Lewis Group Ltd

INTEGRATED REPORT 2017

Contents

Merchandise sales

2.2%

to R2.6 billion

Revenue

3.3%

to R5.6 billion

Gross profit margin

from 38%

to 41.6%

Headline earnings per share

400 cents

Gearing ratio reduced to

2.9%

Credit rating affirmed with

stable

outlook

Introducing the report

The reporting principles of transparency, accuracy, balance and materiality are central to the report.

Lewis Group has pleasure in presenting its 2017 Integrated Report which is aimed at enabling shareholders to assess the group's ability to create long-term sustainable value. The reporting principles of transparency, accuracy, balance and materiality are central to the report.

Reporting boundary

This report covers the integrated performance and activities of the Lewis Group (the group) which includes the main operating company, Lewis Stores (Proprietary) Limited, and its subsidiaries for the period 1 April 2016 to 31 March 2017. The companies operate in South Africa, Namibia, Botswana, Swaziland and Lesotho, with 81.5% of the group's revenue being generated in South Africa.

The group has applied the King Code of Corporate Principles 2009 (King III) and reporting complies with International Financial Reporting Standards, the Companies Act and the JSE Listings Requirements. Management has also adopted the guiding principles of the International Integrated Reporting Council's Framework.

The Integrated Report is supplemented by the audited annual financial statements which are available on the group's website **www.lewisgroup.co.za** and by request from the company secretary.

In accordance with the Disclosure Initiative amendment to IAS 1 effective for entities with annual periods beginning on or after 1 January 2016, Lewis Group has elected to re-order its notes in the audited annual financial statements on the following basis:

- Incorporate all related disclosures, accounting policies, significant judgements, risk management disclosure and other information relating to a particular balance sheet and/or income statement item together to provide a complete overall picture of such items
- The notes are, as far as possible, ordered in terms of materiality and significance to the business

There has been no material change from last year in the comparability of reporting and all significant items are reported on a like-for-like basis, with no restatements.

Materiality

Materiality has again been applied in preparing the content and disclosure in this report. Materiality is determined by the board and includes issues that affect the group's ability to create value over time and are likely to have a material impact on strategy, revenue and profitability. This excludes the disclosure of price-sensitive information or detail that could compromise the group's competitive position.

Forward-looking statements

The Integrated Report includes forward-looking statements relating to the future financial position and results of the group's operations. These are not statements of fact but rather statements by management based on current estimates and expectations of future performance. No assurance can be given that forward-looking statements will prove to be correct and stakeholders are advised to exercise caution in this regard. The group does not undertake to update or revise these forward-looking statements.

Independent assurance

The content of the Integrated Report has been reviewed by the directors and management but has not been externally assured.

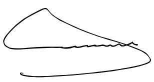
The group's external auditor, PricewaterhouseCoopers, has provided assurance on the annual financial statements and expressed an unqualified audit opinion.

Accredited service providers and agencies have verified selected non-financial indicators, including the B-BBEE rating, while management has verified the processes for measuring all other non-financial information.

Directors' approval

The Board acknowledges its responsibility to ensure the integrity of the Integrated Report. The directors collectively confirm the Integrated Report accurately represents the performance of the group.

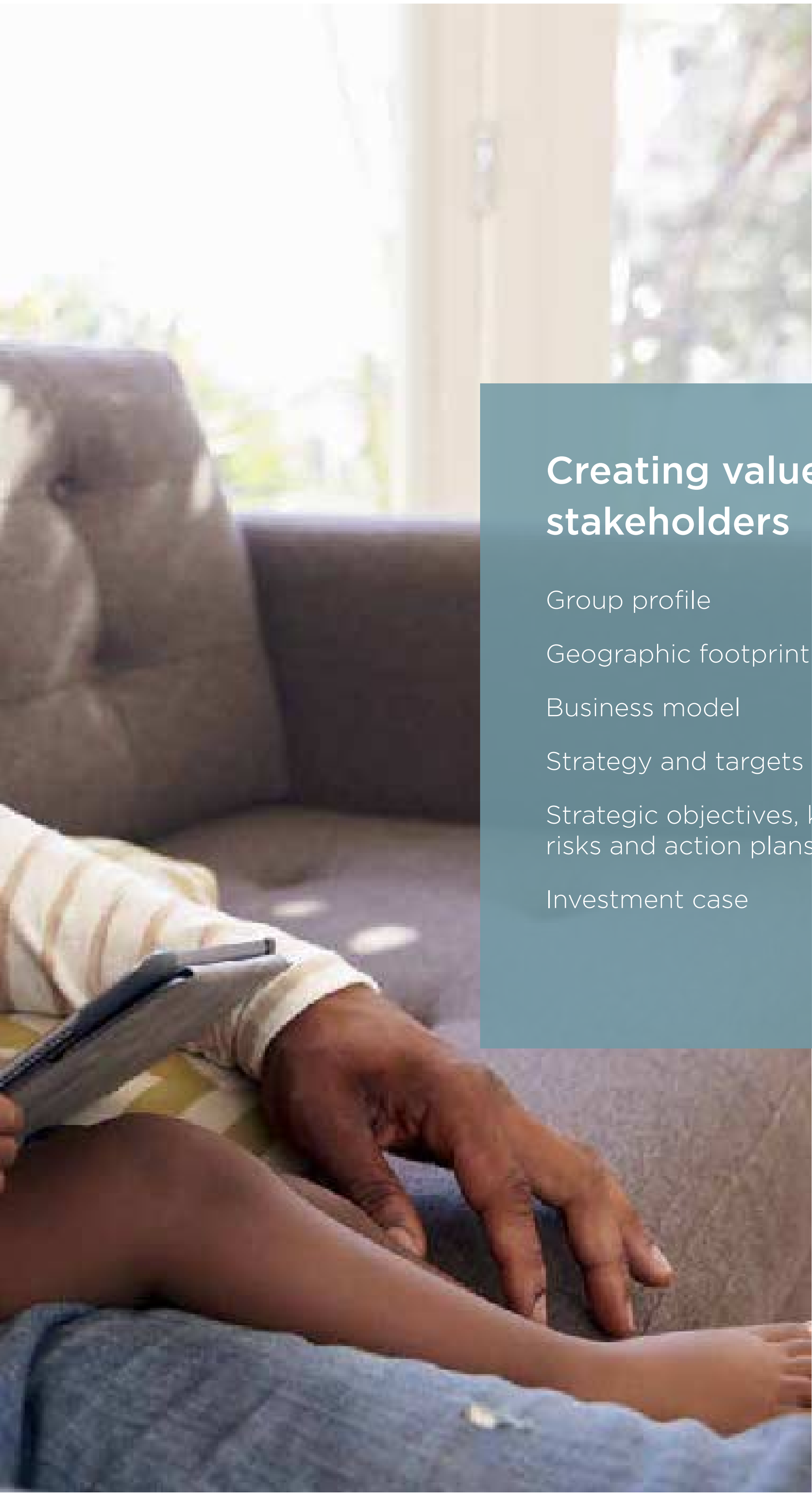
The Audit Committee, which has oversight for the preparation of the Integrated Report, recommended the report for approval by the directors. The Board accordingly approved the 2017 Integrated Report for release to stakeholders.



David Nurek
Independent non-executive chairman

Johan Enslin
Chief executive officer

30 June 2017



Creating value for our stakeholders

Group profile

The group has 761 stores across all metropolitan areas and in rural South Africa, as well as a strong presence in neighbouring African countries.

Lewis Group is a leading retailer of household furniture and electrical appliances through its three trading brands: Lewis, Beares, and Best Home and Electric.

Founded in Cape Town in 1934, the Lewis Group has been listed on the JSE Limited since 2004. The group employs 8 215 permanent staff and is a meaningful contributor to job creation and support of the local furniture manufacturing sector.

The group has 761 stores across all metropolitan areas and in rural South Africa, as well as a strong presence in neighbouring African countries.

Lewis is the country's largest furniture chain with 513 stores and is a household name in furniture retailing.

Beares, a well respected brand with a history dating back 80 years, was acquired by the group in 2014 and currently has 125 stores.

Best Home and Electric was established in 2008 and sells home appliances as well as furniture ranges through 123 stores.

Lewis and Best Home and Electric target customers in the growing middle to lower income markets in the living standards measurement (LSM) 4 to 7 categories. Beares attracts customers in higher LSM markets where the group has traditionally had limited exposure.

Credit is offered to customers across all the brands and the group has a credit customer base of close to 620 000. Credit sales accounted for 65.3% of total sales in the reporting period.

Monarch Insurance, the group's short-term insurance subsidiary, offers insurance cover to customers purchasing merchandise on credit.

African presence

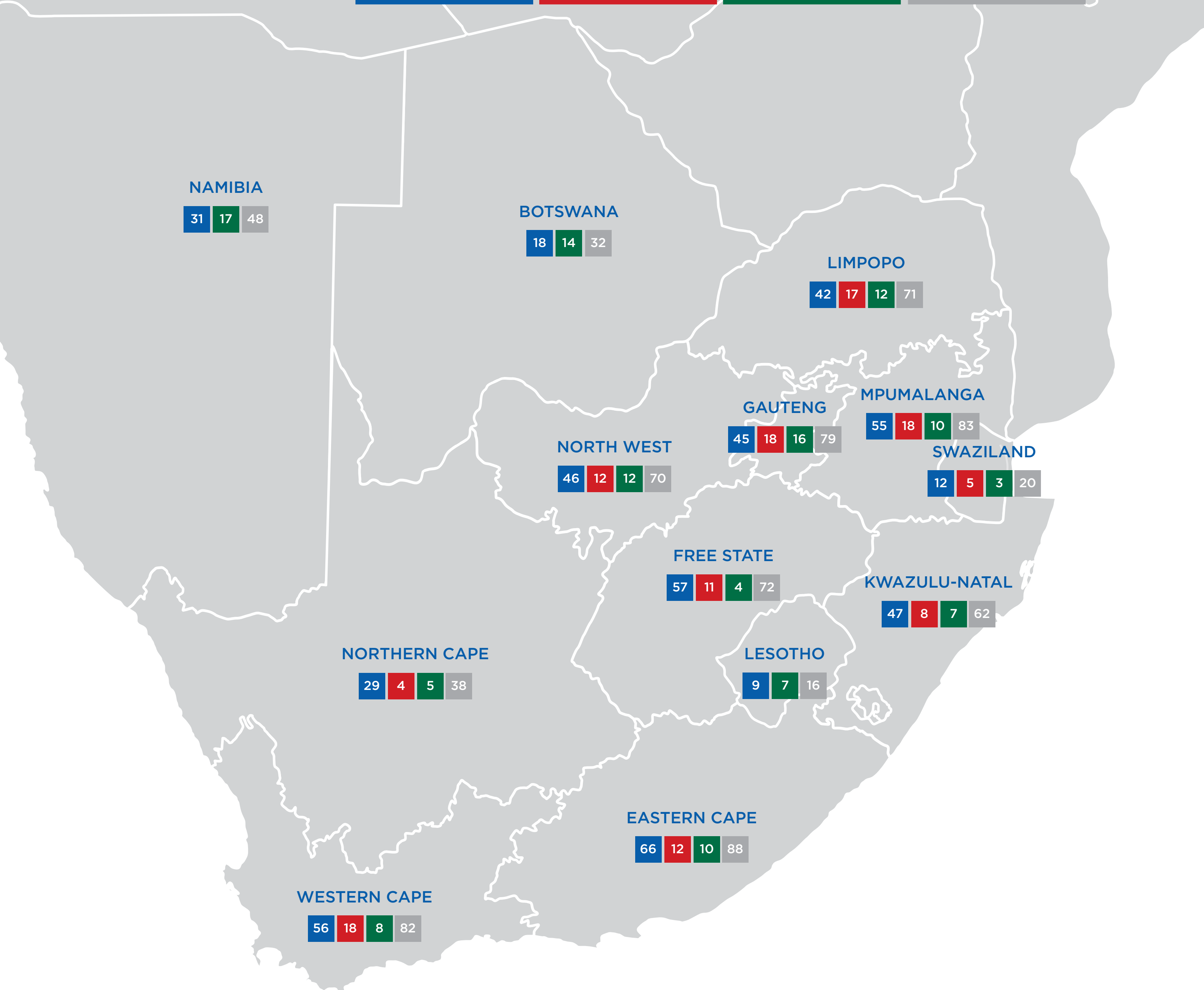
Lewis was one of the first South African retailers to expand into Southern African countries from the late 1960s. In 2016 the group acquired a portfolio of 56 stores in Botswana, Lesotho, Namibia and Swaziland which doubled the store presence outside of South Africa to 15%. These stores collectively accounted for 18.5% of group revenue in the current financial year.

Customer commitment

The group is committed to service excellence and offering quality, exclusive merchandise. High levels of repeat sales to existing customers are evidence of service satisfaction, trust and customer loyalty. As part of the commitment to service excellence, Lewis strives to be an integral part of the communities in which it operates. Shoppers are served by staff from their local communities, with stores being located close to the places where Lewis customers live, work, shop and commute.

Geographic footprint

	Lewis	Best Home and Electric	Beares	Total stores
Total – in South Africa	443	118	84	645
Total – outside South Africa	70	5	41	116
Total stores – 31 March 2017	**513**	**123**	**125**	**761**
Total stores – 31 March 2016	526	127	107	760



Business model

Lewis Group continues to operate its proven decentralised, store-based business model which remains appropriate for the group's lower to middle income target market.

The model is based on the principle that the sale of furniture and the granting of credit are largely interdependent as the group's customers are reliant on credit to buy products.

All aspects of the customer relationship are managed by the staff in the stores, except for the granting of credit which is managed centrally to ensure consistent decision-making and prudent credit risk management.

The personal and relationship-based interaction with customers in the stores creates trust and confidence while also generating high levels of loyalty and repeat sales.

This process is supported by leading technology which removes the administrative burden at store level and enables real-time management reporting.

The business model was enhanced in 2016 with the launch of a specialist call centre for South African stores. The call centre aims to further improve compliance, transparency and oversight of the in-store sales and credit application process and limit any potential misunderstandings of the costs, services and fees to be paid by customers. The call centre is housed at the company's head office and employs 60 consultants who are able to engage with customers in English, Afrikaans, Xhosa, Zulu, Sepedi, Sesotho, Setswana and Xitsonga.

Head office

Centralised credit assessment and approval

Credit is granted centrally to ensure credit risk policies are consistently applied, removing any subjectivity in the credit granting process

Credit application and granting process

- Credit applications are submitted electronically to head office from stores
- Industry-leading technology used to determine creditworthiness of a customer
- Advanced application and behavioural risk scorecards are applied
- Credit policies determine credit worthiness, term and deposit required from customer
- Decisions on credit applications relayed to stores timeously. Refer to credit report on page 100

Store and call centre compliance

- After credit has been granted, the store manager explains the terms and conditions of the sale and highlights the optional items and ensures the correct insurance options are selected
- The manager then ensures that the customer speaks to the compliance call centre where agents can assist customers in eight languages
- Call centre agents ensure that all critical elements of the contract have been explained to the customer
- All calls are recorded and stored electronically
- The sale is only approved once these compliance processes have been completed

Stores

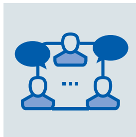
Customer relationships managed by stores

The personal and relationship-based interaction with customers in the stores creates trust and confidence while also generating high levels of loyalty and repeat sales.

Stores are accountable for all aspects of the customer relationship

Strong relationships are developed with customers over the life time of a contract

Stores are located close to where customers work, shop, live and commute



Customers are serviced by staff from their own communities in their own language

Store managers interview every customer and explain the terms and conditions of the sale

Merchandise sales and credit applications

- Furniture and appliances are sold mainly on credit
- Credit applications are completed electronically by stores and submitted to head office for approval
- Insurance is one of the optional offers available on credit purchases

Collections

- Stores are responsible for cash collection and follow-up of defaulting customers for repeat sales
- Store locations make it convenient for customers to pay at stores
- Collection staff make house calls on defaulting accounts
- Interaction with customers visiting stores monthly to pay accounts creates sales opportunities

Customer re-serve programme

- High level of sales to existing customers through the re-serve programme
- Re-serve programme identifies existing customers for potential further credit, based on payment history
- Targeted mailings and promotional offers aimed at these customers
- Promotions are a key marketing tool

Supply chain and delivery to customers

- Merchandise is delivered directly by suppliers to stores.
- The group does not operate distribution centres or centralised warehouses
- The group offers an optional delivery service and operates its own delivery fleet
- Stores are responsible for all deliveries to customers
- Average of 90% of deliveries are completed within 24 hours of sale

Strategy and targets

Lewis Group's strategy is to "create sustainable growth in shareholder value by offering exclusive merchandise on credit to the lower to middle income market through a network of stores in South Africa and neighbouring countries".

The strategy is reviewed annually by the Board and executive management, together with progress against the medium-term strategic objectives.

Material issues and risks that could impact on the group's strategy, its stakeholders and its ability to sustain growth are reviewed on a continuous basis as part of the strategic planning process.

Action plans are developed to achieve the strategic objectives and also to manage the material impacts on the group.

In reviewing the material impacts for the year ahead, the impact of changes to the regulatory environment was identified as a matter which could have an impact on the business in the short- to medium-term. These include the capping of customer protection insurance, the affordability assessment regulations and insurance regulations.

Medium-term strategic objectives

- Gross profit **41% to 43%**
- Increase in operating costs **3% to 5%**
- Debtor costs as a % of net debtors **14% to 16%**
- Credit sales as % of total sales **63% to 66%**
- Operating profit margin **12% to 15%**

Performance and targets

Material impact	Performance indicators	Achieved 2017	Targets 2017	Targets 2018	Targets Medium-term
Merchandising and supply chain	Gross profit margin (%)	41.6	39 – 41	38 – 42	41 – 43
Credit management	Debtor costs as a percentage of net debtors	19.1	16 – 18	17 – 20	14 – 16
	Satisfactory paid customers (%)	68.5	66 – 70	66 – 70	70 – 72
Execution of business model	Operating profit margin (%)	10.1	12 – 15	5 – 10	12 – 15
	Credit sales as a percentage of total sales	65.2	63 – 66	63 – 66	63 – 66
	Increase in operating costs (%) (excluding debtor costs)	5.5	8	2 – 4	3 – 5
Capital management	Gearing (%)	2.9	25 – 30	zero	<25
Human capital management	Skills development: staff trained annually	11 652	> 3 000	> 3 000	> 3 500

Strategic objectives, key risks and action plans

The executive team is focused on achieving the strategic objectives and managing the key risks relevant to the business' ability to sustain growth into the future.

Regulatory environment

Refer to chairman's report (page 19) and corporate governance report (page 79)

Strategic objective	Key risks	Management action plans
Ensure compliance with relevant legislation and regulation, and limit impact of legislative changes on margins and profitability	• Sanctions for regulatory non-compliance • Changes in legislation and regulations could adversely affect margins and profitability	• Monitor existing compliance and proposed legislation, and identify potential impacts on the business • Engage with regulators on draft legislation and regulations • Formal submissions to regulators in response to proposed changes in legislation • Ensure business is operating efficiently to maintain margins and profitability • Identify alternate sources of revenue should legislative changes impact sales and profitability

Indicator	2017	2016	2015	2014
Referrals to regulatory bodies	0	2	0	0

Execution of business model

Refer to business model (page 8)

Strategic objective	Key risks	Management action plans
Effective execution of the decentralised customer-focused business model	• Poor execution of the strategies and procedures of the business model by management • Insufficient experienced operational staff • Regulatory environment	• Focus on re-serve programme and local promotions • Offering exclusive value for money merchandise • Provide quality customer service • Focus on stable store management through training, recruitment and selection strategies • Expanding store footprint, focusing on smaller stores with electronic catalogue • New customer acquisition initiatives • Monitoring competitor activity • Engagement with various regulators

Performance indicators	Achieved	Targets		
	2017	2017	2018	Medium-term
Operating profit margin (%)	10.1	12 – 15	5 – 10	12 – 15
Credit sales percentage	65.2	63 – 66	63 – 66	63 – 66
Increase in operating costs (%) (excluding debtor costs)	5.5	8	2 – 4	3 – 5

Credit management

Refer to credit report (page 100)

Strategic objective	Key risks	Management action plans
Optimise the quality of the debtors' book by reducing debtor costs through improved collections and regular updating of scorecards	Inability to maintain optimal quality of debtors' book owing to the affordability assessment regulations, high levels of unemployment, the impact of aggressive unsecured lending in market and the overall challenging economic environment	• Ongoing focus on collections productivity and efficiency • Customer segmentation and credit limit strategies • Reward best-rated credit customers • Focus on increasing satisfactory paying customers

Performance indicators	Achieved	Targets		
	2017	2017	2018	Medium-term
Cash collections from instalment sales (%)	73.8	74 – 75	74 – 75	75 – 76
Debtor costs as a percentage of net debtors (%)	19.1	16 – 18	17 – 20	14 – 16
Satisfactory paid customers (%)	68.5	66 – 70	66 – 70	70 – 72

Merchandising and supply chain

Refer to merchandise and brands report (page 96)

Strategic objective	Key risks	Management action plans
Maintain competitive advantage and targeted margin by sourcing exclusive, quality merchandise both locally and offshore	• Suppliers and distribution partners performing below standard • Lack of depth in supplier base • Volatility of exchange rate impacting on margin, pricing and planning	• Develop new products and offers for regular launches • Ensure reliable back-up supplier channel • Increase exclusive appliance brands • Continue to invest in enterprise development with local suppliers • Purchase forward cover to hedge against risk of foreign currency fluctuations

Performance indicator	Achieved	Targets		
	2017	2017	2018	Medium-term
Gross profit margin (%)	41.6	39 – 41	38 – 42	41 – 43

Strategic objectives, key risks and action plans (continued)

Capital management

Refer to chief financial officer's report (page 30)

Strategic objective	Key risks	Management action plans
Effective management of financial risks and the liquidity requirements of the business	• Inefficient capital management could impact on profitability and returns to shareholders	• Ensure access to capital at all times • Efficient allocation of capital • Invest in the organic growth of the business • Return funds to shareholders through dividend payments • Manage investment portfolio together with financial advisors to optimise returns • Manage currency exposure and risk

Performance indicators	Achieved	Targets		
	2017	2017	2018	Medium-term
Gearing (%)	2.9	25 – 30	zero	< 25
Dividend payout ratio (%)	54.7	55	55	50 – 55

Human capital management

Refer to remuneration report (page 60) and social, ethics and transformation report (page 82)

Strategic objective	Key risks	Management action plans
Ongoing development of staff for management positions; retention of current management and attract competent individuals as required	• Inability to attract, develop and retain suitable staff for executive and operational management positions	• Training and development programmes • Remuneration retention schemes • Focused recruitment and selection practices • Transformation through black economic empowerment

Performance indicators	Achieved	Targets		
	2017	2017	2018	Medium-term
Skills development	11 652	> 3 000	> 3 000	> 3 500
Executive turnover	5.2%	<10%	<10%	<10%

Information technology

Refer to corporate governance report (page 76)

Strategic objective	Key risks	Management action plans
Develop and maintain industry-leading information systems	• Unavailability of main operating systems • Outdated software solutions • Loss of data as a result of the exposure of systems to mobile devices and various interfacing systems	• Monitor IT governance processes across the business through the IT Steering Committee • Regular review and implementation of hardware and software solutions to improve productivity and assist management in achieving strategic objectives • Develop and implement Information Security Management System (ISMS) • Real time network monitoring to identify any areas of concern

Performance indicator	Achieved	Targets		
	2017	2017	2018	Medium-term
Availability of key operating systems (%)	99.9	99.9	99.9	100

Investment case

Lewis Group has extensive experience over many decades of operating as a credit retailer in South Africa's middle to lower income market and is well-positioned in this growing customer segment. While the current economic and regulatory environments are challenging in the short-term, the following factors should support long-term returns for shareholders.

Resilient business model in challenging environment

- Focused on one business: retailing of furniture and appliances
- Decentralised customer-focused business model positions the group for market share gains in the changing competitive landscape
- Operates in a growth segment of the South African population
- Credit offered across all brands to facilitate sales growth
- Low cost structure; internal culture of cost containment

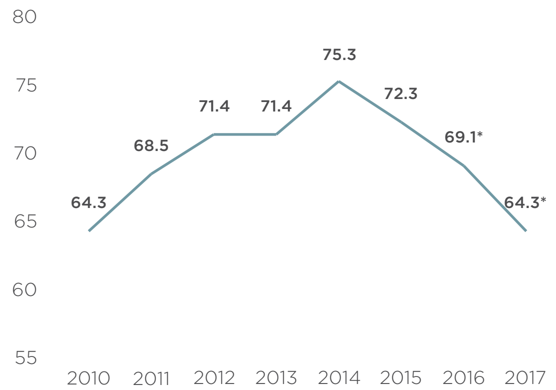
Differentiated and exclusive merchandise

- Stores sell differentiated, exclusive and quality merchandise ranges
- Products sourced locally and offshore that appeal to needs of lower and middle income target market
- Focus on selling higher margin furniture and appliance product categories
- Customers attracted into stores by value for money product offer

Proven credit risk management

- Extensive experience in managing credit risk in the lower to middle income market
- Centralised credit approval and granting
- Decentralised cash collections process at stores
- Advanced application and behavioural risk scorecards

CREDIT SALES % OF MERCHANDISE SALES
(%)

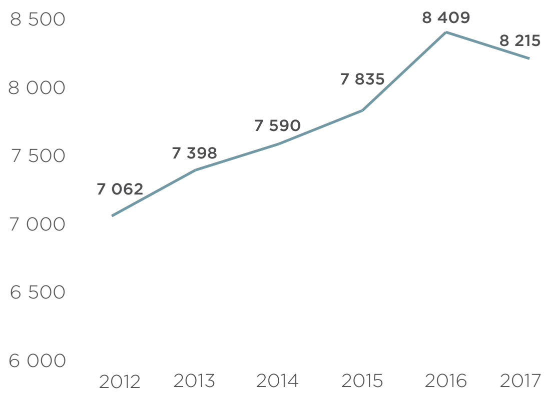


* *In 2016 Lewis acquired Beares which operates on higher levels of cash sales*

Experienced management team

- Stable long-serving executive team
- Good balance of company and industry experience
- Leadership continuity from strong senior management

NUMBER OF EMPLOYEES



Customer loyalty and trust

- Customer loyalty: Over 50% of credit sales from existing customers
- High levels of brand awareness and trust with customers
- Beares offers exposure to higher income customers than Lewis and Best Home and Electric

Extensive store network

- National coverage with 645 stores across urban and rural areas in South Africa
- Exposure to other African countries with 116 stores in Namibia, Botswana, Lesotho and Swaziland
- Stores conveniently located close to places where target customers live, work and commute

NUMBER OF STORES

Leadership and performance

Chairman's report

The business remains strongly cash generative, repaying debt of R1 billion and holding cash reserves of close to R800 million at year-end.

South Africa's economic landscape has been dominated by political instability, lack of economic growth, high unemployment and consequent credit rating downgrades over the past year which has had a profound impact on business and consumer confidence.

South Africa's economy retreated into recession in the first quarter of 2017 following two consecutive quarters of negative growth in gross domestic product. The economy contracted by 0.3% in the final quarter of 2016 and by 0.7% in the first three months of 2017. Despite the many challenges our economy has experienced over several years, it is interesting that the country last experienced a technical recession in the aftermath of the global financial crisis in 2009.

The labour market has continued to weaken with the national unemployment rate reaching a 13-year high of 27.7% in the first quarter of 2017, with 6.2 million South Africans being jobless. The agricultural sector experienced the highest job losses in this period.

While good rainfall in several parts of the country has helped to break one of the country's most crippling droughts, the after-effects on the agricultural sector and the rural economy will be felt for some years to come. Lewis has traditionally had a strong support base in rural South Africa and our customers in these areas are under extreme pressure.

Financial performance

The performance for the year is reflective of the challenges in the macro-economic and regulatory environments which have had a significant impact on Lewis Group's lower to middle income target market. This has contributed to the group's operating profit declining by 30.7% to R565 million and headline earnings per share being 35.6% lower at 400 cents per share.

Operationally the group has again expanded its gross profit margin and demonstrated excellent cost control, containing expense growth to below 3% in the second half of the year. The business remains strongly cash-generative, repaying debt of R1 billion and holding cash resources of close to R800 million at year-end. Gearing at 2.9% is at its lowest level since listing and the debtors' book remains adequately provided.

The group is well capitalised, with the strength of the balance sheet reflected in the net asset value of R61.33 per share which has grown at a compound rate of 9.5% per annum since the listing on the JSE in 2004.

Chairman's report
(continued)

Despite the slowdown in earnings the directors continue to believe in the group's medium-term prospects and are committed to investing in the long-term growth of the business and returning capital to shareholders.

This is evident in the declaration of a total dividend of 200 cents per share, based on a dividend payout ratio of 55%, and the decision to embark on a share repurchase programme. The directors believe it is an opportune time to buy back shares given the deep discount of the current trading price to the group's net asset value. At the previous annual general meeting (AGM) in 2016 shareholders granted authority to repurchase a maximum of 3% of the company's issued shares. The directors are seeking to renew the authority for a maximum of 5% at the forthcoming AGM.

Regulation and compliance

The regulatory environment is proving increasingly challenging.

The affordability assessment regulations imposed by the National Credit Regulator (NCR) continue to deny access to credit to many creditworthy consumers in the country's lower to middle income market, particularly those that are self-employed. While these consumers meet the affordability criteria and many were previously classified as "satisfactory performing" customers of Lewis, they are being restricted by onerous administrative requirements to provide documentary proof of income.

Despite extensive engagement by credit providers with the NCR and proposals made to the Department of Trade and Industry, it is extremely disappointing that we are no closer to resolving the issue. We urge the NCR to address this issue urgently and decisively in the interests of the economic growth of South African consumers.

After several years of engagement with regulators, the capping of credit life insurance will be implemented in August 2017. This will have a material impact on Lewis Group and is anticipated to reduce insurance revenue by a total of R105 million over the next three financial years. Please refer to the CEO's report for further details.

While management has continued to apprise investors of regulatory and legal developments, I bring one case to the attention of shareholders. In last year's report we advised that the NCR had referred Lewis to the National Consumer Tribunal (NCT) for alleged breaches relating to the charging of club fees and extended warranties. After the end of the reporting period the NCT handed down judgement in this case in favour of Lewis.

The NCT found that the club fees charged by Lewis do not form part of the cost of credit of any credit agreement between Lewis and its customers. The NCT also ruled that the National Credit Act allows Lewis to include the cost of an extended warranty in its credit agreements.

We believe the positive outcome of this judgement confirms the group's commitment to responsible credit practices and regulatory compliance.

Board of directors

After serving as a director and chairman of the group since 2004, I have advised the board of my plans to retire through a managed succession process. I am pleased to inform shareholders that the directors have nominated my fellow director Hilton Saven to succeed me as chairman. Hilton is a highly experienced businessman and company director who has served on the group's board since the listing. He currently chairs the audit and risk committees.

It is my intention to serve as a director until a suitably experienced non-executive director is identified and appointed to the board to succeed Hilton as chairman of the audit committee. I have therefore agreed to stand for re-election as a director at the forthcoming AGM and will formally retire later in the 2018 financial year.

We welcomed Daphne Motsepe and Adheera Bodasing as non-executive directors to the board from June 2017. These new directors bring a range of skills and experience that are highly relevant to our business and our customers, and we look forward to benefiting from their contributions.

Following these appointments, the board will comprise 33% black female directors, confirming our commitment to gender diversity and representivity.

Ben van der Ross (70), who has served as a director for 13 years, will be retiring from the board at the AGM in August 2017. We thank Ben for his wise, insightful and valuable contribution to board and committee meetings.

Les Davies will be stepping down as chief financial officer (CFO) and as an executive director in March 2018. He will continue to serve as the CEO of the group's short-term insurer, Monarch Insurance. Jacques Bestbier, an experienced chartered accountant who has been with the group since 2012, has been appointed as CFO designate and will work closely with Les for the remainder of the financial year to ensure a smooth handover.

Appreciation

Thank you to the executive management team under CEO Johan Enslin who have ensured that the group has weathered one of the most turbulent periods in recent history.

To our management and staff of over 8 200 across South Africa and in the neighbouring countries thank you for your support and commitment to meeting the needs of our customers.

It has been an honour to lead the Lewis Group. Ahead of my retirement from the board in the months ahead I would like to extend my thanks to our current and past directors, management, staff and all our external stakeholders for your support and engagement over many years.

David Nurek
Independent non-executive chairman

Chief executive officer's report

The integration of the 56 Ellerines and Beares stores acquired in Botswana, Lesotho, Namibia and Swaziland has doubled the group's store footprint outside South Africa to 116.

Trading conditions continued to deteriorate during the year as economic growth slowed and the group's customer base was adversely impacted by the restrictive affordability assessment regulations, high levels of unemployment and the protracted drought affecting South Africa's rural economy.

The collective impact of these factors is reflected in a disappointing performance in which the group experienced a 31% decline in operating profit for the year. Despite the weak results, the group was able to gain market share, expand its gross profit margin, contain expense growth, generate strong cash flows and maintain a solid balance sheet.

In this tough trading environment the furniture retail industry has continued to consolidate, with the group's two remaining competitors further rationalising their store bases, particularly in rural areas.

Trading performance

After increasing by 1% in the first six months, group merchandise sales slowed in the second half and ended the year 2% lower, reflecting the increasingly challenging trading conditions. Merchandise sales on a like-for-like basis declined by 9%.

Group credit sales accounted for 65.2% (2016: 64.3%) of total sales. Credit sales in Beares accounted for 56.6% of the brand's sales while 67.2% of Lewis and Best Home and Electric sales were on credit.

The integration of the 56 Ellerines and Beares stores acquired in Botswana, Lesotho, Namibia and Swaziland has doubled the group's store footprint outside South Africa to 116. These stores comprise 15% of the total store base and contributed 24% of merchandise sales. Based on the performance of these stores outside South Africa, management plans to evaluate opportunities in other neighbouring countries in the medium term.

Exclusive merchandise continues to differentiate the group's offering. New product ranges, more competitive pricing on locally sourced merchandise and an increased contribution from the higher margin furniture category contributed to the gross profit margin expanding by 360 basis points to 41.6%, exceeding the targeted range.

Furniture accounted for 56.3% of total sales (2016: 54.4%) with appliances at 26.4% (2016: 27.9%) and electronics 17.3% (2016: 17.7%).

The Beares brand showed encouraging early signs of improvement, increasing revenue by 71% to R730 million and reversing a loss of R28 million in 2016 to a profit of R29 million this year.

The group's financial performance is covered in the chief financial officer's report on page 30.

Debtor management

The collection performance of the debtors' book remained stable and debtor costs increased by 6.0% for the year, reflecting an improvement from the 17.1% growth of last year.

The decline rate on new credit applications remained high at 38.7% (2016: 39.3%), showing the levels of indebtedness of consumers in the group's target market and the impact of the affordability regulations on credit granting.

Collections from instalment sales declined slightly to R4.0 billion while collections achieved, expressed as a percentage of one contract instalment per customer per month, was 73.8% compared to 73.3% in 2016. Contractual arrears increased from 36.7% in 2016 to 38.4% in 2017.

The level of satisfactory paid customers at 68.5% compares favourably to last year's 68.8% despite the deteriorating consumer credit environment.

Non-performing customers have improved marginally to 15.3% from 15.5%.

Debtor costs as a percentage of net debtors increased from 17.1% to 19.1% as a result of the higher bad debt experience and a lower debtor base, falling outside the targeted 16% to 18% range. The R272 million increase in bad debt write-offs confirms the financial stress facing consumers.

Debtor costs are expected to be within the 17% – 20% range in 2018 before moderating to 14% – 16% over the medium-term.

Refer to the credit report on page 100 for further analysis of the debtors' book.

Retail store footprint

At year-end the group traded out of 761 stores across the three retail brands: Lewis (513), Best Home and Electric (123) and Beares (125). Overall trading space was reduced by 2.5% as the group continued to open smaller format Lewis stores and closed marginal stores. Lewis now has 201 of these smaller format stores with an average trading space of 220m^2.

During the year 17 stores were relocated to better trading sites or smaller premises, and 32 stores were refurbished.

We will continue to consolidate the store base, particularly in smaller towns which can no longer support multiple stores and where competitors have closed stores. We therefore anticipate a net closure of stores and a reduction in trading space in the year ahead.

Impact of insurance regulation

The long-awaited capping of credit life insurance will be implemented with effect from August 2017. While we welcome certainty on this issue after several years of engagement with the regulator, the capping will have a material impact on the group's insurance revenue.

Credit life premiums have been capped at R5.50 per R1 000 of cover which is expected to reduce the group's insurance revenue by R15 million for the 2018 financial year, and by R50 million in 2019 and R40 million in 2020.

Shareholders should note that the regulation will only apply to new policies and will be calculated on the deferred amount at inception.

Prospects

Trading conditions are not expected to improve in the short term and in this environment of muted consumer spending, we will remain focused on tight expense control, improving collections productivity, driving sales growth and sourcing innovative merchandise ranges which appeal to our target market.

The group's solid balance sheet, supported by its strong cash position and current low levels of gearing, provides a good platform from which to grow, diversify and look for new opportunities in the medium- to long-term.

Appreciation

Thank you to our retiring chairman, David Nurek, for his commitment, support and decisive leadership of the board since the group's listing in 2004. On a personal level I thank David for his guidance and counsel since my appointment as CEO some eight years ago. We wish David a happy and healthy retirement.

The past year has certainly been one of the most difficult in the group's history and I thank my fellow directors, executive colleagues and all our staff for their continued support and resilience in dealing with these challenges.

Johan Enslin
Chief executive officer

Board of directors

David Nurek (67)

Dip in Law, Grad Dip Company Law

Independent non-executive chairman

Chairman of the Nomination Committee. Member of the Audit, Risk, Remuneration and Social, Ethics and Transformation Committees.

Appointed July 2004

Other directorships include: Clicks Group, Monarch Insurance Company Ltd and Trencor Limited.

David serves as the regional chairman of Investec in the Western Cape and as global head of legal risk. Prior to joining Investec he practised as a commercial attorney at ENS, previously known as Sonnenberg Hoffmann Galombik, for more than 30 years, ultimately serving as chairman.

Fatima Abrahams (54)

BEcon (Hons), MCom, DCom

Independent non-executive director

Chairperson of the Social Ethics and Transformation Committee. Member of the Audit, Risk, Remuneration and Nomination Committees.

Appointed September 2005

Other directorships include: Clicks Group, The Foschini Group, Iliad Africa and TSiBA Education (chairperson).

Fatima is a senior professor in industrial psychology at the University of the Western Cape (UWC) and a registered industrial psychologist. She was previously Dean of the Faculty of Economic and Management Sciences at UWC. She was also a non-executive director of Transnet, B2B Africa (Pty) Ltd and chairperson of Victoria & Alfred Waterfront Holdings.

Adheera Bodasing (43)

BA, LLB, Intellectual Property Law

Non-executive director

Appointed 1 June 2017

Other directorships include: Polarity Consulting.

Ms Bodasing practiced as an attorney at both Spoor & Fisher and Edward Nathan Friedland (now ENS). She has a background in litigation, copyright and gambling law and was previously chief director of legal services at the National Treasury. Ms Bodasing is currently the managing director of Polarity Consulting, a legal and lobbying consultancy which she founded in 2007.

Les Davies (61)

CA(SA)

Chief financial officer

Member of the Risk Committee and attends the Audit Committee by invitation.

Appointed as director in April 2007

Other directorships include: Lewis Stores (Pty) Ltd and Monarch Insurance Company Ltd.

Les is the chief financial officer of Lewis Group and chief executive officer of Monarch Insurance. Les has over 30 years' experience in financial management within the retail industry and has been the financial director of Lewis Stores since 1989. Prior to joining the group Les spent five years as the financial director of AMC Classic. His experience covers a wide range of financial, administrative, legal, contractual, insurance and statutory compliance matters.

Johan Enslin (43)

Chief executive officer

Member of the Risk, Social Ethics and Transformation Committee and attends the Audit Committee by invitation.

Appointed as chief executive officer and director in October 2009

Other directorships include: Lewis Stores (Pty) Ltd.

Johan is the chief executive officer of Lewis Group. Prior to this appointment he was chief operating officer with responsibility for the retail operations of the group. He joined the Lewis Group as a salesman in 1993 and rose rapidly through the ranks, holding positions including branch manager, regional controller, divisional general manager, general manager operations and operations director of Lewis Stores (Pty) Ltd where he was responsible for all facets of Lewis and Best Home and Electric.

Daphne Motsepe (60)

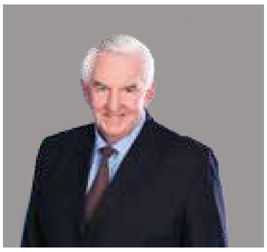
BCompt, MBA

Independent non-executive director

Appointed 1 June 2017

Other directorships include: Mercantile Bank, Edcon and Kapela Investment Holdings.

Ms Motsepe is an experienced banking executive and company director. She was formerly chief executive of Absa card and unsecured lending at Absa Bank and also served as managing director of Postbank. She also serves as a trustee of Alexander Forbes Community Trust, SaveAct and CGAP. Ms Motsepe has previously served on the boards of Investec Bank, Thebe Investment Corporation, Woolworths Financial Services and Rand Mutual Assurance.



Alan Smart (72)

Independent non-executive director

Member of the Risk, Remuneration, Nomination and Social, Ethics and Transformation Committees.

Appointed as a non-executive director in 2009

Other directorships include: Monarch Insurance Company Ltd.

Alan served as the chief executive officer of the Lewis Group from 1991 until his retirement in 2009 when he was appointed as a non-executive director. Alan started his career with Lewis in 1969. During this period he held various financial and operational positions including credit director and joint managing director. From 1995, in addition to his Lewis responsibilities he was chairman of GUS Canada Inc, a retail furniture group of 65 stores in eastern Canada and oversaw a turnaround programme. Alan served on the board of GUS plc from 1996 to 2004.

Hilton Saven (64)

BCom, CA(SA)

Independent non-executive director

Chairman of the Audit and Risk Committees. Member of the Remuneration and Nomination Committees.

Appointed June 2004

Other directorships include: Truworths International (chairman), Balwin Properties (chairman), Life Vincent Pallotti Orthopaedic Centre and Monarch Insurance Company Ltd.

Hilton is chairman of Mazars South Africa and serves as Co-CEO of Mazars International, an international audit firm operating in 73 countries. He is also the vice-chairman of Praxity, a global alliance of independent accounting firms represented in 96 countries.

Ben van der Ross (70)

Diploma in Law

Independent non-executive director

Chairman of the Remuneration Committee. Member of the Audit, Risk and Nomination Committees.

Appointed June 2004

Other directorships include: Distell Group, FirstRand, MMI Holdings and Naspers.

Ben practised as an attorney for 18 years and continues to consult to Van der Ross Motala attorneys. Ben is a former director of the Urban Foundation, the Independent Development Trust and CEO of Business South Africa. He was a commissioner of the Independent Electoral Commission for the first democratic elections in South Africa in 1994.

Executive team

Directors of Lewis stores

Waleed Achmat (54)
Human resources director
Joined Lewis on 15 May 2017

Jacques Bestbier (44)
CA(SA)
Chief financial officer designate
5 years' service

Les Davies (61)
CA (SA)
Chief financial officer and executive director of Lewis Group
29 years' service

Johan Enslin (43)
Chief executive officer and executive director of Lewis Group
22 years' service

Derek Loudon (54)
Merchandise director
15 years' service

Rinus Oliphant (42)
Operations director
19 years' service

Senior executives

Gregg Abrahams (38)
General manager: Information Technology
16 years' service

Marc Alexander (40)
General manager: Risk and Compliance
Appointed 1 September 2016

Justin Bouwer (46)
CA(SA)
General manager: Administration
5 years' service

Clyne Erasmus (45)
General manager Operations: Lewis Stores
15 years' service

Faan Fick (52)
BCom (Hons)
General manager: Property
13 years' service

Lambert Fick (44)
CA(SA)
General manager: Credit
7 years' service

Senior executives (continued)

Marlene McConnell (40)
BProc, LLB, LLM, Admitted Attorney

Company secretary

9 years' service

Johan Meyer (53)
General manager Operations: Lewis Stores

32 years' service

Claire Morrissey (37)
BSc, LLB, LLM, Admitted Attorney

General manager: Legal Services

2 years' service

Morne Mostert (44)
CA(SA)

General manager: Finance

17 years' service

Gary Nuttal (53)
Marketing manager

20 years' service

Johan Steenkamp (58)
General manager Operations: Best Home and Electric

37 years' service

André Strydom (44)
General manager: Credit Operations

18 years' service

Tersia Swanson (47)
General manager: Human Resources

Appointed 1 February 2017

Vince van der Merwe (49)
BAcc (Hons), BBA (Hons)

Chief audit executive

18 years' service

Gideon van Eck (37)
CA(SA)

General manager: Administration

Appointed 1 March 2017

Daleen van Staden (46)
General manager Operations: Lewis Stores

12 years' service

Neels Verwey (42)
CA(SA)

Insurance manager

1 years' service

Financial Review

Chief financial officer's report

The group remains strongly cash-generative with a sound balance sheet and low levels of gearing.

Increasing economic headwinds and the resultant slowing of consumer spending, together with the credit affordability assessment regulations, severely impacted the group's sales, revenue, margins and returns, culminating in headline earnings per share declining by 35.6% to 400 cents for the year.

Despite the disappointing trading and financial results, the group remains strongly cash-generative with a sound balance sheet and low levels of gearing. Cash generated from operating and investing activities during the year was used to repay borrowings of R1 billion and to fund dividend payments of R357 million.

At the end of the reporting period the group's cash balance totalled R789 million. The strength of the group's balance sheet is reflected in the net asset value per share which has remained stable now at 6 133 cents.

The directors have shown their confidence in the group's prospects by declaring a total dividend of 200 cents per share, based on a dividend payout ratio of 55% on headline earnings.

Financial performance

The following review of the group's financial performance for the year ended 31 March 2017 should be read in conjunction with the audited annual financial statements available on the group's website (**www.lewisgroup.co.za**).

Revenue for the 12 months declined by 3.3% to R5 592 million (2016: R5 785 million). Merchandise sales for the period were 2.2% lower at R2 608 million (2016: R2 668 million), impacted by the weakening consumer economy and the affordability assessment regulations.

Group credit sales accounted for 65.2% (2016: 64.3%) of total sales. Credit sales in Beares accounted for 56.6% of the brand's sales while 67.2% of Lewis and Best Home and Electric sales were on credit.

Other revenue was 4.3% lower at R2 984 million (2016: R3 117 million) owing mainly to lower credit sales impacting insurance and ancillary services revenue.

The gross profit margin strengthened from 38.0% to 41.6% due to an increase in locally-sourced product, tight stock control and a higher contribution from the furniture category.

Operating costs, excluding debtor costs, were well contained to an increase of only 5.5%. Expenses were impacted by the integration of the stores acquired outside South Africa, general compliance costs including the compliance call centre at head office and upgrades to the point-of-sale system in stores.

The Lewis and Best Home and Electric brands displayed tight cost controls which is reflected in an increase of only 0.4% for the year.

Expenses in the group increased by only 2.7% in the second half of the year.

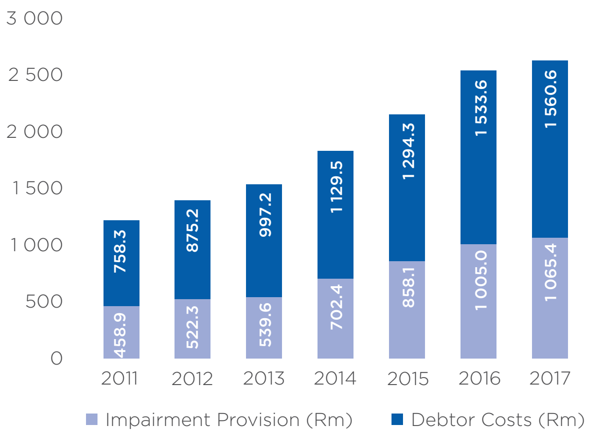
Analysis of operating costs	2017 Rm	2016 Rm	Change %
Employment costs	987	946	4.3
Admin and IT	318	275	16.0
Marketing	200	192	3.9
Occupancy costs	371	329	12.6
Transport/Travel	203	224	(9.6)
Depreciation	90	86	5.3
Other operating costs	270	260	4.0
Total	2 439	2 312	5.5
% of revenue	43.6	40.0	

Debtor costs grew by 6.0% for the year, reflecting an improvement from the 17% growth of the previous year. Debtor costs as a percentage of net debtors increased from 17.1% to 19.1% as a result of the higher bad debt experience and a lower debtor base.

Analysis of debtor costs	2017 Rm	2016 Rm
Total debtor costs	1 065	1 005
– Bad debts written off	1 038	766
– Impairment provision	27	239
Debtor costs as a % of net debtors	19.1	17.1
Debtor cost growth (%)	6.0	17.1

The following table highlights the relationship between the provision at the end of the financial year and debtor costs in the following year. Debtor costs have never exceeded the impairment provision at the end of the preceding year, evidence that the group is adequately provided for future bad debts.

DEBTOR COSTS VS IMPAIRMENT PROVISION
(Rm)



Slower revenue growth and higher operating and debtor costs contributed to the group's operating margin contracting to 10.1% (2016: 14.1%).

Earnings for the prior year included a once-off capital gain of R496 million as a result of realising a large portion of the investment portfolio in Monarch Insurance, the group's short-term insurer, which impacted earnings per share reported in the previous year.

Headline earnings declined from R552 million to R355 million with headline earnings per share 35.6% lower at 400 cents.

Segmental performance

	Group	Lewis	Best Home and Electric	Beares
Revenue (Rm)	5 592	4 137	725	730
Revenue growth (%)	(3.3)	(9.4)	(8.6)	71
Operating profit (Rm)	565	424	111	29
Operating margin (%)	10.1	10.3	15.3	4.1

The detailed financial and operational performance of the group's brands is covered in the merchandise and brands report on pages 94 to 97.

Chief financial officer's report (continued)

Cash and capital management

The group's current cash and capital management strategy is based on investing in the longer-term growth of the business and returning capital to shareholders through dividend payments and share repurchases.

Cash generated from operations increased by 17.2% to R1.1 billion.

The gearing ratio reduced to 2.9% from 25.5% in 2016 following the repayment of debt.

Capital expenditure of R61 million included the purchase of delivery vehicles, computer equipment and fittings at stores.

Capital ratios	2017	2016
Return on equity (%)	6.6	17.6
Return on capital employed (%)	6.7	14.7
Return on assets (%)	8.3	15.8

Plans for 2018

The group recently embarked on a share repurchase programme, in line with the authority granted by shareholders at the annual general meeting in October 2016 to repurchase a maximum of 3% of the company's issued shares.

The group plans to pay down further debt during the year and aims to be ungeared by the end of the 2018 financial year.

The capping of credit life insurance, which is detailed in the CEO's Report, is estimated to impact insurance revenue by approximately R15 million in the 2018 financial year. The estimated impact on the 2019 and 2020 financial years is approximately R50 million and R40 million respectively.

Capital expenditure of R82 million has been budgeted for the 2018 financial year and will be utilised mainly for computer equipment and store delivery vehicles.

The financial targets for 2018 are as follows:

Performance indicators	2018	Medium-term
Gross profit margin (%)	38 – 42	41 – 43
Debtor costs as a % of net debtors	17 – 20	14 – 16
Satisfactory paid customers (%)	66 – 70	70 – 72
Operating profit margin (%)	5 – 10	12 – 15
Credit sales as a % of total sales	63 – 66	63 – 66
Increase in operating costs (excluding debtor costs) (%)	2 – 4	3 – 5
Gearing (%)	0	below 25

Appreciation

Thank you to our shareholders for your support and to the broader investment community for your engagement over the past year. I also extend my thanks to my finance team for their hard work and commitment. As previously advised to shareholders, I will be stepping down as chief financial officer at the end of the 2018 financial year and would like to congratulate my colleague Jacques Bestbier on his appointment as chief financial officer designate.

Les Davies
Chief financial officer

Five-year review

	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Group Income Statements					
Revenue	5 592.1	5 785.0	5 660.8	5 281.7	5 187.6
Merchandise Sales	2 607.9	2 667.7	2 591.5	2 409.1	2 470.3
Other revenue	2 984.2	3 117.3	3 069.3	2 872.6	2 717.3
Cost of sales	(1 522.4)	(1 652.8)	(1 644.3)	(1 524.4)	(1 523.1)
Operating Costs	(3 504.9)	(3 317.2)	(2 918.8)	(2 603.3)	(2 410.9)
Operating profit	564.8	815.0	1 097.7	1 154.0	1 253.6
Investment income	104.9	600.6	148.0	125.8	111.8
Profit before interest and taxes (EBITA)	669.7	1 415.6	1 245.7	1 279.8	1 365.4
Finance Costs	(148.4)	(136.1)	(123.3)	(102.7)	(96.3)
Net profit before tax	521.3	1 279.5	1 122.4	1 177.1	1 269.1
Taxation	(163.3)	(318.0)	(316.2)	(334.9)	(357.4)
Attributable profit	358.0	961.5	806.2	842.2	911.7
Headline earnings	355.0	552.1	751.0	817.6	894.4
Group Cash Flow Statements					
Cash generated from operations	1 114.8	950.4	865.7	930.9	632.8
Dividends and interest received	144.0	119.0	113.1	104.1	100.5
Interest paid	(187.8)	(150.1)	(135.5)	(109.2)	(103.2)
Tax paid	(254.8)	(330.3)	(337.9)	(326.9)	(358.4)
Net cash retained from operations	816.2	589.0	505.4	598.9	271.7
Cash utilised in investing activities	769.8	(113.1)	(93.4)	35.3	(257.1)
Net effect of financing activities	(1 384.6)	(62.0)	(710.8)	(66.1)	(64.5)
Net cash increase/(decrease) in cash and cash equivalents	201.4	413.9	(298.8)	568.1	(49.9)

	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Group Balance Sheets					
Assets					
Non-current	975.0	1 012.5	2 206.5	1 822.6	1 594.3
Property, plant & equipment	343.5	370.4	352.9	327.3	332.6
Trademark	66.2	61.4	60.1	–	–
Goodwill	5.5				
Deferred tax asset	48.9	85.7	0.5	0.6	0.6
Retirement benefit asset	55.0	63.0	77.4	79.7	22.8
Financial assets – insurance investments	455.9	432.0	1 715.6	1 415.0	1 238.3
Current	6 500.4	8 393.5	7 185.0	6 167.3	5 672.1
Inventories	454.6	444.5	420.3	324.6	305.8
Trade and other receivables	4 225.8	4 514.3	4 413.3	5 078.9	4 840.9
Reinsurance assets	152.2	397.3	481.8		
Insurance premiums in advance	403.2	1 185.4	1 485.5		
Financial assets – insurance investments	294.9	1 236.5	127.0	283.7	465.9
Taxation	181.1	28.3	34.8	–	–
Cash-on-hand and deposits	788.6	587.2	222.3	480.1	59.5
Total assets	7 475.4	9 406.0	9 391.5	7 989.9	7 266.4
Equity and Liabilities					
Capital and reserves	5 445.3	5 449.4	5 448.6	5341.8	4847.3
Non-current liabilities	892.7	1 536.0	1 034.1	1 266.4	1 479.8
Long term interest-bearing borrowings	700.0	1 375.0	825.0	1 000.0	1 250.0
Deferred taxation	91.0	60.8	102.4	173.5	154.5
Retirement benefit liability	101.7	100.2	106.7	92.9	75.3
Current liabilities	1 137.4	2 420.6	2 908.8	1 381.7	939.3
Trade and other payables	271.3	270.2	283.8	227.9	211.7
Reinsurance and insurance liabilities	618.8	1 550.4	1 876.0	388.7	472.1
Taxation	–	–	–	7.1	–
Short-term interest-bearing borrowings	247.3	600.0	749.0	758.0	255.5
Total equity and liabilities	7 475.4	9 406.0	9 391.5	7 989.9	7 266.4

Five-year review (continued)

	2017	2016	2015	2014	2013
Ratios and Statistics					
Returns					
Return on average shareholders funds (after-tax)	**6.6%**	17.6%	15.4%	16.5%	20.0%
Return on average capital employed (after-tax)	**6.7%**	14.7%	13.0%	13.6%	16.8%
Return on average assets managed (pre-tax)	**8.3%**	15.9%	14.2%	16.8%	20.4%
Margins					
Gross profit margin	**41.6%**	38.0%	36.6%	36.7%	38.3%
Operating profit margin	**10.1%**	14.1%	19.4%	21.8%	24.2%
Productivity					
Number of stores	**760**	760	716	636	619
Revenue per store (R'000's) – refer note 5	**7 358**	7 871	8 499	8 305	8 381
Operating profit per store (R'000's) – refer note 5	**743**	1 109	1 699	1 814	2 025
Average number of employees (permanent employees only)	**8 619**	8 409	7 835	7 590	7 398
Revenue per employee (R'000's)	**649**	688	723	696	701
Operating profit per employee (R'000's)	**66**	97	140	152	169
Trading space (sqm)	**248 271**	254 566	248 137	221 336	226 866
Revenue per sqm (R)	**22 524**	23 799	25 504	23 863	22 866
Operating profit per sqm (R)	**2 275**	3 353	5 098	5 214	5 526
Inventory turn (times)	**3.3**	3.7	3.9	4.7	5.0
Credit ratios					
Credit sales %	**65.2%**	64.3%	69.1%	72.3%	75.3%
Bad debts as a % of net debtors	**18.6%**	13.0%	12.4%	9.4%	7.3%
Debtors costs as a % of net debtors	**19.1%**	17.1%	15.3%	11.6%	9.4%
Debtors impairment provision as a % of net debtors	**28.0%**	26.1%	23.1%	18.6%	17.4%
Satisfactory paid accounts as a % of net debtors	**68.5%**	68.8%	68.7%	68.3%	69.4%
Arrear instalments on satisfactory paid accounts as a % of gross debtors	**9.8%**	9.9%	9.1%	8.6%	8.6%
Arrear instalments on slow paying and non-performing accounts as a % of gross debtors	**28.6%**	26.8%	23.8%	22.6%	21.1%
Credit applications decline rate %	**38.7%**	39.3%	40.2%	38.4%	36.5%
Solvency and liquidity					
Financing cover (times)	**4.5**	10.4	10.1	12.5	14.2
Gearing ratio (%)	**2.9%**	25.5%	24.8%	23.9%	29.8%
Current ratio (times)	**5.7**	3.5	2.5	4.5	6.0

Explanatory Notes:
1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. The changes in the accounting policies implemented in the 2016 financial year have only been reflected from 2015 onwards.
3. The arrear instalments ratios for 2012 to 2014 are based on net debtors as opposed to gross debtors.
4. Total assets for ratio purposes exclude the deferred tax asset and reinsurance asset.
5. Revenue and operating profit per store and square metres for 2016 is calculated on an average to cater for the acquisitions during the year.

	2017	2016	2015	2014	2013
Share Performance					
Earnings per share (cents)	403.5	1 082.6	907.5	948.8	1 027.3
Headline earnings per share (cents)	400.1	621.7	845.3	921.1	1 007.8
Cash flow per share (cents)	1 255.5	1 070.1	974.4	1 048.8	713.0
Net asset value per share (cents)	6 132.8	6 157.6	6 128.4	6 012.1	5 481.2
Share price:					
Closing price	41.5	47.0	77.4	58.0	64.6
High	54.1	101.6	93.4	73.0	78.8
Low	28.0	39.0	54.1	52.0	62.6
Price-earnings ratio	10.3	4.3	8.5	6.1	6.3
Dividends per share for the financial year (cents)	200	517	517	517	514
Dividend payout ratio	54.7%	52.7%	62.9%	60.2%	55.5%
Number of shares in issue (million)	98.1	98.1	98.1	98.1	98.1
Volume of shares traded (million)	59.3	128.6	116.9	88.2	79.9
Value of shares traded (million)	2 764.6	8 278.5	8 030.7	5 455.1	5 618.7
Market capitalisation (million)	3 685	4 159	6 876	5 687	6 337
Number of shareholders	1 695	2 410	3 060	3 930	4 767

Summary consolidated financial statements

These financial statements are a summary of the group's audited annual financial statements for the year ended 31 March 2017.

The audited annual financial statements were prepared by the group's Finance department under the supervision of the chief financial officer, Mr LA Davies CA(SA).

A copy of the full set of the audited financial statements is available in the group's website **www.lewisgroup.co.za**.

Independent auditor's report

Independent auditor's report on the summary consolidated financial statements.

To the Shareholders of Lewis Group Limited

Opinion

The summary consolidated financial statements of Lewis Group Limited, contained in the accompanying preliminary report, which comprise the summary consolidated balance sheet as at 31 March 2017, the summary income statement, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Lewis Group Limited for the year ended 31 March 2017.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance, with the requirements of the JSE Limited Listings Requirements for preliminary reports, as set out in note 1 to the summa1y consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary Consolidated Financial Statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The Audited Consolidated Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 24 May 2017. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Director's Responsibility for the Summary Consolidated Financial Statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, set out in note 1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements.*

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: A Legge
Registered Auditor
Cape Town

24 May 2017

Summary consolidated financial statements

Income statement

for the year ended 31 March 2017

	Notes	2017 Audited Rm	2016 Audited Rm
Revenue		5 592.1	5 785.0
Merchandise sales	6	2 607.9	2 667.7
Finance charges and initiation fees earned		1 451.8	1 426.3
Insurance revenue		822.3	908.2
Ancillary services		710.1	782.8
Cost of merchandise sales	6	(1 522.4)	(1 652.8)
Operating costs		(3 504.9)	(3 317.2)
Debtor costs	2.2	(1 065.5)	(1 005.1)
Employment costs		(987.0)	(946.3)
Occupancy costs		(370.8)	(329.1)
Administration and IT		(318.4)	(274.5)
Transport and travel		(202.8)	(224.2)
Marketing		(199.9)	(192.4)
Depreciation and amortisation		(90.1)	(85.6)
Other operating costs		(270.4)	(260.0)
Operating profit before investment income		564.8	815.0
Investment income	3.2	104.9	600.6
Profit before finance costs		669.7	1 415.6
Net finance costs		(148.4)	(136.1)
Interest paid		(174.3)	(158.4)
Interest received		39.4	14.0
Forward exchange contracts		(13.5)	8.3
Profit before taxation		521.3	1 279.5
Taxation	7	(163.3)	(318.0)
Net profit attributable to ordinary shareholders		358.0	961.5
Earnings per share (cents)		403.5	1 082.6
Diluted earnings per share (cents)		399.1	1 073.9

Statement of Comprehensive Income

for the year ended 31 March 2017

	2017 Audited Rm	2016 Audited Rm
Net profit for the year	358.0	961.5
Items that may be subsequently reclassified to income statement:		
Movement in other reserves	(2.4)	(456.7)
Fair value adjustment to available-for-sale investments	9.6	(71.2)
Disposal of available-for-sale investments	(0.2)	(406.3)
Foreign currency translation reserve	(11.8)	20.8
Items that may not be subsequently reclassified to income statement:		
Retirement benefit remeasurements	1.2	(2.3)
Other comprehensive income	(1.2)	(459.0)
Total comprehensive income for the year attributable to equity shareholders	356.8	502.5

Balance sheet

as at 31 March 2017

	Notes	2017 Audited Rm	2016 Audited Rm
Assets			
Non-current assets			
Property, plant and equipment		343.5	370.4
Trademarks		66.2	61.4
Goodwill		5.5	–
Deferred taxation		48.9	85.7
Retirement benefit asset		55.0	63.0
Financial assets – insurance investments	3.1	455.9	432.0
		975.0	1 012.5
Current assets			
Inventories		454.6	444.5
Trade and other receivables	2.1	4 225.8	4 514.3
Reinsurance assets	3.3	152.2	397.3
Insurance premiums in advance		403.2	1 185.4
Taxation		181.1	28.3
Financial assets – insurance investments	3.1	294.9	1 236.5
Cash-on-hand and deposits		788.6	587.2
		6 500.4	8 393.5
Total assets		7 475.4	9 406.0
Equity and liabilities			
Capital and reserves			
Share capital and premium		108.3	92.1
Other reserves		6.2	27.5
Retained earnings		5 330.8	5 329.8
		5 445.3	5 449.4
Non-current liabilities			
Long-term interest-bearing borrowings	4	700.0	1 375.0
Deferred taxation		91.0	60.8
Retirement benefit liability		101.7	100.2
		892.7	1 536.0
Current liabilities			
Trade and other payables		271.3	270.2
Reinsurance and insurance liabilities	3.4	618.8	1 550.4
Short-term interest-bearing borrowings	4	247.3	600.0
		1 137.4	2 420.6
Total equity and liabilities		7 475.4	9 406.0

Statement of changes in equity

for the year ended 31 March 2017

	2017 Audited Rm	2016 Audited Rm
Share capital and premium		
Opening balance	92.1	110.8
Cost of own shares acquired (treasury shares)	–	(53.0)
Share awards to employees	16.2	34.3
	108.3	92.1
Other reserves		
Opening balance	27.5	492.4
Other comprehensive income for the year	(2.4)	(456.7)
Share-based payment	(4.0)	10.3
Transfer of share-based payment reserve to retained earnings on vesting	(14.9)	(18.5)
	6.2	27.5
Retained earnings		
Opening balance	5 329.8	4 845.4
Net profit attributable to ordinary shareholders	358.0	961.5
Distribution to shareholders	(356.9)	(459.0)
Share awards to employees	(16.2)	(34.3)
Transfer from other reserves	14.9	18.5
Retirement benefit remeasurements	1.2	(2.3)
	5 330.8	5 329.8
Balance as at 31 March 2017	5 445.3	5 449.4

Cash flow statement

for the year ended 31 March 2017

	Notes	2017 Audited Rm	2016 Audited Rm
Cash flow from operating activities			
Cash flow from trading		540.9	1 104.7
Operating profit before investment income		564.8	815.0
Adjusted for:			
Share-based payments		(4.0)	10.3
Depreciation and amortisation		90.1	85.6
Movement in debtors impairment provision		27.0	239.3
Movement in other provisions		(144.7)	(46.2)
Other movements		7.7	0.7
Changes in working capital:		573.9	(154.3)
Decrease/(increase) in inventories		11.6	(6.6)
Decrease/(increase) in trade and other receivables		322.8	(242.0)
Increase in trade payables		143.8	35.3
Decrease in insurance premiums in advance		782.2	300.1
Decrease in reinsurance assets		245.1	84.5
Decrease in reinsurance and insurance liabilities		(931.6)	(325.6)
Cash generated from operations		1 114.8	950.4
Interest received		144.0	99.3
Dividends received		–	19.7
Interest paid		(187.8)	(150.1)
Taxation paid		(254.8)	(330.3)
		816.2	589.0
Cash utilised in investing activities			
Net disposals of insurance business investments		931.1	79.6
Purchase of insurance investments		(2 253.8)	(1 574.8)
Disposals of insurance investments		3 184.9	1 654.4
Acquisition of property, plant and equipment		(61.3)	(104.3)
Purchase of businesses	9	(107.6)	(101.1)
Proceeds on disposal of property, plant and equipment		7.6	12.7
		769.8	(113.1)
Cash flow from financing activities			
Dividends paid		(356.9)	(459.0)
Proceeds from borrowings		–	1 150.0
Repayments of borrowings		(1 027.7)	(700.0)
Purchase of own shares		–	(53.0)
		(1 384.6)	(62.0)
Net increase in cash and cash equivalents		201.4	413.9
Cash and cash equivalents at the beginning of the year		587.2	173.3
Cash and cash equivalents at the end of the year		788.6	587.2

Earnings and dividends per share

for the year ended 31 March 2017

	2017 Audited Rm	2016 Audited Rm
1. Weighted Average No. of Shares		
Weighted average	88 730	88 811
Diluted weighted average	89 699	89 532
2. Headline Earnings (Rm)		
Attributable earnings	358.0	961.5
Profit on disposal of fixed assets	(1.6)	(2.7)
Profit on disposal of available-for-sale investments	(0.2)	(406.3)
Gain on acquisition of Beares	(1.2)	(0.4)
Headline earnings	355.0	552.1
3. Earnings per Share (cents)		
Earnings per share	403.5	1 082.6
Diluted earnings per share	399.1	1 073.9
4. Headline Earnings per Share (cents)		
Headline earnings per share	400.1	621.7
Diluted headline earnings per share	395.8	616.7
5. Dividends per Share (cents)		
Dividends paid per share		
Final dividend 2016 (2015)	302.0	302.0
Interim dividend 2017 (2016)	100.0	215.0
	402.0	517.0
Dividends declared per share		
Interim dividend 2017 (2016)	100.0	215.0
Final dividend 2017 (2016)	100.0	302.0
	200.0	517.0

Key ratios

for the year ended 31 March 2017

	2017	2016
Operating efficiency ratios		
Gross profit margin %	41.6%	38.0%
Operating profit margin %	10.1%	14.1%
Number of stores	761	760
Number of permanent employees (average)	8 619	8 409
Trading space (sqm)	248 271	254 566
Inventory turn	3.3	3.7
Current ratios	5.7	4.0
Credit ratios		
Credit sales %	65.2%	64.3%
Debtor costs as a % of the net debtors	19.1%	17.1%
Debtors' impairment provision as a % of net debtors	28.0%	26.1%
Arrear instalments on satisfactory accounts as a percentage of gross debtors	9.8%	9.9%
Arrear instalments on slow-paying and non-performing accounts as a percentage of gross debtors	28.6%	26.8%
Credit applications decline rate	38.7%	39.3%
Shareholder ratios		
Net asset value per share (cents)	6 133	6 158
Gearing ratio	2.9%	25.5%
Dividend payout ratio	54.7%	52.7%
Return on average equity (after-tax)	6.6%	17.6%
Return on average capital employed (after-tax)	6.7%	14.7%
Return on average assets managed (pre-tax)	8.3%	15.8%

Notes:

1. All ratios are based on figures at the end of the year unless otherwise disclosed.
2. The net asset value has been calculated using 88 790 000 shares in issue (2016 – 88 499 000).
3. Total assets exclude the deferred tax asset and the reinsurance asset.

Notes to the summary consolidated financial statements for the year ended 31 March 2017

1. Basis of Reporting

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited (JSE) for summary financial statements, and the requirements of the Companies Act applicable to summary financial statements. The JSE requires summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

These financial statements are a summary of the group's audited annual financial statements for the year ended 31 March 2017. The audited annual financial statements were prepared by the group's Finance Department under the supervision of the chief financial officer, Mr L A Davies CA(SA). A copy of the full set of the audited financial statements is available for inspection at the company's registered office.

	2017 Audited Rm	2016 Audited Rm
2. Trade and other receivables		
2.1 Trade receivables		
Instalment sale and loan receivables	6 107.1	6 482.6
Unearned provisions	(525.9)	(606.3)
Provision for unearned maintenance income	(320.0)	(376.5)
Provision for unearned finance charges and unearned initiation fees	(205.9)	(229.8)
Net instalment sale and loan receivables	5 581.2	5 876.3
Provision for impairment	(1 560.6)	(1 533.6)
	4 020.6	4 342.7
Other receivables	205.2	171.6
	4 225.8	4 514.3
Debtors' impairment provision as % of net debtors	28.0%	26.1%

Amounts due from instalment sale and loan receivables after one year are reflected as current, as they form part of the normal operating cycle. The credit terms of instalment sale and loan receivables range from six to 36 months.

Credit risk of Trade Receivables

Credit risk is the risk of suffering financial loss, should any of the group's customers and counterparties fail to fulfil their contractual obligations with the group. The main credit risk faced is that customers will not meet their payment obligations in terms of the sale agreements concluded.

Credit granting

The group has developed advanced credit-granting systems to properly assess the customer. The credit underwriting process flows through the following stages:

- Credit scoring: this involves the gathering of appropriate information from the client, use of credit bureaus and third parties such as employers. These input variables are run through the various credit scorecards. Lewis deals with its new customers and existing customers differently when credit scoring takes place.

2.1 Trade receivables (continued)

The process differs as follows:

- For new customers, application risk scorecards predict the risk with the emphasis for such an evaluation on information from credit bureaus and third-party information.
- For existing customers, behavioural scorecards have been developed to assess the risk through predictive behaviour with the emphasis on the customer's payment record with Lewis, bureau and other information being considered.

• Assessing client affordability: this process involves collecting information regarding the customer's income levels, expenses and current debt obligations. Lewis has its own priority expense model based on surveys conducted with customers in addition to the National Credit Regulator's expense table.

• Determining the credit limit for the customer: the customer's risk score determined by the scorecard together with the expense assessment and outstanding obligations are used to calculate a credit limit within the customer's affordability level.

The credit granting systems enable the group to determine its appetite for risk. In determining the acceptable level of risk, the potential loss is weighed up against the revenue potential using the predictive behavioural models inherent in the credit-granting system. The group monitors any variances from the level of risk that has been adopted and adjusts the credit-granting process on a regular basis.

Interest rate risk

Interest rates charged to customers are fixed at the date the contract is entered into. Consequently, there is no interest rate risk associated with these contracts during the term of the contract.

The average effective interest rate on instalment sale and loan receivables is 22.5% (2016: 22.2%) and the average term of the sale is 32.6 months (2016: 32.8 months).

Fair Value

In terms of paragraph 29(a) of IFRS 7, disclosure of fair value is not required as trade receivables form part of a normal operating cycle and the carrying value of trade receivables is a reasonable approximation of fair value.

	2017 Audited Rm	2016 Audited Rm
2.2 Debtor costs		
Bad debts, repossession losses and bad debt recoveries	1 038.5	765.8
Movement in debtors' impairment provision	27.0	239.3
Closing balance	1 560.6	1 533.6
Opening balance	(1 533.6)	(1 294.3)
	1 065.5	1 005.1
Debtor costs as a % of net instalment sale and loan receivables	19.1%	17.1%

The group manages its risk effectively by assessing the customer's ability to service the proposed monthly instalment. However, collateral exists in that ownership of merchandise is retained until the customer settles the account in full.

Impairment Provision

The customer's payment profile is managed using payment ratings. Payment ratings are determined on an individual customer level and aggregated over all the customer's sub-accounts. Payment ratings measure the customer's actual payments received over the lifetime of the account relative to the instalments due in terms of the contract. These payment ratings are used to categorise and report on customers at the store level to follow up the slow paying and non-performing customers. There are 13 payment rating categories a customer can fall into following the monthly assessment.

The payment rating is integral to the calculation of the debtor's impairment provision. Impaired receivables are carried at their net present value of the estimated future cash flows from such accounts, 2.2 Debtor costs (continued)

discounted at the original effective interest rate implicit in the credit agreement. Estimated future cash flows are projected utilising the payment ratings.

The management of the debtor book and the determination of the impairment provision utilises the payment rating as a leading indicator. Past customer behaviour as reflected in the payment ratings determine future expected collections for the purpose of the impairment provision. The impairment provision being the result of the payment ratings is a key indicator to the ultimate cash recovery expected for each individual customer.

The impairment calculation is performed on a monthly basis taking into account the payment behaviour of the debtors book, having regard to the payment rating and age of the debtors account.

Various profiles of the impairment provision are prepared monthly. The credit risk systems (the system that monitors the customer's payment behaviour post-credit granting) also produces customer payment data. The aforementioned and the key indicators are monitored by senior management to analyse and assess the state of the debtors book. Daily collection statistics are also collated to identify trends early.

The key indicators that are reviewed include, *inter alia*, the following:

- Number of satisfactory paid customers. While the expectation is that the gross receivables would be the key indicator, this is not the case as there is a distortion created by the slow-paying and non-performing customer's balances growing faster than satisfactory paid customers. The key operational objective is to have as many satisfactory paid customers as possible as it is the group's expectation that these customers will settle their accounts, albeit that certain categories of satisfactory paid customers may settle past their contractual term. Satisfactory paid customers are the source of future repeat business which is one of the core strengths of the business model.
- The level of impairment provision applicable to the payment rating and the trend thereof over the months. This is correlated with collection statistics and customer payment data produced by the credit risk systems.

Contractual Arrears

The key aspect of the arrears calculation is Lewis's policy not to reschedule arrears nor to amend the terms of the original contract. In other words, the contractual arrears calculated is the actual arrears in terms of the originally signed agreement.

From the onset of the agreement, contractual arrears is calculated by comparing payments made life-to-date with the originally calculated instalments due life-to-date, causing a customer who is paying less than the required contracted instalment to immediately fall into arrears. Once the customer exceeds the term of the agreement by paying less than the required contracted instalments, the full balance owing will be in arrears. The group does not consider arrears the leading indicator, but rather payment ratings for the reasons mentioned above.

Combined impairment and contractual arrears table

The table reflects the following:

- A summary of the four main groupings of payment ratings describing payment behaviour. The payment ratings categorise individual customers into 13 payment categories. For purposes of this table, the payment ratings have been summarised into four main groupings.
- For each of the four main groupings of payment ratings, the following is disclosed:
  - Number of customers.
  - Gross receivables. Note that unearned provisions have not been allocated to this amount.
  - Impairment provision allocated to each grouping.
  - Contractual arrears for each grouping have been categorised by number of instalments in arrears.

Gross Debtor Analysis

March 2017

			Number of Customers Total	Gross Receivables R'000	Impairment Provision R'000	Total Arrears R'000	Instalments in arrears 1 R'000	2 R'000	3 R'000	4 R'000	> 4 R'000
Satisfactory paid Customers fully up-to-date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.	March 2017	No	422 070	3 507 921	27 609	596 271	162 822	114 395	86 010	65 285	167 759
		%	68.5%	57.4%	1.8%						
	March 2016	No	459 390	3 775 137	38 319	641 286	175 898	121 896	90 493	67 565	185 434
		%	68.8%	58.2%	2.5%						
Slow payers Customers fully up-to-date including those who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 14% to 67% of amounts due and includes an *in duplum* provision.	March 2017	No	52 078	538 715	192 890	321 871	37 240	36 064	33 849	31 573	183 145
		%	8.4%	8.9%	12.4%						
	March 2016	No	54 507	558 758	176 249	313 201	37 684	36 322	33 604	30 913	174 678
		%	8.1%	8.7%	11.5%						
Non-performing accounts Customers who have paid between 55% and 65% of amounts due over the contract period. The provision in this category ranges from 25% to 79% of amounts due.	March 2017	No	47 981	576 347	258 823	366 979	34 413	32 902	31 201	29 727	238 736
		%	7.8%	9.4%	16.6%						
	March 2016	No	50 690	589 858	241 999	353 286	35 071	33 189	31 195	29 501	224 330
		%	7.6%	9.1%	15.8%						
Non-performing accounts Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from 35% to 100% of amounts due.	March 2017	No	94 118	1 484 119	1 081 237	1 057 905	67 299	66 090	64 564	63 075	796 877
		%	15.3%	24.3%	69.2%						
	March 2016	No	103 495	1 558 864	1 077 046	1 068 377	70 458	68 649	66 504	64 447	798 319
		%	15.5%	24.0%	70.2%						
Total	March 2017		616 247	6 107 102	1 560 559	2 343 026	301 774	249 451	215 624	189 660	1 386 517
	March 2016		668 082	6 482 617	1 533 613	2 376 150	319 111	260 056	221 796	192 425	1 382 761
Unearned provisions	March 2017			(525 900)							
	March 2016			(606 354)							
Net instalment sale and loan receivables	March 2017			5 581 202	28.0%						
	March 2016			5 876 263	26.1%						

An *in duplum* provision of R29.1 million (2016: R39.8 million) has been provided.

Notes to the summary consolidated financial statements for the year ended 31 March 2017 (continued)

	2017 Audited Rm	2016 Audited Rm
3. Insurance		
3.1 Insurance investments		
Financial assets – insurance investments		
Listed investments		
Fixed income securities – available-for-sale	455.9	432.0
Unlisted investments		
Money market – available-for-sale	294.9	1 236.5
	750.8	1 668.5
Analysed as follows:		
Non-current	455.9	432.0
Current	294.9	1 236.5
	750.8	1 668.5
Movement for the year		
Beginning of the year	1 668.5	1 842.6
Additions to investments	2 253.8	1 574.8
Disposals of investments	(3 184.6)	(1 654.4)
Fair value adjustment	13.1	(94.5)
End of the year	750.8	1 668.5

Fair value hierarchy

The following table presents the assets recognised and subsequently measured at fair value:

2017	Level 1 Rm	Level 2 Rm	Total Rm
Available-for-sale assets:			
Insurance investments:			
Fixed income securities	–	455.9	455.9
Money market	–	294.9	294.9
	–	750.8	750.8

2016			
Available-for-sale assets:			
Insurance investments:			
Fixed income securities	432.0	–	432.0
Money market	–	1 236.5	1 236.5
	432.0	1 236.5	1 668.5

The categorisation of the valuation techniques used to value the assets at fair value are as set out in IFRS 13. All government and corporate bonds were transferred from Level 1 to Level 2 based on management's current assessment of all active markets for debt instruments. There were no other significant transfers between Level 1 and Level 2.

		2017 Audited Rm	2016 Audited Rm
3.2	**Investment income**		
	Interest – insurance business	104.6	85.3
	Dividends from listed investments – insurance business	–	19.7
	Realised gain on disposal of insurance investments	0.3	495.6
		104.9	600.6

The move from term to monthly insurance policies will significantly reduce the capital required by the group's insurance subsidiary. Consequently, to limit the risk, the insurance subsidiary sold in the prior year the equity and a large portion of the bond portfolio realising a capital gain of R495.6 million which was included in investment income, in the 2016 financial year.

		2017 Audited Rm	2016 Audited Rm
3.3	**Reinsurance assets**		
	Reinsurer's share of unearned premiums	123.8	364.0
	Opening balance	364.0	456.1
	Recognised in income statement	(240.2)	(92.1)
	Reinsurer's share of insurance premiums	28.4	33.3
	Opening balance	33.3	25.7
	Recognised in income statement	(4.9)	7.6
	Total reinsurance assets	152.2	397.3
3.4	**Reinsurance and insurance liabilities**		
	Unearned premiums	412.1	1 090.8
	Opening balance	1 090.8	1 345.6
	Income statement movement	(678.7)	(254.8)
	Due to reinsurers	0.3	98.4
	Other reinsurance and insurance liabilities	206.4	361.2
	Opening balance	361.2	396.0
	Income statement movement	(154.8)	(34.8)
	Total reinsurance and insurance liabilities	618.8	1 550.4

Notes to the summary consolidated financial statements for the year ended 31 March 2017 (continued)

	2017 Audited Rm	2016 Audited Rm
4. Borrowings, banking facilities and cash		
Interest-bearing borrowings		
Long-term		
Banking facilities	700.0	1 375.0
Short-term		
Banking facilities	225.0	300.0
Domestic Medium-Term Note Program	–	300.0
Bank overdrafts	22.3	–
Total short-term interest-bearing borrowings	247.3	600.0
Cash and cash equivalents		
Cash on hand and deposits	(788.6)	(587.2)
Net borrowings	158.7	1 387.8
Unutilised facilities		
Banking facilities	2 116.3	1 337.2
Domestic Medium-Term Note Program	2 000.0	1 700.0
	4 116.3	3 037.2
Available facilities	4 275.0	4 425.0
Interest rate profile		
Interest rate profile of borrowings is as follows:		
– Bank borrowings at interest rates linked to 3-month JIBAR. The weighted average interest rate at the end of the reporting period is 9.6 % (2016: 9.4%)	925.0	1 675.0
– Three-year floating note issued under the group's Domestic Medium-Term Note program at 158 basis points above the 3-month JIBAR.	–	300.0
	925.0	1 975.0
Capital management		
Net borrowings	158.7	1 387.8
Shareholder's equity	5 445.3	5 449.4
Gearing ratio	2.9%	25.5%

	Lewis Rm	Best Home and Electric Rm	Beares Rm	Group Rm
5. Reportable segments				
Primary				
2017				
Revenue	4 137.0	725.4	729.7	5 592.1
Operating profit before investment income	424.2	111.0	29.6	564.8
Operating margin	10.3%	15.3%	4.1%	10.1%
Segment assets	3 357.2	578.7	539.3	4 475.2
2016				
Revenue	4 564.7	793.3	427.0	5 785.0
Operating profit before investment income	700.4	143.0	(28.4)	815.0
Operating margin	15.3%	18.0%	(6.7%)	14.1%
Segment assets	3 759.8	624.1	403.3	4 787.2

	South Africa Rm	Namibia Rm	BLS (*) Rm	Group Rm
Geographical				
2017				
Revenue	4 559.0	526.3	506.8	5 592.1
2016				
Revenue	4 986.4	382.3	416.3	5 785.0

(*) Botswana, Lesotho and Swaziland

	2017 Audited Rm	2016 Audited Rm
6. Gross profit		
Merchandise sales	2 607.9	2 667.7
Cost of merchandise sales	(1 522.4)	(1 652.8)
Merchandise gross profit	1 085.5	1 014.9
Gross profit percentage	41.6%	38.0%

Notes to the summary consolidated financial statements for the year ended 31 March 2017 (continued)

	2017 Audited Rm	2016 Audited Rm
7. Taxation		
Taxation charge		
Normal taxation		
Current year	100.3	338.9
Prior year	0.8	(2.1)
Deferred taxation		
Current year	61.3	(18.7)
Prior year	0.9	–
Rate change	–	(0.1)
Taxation per income statement	163.3	318.0
Tax rate reconciliation		
Profit before taxation	521.3	1 279.5
Taxation calculated at a tax rate of 28% (2016: 28%)	146.0	358.3
Differing tax rates in foreign countries	6.3	5.4
Disallowances	14.5	11.2
Exemptions	(5.2)	(54.7)
Prior years	1.7	(2.2)
Taxation per income statement	163.3	318.0
Effective tax rate	31.3%	24.9%

8. Regulatory matters

Referrals by National Credit Regulator to National Consumer Tribunal

First referral

In July 2015, the National Credit Regulator ("NCR") referred both Lewis Stores ("Lewis") and Monarch to the National Consumer Tribunal ("NCT") for alleged breaches of the National Credit Act ("NCA") in relation to the sale of loss of employment insurance and disability cover to customers who were pensioners or self-employed persons. Following the notification of the referral, an internal investigation identified approximately 15% of cases where loss of employment insurance policies were invalidly sold to pensioners and self-employed customers as a result of human error at store level. Lewis is currently refunding the premiums and interest totalling approximately R67.7 million to the affected customers. To date, Lewis has reimbursed approximately 93% of amounts due.

In September 2016, the NCT delivered its judgment in the abovementioned matter. The main findings of the NCT were:

1. dismissed the NCR's application against Monarch;
2. found that the offering of loss of employment insurance by Lewis to pensioners or self-employed consumers was unreasonable and therefore constituted prohibited conduct under the NCA;
3. found that the offering of disability insurance by Lewis to pensioners would be unreasonable, unless further enquiry and clarification was obtained and recorded, which makes it clear that such consumers requested such insurance cover;
4. found that the offering of disability insurance by Lewis to self-employed persons was not unreasonable;
5. found that there is no clear basis on which the unreasonableness of the disability and loss of employment insurance has the effect of deceiving consumers;
6. ordered that an independent audit be done of all credit agreements entered into by Lewis since 2007, for purposes of determining whether any pensioners or self-employed consumers were sold loss of employment insurance and whether any pensioners were sold disability insurance. If so, Lewis is to reimburse such consumers with any premiums and any interest charged on their accounts as a result of such insurance premiums. Consumers who no longer have open accounts with Lewis are to be traced and reimbursed. On completion of the independent audit, the NCT will set the matter down for hearing on the quantum of the administrative penalty to be imposed.

Lewis appealed the judgment in October 2016. As a consequence of the appeal, the refund of disability insurance premiums and interest and the independent audit has been suspended pending the outcome of the appeal. The appeal is set down for determination on 2 May 2018. However, as indicated above, Lewis will be continuing to refund loss of employment insurance premiums and interest to customers.

Second referral

In April 2016, the NCR referred Lewis Stores to the NCT for alleged breaches of the NCA relating to club fees and extended maintenance contracts charged to its customers. Lewis has opposed the second referral and filed a comprehensive answering affidavit disputing the NCR's allegations. The second referral was heard by a tribunal of the NCT on 6 April 2017. Judgement was reserved and has not yet been handed down.

High Court summonses

In February 2016 Lewis was served with a summons issued in the name of 15 plaintiffs and in April 2016 a second summons was served by 13 plaintiffs, all plaintiffs being existing or previous customers of Lewis. The summonses were issued at the direction of Summit Financial Partners. The total quantum of both claims is R85 082 plus interest. The plaintiffs' claims are for damages as a consequence of alleged breaches of the NCA in relation to delivery charges and extended maintenance contracts. Lewis disputes liability on the merits and various other grounds and is contesting the action. The plaintiffs in both matters have applied to the Western Cape High Court for leave to amend their summonses. Lewis is opposing the application which has been set down to be heard on 13 June 2017.

Notes to the summary consolidated financial statements for the year ended 31 March 2017 (continued)

Section 165 of Companies Act

First demand

In May 2016, Mr David Woollam addressed a letter to the Lewis board of directors demanding that Lewis commences with proceedings to declare Johan Enslin, Les Davies, David Nurek and Hilton Saven, delinquent directors in accordance with the provisions of section 165 of the Companies Act. The directors of the Board of Lewis, who had not been made the subject of the demand, considered the demand, and consulted the group's attorneys. Having done so, the directors were satisfied that the demand of Mr Woollam was frivolous, vexatious and of no merit and they resolved that Lewis launch proceedings in terms of section 165(3) of the Companies Act to set the demand aside.

In October 2016, the Court handed down judgement in Lewis' favour and set aside, in terms of section 165(3) of the Companies Act, Mr Woollam's demand and awarded Lewis costs against Mr Woollam. In November 2016, Mr Woollam filed an application for leave to appeal the judgement. Mr Woollam's application for leave to appeal was refused by the Western Cape High Court. Mr Woollam applied for special leave to appeal to the Supreme Court of Appeal and leave to appeal was granted by the Supreme Court of Appeal on 23 March 2017.

Second demand

In August 2016, Mr Woollam addressed a further letter ("the second demand") to the Lewis board of directors demanding that Lewis commences with proceedings to declare the abovementioned directors, delinquent directors in accordance with the provisions of section 165 of the Companies Act. The directors of the board of Lewis, who had not been made the subject of the second demand, considered such demand, and consulted the group's attorneys. Having done so, the directors were satisfied that the demand of Mr Woollam was once again frivolous, vexatious and of no merit and they resolved that Lewis launch proceedings in terms of section 165(3) of the Companies Act to set the demand aside. These proceedings were launched in September 2016. Given that Mr Woollam had no evidence to substantiate his allegations contained in the demand, he sought to withdraw the demand prior to the hearing of the application and filed a rule 6(5) notice. The essence of the rule 6(5) notice was that Mr Woollam contended that there was no demand capable of being set aside by the Court pursuant to the application, and that the application was accordingly moot. On 27 February 2017, the Court was required to decide whether Mr Woollam's demand was capable of being withdrawn. On 1 March 2017, the Court delivered its judgement and made the following order:

1. The withdrawal by Woollam of the demand was noted.
2. Woollam is liable for Lewis's costs of suit in the application up to 30 January 2017, such costs to include the fees of two counsel where such were engaged, but excluding the costs attendant on the drafting of an affidavit filed by Lewis on 30 January 2017.
3. Lewis is liable for half of Woollam's costs of suit incurred from 30 January 2017 up to and including the hearing of 27 February 2017, such costs to include the fees of two counsel where such were engaged.

Shareholders will note that Mr Woolllam has been ordered to bear the bulk of the costs relating to the application.

	Rm	Rm
9. Purchase of businesses		
Trademarks	8.4	6.0
Goodwill	5.5	–
Property, plant and equipment	3.7	3.1
Inventory	23.2	26.5
Trade receivables	73.1	77.5
Accounts payable	(3.5)	(6.2)
Deferred tax	(1.6)	(5.4)
Gain on acquisition of Beares	(1.2)	(0.4)
Total consideration	107.6	101.1

During the current period, the group's subsidiaries in Namibia and Swaziland have acquired on 8 May 2016 and 8 April 2016 respectively the businesses trading under the Ellerines and Beares brands from the relevant in-country subsidiaries of Ellerines Services Proprietary Limited (subsidiary of Ellerines Furnishers Proprietary Limited in business rescue). The businesses, which are individually and collectively immaterial, consisted of 26 stores, the Ellerines and Beares brands, trade receivables, inventory and fixed assets. The purchase consideration was paid by cash and assumption of liabilities. The stores will trade either under the Lewis or Beares brands.

In the prior year, the group's subsidiaries in Lesotho and Botswana have acquired on 8 December 2015 and 8 March 2016 respectively the businesses trading under the Ellerines and Beares brands from the relevant in-country subsidiaries of Ellerines Services Proprietary Limited (subsidiary of Ellerines Furnishers Proprietary Limited in business rescue). The purchase consideration was paid by cash and assumption of liabilities.

Governance

Remuneration report

Remuneration report

Lewis Group strives to create a performance-oriented culture which fairly rewards staff for their contribution in achieving the group's strategic, financial and operational objectives.

This remuneration report is presented in two parts: the first part of the report sets out the remuneration policy and governance and part two the implementation and remuneration reporting in line with best practice and good governance principles.

Part one: Remuneration policy

Remuneration philosophy

Lewis Group strives to create a performance-oriented culture which fairly rewards staff for their contribution in achieving the group's strategic, financial and operational objectives. Key to the group's remuneration philosophy is recognising employees' contribution to the success of the business and their commitment to the company's values. The growth and sustainability of the business is dependent on the group's ability to attract, retain and motivate competent people.

Remuneration principles

Remuneration practices are structured to encourage sustainable, long-term wealth creation through the following:

- Aligning remuneration practices with the group's strategy
- Aligning executive reward systems with the interests of stakeholders
- Promoting a performance-based culture across the business
- Offering appropriate short-term and long-term performance-related rewards that are fair and achievable
- Attracting and retaining talented individuals
- Rewarding, retaining and motivating talented people while still managing employment costs effectively

Remuneration governance

The board is accountable for the remuneration philosophy, policy and practices. Responsibility for oversight of the group's remuneration policies and practices has been delegated to the Remuneration Committee.

The responsibilities of the committee are as follows:

- Ensuring the remuneration policy is aligned with the group's strategic objectives and encourages superior individual performance
- Reviewing and approving compensation of executive and non-executive directors
- Ensuring executive directors are equitably rewarded based on market trends, surveys, individual performance and contribution
- Reviewing incentive schemes to ensure continued alignment to the enhancement of shareholder value
- Approving the award of share incentives
- Ensuring employee benefits are suitably disclosed
- Ensuring that the liabilities of the group's retirement funds are adequately funded
- Recommending non-executive directors' fees for shareholder approval based on market information
- Ensuring practices are compliant with relevant legislation and regulation

The committee is chaired by an independent non-executive director. The chief executive officer attends meetings at the invitation of the committee. The committee may at its discretion invite other executives or external advisers to attend meetings but no individual may be present during any discussion on their own performance or remuneration.

Non-binding advisory vote

The group's remuneration policy is subject to a non-binding advisory vote by shareholders at the annual general meeting each year. This enables shareholders to express their views on the remuneration policy and for the board to take these views into account.

Remuneration benchmarking

Remuneration is market-based and competitive owing to the portability of skills in the retail and financial services sectors. External remuneration surveys are used from time to time to benchmark executive and non-executive remuneration in comparable positions. Market surveys assist in ensuring executives are competitively rewarded in line with their performance and contribution. Remuneration packages are determined by considering market trends, the importance of a position relative to the group's business, the required skills set, job-specific expertise, performance and contribution of individuals.

Remuneration structure

Remuneration is optimised through a combination of annual guaranteed pay, benefits, and short- and long-term incentives.

A. Executive directors

The remuneration structure of executive directors is closely linked to the achievement of the group's financial and operating targets, and is therefore closely aligned to the interests of shareholders.

Executive director remuneration packages comprise the following elements, with a significant portion of remuneration being performance-related:

1. Annual guaranteed pay
2. Annual cash-based performance bonus
3. Medium- and long-term share-based incentives.

Executive directors have service contracts and are subject to 24-month notice periods from either party.

Annual guaranteed pay

Annual guaranteed pay includes a cash salary and company contributions to retirement and healthcare funding. Cash salaries are set at the market median and are benchmarked against peers in comparable positions in similar companies. Salaries are reviewed annually by the Remuneration Committee and the level of increase is merit-based in relation to individual and group performance, and also considers market pay movements. Increases are effective from 1 April at the start of the financial year.

Annual cash-based performance bonus

Executive directors and selected general managers participate in a performance bonus scheme which is linked to their base salary. No portion of any executive director bonus is guaranteed. Bonus payments are based on group performance relative to board-approved budgeted targets and individual performance, which includes the following metrics depending on the role of the executive:

- Revenue growth
- Merchandise sales growth
- Gross profit margin
- Operating cost management
- Debtor cost management
- Growth in operating profit
- Growth in net profit before taxation
- Growth in earnings per share

The targets for gross profit margin, operating costs, debtor costs and operating profit margin are disclosed in the Integrated Report each year. Details on performance relative to these targets is included on page 11. The targets for revenue growth, merchandise sales growth, net profit before taxation and earnings per share are not disclosed as this is considered by the board to be market and price sensitive information. The performance against the targeted net profit before tax is disclosed for the past three years on page 65.

The sustainability of the group's business is critical in determining remuneration and performance targets are designed to discourage increased risk taking by the executives.

Achievement of between 90% and 100% of target results in the payment of a bonus increasing on a *pro rata* basis from 50% to 100% of cash salary. Where actual performance exceeds 100% up to a maximum of 110% of target, bonuses are increased on a *pro rata* basis and capped at a maximum of 150% of cash salary.

The achievement of targets is reviewed by the Remuneration Committee before any incentive payments are made to participants. Bonuses are paid at the end of the first quarter of the following financial year.

Remuneration report (continued)

Medium- and long-term share-based incentives

Share incentive schemes are aimed at motivating the executive directors to contribute to the long-term growth and sustainability of the group, attracting and retaining talented people and aligning rewards with shareholder interests.

The group's share schemes are equity-settled. The total number of shares and options under the schemes may not exceed 10% in the aggregate of the group's issued share capital. Awards will only be paid if the participant is in the employ of the group at the time of vesting, other than in the event of death, ill-health, retirement or retrenchment.

Participation in the schemes is at the discretion of the Remuneration Committee and limited to the executive directors of Lewis Group and the directors, general managers and selected senior staff ("executives") of Lewis Stores. Awards are made annually in June. Special awards can be made when the Remuneration Committee deems it appropriate.

Long-term retention scheme

In 2015 the Remuneration Committee approved a new five-year long-term retention scheme for senior executives. The criteria for this scheme is that Lewis Group must achieve compound growth of 6% in attributable profit to ordinary shareholders for the preceding five years at the point of vesting in each of years three, four and five. One-third of the awards vest each year from the third anniversary date of the award to the fifth anniversary date. The executive must be employed with the group at vesting date.

Three-year bonus scheme

In November 2014, the Remuneration Committee approved a once-off cash bonus scheme for senior executives. The committee approved two targets to qualify for the bonus:

- Average return on shareholders' equity must equal or exceed 12.5% for the period 1 April 2014 to 31 March 2017
- R1 billion net profit attributable to ordinary shareholders for the year ended 31 March 2017. The committee approved tiered levels of target achievement for each category of executive.

Lewis executive retention scheme (LERS)
(previously the co-investment scheme)

The LERS, approved in June 2015, is aimed at retaining executives who play a key role in the operation of Lewis Group and can influence the performance of the business.

The Lewis Group operates a cash-based performance bonus scheme in terms of which bonuses are determined and paid annually based on Lewis Group performance relative to board-approved targets. Executives will be offered the opportunity to invest all or part of their net after tax annual performance bonus in the company's shares.

Executives elect the percentage of their net bonus to be invested in shares, subject to a minimum of 10% of their respective net bonuses. Shares are then purchased on the market on behalf of the executive.

These invested shares are held on the executive's behalf in a nominee capacity for a period of three years, whereafter the registered ownership of the shares is transferred to the executive.

Where invested shares are acquired, the company issues matching share options to the executive at no consideration in a pre-determined ratio such that the value of the matching share option at the date of grant is equivalent to the percentage of the gross bonus which the executive elected to invest. There are no additional performance criteria which are required to be complied with for exercise of the matching share options as executives have already met the performance targets and/or standards determined by the committee. The matching share options vest on the third anniversary of the date of grant of the matching share options, provided that the executive remains in the employ of the Lewis Group.

The trust will purchase shares for the purpose of the LERS on the open market to avoid dilution of ordinary shareholders. It remains company policy not to allow the trust to purchase shares on the open market during prohibited periods. The company will utilise a maximum of one million shares (approximately 1% of the company's issued share capital at 31 March 2015) for purposes of the LERS, irrespective of the source of those shares. The maximum number of shares that can be awarded to an individual executive is 0.4 million shares over the lifetime of the LERS.

Lewis Long-Term and Short-Term Executive Performance Share Scheme (LSPS)

(previously the Executive Performance Scheme)

The purpose of the LSPS is to:

- motivate executives to continue to contribute to the growth and sustainability of the Lewis Group and to maintain a performance-orientated culture;
- align executive rewards with the interests of stakeholders;
- attract and retain talented individuals in the furniture retail and financial services industries; and
- offer appropriate short-term and long-term performance-related rewards that are fair and achievable.

Granting awards to executives provides them with the opportunity to acquire shares, thereby aligning the interests of the Lewis Group and its stakeholders.

Awards made under the LSPS offer executives the right to acquire shares for no consideration, subject to the achievement of performance targets determined by the committee. The following types of awards may be granted in terms of the LSPS:

Short-term awards

- Three-year awards which vest three years after the grant date.

Long-term awards

- Four-year awards which vests as follows:
  - 50% on the third anniversary of the grant date; and
  - The remaining 50% on the fourth anniversary of the grant date;
- Five-year awards which vests as follows:
  - One-third on the third anniversary of the grant date;
  - One-third on the fourth anniversary of the grant date;
  - The remaining third on the fifth anniversary of the grant date;
- Alternate awards on such vesting dates as the committee may determine. It is anticipated that this type of award will only be used in exceptional circumstances.

Performance targets for short-term awards

Performance targets can either be set at the grant date for the entire performance period or for each financial year during the performance period, which shall be determined by the committee within three months after the commencement of each financial year.

The committee shall select any or all of the following performance criteria for determining the performance targets in respect of short-term awards:

- Headline earnings per share
- Quality of the debtors book
  - satisfactory paid accounts
  - debtor costs as a percentage of net debtors
- Gross margin

Performance targets for long-term awards

Performance targets will be set for the performance period as at the grant date. The performance targets set by the committee shall be as follows:

- Headline earnings per share; and at least one of the following performance criteria:
  - Return on average shareholders' equity
  - After tax return on average capital employed
  - Before tax return on average capital employed
  - Before tax return on average assets managed
  - Gearing ratio

The committee has the discretion to determine what portion of an award shall relate to a particular performance target, such that if some, but not all of the performance targets are met, then only the specified portion shall vest. Furthermore, the committee shall have the ability to allocate a greater proportion of an award to performance targets which the executive has the ability to influence having due regard to his or her employment responsibilities.

Performance targets may be adjusted where material changes (both positive and negative) have been made to accounting policies resulting from IFRS becoming effective after the grant date. The committee shall be entitled in exceptional circumstances (both positive and negative) to amend performance targets having regard to all circumstances including, but not limited to, changes to international and national macro-economic circumstances, the performance of the Lewis Group relative to the industry in which it operates and any corporate actions undertaken by the Lewis Group during the relevant performance period.

The trust will purchase shares for the purpose of the LSPS on the open market to avoid dilution of ordinary shareholders. It remains company policy not to allow the trust to purchase shares on the open market during prohibited periods. The company will utilise a maximum of 3.5 million shares (approximately 3.6% of the company's issued share capital at 31 March 2015) for purposes of the LSPS, irrespective of the source of those shares. The maximum number of shares that can be awarded to an individual executive is 1.25 million shares over the lifetime of the LSPS.

B. Senior management

The directors, general managers and senior staff of Lewis Stores receive an annual guaranteed salary, which includes retirement and healthcare benefits. They may also participate in the annual performance bonus scheme and the medium- and long-term share-based incentive schemes described above, at the discretion of the Remuneration Committee. Salaries are reviewed annually and the level of increase is based on group and individual performance.

C. Staff

Staff receive a base salary, performance-linked incentives or a 13th cheque, retirement and healthcare funding. The group subsidises membership of designated healthcare schemes. Staff benefits include educational bursaries, discounts on staff purchases and low-cost funeral and personal accident insurance. Membership of one of the group's five retirement funds is compulsory for all permanent staff. Salaries are reviewed annually and the level of increase is based on group and individual performance.

Salespersons earn a commission on gross profit once a commission level is exceeded. Operational management are incentivised on a balanced set of targets including sales, collections, write-offs, stock management and expense control.

D. Non-executive directors

Non-executive directors are paid a fee for their services as directors. In addition, fees are paid for serving on board committees. The fees are benchmarked externally from time to time against comparable companies and based on an assessment of the non-executive director's time commitment and increased regulatory and governance obligations.

In line with best governance and remuneration practice, non-executives do not participate in the group's incentive schemes. None of the non-executive directors have service contracts with the group and no consultancy fees were paid to non-executive directors of Lewis Group during the period.

The remuneration of non-executive directors is reviewed annually by the Remuneration Committee and recommended to shareholders for approval at the annual general meeting.

Approval of the remuneration policy and non-executive directors' fees

The group's remuneration policy was again proposed to shareholders for a non-binding advisory vote at the annual general meeting in October 2016, and was approved by the majority of shareholders. (2016: For: 76.2%, Against: 23.2% and Abstentions: 0.6%)

Shareholders also approved the fees payable to non-executive directors for the 2017 financial year by unanimous vote.

The remuneration and share awards paid to executive directors follows in the implementation report. As the group's two prescribed officers in terms of the Companies Act are both executive directors, this meets the King III requirement to disclose all remuneration paid to prescribed officers.

Part two: Implementation Report

Annual guaranteed pay

The average staff increase, excluding unionised staff, was 4%. Increases to executives were merit-based and varied from 3% to 5%.

Annual cash based performance bonus

The Remuneration Committee approved the net profit before taxation target of R1 157 million in March 2015 for the 2016 financial year. The company achieved R1 279 million for the 2016 financial year but this included a once off profit from the sale of investments amounting to R495 million. The adjusted actual achievement was R784 million or 68% of target and therefore no cash bonus was earned by executives. This zero cash bonus is disclosed for executive directors in the table on page 67.

Executive performance scheme

2013 Three year awards

The Remuneration Committee approved the vesting of these awards based on the achievement of the targets as follows:

	2016	2015	2014
Net profit before taxation target (Rm)	1 157	1 107	1 335
Actual result (Rm)	784	1 168	1 177*
Vesting %	0%	100%	100%

* The Remuneration Committee exercised its discretion in respect of the 2014 financial year and awarded 100% vesting despite the group not achieving its budget net profit before taxation target.

Executives therefore only earned two-thirds of the June 2013 award with one-third being forfeited. The details of this award are disclosed in the table of shares vested during the 2017 financial year on page 67.

Lewis Executive Retention Scheme (LERS)

2016 Awards

As no cash bonuses were earned by executives in June 2016, there were no share allocations in terms of this scheme for 2016.

2015 Awards

On 30 June 2015, 13 of the 15 executives who earned a cash-based performance bonus elected to invest 100% of their respective bonuses in the LERS. The employee share trust purchased the shares on the open market at an average price of R98.88 per share. These invested shares are held on behalf of executives for a period of three years and matching shares equal to the before tax bonus are awarded for no consideration at the end of the period.

These matching share awards will only vest on 30 June 2018, should the executive still be in the employ of the company.

2014 Awards

There were no awards made under this scheme in 2014.

2013 Awards

On 14 June 2013, all executives who earned a cash-based performance bonus elected to invest 100% of their respective bonuses in the co-investment scheme. The employee share trust purchased the shares on the open market at an average price of R61.90 per share.

These invested shares were held on behalf of executives for a period of three years and matching shares equal to the before tax bonus were awarded for no consideration on 14 June 2016 using the share price of R49.01. The details of this 2013 award are disclosed in the table of shares vested during the 2017 financial year on page 67.

Lewis Long-term retention scheme

2013 AWARDS

In 2013 the Remuneration Committee approved a new five-year long-term retention scheme for senior executives.

Performance criteria is that the group must achieve 6% compound growth in attributable profit for the preceding five years of the point of vesting in each of years 2016, 2017 and 2018.

In 2016 the performance criteria for this award was not met and therefore one third of the allocation was forfeited.

Remuneration report (continued)

Lewis long-term and short-term executive performance scheme (LSPS)

Short-term awards – Three-year awards

The performance targets are set by the Remuneration Committee at the beginning of the each of the three years and are based on a weighting set for each executive depending on their daily employment responsibilities, of the following:

- Headline earnings per share
- Quality of the debtors book
- Gross margin

The short-term award share allocations for executive directors are disclosed in the outstanding share awards table on page 67.

The committee will disclose the annual performance targets set for the executive directors each year in arrears.

2015 Awards

The 2015 three-year awards were based on a market price of R99.45 and are subject to performance targets for 2016, 2017 and 2018. Should performance targets be met, vesting of these awards will be on 30 June 2018.

2016 Awards

The 2016 three-year awards were based on a market price of R45.95 and are subject to performance targets for 2017, 2018 and 2019. Should performance targets be met, vesting of these awards will be on 28 June 2019.

The committee will disclose the annual performance targets set for the executive directors each year in arrears. The 2016 performance targets are disclosed in the table below:

Long-term awards – Four-year awards

The Remuneration Committee selected the measurements and set the performance criteria for long-term awards (four-year awards) under the LSPS scheme in June 2015. These performance targets have been set at the grant date in respect of the entire performance period. The weightings and performance criteria are as follows:

Weightings

- Headline earnings per share 65%
- Gearing ratio 10%
- Return on average shareholders' equity 25%

Performance criteria

- Headline earnings per share
  The target for each of the vesting dates will be the 2015 HEPS compounded each year by the greater of 5% or headline CPI
- Gearing ratio
  Gearing for each year cannot exceed 35%
- Return on average shareholders' equity (ROE)
  ROE has to average 15% over each vesting period

The four-year awards share allocations for executive directors are disclosed in the outstanding share awards table on page 67.

	2016 Target	2016 Actual	2016 Award
Headline earnings per share	926.8 cents	621.7 cents	Not achieved
Quality of the debtors book			
– Satisfactory paid customers	68.0%	68.8%	Achieved
– Debtor costs as % of net debtors	13.8%	17.1%	Not achieved
Gross margin	37.9%	38.0%	Achieved

Executive directors' remuneration

Director (R'000)	Salary	Pension contributions	Medical aid contributions	Total guaranteed pay	Bonuses paid*	Gains on share awards: Executive Performance Scheme		Gains on share awards: Co-Investment scheme	Total Remuneration
2017						5yrs	3yrs#	**	
J Enslin	3 443	551	127	4 120	–	–	1 641	1 270	7 031
L Davies	2 638	422	97	3 157	–	–	1 268	999	5 424
Total	6 080	973	223	7 277	–	–	2 910	2 270	12 456
2016									
J Enslin	3 348	536	115	4 000	2 936	–	3 645	2 163	12 745
L Davies	2 566	411	88	3 065	2 296	–	2 868	1 734	9 962
Total	5 914	947	204	7 065	5 232	–	6 513	3 897	22 707
2015									
J Enslin	3 125	500	105	3 730	1 568	2 620	2 034	1 818	11 770
L Davies	2 443	391	81	2 915	1 213	1 747	1 630	1 489	8 993
Total	5 568	892	186	6 645	2 781	4 367	3 664	3 307	20 764

* The bonus paid in 2016 relates to the achievement of the performance targets for the 2015 financial year.
\# The gain on the share awards in the current financial year relate to shares awarded in terms of the three-year Executive Performance Scheme in June 2013, having achieved the performance targets for the financial years 2014 and 2015. (refer to page 65)
** The gain in the current financial year under the Co-Investments Scheme relates to the bonus earned for the financial year 2013, which was invested in the company's shares by the executives for the last three years to March 2016.

Outstanding share awards

2017		Long-term and short-term Executive Performance Scheme[1] – Number of shares			Executive Retention Scheme[2] – Number of shares		
Date of share awards		**Johan Enslin**	**Les Davies**	**Total**	**Johan Enslin**	**Les Davies**	**Total**
June 2015	three-year award[1]	33 695	25 817	59 512	29 700	23 220	52 920
June 2015	four-year award[1]	120 000	90 000	210 000	–	–	–
June 2016	three-year award[3]	155 390	119 056	274 446	–	–	–
Total		309 085	234 873	543 958	29 700	23 220	52 920

(1) Shares issued in terms of the long-term and short-term executive performance scheme and subject to performance criteria in years 2016, 2017 and 2018.
(2) The 2015 award was issued under the Executive Retention scheme.
(3) The 2016 award was issued under the long-term and short-term executive performance scheme and subject to performance criteria in years 2017, 2018 and 2019.

In terms of the Lewis Executive Retention Scheme, the trust holds 31 221 shares (2016: 59 005 shares) on behalf of the above directors by virtue of the investment of their bonuses into the scheme.

The potential dilutionary effect of the outstanding awards amount to 2.67% of the shares in issue.

Remuneration report (continued)

Shares vested during the 2017 financial year

Director		Date awarded	Shares awarded	Shares forfeited	Shares vested (***)	Gains on share awards R'000
Executive Performance Scheme						
Johan Enslin	three-year award	June 2013	50 232	16 744	33 488	1 641
Les Davies	three-year award	June 2013	38 819	12 940	25 879	1 268
Total			89 051	29 684	59 367	2 909
Co-Investment Scheme						
Johan Enslin		June 2013	25 917	–	25 917	1 270
Les Davies		June 2013	20 390	–	20 390	999
Total			46 307	–	46 307	2 269

*** Shares vested at an average price of R49.01 in June 2016

Director		Date awarded	Shares awarded	Shares forfeited	Shares vested (***)	Gains on share awards R'000
Long-term retention Scheme						
Johan Enslin	five-year award	June 2013	120 000	40 000	–	–
Les Davies	five-year award	June 2013	90 000	30 000	–	–
Total			210 000	70 000	–	–

Non-executive directors' fees (R'000)

2017	Director's fees	Audit Committee member	Risk Committee member	Remuneration Committee member	Nominations Committee member	Social, Ethics and Transformation Committee member	Monarch Director's fees	Monarch Audit and Risk Committee member	Total non-executive directors' remuneration
David Nurek	525	110	78	62	83	62	149	63	1 130
Fatima Abrahams	251	110	78	62	36	123	–	–	659
Hilton Saven	251	257	123	62	36	–	149	128	1 005
Alan Smart	251	110	78	62	36	62	212	63	872
Ben van der Ross	251	110	78	123	36	–	–	–	597
Total	1 527	697	433	369	227	246	510	254	4 263

2016	Director's fees	Audit Committee member	Risk Committee member	Remuneration Committee member	Nominations Committee member	Social, Ethics and Transformation Committee member	Monarch Director's fees	Monarch Audit and Risk Committee member	Total non-executive directors' remuneration
David Nurek	509	107	75	59	79	59	143	60	1 091
Fatima Abrahams	243	107	75	59	35	119	–	–	637
Hilton Saven	243	249	119	59	35	–	143	122	969
Alan Smart	243	107	75	59	35	59	203	60	841
Ben van der Ross	243	107	75	119	35	–	–	–	578
Total	1 481	676	419	356	217	237	489	242	4 116

Non-executive directors' fees

Summary by director:

Director (R'000)	% Increase	2017	2016
David Nurek	3.6%	1 130	1 091
Fatima Abrahams	3.4%	659	637
Hilton Saven	3.7%	1 005	969
Alan Smart	3.7%	872	841
Ben van der Ross	3.3%	597	578
Total	3.6%	4 263	4 116

Proposed non-executive director fees for 2017

Board/Committee position (R'000)	% Increase	Proposed fees for 2018	Approved fees for 2017
Non-executive chairman	4.1%	557	535
Non-executive director	4.3%	266	255
Audit Committee chairman	3.8%	272	262
Audit Committee member/invitee	3.6%	116	112
Risk Committee chairman	4.0%	131	126
Risk Committee member	3.8%	82	79
Remuneration Committee chairman	4.0%	131	126
Remuneration Committee member	3.2%	65	63
Nominations Committee chairman	4.7%	89	85
Nominations Committee member	2.7%	38	37
Social, Ethics and Transformation Committee chairman	4.0%	131	126
Social, Ethics and Transformation Committee member	3.2%	65	63

Directors' shareholding

At 31 March 2017, the directors' beneficial direct and indirect interest in the company's issued shares was as follows:

	2017		2016	
Director	Direct	Indirect	Direct	Indirect
David Nurek	–	20 000	–	20 000
Hilton Saven	–	6 440	–	6 440
Alan Smart	319 070	–	319 070	–
Johan Enslin	176 038	17 522	131 380	33 072
Les Davies	320 192	13 699	281 289	25 933
Total	815 300	57 661	731 739	85 445

Corporate governance report

> Lewis Group is committed to the highest standards of corporate governance based on the principles of integrity, transparency and accountability in its dealings with all stakeholders.

Governance structures and processes across the group are regularly reviewed to not only meet legislative and regulatory compliance, but to ensure ongoing sustainability and the creation of long-term shareholder value and benefits for all stakeholders.

King governance code

The directors confirm that during the 2017 reporting period the group has in all material respects voluntarily applied the 2009 King Code of Governance Principles (King III) and complied with the mandatory corporate governance provisions in the JSE Listings Requirements. A schedule of how the group has applied the King III principles can be viewed on the website **www.lewisgroup.co.za**

Following the release of the King IV Report on Corporate Governance in South Africa (King IV), management will commence with the implementation of the required principles of King IV in the year ahead and report in terms of the new code from 1 March 2018.

Board of directors

Board charter

A formal board charter confirms that the directors are accountable to shareholders and are responsible for the following:

- contributing to and approving the strategy;
- providing oversight of performance against targets and objectives;
- assessing the group as a going concern;
- approving the annual and interim financial statements;
- providing effective leadership on an ethical foundation;
- overseeing key performance and risk areas;
- ensuring effective risk management and internal control;
- responsibility for overseeing IT governance;
- overseeing legislative, regulatory and governance compliance;
- ensuring appropriate remuneration policies and practices;
- overseeing director selection, orientation and evaluation;
- ensuring balanced and understandable communication to stakeholders;
- overseeing relationships with stakeholders of the Company along with sound governance principles;
- ensuring that the Company is playing its role as a responsible corporate citizen; and
- matters considered crucial for business success.

A clear division of responsibility is embedded in the board charter, with the board chaired by an independent non-executive chairman. The board has delegated authority to the chief executive officer for the implementation of the strategy and the ongoing management of the business.

Board composition

In line with the recommendations of King III, Lewis Group has a unitary board structure consisting of five non-executive directors and two full-time, salaried executive directors. There were no changes to the board of directors during the period under review.

Background information on the directors appears on pages 24 to 25 of this report.

The composition of the board for the year was as follows:

Independent non-executive directors	Executive directors
David Nurek	Johan Enslin
Fatima Abrahams	Les Davies
Hilton Saven	
Alan Smart	
Ben van der Ross	

Directors do not have a fixed term of appointment and non-executive directors are subject to retirement by rotation and re-election by shareholders at least every three years. Directors appointed during the year are required to have their appointments ratified at the following AGM. The chairman is elected by the board after the AGM each year. Executive directors are subject to a 24-month notice period.

Non-executive directors are invited to serve on the board based on their knowledge, experience, independence and ability to contribute to board level debate.

Changes to the board of directors

The following changes to the board of directors were announced after the end of the 2017 reporting period.

Independent non-executive chairman David Nurek will retire from the board after serving as a director and chairman since the group's listing on the JSE in 2004. The board has nominated independent non-executive director Hilton Saven to succeed Mr Nurek.

Through a managed succession process, Mr Nurek has agreed to stand for re-election as a director at the forthcoming annual general meeting (AGM) in August 2017. He will serve as a director until a suitable candidate has been appointed to the board to succeed Mr Saven as chairman of the Audit Committee, at which time he will formally retire from the board and be succeeded by Mr Saven.

The board has commenced the selection process to identify a potential candidate to serve as a non-executive director and chairman of the Audit Committee.

Adheera Bodasing and Daphne Motsepe have been appointed as non-executive director and independant non-executive director respectively with effect from 1 June 2017.

Ben van der Ross will be retiring as a director at the forthcoming AGM. Mr van der Ross (70) has been a director since 2004.

Les Davies (61) will be stepping down as chief financial officer (CFO) and as an executive director of the group with effect from 31 March 2018. He will continue to serve as the chief executive officer of the group's short-term insurer, Monarch Insurance Company. Jacques Bestbier (44) has been appointed as CFO designate with effect from 1 June 2017.

Board gender diversity

In November 2016, the board approved a gender diversity policy in support of the principles and objectives of B-BBEE. The Nominations Committee is required to address gender diversity and talent management as an explicit element of its oversight responsibilities and report to shareholders on an annual basis.

The key objectives of the gender diversity policy are as follows:

- Agree annually all measurable objectives for achieving diversity on the board.
- Assess the board's performance in achieving greater female representation at board and senior management level.
- Assess the performance of management in implementing gender diversity policies across the Company.

At the date of adoption of this policy, the board's aim was to ensure at least 14% of directors are female by 31 March 2017 and increase representation to 25% by March 2018.

Following the appointment of Adheera Bodasing and Daphne Motsepe from 1 June 2017, the board will comprise 33% black female directors.

Independence of directors

The independence of long-serving non-executive directors is reviewed annually by the nominations committee, as recommended by King III. Based on the outcome of this review, the board was satisfied that these directors exercise independent judgement and act in an independent manner. The five non-executive directors, including the chairman, all met the independence criteria for the 2017 financial year.

Board evaluation

All directors participate in the annual evaluation of the board's performance. The questionnaire-based evaluation covers the board's role and agenda setting; the size, independence and composition of the board; director orientation and development; board meetings; board committees; board accountability and governance practices. The process also includes an assessment of the performance of the chairman, chief executive officer and the company secretary. In addition the chairman has individual sessions with each director.

The evaluation concluded that the board's overall functioning and governance met the required standards and areas for improvement are being addressed.

Chief financial officer and finance function evaluation

The Audit Committee conducted a formal written evaluation of the appropriateness of the expertise and adequacy of the resources in the finance function and the experience of the senior members of management responsible for the financial function.

The committee is satisfied that the expertise and experience of the chief financial officer and the finance function is appropriate to meet the required responsibilities of the position.

Company secretary

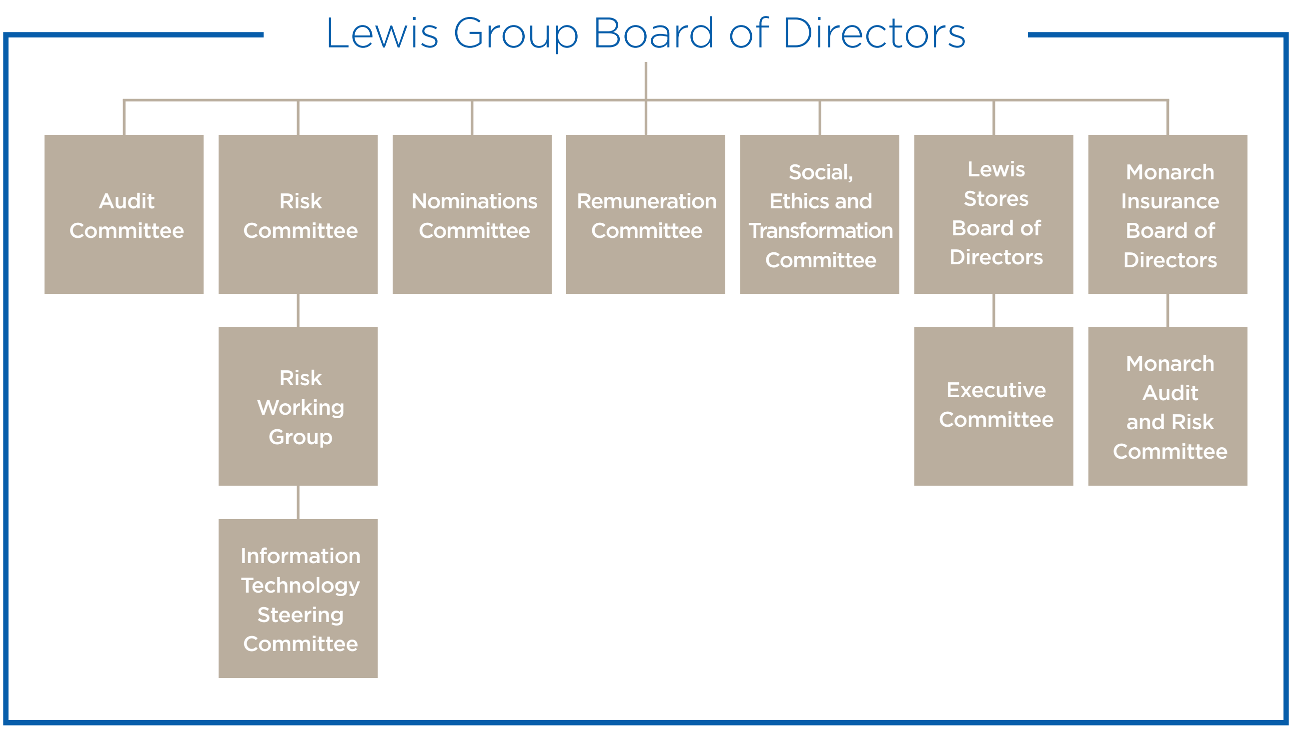
The company secretary acts as adviser to the board and plays a pivotal role in ensuring compliance with regulations, the induction of new directors and providing advice to directors on governance, compliance and their fiduciary responsibilities. The company secretary acts as secretary for all board committees.

The directors have unrestricted access to the advice and services of the company secretary. They are entitled to seek independent professional advice at the company's expense after consultation with the chairman of the board. No directors exercised this right during the year. Directors also have unrestricted access to all company information and may meet independently with management.

The board conducted a formal evaluation of the company secretary, as required by the JSE Listings Requirements. The directors are satisfied that the company secretary has the requisite competence, qualifications and experience to perform the role.

The board is comfortable that it meets the King III principle of having an arm's-length relationship with the company secretary and confirms that the Company secretary is not a director of any of the group companies and is not related to any of the directors. As such, the board confirms that an arm's-length relationship has been maintained between the board and the company secretary.

GOVERNANCE STRUCTURE



Board committees

The board of directors has delegated specific responsibilities to five board committees. The committees are all chaired by independent non-executive directors. Each committee has a charter and terms of reference and the directors confirm that the committees have functioned in accordance with these written terms of reference during the financial year.

Lewis Group Audit Committee

Purpose and function

- Approving the internal audit plan and reviewing the activities and findings of the department.
- Evaluating the performance of the internal audit function.
- Reviewing the audit plan of the external auditors, providing guidance on non-audit services.
- Assessing the independence and objectivity of the external auditors.
- Considering significant differences of opinion between management and internal or external auditors.
- Reviewing the adequacy of internal controls and internal financial controls.
- Ensuring regulatory compliance.
- Overseeing the integrated reporting process, which includes:
  - Reviewing the financial reporting system, evaluating and approving accounting policies and the financial information issued to stakeholders in terms of IFRS.
  - Reviewing disclosure on sustainability to ensure it is reliable and does not conflict with the financial information.
- Reviewing the expertise, resources and experience of the Company's financial function and financial director.
- Assessing the effectiveness of internal financial controls based on assurance gained from management and written assessment from Internal Audit.
- Monitoring the ethical conduct of the Company, its directors and senior officials.

Composition

Chair – Hilton Saven

The committee consists of three independent non-executive directors. The directors are financially literate and suitably qualified to perform their role. The remaining non-executive directors attend by invitation.

Meetings are also attended by the chief executive officer, chief financial officer, company secretary, internal audit executive, chief risk officer and the external auditors.

Meetings

Four per year

Refer to the Audit Committee report in the audited annual financial statements.

Corporate governance report (continued)

Lewis Group Risk Committee

Purpose and function

- Annually reviewing the risk management policy and plan and recommending these for approval to the board.
- Making recommendations on risk tolerance and appetite.
- Annually reviewing the risk register of strategic and key operational risks. Monitoring implementation of the risk management policy and plan.
- Assessing the effectiveness of the system and process of risk management based on assurance gained from management and written assessment from Internal Audit on the effectiveness of internal controls and risk management.
- Reviewing and advising on the adequacy of insurance cover for recommendation to the board.
- Overseeing IT governance and the function of the IT Steering Committee by:
  - Ensuring that an IT charter and policies are established and implemented;
  - Ensuring that an IT internal control framework is adopted and implemented;
  - Receiving independent assurance on the effectiveness of the IT internal controls.

Composition

Chair – Hilton Saven

The committee consists of five independent non-executive directors and two executive directors.

Meetings are also attended by the company secretary, internal audit executive, the chief risk officer and the information technology general manager.

Meetings

Four per year

Lewis Group Nominations Committee

Purpose and function

- Establishing a formal process for the appointment of directors.
- Overseeing a formal induction programme for new directors and continuing development programmes for all directors.
- Ensuring directors receive regular briefings on changes in risks, laws and the environment in which the group operates.
- Ensuring succession plans are developed for the chief executive officer and senior management.
- Confirming annually that none of the directors have become disqualified (fit and proper test).
- Ensuring the board has the required skills, experience and qualities.
- Address gender diversity and talent management and ensure relevant reporting to shareholders.

Composition

Chair – David Nurek

The committee consists of five independent non-executive directors.

The chief executive officer attends meetings at the invitation of the committee.

Meetings

Two per year

Lewis Group Remuneration Committee

Purpose and function

- Ensuring the remuneration policy is aligned with the group's strategic objectives and encourages superior individual performance.
- Reviewing and approving compensation of executive directors, non-executive directors and senior executives.
- Ensuring executive directors are fairly rewarded based on market trends, surveys, individual performance and contribution.
- Reviewing incentive schemes to ensure continued alignment to the enhancement of shareholder value.
- Approving the award of share incentives.
- Ensuring employee benefits are suitably disclosed.
- Recommending non-executive directors' fees for shareholder approval.
- Ensuring practices are compliant with relevant legislation and regulation.

Composition

Chair – Ben van der Ross

The committee consists of five independent non-executive directors.

The chief executive officer attends meetings at the invitation of the committee.

Meetings
Two per year

Refer to the Remuneration Report on pages 60 to 69.

Lewis Group Social, Ethics and Transformation Committee

Purpose and function

- Monitoring the group's activities relating to social and economic development, good corporate citizenship, community upliftment, the environment, health and public safety, consumer relationships, labour and employment.
- Maintaining a transformation strategy and approving the transformation programme.
- Setting and monitoring of progress against transformation targets, including the annual evaluation of performance against the DTI scorecard.
- Reviewing of reports from verification agencies.
- Transformation-related legislative compliance.

Composition

Chair – Fatima Abrahams

The committee consists of three independent non-executive directors and one executive director. Members of management attend the meetings by invitation.

Meetings
Two per year

Refer to the Social Ethics and Transformation Report on pages 82 to 91.

Corporate governance report (continued)

Lewis Stores (Proprietary) Limited

Lewis Stores (Proprietary) Limited is the main trading subsidiary of the group and operational responsibility has been delegated to the Lewis Stores board for the ongoing management of the business.

Lewis Stores Board

Purpose and function	Composition
• Adoption of strategic plans. • Providing strategic direction to senior management. • Monitoring operational performance and management. • Preparation and integrity of financial statements and all related information. • Maintaining adequate accounting records. • Adequately safeguarding, verifying and maintaining accountability of assets. • Monitoring key performance indicators of the business. • Ensuring regulatory and legislative compliance. • Risk management. • Overseeing the corporate code of conduct.	Chair – Johan Enslin The board consists of six executive directors, namely the chief executive officer, chief financial officer, chief financial officer (designate), directors of merchandising, human resources and operations. **Meetings** Three per year

Governance committees of Lewis Stores

- **Executive Committee** consists of 23 members, including the six directors of Lewis Stores, and the heads of key areas of operation within Lewis. The committee meets three times a year in conjunction with the Lewis Stores board meetings.
- **Risk Working Group** consists of the 23 members of the Executive Committee. The group meets quarterly and reports to the Executive committee as well as to the Lewis Group Risk Committee and Monarch Audit and Risk Committee. Refer to page 78 for their responsibilities, which are supervised by the Risk Committee.
- **Information Technology Steering Committee** meets quarterly and comprises the chief executive officer, chief financial officer, IT general manager as well as business systems and IT operations executives. The committee reports into the Risk Committee. The committee is responsible for:
  - Ensuring that the implementation of the IT policy and plan conforms to the objectives of the IT charter;
  - Aligning IT with the business needs of the group;
  - Prioritising investment decisions relating to IT resources;
  - Sourcing decisions relating to IT services;
  - Identifying and exploiting IT opportunities;
  - Administrative and contractual decisions which have a significant impact;
  - Monitoring IT costs and capital expenditure;
  - A process to monitor, prioritise and co-ordinate the IT project portfolio;
  - Reporting to the Risk Committee on the performance of its duties;
  - Business continuity planning;
  - Implementing COBIT as its principle IT internal control framework; and
  - Implementing ISO 27000 as the Information Security Management System ("ISMS") standard.

Monarch Insurance Company Limited (Monarch)

Monarch is the group's short-term insurer. Knowledge and experience of short-term insurance is considered in appointing directors to the board. Robert Shaw, a non-executive director provides insurance advisory services to Monarch.

A formal report on the investment portfolio by Sanlam Investment Management, who manage the portfolio on Monarch's behalf, is presented at each board meeting, covering market conditions and expectations, asset allocation, investment returns, review of the investment portfolios and recommendations on the investment strategy.

Monarch board

Purpose and function	Composition
• Approval and oversight of strategic plans for the insurer within the parameters of the overall strategic direction of the group. • Approval of budgets. • Providing oversight of performance against targets and objectives. • Providing effective leadership on an ethical foundation. • Overseeing relationships with stakeholders. • Regular review of underwriting criteria. • Adoption of asset allocation strategies for the investment portfolio, based on recommendations from Sanlam Investment Management. • Review of the performance of the investment portfolio against benchmarks. • Ensuring regulatory compliance. • Oversee key performance and risk areas. • Ensuring effective risk management and internal control. • Assessing director selection, orientation and evaluation. • Approving significant accounting policies. • Approving the annual financial statements.	Chair – Alan Smart The board consists of four independent non-executive directors, one non-executive director and one executive director. **Meetings** Four per year

Monarch Audit and Risk Committee

Purpose and function	Composition
• Reviewing the internal and external audit plans relative to the group's audit plan. • Providing guidance on non-audit services. • Considering significant differences of opinion between management and internal or external auditors. • Ensuring regulatory compliance. The committee is also responsible for the group's compliance with the Financial Advisory and Intermediary Services Act. • Reviewing the financial reporting system, evaluating and approving accounting policies and approving the financial statements. • Reviewing the adequacy of internal controls and internal financial controls. • Annually reviewing the risk register of strategic and key operational risks. Monitoring implementation of the risk management policy and plan. • Addressing risks specific to the Company that have been identified in the group risk management process. • Assessing the effectiveness of the system and process of risk management based on assurance gained from management and written assessment from Internal Audit on the effectiveness of internal controls and risk management.	Chairman – Hilton Saven The committee consists of three independent non-executive directors. Meetings are attended by the chief financial officer, company secretary, the group's internal audit executive, the chief risk officer and external auditors. **Meetings** Four per year

In terms of the Companies Act, non-executive director Robert Shaw is deemed to be a material supplier to Monarch and is therefore precluded from being a member of the Audit and Risk Committee.

Corporate governance report (continued)

Board and Committee attendance

	Board	Audit	Risk	Remuneration	Nominations	Social, ethics and transformation
Number of meetings	4	4	4	3	2	2
Non-executive directors						
DM Nurek	4+	4	4	3	2+	2
F Abrahams	4	4°	4	3	2	2+
H Saven	4	4+	4+	3	2	–
AJ Smart	4	4°	4	3	2	2
BJ van der Ross	4	4	4	2+	2	–
Executive directors						
J Enslin	4	4°	4	3°	2°	2
LA Davies	4	4°	4	–	–	–

\+ Chair
° By invitation

Internal accountability

Risk management

The board is responsible for the oversight of the risk management process and has delegated specific responsibility to the Risk Committee. The committee is responsible for ensuring the group has implemented an effective policy and plan for risk, and that disclosure regarding risk is comprehensive, timely and relevant.

A dedicated chief risk officer is responsible for the risk management process to identify, assess and manage potential risks and opportunities that may affect group strategies and objectives. The risk management framework includes the risk management policy, risk appetite, relevant responsibilities and the risk management plan.

The Risk Working Group (RWG) is responsible for designing and implementing the risk management process and monitoring ongoing progress. Senior executives and line management within each business unit are accountable for managing risk in achieving their financial and operating objectives.

The focus of the risk management process is on strategic and key operational risks. A top-down approach is applied by the business units in the group in assessing the risks on a quarterly basis. The RWG reviews the registers with a focus on:

- completeness of risks identified across the group;
- causes of the risks;
- the residual risk ratings;
- the tolerance levels based on the risk indicators; and
- the need for further management action.

The risks identified by the business units are consolidated by category of risk into a group register and the results of the group risk assessment are reported to the Risk Committee of Lewis Group and the Audit and Risk Committee of Monarch Insurance.

The key risks are documented in the Strategy and Targets on pages 12 to 15.

The group's external insurance and self-insurance programmes cover a wide range of risks. The insurance levels and insured events are reviewed annually to ensure adequate cover and amended after taking into account changed processes and emerging risks.

Internal control

A well-established control environment, which incorporates risk management and internal control procedures, exists to provide reasonable but not absolute assurance that assets are safeguarded and the risk facing the business is being adequately managed. The board confirms that during the period under review the group has maintained an efficient and effective process to manage key risks. The directors are not aware of any current or anticipated key risks that may threaten the sustainability of the business.

Going concern

The board is satisfied that the group will be a going concern for the foreseeable future, based on the budget and cash flows for the year to 31 March 2018, as well as the current financial position. The financial statements have therefore been prepared on the going concern basis. The board is apprised of the group's going concern status at the board meetings coinciding with the interim and final results.

Internal audit

The internal audit function provides information to assist in the establishment and maintenance of an effective system of internal control to manage the risks associated with the business. Internal audit has performed a written assessment confirming the effectiveness of the Company's system of internal control and risk management, including internal financial controls. The role of internal audit is detailed in the internal audit charter which has been approved by the Audit Committee. Refer to the Audit Committee Report in the annual financial statements.

Information technology governance

Information technology (IT) governance is integrated into the group's operations, and governance practices and frameworks are reviewed as part of the annual internal audit plan. The IT Steering Committee is responsible for IT governance and reports into the Risk Committee.

Personal share dealings

An insider trading policy restricts directors and specific staff from dealing in the shares of Lewis Group during closed periods. The closed periods are effective from the end of the interim and annual reporting periods until the financial results are disclosed on SENS. Embargoes are also placed on share dealing when the group is trading under a cautionary statement.

Directors are required to obtain written clearance from the chairman of the board prior to dealing. The chairman is required to obtain written permission from the chairman of the audit committee. It is mandatory to notify the company secretary of any dealings in the company's shares within three business days. This information must be published on SENS within 24 hours of the notification of such dealing. A register of share dealings by directors is maintained by the company secretary and reviewed by the board.

Regulation and compliance

The following section provides an update on the status of material legal, regulatory and compliance cases in which the group is currently engaged, at the date of this report.

Referrals by National Credit Regulator (NCR) to the National Consumer Tribunal (NCT)

First referral

In July 2015, the NCR referred both Lewis and Monarch to the NCT for alleged breaches of the National Credit Act (NCA) in relation to the sale of loss of employment insurance and disability cover to customers who were pensioners or self-employed persons.

Following an internal investigation management identified cases where loss of employment insurance policies were invalidly sold to pensioners and self-employed customers as a result of human error at store level. Lewis undertook to refund the premiums and interest totalling approximately R67.7 million to the affected customers and has reimbursed approximately 93% of amounts due.

In September 2016, the NCT delivered its judgment, dismissing the NCR's application against Monarch. The NCT found that the offering of loss of employment insurance by Lewis to pensioners or self-employed consumers was unreasonable and that the offering of disability insurance by Lewis to pensioners would be unreasonable, unless consumers requested such insurance cover. It further found that the offering of disability insurance by Lewis to self-employed persons was not unreasonable.

The NCT ordered an independent audit be done of all credit agreements entered into by Lewis since 2007 to determine the extent of any misselling. On completion of the independent audit, the NCT will set the matter down for hearing on the quantum of the administrative penalty to be imposed.

Lewis appealed the judgment in October 2016 and consequently the refund of disability insurance premiums and interest and the independent audit has been suspended pending the outcome of the appeal. The appeal is set down for determination on 2 May 2018.

Second referral

In April 2016, the NCR referred Lewis Stores to the NCT for alleged breaches of the NCA relating to club fees and extended maintenance contracts charged to its customers. In June 2017 the NCT handed down judgment in favour of Lewis Stores, dismissing the application by the NCR. The NCT found that the club fees charged by Lewis do not form part of the cost of

Corporate governance report (continued)

credit of any credit agreement between Lewis and its customers. The NCT also ruled that the NCA allows Lewis to include the cost of an extended warranty in its credit agreements and does not prescribe the terms and conditions of such extended warranty offered by Lewis to its customers.

Section 165 of Companies Act

First demand

In May 2016, Mr David Woollam addressed a letter to the Lewis board of directors demanding that Lewis declares Johan Enslin, Les Davies, David Nurek and Hilton Saven as delinquent directors in accordance with the provisions of section 165 of the Companies Act.

In October 2016, the court handed down judgment in Lewis' favour and set aside Mr Woollam's demand, awarding Lewis costs against Mr Woollam. After being refused leave to appeal by the Western Cape High Court Mr Woollam was granted special leave to appeal by the Supreme Court of Appeal on 23 March 2017.

Second demand

In August 2016, Mr Woollam addressed a further letter (the second demand) to the Lewis board of directors demanding that Lewis commences with proceedings to declare the above mentioned directors delinquent. As Mr Woollam had no evidence to substantiate his allegations contained in the demand, he sought to withdraw the demand prior to the hearing of the application. Mr Woollam was ordered to bear the bulk of the costs relating to the application.

Insurance and defaulting customers

Lewis has continued to charge its defaulting credit customers the cost of their monthly credit insurance premium under certain circumstances of default by them, which may potentially be in contravention of section 103(5) of the National Credit Act, based on an interpretation of a recent Supreme Court of Appeal judgment. Lewis has engaged with the National Credit Regulator and made a submission to the Department of Trade and Industry. The matter has been placed on the National Credit Act policy review framework for consideration by the National Credit Regulator and is on the agenda of the Credit Industry forum regarding section 103(5) and debt counselling.

Compliance call centre

In April 2016, Lewis Group implemented a specialised call centre to further enhance compliance, transparency and oversight of its in-store sales and credit application process and limit any potential misunderstandings of the costs, services and fees to be paid by the customer.

The call centre is housed at the group's head office and employs 60 consultants who operate independently from the Company's national customer care call centre.

The normal in-store credit sale application process remains in place. This includes a comprehensive affordability assessment and an interview with the manager during which the components of the contract are explained, including what services and fees are optional, and the total cost of credit. Upon completion of the process, but before finalisation of the transaction, the manager will ensure that the customer speaks to a call centre agent. As with printed contracts, the customer has a choice to engage with a call centre agent in one of eight languages, namely English, Afrikaans, Xhosa, Zulu, Sepedi, Sesotho, Setswana and Xitsonga. The call between the customer and the call centre agent is undertaken without any intervention from the store manager or store staff.

Call centre agents ensure that the customer understands all critical elements of the contract. All calls are recorded and stored to protect the interests of customers and Lewis Stores. Only once the call centre agent has successfully completed the review with the customer will the transaction be approved by the call centre. Without this approval, no transaction exists and the goods cannot be invoiced or delivered.

Behavioural and ethical compliance

The group adheres to the highest standards of ethical conduct. The board-approved ethics framework, code of conduct and core values outline the standards of honesty, integrity and mutual respect which employees are required to observe.

A conflict of interest policy is aimed at ensuring employees act in the best interests of the group and do not profit from their position in the Company. The policy governs employees' relationships with suppliers, serving as office bearers on external organisations and industry bodies, and receiving gifts and hospitality from suppliers.

The corporate fraud policy sets out the responsibility of staff and management towards the detection, prevention and reporting of fraud. A confidential hotline is available to all employees to report suspected incidents of fraud or dishonesty.

During the year under review, management approved an enhanced anti-corruption and ethics awareness training for staff at all levels of the business. A top-down approach was adopted starting with the executive team and all staff in management and supervisory positions. This intervention will provide the group with the impetus to further enhance an ethical organisational culture around the Lewis organisational values which set a common standard for all stakeholders.

The social, ethics and transformation report

The Social, Ethics and Transformation Committee is a sub-committee of the board operating in compliance with the Companies Act. The Committee assists the board by monitoring the group's activities relating to sustainability, ethics, stakeholder engagement, empowerment and transformation.

The Chairman of the committee presents the following report to shareholders for the 2017 financial year, in accordance with the requirements of the Companies Act of South Africa.

Responsibilities of the Committee

SOCIAL AND ETHICS

- Monitor activities relating to social and economic development, including the principles of the United Nations Global Compact, the Organisation for Economic Co-operation and Development recommendations regarding corruption, the Employment Equity Act and the Broad-Based Black Empowerment Act.
- Good corporate citizenship, including the promotion of equality, prevention of unfair discrimination, reduction of corruption, contribution to the development of communities, and record of sponsorship, donations and charitable giving.
- The environment, health and public safety, including the impact of the group's activities and of its products and services.
- Consumer relationships, including the group's advertising, public relations and compliance with consumer protection laws.
- Labour and employment, including the standing in terms of the International Labour Organisation Protocol on decent work and working conditions, the group's employment relationships and its contribution toward the educational development of its employees.

TRANSFORMATION

- Developing and maintaining a transformation strategy.
- Approving the transformation programme.
- Determining targets in terms of the Codes of Good Practice of the Department of Trade and Industry (DTI).
- Reviewing reports from verification agencies.
- Annual evaluation of the group's performance against the DTI scorecard.
- Legislative compliance.

Composition and functioning

The committee comprises three non-executive directors, namely Professor Fatima Abrahams (Chairperson), David Nurek and Alan Smart, and an executive director, Johan Enslin. Senior management in the human resources, merchandise, socio-economic development and risk departments attend by invitation. Biographical details of the committee members appear on pages 24 and 25.
The effectiveness of the committee is assessed as part of the annual board and committee evaluation process.

The members of the committee believe that the group is substantively addressing the issues required to be monitored by the committee in terms of the Companies Act.

Transformation

The group supports the principles and objectives of Broad-Based BEE contained in the DTI Codes of Good Practice on B-BBEE. The board acknowledges its oversight role in driving transformation and empowerment across all five elements of the DTI scorecard.

The group was assigned a level four B-BBEE contributor status on 30 April 2015, which was verified by AQRate, an accredited empowerment rating agency. This rating was based on the previous codes of good practice.

The amended codes of good practice came into effect on 1 May 2015 and because of the significant changes the Lewis Group achieved a level eight contributor status (41.54 points) before the priority elements. The group did not achieve the required 40% minimum requirements in the following priority elements:

- Equity ownership – current equity interest
- Enterprise and supplier development – supplier and enterprise development

As a result of these factors, the final status awarded to the group was that of "non-compliant contributor".

Management provided the board with specific targets for 2017 and 2018 in order to achieve a level eight contributor status.

The social, ethics and transformation report (continued)

The group is pleased to report that for the 2017 financial year, a level eight contributor status was achieved, which has been verified by AQRate.

BEE element	Weighting	2017	2016
Equity ownership	25	7.46	6.65
Management control	19	7.89	7.84
Skills development	20	17.21	13.65
Enterprise and supplier development	40	18.73	8.4
Socio-economic development	5	5.0	5.0
Total score		56.29	41.54
Final B-BBEE status		Level eight	Non-compliant

*The B-BBEE certificate and scorecard is available on the group's website **www.lewisgroup.co.za**.

Employment equity

Management is committed to ensuring that the group's employee profile is representative of the customer base it serves and the communities in which it trades.

The group's employment equity plan focuses on increasing the representation of designated groups, mainly in the senior management and professionally qualified areas. Strategies have been developed to achieve internal employment equity targets, including the implementation of a comprehensive learning and development plan, in-service training of retail management students, granting bursaries, job profiling and performance assessments.

Black staff account for 93% of the staff complement, with females comprising 57%.

The employment equity profile of the workforce in South Africa (excluding neighbouring countries) at 31 March 2017 is contained in the following table:

Employee profile – South Africa

Occupational levels	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management	0	1	0	3	0	0	0	0	4
Senior management	3	2	0	21	2	3	0	7	38
Professionally qualified	40	27	7	62	26	27	11	39	239
Skilled technical	207	64	9	43	328	146	15	102	914
Semi-skilled	1907	458	7	24	2317	679	26	125	5543
Unskilled	19	5	0	0	2	2	0	0	28
Non Permanent	0	0	0	0	0	0	0	0	0
Grand Total	2176	557	23	153	2675	857	52	273	6766

Skills development

A total of 11 652 training interventions were completed in 2017. Black staff accounted for 94.5% of total employees trained. In the past year the internship programme was extended to include 355 students.

As part of the commitment to staff development, a central learning and development centre was opened in Bloemfontein. The centre is being utilised for the development of management for store operations in the five countries in which the group operates.

The group's training department is accredited with the Wholesale and Retail Sector Education and Training Authority and offers a range of classroom-based and e-learning programmes.

Preferential procurement and enterprise development

The group's merchandise strategy is to offer exclusive, differentiated and value-for-money products to customers. Large volumes of locally sourced merchandise, goods and services are bought from small businesses which are mainly black-owned. These businesses have continued to benefit from the group's preferential procurement and enterprise development initiatives. This continued investment in enterprise development strengthens the local supply base and stimulates job creation in the domestic economy.

The support provided to enterprise development partners includes raw material sourcing, product development and design, quality control, and administrative business support.

Socio-economic development

The committee reviews the socio-economic development strategy of the group on an annual basis and monitors progress against stated objectives.

The group is committed to contributing to the communities where customers live. Many of these communities are affected by a lack of education, poverty and poor health.

Community investment is focused on educational infrastructure, educational bursaries, nutrition, upliftment of disadvantaged communities and long-term sustainable community upliftment programmes. The group has also committed to map the distribution of socio-economic development spend to be more reflective of the group's footprint in South Africa and Namibia, Botswana, Lesotho and Swaziland.

The group has committed R8 million to socio-economic development in 2018.

Primary projects

Afrika Tikkun undertakes projects mainly to support orphans and vulnerable children that allow the community to take ownership within five years and ensure the projects are self-sustaining. Lewis has formally concluded the five-year agreement with Afrika Tikkun for contributing to the funding of the annual operational costs for the early childhood development centre in Mfuleni.

Rotary Club/Early Development Centres

Lewis is now in its fourth year of partnering with the Rotary Club of Claremont to upgrade early learning development centres and assist them in becoming sustainable. During 2017, the Nolufefe ECD centre was upgraded. Lewis Group have contributed approximately R6 750 000 towards the Rotary Club/Lewis Injongo project over the past four years.

Peninsula School Feeding Association provides daily meals to children in primary, secondary and special-needs schools across the Western Cape. Lewis continues to support 11 adopted schools in the Western Cape where meals are provided for 1 215 children each school day.

Project Build

Two new classrooms have been constructed and handed over to Mbasela Primary school in Kwa Mashu, KwaZulu-Natal. Lewis has agreed to continue to support the school in further upgrades over the next three years.

Lesedi La Batho

The Lesedi la Batho centre in Mobopane, Gauteng, was created to address unemployment in the area and now provides basic skills training in sewing and beadwork, baking and computer studies. One of their divisions manufactured teddy bears for the Beares brand and Lewis has taken over the project which supports 20 women from the local community.

As part of the Lewis head office 2016 Christmas project, staff presented over 450 vulnerable children with teddy bears.

The group's socio-economic development programmes also extend to Namibia, Botswana, Lesotho and Swaziland.

The social, ethics and transformation report (continued)

Employee community engagement

Employees are encouraged to propose deserving local community projects. This ensures that staff are involved in assisting communities that support the company and creates staff awareness of CSI projects. These projects included AIDS orphans homes, shelters for abused/vulnerable children, disabled children's homes, educational support for the underprivileged, feeding schemes/soup kitchens for the underprivileged, homes for the aged/hospices/home-based care programmes, and informal organisations which support communities in terms of shelter, medical assistance, education, training and development.

Bursaries

INTERNAL BURSARIES

Internal bursaries are split into school education assistance and university/college assistance. School going children of employees receive R500 each on approved application. Tertiary student application for bursaries are subjected to an assessment. Students selected qualify for bursaries based on results.

TSIBA

TSiBA Education is a private provider of higher education in business. TSiBA targets scholars and potential students that would otherwise not have access to tertiary level education, by offering full tuition scholarships. Lewis will be extending its funding to 12 students in 2018 from 10 in prior years. In addition, Lewis provided internships to two final year students from July to October 2016 and in January 2017 offered these students a one-year work programme.

Environmental sustainability

The group recognises the need to introduce and maintain environmentally sustainable business practices to ensure that it meets its responsibilities in maintaining the environment in which it operates.

The group's environmental practices will evolve, guided by environmental principles, economic drivers and the commitment to being a responsible corporate citizen.

Practices are guided by the group's environmental policy and the environmental management system implemented over the past two years.

Carbon footprint

A carbon footprint assessment was performed by independent environmental specialists. The footprint was calculated for Scope 1, 2 and selected-Scope 3 Greenhouse Gas (GHG) emissions utilising the GHG protocol.

- Scope 1 is the direct impact of the group's activities – fuel combustion in Company vehicles.
- Scope 2 is indirect emissions resulting from electricity consumption.
- Scope 3 is the measure of the corporate value chain. This year's carbon footprint assessment was expanded to include the following selected Scope 3 categories:
  - Upstream distribution focused on South African road logistics.
  - Business travel – domestic and international flights and car hire.
  - Employee commuting.
  - The consumption of paper, printing materials and recycling of paper.

Carbon footprint results for Scope 1 and 2 Emissions

Scope	Source	2017 Emissions (tonnes CO_2e)	% Change	2016 Emissions (tonnes CO_2e)	% Change	2015 Emissions (tonnes CO_2e)
Scope 1	South African fuel	22 825	(3.3%)	23 603	7.0%	22 050
	International fuel	3 328	15.5%	2 881	9.1%	2 640
	Total Scope 1	26 153	(1.2%)	26 484	7.3%	24 690
Scope 2	South African electricity	27 201	0.1%	27 183	8.6%	25 020
	International electricity	1 968	10.0%	1 789	8.1%	1 655
	Total Scope 2	29 169	0.7%	28 972	8.6%	26 675
Total Scope 1 and 2		55 322	(0.2%)	55 456	8.0%	51 365
Average number of stores		760	4.1%	730	8.5%	673
Scope 1 and 2 emissions per store		72.79	(4.2%)	75.97	(0.5%)	76.32

It is pleasing to note that the group's total carbon footprint for Scope 1 and 2 emissions have decreased by 0.2% over the past year despite the international store footprint doubling due to the acquisition of 56 foreign stores. The reduction was largely achieved by the continued efforts of the Lewis brand to move to smaller format stores and thereby reduce its trading space.

Following the group's acquisition of 56 foreign stores, the emissions for international fuel and electricity have increased by 15.5% and 10% respectively. This was offset by the reduction of 22 stores in South Africa as well as more efficient electricity usage.

Carbon footprint results for selected Scope 3 emissions

Scope 3 Category	Emission source	Comments	2017 Emissions (tonnes CO_2e)	% Change	2016 Emissions (tonnes CO_2e)	% Change	2015 Emissions (tonnes CO_2e)
Fuel and Energy	Upstream emissions from synfuel production	Complete assessment	25 594	(2.0%)	26 116	8.1%	24 150
Upstream transportation and distribution	Outsourced road distribution within South Africa	Partial assessment – excludes shipping	3 744	(1.4%)	3 798	5.5%	3 600
Business travel	Domestic and international flights	Complete assessment	395	(4.8%)	415	16.9%	355
	Car hire	Complete assessment	205	(4.7%)	215	4.9%	205
Employee commuting	Staff transport emissions travelling to and from work	Average data method used	4 780	(4.6%)	5 012	5.5%	4 750

Partial assessment of Scope 3 emissions is accepted practice and is compliant with the GHG protocol, as conducting a comprehensive Scope 3 assessment is often prohibitively data and resource intensive. The implication, however, is that the total of these figures should not be interpreted as the complete Scope 3 carbon footprint.

The group is committed to improving the direct impact of its business activities in the areas of fuel consumption, electricity and water consumption, material usage reduction, and recycling paper and packaging materials.

The social, ethics and transformation report (continued)

Values and ethics

The group's values are core to its business philosophy and guides the way the group conducts its business practices. A formalised policy details the group's code of ethical and acceptable conduct in line with the Principles of the United Nations Global Compact. This policy, together with the group's behavioural code and code of conduct, is made available to all employees.

In addition, the group has a written policy regarding the acceptance of gifts from current or prospective suppliers and participation in recreational events sponsored by these suppliers.

Lewis enhanced its ethical awareness campaign which includes anti-corruption awareness focusing on ethical conduct, behaviour and reporting.

Employees and suppliers have the responsibility to report observed or suspected unethical behaviour via a toll free number, an ethics email address, by post and telephone.

Freedom of association

The group allows staff to belong to trade unions of their choice in the respective countries. The group maintains a proactive relationship with the unions and has not experienced any labour disruption due to strike action in the year under review.

Suppliers and supplier contracts

The supplier code of conduct includes the Ten Principles of the United Nations Global Compact. This code of conduct is implemented with suppliers as the agreements are renewed.

Political party support and lobbying activities

The group supports the multi-party democratic process but does not make donations to any political parties in South Africa or elsewhere. The group does not provide corporate resources to political candidates or parties.

Engaging with stakeholders

The board has overall responsibility for stakeholder engagement and monitors its application. The level and frequency of engagement with the various stakeholder groups differs according to the needs of the business and the expectations, concerns and preferences of each stakeholder.

The group's engagement programme focuses on the following stakeholders who have an interest in the business or who could influence the business in a positive or negative manner.

- **Customers** across the three trading brands
- **Shareholders** and the broader investment community
- **Employees** throughout the group
- **Suppliers** of merchandise and services
- **Communities** in which the group operates
- **Industry regulators**

Stakeholder engagement is central to the group's sustainability. Engagement aimed at establishing and maintaining mutually beneficial relationships not only limits risks to the business but creates opportunities to enhance revenue and performance, and ultimately ensures longer-term sustainability.

Engaging with stakeholders (continued)

Stakeholder group	Rationale for engagement	Means of engagement	Issues of engagement
Customers	Primary contact with customers is through the group's 761 stores, their branch staff, branch manager and the call centres		
	• Customers purchase household goods for cash or on credit • Customer loyalty and retention • Brand and product awareness • Sustainable revenue stream to generate returns to shareholders	• Customer contact in stores • Media advertising • In-store promotions • Market research • Mystery shopper programme	• High levels of customer retention • Improved credit offerings • Improved service levels
Shareholders and investment community	CEO and CFO provide the primary engagement with shareholders and analysts		
	• Ensure access to capital by attracting investors • Provide relevant and timeous information • Balanced analysis of the Company	• Annual and interim results presentations • Integrated annual report • Investor website • Shareholder meetings, including annual general meeting • SENS announcements • Brokers conferences • Meetings with local and international investors and analysts	• Trading environment • Performance • Credit management • Store expansion • Capital management • Strategy • Regulation • Prospects
Employees	Employees' primary contact is with line management and the human resources team		
	• Attract and retain talent • Employee motivation • Increased productivity • Loyalty • Rewards	• Electronic staff communications • Intranet • In-store review meetings • Regular meetings with unions • *Teamtalk* magazine • Induction and training courses	• Highly trained and skilled staff • Performance-linked incentives and awards • Reduced staff turnover • Employment equity

Stakeholder group	Rationale for engagement	Means of engagement	Issues of engagement
Product suppliers	The merchandise team have the primary contact with product suppliers		
	• Securing reliable and sustainable supply of goods and services • Consistent quality of exclusive merchandise	• Regular supplier meetings • Factory visits • Supplier audits • Service level agreements	• Quality standards • Product availability • Product exclusivity • Pricing • Delivery lead times
Regulatory bodies	Senior management represent the group on industry forums and at regulator briefings and work groups		
	• Legislative and regulatory compliance • Sound governance	• Statutory reporting • Regulatory submissions • Liaison with regulators • Membership of industry bodies and forums	• Insight into regulatory changes • Submissions to draft regulation • Compliance • Statutory reporting and returns
Communities	Group CSI Manager co-ordinates the groups community involvement		
	• Responsible corporate citizen	• Community investment and upliftment through CSI programme and local support through stores	• Continued investment in CSI programme • Store and staff involvement in CSI projects


Stuff

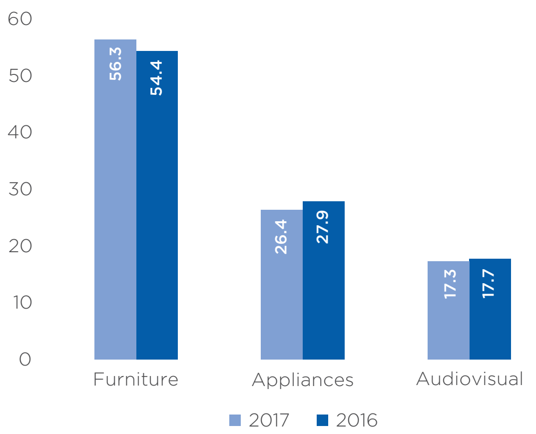
Operational review

Merchandise and brands

Products are sourced from a wide range of local and international suppliers to ensure that customers are offered exclusive product ranges.

Lewis Group, through its three trading brands, is focused on the retailing of furniture, appliances and audiovisual household goods. Lewis continues to create distinctive merchandise ranges through its strategic supplier relationships both locally and internationally.

MERCHANDISE SALES MIX
(Rm)



Merchandise strategy

The group's merchandise strategy is based on the philosophy that customers are attracted into stores by the product offer rather than the credit offer.

The focus is therefore on providing customers with quality, exclusive and differentiated furniture ranges.

This is achieved through the following:

- Innovative product sourcing both locally and offshore enables the group to offer customers exclusive and distinctive furniture ranges at affordable prices.
- Added value features and components on products ensures differentiation and enhances the perceived value of the merchandise.
- New furniture ranges are launched twice each year to offer ongoing newness to customers.
- An electronic merchandise catalogue is displayed in all stores as the complete merchandise range cannot be stocked in stores owing to space constraints. Sales staff assist customers to navigate their way through the full range on a large touch screen, as well as view all the available colour and fabric options.

It is an active strategy to focus on increasing sales of the higher margin furniture and appliance product categories, with furniture increasing to 56.3% of total sales from 54.4% in the prior year.

Merchandise sourcing

Products are sourced from a wide range of mainly local suppliers to ensure that customers are offered exclusive product ranges.

Products are sourced to meet the specific needs of the group's lower to middle income group customer base. The offering includes branded merchandise which is appealing to the target market, selling more contemporary lines in each furniture category to attract younger customers and furniture ranges which are suitable for smaller homes.

Products are supported by local and overseas after-sales service to ensure quality standards are maintained. Before consignments are despatched from suppliers a sample of all imported products are assembled and tested for quality purposes.

Supply chain and distribution

The group's supply chain model is based on merchandise being delivered directly by suppliers to stores. The group does not operate distribution centres or centralised warehouses. Each store has a storage facility which is located close to the store, generally in an area with lower rentals than retail space. Stores have their own delivery vehicles and can effect all deliveries to customers. This strategy has many benefits as it limits the build-up of obsolete stock and reduces markdowns. It also significantly improves service levels as stores are able to make an average of 90% of deliveries within 24 hours of the sale.

Lewis

Lewis is South Africa's largest furniture brand and contributes 69.1% of the group's merchandise sales. Stores sell a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 target market.

Stores are generally located in main streets and town centres. Each store carries a basic range of merchandise and stores then select a further optional range to cater for specific markets and regional differences. Lewis has 513 stores, including 70 stores in Botswana, Lesotho, Namibia and Swaziland.

Conventional stores average 450m^2 and the smaller format stores 250m^2. The smaller format store, which was introduced in 2010, has enabled the chain to gain access to high traffic areas at more affordable rentals. This store format offers customers key merchandise lines, with the full range available on the electronic catalogue and display screens in-store. Lewis now has 201 small format stores in its portfolio.

Financial and operating performance		2017	2016	2015
Revenue	Rm	4 137	4 564	4 645
Revenue growth	%	(9.4)	(1.7)	6.6
Merchandise sales	Rm	1 804	2 039	2 102
Merchandise sales growth	%	(11.6)	(3.0)	4.9
Credit sales	%	67.3	64.9	68.97
Operating profit	Rm	424	700	922
Operating profit margin	%	10.3	15.3	19.9
Stores opened/(closed)		(13)	18	14
Total stores		513	526	508
Total trading space m^2		181 135	191 380	188 752
Annual revenue per m^2	R'000	22.8	23.9	24.6

The Lewis brand has been adversely affected by the widespread drought and affordability assessment regulations as the vast majority of its stores are located in the more rural areas.

Merchandise and brands (continued)

Best Home and Electric

Best Home and Electric is a retailer of electrical appliances, sound and vision equipment and selected furniture lines. The chain offers branded merchandise to its targeted customers in the LSM 4 to 7 group.

The electronic catalogue is used extensively to market furniture ranges and furniture accounts for [36.4%] of sales in the chain.

Stores are smaller than Lewis stores and average 150m^2, being located mainly in high traffic areas with high trading densities.

Financial and operating performance		2017	2016	2015
Revenue	Rm	**725.3**	793.3	801.9
Revenue growth	%	**(8.6)**	(1.1)	6.1
Merchandise sales	Rm	**307.0**	328.8	347.6
Merchandise sales growth	%	**(6.6)**	(5.4)	3.3
Credit sales	%	**76.9**	72.9	73.9
Operating profit	Rm	**111.0**	142.9	169.4
Operating profit margin	%	**15.3**	18	21.1
Stores opened/(closed)		**(4)**	(2)	0
Total stores		**123**	127	129
Total trading space m^2		**17 083**	17 564	17 832
Annual revenue per m^2	R'000	**42**	45	45

The brand's operating profit margin is above the group average as the brand has a stronger presence in urban and semi-urban trading areas which have been less affected by the drought and affordability regulations.

Beares

Beares targets customers in the LSM 7 to 9 categories by offering more aspirational furniture.

Beares focuses on offering an exclusive and innovative range of aspirational furniture.

While aimed at a higher target market than Lewis and Best Home and Electric, Beares applies the group's business model and utilises the well-established credit infrastructure.

Stores average 430m² and are located mainly in high traffic areas.

Financial and operating performance		2017	2016
Revenue	Rm	729.6	426.9
Revenue growth	%	70.9	100
Merchandise sales	Rm	497.1	299.3
Merchandise sales growth	%	66.1	111.3
Credit sales	%	57.1	50.4
Operating profit/(loss)	Rm	29.6	(28.3)
Operating profit margin	%	4.1	(6.6)
Stores opened and acquired		18	28
Total stores		125	107
Total trading space m²		50 053	45 622
Annual revenue per m²	R'000	14.5	9.4

The brand is now showing an operating profit as trading densities improved, and cost structures and financial services income streams have started to mature.

Merchandise and brands (continued)

Monarch Insurance

The retail chains are supported by Monarch Insurance, the group's short-term insurer, which offers a range of optional short-term insurance products to customers purchasing merchandise on credit.

Insurance cover is offered for the settlement of customers' outstanding debt in the event of death, permanent disability, retrenchment and the replacement of goods as a result of accidental loss, such as fire, theft or natural disaster.

Monarch is registered with the Financial Services Board and operates under a short-term insurance license.

Credit report

The ratio of household debt to disposable income of Lewis customers has averaged 48% for the year. This, however, compares favourably with the national average of 75%.

Credit customers have remained under pressure from the impact of the prolonged drought, rising food inflation, high levels of indebtedness, the constrained employment market and the affordability assessment regulations of the National Credit Regulator. The performance of the group's debtors' book reflects the challenging credit collection environment.

The ratio of household debt to disposable income of Lewis customers has averaged 48% for the year. This, however, compares favourably with the national average of 75%.

The group's centralised credit granting and decentralised collection processes are a core strength in managing credit risk and debtor costs in the current tight consumer environment.

Stable collection rates throughout the year resulted in debtor cost growth being limited to 6% with total collections of R3 995 million (2016: R4 067 million).

The level of satisfactory paid customers was stable at 68.5% (2016: 68.8%) and non-performing customers declined marginally to 15.3% (2016: 15.5%) The group's active credit customer base totalled 616 247 (2016: 668 082) at year-end.

Debtor costs as a percentage of net debtors moved from 17.1% to 19.1% as a result of the higher bad debt experience and lower debtor base. The impairment provision increased from 26.1% to 28.6%, evidencing the prevailing challenging credit environment.

The credit application decline rate for new customers remained high at 38.7%.

Credit sales as a percentage of total sales increased from 64.3% to 65.2% in 2017. Credit sales in Beares account for 56.6% of the brand's sales while 67.2% of Lewis and Best Home and Electric sales are on credit.

The group remains adequately provided with a 28% impairment provision. This compares favourably to the debtor costs of 19.1% reported this year.

Credit ratios and statistics

		2017	2016
Credit sales as % of total sales	%	65.2	64.3
Net debtors	Rm	5 581	5 876
Increase/(Decrease) in net debtors	%	(5.0)	4.9
Debtors' impairment provision	Rm	1 560	1 533
Debtors' impairment provision as % of net debtors	%	28.0	26.1
Debtors' costs	Rm	1 065	1 005.1
Debtors' costs as a % of net debtors	%	19.1	17.1
Bad debts as a % of net debtors	%	18.6	13.1
Satisfactory paid accounts	%	68.5	68.8
Arrears instalments on satisfactory paid accounts as a % of net debtors	%	9.8	9.9
Arrears instalments on slow-paying and non-performing accounts as a % of net debtors	%	28.6	26.8
Credit application decline rate	%	38.7	39.3

Credit risk management

Credit risk management strategies have been consistently applied and it remains company policy never to re-schedule contracts. As a responsible provider of credit, an important factor in granting credit is the level of indebtedness of an applicant as this impacts directly on the ability to service debt. A comprehensive affordability assessment of the customer is made which includes Lewis data, bureau information as well as the customer's priority living expenses.

The group has developed advanced credit-granting systems to properly assess the customer. The credit underwriting process flows through the following stages:

- Credit scoring: this involves the gathering of appropriate information from the client, use of credit bureaus and third parties such as employers. These input variables are run through the various credit scorecards. Lewis deals with its new customers and existing customers differently when credit scoring takes place. The process differs as follows:
  - For new customers, application risk scorecards predict the risk with the emphasis for such an evaluation on information from credit bureaus and third-party information.
  - For existing customers, behaviourial scorecards have been developed to assess the risk through predictive behaviour with the emphasis on the customer's payment record with Lewis, bureau and other information being considered.
- Assessing client affordability: this process involves collecting information regarding the customer's income levels, expenses and current debt obligations. Lewis has its own priority expense model based on surveys conducted with customers in addition to the National Credit Regulator's expense table.
- Determining the credit limit for the customer: the customer's risk score determined by the scorecard together with the expense assessment and outstanding obligations are used to calculate a credit limit within the customer's affordability level.

Credit report (continued)

The credit granting systems enable the group to determine its appetite for risk. In determining the acceptable level of risk, the potential loss is weighed up against the revenue potential using the predictive behavioural models inherent in the credit-granting system. The group monitors any variances from the level of risk that has been adopted and adjusts the credit-granting process on a regular basis.

When entering into credit agreements customers are interviewed by the store manager and the cost of credit, terms and conditions of the credit sale and the benefits of the optional insurance product selected by the customer are explained. Upon completion of the process, but before finalisation of the transaction, the manager ensures that the customer speaks to a call centre agent. The call centre agent must first establish that the store manager conducted the interview to explain the contract to the customer. The employment status of the customer is confirmed and the insurance options selected is also checked to ensure that the customer understands all critical elements of the contract, i.e. which services are optional, the actual amounts charged for initiation fees, service fees, delivery fees, maintenance contract and insurance. In addition, the total cost of credit, monthly instalment, interest amount, interest rate and credit multiple is highlighted and reconfirmed and the customer is asked again to confirm that they can afford the monthly instalment. Finally, the customer will be reminded that they will receive a signed copy of the contract before they leave the store and that they have a five-day cooling off period in which time the contract can be cancelled without the customer incurring any penalties.

The customer will be invited to ask questions at any time during the call and again specifically asked if they have any questions at the end of the call. If at any point during the call it is evident that the customer does not understand any element of the contract, the call will be ended and the branch manager will have to explain to the customer again.

All calls are recorded and stored to protect the interest of the customer and Lewis group. Only once the call centre agent has successfully completed the review with the customer will the transaction be approved by the call centre. Without this approval, no transaction exists and the goods cannot be invoiced or delivered.

Credit collection

Lewis operates a decentralised credit collection process, with store-based follow-up and cash collection. A fully integrated IT system supports administration of the store collection process. This decentralised model has proven to be highly effective as stores are located close to where customers work, shop, commute and live. Customers pay their monthly accounts in the store and the convenient locations make it easy to visit the stores.

Store collection staff are often from the same community and can communicate in the language of the customer which benefits the collection rate. The focus on credit collections remained a high priority in 2017 resulting in a maintained satisfactory paid category level of the debtors book in the challenging collection environment.

Debtor costs

Bad debt write-off's are initiated where the customer payment behaviour cannot be rehabilitated. Bad debts result where the customer's account is written off or the goods repossessed. The decision to write off will take into account where applicable, recent payment behaviour, payment ratings, age of the account, whether the customer has exceeded their contractual terms and arrears. Debtor costs are set out in note 2.2 of the summary consolidated financial statements on page 47.

Impairment provision

The customer's payment profile is managed using payment ratings. Payment ratings are determined on an individual customer level and aggregated over all the customer's sub-accounts. Payment ratings measure the customer's actual payments received over the lifetime of the account relative to the instalments due in terms of the contract. These payment ratings are used to categorise and report on customers at the store level to follow up the slow paying and non-performing customers. There are 13 payment rating categories a customer can fall into following the monthly assessment.

The payment rating is integral to the calculation of the debtor's impairment provision. Impaired receivables are carried at their net present value of the estimated cash flows from such accounts, discounted at the original effective interest rate implicit in the credit agreement. Estimated cash flows are projected utilising the payment ratings.

The management of the debtor book and the determination of the impairment provision utilises the payment rating as a leading indicator. Past customer behaviour as reflected in the payment ratings determine future expected collections for the purpose of the impairment provision. The impairment provision being the result of the payment ratings is a key indicator to the ultimate cash recovery expected for each individual customer.

The impairment calculation is performed on a monthly basis taking into account the payment behaviour of the debtors book having regard to the payment rating and age of the debtors account. Various profiles of the impairment provision are prepared monthly. The credit risk systems (the system that monitors the customer's payment behaviour post-credit granting) also produces customer payment data. The aforementioned and the key indicators are monitored by senior management to analyse and assess the state of the debtors book. Daily collection statistics are also collated to identify trends early.

The key indicators that are reviewed include, *inter alia*, the following:

- Number of satisfactory paid customers. While the expectation is that the gross receivables would be the key indicator, this is not the case as there is a distortion created by the slow-paying and non-performing customer's balances growing faster than satisfactory paid customers. The key operational objective is to have as many satisfactory paid customers as possible as it is the group's expectation that these customers will settle their accounts, albeit that certain categories of satisfactory paid customers may settle past their contractual term. Satisfactory paid customers are the source of future repeat business which is one of the core strengths of the business model.
- The level of impairment provision applicable to the payment rating and the trend thereof over the month.

This is correlated with collection statistics and customer payment data produced by the credit risk systems.

Contractual arrears

The key aspect of the arrears calculation is Lewis's policy not to reschedule arrears nor to amend the terms of the original contract. In other words, the contractual arrears calculated is the actual arrears in terms of the originally signed agreement.

From the onset of the agreement, contractual arrears is calculated by comparing payments made life to date with the originally calculated instalments due life to date, causing a customer who is paying less than the required contracted instalment to immediately fall into arrears. Once the customer exceeds the term of the agreement by paying less than the required contracted instalments, the full balance owing will be in arrears. The group does not consider arrears the leading indicator, but rather payment ratings for the reasons mentioned above.

Combined impairment and contractual arrears table

The table reflects the following:

- A summary of the four main groupings of payment ratings describing payment behaviour. The payment ratings categorise individual customers into 13 payment categories. For purposes of this table, the payment ratings have been summarised into four main groupings.
- For each of the four main groupings of payment ratings, the following is disclosed:
  - Number of customers
  - Gross receivables. Note that unearned provisions have not been allocated to this amount
  - Impairment provision allocated to each grouping
  - Contractual arrears for each grouping have been categorized by number of instalments in arrears.

Credit report (continued)

GROSS DEBTOR ANALYSIS

March 2017

Satisfactory paid Customers fully up-to-date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.	
Slow payers Customers fully up-to-date including those who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 14% to 67% of amounts due and includes an *in duplum* provision.	
Non-performing accounts Customers who have paid between 55% and 65% of amounts due over the contract period. The provision in this category ranges from 25% to 79% of amounts due.	
Non-performing accounts Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from 35% to 100% of amounts due.	
Total	
Unearned provisions	
Net instalment sale and loan receivables	

An *in duplum* provision of R29.1 million (2016: R39.8 million) has been provided.

		Number of Customers Total	Gross Receivables R'000	Impairment Provision R'000	Total Arrears R'000	Instalments in arrears				
						1 R'000	2 R'000	3 R'000	4 R'000	> 4 R'000
March 2017	No	422 070	3 507 921	27 609	596 271	162 822	114 395	86 010	65 285	167 759
	%	68.5%	57.4%	1.8%						
March 2016	No	459 390	3 775 137	38 319	641 286	175 898	121 896	90 493	67 565	185 434
	%	68.8%	58.2%	2.5%						
March 2017	No	52 078	538 715	192 890	321 871	37 240	36 064	33 849	31 573	183 145
	%	8.4%	8.9%	12.4%						
March 2016	No	54 507	558 758	176 249	313 201	37 684	36 322	33 604	30 913	174 678
	%	8.1%	8.7%	11.5%						
March 2017	No	47 981	576 347	258 823	366 979	34 413	32 902	31 201	29 727	238 736
	%	7.8%	9.4%	16.6%						
March 2016	No	50 690	589 858	241 999	353 286	35 071	33 189	31 195	29 501	224 330
	%	7.6%	9.1%	15.8%						
March 2017	No	94 118	1 484 119	1 081 237	1 057 905	67 299	66 090	64 564	63 075	796 877
	%	15.3%	24.3%	69.2%						
March 2016	No	103 495	1 558 864	1 077 046	1 068 377	70 458	68 649	66 504	64 447	798 319
	%	15.5%	24.0%	70.2%						
March 2017		616 247	6 107 102	1 560 559	2 343 026	301 774	249 451	215 624	189 660	1 386 517
March 2016		668 082	6 482 617	1 533 613	2 376 150	319 111	260 056	221 796	192 425	1 382 761
March 2017			(525 900)							
March 2016			(606 354)							
March 2017			5 581 202	28.0%						
March 2016			5 876 263	26.1%						

Shareholders' information

Shareholders' information

Shareholders spread as at 31 March 2017:

	Number of shareholders		Number of shares	
	Total	%	Total	%
1 – 1 000 shares	984	58.05	348 994	0.36
1 001 – 10 000 shares	443	26.14	1 551 665	1.58
10 001 – 100 000 shares	188	11.09	6 163 844	6.28
100 001 – 1 000 000 shares	60	3.54	18 012 643	18.37
1 000 001 shares and over	20	1.18	71 980 813	73.41
Total	1 695	100.00	98 057 959	100.00

Distribution of shareholders as at 31 March 2017:

	Number of shareholders		Number of shares	
	Total	%	Total	%
Public:	1 686	99.47	87 832 283	89.57
Unit Trusts/Mutual Funds			43 411 859	44.26
Pension Funds			18 974 865	19.35
Other			25 445 559	25.96
Non-public:	9	0.53	10 225 676	10.43
Lewis Stores Proprietary Limited	1	0.06	9 216 928	9.40
Lewis Employee Incentive Scheme Trust	1	0.06	51 312	0.05
Directors:				
Lewis Group Limited	5	0.29	872 961	0.89
Lewis Stores Proprietary Limited	2	0.12	84 475	0.09
	1 695	100.00	98 057 959	100.00

Major shareholdings as at 31 March 2017:

According to the company's register of disclosures of beneficial interests made by registered shareholders acting in a nominee capacity, and the disclosures made by fund managers in terms of section 56 of the Companies Act of 2008, the following entities owned in excess of 3% of the company's shares as at 31 March 2017:

Beneficial shareholders:	No Shares	%
Trimark Global Endeavour Fund	13 602 644	13.87
Lewis Stores Proprietary Limited	9 216 928	9.40
Government Employees Pension Fund	8 241 450	8.40
Trimark Global Balanced Fund	4 429 514	4.52
MMI Group Limited	4 170 014	4.25
Pyramis Group Trust Employee Benefit Plan	2 962 184	3.02
By fund manager:		
Invesco Limited	18 088 579	18.45
Public Investment Corporation	7 621 300	7.77
Allan Gray	7 385 261	7.53
FMR LLC	7 010 207	7.15
Dimensional Fund Advisors	4 929 077	5.03
Stonehage Trust Holdings (Jersey)	4 454 810	4.54
Momentum Asset Management	4 170 014	4.25
LSV Asset Management	3 197 278	3.26

Geographical analysis of shareholders:

Beneficial shareholders:	%
South Africa	46.15
North America	40.07
Rest of World	13.78
	100.00
By Fund Manager:	
South Africa	43.62
North America	40.47
Rest of World	15.91
	100.00

Shareholder calendar

Financial year-end	31 March 2017
Final profit announcement	24 May 2017
Final dividend declared	24 May 2017
Integrated report	30 June 2017
Record date for voting at the annual general meeting	6 October 2017
Annual general meeting	17 October 2017
Interim profit announcement	13 November 2017

Pending dividend

Dividend per share	100 cents
Net dividend receivable per share (if not exempt from dividend tax)	80 cents
Date dividend declared	24 May 2017
Last day to trade "cum" dividend	18 July 2017
Date trading commences "ex" dividend	19 July 2017
Record date	21 July 2017
Date of dividend payment	24 July 2017

Notice of annual general meeting

Notice of annual general meeting

Lewis Group Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2004/009817/06)
JSE Share Code:
LEW ISIN: ZAE000058236
("Lewis Group" or "the Company")

Notice is hereby given that the thirteenth annual general meeting of shareholders ("AGM") of Lewis Group Limited for the year ended 31 March 2017 will be held at Lewis Group head office, 53A Victoria Road, Woodstock, Cape Town at 08:30 on Tuesday, 17 October 2017. Registration will start at 08:00.

The board of directors of the Company determined that the record date for the purpose of determining which shareholders of the Company are entitled to participate in and vote at the AGM is 6 October 2017. The board of directors ("the board") has determined that the record date by when persons must be recorded as shareholders in the securities register of the Company in order to be entitled to receive the notice of AGM is 15 June 2017.

The purpose of the AGM is for the following business to be transacted, and to consider and, if approved, to pass with or without modification, the following ordinary and special resolutions, in the manner required by the Company's memorandum of incorporation ("MOI"), the Companies Act No. 71 of 2008, as amended ("the Companies Act"), as read with the Listings Requirements of the exchange operated by JSE Limited ("the JSE") ("the JSE Listings Requirements"):

1. **Presentation of the Audited Annual Financial Statements of the Company, including the reports of the directors, external auditors and the Audit Committee, for the year ended 31 March 2017**

   In terms of the Companies Act, the audited financial statements of the Company (including the reports of the directors, external auditors and the Audit Committee) for the year ended 31 March 2017 as approved by the board of directors will be presented to shareholders. A summary of the audited annual financial statements is set out on pages 38 to 57 of the document of which this notice of annual general meeting forms part (the integrated annual report). This summary is not exhaustive and the complete annual financial statements of the Company and its subsidiaries should be read in their entirety for a full appreciation of their contents. The complete audited annual financial statements of the Company and its subsidiaries are available for inspection at the Company's registered office, and an electronic copy is available on the Company's website (www.lewisgroup.co.za). Alternatively, shareholders can request that a complete copy of the annual financial statements of the Company and its subsidiaries be posted or e-mailed to them by contacting Diane Rafferty on diane.rafferty@lewisgroup.co.za.

2. **Presentation of the Social, ethics and transformation report**

   In accordance with Regulation 43 of the Companies Regulations, 2011, the Social, ethics and transformation report for the financial year ended 31 March 2017, prepared and approved by the Company's Social, ethics and transformation committee and set out on pages 82 to 91 of the document of which this notice of annual general meeting forms part (the integrated annual report), will be presented to shareholders.

3. **Ordinary resolution number 1**

   Election of directors

   Explanatory Note
   In terms of the Company MOI, at each AGM, one third of the longest-serving non-executive directors of the Company must retire. In addition, any non-executive director who has held office for three years since his/her last election must retire at the AGM. The non-executive directors who are due to retire by rotation at this AGM are Mr David Nurek and Mr Ben van der Ross. Mr van der Ross is not available for re-election, but Mr Nurek (being eligible) offers himself for re-election.

   In addition, the board appointed Ms Adheera Bodasing and Ms Daphne Ramaisela Motsepe as non-executive directors of the board with effect from 1 June 2017. It is proposed that each of Ms Adheera Bodasing and Ms Daphne Ramaisela Motsepe be formally elected by shareholders as directors of the Company at the AGM.

   The Nominations Committee has considered the proposed election of Mr Nurek, Ms Bodasing and Ms Motsepe and recommends that they be elected as directors of the Company.

   Brief CV's of the abovementioned directors are on pages 24 to 25 of the document of which this notice of AGM forms part.

The purpose of these ordinary resolutions is to propose the re-election of Mr Nurek who has retired as a director in terms of the Company's MOI and the election of Ms Bodasing and Ms Motsepe as directors of the Company. These elections will be conducted by a series of separate votes in respect of each candidate.

Re-election of David Nurek as director

1.1 "Resolved that David Nurek be and is hereby elected as a director of the Company."

Election of Adheera Bodasing as director

1.2 "Resolved that Adheera Bodasing be and is hereby elected as a director of the Company."

Election of Daphne Ramaisela Motsepe as director

1.3 "Resolved that Daphne Ramaisela Motsepe be and is hereby elected as a director of the Company."

4. Ordinary resolution number 2

Election of members of the Audit Committee

Explanatory Note
In terms of the Companies Act, at each annual general meeting an Audit Committee comprising at least three members must be elected. It is proposed that the following independent non-executive directors be elected as members of the Audit Committee for the ensuing year. The election of each member of the Audit Committee will be voted on separately.

Brief CV's of the members are on pages 24 to 25 of the document of which this notice of AGM forms part.

Election of Hilton Saven as member of the Audit Committee

2.1 "Resolved that Hilton Saven be and is hereby elected as a member of the Audit Committee."

Election of David Nurek as member of the Audit Committee

2.2 "Resolved that David Nurek be and is hereby elected as a member of the Audit Committee, subject to his re-election as a director in terms of ordinary resolution number 1.1."

Election of Alan Smart as member of the Audit Committee

2.3 "Resolved that Alan Smart be and is hereby elected as a member of the Audit Committee."

5. Ordinary resolution number 3

Approval of re-appointment of auditors

Explanatory Note
In terms of the Companies Act, the Company must each year at its AGM appoint an external auditor. The Company's current external auditor is PricewaterhouseCoopers Inc, which has indicated that Ms Allison Legge who is a director of the firm, a registered auditor and accredited with the JSE in accordance with the JSE Listings Requirements will undertake the audit. The Company's Audit Committee has recommended that the firm, PricewaterhouseCoopers Inc, and the designated auditor, Ms Allison Legge, be appointed for the ensuing period.

"Resolved that the firm PricewaterhouseCoopers Inc and Ms Allison Legge as the designated auditor be appointed as auditor for the Company for the ensuing year."

6. Non-binding advisory votes

Approval of the Company's remuneration policy and implementation report

Explanatory Note
In terms of principle 14.37 of the King Report on Corporate Governance in South Africa, 2016 ("King IV") the Company's remuneration policy and implementation report should be tabled to shareholders for separate non-binding advisory votes at the AGM. This vote enables shareholders to express their views on the remuneration policies adopted and on their implementation. Furthermore, King IV recommends the remuneration policy should record the measures that the board commits to in the event that either the remuneration policy or the implementation report, or both have been voted against by 25% (twenty-five percent) or more of the voting rights exercised by the shareholders. The shareholders are requested to separately approve the Company's remuneration policy on pages 60 to 64 and the implementation report on pages 65 to 69 in the Remuneration Report, by way of separate non-binding advisory votes.

Non-binding advisory vote 1:

"Resolved, through a non-binding advisory vote, that the Company's remuneration policy accompanying this notice be accepted and approved."

Non-binding advisory vote 2:

"Resolved, through a non-binding advisory vote, that the Company's implementation report accompanying this notice is accepted and approved."

7. **Special resolution number 1**

Approval of non-executive directors' fees

Explanatory Note
In terms of section 66(8) of the Companies Act, the Company may pay remuneration to its directors for their service as directors. Section 66(9) requires the remuneration to be paid in accordance with a special resolution approved by shareholders within the previous two years.

The effect of the adoption of this special resolution number 1 will be that the non-executive directors will be entitled to be paid the fees listed below (which amounts are exclusive of VAT, if applicable) in respect of the period from 1 July 2017 until 30 June 2018, such fees to be paid in instalments at the end of each quarter. The proposed fees have been increased by approximately 4% over the corresponding fees that were approved in respect of the period from 1 July 2016 to 30 June 2017.

"Resolved that the fees of the non-executive directors as reflected below be approved for the period from 1 July 2017 until 30 June 2018:

Chairman	R557 000
Non-executive director	R266 000
If a member of the Audit Committee, the following additional amount:	
Chairman	R272 000
Member	R116 000
If a member of the Risk Committee, the following additional amount:	
Chairman	R131 000
Member	R82 000
If a member of the Remuneration Committee, the following additional amount:	
Chairman	R131 000
Member	R65 000
If a member of the Nominations Committee, the following additional amount:	
Chairman	R89 000
Member	R38 000
If a member of the Social, ethics and transformation committee, the following additional amount:	
Chairman	R131 000
Member	R 65 000

Invitation fee:
All non-executive directors who attend the committee meetings by invitation at the request of the board shall be eligible to receive the same fee as if they were a member of the committee.

All amounts listed above are exclusive of VAT. The Company is authorised to pay such VAT, if applicable."

8. **Special resolution number 2**

Shareholders' authorisation of the continued issuance of Notes under the Company's Domestic Medium-Term Notes Programme

Explanatory Note
By special resolution passed on 16 August 2013, shareholders of the Company authorised the establishment of the Company's domestic medium-term notes programme ("DMTN Programme") and authorised the board to

issue tranches of notes ("Notes") thereunder from time to time provided that the maximum nominal amount of Notes outstanding from time to time is ZAR2 billion. The reason for this special resolution number 2 is to confirm the authorization to the board to continue to issue further Notes under the DMTN Programme from time to time in accordance with and subject to the terms and conditions of the DMTN Programme.

"Resolved that the board is hereby authorized to continue to issue Notes under the Company's DMTN Programme from time to time in accordance with and subject to the terms and conditions of the DMTN Programme."

9. Special resolution number 3

Shareholders' general authorisation of financial assistance

Explanatory Note

The reason for this special resolution number 3 is to provide general authority, in terms of sections 44(3)(ii) and 45(3)(a)(ii) of the Companies Act, for the Company to provide financial assistance to its subsidiaries and other related and inter-related companies and corporations including pursuant to the Company's DMTN Programme.

Sections 44 and 45 of the Companies Act provide, *inter alia*, that any financial assistance to related or inter-related companies and corporations, including, *inter alia*, to subsidiaries of the Company, must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category, and the board of directors must be satisfied that:

- immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test, as defined in section 4 of the Companies Act;
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company; and
- any conditions or restrictions in respect of the granting of financial assistance set out in the Company's MOI have been satisfied.

When the need arises, the Company provides loans to and/or guarantees loans or other obligations of its subsidiaries. The Company requires the ability to continue providing financial assistance, when necessary, to its current and future subsidiaries and/or any other company or corporation that is or becomes related to or inter-related with the Company, in accordance with sections 44 and 45 of the Companies Act.

In the circumstances and in order to, *inter alia*, ensure that the Company's subsidiaries and other related and inter-related companies and corporations have access to financing and/or financial backing from the Company, it is necessary to obtain the approval of the shareholders, as set out in special resolution number 2.

The passing of this special resolution will have the effect of allowing the directors of the Company to authorise the Company to provide direct or indirect financial assistance to the Company's subsidiaries and other related and inter-related companies and corporations to allow such companies or corporations to have access to financing and/or financial backing from the Company.

"Resolved that the board of directors of the Company may, subject to compliance with the requirements of the Company's MOI and the Companies Act, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance by way of a loan, guarantee, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other company or corporation that is or becomes related to or inter-related with the Company for any purpose or in connection with any matter. The financial assistance may be provided at any time during the period commencing on the date of the adoption of this resolution and ending 2 (two) years after such date."

10. Special resolution number 4

General authority to repurchase shares

Explanatory note

The reason for special resolution number 4 is to grant the directors of the Company and/or subsidiaries of the Company a general authority in terms of the Companies Act and the JSE Listings Requirements to acquire no more than 5% of the Company's ordinary shares in aggregate, subject to the terms and conditions set out in the resolution. The directors require that such general authority should be implemented in order to facilitate the repurchase of the Company's ordinary shares in circumstances where the directors consider this to be appropriate and in the best interests of the Company and its shareholders.

Notice of annual general meeting (continued)

"Resolved that the Company hereby approves, as a general approval contemplated in sections 46 and 48 of the Companies Act (including but not limited to section 48(8)(a) of the Companies Act), the acquisition by the Company or any of its subsidiaries from time to time of the issued ordinary shares of the Company, upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine, but subject to the MOI, the provisions of the Companies Act and the JSE Listings Requirements as presently constituted and which may be amended from time to time, and provided further that:

- acquisitions by the Company and its subsidiaries of shares in the capital of the Company in terms of this general authority to repurchase shares may not, in the aggregate, exceed in any one financial year 5% (five per cent) of the Company's issued ordinary share capital of the class of the repurchased shares from the date of the grant of this general authority;
- any such repurchase shall be implemented through the order book operated by the JSE trading system, without any prior understanding or arrangement between the Company and the counterparty;
- authorisation thereto being given by the MOI;
- this general authority shall only be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- an announcement will be published as soon as the Company and/or its subsidiaries has/have acquired ordinary shares in terms of this authority constituting, on a cumulative basis, 3% (three per cent) of the initial number of ordinary shares in issue at the time that this authority is granted by the shareholders, and for each 3% (three per cent) in aggregate of the initial number of shares repurchased thereafter, containing full details of such repurchases as required in terms of the JSE Listings Requirements;
- in determining the price at which the Company's shares are acquired by the Company or its subsidiaries in terms of this general authority, the maximum premium at which such shares may be acquired will be 10% (ten per cent) of the weighted average of the market price at which such shares are traded on the JSE for the 5 (five) business days immediately preceding the date the repurchase transaction is effected;
- the Company and/or its subsidiaries do not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed and such programme has been submitted to the JSE in writing. The Company must instruct an independent third party, which makes its investment decisions in relation to the Company's securities independently of, and uninfluenced by, the Company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;
- the repurchase shall only be effected if the board of directors has at the time of the repurchase passed a resolution authorising the repurchase in terms of sections 48 and 46 of the Companies Act and it reasonably appears that the Company and its subsidiaries have satisfied the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the Company and its subsidiaries; and
- the Company only appoints one agent at any point in time to effect repurchases on its behalf."

Director's statement

The intention of the board of directors is to utilise the general authority to repurchase shares in the Company if at some future date the cash resources of the Company is in excess of the requirements and the opportunity presents itself to do so during the year, which the board deems to be in the best interests of the Company and its shareholders, taking prevailing market conditions and other factors into account.

Pursuant to and in terms of the JSE Listings Requirements, the board of directors of the Company hereby confirms that, after considering the effect of a repurchase of ordinary shares in terms of the aforegoing general authority (being 5% (five per cent) of the Company's issued ordinary share capital of the class of the repurchased shares in any financial year from the date of the grant of this general authority), the directors are of the opinion that the following conditions have been and will be met:

- the Company and the group will be able in the ordinary course of business to pay their debts for a period of 12 (twelve) months after the date of this notice of the AGM;
- the assets of the Company and group are to be in excess of the liabilities of the Company and group for a period of 12 (twelve) months after the date of this notice of AGM (for this purpose the assets and liabilities are recognised and measured in accordance with the accounting policies used in the audited financial statements for the year ended 31 March 2017);

- the share capital and reserves of the Company and group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the notice of the AGM;
- the working capital of the Company and the group are adequate for ordinary business purposes for a period of 12 (twelve) months after the date of this notice of the AGM; and
- a resolution being passed by the board that it authorised the repurchase of shares, that the Company and its subsidiaries have passed the solvency and liquidity test and that since the test was performed there have been no material changes to the financial position of the group.

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

Major beneficial shareholders – page 108 of the document of which this notice of AGM forms part.

Share capital of the Company – page 42 of the document of which this notice of AGM forms part.

Directors' responsibility statement

The directors, whose names appear in paragraph [24] on page [25] of the integrated annual report, collectively and individually accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution, read with the document of which this notice of AGM forms part contains all information required by the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in the integrated annual report, there have been no material changes in the affairs or financial position of the group since the date of signature of the audit report and up to the date of this notice.

11. Ordinary resolution number 4

Directors' authority to implement Company resolutions

"Resolved that each and every director of the Company be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting."

12. To transact such other business that may be transacted at an annual general meeting

General instructions and information

1. Unless otherwise specifically provided in this notice of AGM, for any of the ordinary resolutions to be adopted, 50% of the voting rights plus one vote exercised on each such ordinary resolution must be exercised in favour thereof. For any special resolutions to be adopted, 75% of the voting rights exercised on each special resolution must be exercised in favour thereof.
2. In accordance with section 63(1) of the Companies Act, participants at the AGM will be required to provide proof of identification to the reasonable satisfaction of the chairman of the AGM and must accordingly provide a copy of their identity document, passport or drivers' licence at the AGM for verification.
3. The Company intends to make provision for shareholders of the Company, or their proxies, to participate in the AGM by way of electronic communication. Should you wish to participate in the AGM by way of electronic communication, you are required to give notice of such proposed participation to the Company by no later than 12:00 on 19 September 2017. Such notice must be accompanied by the following:
   a. if the shareholder is an individual, a certified copy of his identity document and/or passport;
   b. if the shareholder is not an individual, a certified copy of the resolution adopted by the relevant entity authorising the representative to represent the shareholder at the AGM and a certified copy of the authorised representative's identity document and/or passport; and
   c. a valid e-mail address and/or facsimile number for the purpose of receiving notice of the manner in which the electronic participation will be conducted.

   If you provide the Company with the aforesaid notice and documents, the Company shall use its reasonable endeavours to notify you of the relevant details of the electronic communication through which you can participate in the AGM.

Notice of annual general meeting (continued)

4. All shareholders are encouraged to attend, speak and vote at the AGM and are entitled to appoint a proxy to attend, speak and vote at the meeting in place of the shareholder. The proxy duly appointed to act on behalf of a shareholder, need not also be a shareholder of the Company.
5. On a show of hands, every shareholder of the Company present in person or represented shall have one vote only. On a poll, every shareholder present in person, by proxy or represented shall have one vote for each share held.
6. If you hold certificated shares (i.e. have not dematerialised your shares in the Company) or are registered as an own-name dematerialised shareholder (i.e. have specifically instructed your Central Security Depository Participant ("CSDP") to hold your shares in your own name in the Company sub-register) then:
   - you may attend and vote at the AGM; alternatively
   - you may appoint a proxy to represent you at the AGM by completing the attached form of proxy and, for administrative reasons, returning it to the Company's transfer secretary (Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2017) by no later than 08:30 am on Friday, 13 October 2017, or delivering such form by hand thereafter to the Company Secretary, before the proxy exercises any rights of the shareholder at the meeting; and/or
   - you may participate in the AGM by way of electronic participation in accordance with paragraph 3 above.
7. Please note that if you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE Limited's electronic settlement system, Share Transactions Totally Electronic ("STRATE")) held through a CSDP or broker (or their nominee) and are not registered as an "own-name dematerialised shareholder" then you are not a registered shareholder of the Company, your CSDP or broker (or their nominee) would be. Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker as the case may be:
   - if you wish to participate in the AGM (either by being physically present at the meeting or by way of electronic participation in accordance with paragraph 3 above) you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively
   - if you are unable to attend the AGM but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the AGM and/or request it to appoint a proxy. You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be; and
   - CSDPs, brokers or their nominees, as the case may be, recorded in the Company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the Company, vote by either appointing a duly authorised representative to attend and vote at the AGM (either by being physically present at the meeting or by way of electronic participation in accordance with paragraph 3 above) or by completing the attached form of proxy in accordance with the instructions thereon and for administrative purposes, returning it to the Company's Transfer Secretary (Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2017)) by no later than 08:30 on Friday 13 October 2017 or delivering it thereafter by hand to the company secretary, before the proxy exercises any rights of the shareholder at the meeting. In order to facilitate proceedings at the AGM, shareholders intending to appoint a proxy are requested to do so as soon as is reasonably practical.
8. Shareholders of the Company that are companies, that wish to participate in the AGM, may authorise any person to act as its representative at the AGM.

By order of the Board

MG McCONNELL
Company secretary

22 May 2017

Proxy Form

Lewis Group Limited
(Incorporated in the Republic of South Africa)
(Registration Number: 2004/009817/06)
JSE Share Codes: LEW
ISIN: ZAE000058236
("Lewis Group" or "the Company")

For use at the annual general meeting of the Company to be held at Lewis Group Head Office, 53A Victoria Road, Woodstock, on Tuesday, 17 October 2017 at 08:30 ("the annual general meeting").

Not to be used by beneficial holders of shares who have dematerialised their shares ("dematerialised shares") through a Central Securities Depository Participant ("CSDP") or broker, as the case may be, unless you are recorded on the sub-register as an "own-name" dematerialised shareholder ("own-name dematerialised shareholder"). Generally, you will not be an own-name dematerialised shareholder unless you have specifically requested the CSDP to record you as the holder of the shares in your own name in the Company's sub-register.

Only for use by certificated, own-name dematerialised shareholders and CSDP's or brokers (or their nominees) registered in the Company's sub-register as the holder of dematerialised ordinary shares.

I/We (block letters), ______________________________

Of (address) ______________________________

Telephone: (Work) ____________________ Telephone: (Home) ____________________

Being the holder/s of ________________ ordinary shares in the Company, hereby appoint (see instruction overleaf)

1. ______________________________ or failing him/her

2. ______________________________ or failing him/her

3. The chairperson of the annual general meeting,

as my/our proxy to attend, speak and vote (or abstain from voting) and act for me/us and on my/our behalf at the annual general meeting to be held at 08:30 on Tuesday, 17 October 2017 for the purpose of considering and if deemed fit passing, with or without modification, the resolutions to be proposed thereat and at any adjournment or postponement thereof and to vote for or against such resolutions or to abstain from voting in respect of the shares in the issued capital of the Company registered in my/our name/s in accordance with the following instructions (see instruction overleaf).

	Insert an "X"		
	In favour of	Against	Abstain
Ordinary resolution 1.1 Election of David Nurek as a director			
Ordinary resolution 1.2 Election of Adheera Bodasing as a director			
Ordinary resolution 1.3 Election of Daphne Ramaisela Motsepe as a director			
Ordinary resolution 2.1 Election of Hilton Saven as a member of the Audit Committee			
Ordinary resolution 2.2 Election of David Nurek as a member of the Audit Committee			
Ordinary resolution 2.3 Election of Alan Smart as a member of the Audit Committee			
Ordinary resolution 3 Approval of re-appointment of auditors			
Non-binding advisory vote 1 Approval of the Company's remuneration policy			
Non-binding advisory vote 2 Approval of the Company's implementation report			
Special resolution number 1 Approval of non-executive directors' fees			
Special resolution number 2 Shareholders' authorisation of continued issuance of Notes under the Company's Domestic Medium-Term Notes Programme			
Special resolution number 3 Shareholder's general authorisation of financial assistance			
Special resolution number 4 General authority to repurchase shares			
Ordinary resolution number 4 Directors' authority to implement Company resolutions			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you desire to vote (instruction overleaf).

Signed at ______________________ on ______________________ 2017

Signature/s ______________________________

(Authority of signatory to be attached of applicable – see instruction overleaf)

Assisted by ______________________________

(where applicable)

Telephone number: ______________________________

Please read the notes on reverse side.

Proxy Form (continued)

Instructions on signing and lodging the proxy form:

1. A certificated or own-name dematerialised shareholder or CSDP or broker registered in the Company's sub-register may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the shareholder. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as a proxy to the exclusion of those whose names follow thereafter. If no proxy is inserted in the spaces provided, then the chairperson shall be deemed to be appointed as the proxy to vote or abstain as the chairperson deems fit.
2. A shareholder's voting instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the proxy will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all of the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. Proxy forms should be lodged with the Company's transfer secretaries, Computershare Investor Services (Pty) Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 (PO Box 61051, Marshalltown, 2017) to be received by no later than 08:30 on Friday, 13 October 2017 for administrative purposes, or may thereafter be delivered by hand to the company secretary, before the proxy exercises any rights of the shareholder at the meeting.
5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting. CSDPs or brokers registered in the Company's sub-register voting on instructions from owners of shares registered in the Company's sub-sub-register, are requested that they identify the owner in the sub-sub-register on whose behalf they are voting and return a copy of the instruction from such owner to the company's secretary together with this form of proxy.
6. In the case of joint holder, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, for which purpose seniority will be determined by the order in which the names appear on the register of shareholders in respect of the joint holding.
7. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms thereof, should such member wish to do so.
8. The completion of any blank spaces overleaf need to be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
9. The chairman of the annual general meeting may in his absolute discretion reject or accept any proxy form which is completed other than in accordance with these notes.
10. If required, additional forms of proxy are available from the secretary of the Company.
11. Shareholders which are a company or body corporate may by resolution of their directors, or other properly authorised body, authorise any person to act as their representative. The representative will be counted in the quorum and will be entitled to vote on a show of hands or on a poll.
12. The shareholder's proxy may delegate his/her authority to act on the shareholder's behalf to another person, subject to any restriction set out in the proxy form.
13. The appointment of the proxy or proxies will be suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any of the shareholder's rights as a shareholder at the annual general meeting.
14. The appointment of a proxy is revocable unless the shareholder expressly states otherwise in the proxy form.
15. As the appointment of the shareholder's proxy is revocable, the shareholder may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy, and (ii) delivering a copy of the revocation instrument to the proxy, and to the Company. Please note the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on the shareholder's behalf as of the later of (i) the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the Company and the proxy as aforesaid.
16. If the proxy form has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Companies Act to be delivered by the Company to the shareholder will be delivered by the Company to the shareholder or the shareholder's proxy or proxies, if the shareholder has directed the Company to do so, in writing and paid any reasonable fee charged by the Company for doing so.
17. The shareholder's proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder at the annual general meeting, but only as directed by the shareholder on the proxy form.
18. The appointment of the shareholder's proxy remains valid only until the end of the annual general meeting or any adjournment or postponement thereof or for a period of one year, whichever is shortest, unless it is revoked by the shareholder before then on the basis set out above.

CORPORATE INFORMATION

Lewis Group Limited
Incorporated in the Republic of South Africa

Registration number	2004/009817/06
Share code	LEW
ISIN	ZAE 000058236
Bond Code	LEW01
Bond ISIN No	ZAG000110222
Registered office	53A Victoria Road, Woodstock, 7925
Postal address	PO Box 43, Woodstock, 7915
Sponsor	UBS South Africa (Pty) Ltd
Attorneys	Edward Nathan Sonnenbergs
Auditors	PricewaterhouseCoopers
Bankers	ABSA Bank Limited First National Bank Limited Investec Bank Limited
Transfer secretaries	Computershare Investor Services Pty Ltd (Transfer Secretaries) PO Box 61051 Marshalltown, 2017
Investor relations	Tier 1 Investor Relations E-mail: ir@tier1ir.co.za
Website	**www.lewisgroup.co.za**

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welcome home

Really Cares about You!

www.lewisgroup.co.za