Lewis Group Ltd

INTEGRATED REPORT **2018**

Contents

Merchandise sales up
9.9%
to R2.9 billion

Gross profit margin at
41.4%

Operating cost growth contained to
3.3%

HEPS down
24.3%
to 302.6 cents

Debtor costs reduced by
10.1%

Total dividend maintained at
200 cents
per share

Achieved
Level 7
B-BBEE status

Acquired
UFO FURNITURE

Balance sheet
ungeared

Introducing the report

LEWIS GROUP HAS PLEASURE IN PRESENTING ITS 2018 INTEGRATED REPORT WHICH OUTLINES HOW THE BUSINESS IS POSITIONED TO CREATE VALUE FOR SHAREHOLDERS AND OTHER STAKEHOLDERS IN THE SHORT-, MEDIUM- AND LONG-TERM

The Integrated Report is central to the group's commitment to good corporate governance, underpinned by the reporting principles of transparency, accuracy, balance and materiality.

Reporting complies with the requirements of the Companies Act and the JSE Listings Requirements. The group has adopted the King IV Code on Corporate Governance (King IV) and the application of the 16 principles of the code are outlined in a separate King IV report, available on the **www.lewisgroup.co.za** website.

Integrated reporting framework

The reporting process is guided by the Integrated Reporting Framework of the International Integrated Reporting Council. The Framework recommends reporting to shareholders on the six capital resources that are used by the business in the creation of value. The group's performance and activities relative to these forms of capital are covered throughout the report and can be summarised as follows:

- **Financial capital** relates to the financial resources raised and deployed by the company
- **Manufactured capital** is the physical infrastructure used in selling merchandise and includes retail stores and the supply chain
- **Intellectual capital** is the collective knowledge and expertise across the business
- **Human capital** deals with the competency, capability and experience of the directors, management and staff
- **Social and relationship capital** deals primarily with the stakeholders that influence the group's business
- **Natural capital** relates to the group's environmental management practices and the way in which it manages its impact on natural resources

Reporting boundary

This report covers the integrated performance and activities of the Lewis Group which includes the main operating company, Lewis Stores (Proprietary) Limited, and its subsidiaries (the Group) for the period 1 April 2017 to 31 March 2018. The companies operate mainly in South Africa, where 82% of the group's revenue is generated, as well as Namibia, Botswana, Swaziland and Lesotho.

There has been no material change from last year in the comparability of reporting. The group acquired United Furniture Outlets (UFO) effective from 1 February 2018 and the results for two months were consolidated into the group.

In the year under review, the group reconsidered its accounting policy with respect to the treatment of advertising rebates. As a result, the group concluded that it had previously incorrectly classified these rebates, net of advertising expenses.

The group also made two reclassifications to the cash flow statement, whereby the movements in insurance and reinsurance premiums were incorrectly included in cash flows from trading, and bank overdrafts were incorrectly included as part of borrowings when it should have been part of cash and cash equivalents. The restatement is disclosed in note 6 – Gross Profit, and the Reclassifications to the cash flow statement in note 11 to the summary consolidated annual financial statements on pages 53 and 58.

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. Any forward-looking statements have not been reviewed or reported on by the group's external auditor.

Independent assurance

The content of the Integrated Report has been reviewed by the directors and management and 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

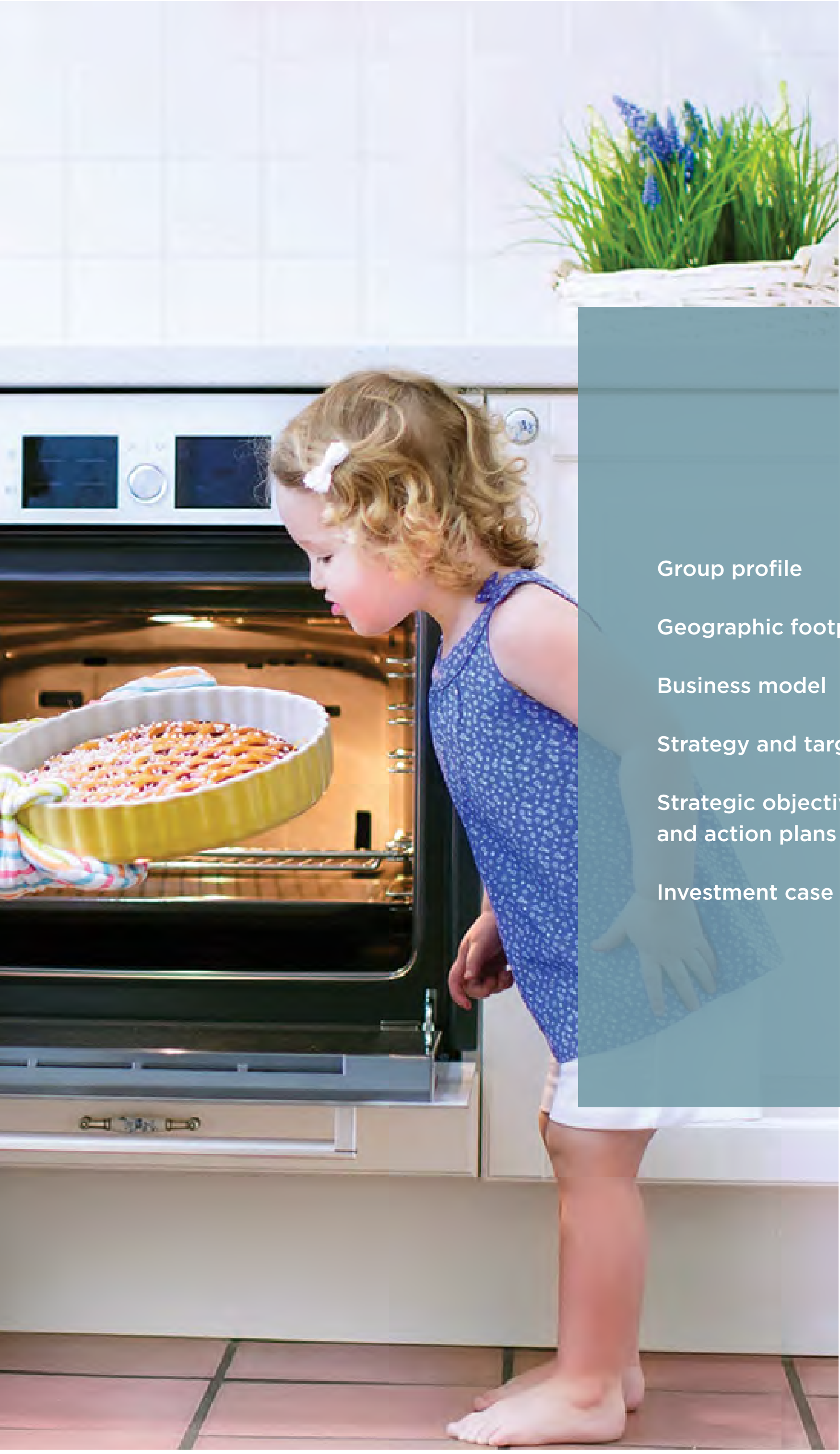
The board acknowledges its responsibility to ensure the integrity of the Integrated Report. The directors collectively confirm the Integrated Report addresses all material issues, the strategy, integrated performance as well as the group's prospects.

The Audit Committee, which has oversight for the preparation of the Integrated Report, recommended the report for approval by the directors who accordingly approved the 2018 Integrated Report for release to stakeholders.

Hilton Saven
Independent non-executive chairman

Johan Enslin
Chief executive officer

29 June 2018



CREATING VALUE FOR OUR STAKEHOLDERS

Group profile

LEWIS GROUP IS A LEADING RETAILER OF HOUSEHOLD FURNITURE AND ELECTRICAL APPLIANCES THROUGH ITS TRADING BRANDS LEWIS, BEARES, BEST HOME AND ELECTRIC, AND UNITED FURNITURE OUTLETS (UFO).

Founded in Cape Town in 1934, the Lewis Group has been listed on the JSE Limited since 2004. The group employs 8 000 permanent staff and is a meaningful contributor to job creation and support of the local furniture manufacturing sector.

The group has 773 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 499 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 117 stores.

Best Home and Electric was established in 2008 and sells home appliances as well as furniture ranges through 126 stores.

United Furniture Outlets (UFO) is a luxury brand cash furniture retailer for the higher income market, selling mainly lounge, bedroom and dining room ranges. UFO was established in 2004 and has a footprint of 31 stores, mostly in Gauteng. The group acquired the business with effect from 1 February 2018.

Lewis and Best Home and Electric target customers in the middle to lower income markets in the living standards measurement (LSM) 4 to 7 categories. Beares attracts customers in higher LSM (7–8) markets where the group has traditionally had limited exposure. UFO has a value offering to the upper income market, namely LSM 9–10+.

Credit is offered to customers in the traditional retail brands of Lewis, Beares and Best Home and Electric and the group has a credit customer base of close to 587 000. Credit sales accounted for 65.7% 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.

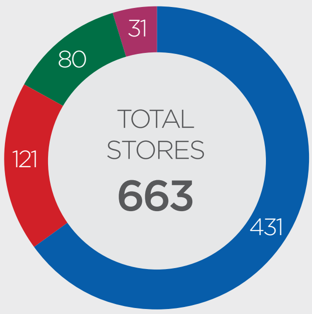
African presence

Lewis was one of the first South African retailers to expand into Southern African countries from the late 1960's. 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. There are currently 110 stores outside South Africa which collectively accounted for 22.5% of group merchandise sales in the current financial year.

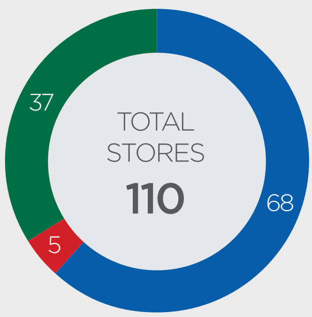
Customer commitment

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.

TOTAL STORES IN SOUTH AFRICA



TOTAL STORES OUTSIDE SOUTH AFRICA



- Lewis
- Best Home and Electric
- Beares
- UFO

TOTAL STORES 31 MARCH 2018

LEWIS
499
2017: 513

BEST HOME AND ELECTRIC
126
2017: 123

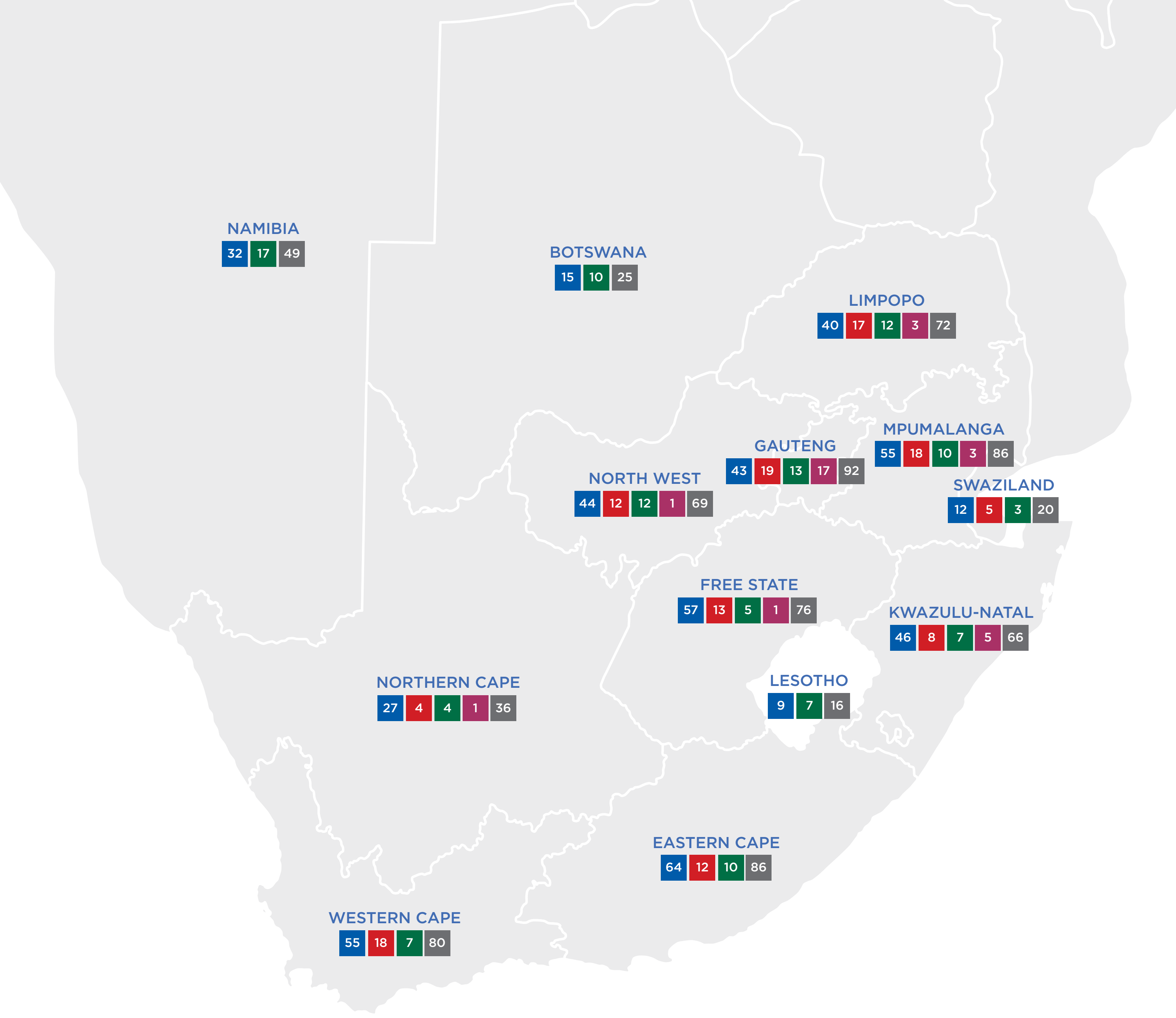
BEARES
117
2017: 125

UFO
31
2017: 0

TOTAL
773
2017: 761

Geographic footprint

	Lewis	Best Home and Electric	Beares	UFO	Total stores
Total in South Africa	431	121	80	31	663
Total outside South Africa	68	5	37	0	110
Total stores 31 March 2018	**499**	**126**	**117**	**31**	**773**
Total stores 31 March 2017	513	123	125	0	761



Business model

APPROACH

LEWIS GROUP IS FOCUSED ON THE RETAILING OF FURNITURE, HOME APPLIANCES, ELECTRONIC GOODS AND HOMEWARES THROUGH A DECENTRALISED, STORE BASED MODEL TO ALL INCOME TARGET MARKET GROUPS.

PROCESS

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

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

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

THIS PROCESS IS SUPPORTED BY LEADING TECHNOLOGY WHICH REMOVES THE ADMINISTRATIVE BURDEN AT STORE LEVEL AND ENABLES REAL-TIME MANAGEMENT REPORTING.

DIVERSIFICATION STRATEGY

The group has recently adopted a diversification strategy across market segments with the acquisition of Beares three years ago and the cash retailer UFO in 2018.

The group's core brands will continue to focus on selling furniture, home appliances and electronic goods to customers who are reliant on credit.

UFO is a cash retailer of luxury household furniture to the higher income market, with a retail footprint of 31 stores.

In May 2018, the group entered the home shopping market with the launch of INspire, an omni-channel retail offering to be marketed through outbound call centres, agents and online shopping at **www.inspire.co.za.**

This diversification will change the cash to credit sales mix over the medium term with UFO focused on cash retailing to the higher income market.

OUTPUTS

MERCHANDISE SALES

- The group sells furniture, home appliances, electronic goods and homewares to customers across the LSM groups and includes a credit offering
- Sales consultants are trained on product knowledge and selling skills
- The focus is on providing customers with quality, exclusive and differentiated furniture ranges. New ranges are introduced twice a year

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 DIVERSIFY ACROSS RETAIL CHANNELS AND MARKET SEGMENTS IN THE RETAILING OF FURNITURE, HOME APPLIANCES, ELECTRONIC GOODS AND HOMEWARES IN SOUTHERN AFRICA. THE GROUP IS DEVELOPING ITS RETAIL BRANDS TO CREATE SUSTAINABLE SHAREHOLDER VALUE BY OFFERING EXCLUSIVE MERCHANDISE TO CUSTOMERS ACROSS ALL INCOME GROUPS.

Medium-term growth strategies are developed by executive management and reviewed and approved by the board. These growth strategies are developed by taking into account internal and external factors, risks and opportunities, resources and relationships, and key interdependencies.

The strategy is further supported by detailed budgets and forecasts, information technology solutions, human capital requirements and operational policies and procedures.

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 will 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.

Material impacts, performance indicators and targets

PERFORMANCE AND TARGETS

Material impact	Performance indicators	Achieved 2018	Targets 2018	Targets 2019	Targets Medium-term
Merchandising and supply chain	Gross profit margin	**41.4%**	38% to 42%	38% to 42%	41% to 43%
Credit management	Debtor costs as a percentage of net debtors	**17.5%**	17% to 20%	15% to 18%	14% to 16%
	Satisfactory paid customers	**68.4%**	66% to 70%	67% to 70%	70% to 72%
Execution of business model	Operating profit margin	**6.8%**	5% to 10%	5% to 10%	12% to 15%
	Credit sales as a percentage of total sales	**65.7%**	63% to 66%	56% to 60%	56% to 60%
	Increase in operating costs (excluding UFO and INspire)	**2.2%**	2% to 4%	3% to 5%	3% to 5%
	(including UFO and INspire)	**3.3%**	n/a	13% to 15%	3% to 5%
Capital management	Gearing	**(1.4%)**	zero	zero	<25%
Human capital management	Total skills development score from B-BBEE report	**19.7**	18	19	19

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

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

Performance indicator	2018	2017	2016
Referrals to regulatory bodies	–	–	2
Fines imposed on the company	R5 m	–	–

Execution of business model

Strategic objective	Key risks	Management action plans
Effective execution of the Insurance business	• Inability to respond effectively to the ongoing regulatory changes • Business model dependence on core Lewis business	• Monitor uptake of existing insurance products • Ongoing monitoring of regulatory compliance • Task team focused on implementing new insurance legislation and licensing requirements

Performance indicator	2018	2017
Net premiums earned *versus* forecast	99.2%	99.0%

Execution of business model

Strategic objective	Key risks	Management action plans
Effective execution of the decentralised customer-focused retail business model	• Poor execution of the strategies and procedures of the business model by management • Insufficient experienced operational staff • Unsecured lending • Regulatory environment	• Diversification strategy • 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 indicator		2018	2017	2016
Operating profit margin	(%)	**6.8**	10.1	14.1
Credit sales percentage	(%)	**65.7**	65.2	64.3
Increase in operating costs excluding debtor costs	(%)	**3.3**	5.5	12.1

Credit management

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 high levels of unemployment, the impact of 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 indicator		2018	2017	2016
Cash collections from instalment sales	(%)	**74.9**	73.8	73.3
Debtor costs as a percentage of net debtors	(%)	**17.5**	17.1	17.1
Satisfactory paid customers	(%)	**68.4**	68.5	68.8

Strategic objectives, key risks and action plans continued

Merchandising and supply chain

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 • Manage inventory levels against budget • Purchase forward cover to hedge against risk of foreign currency fluctuations

Performance indicator		2018	2017	2016
Gross profit margin	(%)	**41.4**	42.4	38.0

Capital management

Strategic objective	Key risks	Management action plans
Efficient 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 and share buy-backs • Manage currency exposure and risk

Performance indicator		2018	2017	2016
Gearing	(%)	**(1.4)**	2.9	25.5
Dividend payout ratio	(%)	**70.2**	54.7	52.7

Human capital management

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 • Rollout ethics programme to branch staff

Performance indicator		2018	2017	2016
Executive turnover	(%)	**8.7**	5.2	n/a
Number of training interventions		**8 981**	11 652	12 512
B-BBEE level contributor score		**level 7**	level 8	non-compliant

Information technology

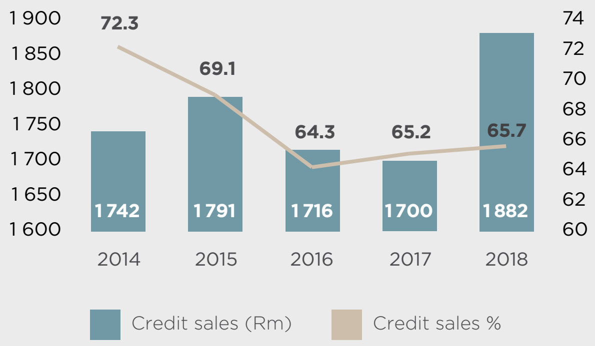
Strategic objective	Key risks	Management action plans
Develop and maintain industry-leading information systems	• Unavailability of main operating systems • Outdated software solutions • Loss of data as a result of the exposure of systems to mobile devices and various interfacing systems • Unauthorised access to sensitive corporate data and customers personal information • Cyber attacks	• 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 • Maintain and enhance the group's Information Security Management System (ISMS) • Real time network monitoring • Maintain and enhance cybersecurity solutions • Ongoing system implementation audits

Performance indicator		2018	2017	2016
Availability of key operating systems	(%)	**99.9**	99.9	99.9

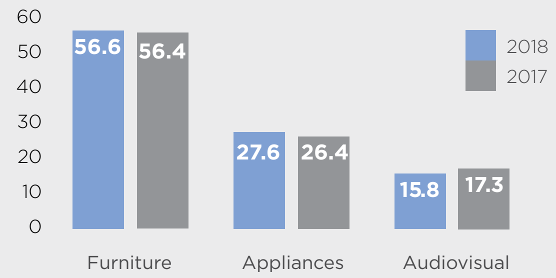
Investment case

LEWIS GROUP HAS EXTENSIVE EXPERIENCE OVER MANY DECADES OF OPERATING AS A CREDIT FURNITURE RETAILER IN SOUTH AFRICA'S MIDDLE TO LOWER INCOME MARKET. WITH THE RECENT ACQUISITION OF UFO, A CASH RETAILER OF LUXURY HOUSEHOLD FURNITURE TO THE HIGHER INCOME MARKET, THE GROUP HAS DIVERSIFIED. THE FOLLOWING FACTORS SHOULD SUPPORT LONG-TERM RETURNS FOR SHAREHOLDERS.

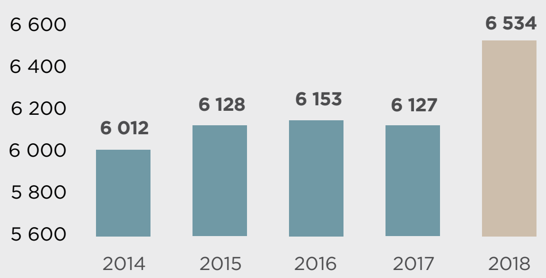
CREDIT SALES – Rands and as a percentage of merchandise sales



MERCHANDISE SALES MIX (%)



NET ASSET VALUE PER SHARE (CENTS)



Resilient business model in challenging environment

- Focused on one business: retailing of furniture, home appliances, electronic goods and homewares
- 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 Lewis, Beares and Best Home and Electric 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 all income target markets serviced by the group's brands
- 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

Customer loyalty and trust

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

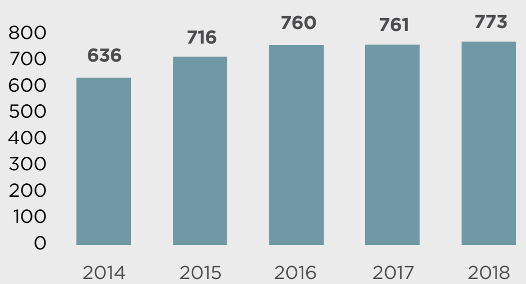
Experienced management team

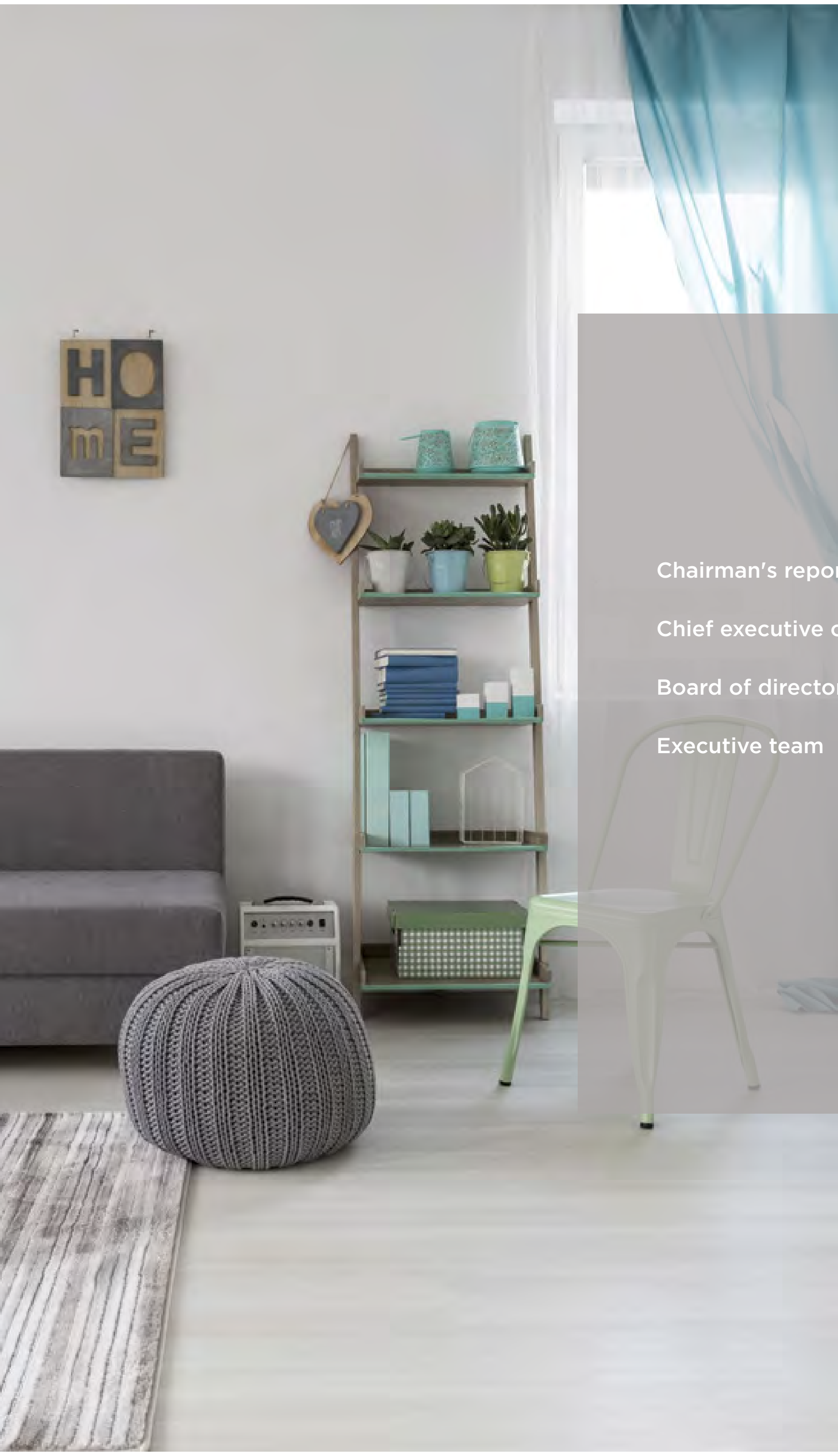
- Stable long-serving executive team
- Good balance of company and industry experience
- Leadership continuity from strong senior management

Expanding store network

- National coverage with 663 stores across urban and rural areas in South Africa
- Exposure to other African countries with 110 stores in Namibia, Botswana, Lesotho and Swaziland
- Expanded into upper income retail market with the acquisition of the UFO chain with 31 stores
- Stores conveniently located close to places where target customers live, work and commute

NUMBER OF STORES





LEADERSHIP AND PERFORMANCE

Chairman's report

After several years marked by political uncertainty and low economic growth, the change in political leadership with the appointment of Cyril Ramaphosa as president of South Africa in February 2018 heralded in a renewed optimism among consumers on the outlook for the country.

Hilton Saven
Chairman

Following three years of negative readings the consumer confidence index reached an all-time high in the first quarter of 2018, surpassing the previous record level of 2007 when South Africa achieved real economic growth of close to 6%.

However, the improving consumer sentiment is unlikely to translate into increased spending until structural changes in the economy generate sustainable growth and the country attracts renewed investment interest. This was confirmed by the contraction in the economy in the first quarter of 2018 which reflects the broad-based weakness in the economy.

South African consumers remain under pressure with disposable income constrained by the recent increase in the value-added tax rate, fuel price hikes impacting transport costs, as well as rising food, utility and healthcare costs.

Change in board leadership

The past year also saw a change in board leadership at Lewis Group. I would like to pay special tribute to my long-time board colleague David Nurek following his retirement as chairman and non-executive director in November 2017. David served as a director and chairman since the group's listing on the JSE in 2004 and we thank him for his decisive and insightful leadership of the board over this period. I also express my thanks to my fellow directors for their confidence in electing me to succeed David as chairman of the board.

Financial performance

After encountering major macro-economic and regulatory challenges over the past few years it is encouraging to note the improvement in the group's financial and operating performance. It was therefore disappointing that the strong increase of 9.9% in merchandise sales was neutralised by the 9.0% fall in other revenue, directly contributing to the group's headline earnings declining by 26.5%. The reasons for the reduction in other revenue are covered by the chief executive officer (CEO) and chief financial officer (CFO) in their respective reports which follow.

Shareholders can be reassured that the group is in a strong financial position. The balance sheet is ungeared after paying down debt of R1.5 billion in the past 18 months. The group had cash resources of close to R600 million at year end after funding the acquisition of United Furniture Outlets and returning over R160 million to shareholders through share buy-backs.

Despite the short-term revenue challenges the directors remain confident in the group's medium-term growth prospects and have maintained the total dividend for the year at 200 cents per share.

Improving regulatory outlook

Recent developments on the regulatory front have been positive for the group and should go some way to reducing the group's regulatory risk profile and providing more certainty to investors.

The board welcomed the outcomes of two long-standing legal cases after year end. In the first case the high court ruled in Lewis' favour regarding an appeal by the National Credit Regulator (NCR) in relation to the issues of club fees and extended warranties, and dismissed the appeal with costs. In the second case a settlement was reached in the matter between the NCR and Lewis Stores in relation to loss of employment and disability insurance.

The affordability assessment regulations imposed by the NCR in 2015 have had a profound impact on the group's sales as they denied access to credit to many creditworthy customers in the group's target market. The impact was particularly severe on sales to self-employed and informally employed consumers who were often not able to provide the required documentary proof of income. We therefore welcomed the outcome of the court challenge by three listed clothing retailers which resulted in the affordability regulations being overturned.

There are no further significant regulatory issues facing the group and we remain unwavering in our commitment to responsible credit granting practices and regulatory compliance.

Board of directors

Our board has undergone significant changes with three long-serving directors retiring and four new directors being appointed in the past year.

Ben van der Ross retired at the annual general meeting in October 2017 after serving as a director for 13 years. Ben made a valuable strategic contribution and we will miss his wise counsel on the board.

Les Davies stepped down as CFO and executive director at the end of the financial year in March 2018. He has served the group with distinction for close on 32 years, and as an executive director and CFO since 2007. Les will continue to serve as CEO of the group's short-term insurer, Monarch Insurance, and we are grateful to retain his services in this capacity.

As detailed above, our chairman David Nurek resigned as a non-executive director in November 2017 after 13 years on the board.

We welcomed Daphne Motsepe and Adheera Bodasing as non-executive directors in June 2017 and Duncan Westcott in December 2017. Our new directors have a wide range of skills and expertise that are relevant to our business and the board is already benefiting from their extensive knowledge.

Duncan has been appointed as chairman of the audit and risk committees, while Fatima Abrahams has assumed the chair of the remuneration committee.

Jacques Bestbier, an experienced chartered accountant who has been with the group since 2012, was appointed as CFO and as an executive director after serving as CFO designate over the past year. Jacques has a strong background in retail and financial management and the board believes his credentials are well-suited for the strategic role of CFO.

As a group and as a board we are committed to transformation and furthering the principles of broad-based black economic empowerment. The gender diversity policy introduced in 2016 has been extended and the board has now adopted a combined gender and race policy to further enhance diversity. A voluntary target of 25% representation has been set for gender and racial diversity. Currently 38% of the directors are female and 38% are black.

Corporate governance

One of the board's primary focus areas has been on overseeing the transition from King III to King IV and reporting in terms of the revised code for the first time.

The directors confirm that the group has in all material respects applied King IV and we note two departures. The board has chosen not to appoint a lead independent director as recommended by King IV as the directors believe that the chairman is an independent non-executive member of the board. The code also recommends that the chairman of the board should not serve as a member of the audit committee. While I have stood down as chairman of the audit committee, the remaining board members determined that my experience and expertise in the auditing profession are critical for continuity and for the efficient functioning of the audit committee.

The report of the group's application of the King IV principles, based on the apply and explain philosophy, is presented on the website.

Appreciation

Thank you to Johan Enslin and his executive team for leading the continued turnaround in the group's performance and to our management and staff for their ongoing commitment to meeting the needs of our customers. I also thank my board colleagues for their continued support and guidance.

Relationships with our external stakeholders are critical for the sustainability of the business and I thank our shareholders, customers, regulators, suppliers and business associates for their engagement and support over the past year.

Hilton Saven
Independent non-executive chairman

Chief executive officer's report

Lewis Group continued its recovery over the past year and this is reflected in stronger merchandise sales, tight expense control and lower debtor costs, supported by a healthy cash position and ungeared balance sheet.

Johan Enslin
Chief executive officer

However, the anticipated decline in other revenue negatively impacted the group's profitability for the year. The reasons for this reduction in other revenue, which comprises finance charges and initiation fees, insurance revenue and ancillary services, are twofold: firstly, declining annuity streams as a result of lower credit sales in prior years and secondly, the impact of the implementation of prescribed maximum credit life insurance rates in August 2017, which capped credit life premium income.

It is pleasing to report that the group's strategy of diversifying across all income groups in South Africa gained further traction with the acquisition of United Furniture Outlets (UFO). UFO is a cash retailer of luxury household furniture to the higher income market, with a strong store presence in Gauteng.

The directors believe the group's diversification strategy is low risk as the business is expanding into areas of retailing which are well known to management and within the group's core competencies.

Stronger trading performance

Merchandise sales increased by 9.9% over the prior year, benefiting from the inclusion of UFO for the two months since acquisition. Excluding the sales from UFO, the group's merchandise sales grew by 7.3%. Comparable store sales grew by 10.1%.

Stores outside South Africa, which comprise 14.2% of the total store base, contributed 22.5% (2017: 24.1%) of merchandise sales. Management continues to evaluate opportunities in other neighbouring countries as an expansion opportunity in the medium term.

Credit sales increased by 10.7% and cash sales by 8.2%. Group credit sales accounted for 65.7% (2017: 65.2%) of total sales. Following the acquisition of UFO we have revised our credit sales mix target to 56% to 60%, from the previous range of 63% to 66%.

Furniture accounted for 56.6% of total sales (2017: 56.3%) with appliances at 27.6% (2017: 26.4%) and electronics 15.8% (2017: 17.3%).

After declining by 3.2% for the first half, revenue increased by 1.8% in the second half to show a year-on-year decline of 0.6%, mainly for the reasons outlined above.

The group's gross profit margin at 41.4% (2017: 42.4%) remains at the upper end of management's target range of 38% to 42%. Competitive pricing on both locally and internationally sourced product, together with new ranges and exclusive merchandise, supported the margin.

The Beares brand continued its improving trend, with revenue increasing by 10.7% to R808 million and the operating margin expanding from 4.1% to 10.7%.

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

Debtor management

Debtor costs declined by 10.1% over the prior period as collection rates improved to 74.9% (2017: 73.8%).

The level of satisfactory paid customers at 68.4% is consistent with last year's 68.5%.

Debtor costs calculated in terms of IAS39 as a percentage of net debtors decreased from 19.1% last year to 17.5%, within the guided range of 17% to 20% and are expected to be within the 15% to 18% range in 2019. The impairment provision has been increased from 28.0% in 2017 to 29.6% in 2018.

The impairment provision has been increased from 28.0% in 2017 to 29.6% in 2018. Refer to the chief financial officer's report on page 33 for detail on the group's adoption of IFRS 9 Financial Instruments, which relates to the recognition and measurement of impairments.

Refer to the credit report on page 103 for further analysis of the debtors' book.

Retail store footprint

Following the acquisition of 31 UFO stores and the net closure of 19 stores across the Lewis and Beares brands, the group's store network totalled 773 at year-end.

Lewis continues to open smaller format stores which now account for 212 or 42% of the brand's 499 stores.

Integration of UFO

The acquisition of UFO is enabling the group to diversify its target market and access LSM 9 to 10+ customers, while increasing the cash-to-credit sales mix. We believe the business is scalable and has the potential to expand across South Africa and into the neighbouring countries.

The integration has been successfully completed, with the operational management team being retained which ensures continuity in the business.

UFO contributed merchandise sales of R66 million for the two months it was included in the group and we expect the brand to generate sales of over R400 million in the new financial year, with an operating profit margin of 8% to 9%. In the year ahead, five to ten UFO stores are expected to open, subject to the availability of space in upmarket shopping malls.

Launch of home shopping

Our diversification strategy is further evident in our entry into the home shopping market. Shortly after the reporting period the group launched INspire, an omni-channel retail offering which will be marketed through outbound call centres, agents and online shopping at **www.inspire.co.za**.

INspire has an extensive product offering across linen, bedding, tableware, cookware and small electrical appliances. The strategy is to attract customers in the LSM 4 to 8 categories to increase our footprint in urban areas. Customers will be offered six months interest-free shopping, delivery within five days and a 15-day return policy.

Outlook

The sales growth momentum is expected to continue into the new financial year. The favourable outcome of the clothing industry's court challenge with regard to the affordability assessment regulations of the National Credit Regulator will benefit sales. Prospective credit worthy self-employed and informally employed customers who were not able to supply payslips or bank statements are no longer required to provide this level of documentary proof of income. We are committed to providing credit to these customers in a responsible manner.

The UFO acquisition is central to the group's strategy to diversify across market segments and retail channels. Management plans to open a net 15 stores across all brands in the year ahead, while continuing to close marginal stores in the Lewis brand.

Appreciation

During the year we said farewell to both Ben van der Ross and our chairman David Nurek who both served the group with distinction since the listing in 2004. We wish Ben and David well.

Les Davies retired as CFO and as an executive director at the end of the financial year. We thank Les for his service of almost 32 years and are grateful that he has agreed to remain as CEO of Monarch Insurance where we will continue to benefit from his extensive insurance knowledge.

I would like to congratulate Hilton Saven on his appointment as chairman and Jacques Bestbier as CFO, and look forward to working closely with both of them in the years ahead.

The improved performance of the group is the result of a concerted team effort and I thank my fellow directors, executive colleagues and all our staff for their continued support and commitment over the past year.

Johan Enslin
Chief executive officer

Board of directors

Hilton Saven (65)

BCom, CA(SA)

Independent non-executive chairman

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

Appointed to the board June 2004

Appointed as chairman 1 December 2017

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

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.

Fatima Abrahams (55)

BEcon (Hons), MCom, DCom

Independent non-executive director

Chairperson of the Remuneration and Social, ethics and transformation Committees

Member of the Audit, Risk, 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.

Adheera Bodasing (44)

BBA, LLB, Intellectual Property Law

Non-executive director

Member of the Audit, Risk, Remuneration and Nomination Committees

Appointed 1 June 2017

Other directorships include: Polarity Consulting.

Ms Bodasing practised 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.

Jacques Bestbier (45)

CA(SA)

Chief financial officer

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

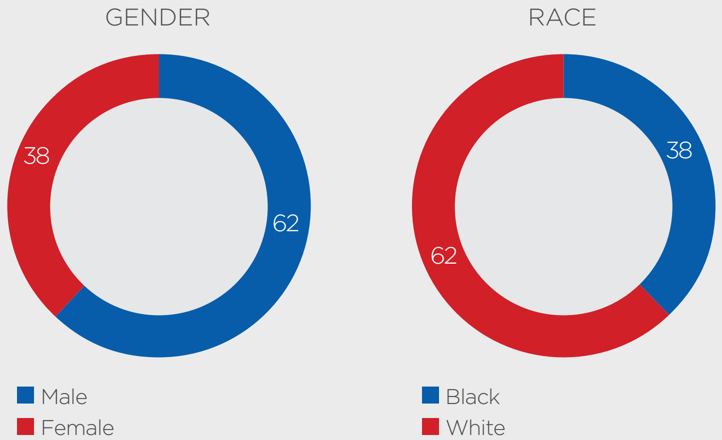
Appointed as executive director on 1 April 2018

Other directorships include: Lewis Stores Proprietary Limited.

Jacques was appointed as chief financial officer and an executive director of the group with effect from 1 April 2018. He has been CFO-designate of the group since June 2017 and succeeded Les Davies. Jacques joined the group in 2012 and served as general manager: administration prior to his appointment as CFO-designate.

An experienced chartered accountant with a background in short-term insurance, banking and retail, Jacques also spent six years with the Shoprite Group in financial and divisional management roles.

BOARD COMPOSITION



Les Davies (62)

CA(SA)

Outgoing chief financial officer

Appointed as executive director in 1 April 2007

Resigned from board 31 March 2018

Other directorships include: Lewis Stores Proprietary Limited and Monarch Insurance Company Limited.

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.

In a managed succession plan, he has resigned as an executive director and chief financial officer of the group effective from 1 April 2018. Les will remain with the group as Chief Executive Officer of Monarch Insurance.

Johan Enslin (44)

Chief executive officer

Member of the Risk, Social Ethics and Transformation Committees and attends the Audit committee by invitation

Appointed as Chief Executive Officer and director in October 2009

Other directorships include: Lewis Stores Proprietary Limited.

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 Proprietary Limited where he was responsible for all facets of Lewis and Best Home and Electric.

Daphne Motsepe (61)

BCompt, MBA

Independent non-executive director

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

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 and Woolworths Financial Services.

Alan Smart (73)

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 Limited.

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.

Duncan Wescott (67)

BSc Economics,
FCA (UK), CA(SA)

Independent non-executive director

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

Appointed 1 December 2017

Other directorships include: Monarch Insurance Company Limited, Standard Bank Mauritius, Shout It Now (NGO).

Duncan is a retired partner of PriceWaterhouseCoopers in South Africa and serves on the board of Standard Bank Mauritius as chairman of the audit committee and member of the Risk Management and Credit Committees. Duncan is also non-executive director of Shout It Now, an NGO focused on AIDS awareness, education and testing.

Executive team

Johan Enslin (44)

Chief executive officer

22 years' service

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 Proprietary Limited where he was responsible for all facets of Lewis and Best Home and Electric.

Waleed Achmat (55)

BA Hons (Industrial Psychology)

Human resources director
Lewis Stores Proprietary Limited

Appointed May 2017

Waleed is the human resources director of Lewis Stores Proprietary Limited with responsibility to drive and manage the implementation of both strategic and operational human resources throughout the business and embracing all employees. Waleed is an experienced human resources practitioner and registered psychometerist with significant experience in the mining industry and union negotiations.
Prior to joining Lewis, he was the HR Director of Eqstra Holdings MCC contract mining division.

Jacques Bestbier (45)

CA(SA)

Chief financial officer

Six years' service

Jacques was appointed as chief financial officer and an executive director of the group with effect from 1 April 2018. He has been CFO-designate of the group since June 2017 and succeeded Les Davies. Jacques joined the group in 2012 and served as general manager: administration prior to his appointment as CFO-designate.
An experienced chartered accountant with a background in short-term insurance, banking and retail, Jacques also spent six years with the Shoprite Group in financial and divisional management roles.

Les Davies (62)

CA(SA)

Chief executive officer
Monarch Insurance

32 years' service

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.

Derek Loudon (55)

Merchandise director

18 years' service

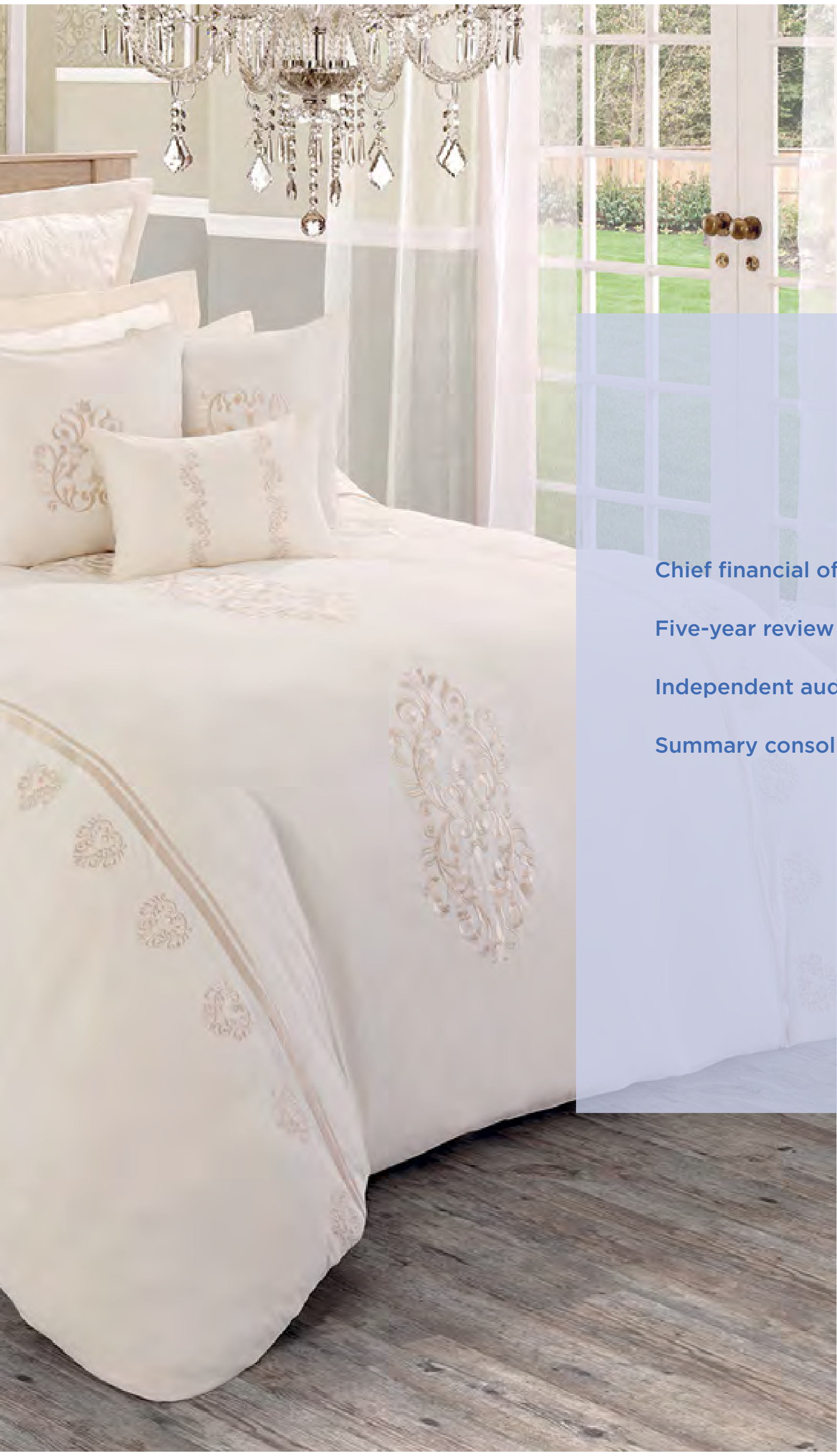
Derek is responsible for the group's merchandising functions which includes the sourcing of merchandise, logistics and product quality. He was appointed to the board of Lewis Stores Proprietary Limited on 8 October 2008.
Derek has extensive experience in merchandising and supply chain, having spent 10 years with Pick n Pay, Airflex Furniture Industries and eight years with Morkels.

Rinus Oliphant (43)

Operations director

20 years' service

Rinus was appointed as operations director in April 2017 and is responsible for the retail operations of Lewis, Beares and Best Home and Electric. Rinus joined the group as a salesman in 1996 and progressed to branch manager, regional controller and divisional general manager. In 2012, he was promoted to general manager operations of the Lewis Brand and thereafter appointed credit director responsible for all aspects of credit granting and collections in 2015.



FINANCIAL REVIEW

Chief financial officer's report

The group remains highly cash generative. Cash and cash equivalents totaled R579.6 million at year end after acquiring UFO and share repurchases.

After repaying borrowings of R1.5 billion over the past 18 months the group's balance sheet is ungeared and is expected to remain so over the next financial year.

Jacques Bestbier and Les Davies
Chief Financial Officers

Lewis Group continued to show a steady improvement in performance as all the financial and operating targets for the financial year were achieved. However, the expected decline in other revenue impacted the group's profitability and contributed to headline earnings reducing by 26.5% to R260.5 million (2017: R354.5 million). Headline earnings per share were 24.3% lower at 302.6 cents (2017: 399.5 cents).

The group remains highly cash generative. Cash and cash equivalents totaled R579.6 million at year end after acquiring UFO and share repurchases.

After repaying borrowings of R1.5 billion over the past 18 months the group's balance sheet is ungeared and is expected to remain so over the next financial year.

The directors have shown their confidence in the group's longer-term prospects by maintaining the total dividend at 200 cents per share.

Financial performance

The following review of the group's financial performance for the year ended 31 March 2018 should be read together with the audited annual financial statements available on the group's website.

Revenue

Merchandise sales for the period increased by 9.9% to R2 865 million (2017: R2 608 million).
This includes the sales of UFO for the two months since acquisition. Excluding the sales from UFO, the group's merchandise sales grew by 7.3%. Comparable store sales grew by 10.1%.

Credit sales increased by 10.7% and cash sales by 8.2%. Group credit sales accounted for 65.7% (2017: 65.2%) of total sales.

Other revenue, comprising finance charges and initiation fees, insurance revenue and ancillary services, declined by 9.8% to R2 692 million (2017: R2 984 million) owing mainly to lower credit sales in prior years which limited annuity income as well as the implementation of the prescribed maximum credit life insurance rates in August 2017.

The group's total revenue (merchandise sales and other revenue) showed a year-on-year decline of 0.6% to R5 557 million (2017: R5 592 million).

Gross profit

The group's gross profit margin at 41.4% (2017: 42.4%) remains at the upper end of management's target range of 38% to 42%.

Operating costs

Operating costs, excluding debtor costs, were contained below inflation, with an increase of only 3.3%, which was well below the growth in sales. Marketing and promotional costs were increased to support sales growth. Excluding the impact of UFO, expenses increased by only 2.2%.

Analysis of operating costs

	2018 Rm	2017 Rm	% change
Employment costs	**1 059**	987	7.3
Administration and IT	**328**	318	3.3
Marketing	**247**	222	11.1
Occupancy costs	**373**	371	0.7
Transport/travel	**205**	203	1.1
Depreciation	**86**	90	(4.6)
Other operating costs	**244**	270	(9.9)
Total	2 542	2 461	3.3

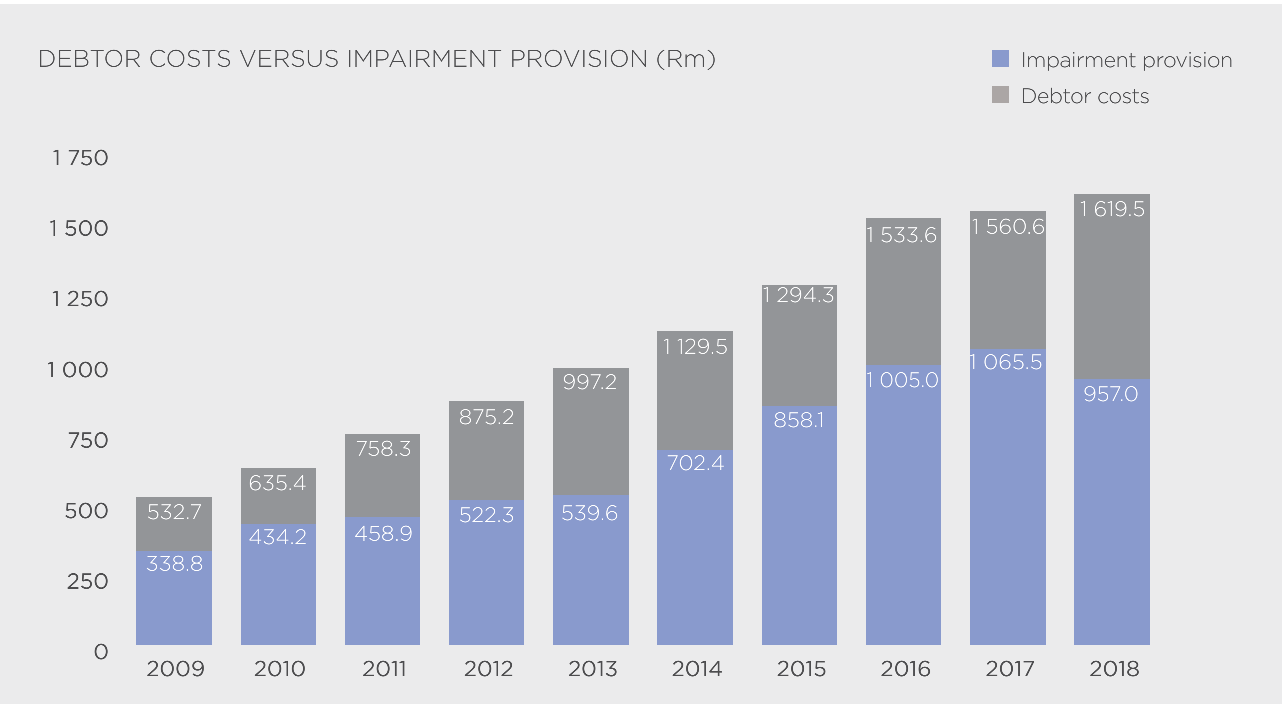
Debtor costs

Debtor costs declined by 10.1% compared to growth of 6.0% in the previous year. Debtor costs as a percentage of net debtors decreased from 19.1% in 2017 to 17.5% this year.

Analysis of debtor costs

		2018 Rm	2017 Rm
Total debtor costs		**957**	1 065
– Bad debts written off		**898**	1 038
– Impairment provision		**59**	27
Debtor costs as a percentage of net debtors	(%)	**17.5**	19.1
Debtor cost growth/(decrease)	(%)	**(10.1)**	6.0

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 in terms of future bad debts.



Chief financial officer's report continued

Operating profit

The decline in other revenue referenced above impacted the group's operating margin which contracted from 10.1% to 6.8%, within management's guided range. Operating profit before investment income was 32.8% lower at R379.3 million (2017: R564.1 million).

Investment income

Investment income net of finance costs improved significantly, reflecting a gain of R13.2 million this year compared to a charge of R43.5 million last year owing to the deployment of the excess cash invested in Monarch Insurance to reduce debt levels.

Segmental performance

The detailed financial and operational performance of the group's brands is covered in the merchandise and brands report on pages 98 to 102.

The group's strong financial position is confirmed by the increase in the net asset value per share from 6 127 cents to 6 534 cents.

Capital ratios	2018 (%)	2017 (%)
Return on equity	4.9	6.6
Return on capital employed	4.8	6.7
Return on assets	6.3	8.3

Capital ratios will remain under pressure in the short-term and are only expected to improve in the medium-term as the performance of the Lewis brand improves and the benefits of UFO and INspire are reflected in the group's performance.

Segmental performance		Group	Lewis	Best Home and Electric	Beares	UFO
Revenue	(Rm)	5 557	3 950	733	808	66
Revenue growth	(%)	(0.6)	(4.5)	1	10.7	–
Operating profit	(Rm)	379	180	121	82	(4)
Operating margin	(%)	6.8	4.6	16.5	10.2	(6.4)

Cash and capital management

The group's cash and capital management strategy is focused 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 totaled R708 million. The balance sheet is ungeared following the repayment of debt.

The group repurchased 5.4 million shares during the period, at an average price of R30.24 per share, for a total cost of R163.5 million. In terms of the mandate granted by shareholders at the previous annual general meeting, the group is able to repurchase a further 2.3 million shares until the next AGM.

Capital expenditure of R44 million (2017: R61 million) included the purchase of delivery vehicles for stores, computer equipment and fittings at stores.

Plans for 2019

The integration of UFO has been completed and the chain is expected to generate cash sales of over R400 million and achieve an operating profit margin of 8% to 9% in the 2019 financial year.

In the year ahead, other revenue is likely to show a decline but not to the same extent as in 2018. Insurance revenue is anticipated to decline by 15% to 20%, reflecting the ongoing impact of the capping of credit life insurance rates. Finance charges and ancillary services are expected to increase in the year ahead but at a far slower rate than the growth in credit sales.

IFRS 9, which relates to the recognition and measurement of financial instruments, becomes effective in the group's 2019 financial year.

The financial and operating targets for 2019 and the medium-term are as follows:

Performance indicators	2019 %	Medium term %
Gross profit margin	**38 – 42**	41 – 43
Debtor costs as a percentage of net debtors	**15 – 18**	14 – 16
Satisfactory paid customers	**67 – 70**	70 – 72
Operating profit margin	**5 – 10**	12 – 15
Credit sales as a percentage of total sales	**56 – 60**	56 – 60
Increase in operating costs (excluding debtor costs)	***13 – 15**	3 – 5
Gearing	**zero**	below 25

** Including UFO and INspire.*

The group expects the adoption of IFRS 9 to result in an increase in the level of balance sheet impairments. The adoption of the standard is expected to impact the recognition of revenue. Credit impaired receivables will be accounted for at the gross carrying amount net of loss allowance (amortised cost), resulting in lower interest income which will be offset by the appropriately lower impairment charge.

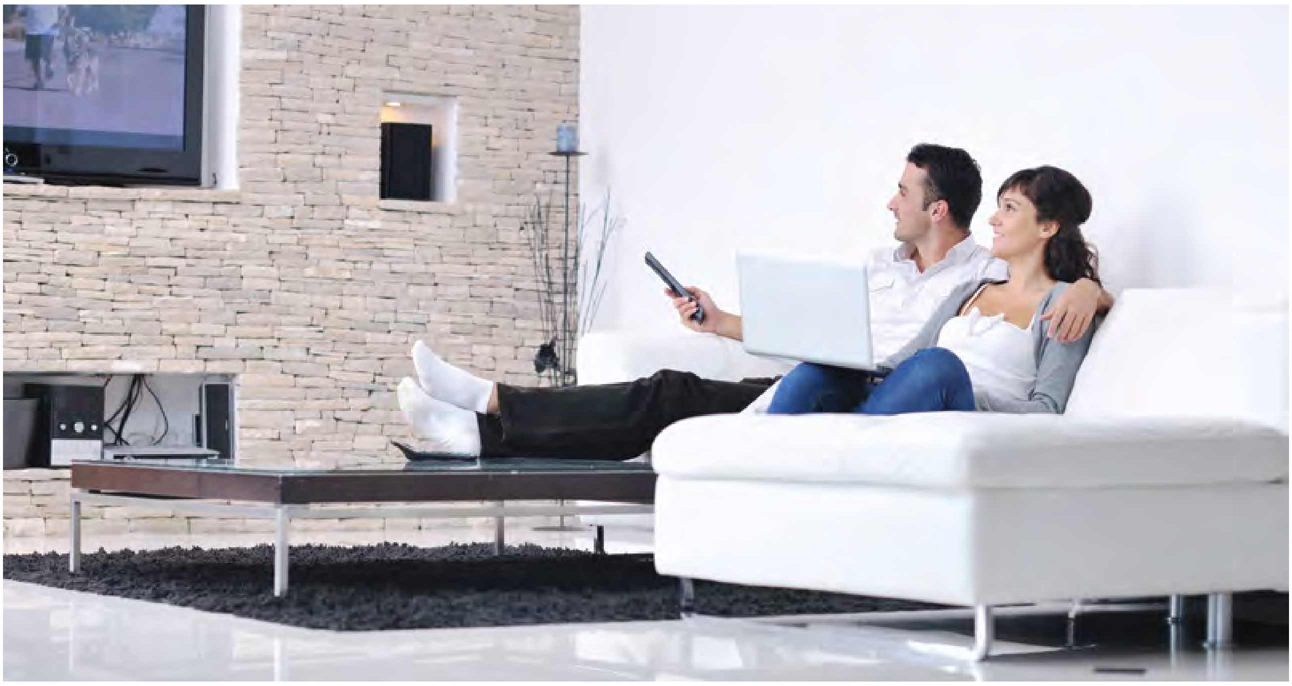
The group will not be restating prior periods and any difference between previously reported carrying amounts and new carrying amounts at the beginning of the annual reporting period will be recognised in opening retained earnings. The group will report according to the new standard in its 2019 interim results in November 2018.

Appreciation

Thank you to our local and international shareholders for your continued support of Lewis Group and to the broader investment community for your engagement over the past year. We also thank our colleagues in the group finance team for their continued dedication and commitment.

Les Davies
Chief financial officer
(resigned 1 April 2018)

Jacques Bestbier
Chief financial officer
(appointed 1 April 2018)



Five-year review

	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm
Group income statements					
Revenue	**5 556.8**	5 592.1	5 785.0	5 660.8	5 281.7
Merchandise sales	**2 865.0**	2 607.9	2 667.7	2 591.5	2 409.1
Other revenue	**2 691.8**	2 984.2	3 117.3	3 069.3	2 872.6
Cost of sales	**(1 677.8)**	(1 501.0)	(1 652.8)	(1 644.3)	(1 524.4)
Operating costs	**(3 499.7)**	(3 527.0)	(3 317.2)	(2 918.8)	(2 603.3)
Operating profit	**379.3**	564.1	815.0	1 097.7	1 154.0
Investment income	**62.4**	104.9	600.6	148.0	125.8
Profit before interest and taxes (EBITA)	**441.7**	669.0	1 415.6	1 245.7	1 279.8
Finance costs	**(49.2)**	(148.4)	(136.1)	(123.3)	(102.7)
Net profit before tax	**392.5**	520.6	1 279.5	1 122.4	1 177.1
Taxation	**(128.4)**	(163.1)	(318.0)	(316.2)	(334.9)
Attributable profit	**264.1**	357.5	961.5	806.2	842.2
Headline earnings	**260.5**	354.5	552.1	751.0	817.6
Group balance sheets					
Assets					
Non-current	**1 180.2**	975.0	1 012.5	2 206.5	1 822.6
Property, plant and equipment	**301.8**	343.5	370.4	352.9	327.3
Trademark	**117.8**	66.2	61.4	60.1	–
Goodwill	**187.6**	5.5	–	–	–
Deferred tax asset	**10.9**	48.9	85.7	0.5	0.6
Retirement benefit asset	**91.1**	55.0	63.0	77.4	79.7
Financial assets – insurance investments	**471.0**	455.9	432.0	1 715.6	1 415.0
Current	**5 604.5**	6 493.5	8 387.4	7 185.0	6 167.3
Inventories	**579.7**	447.7	438.4	420.3	324.6
Trade and other receivables	**4 068.9**	4 225.8	4 514.3	4 413.3	5 078.9
Reinsurance assets	**–**	152.2	397.3	481.8	–
Insurance premiums in advance	**75.6**	403.2	1 185.4	1 485.5	–
Financial assets – insurance investments	**135.4**	294.9	1 236.5	127.0	283.7
Taxation	**136.5**	181.1	28.3	34.8	–
Cash-on-hand and deposits	**608.4**	788.6	587.2	222.3	480.1
Total assets	**6 784.7**	7 468.5	9 399.9	9 391.5	7 989.9

	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm
Equity and liabilities					
Capital and reserves	**5 448.5**	5 440.4	5 445.0	5 448.6	5341.8
Non-current liabilities	**210.8**	890.7	1 534.3	1 034.1	1 266.4
Long term interest-bearing borrowings	**–**	700.0	1 375.0	825.0	1 000.0
Deferred taxation	**121.0**	89.0	59.1	102.4	173.5
Retirement benefit liability	**89.8**	101.7	100.2	106.7	92.9
Current liabilities	**1 125.4**	1 137.4	2 420.6	2 908.8	1 381.7
Trade and other payables	**417.0**	271.3	270.2	283.8	227.9
Reinsurance and insurance liabilities	**176.8**	618.8	1 550.4	1 876.0	388.7
Taxation	**–**	–	–	–	7.1
Short-term interest-bearing borrowings	**531.6**	247.3	600.0	749.0	758.0
Total equity and liabilities	**6 784.7**	7 468.5	9 399.9	9 391.5	7 989.9
Group cash flow statements					
Cash generated from operations	**708.2**	1 114.9	950.4	865.7	930.9
Dividends and interest received	**99.5**	144.0	119.0	113.1	104.1
Interest paid	**(88.1)**	(187.8)	(150.1)	(135.5)	(109.2)
Tax paid	**(58.5)**	(254.8)	(330.3)	(337.9)	(326.9)
Net cash retained from operations	**661.1**	816.3	589.0	505.4	598.9
Cash utilised in investing activities	**(90.6)**	769.8	(113.1)	(93.4)	35.3
Net effect of financing activities	**(757.2)**	(1 406.9)	(62.0)	(710.8)	(66.1)
Net cash increase/(decrease) in cash and cash equivalents	**(186.7)**	179.2	413.9	(298.8)	568.1

Five-year review continued

		2018	2017	2016	2015	2014
Ratios and statistics						
Returns						
Return on average shareholders funds (after-tax)	(%)	4.9	6.6	17.7	15.4	16.5
Return on average capital employed (after-tax)	(%)	4.8	6.7	14.7	13.0	13.6
Return on average assets managed (pre-tax)	(%)	6.3	8.3	15.9	14.2	16.8
Margins						
Gross profit margin	(%)	41.4	42.4	38.0	36.6	36.7
Operating profit margin	(%)	6.8	10.1	14.1	19.4	21.8
Productivity						
Number of stores		773	761	760	716	636
Revenue per store (refer note 6)	(R'000)	7 189	7 348	7 871	8 499	8 305
Operating profit per store (refer note 6)	(R'000)	491	741	1 109	1 699	1 814
Average number of employees (permanent employees only)		8 093	8 619	8 409	7 835	7 590
Revenue per employee	(R'000)	687	649	688	723	696
Operating profit per employee	(R'000)	47	65	97	140	152
Trading space	(sqm)	258 463	248 271	254 566	248 137	221 336
Revenue per square metre (refer note 7)	(R)	21 499	22 524	23 799	25 504	23 863
Operating profit per square metre (refer note 7)	(R)	1 468	2 272	3 353	5 098	5 214
Inventory turn	(times)	2.9	3.4	3.8	3.9	4.7
Credit ratios						
Credit sales	(%)	65.7	65.2	64.3	69.1	72.3
Bad debts as a percentage of net debtors	(%)	16.4	18.6	13.0	12.4	9.4
Debtors costs as a percentage of net debtors	(%)	17.5	19.1	17.1	15.3	11.6
Debtors impairment provision as a percentage of net debtors	(%)	29.6	28.0	26.1	23.1	18.6
Satisfactory paid accounts as a percentage of net debtors	(%)	68.4	68.5	68.8	68.7	68.3
Arrear instalments on satisfactory paid accounts as a perentage of gross debtors	(%)	9.2	9.8	9.9	9.1	8.6
Arrear instalments on slow paying and non-performing accounts as a percentage of gross debtors	(%)	28.8	28.6	26.8	23.8	22.6
Credit applications decline rate	(%)	37.1	38.7	39.3	40.2	38.4

		2018	2017	2016	2015	2014
Solvency and liquidity						
Financing cover	(times)	**9**	4,5	10,4	10,1	12,5
Gearing ratio	(%)	**(1.4)**	2.9	25.5	24.8	23.9
Current ratio	(times)	**5.0**	5.7	3.5	2.5	4.5
Share performance						
Earnings per share	(cents)	**306.8**	402.9	1 082.6	907.5	948.8
Headline earnings per share	(cents)	**302.7**	399.5	621.7	845.3	921.1
Cash flow per share	(cents)	**849.3**	1 255.7	1 070.1	974.4	1 048.8
Net asset value per share	(cents)	**6 534.2**	6 127.3	6 152.6	6 128.4	6 012.1
Share price:						
Closing price		**42.20**	41.50	47.00	77.40	58.00
High		**44.40**	54.11	101.62	93.43	73.00
Low		**23.67**	27.95	39.00	54.05	52.01
Price-earnings ratio		**13.8**	10.3	4.3	8.5	6.1
Dividends per share for the financial year	(cents)	**200**	200	517	517	517
Dividend payout ratio	(%)	**70.2**	54.8	52.7	62.9	60.2
Number of shares in issue	(million)	**92.7**	98.1	98.1	98.1	98.1
Volume of shares traded	(million)	**58.3**	59.3	128.6	116.9	88.2
Value of shares traded	(million)	**1 844.2**	2 764.6	8 278.5	8 030.7	5 455.1
Market capitalisation	(million)	**3 521**	3 685	4 159	6 876	5 687
Number of shareholders		**1 732**	1 695	2 410	3 060	3 930

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 and 2017 is calculated on an average to cater for the acquisitions during the year*

Summary consolidated financial statements

THESE FINANCIAL STATEMENTS ARE A SUMMARY OF THE GROUP'S AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018.

The audited annual financial statements were prepared by the group's Finance department under the supervision of both Mr LA Davies CA(SA), and Mr J Besbier 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 on the summary consolidated financial statements

To the Shareholders of Lewis Group Limited

Opinion

The summary consolidated financial statements of Lewis Group Limited, set out on pages 40 to 58 of the Lewis Group Limited Integrated Annual Report, which comprise the summary consolidated balance sheet as at 31 March 2018, the summary consolidated 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 2018.

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 JSE Limited's (JSE) requirements for summary financial statements, as 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.

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 23 May 2018. 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 JSE Limited's (JSE) requirements for summary financial statements, 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: MC Hamman
Registered Auditor

Cape Town
23 May 2018

Income statement

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 Audited Rm	2017 Restated Rm
Revenue		**5 556.8**	5 592.1
Merchandise sales	6	**2 865.0**	2 607.9
Other revenue		**2 691.8**	2 984.2
Finance charges and initiation fees earned		**1 361.6**	1 451.8
Insurance revenue		**671.0**	822.3
Ancillary services		**659.2**	710.1
Cost of merchandise sales	6	**(1 677.8)**	(1 501.0)
Operating costs		**(3 499.7)**	(3 527.0)
Debtor costs	2.2	**(957.3)**	(1 065.5)
Employment costs		**(1 059.1)**	(987.0)
Occupancy costs		**(373.2)**	(370.8)
Administration and IT		**(328.8)**	(318.4)
Transport and travel		**(205.0)**	(202.8)
Marketing		**(246.6)**	(222.0)
Depreciation and amortisation		**(85.9)**	(90.1)
Other operating costs		**(243.8)**	(270.4)
Operating profit before investment income		**379.3**	564.1
Investment income	3.2	**62.4**	104.9
Profit before finance costs		**441.7**	669.0
Net finance costs		**(49.2)**	(148.4)
Interest paid		**(87.6)**	(174.3)
Interest received		**38.9**	39.4
Forward exchange contracts		**(0.5)**	(13.5)
Profit before taxation		**392.5**	520.6
Taxation	7	**(128.4)**	(163.1)
Net profit attributable to ordinary shareholders		**264.1**	357.5
Earnings per share	(cents)	**306.8**	402.9
Diluted earnings per share	(cents)	**301.3**	398.6

Statement of comprehensive income

FOR THE YEAR ENDED 31 MARCH 2018

	2018 Audited Rm	2017 Restated Rm
Net profit for the year	**264.1**	357.5
Items that may be subsequently reclassified to income statement:		
Movement in other reserves	**9.9**	(2.4)
Fair value adjustment to available-for-sale investments	**22.8**	9.6
Disposal of available-for-sale investments	**(1.3)**	(0.2)
Foreign currency translation reserve	**(11.6)**	(11.8)
Items that may not be subsequently reclassified to income statement:		
Retirement benefit remeasurements	**42.6**	1.2
Other comprehensive income	**52.5**	(1.2)
Total comprehensive income for the year attributable to equity shareholders	**316.6**	356.3

Earnings and dividends per share

FOR THE YEAR ENDED 31 MARCH 2018

		2018 Audited Rm	2017 Restated Rm
Weighted average number of shares			
Weighted average		**86 073**	88 730
Diluted weighted average		**87 670**	89 699
Headline earnings			
Attributable earnings		**264.1**	357.5
Profit on disposal of fixed assets		**(2.4)**	(1.6)
Profit on disposal of available-for-sale investments		**(1.2)**	(0.2)
Gain on acquisition of Beares		**–**	(1.2)
Headline earnings		**260.5**	354.5
Earnings per share			
Earnings per share	(cents)	**306.8**	402.9
Diluted earnings per share	(cents)	**301.3**	398.6
Headline earnings per share			
Headline earnings per share	(cents)	**302.6**	399.5
Diluted headline earnings per share	(cents)	**297.1**	395.2
Dividends per share			
Dividends paid per share			
Final dividend 2017 (2016)	(cents)	**100.0**	302.0
Interim dividend 2018 (2017)	(cents)	**100.0**	100.0
	(cents)	**200.0**	402.0
Dividends declared per share			
Interim dividend 2018 (2017)	(cents)	**100.0**	100.0
Final dividend 2018 (2017)	(cents)	**100.0**	100.0
	(cents)	**200.0**	200.0

Balance sheet

AS AT 31 MARCH 2018

	Notes	2018 Audited Rm	2017 Restated Rm
Assets			
Non-current assets			
Property, plant and equipment		**301.8**	343.5
Trademarks		**117.8**	66.2
Goodwill		**187.6**	5.5
Deferred taxation		**10.9**	48.9
Retirement benefit asset		**91.1**	55.0
Financial assets – insurance investments	3.1	**471.0**	455.9
		1 180.2	975.0
Current assets			
Inventories		**579.7**	447.7
Trade and other receivables	2.1	**4 068.9**	4 225.8
Reinsurance assets	3.3	**–**	152.2
Insurance premiums in advance		**75.6**	403.2
Taxation		**136.5**	181.1
Financial assets – insurance investments	3.1	**135.4**	294.9
Cash-on-hand and deposits		**608.4**	788.6
		5 604.5	6 493.5
Total assets		**6 784.7**	7 468.5
Equity and liabilities			
Capital and reserves			
Share capital and premium		**425.0**	588.5
Treasury shares		**(480.2)**	(480.2)
Other reserves		**42.6**	6.2
Retained earnings		**5 461.1**	5 325.9
		5 448.5	5 440.4
Non-current liabilities			
Long-term interest-bearing borrowings	4	**–**	700.0
Deferred taxation		**121.0**	89.0
Retirement benefit liability		**89.8**	101.7
		210.8	890.7
Current liabilities			
Trade and other payables		**417.0**	271.3
Reinsurance and insurance liabilities	3.4	**176.8**	618.8
Short-term interest-bearing borrowings	4	**531.6**	247.3
		1 125.4	1 137.4
Total equity and liabilities		**6 784.7**	7 468.5

Statement of changes in equity

FOR THE YEAR ENDED 31 MARCH 2018

	2018 Audited Rm	2017 Restated Rm
Share capital and premium		
Opening balance	**588.5**	588.5
Cost of own shares acquired	**(163.5)**	–
	425.0	588.5
Treasury shares		
Opening balance	**(480.2)**	(496.4)
Share awards to employees	**–**	16.2
	(480.2)	(480.2)
Other reserves		
Opening balance	**6.2**	27.5
Other comprehensive income for the year		
Fair value adjustments of available-for-sale investments	**22.8**	9.6
Disposal of available-for-sale investments recognised	**(1.3)**	(0.2)
Foreign currency translation reserve	**(11.6)**	(11.8)
Share-based payment	**26.5**	(4.0)
Transfer of share-based payment reserve to retained earnings on vesting	**–**	(14.9)
	42.6	6.2
Retained earnings		
Opening balance	**5 325.9**	5 325.4
Net profit attributable to ordinary shareholders	**264.1**	357.5
Distribution to shareholders	**(171.5)**	(356.9)
Transfer of share-based payment reserve to retained earnings on vesting	**–**	14.9
Share awards to employees	**–**	(16.2)
Retirement benefit remeasurements	**42.6**	1.2
	5 461.1	5 325.9
Balance as at 31 March	**5 448.5**	5 440.4

Cash flow statement

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 Audited Rm	2017 Restated Rm
Cash flow from operating activities			
Cash flow from trading		**606.3**	686.0
Operating profit before investment income		**379.3**	564.1
Adjusted for:			
Share-based payments		**26.5**	(4.0)
Depreciation and amortisation		**85.9**	90.1
Movement in debtors impairment provision		**58.9**	27.0
Movement in other provisions		**47.8**	1.1
Other movements		**7.9**	7.7
Changes in working capital:		**101.9**	428.8
(Increase)/decrease in inventories		**(27.3)**	13.2
Decrease in trade and other receivables		**91.8**	322.8
Increase in trade payables		**(0.4)**	(2.9)
Decrease in insurance premiums in advance		**327.6**	782.2
Decrease in reinsurance asset		**152.2**	245.1
Decrease in reinsurance and insurance liabilities		**(442.0)**	(931.6)
Cash generated from operations		**708.2**	1 114.8
Interest received		**99.5**	144.0
Interest paid		**(88.1)**	(187.8)
Taxation paid		**(58.5)**	(254.8)
		661.1	816.2
Cash utilised in investing activities			
Net disposals of insurance business investments		**176.0**	931.1
Purchase of insurance investments		**(81.5)**	(2 253.8)
Disposals of insurance investments		**257.5**	3 184.9
Acquisition of property, plant and equipment		**(44.4)**	(61.3)
Purchase of businesses	9	**(234.6)**	(107.6)
Proceeds on disposal of property, plant and equipment		**12.4**	7.6
		(90.6)	769.8
Cash flow from financing activities			
Dividends paid		**(171.5)**	(356.9)
Repayments of borrowings		**(422.2)**	(1 050.0)
Purchase of own shares		**(163.5)**	–
		(757.2)	(1 406.9)
Net (decrease)/increase in cash and cash equivalents		**(186.7)**	179.2
Cash and cash equivalents at the beginning of the year		**766.3**	587.2
Cash and cash equivalents at the end of the year		**579.6**	766.3

Notes to the summary consolidated financial statements

FOR THE YEAR ENDED 31 MARCH 2018

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 2018. The audited annual financial statements were prepared by the group's Finance Department under the supervision of Mr LA Davies CA(SA) and Mr J Bestbier CA(SA). A copy of the full set of the audited financial statements is available for inspection at the company's registered office.

		2018 Audited Rm	2017 Audited Rm
2. TRADE AND OTHER RECEIVABLES			
2.1 Trade receivables			
Instalment sale and loan receivables		**5 997.0**	6 107.1
Contractually due within 12 months		**2 325.9**	2 368.6
Contractually due after 12 months		**3 671.1**	3 738.5
Unearned provisions		**(519.4)**	(525.9)
Provision for unearned maintenance income		**(309.1)**	(320.0)
Provision for unearned finance charges and unearned initiation fees		**(210.3)**	(205.9)
Net instalment sale and loan receivables		**5 477.6**	5 581.2
Provision for impairment		**(1 619.5)**	(1 560.6)
		3 858.1	4 020.6
Other receivables		**210.8**	205.2
		4 068.9	4 225.8
Debtors' impairment provision as percentage of net debtors	(%)	**29.6**	28.0

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 6 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.

  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.

Notes to the summary consolidated financial statements

FOR THE YEAR ENDED 31 MARCH 2018

2. TRADE AND OTHER RECEIVABLES CONTINUED

2.1 Trade receivables continued

- **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.

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

Contractual arrears

The key aspect of the arrear 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 arrear. The group does not consider arrears the leading indicator, but rather payment ratings for the reasons mentioned above.

2. TRADE AND OTHER RECEIVABLES CONTINUED

2.1 Trade receivables continued

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.

March 2018		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 who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.	No %	401 183 68.4%	3 473 979 57.9%	18 039 1.1%	549 506	155 673	105 593	77 633	58 003	152 604
Slow payers Customers 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.	No %	51 311 8.7%	515 597 8.6%	196 021 12.1%	308 975	37 594	36 230	33 546	30 741	170 864
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.	No %	45 940 7.8%	555 813 9.3%	262 519 16.2%	356 918	34 573	32 780	30 928	29 308	229 329
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.	No %	88 430 15.1%	1 451 638 24.2%	1 142 920 70.6%	1 062 130	67 452	66 131	64 513	62 792	801 242
Total		586 864	5 997 027	1 619 499	2 277 529	295 292	240 734	206 620	180 844	1 354 039
Unearned provisions			(519 449)							
Net instalment sale and loan receivables			5 477 578	29.6%						

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 who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.	No %	422 070 68.5%	3 507 921 57.4%	27 609 1.8%	596 271	162 822	114 395	86 010	65 285	167 759
Slow payers Customers who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 13% to 72% of amounts due and includes an *in duplum* provision.	No %	52 078 8.4%	538 715 8.9%	192 890 12.4%	321 871	37 240	36 064	33 849	31 573	183 145
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 24% to 86% of amounts due.	No %	47 981 7.8%	576 347 9.4%	258 823 16.6%	366 979	34 413	32 902	31 201	29 727	238 736
Non-performing accounts Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from 34% to 100% of amounts due.	No %	94 118 15.3%	1 484 119 24.3%	1 081 237 69.2%	1 057 905	67 299	66 090	64 564	63 075	796 877
Total		616 247	6 107 102	1 560 559	2 343 026	301 774	249 451	215 624	189 660	1 386 517
Unearned provisions			(525 900)							
Net instalment sale and loan receivables			5 581 202	28.0%						

An in duplum provision of R18.8 million (2017: R29.1 million) has been provided.

Notes to the summary consolidated financial statements

FOR THE YEAR ENDED 31 MARCH 2018

2. TRADE AND OTHER RECEIVABLES CONTINUED

2.1 Trade receivables continued

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 22.7% (2017: 22.5%) and the average term of the sale is 32.8 months (2017: 32.6 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.

	2018 Audited Rm	2017 Audited Rm
2.2 Debtor costs		
Bad debts, repossession losses and bad debt recoveries	**898.4**	1 038.5
Movement in impairment provision	**58.9**	27.0
Closing balance	**1 619.5**	1 560.6
Opening balance	**(1 560.6)**	(1 533.6)
	957.3	1 065.5
Debtor costs as a percentage of net instalment sale and loan receivables	**17.5%**	19.1%

	2018 Audited Rm	2017 Audited Rm
3. INSURANCE		
3.1 Insurance investments		
Financial assets – insurance investments		
Listed investments		
Fixed income securities – available-for-sale	**471.0**	455.9
Unlisted Investments		
Money market – available-for-sale	**135.4**	294.9
	606.4	750.8
Analysed as follows:		
Non-current	**471.0**	455.9
Current	**135.4**	294.9
	606.4	750.8
Movement for the year		
Beginning of the year	**750.8**	1 668.5
Additions to investments	**81.5**	2 253.8
Disposals of investments	**(255.7)**	(3 184.6)
Fair value adjustment	**29.8**	13.1
End of the year	**606.4**	750.8

A register of listed investments is available for inspection at the company's registered office.

3. INSURANCE CONTINUED

3.1 Insurance investments continued

Fair value hierarchy

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

	Level 2 Rm	Total Rm
2018		
Available-for-sale assets:		
Insurance investments:		
Fixed income securities	**471.0**	**471.0**
Money market	**135.4**	**135.4**
	606.4	**606.4**
2017		
Available-for-sale assets:		
Insurance investments:		
Fixed income securities	455.9	455.9
Money market	294.9	294.9
	750.8	750.8

The categorisation of the valuation techniques used to value the assets at fair value are as set out in IFRS 13.

	2018 Audited Rm	2017 Audited Rm
3.2 Investment income		
Interest – insurance business	**60.7**	104.6
Realised gain on disposal of insurance investments	**1.7**	0.3
	62.4	104.9
3.3 Reinsurance assets		
Reinsurer's share of unearned premiums	**–**	123.8
Opening balance	**123.8**	364.0
Recognised in income statement	**(100.6)**	(240.2)
Cessation of reinsurance	**(23.2)**	–
Reinsurer's share of insurance premiums	**–**	28.4
Opening balance	**28.4**	33.3
Recognised in income statement	**(13.5)**	(4.9)
Cessation of reinsurance	**(14.9)**	–
Total reinsurance assets	**–**	152.2

The reinsurance arrangements with Constantia Insurance Company Limited were terminated with effect from 6 April 2018. Related reinsurance assets and liabilities were derecognised at the balance sheet date. The reinsurance arrangements conducted during the financial year are fully reflected in the income statement.

Notes to the summary consolidated financial statements

FOR THE YEAR ENDED 31 MARCH 2018

	2018 Audited Rm	2017 Audited Rm
3. INSURANCE CONTINUED		
3.4 Insurance and reinsurance liabilities		
Unearned premiums	133.2	412.1
Opening balance	412.1	1 090.8
Income statement movement	(278.9)	(678.7)
Due to reinsurers	0.9	0.3
Other insurance and reinsurance liabilities	42.7	206.4
Opening balance	206.4	361.2
Income statement movement	(125.6)	(154.8)
Cessation of reinsurance	(38.1)	–
Total reinsurance and insurance liabilities	176.8	618.8
Total insurance liabilities	175.9	487.7
Total reinsurance liabilities	0.9	131.1

	2018 Audited Rm	2017 Audited Rm
4. BORROWINGS, BANKING FACILITIES AND CASH		
Interest-bearing borrowings		
Long-term		
Banking facilities	–	700.0
Short-term		
Banking facilities	502.8	225.0
Bank overdrafts	28.8	22.3
	531.6	947.3
Cash on hand and deposits	(608.4)	(788.6)
Net borrowings	(76.8)	158.7
Unutilised facilities		
Banking facilities	1 618.4	2 116.3
Domestic Medium Term Note Programme	2 000.0	2 000.0
	3 618.4	4 116.3
Available facilities	3 541.6	4 275.0
Interest rate profile		
Interest rate profile of borrowings is as follows:		
Bank borrowings at interest rates linked to three month JIBAR. The weighted average interest rate at the end of the reporting period is 9.1 % (2017: 9.6%)	502.8	925.0
	502.8	925.0
Cash and cash equivalents		
Cash on hand and deposits	608.4	788.6
Bank overdrafts	(28.8)	(22.3)
	579.7	766.4
Capital management		
Net borrowings	(76.8)	158.7
Shareholder's equity	5 448.5	5 440.4
Gearing ratio	(1.4%)	2.9%

5. REPORTABLE SEGMENTS

Primary		Lewis Rm	Best Home and Electric Rm	Beares Rm	UFO[1] Rm	Group Rm
2018						
Revenue		**3 950.2**	**732.5**	**808.1**	**66.0**	**5 556.8**
Operating profit before investment income		**180.4**	**121.1**	**82.0**	**(4.2)**	**379.3**
Operating margin	(%)	**4.6**	**16.5**	**10.1**	**(6.4)**	**6.8**
Segment assets		**3 115.0**	**575.2**	**637.7**	**110.0**	**4 437.9**
2017 (Restated)						
Revenue		4 137.0	725.4	729.7	–	5 592.1
Operating profit before investment income		423.5	111.0	29.6	–	564.1
Operating margin	(%)	10.2	15.3	4.1	–	10.1
Segment assets		3 356.6	578.6	539.3	–	4 474.5

[1] *Reflects only the two months trading since its acquisition by the group.*

Geographical	South Africa Rm	Namibia Rm	BLS* Rm	Group Rm
2018				
Revenue	**4 551.2**	**497.6**	**508.0**	**5 556.8**
2017 (Restated)				
Revenue	4 559.0	526.3	506.8	5 592.1

* *Botswana, Lesotho and Swaziland.*

6. GROSS PROFIT

		2018 Audited Rm	2017 Restated Rm
Merchandise sales		**2 865.0**	2 607.9
Cost of Merchandise Sales		**(1 677.8)**	(1 501.0)
Merchandise Gross Profit		**1 187.2**	1 106.9
Gross profit percentage	(%)	**41.4**	42.4

Restatement

During the year, the group reconsidered its accounting policy with respect to the treatment of advertising rebates. The group's advertising rebates result from the process of negotiating the best product price with the supplier and therefore the group does not provide distinct goods or services to its suppliers in exchange for the rebates.

As a result of reconsidering the accounting policy, the group concluded that it previously incorrectly classified these rebates, net of advertising expenses. It was concluded that the group's inventory accounting policy should be changed in accordance with "IAS 8: Accounting policies, changes in accounting estimates and errors".

Notes to the summary consolidated financial statements

FOR THE YEAR ENDED 31 MARCH 2018

		2018 Effect of change Rm	2017 Effect of change Rm	2016 Effect of change Rm
6. GROSS PROFIT CONTINUED				
Impact on balance sheet				
Inventories		**(5.7)**	(6.9)	(6.1)
Retained earnings		**(4.1)**	(4.9)	(4.4)
Deferred tax liabilities		**(1.6)**	(2.0)	(1.7)
Impact on income statement				
Cost of sales		**(20.8)**	(21.4)	
Other operating expenses – Marketing		**19.8**	22.1	
Attributable profit for the year		**(0.7)**	(0.5)	
Total comprehensive income for the year		**(0.7)**	(0.5)	
Basic earnings per share	(cents)	**(0.8)**	(0.6)	
Diluted earnings per share	(cents)	**(0.7)**	(0.5)	
Basic headline earnings per share	(cents)	**(0.8)**	(0.6)	
Diluted headline earnings per share	(cents)	**(0.8)**	(0.6)	
Impact on statement of cash flows				
Cash flow from trading		**(1.2)**	(1.6)	
Changes in working capital		**1.2**	1.6	
Net movement in cash and cash equivalents		**–**	–	

	2018 Audited Rm	2017 Restated Rm
7. TAXATION		
Taxation charge		
Normal taxation		
Current year	**93.5**	100.3
Prior year	**(0.6)**	0.8
Deferred taxation		
Current year	**29.8**	61.1
Prior year	**(6.8)**	0.9
Withholding tax	**12.5**	–
Taxation per income statement	**128.4**	163.1
Tax rate reconciliation		
Profit before taxation	**392.5**	520.6
Taxation calculated at a tax rate of 28% (2017: 28%)	**109.9**	145.8
Differing tax rates in foreign countries	**4.5**	6.3
Disallowances	**22.8**	14.5
Exemptions	**(13.9)**	(5.2)
Prior years	**(7.4)**	1.7
Withholding tax	**12.5**	–
Taxation per income statement	**128.4**	163.1
Effective tax rate	**32.7%**	31.3%

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 judgement 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 judgement in October 2016. As a consequence of the appeal, discussions between Lewis and the NCR took place and the parties reached agreement that they would seek an order by consent from the High Court setting aside and replacing the judgement of the NCT with an order from the High Court. On 2 May 2018, at the request of the parties the High Court set aside the order by the NCT and substituted the order with the following:

1. Lewis contravened the NCA through the sale of loss of employment insurance to consumers who are retired or self-employed;
2. Save insofar as is permitted by law, Lewis shall not offer or demand that any pensioner or self-employed consumer pay for loss of employment insurance;
3. Lewis shall, within 30 calendar days of the order, pay an amount of R5 000 000 (five million Rand) as a fine;
4. Independent auditors will review PWC's report of factual findings on Lewis' criteria which identified effected customers who are to be refunded. An audit will only be required if the review concludes that there were material irregularities in the methodology adopted by PWC.
5. Lewis will complete the repayment of the premiums paid by the retired and self-employed consumers in respect of Loss of Employment Insurance policies in accordance with the PWC's report or any subsequent audit as referred to in paragraph (4) above and will provide the Regulator with the detail of such repayments, including the names of consumers.
6. Lewis will, in respect of all future credit agreements concluded with pensioners, take reasonable steps to establish that such pensioner has an insurable interest in respect of the cover provided under any policy offered by Lewis.
7. No order as to costs.

8. REGULATORY MATTERS CONTINUED

Referrals by National Credit Regulator to National Consumer Tribunal continued

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.

On 5 June 2017, in a majority judgement, the NCT found that:

- The National Credit Act ("Act") does not prevent credit providers from offering the services of a club to consumers, provided these services are not part of the "cost of credit". It was found that club fees charged by Lewis do not form part of the cost of credit of any credit agreement between Lewis and its customers.
- The Act provides that Lewis may include the cost of an extended warranty as part of its fees and charges in its credit agreements with consumers and does not prescribe the terms and conditions of the extended warranty offered by Lewis to its consumers.

On 28 June 2017, the NCR filed a notice of appeal to the ruling and the appeal was heard on 17 April 2018 in the High Court of South Africa (Gauteng Division).

On 30 April 2018, the High Court handed down judgement in Lewis' favour with regard to the appeal by the NCR. The matter was dismissed with costs against the NCR. The NCR has one month from 30 April 2018 to apply to the Supreme Court of Appeal, for special leave to appeal the judgement.

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 on the basis of a procedural flaw.

In response, the plaintiffs brought an application for leave to amend their particulars of claim so as to deal with the averments on the procedural matters. On 4 August 2017, the plaintiffs' application for leave to amend their particulars of claim was dismissed, with a costs order being granted in Lewis' favour. As a consequence, the plaintiffs have again sought to amend their particular claim, on 24 August 2017, to which Lewis objected. Accordingly the plaintiffs launched a second application for leave to amend their particulars of claim. The second application will be heard later this year on a date to be arranged with the High Court.

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. Woollam's application for leave to appeal was refused by the Western Cape High Court. 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.

On 29 January 2018, Mr Woollam withdrew his appeal before the Supreme Court of Appeal in relation to his first demand in terms of Section 165(2) of the Companies Act.

Referral by Summit Financial Partners to National Consumer Tribunal

Summit Financial Partners ("Summit") alleged that delivery fees charged by Lewis is in contravention of Section 102 of the National Credit Act and lodged a complaint with the NCR. The NCR, after investigation, declined to refer the matter to the NCT. The NCR has issued Summit with a Notice of Non-Referral with regard to the complaint. Summit has decided to launch an application to self-refer the matter to the NCT. Lewis is opposing the application. The NCT is still to finally confirm a date for the hearing of the application.

	2018 Audited Rm	2017 Audited Rm
9. PURCHASE OF BUSINESSES		
Trademarks	**55.7**	8.4
Goodwill	**182.4**	5.5
Property, plant and equipment	**4.9**	3.7
Inventory	**116.4**	23.2
Trade receivables	**–**	73.1
Other receivables	**5.4**	–
Cash and cash equivalents	**73.0**	–
Short-term borrowings	**(0.3)**	–
Taxation	**(8.2)**	–
Trade and other payables	**(93.5)**	(3.5)
Deferred tax	**(11.7)**	(1.6)
Gain on acquisition of Beares	**–**	(1.2)
Total consideration	**324.1**	107.6
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	**324.1**	107.6
Less: Cash balances acquired	**(73.0)**	–
Less: Deferred purchase consideration	**(16.5)**	–
Net outflow of cash – investing activities	**234.6**	107.6

Purchase of United Furniture Outlets (2018)

On 1 February 2018, Lewis Stores Proprietary Limited ("Lewis Stores"), a wholly-owned subsidiary of the group, obtained control of United Furniture Outlets Proprietary Limited ("UFO"), a cash furniture retailer, by acquiring 100% of the issued ordinary share capital and voting rights and all shareholders´ claims against UFO from the shareholders.

UFO is an independent, cash furniture retailer with a retail footprint of 31 stores. It sells a variety of furniture including lounge, bedroom and dining room products. UFO is recognised as a luxury brand with a value offering to the upper consumer spectrum, namely LSM 9-10+. The business was established in 2004 and currently more than half of its stores are located in Gauteng.

The total acquisition consideration was a cash amount of R324.1 million.

The acquisition will enable Lewis Stores to achieve improved economies of scale and provide a platform to penetrate new market sectors through a wider, more exclusive product range. The acquisition will diversify its offering by increasing its exposure to cash furniture retailing and provide access to a higher income customer market segment (LSM 9-10+). The UFO brand and business model is scalable and offers an opportunity to extend the UFO footprint across South Africa and into neighbouring Southern African countries.

The goodwill arising on acquisition is attributable to current earnings and future earnings growth in the existing business which are internally funded as a consequence of its cash retailing business model and diversification benefits of a cash furniture retailer. As required by IFRS 3, the valuation of goodwill at date of acquisition does not include the future opportunities to extend the UFO footprint across South Africa and into neighbouring Southern African countries as a consequence of its acquisition by the group.

For the period 1 February 2018 to 31 March 2018, UFO had revenue of R66.0 million and earned an attributable profit of R0.1 million and these results were consolidated into the group for the two months.

If UFO was consolidated from 1 April 2017, the group's annualised revenue would have increased by R444.5 million and group annualised profit would have increased by R25.1 million.

Purchase of Ellerines and Beares businesses (2017)

In the prior 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.

Notes to the summary consolidated financial statements

FOR THE YEAR ENDED 31 MARCH 2018

10. NEW STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

10.1 IFRS 9 Financial instruments

IFRS 9 (Financial Instruments) replaces IAS 39 (Financial Instruments: Recognition and Measurement) and will become effective for the group for the year ending 31 March 2019. The impact of IFRS 9 on the group will be in respect of:

- revised requirements for classification and measurement of financial instruments.
- an expected credit loss impairment model replaces the incurred loss model under IAS 39.

With respect to classification and measurement of financial instruments, the group does not expect a significant impact on the results and financial position, with regards to insurance investments.

With respect to the impairment of receivables in terms of IFRS 9, the group has the option to select the general model which consists of three stages or the simplified model which consists of two stages to determine its expected credit losses ("ECL") with regard to receivables. The group will adopt the simplified model which recognises the expected credit losses over the lifetime of trade receivables on initial recognition. This eliminates the need to calculate a 12 month ECL provision.

The IFRS 9 ECL impairment model is expected to increase the level of balance sheet impairments that are currently held in terms of IAS 39. The adoption of the standard is also expected to impact the recognition of revenue. Stage 2 receivables will not be materially affected and interest income will continue to be accounted for on the gross amount of the receivable. However, credit impaired stage 3 receivables will be accounted for at the gross carrying amount net of loss allowance (amortised cost), resulting in lower interest income which will be offset by the appropriately lower impairment charge.

The group has established an Implementation Committee with representation from all relevant departments which reports directly into the Audit Committee. The committee is focused on considering predictive cash flow models; impairment methodologies, output validation, testing and analysis.

The impact of the IFRS 9 ECL requirements can be only reliably determined on the finalisation of the group's impairment methodologies, forward-looking economic expectations, and the conclusion of external audit procedures.

IFRS 9 does not require restatement of prior periods. An entity is only permitted to restate prior periods if it is able to do so without the use of hindsight. Where prior periods are not restated, any difference between previously reported carrying amounts and new carrying amounts at the beginning of the annual reporting period must be recognised in opening retained earnings.

10.2 IFRS 15

IFRS 15 (Revenue from Contracts with Customers) replaces IAS 18 (Revenue) and will be effective for the group for the year ending 31 March 2019. The current analysis indicates that the adoption of IFRS 15 is not expected to have a significant impact on the group's results or financial position.

10.3 IFRS 16

IFRS 16 (Leases) replaces IAS 17 with effect from the year ending 31 March 2020. IFRS 16 will result in most leases being recognised in the statement of financial position, as the distinction between operating and finance leases has been removed. Under the new standard, an asset representing the right to use the leased item and a financial liability, to pay rentals, will be recognised. The only exceptions are short-term and low-value leases.

The new standard will primarily affect the accounting for operating leases relating to retail stores. As at the reporting date the group has non-cancellable operating lease commitments of R671.2 million. The group has not yet determined the extent of the right of use asset nor the liability for future payments and how this will affect profit and classification of cash flows.

10.4 IFRS 17

IFRS 17 which replaces IFRS 4, applies to insurance contracts and reinsurance contracts. The standard will apply to the group for the year ending 31 March 2022. Management has not yet performed an assessment of the potential impact of the implementation of this new standard.

11. RECLASSIFICATIONS TO THE CASH FLOW STATEMENT

The following reclassifications to the cash flow statement were made:

- movements in insurance and re-insurance premiums were incorrectly included in cash flows from trading. These have been reclassified to changes in working capital under cash flow generated from operations in the cash flow statement.
- bank overdrafts were incorrectly included as part of borrowings when it should have been part of cash and cash equivalents. The bank overdrafts have been reclassified to cash and cash equivalents.

The effect of the above reclassifications are as follows:

	2017 Effect of change Rm
Cash flow from trading	146.7
Changes in working capital	(146.7)
Repayment of borrowings	22.3
Cash and cash equivalents	(22.3)

Key ratios

FOR THE YEAR ENDED 31 MARCH 2018

		2018	2017
Operating efficiency ratios			
Gross profit margin	(%)	**41.4**	42.4
Operating profit margin	(%)	**6.8**	10.1
Number of stores		**773**	761
Number of permanent employees	(average)	**8 093**	8 619
Trading space	(sqm)	**258 463**	248 271
Inventory turn		**2.9**	3.4
Current ratio		**5.0**	5.7
Credit ratios			
Credit sales	(%)	**65.7**	65.2
Debtor costs as a percentage of the net debtors	(%)	**17.5**	19.1
Debtors' impairment provision as a percentage of net debtors	(%)	**29.6**	28.0
Arrear instalments on satisfactory accounts as a percentage of gross debtors	(%)	**9.2**	9.8
Arrear instalments on slow-paying and non-performing accounts as a percentage of gross debtors	(%)	**28.8**	28.6
Credit applications decline rate	(%)	**37.1**	38.7
Shareholder ratios			
Net asset value per share	(cents)	**6 534**	6 127
Gearing ratio	(%)	**(1.4)**	2.9
Dividend payout ratio	(%)	**70.2**	54.8
Return on average equity (after-tax)	(%)	**4.9**	6.6
Return on average capital employed (after-tax)	(%)	**4.8**	6.7
Return on average assets managed (pre-tax)	(%)	**6.3**	8.3

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 83 384 000 shares in issue (2017: 88 790 000).

3. Total assets exclude the deferred tax asset and the reinsurance asset.

GOVERNANCE

Remuneration report

THE GROUP'S REMUNERATION DISCLOSURE AND REPORTING HAS BEEN ALIGNED WITH THE RECENTLY INTRODUCED KING IV AND IS PRESENTED IN THREE PARTS AS RECOMMENDED BY THE NEW GOVERNANCE CODE.

PART ONE

Introduction

The remuneration policy, which is outlined in part 2 of this report, and the implementation report, which forms part 3, will again be presented separately to shareholders for a non-binding advisory vote at the forthcoming annual general meeting (AGM).
Both of these reports were approved by a majority of shareholders at the AGM in 2017 (refer to page 67 for outcome of voting).

The composition of the Remuneration Committee was revised during the year following changes to the group's board. Independent non-executive director Prof Fatima Abrahams was appointed as chairperson of the committee in October 2017 following the retirement of Ben van der Ross as a director of the group. Newly-appointed non-executive directors Adheera Bodasing, Daphne Motsepe and Duncan Westcott joined the committee while David Nurek also retired as a director of the group.

The key issues addressed by the committee during the year were:

- Considered and approved the total guaranteed pay for executive directors, senior management and the Internal Audit executive.
- Engaged the services of PE Corporate Services to conduct a remuneration benchmarking survey of executive management of Lewis Stores, and applied the outcomes in evaluating and approving remuneration packages.
- Reviewed and approved targets for the Lewis executive retention scheme and the Lewis long-term and short-term executive performance schemes.
- Approved the 2018 share awards under both share incentives schemes.
- Reviewed and approved the remuneration policy and the implementation report to be included in the group's integrated report.

In the 2019 financial year the committee will focus on the following:

- Review the Lewis long-term and short-term executive performance scheme,
- Review the remuneration policy.
- Review and approve financial targets.

PART TWO

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 in the furniture retail and financial services industries.
- 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 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.

Chairperson
Prof Fatima Abrahams (appointed 1 December 2017)
Ben van der Ross (resigned 17 October 2017)
Members
Adheera Bodasing (appointed 1 June 2017)
Daphne Motsepe (appointed 1 June 2017)
Hilton Saven
Alan Smart
Duncan Westcott (appointed 1 December 2017)
David Nurek (resigned 30 November 2017)
Meetings
Three per year

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 management, executive and non-executive directors and the Internal Audit Executive.
- 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.
- Recommending non-executive directors' fees for shareholder approval based on market information.
- Ensuring practices are compliant with relevant legislation and regulation.

Non-binding advisory vote

The group's remuneration policy and implementation report 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 the implementation of the policy, and for the board to take these views into account.

In the event that either the remuneration policy or the implementation report is not adopted by a vote of at least 75%, the Remuneration Committee shall follow a shareholder engagement process and take proactive measures to address shareholders' concerns.

Remuneration report continued

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 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.

Executive directors and senior management

The remuneration structure of executive directors and senior management 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 and senior management remuneration packages comprise the following elements, with a significant portion of remuneration being performance-related:

- Annual guaranteed pay
- Annual cash-based performance bonus
- Medium and long-term share-based incentives

The CEO and CFO have service contracts and are subject to 24-month and 12-month notice periods from either party respectively.

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 senior management participate in a performance bonus scheme which is linked to their base salary. No portion of any participant's bonus is guaranteed. Bonus payments are based on group performance relative to board-approved budgeted targets. The performance of the executive directors and senior management is evaluated against all or some of the following financial and operating targets:

- Revenue growth
- Merchandise sales growth
- Gross profit margin
- Operating cost management
- Debtor cost management and debtor performance
- Net profit before taxation
- Headline 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. Detail 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 on page 67 for the 2017 financial year.

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 may increase 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 executive directors.
Bonuses are paid at the end of the first quarter of the following financial year.

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, the group's main operating subsidiary. Awards are made annually in June. Special awards can be made when the remuneration committee deems it appropriate.

Legacy long-term retention scheme

In 2014 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 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.

Legacy 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 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 1.0 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.

Remuneration report continued

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 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 macroeconomic 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 committee has not exercised this discretion to amend performance targets in exceptional circumstances.

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.

Management

Managers and selected 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.

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.

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 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 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.

PART THREE

Implementation report 2018

Approvals granted by shareholders

The group's remuneration policy and implementation report was proposed to shareholders for a non-binding advisory vote at the annual general meeting in October 2017, and was approved by the majority of shareholders.

Resolution	Votes for %	Votes against %	Abstentions %
Approval of the company's remuneration policy	85.5	13.2	1.3
Approval of the company's implementation report	86.9	11.8	1.3

Shareholders also approved the fees payable to non-executive directors for the 2018 financial year by unanimous vote.

Annual salary increase

The average staff increase, excluding unionised staff, was 4% to 6%. Increases to executives were merit-based and varied from 3% to 6%.

Annual cash-based performance bonus scheme

The remuneration committee approved a net profit before taxation target of R770 million for the 2017 financial year. The group achieved R521.3 million and as it was below the 90% minimum, executives did not qualify for bonuses.

Lewis Executive Retention Scheme (LERS)

The LERS allows executives to invest their net cash bonus in Lewis Group shares and the company issues matching share options to executives at no cost. The matching share options vest on the third anniversary subject to the executive still being in the employ of the company.

Remuneration report continued

	Vesting date	Average share price of award Rand	Total shares purchased for executives	Total matching share awards
2017 awards	–	–	–	–
2016 awards	–	–	–	–
2015 original award	30/06/2018	98.88*	77 781	131 839
2015 withdrawals (forfeitures)	–	–	(12 121)	(20 545)
2015 totals 31 March 2018	–	–	65 660	111 294

** The 2015 matching share awards will vest on 30 June 2018 and the share trust will purchase the shares for the LERS on the open market to avoid dilution to ordinary shareholders.*

As no cash bonuses were earned by executives in June 2016 and June 2017 based on the company performance criteria, there were no allocations in terms of this scheme. Furthermore, no discretionary cash bonuses were paid to executives during this period.

Lewis Long-term retention scheme

A five-year long-term retention scheme for senior executives was implemented in June 2013.
The performance criteria for the scheme is that the group must achieve 6% compound growth in attributable profit for the preceding five years, at the point of vesting in June for the years 2016, 2017 and 2018.

The performance criteria for this award was not met as measured in 2016, 2017 and now in 2018. All share awards under this scheme will be forfeited as none of the performance criteria was met. This scheme has now run its course and will not be renewed.

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 each of the three years and are based on a weighting set for each executive, depending on their employment responsibilities, of the following:

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

The short-term award share allocations for executive directors are disclosed in the outstanding share awards table on page 71.

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

The remuneration committee approved the vesting of these awards based on the achievement of the following targets:

2017 targets		2017 Target	2017 Actual	2017 Award
Headline earnings per share	(cents)	**608**	**399.5**	**Not achieved**
Quality of the debtors book:				
Level of satisfactory paid customers	(%)	**≥68.8**	**68.5**	**Not achieved**
Debtor costs as a percentage on net debtors	(%)	**≤17.1**	**19.1**	**Not achieved**
Gross margin	(%)	**≥39.1**	**41.6**	**Achieved**

2016 targets		2016 Target	2016 Actual	2016 Award
Headline earnings per share	(cents)	926.8	621.7	Not achieved
Quality of the debtors book:				
Level of satisfactory paid customers	(%)	68.0	68.8	Achieved
Debtor costs as a percentage on net debtors	(%)	13.8	17.1	Not achieved
Gross margin	(%)	37.9	38.0	Achieved

The group will continue to disclose these performance targets in arrears.

Summary of three-year awards		2015 Number of share awards	2016 Number of share awards	2017 Number of share awards	Total Number of share awards
Share price at award date	(Rand)	99.45	45.95	32.57	
Three-year awards		203 660	900 058	1 570 988	**2 674 706**
Forfeitures – staff leaving 2016		(7 257)	–	–	**(7 257)**
Forfeitures – staff leaving 2017		(20 487)	(91 164)	–	**(111 651)**
Forfeitures – staff leaving 2018		–	–	(7 369)	**(7 369)**
Total forfeitures staff leaving		(27 744)	(91 164)	(7 369)	**(126 277)**
Forfeitures – non-performance 2016		(43 749)	–	–	**(43 749)**
Forfeitures – non-performance 2017		(48 022)	(223 728)	–	**(271 751)**
Forfeitures – non-performance 2018		–	–	–	**–**
Total forfeitures – non-performance		(91 771)	(223 729)	–	**(315 500)**
Shares remaining – 31 March 2018		84 145	585 166	1 563 619	**2 232 929**

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:

Performance measure	Weighting	Criteria
Headline earnings per share (HEPS)	65%	2015 HEPS compounded each year by greater of 5% or headline CPI
Gearing ratio	10%	May not exceed 35%
Return on average shareholders' equity	25%	ROE to average 15% over each vesting period

Summary of four-year awards	Number of shares
June 2015	**1 070 000**
Forfeitures – staff leaving	**(170 000)**
Total shares utilised	**900 000**
Forfeitures – non-performance 2018	**(405 000)**
Shares remaining – 31 March 2018	**495 000**
Cancellation – non-performance 2019*	**(405 000)**
Vesting – June 2018 (Only gearing ratio measure achieved)	**(45 000)**

* *It is highly unlikely that the group will attain the HEPS and ROE targets set in June 2015 and the trustees have approved the cancellation of the shares on this scheme and the participants have voluntary agreed to the cancellation thereof on 21 June 2018.*

Executive directors' remuneration

						Gain on share awards			
						Executive Performance Scheme			
	Salary R'000	Pension contributions R'000	Medical aid contributions R'000	Total guaranteed pay R'000	Bonuses paid* R'000	Five years< R'000	Three years# R'000	Co-Investment Scheme> R'000	Total remuneration R'000
2018									
J Enslin	**3 572**	**572**	**140**	**4 284**	**–**	**–**	**–**	**–**	**4 284**
L Davies	**2 737**	**438**	**107**	**3 283**	**–**	**–**	**–**	**–**	**3 283**
Total	**6 309**	**1 009**	**248**	**7 567**	**–**	**–**	**–**	**–**	**7 567**
2017									
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

* *No bonuses were earned by Executives in 2017 and 2018 financial years.*

* *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 2017 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.*

> *The gain in the 2017 financial year under the Co-Investment Scheme relates to the bonus earned for the 2013 financial year, which was invested in the company's shares by the executives for three years and vested in June 2016.*

Outstanding share awards

2018 Date of share awards		Share price at award date	Long-Term and Short-Term Executive Performance Scheme[1] number of shares: Johan Enslin	Les Davies	Total	Executive Retention Scheme[2] number of shares: Johan Enslin	Les Davies	Total
June 2013	Five year award (legacy scheme)	62.30	80 000	60 000	140 000			
Forfeiture	non-performance		(40 000)	(30 000)	(70 000)			
June 2015	three-year award[1]	99.45	33 695	25 817	59 512	29 700	23 220	52 920
Forfeiture –	non-performance		(19 319)	(14 802)	(34 121)	–	–	–
June 2015	four-year award[1]	99.45	120 000	90 000	210 000	–	–	–
Forfeiture –	non-performance		(54 000)	(40 500)	(94 500)	–	–	–
June 2016	three-year award[3]	45.95	149 980	114 911	264 891	–	–	–
Forfeiture –	non-performance		(44 994)	(34 474)	(79 468)	–	–	–
June 2017	three-year award[4]	32.57	219 498	168 193	387 691	–	–	–
Total			444 860	339 145	784 005	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.*

[4] *The 2017 award was issued under the Long-Term and Short-Term Executive Performance Scheme and subject to performance criteria in years 2018, 2019 and 2020.*

In terms of the Lewis Executive Retention Scheme, the trust holds 31 221 shares (2017: 31 221 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 0.42% of the shares in issue.

Non-executive directors' fees

	Directors' fees R'000	Audit committee member R'000	Risk committee member R'000	Remuneration committee member R'000	Nomination committee member R'000	Social, ethics and transformation committee member R'000	Monarch directors' fees R'000	Monarch audit and risk committee member R'000	Total non-executive directors' remuneration R'000
2018									
David Nurek (resigned 30 November 2017)	**366**	**76**	**54**	**43**	**58**	**43**	**103**	**44**	**787**
Fatima Abrahams	**263**	**115**	**81**	**87**	**38**	**130**	**116**	**49**	**878**
Adheera Bodasing (appointed 1 June 2017)	**200**	**87**	**62**	**49**	**29**	**–**	**–**	**–**	**425**
Daphne Motsepe (appointed 1 June 2017)	**200**	**87**	**62**	**49**	**29**	**49**	**–**	**–**	**474**
Hilton Saven	**360**	**217**	**113**	**65**	**58**	**22**	**155**	**111**	**1 100**
Alan Smart	**263**	**115**	**81**	**65**	**38**	**65**	**22**	**66**	**912**
Ben van der Ross (resigned 17 October 2017)	**152**	**67**	**47**	**75**	**22**	**–**	**–**	**–**	**363**
Duncan Westcott (appointed 1 December 2017)	**89**	**91**	**44**	**22**	**13**	**–**	**52**	**44**	**353**
Total	**1 893**	**855**	**544**	**453**	**283**	**308**	**645**	**313**	**5 292**
2017									
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

Non-executive directors' fees

Director	2018 R'000	2017 R'000
David Nurek – resigned effective 30 November 2017	**787**	1 130
Fatima Abrahams	**878**	659
Adheera Bodasing – appointed 1 June 2017	**425**	–
Daphne Motsepe – appointed 1 June 2017	**474**	–
Hilton Saven	**1 100**	1 005
Alan Smart	**912**	872
Ben van der Ross – resigned effective 17 October 2017	**363**	597
Duncan Westcott – appointed 1 December 2017	**353**	–
Total	**5 292**	4 263

Proposed non-executive director fees for 2019

Board/committee position	Increase %	Proposed fees for 2019 R'000	Fees earned for 2018 R'000
Non-executive chairman	**5.0**	**585**	**557**
Non-executive director	**5.3**	**280**	**266**
Audit committee chairman	**5.1**	**286**	**272**
Audit committee member/invitee	**5.2**	**122**	**116**
Risk committee chairman	**5.3**	**138**	**131**
Risk committee member	**4.9**	**86**	**82**
Remuneration committee chairman	**5.3**	**138**	**131**
Remuneration committee member	**4.6**	**68**	**65**
Nomination committee chairman	**5.6**	**94**	**89**
Nomination committee member	**5.3**	**40**	**38**
Social, Ethics and Transformation committee chairman	**5.3**	**138**	**131**
Social, Ethics and Transformation committee member	**4.6**	**68**	**65**

Directors' shareholding

At 31 March 2018, the directors' beneficial direct and indirect interest in the company's issued shares was as follows:

Director	Direct 2018 R'000	Indirect 2018 R'000	Direct 2017 R'000	Indirect 2017 R'000
David Nurek	**–**	**–**	–	20 000
Hilton Saven	**–**	**6 440**	–	6 440
Alan Smart	**319 070**	**–**	319 070	–
Johan Enslin	**176 038**	**17 522**	176 038	17 522
Les Davies	**320 192**	**13 699**	320 192	13 699
Total	**815 300**	**37 661**	815 300	57 661

Corporate governance report

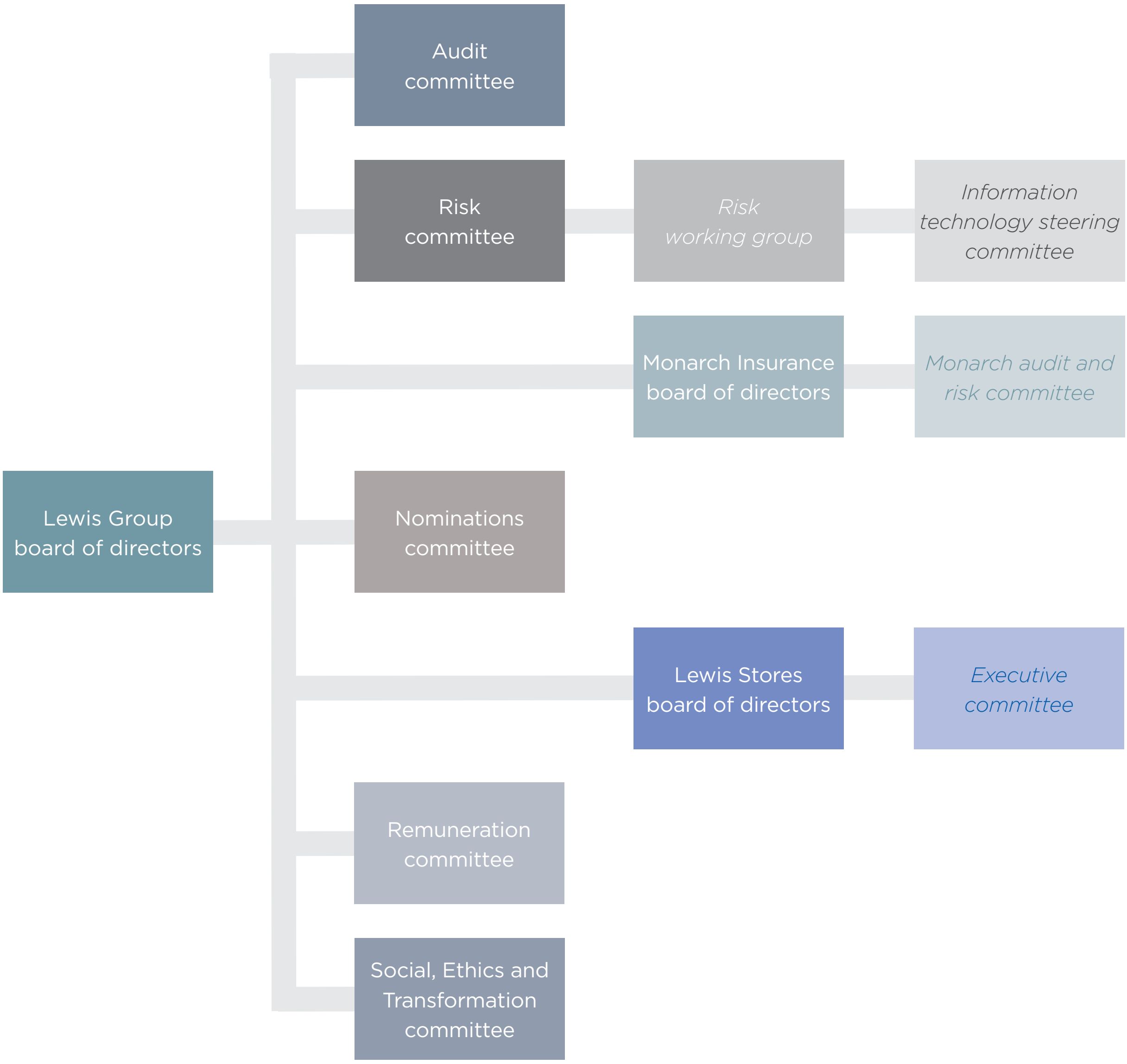
LEWIS GROUP CONFIRMS ITS COMMITMENT TO THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE BASED ON THE PRINCIPLES OF INTEGRITY, TRANSPARENCY AND ACCOUNTABILITY IN ITS DEALINGS WITH ALL STAKEHOLDERS.

Introduction

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.

In 2018, the company focused on reviewing its application and adherence to the King IV Report on Corporate Governance in South Africa (King IV). The company welcomes the outcomes-based approach and the board confirms that the group has in all material aspects applied King IV. A report on the group's application of the principles are presented on the website: **www.lewisgroup.co.za/governance-sustainability/king4/**

Governance structure



Board of directors

Board charter

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

- ensuring that the company's short-, medium- and long-term strategy, as developed by management is reviewed and approved;
- 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 sound governance principles;
- ensuring that the company is playing its role as 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.

Composition and diversity of the board

Lewis Group has a unitary board structure consisting of six non-executive directors and two full-time, salaried executive directors. The board confirms that it has the appropriate mix of knowledge, skills, experience, diversity and independence to objectively discharge its governance role and responsibilities.

In November 2016 the board adopted a gender diversity policy to improve the representation of women on the board. In 2018, this policy was extended and the board adopted a combined gender and race policy to further improve diversity with a 25% target for both gender and race diversity on the board.

The composition of the board at the date of the report is as follows:

Name	Status	Appointment date (current capacity)
Non-executive directors		
Hilton Saven	Independent non-executive chairman	Appointed chairman on 1 December 2017
Fatima Abrahams	Independent non-executive director	1 September 2005
Adheera Bodasing	Non-executive director	1 June 2017
Daphne Motsepe	Independent non-executive director	1 June 2017
Alan Smart	Independent non-executive director	1 Oct 2009
Duncan Wescott	Independent non-executive director	1 December 2017
Resignations/Retirements		
David Nurek	Independent non-executive chairman	Resigned on 30 November 2017
Ben van der Ross	Independent non-executive director	Retired on 17 October 2017
Executive directors		
Johan Enslin	Chief executive officer	1 October 2009
Jacques Bestbier	Incoming Chief financial officer	1 April 2018
Les Davies	Outgoing Chief financial officer – to continue as CEO of Monarch Insurance and director of Lewis Stores Proprietary Limited	Retired from board 31 March 2018

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

Corporate governance report continued

Changes to the board of directors

Ben van der Ross retired at the 2017 AGM on 17 October 2017, while David Nurek resigned on 30 November 2017. Duncan Westcott was appointed as an independent non-executive director effective from 1 December 2017. He has been appointed chairman of the Audit and Risk Committees.

Les Davies resigned from the board on 1 April 2018 as part of a managed succesion plan.

Jacques Bestbier was appointed as the group's chief financial officer and an executive director effective from 1 April 2018.

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 12 to 24-month notice periods.

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

Independence of directors

The independence of all non-executive directors is reviewed annually by the Nominations Committee, as recommended by King IV. Adheera Bodasing provides certain consulting services to Lewis Stores Proprietary Ltd through Polarity Consulting. Even though these services are insignificant to Lewis and to Polarity Consulting, the Nominations Committee have classified her as a non-executive director. The board was satisfied that all directors exercise independent judgement and act in an independent manner.

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

Marlene McConnell resigned as company secretary in October 2017. Paul Croucher was appointed as interim company secretary with effect from 18 October 2017 with Ms Ntokozo Makomba appointed as company secretary effective from 11 June 2018.

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.

The board conducted a formal evaluation of the company secretary (Paul t), 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 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.

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.

Board and committee attendance

Number of meetings	Board 4	Audit 4	Risk 4	Remuneration 3	Nomination 2	Social, ethics and transformation 2
Non-executive directors						
H Saven+	4+	4	4	3	2+	1
F Abrahams	4	4	4	3+	2	2+
A Bodasing	3	3	3	2	2	–
D Motsepe	3	3	3	2	2	2
AJ Smart	4	4	4	3	2	2
D Westcott	2	1+	1+	2	1	–
DM Nurek#	2	2	2	*	1	2
BJ van der Ross@	2	2	2	2+	1	–
Executive directors						
J Enslin	4	4*	4	3*	2*	2
LA Davies§	4	4*	4	–	–	–
J Bestbier	1	1*	1	–	–	–

+ Chair.

** Attends by invitation.*

 # Resigned 30 November 2017.

@ Retired 17 October 2017.

§ Resigned 31 March 2018.

Lewis Group Audit Committee

Purpose and function

- Approving the internal audit plan and reviewing the activities and findings of the department.
- Ensuring that the chief audit executive position is set up to function independently from management and that the Internal audit functions have the necessary skills and resources to address the complexity and volume of risk of the company.
- Assessing the independence and performance of the internal audit function.
- Overseeing the design, implementation and effectiveness of the combined assurance model
- 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 include:
  - 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.

Members	Meeting attendance
Duncan Westcott (chairman) (appointed 1 December 2017)	2/2
Hilton Saven	4/4
Alan Smart	4/4
David Nurek (retired 30 November 2017)	2/2

The committee consists of three independent non-executive directors. The members 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.

The Audit Committee meets four times a year.

The Group's independent non-executive chairman (Mr Saven) also serves as a member of the Audit Committee. King IV recommends that the chair should not be a member of the Audit Committee. The board determined that his experience, expertise and skills are required for continuity and the efficient functioning of the Audit Committee.

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.
- Evaluate and agree the nature of and extent of the risks that the company should be willing to take in pursuit of its strategic objectives.
- Annually reviewing the risk register of strategic and key operational risks.
- Monitoring implementation of the risk management policy and plan.
- Exercise ongoing oversight of risk management.
- 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 the report on risk management to be included in the integrated report.
- 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; and
  - Receiving independent assurance on the effectiveness of the IT internal controls.
- Oversee the implementation of the compliance policy and plan and the effective execution of effective compliance management.

Members	Meeting attendance
Duncan Westcott (chairman) (appointed 1 December 2017)	2/2
Fatima Abrahams	4/4
Hilton Saven	4/4
Alan Smart	4/4
David Nurek (resigned 30 November 2017)	2/2
Johan Enslin (CEO)	4/4
Les Davies (CFO)	4/4

The committee consists of four 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.

The Risk Committee meets four times a year.

Lewis Group Nomination 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 and race diversity and talent management and ensure relevant reporting to shareholders.

Members	Meeting attendance
Hilton Saven (chairman) (appointed 1 December 2017)	2/2
Fatima Abrahams	2/2
Adheera Bodasing	2/2
Daphne Motsepe	2/2
Alan Smart	2/2
Duncan Westcott	1/1
David Nurek (retired 30 November 2017)	1/1
Ben van der Ross (retired 17 October 2017)	1/1

The committee consists of six non-executive directors. The chief executive officer attends meetings at the invitation of the committee.

The Nomination Committee meets twice a 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.

Members	Meeting attendance
Fatima Abrahams (chairman) (appointed 1 December 2017)	3/3
Hilton Saven	3/3
Adheera Bodasing	2/2
Daphne Motsepe	2/2
Alan Smart	3/3
Duncan Westcott	2/2
David Nurek (resigned 30 November 2017)	1/1
Ben van der Ross (retired 17 October 2017)	1/1

The committee consists of six non-executive directors. The chief executive officer attends meetings at the invitation of the committee.

The Remuneration Committee meets three times a year.

Lewis Group Social, Ethics and Transformation Committee

Purpose and function

- 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.
- Review the carbon footprint assessment and approve targets.
- 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.
- 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.

Members	Meeting attendance
Fatima Abrahams (chairperson)	2/2
Daphne Motsepe	1/1
Hilton Saven	2/2
Alan Smart	2/2
Johan Enslin	2/2
David Nurek (resigned 30 November 2017)	1/1

The committee consists of four independent non-executive directors and one executive director. Meetings are also attended by the company secretary, directors' of human resources and merchandise and senior managers responsible for socio-economic development and sustainability.

The Social, Ethics and Transformation Committee meets twice a year.

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

- 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.

Members	Meeting attendance
Johan Enslin (chairman)	3/3
Waleed Achmat (Human resources)	3/3
Jacques Bestbier (Finance)	3/3
Les Davies (Finance and Insurance)	3/3
Derek Loudon (Merchandise)	3/3
Rinus Oliphant (Operations)	3/3

The board consists of six executive directors.

The board meets three times a year.

Governance committees of Lewis Stores Proprietary Limited

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

The risk working group consists of the CEO, CFO and all relevant executives and senior management of the group.

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 83 for their responsibilities, which are supervised by the Lewis Group 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

- 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.

Members	Meeting attendance
Non-executive	
Alan Smart (chairman)	4/4
Fatima Abrahams (appointed 1 June 2017)	3/3
Hilton Saven	4/4
Robert Shaw	4/4
Ray Sanger	4/4
Duncan Westcott	1/1
David Nurek (retired 30 November 2017)	3/3
Executive	
Les Davies (chief executive officer)	4/4

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

The Monarch board meets four times a year.

Corporate governance report continued

Monarch Audit and Risk Committee

Purpose and function

- 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.

Members	Meeting attendance
Duncan Westcott (chairman) (appointed 1 December 2017)	1/1
Hilton Saven	4/4
Ray Sanger	4/4
David Nurek (retired 30 November 2017)	3/3

The committee consists of three independent non-executive directors. The members are financially literate and suitably qualified to perform their role. The remaining non-executive directors, Monarch CEO and Lewis Group CEO attend by invitation. Meetings are also attended by the company secretary, internal audit executive, the chief risk officer and the external auditors.

The Monarch Audit and Risk Committee meets four times a 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.

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 RWG also develops the risk appetite and obtains board approval through the Risk and Audit Committees. Senior executives and line management are responsible for implementing the risk appetite and reporting any material deviations above the approved threshold limits.

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 2019, 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.

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 judgement 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 judgement in October 2016. As a consequence of the appeal, discussions between Lewis and the NCR took place and the parties reached agreement that they would seek an order by consent from the High Court setting aside and replacing the judgement of the NCT with an order from the High Court. On 2 May 2018, at the request of the parties the High Court set aside the order by the NCT and substituted the order with the following:

1. Lewis contravened the NCA through the sale of loss of employment insurance to consumers who are retired or self-employed;
2. Save insofar as is permitted by law, Lewis shall not offer or demand that any pensioner or self-employed consumer pay for loss of employment insurance;
3. Lewis shall, within 30 calendar days of the order, pay an amount of R5 000 000 (five million Rand) as a fine;
4. Independent auditors will review PWC's report of factual findings on Lewis' criteria which identified effected customers who are to be refunded. An audit will only be required if the review concludes that there were material irregularities in the methodology adopted by PWC;
5. Lewis will complete the repayment of the premiums paid by the retired and self-employed consumers in respect of Loss of Employment Insurance policies in accordance with the PWC's report or any subsequent audit as referred to in paragraph (4) above and will provide the Regulator with the detail of such repayments, including the names of consumers;
6. Lewis will, in respect of all future credit agreements concluded with pensioners, take reasonable steps to establish that such pensioner has an insurable interest in respect of the cover provided under any policy offered by Lewis;
7. No order as to costs.

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.

On 5 June 2017, in a majority judgement, the NCT found that:

- The National Credit Act ("Act") does not prevent credit providers from offering the services of a club to consumers, provided these services are not part of the "cost of credit". It was found that club fees charged by Lewis do not form part of the cost of credit of any credit agreement between Lewis and its customers.
- The Act provides that Lewis may include the cost of an extended warranty as part of its fees and charges in its credit agreements with consumers and does not prescribe the terms and conditions of the extended warranty offered by Lewis to its consumers.

On 28 June 2017, the NCR filed a notice of appeal to the ruling and the appeal was heard on 17 April 2018 in the High Court of South Africa (Gauteng Division).

On 30 April 2018, the High Court handed down judgement in Lewis' favour with regard to the appeal by the NCR. The matter was dismissed with costs against the NCR. The NCR has one month from 30 April 2018 to apply to the Supreme Court of Appeal, for special leave to appeal the judgement.

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 on the basis of a procedural flaw.

In response, the plaintiffs brought an application for leave to amend their particulars of claim so as to deal with the averments on the procedural matters. On 4 August 2017, the plaintiffs' application for leave to amend their particulars of claim was dismissed, with a costs order being granted in Lewis' favour. As a consequence, the plaintiffs have again sought to amend their particular claim, on 24 August 2017, to which Lewis objected. Accordingly the plaintiffs launched a second application for leave to amend their particulars of claim. The second application will be heard later this year on a date to be arranged with the High Court.

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. Woollam's application for leave to appeal was refused by the Western Cape High Court. 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.

On 29 January 2018, Mr Woollam withdrew his appeal before the Supreme Court of Appeal in relation to his first demand in terms of Section 165(2) of the Companies Act.

Referral by Summit Financial Partners to National Consumer Tribunal

Summit Financial Partners ("Summit") alleged that delivery fees charged by Lewis is in contravention of Section 102 of the National Credit Act and lodged a complaint with the NCR. The NCR, after investigation, declined to refer the matter to the NCT. The NCR has issued Summit with a Notice of Non-Referral with regard to the complaint. Summit has decided to launch an application to self-refer the matter to the NCT. Lewis is opposing the application. The NCT is still to finally confirm a date for the hearing of the application.

Compliance and codes of conduct

Section 103(5) of the National Credit Act

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 Judgement. 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. We expect further developments as this matter has been placed on the National Credit Act Policy review framework document 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 focus for 2019 will be on rolling out the ethics programme to all branch staff and conducting an Ethics Health assessment in the second half of 2019.

Social, ethics and transformation report

THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE IS A 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 2018 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 current committee comprises four non-executive directors, namely Professor Fatima Abrahams (Chairperson), Daphne Motsepe, Hilton Saven, and Alan Smart, and 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 Black Economic Empowerment (B-BBEE) contained in the 2015 amended DTI Codes of Good Practice on B-BBEE. The board acknowledges its oversight role in driving transformation and empowerment across all elements of the DTI scorecard.

With the introduction of the amended codes in the 2016 financial year, the group was only able to achieve a total score of 41.54 points and received a non-compliant status due to not achieving the required 40% minimum in priority elements of equity ownership and enterprise and supplier development.

The group made a significant effort to achieve the minimum requirements in the priority elements and achieved a total score of 56.29 points and a level eight contributor status for the 2017 financial year. This rating was verified by AQRate, an accredited empowerment rating agency.

Social, ethics and transformation report continued

B-BEE element

	Weighting	2018	2017	2016
Equity ownership	25	**8.50**	7.46	6.65
Management control	19	**8.39**	7.89	7.84
Skills development	20	**19.68**	17.21	13.65
Enterprise and supplier development	40	**30.3**	18.73	8.4
Socio-economic development	5	**5.0**	5.0	5.0
Total score		**71.87**	56.29	41.54
Final B-BBEE status		**Level seven**	Level eight	Non-compliant

The board approved specific targets for the medium term in order to further improve the group's overall score.

The group is pleased to report a significant improvement in the total score from 56.29 in 2017 to 71.87 in 2018, a level seven contributor status for 2018. The B-BBEE status was verified by AQRate.

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 94.5%% of the staff complement, with females comprising 57.8%.

The employment equity profile of the workforce in South Africa (excluding neighbouring countries) at 31 March 2018 is contained in the table below.

Skills development

A total of 8 981 training interventions were completed in 2018. Black staff accounted for 94% of total employees trained. In the past year the internship programme was extended to include 209 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.

Employee profile

			Male				Female	Male	
Occupational levels	**African**	**Coloured**	**Indian**	**African**	**Coloured**	**Indian**	**White**	**White**	**Total**
Top management	–	2	–					4	6
Senior management	2	2	–	2	2	–	8	22	38
Professionally qualified	46	23	5	27	24	11	32	61	232
Skilled technical	210	57	10	322	125	15	81	29	849
Semi-skilled	1 759	421	7	2 232	655	29	100	24	5 227
Unskilled	16	5	–	3	2	–	–	–	26
Non-permanent	50	12	–	102	20	–	5	–	189
Total	**2 083**	**525**	**22**	**2 688**	**828**	**55**	**226**	**140**	**6 567**

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.

Race and gender diversity

In November 2016, the board approved a gender diversity policy in support of the principles and objectives of B-BBEE. In 2018, this policy was extended and the board adopted a combined gender and race policy to further improve diversity within the group. The board approved a combined gender and race policy target of 25% for the composition of the board.

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 R7.6 million to socio-economic development in 2019.

Annual TSIBA Scholarship handover in May 2018

Primary projects

Rotary Club/Early Development Centres

Lewis is now in its fifth year of partnering with the Rotary Club of Claremont to upgrade and refurbish early learning development centres in the Brown's Farm and Samora Machel area of Phillippi. The venture includes a holistic approach whereby principals and educators are trained and centres are registered with the Department of Social Development. In 2018, four new classrooms were added to the Forever Educare Centre.

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 1 200 children each school day.

Project Build

An additional two new classrooms have been constructed and handed over to Mbasela Primary school in KwaMashu, KwaZulu-Natal. The school is home to 1 700 learners and Lewis has agreed to continue to support the school in further upgrades over the next two years.

Lasedi 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. The teddy bears are donated to children in hospitals, hospices, children's homes and places of safety. To date, the group has donated 2 175 bears to young children.

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

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 internal assessment. Students are selected 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 funded bursaries for 10 students during 2018 and also introduced them to the seven habits for effective college students training.

The scholarship agreement requires students to work for Lewis for one year after completing their degree.

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.

Social, ethics and transformation report continued

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 includes 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.

The group's Scope 1 emissions arise from petrol and diesel combustion in company vehicles, including the delivery fleets of stores. The main reason for the reduction in scope emissions is due to a reduction in fuel purchased through more efficient management of company and delivery vehicles.

The decrease in South African electricity emissions is likely due to reduced electricity consumption as well as a lower South African electricity grid emissions factor. Electricity demand in neighbouring countries has increased due to an increase in stores and the electricity emissions factor increasing due to higher electricity imports from South Africa.

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.

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.

Carbon footprint results for Scope 1 and 2 emissions

Scope and source		2018 Emissions tonnes CO_2e	Change %	2017 Emissions tonnes CO_2e	Change %	2016 Emissions tonnes CO_2e
Scope 1	South African fuel	**16 917**	**(25.9)**	22 825	(3.3)	23 603
	International fuel	**2 559**	**(23.1)**	3 328	15.5	2 881
Total Scope 1		**19 476**	**(25.5)**	26 153	(1.2)	26 484
Scope 2	South African electricity	**23 354**	**(14.1)**	27 201	0.1	27 183
	International electricity	**2 510**	**27.5**	1 968	10.0	1 789
Total Scope 2		**25 864**	**(11.3)**	29 169	0.7	28 972
Total Scope 1 and 2		**45 340**	**(18.0)**	55 322	(0.2)	55 456
Average number of stores		**740**	**(2.6)**	760	4.1	730
Scope 1 and 2 emissions per store (tonnes CO_2e)		**61.27**	**(15.8)**	72.79	(4.2)	75.97

Carbon footprint results for Scope 3 emissions

Category	Source	Comments	2018 Emissions tonnes CO_2e	Change %	2017 Emissions tonnes CO_2e	Change %	2016 Emissions tonnes CO_2e
Fuel and energy	Upstream emissions from synfuel production	Complete assessment	**17 182**	**(32.9)**	25 594	(2.0)	26 116
Upstream transportation and distribution	Outsourced road distribution within South Africa	Partial assessment, excludes shipping	**2 679**	**(28.4)**	3 744	(1.4)	3 798
Business travel	Domestic and international flights	Complete assessment	**223**	**(43.5)**	395	(4.8)	415
	Car hire	Complete assessment	**59**	**(71.2)**	205	(4.7)	215
Employee commuting	Staff transport emissions travelling to and from work	Average data method used	**4 822**	**0.9**	4 780	(4.6)	5 012

Employees and suppliers have the responsibility to report observed or suspected unethical behavior 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 all 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.

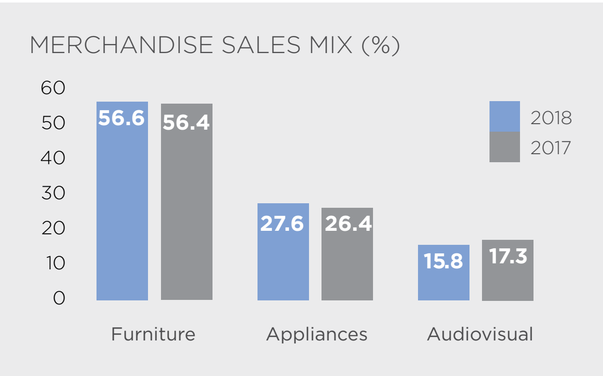
STAKEHOLDER GROUP
Customers
Primary contact with customers is through the group's 773 stores, their branch staff, branch manager and the call centres
Shareholders and Investment community
CEO and CFO provide the primary engagement with shareholders and analysts
Employees
Employees primary contact is with line management and the human resources team
Product suppliers
The merchandise team have the primary contact with product suppliers
Regulatory bodies
Senior management represent the group on industry forums and at regulator briefings and work groups
Communities
Group CSI manager co-ordinates the groups community involvement

RATIONALE FOR ENGAGEMENT	MEANS OF ENGAGEMENT	ISSUES OF ENGAGEMENT
• 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
• 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
• 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
• 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
• 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
• Responsible corporate citizen	• Community investment and upliftment through CSI programmes and local support through stores	• Continued investment in CSI programme • Store and staff involvement in CSI projects

OPERATIONAL REVIEW

Merchandise and brands

LEWIS GROUP, THROUGH ALL ITS TRADING BRANDS, IS FOCUSED ON THE RETAILING OF FURNITURE, HOME APPLIANCES, ELECTRONIC GOODS AND HOMEWARES TO CUSTOMERS ACROSS ALL INCOME GROUPS.
THE GROUP CONTINUES TO CREATE DISTINCTIVE MERCHANDISE RANGES THROUGH ITS STRATEGIC SUPPLIER RELATIONSHIPS BOTH LOCALLY AND INTERNATIONALLY.



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 ensure differentiation and enhance 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 assists 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 meeting customer needs and increasing sales of the higher margin furniture and appliance product categories.

Merchandise sourcing

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

Products are sourced to meet the specific needs of the group's 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 71.1% 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 499 stores, including 68 stores in Botswana, Lesotho, Namibia and Swaziland.

Conventional stores average 450m² and the smaller format stores 250m². The smaller format store, 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, an increase of 14 stores from last year.

The Lewis brand has been adversely affected by affordability assessment regulations as the vast majority of its stores are located in the more rural areas where the brand traditionally has more self employed customers.

Financial and operating performance		2018	2017	2016
Revenue	Rm	**3 950**	4 137	4 564
Revenue growth	%	**(4.5)**	(9.4)	(1.7)
Merchandise sales	Rm	**1 907**	1 804	2 039
Merchandise sales growth	%	**5.7**	(11.6)	(3.0)
Credit sales as a percentage of sales	%	**66.6**	67.3	64.9
Operating profit	Rm	**180**	424	700
Operating profit margin	%	**4.6**	10.2	15.3
Stores opened/(closed)		**(15)**	(13)	18
Total stores		**499**	513	526
Total trading space	m²	**172 523**	181 135	191 380
Annual revenue per m²	R'000	**22.9**	22.8	23.9

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.

The brand's operating profit margin is above the group average resulting from the fact that the store base is more skewed to urban and semi-urban trading areas which have been less affected by the affordability regulations.

Financial and operating performance		2018	2017	2016
Revenue	Rm	**735.5**	725.3	793.3
Revenue growth	%	**1.0**	(8.6)	(1.1)
Merchandise sales	Rm	**352.9**	307.0	328.8
Merchandise sales growth	%	**14.9**	(6.6)	(5.4)
Credit sales as a percentage of sales	%	**65.7**	76.9	72.9
Operating profit	Rm	**121.1**	111.0	142.9
Operating profit margin	%	**16.5**	15.3	18
Stores opened (closed)		**3**	(4)	(2)
Total stores		**126**	123	127
Total trading space	m^2	**17 517**	17 083	17 564
Annual revenue per m^2	R'000	**42**	42	45

Beares

Beares targets customers in the LSM 7 to 9 categories wanting more aspirational furniture than the group's other brands (Lewis and Best Home and Electric) while utilising in-store credit facilities.

Beares focuses on offering exclusive and innovative ranging 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.

The brand's operating profit has continued to increase in 2018 as trading densities improved, cost structures and financial services income streams have started to mature.

Financial and operating performance		2018	2017	2016
Revenue	Rm	808.1	729.6	426.9
Revenue growth	%	10.7	70.9	100
Merchandise sales	Rm	540.5	497.1	299.3
Merchandise sales growth	%	8.7	66.1	111.3
Credit sales as a percentage of sales	%	64.2	57.1	50.4
Operating profit/(loss)	Rm	82.0	29.6	(28.3)
Operating profit margin	%	10.2	4.1	(6.6)
Stores opened/(closed)		(8)	18	28
Total stores		117	125	107
Total trading space	m^2	45 337	50 053	45 622
Annual revenue per m^2	R'000	17.8	14.5	9.4

Merchandise and brands continued

UFO

UFO is a cash retailer of luxury household furniture with a retail footprint of 31 stores.

It sells a variety of furniture, including lounge, bedroom and dining room products. UFO is recognised as a luxury brand with a value offering to the upper consumer spectrum, namely LSM 9 – 10+. The business was established in 2004 and currently more than half of its stores are located in Gauteng.

On 1 February 2018, Lewis Stores Proprietary Ltd obtained control of UFO and the results for the two months are included below.

Financial and operating performance		2018
Revenue	Rm	66.0
Operating profit before investment income	Rm	(4.2)
Operating margin	%	(6.4)
Attributable profit	Rm	0.1
Segment assets	Rm	110.0
Total stores		31
Total trading space	m^2	23 086

* *These results were consolidated into the group for two months.*

INspire

INspire is an omni-channel home shopping retailer marketed through outbound call centres, agents and online shopping at www.inspire.co.za.

INspire has an offering across the merchandise categories of linen, bedding, tableware, cookware and small electrical appliances. The strategy is to attract customers in the LSM 4 – 8 categories and to extend the group's reach in urban areas.

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 licence.

Credit Report

THE GROUP'S DEBTORS' BOOK IMPROVED IN A CHALLENGING CREDIT COLLECTION ENVIRONMENT. 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 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.

Improved collection rates throughout the year resulted in debtor costs reducing by 10.1%, with total collections of R3 960 million (2017: R3 995 million).

The level of satisfactory paid customers was stable at 68.4% (2017: 68.5%) and non-performing customers improved to 15.1% (2017: 15.3%). The group's active credit customer base totalled 586 864 (2017: 616 247) at year-end.

Debtor costs as a percentage of net debtors reduced from 19.1% to 17.5%. The group remains adequately provided with a 29.6% impairment provision.

The credit application decline rate for new customers remained high at 37.1% (2017: 38.7%). Credit sales as a percentage of total sales increased from 65.2% to 65.7% in 2018. Credit sales in Beares account for 64.2% of the brand's sales while 67.9% of Lewis and Best Home and Electric sales are on credit.

The ratio of household debt to disposable income of Lewis customers has averaged 47% for the year. This, however, compares favourably with the national average of 75%.

Credit ratios and statistics

		2018	2017
Credit sales as a percentage of total sales	%	**65.7**	65.2
Net debtors	Rm	**5 478**	5 581
Increase/(decrease) in net debtors	%	**(1.9)**	(5.0)
Debtors' impairment provision	Rm	**1 619**	1 560
Debtors' impairment provision as percentage of net debtors	%	**29.6**	28.0
Debtors' costs	Rm	**957**	1 065
Debtors' costs as a percentage of net debtors	%	**17.5**	19.1
Bad debts as a percentage of net debtors	%	**16.4**	18.6
Satisfactory paid accounts	%	**68.4**	68.5
Arrear instalments on satisfactory paid accounts as a percentage of net debtors	%	**8.7**	8.4
Arrear instalments on slow-paying and non-performing accounts as a percentage of net debtors	%	**22.9**	23.1
Credit application decline rate	%	**37.1**	38.7

Credit Report continued

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 customers' 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.

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 in the language of their choice. 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 2018 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. 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 49.

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 customers 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 satisfactorily 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.

Level of impairment provision

The impairment provision applicable to the payment rating and the trend thereof, is correlated with collection statistics and customer payment data produced by the credit risk systems.

Contractual arrears

The key aspect of the arrear 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

March 2018		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 who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision*.	No	401 183	3 473 979	18 039	549 506	155 673	105 593	77 633	58 003	152 604
	%	68.4%	57.9%	1.1%						
Slow payers Customers 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*.	No	51 311	515 597	196 021	308 975	37 594	36 230	33 546	30 741	170 864
	%	8.7%	8.6%	12.1%						
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 29% to 79% of amounts due.	No	45 940	555 813	262 519	356 918	34 573	32 780	30 928	29 308	229 329
	%	7.8%	9.3%	16.2%						
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.	No	88 430	1 451 638	1 142 920	1 062 130	67 452	66 131	64 513	62 792	801 242
	%	15.1%	24.2%	70.6%						
Total		586 864	5 997 027	1 619 499	2 277 529	295 292	240 734	206 620	180 844	1 354 039
Unearned provisions			(519 449)							
Net instalment sale and loan receivables			5 477 578	29.6%						

** An in duplum provision of R18.8 million (2017: R29.1 million) has been provided.*

For futher information refer to the Trade and other recievables note on pages 46 to 49.

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 who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.	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%						
Slow payers Customers who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 13% to 72% of amounts due and includes an *in duplum* provision.	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%						
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 24% to 86% of amounts due.	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%						
Non-performing accounts Customers who have paid 55% or less of amounts due over the contract period. The provision in this category ranges from 34% to 100% of amounts due.	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%						
Total		616 247	6 107 102	1 560 559	2 343 026	301 774	249 451	215 624	189 660	1 386 517
Unearned provisions			(525 900)							
Net instalment sale and loan receivables			5 581 202	28.0%						

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

SHAREHOLDER INFORMATION

Shareholder information

Shareholders spread as at 31 March 2018

	Number of shareholders		Number of shares	
	Total	%	Total	%
1 – 1 000 shares	1 043	60.18	369 426	0.40
1 001 – 10 000 shares	483	27.87	1 537 622	1.66
10 001 – 100 000 shares	133	7.67	4 368 491	4.71
100 001 – 1 000 000 shares	53	3.06	15 766 288	17.02
1 000 001 shares and over	20	1.22	70 610 035	76.21
Total	1 732	100.00	92 651 862	100.00
Distribution of shareholders as at 31 March 2018				
Public	1 723	99.48	82 441 613	88.97
Unit Trusts/Mutual Funds			40 600 038	43.82
Pension Funds			15 054 401	16.25
Other			26 787 174	28.90
Non-public	9	0.52	10 210 249	11.03
Lewis Stores Proprietary Limited	1	0.06	9 216 928	9.95
Lewis Employee Incentive Scheme Trust	1	0.06	51 312	0.06
Directors				
Lewis Group Limited	4	0.23	852 961	0.92
Lewis Stores Proprietary Limited	3	0.17	89 048	0.10
	1 732	100.00	92 651 862	100.00

Major shareholdings as at 31 March 2018

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 5% of the company's shares as at 31 March 2018:

	Number of shares	
	Total	%
Beneficial shareholders		
Trimark Global Endeavour Fund	13 792 644	14.89
Government Employee Pension Fund	9 383 757	10.13
Lewis Stores Proprietary Limited	9 216 928	9.95
Trimark Global Balanced Fund	5 787 498	6.25
By Fund Manager		
Invesco Limited	19 580 142	21.13
Public Investment Corporation	8 403 237	9.07
Dimensional Fund Advisors	5 069 303	5.47
Stonehage Trust Holdings (Jersey)	4 926 867	5.32

	%
Geographical analysis of shareholders	
Beneficial shareholders:	
South Africa	48.86
North America	39.26
Rest of World	11.88
	100.00
By Fund Manager	
South Africa	46.14
North America	41.32
Rest of World	12.54
	100.00

Shareholder calendar

Financial year-end	31 March 2018
Final profit announcement	23 May 2018
Final dividend declared	23 May 2018
Integrated report	29 June 2018
Record date for voting at the annual general meeting	19 October 2018
Annual general meeting	31 October 2018
Interim profit announcement	21 November 2018
Pending dividend	
Dividend per share	100 cents
Net dividend receivable per share (if not exempt from dividend tax)	80 cents
Date dividend declared	23 May 2018
Last day to trade "cum" dividend	17 July 2018
Date trading commences "ex" dividend	18 July 2018
Record date	20 July 2018
Date of dividend payment	23 July 2018

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 fourteenth annual general meeting of shareholders ("**AGM"**) of Lewis Group Limited for the year ended 31 March 2018 will be held at Lewis Group head office, 53A Victoria Road, Woodstock, Cape Town at 08:30 am on 31 October 2018. Registration will start at 08:00 am.

The board of directors of the Company ("**the board**") 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 19 October 2018. 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 2018.

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 2018

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 2018 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 58 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 Social Ethics and Transformation Committee Report

In accordance with Regulation 43 of the Companies Regulations, 2011, the Social, Ethics and Transformation Committee report for the financial year ended 31 March 2018, prepared and approved by the Company's Social and Ethics Committee and set out on pages 87 to 93 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

Re-election and 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 Hilton Saven and Mr Alan Smart who (each being eligible) offer themselves for re-election.

In addition, all other directors who have held office for three years since their last election must retire at the AGM in terms of the Company MOI. Mr Johan Enslin is due to retire at the AGM and offers himself for re-election.

Furthermore, the board appointed Mr Duncan Westcott as an independent non-executive director of the board with effect from 1 December 2017 and appointed Mr Jacques Bestbier as an executive director to succeed Mr Les Davies as an executive director on the board with effect from 1 April 2018.

It is proposed that each of Mr Hilton Saven, Mr Alan Smart, Mr Duncan Westcott, Mr Johan Enslin and Mr Jacques Bestbier be formally elected (or re-elected, as the case may be) by shareholders as directors of the Company at the AGM.

The Nominations Committee has considered the proposed election of Mr Hilton Saven, Mr Alan Smart, Mr Duncan Westcott, Mr Johan Enslin and Mr Jacques Bestbier and recommends that they be elected (or re-elected, as the case may be) as directors of the Company.

Brief CVs 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 Hilton Saven, Mr Alan Smart and Mr Johan Enslin who have retired as directors in terms of the Company's MOI and the election of Mr Duncan Westcott and Mr Jacques Bestbier as directors of the Company. These elections will be conducted by a series of separate votes in respect of each candidate.

Re-election of Mr Hilton Saven as director

1.1 "Resolved that Mr Hilton Saven be and is hereby elected as a director of the Company."

Re-election of Mr Alan Smart as director

1.2 "Resolved that Mr Alan Smart be and is hereby elected as a director of the Company."

Election of Mr Duncan Westcott as director

1.3 "Resolved that Mr Duncan Westcott be and is hereby elected as a director of the Company."

Re-election of Mr Johan Enslin as director

1.4 "Resolved that Mr Johan Enslin be and is hereby elected as a director of the Company."

Election of Mr Jacques Bestbier as director

1.5 "Resolved that Mr Jacques Bestbier be and is hereby elected as a director of the Company."

Notice of annual general meeting continued

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. In terms of the Companies Act, each member of an audit committee must also be a director of the company. Accordingly, the election of each of the persons nominated to be members of the audit committee is subject to the election of such persons as directors of the company in terms of ordinary resolution numbers 1.1, 1.2 and 1.3 respectively.

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, subject to the adoption of ordinary resolution number 1.1, Hilton Saven be and is hereby elected as a member of the audit committee."

Election of Alan Smart as member of the audit committee

2.2 "Resolved that, subject to the adoption of ordinary resolution number 1.2, Alan Smart be and is hereby elected as a member of the audit committee."

Election of Duncan Wescott as member of the audit committee

2.3 "Resolved that, subject to the adoption of ordinary resolution number 1.3, Duncan Westcott be and is hereby elected as a member of the audit committee."

5. Ordinary resolution number 3

Approval of reappointment 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 Mr Thinus Hamman 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, Mr Thinus Hamman, be appointed for the ensuing period.

"Resolved that the firm PricewaterhouseCoopers Inc and Mr Thinus Hamman 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 Part 5.4, principle 14 (recommended practice 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 endorse the Company's remuneration policy on pages 63 to 67 and the implementation report on pages 67 to 73 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 endorsed."

Non-binding advisory vote 2

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

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 2018 until 30 June 2019, such fees to be paid in instalments at the end of each quarter. The proposed fees have been increased by approximately 5.1% over the corresponding fees that were approved in respect of the period from 1 July 2017 to 30 June 2018.

"Resolved that the fees of the non-executive directors as reflected below be approved for the period from 1 July 2018 until 30 June 2019:

Chairman	R585 000
Non-executive director	R280 000

If a member of the Audit Committee, the following additional amount:

Chairman	R286 000
Member	R122 000

If a member of the Risk Committee, the following additional amount:

Chairman	R138 000
Member	R86 000

If a member of the Remuneration Committee, the following additional amount:

Chairman	R138 000
Member	R68 000

If a member of the Nomination Committee, the following additional amount:

Chairman	R94 000
Member	R40 000

If a member of the Social Ethics and Transformation Committee, the following additional amount:

Chairman	R138 000
Member	R68 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 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 authorisation 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 (as amended from time to time)

"Resolved that board is hereby authorised 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. (as amended from time to time)"

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 shareholders, as set out in special resolution number 3.

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, to the extent required by sections 44 and 45 of the Companies Act, 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 10% of the Company's ordinary shares in aggregate, subject to the terms and conditions set out in the special 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.

"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) and paragraph 5.72 of Section 5 of the JSE Listings Requirements, 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 10% (ten 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 or 15 (fifteen) months from the date of passing of this special resolution, whichever period is shorter;
- 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."

10. Special resolution number 4 continued

Directors' 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 are in excess of the requirements of the Company 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 10% (ten 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 2018);
- 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 authority granted in terms of this Special Resolution number 4 is limited to paragraph 5.72(a), (c), (d) and paragraph 5.68 of the JSE Listings Requirements.

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 111 of the document of which this notice of AGM forms part.

Share capital of the Company – page 49 and 82 of the Consolidated Annual Financial Statements.

Directors' responsibility statement

The directors, whose names appear on pages 24 to 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 1 vote exercised on each such ordinary resolution must be exercised in favour thereof. For any special resolutions to be adopted, at least 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 12H00 on 5 October 2018. 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;

   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.

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 Proprietary Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) by no later than 08:30 am on 29 October 2018, 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.

Notice of annual general meeting continued

General instructions and information continued

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.
- 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 Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196 (PO Box 61051, Marshalltown, 2107) by no later than 08:30 am on 29 October 2018 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

Paul Croucher
Company Secretary

21 May 2018

Proxy form

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**")

For use at the annual general meeting of the Company to be held at Lewis Group Head Office, 53A Victoria Road, Woodstock, on 31 October 2018 at 08:30 am ("**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 am on 31 October 2018 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	Against	Abstain
Ordinary resolution 1.1	Election of Mr Hilton Saven as a director			
Ordinary resolution 1.2	Election of Mr Alan Smart as a director			
Ordinary resolution 1.3	Election of Mr Duncan Westcott as a director			
Ordinary resolution 1.4	Election of Mr Johan Enslin as a director			
Ordinary resolution 1.5	Election of Mr Jacques Bestbier as a director			
Ordinary resolution 2.1	Election of Mr Hilton Saven as a member of the audit committee			
Ordinary resolution 2.2	Election of Mr Alan Smart as a member of the audit committee			
Ordinary resolution 2.3	Election of Mr Duncan Westcott as a member of the audit committee			
Ordinary resolution number 3	Approval of reappointment of auditors			
Non-binding advisory vote 1	Endorsement of the Company's remuneration policy			
Non-binding advisory vote 2	Endorsement 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 2018

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.

Notes to the proxy form

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 Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196 (PO Box 61051, Marshalltown, 2107) to be received by no later than 08H30 on 29 October 2018 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 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:	ZAE000058236
Registered office:	53A Victoria Road, Woodstock, 7925
Postal address:	PO Box 43, Woodstock, 7915
Sponsor:	UBS South Africa Proprietary Ltd
Attorneys:	Edward Nathan Sonnenbergs
Auditors:	PricewaterhouseCoopers Inc.
Bankers:	Absa Bank Limited First National Bank Limited Investec Bank Limited
Transfer secretaries:	Computershare Investor Services Proprietary Ltd 7 Rosebank Towers, 15 Biermann Ave, Rosebank, Johannesburg, 2196;
Investor relations:	Tier 1 Investor relations E-mail: ir@tier1ir.co.za
Website:	**www.lewisgroup.co.za**

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