems that are continuously being redesigned, developed and implemented to support quicker throughput times. Our replenishment businesses utilise radio frequency (RF) picking, which we have found to be more productive and flexible in this scenario.

Productivity figures in the various distribution centres are world-class. Cost per unit and units per man-hour are closely measured and benchmarked against the best retailers in the world. The cost of distribution as a percentage of group turnover for 2007 is 1,57%. This figure is slightly higher than the 1,53% in 2006 mainly due to the higher contribution of @home and @homelivingspace, both being more logistically expensive than clothing and footwear. This figure includes depreciation, industrial engineering, management costs, labour, packaging and outbound transport.

Our group utilises in excess of 30 local CMT factories in order to manufacture merchandise for our various trading divisions. Stock that is manufactured by these factories is accumulated at our Ndabeni DC, allowing CMTs to maximise their production space. Fabric stock is procured by the group and housed at the Cloth Store prior to being delivered to the CMTs through our small in-house fleet.

In 2006 we indicated that we would begin a process of supply chain improvement. A formal steering committee was established, chaired by the group CEO designate. A number of projects were identified to address areas of improvement and these projects are currently being set up. We envisage long-term benefits being derived from these initiatives, notably improved stock turn. Further discussion can be found in the risk management section of the Corporate Governance report.

Our major DC risk is fire. Fire-fighting training, maintenance of fire-fighting equipment, atmospheric detection, and inter-rack sprinkler systems mitigate the risk of fire. We have generators at each DC to avoid power interruptions.

Security is an important element of our distribution and transport operation. The group's DCs are equipped with CCTV cameras and are guarded 24 hours a day. As part of our stringent security procedures, an access control system is in place. Our security procedures are extended to our transport partners who have comprehensive security through a combination of secured premises and satellite-tracked vehicles.

Business continuity plans are in place and are regularly tested and reviewed by the risk committee.



*Shani Naidoo*

## Human Resources

Human Resources (HR) operates on two levels within the group. Firstly, there is the Group Human Resources division headed by the HR Director who sits on the operating board. This division is staffed by senior specialists whose role it is, in conjunction with the business and trading divisions, to set strategy and provide shared services such as recruitment, industrial relations, job evaluation, benefits administration, training and development and group succession planning and talent management.

Secondly, the trading and service divisions have well-established HR functions which are headed up by senior HR generalists who are members of their respective management teams. They devise and execute unique HR solutions in line with their division's requirements, but within the parameters of the group strategy and drawing on the shared services where necessary.

These HR functions have dual reporting lines, one line to the individual MD and another to the Group HR Director.

### HR strategy

Pursuant to a change in the leadership of Group HR, a new 9-point long-term strategy was developed taking specific cognisance of the business imperatives, the socio-economic landscape, best HR practice and the solid foundation that HR was built on, with the aim being to sustain and strengthen HR's position as a strategic business driver that differentiates the group from its competitors.

At the core of the strategy lies a consistent performance management process that drives our approach to talent retention, development and attraction. The significant outcome of this is that new or revised job output models had to be developed for all positions in the group. This dovetailed particularly well with the job evaluation, e-recruitment, remuneration, talent management and leadership development projects.

In light of the need to provide more aggregate and real-time data to managers and employees, and the philosophy that employees should take responsibility for their personal information, the group has commenced the scoping process for a group-wide HR information system. It is hoped that a short list of vendors will be identified shortly.

### Shared services

- **Recruitment:** All senior and junior management, specialists and trainees are recruited centrally. To improve this process the group purchased and installed an e-recruitment tool that will greatly enhance this process plus provide the group with an accurate database of potential candidates.

This e-recruitment tool is currently in use in all our head office departments. Phase 2 of the rollout will cover store recruitment, which will significantly speed up the process and avoid more than one trading division considering the same applicant.

A further service provided is the setting of the recruitment policy, training of line managers in correct competency-based recruitment techniques and being the custodians of psychometric testing.

- **Industrial Relations (IR):** The group has sound and clearly-formulated industrial relations policies, procedures and practices that empower line managers to deal with issues speedily and effectively. IR specialists are employed in both Johannesburg and Cape Town to provide advice and extensive training and to deal with more complex matters. In critical instances the group can and has called on the assistance of its attorneys and independent labour consultants.

In addition, the group has regular interaction with its unions in South Africa and Namibia. In both cases wage agreements were negotiated, the South African agreement with SACCAWU being for one year and



the Namibian agreement with the NWRWU being for a two-year period. This year's South African negotiations will commence in time for implementation on 1 September 2007.

The agreement in South Africa provided for an increase of 8,5% for the bargaining unit while the Namibian agreement provided for 8,7% in year one and 8,2% in year two.

## Group management and development

The provision of a wide variety of generic and specific leadership, managerial skills and operational programmes ensures that employees have the opportunity to enhance their skills, whilst at the same time the group has a workforce that is current and can deal with all eventualities. There is a growing focus on aligning certain general programmes with the National Skills Standards, thus providing employees with a formal qualification.

The group is directing its efforts on store manager and graduate trainee training as one of the strategies to ensure an ongoing skills pipeline.

In excess of 14 800 staff participated in at least one training programme during the year. Further information on skills development appears in the Sustainability section of this report.

A discussion of both employment equity and corporate social investment initiatives appears in the Sustainability section of this report.

## Remuneration and reward

To ensure that our staff are competitively rewarded, we constantly benchmark and review our practices against the market. In addition, the group recently introduced a new and more relevant job evaluation system and to date most of the key jobs have been re-evaluated. Further research into variable compensation practices and share schemes is currently in progress in order to further enhance and reinforce the principles of performance-based remuneration. The retention of key staff is a critical output of this area.

## Talent planning

The group has a well-entrenched process addressing talent planning. The board meets twice annually to review each division's plans and to establish a centralised view of the group's resources. During the year the process was enhanced by standardising the performance review and talent mapping process, thus facilitating more accurate, meaningful and consistent comparisons across divisions.

The various divisions run a number of tailored programmes such as our well-established leadership academies to help identify and track talent at all levels.

## HIV/AIDS

The group rolled out our Voluntary Counselling and Testing Programme during the year which is available to all employees in South Africa. The neighbouring territory programmes will be rolled out in due course.

Any employee testing positive will receive full support, including antiretrovirals as needed. Further information is available in the Sustainability Report.

## Group Services

This division's mission is to provide value-adding services through streamlined, expert facilities management that ensures cost-effective operational efficiency and workplace well-being. The division comprises 70 staff members, static for a number of years.

Outsourced suppliers are used extensively, with a focus on utilising those with retail expertise. Benefits are extracted for the group by implementing strict service-level agreements across the board and utilising fewer suppliers well known to the group. Service-level agreements incorporate the uniqueness of the group and address our special needs and methodologies.

Group Services ensures that the group's space requirements are met to accommodate office employees and warehouse distribution requirements. In addition to providing appropriately equipped facilities, this division ensures the ongoing maintenance of all buildings, plant and equipment. In total, 19 properties are administered.

Group Services sees to the installation and maintenance of all security, fire detection and access control systems, as well as implementing and managing the occupational health and safety programme. From a governance perspective all security and fire evacuation systems are tested on a regular basis. All offices, with the exception of the non-critical Isando property, have backup power generators. Isando has extended UPS battery life.

Group Services sees to the procurement of standardised office automation equipment (printers, copiers, audiovisual), vehicles and capital equipment other than computers.

The fleet department operates within the mandated capital budget, monitors expenditure levels and leverages volume discounts through approved suppliers.

Mail room, reception, switchboard and store alarm monitoring are among the services provided.

Outsourced contractors managed by Group Services include catering, physical guarding, gardening, architectural, mechanical, electronic and electrical, and travel services.



### Group Property

With the ongoing growth in the number of new retail centres being developed, the group has been selective in its commitment to retail space. We believe that a number of developments currently proposed would not be of interest to the group and will not all necessarily come to fruition. According to the South African Shopping Centre Directory, well in excess of 1 million square metres of new retail space is being built or planned in 2008. All opportunities are assessed monthly with our trading divisions, incorporating format and size considerations where applicable. We do not necessarily enter new retail space with all our brands, but select the most appropriate brands for each new location.

During the year under review 96 new stores were opened across the group's 14 trading brands. Net of store closures, these stores added an extra 25 868 square metres to the trading area. Rationalisation of less profitable stores resulted in the closure of 36 stores, and at the year-end the group was trading out of 380 615 square metres, in excess of 70% in shopping malls. This represents an increase of 7,3% over the previous year.

The enlargement of 18 stores in key locations resulted in an increase in space of 4 660 square metres, alleviating the pressure of excessive trading density and enabling substantial turnover growths in these stores. A further 38 stores were relocated to better trading positions. These both continue to be areas of proactive management.

New centres that opened during the past year with group store representation were Diamond Pavilion, Vaal Mall, Jabulani, Balito, Northam, Knysna Mall, Hazyview, Mossel Bay and Trade Route Mall. The group has committed to opening new stores in the forthcoming year in the following new centres: Greenstone Mall, Irene, Maponya Mall and Loch Logan.

The successful opening of Jabulani Mall in Soweto has been encouraging and is the first time a major centre with a full complement of national retailers has been developed in Soweto. Similarly, Maponya Mall will open in the second quarter of 2007.

Whilst the vast majority of the stores are located within South Africa we also have a cross-border presence in Namibia, Botswana and Swaziland. Locations are strategically spread throughout the provinces in accordance with consumer demand and cover all markets from super-regional to community shopping centres, and from CBDs to deep rural environments.

Details of leases are shown in note 27.

