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EXECUTIVE COMMITTEE



Johan Enslin (36)
Chief Executive Officer
Executive Director of Board of Lewis
Group

Johan Enslin is the chief executive officer
and his biography is on page 12.

Les Davies (54)
CA(SA)
Chief Financial Officer

Les Davies is the chief financial officer
and his biography is on page 12.

Neil Jansen (38)
MBL (Unisa), Diploma in Labour Law
Human Resources Director

Neil joined Lewis as HR Director and as a
member of the Lewis Stores (Proprietary)
Limited board on 1 September 2008.
Neil is responsible for all human resource
and training aspects of the business.

Neil is an HR practitioner with 16 years
experience. He spent 10 years with the
Transnet Group from 1994 to 2003.
During his tenure at Transnet he climbed
the ranks from a Trainee HR Practitioner
at Spoornet Port Elizabeth to a Deputy
Executive Manager at Protekon Cape,
the Engineering Division of Transnet.
Whilst at Protekon, he completed a
Masters degree in Business leadership
at the UNISA School of Business
Leadership in 2003.

In 2004 he joined the Naspers Group,
initially as Group HR Manager for Via
Africa and later served three years as
General Manager Human Resources
for Media 24, the print media division of
Naspers.



Derek Loudon (47)
Merchandising Director

Derek was appointed to the board of Lewis Stores (Proprietary) Limited on 8 October 2008. He is responsible for the group's merchandising functions, which includes inter alia, the sourcing of merchandise, related logistics and product quality control.

His retail experience extends from 1981. Derek spent ten years with the Pick n Pay Stores Limited group, where his career evolved from trainee floor manager to buyer. Derek gained production experience with Airflex Furniture Industries (Proprietary) Limited as procurement manager before joining Morkels Limited for eight years where he was the electrical merchandise executive from 1997 to 1999. During this time, Derek travelled extensively around the world sourcing products in North and South America, Europe, the Middle East and Asia.

Derek joined Lewis as General Manager: Merchandise in May 2000.

Charles Irwin (56)
Group IT Director

Charles has been IT Director of Lewis Stores (Proprietary) Limited since March 1999. In his capacity, he is responsible for ensuring the maintenance and development of the group's information systems.

Charles has spent his entire working career in the retail industry, specialising for the last 20 years in information technology. During his earlier career, he had operational experience in general retail management. Prior to joining Lewis Stores in 1998, he spent nine years at McCarthy Limited.

Brett van Aswegen (35)
BCom, MBA
Credit Risk Director

While completing his BCom degree part time through UNISA, Brett started working for the Edcon Group in 1994. After having held various positions within Edcon Credit Division, Brett joined Standard Bank where he worked in Operational Risk within the Retail Banking Division before joining the Lewis Group in 1999 as the Group Risk Manager.

Since joining Lewis, Brett has seen through the implementation of a centralised credit application processing system, introduced credit scoring and customer credit limit facilities and implemented an account management system focusing on the areas of behavioural scoring, limit management and strategic direct marketing. Brett was promoted to General Manager of Customer Management in 2002, completed his MBA through UCT in 2003 and was appointed to the board of Lewis Stores (Proprietary) Limited as Credit Risk Director on 1 September 2006.

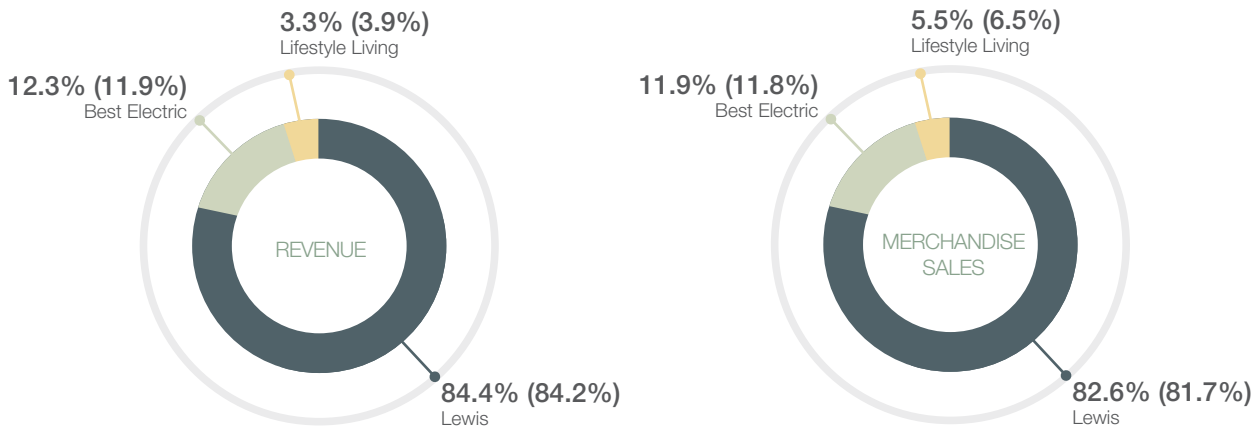
OPERATIONS

RETAIL BRANDS

LEWIS GROUP HAS A NETWORK OF 548 STORES ACROSS ITS THREE RETAIL CHAINS:

- Lewis is South Africa's largest furniture brand and contributes 84% of the group's merchandise sales.
- Best Home and Electric accounts for 12% of group sales and has experienced rapid store expansion in recent years.
- Lifestyle Living is a niche retailer of contemporary furniture.

These retail brands are supported by Monarch Insurance, the group's short-term insurer.





LEWIS

REVENUE

10	3 470.3
09	3 204.5
08	3 031.1
07	2 812.9
06	2 485.0

MERCHANDISE SALES

10	1 689.5
09	1 568.5
08	1 542.5
07	1 482.8
06	1 318.1

Lewis sells a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 categories. 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 outlets are generally situated in main streets and town centres, with some presence in shopping centres. Lewis has 436 stores, including 47 stores in the neighbouring countries of Botswana, Lesotho, Namibia and Swaziland.

The smaller format store introduced in the previous financial year 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 electronic catalogue and display screens in-store. These small stores average 250 m² compared to the average 400 m² of the conventional Lewis store. Lewis now has nine small format stores.

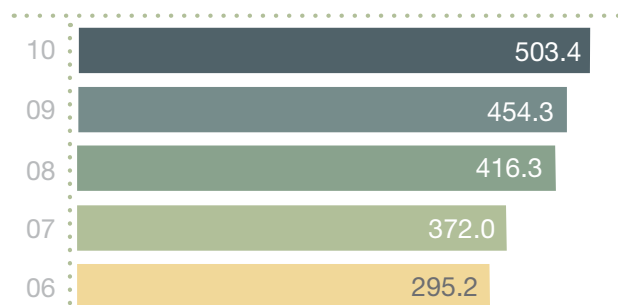
Performance

		2010	2009
Revenue	Rm	3 470.3	3 204.5
Revenue growth	%	8.3	5.7
Merchandise sales	Rm	1 689.5	1 568.5
Merchandise sales growth	%	7.7	1.7
Comparable store merchandise sales growth	%	5.4	(0.4)
Operating profit	Rm	808.7	737.0
Operating profit margin	%	23.3	23.0
New stores opened during year		10	10
Number of stores		436	427
Total trading space	m ²	203 598	201 458
Annual revenue per m ²	R'000	17.0	15.9
Credit sales	%	71.2	67.9

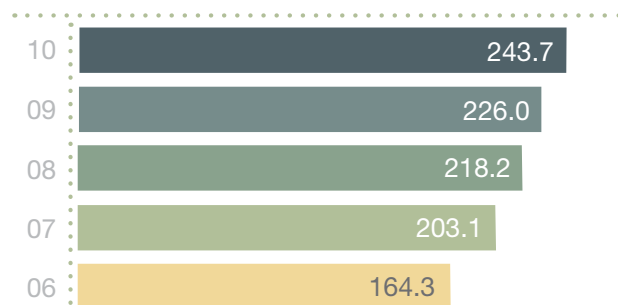
OPERATIONS CONTINUED

BEST HOME AND ELECTRIC

REVENUE



MERCHANDISE SALES



Best Home and Electric is a retailer of electrical appliances, sound and vision equipment and selected furniture, targeting customers in the rapidly growing LSM 4 to 7 groups. The chain offers exclusive branded merchandise which is differentiated from Lewis to create a distinctive electrical goods brand. Furniture lines are solid mostly through the electronic catalogue and now accounts for 28% of sales in the chain. Stores are smaller than Lewis stores (150 m² in size) and are generally situated in high traffic areas with high trading densities.

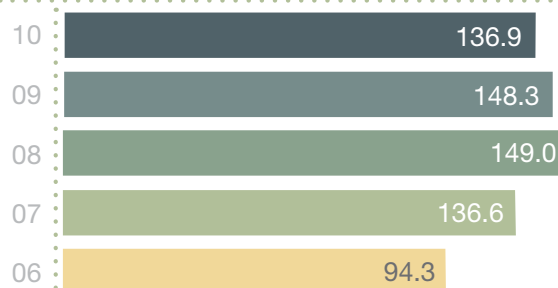
Performance

		2010	2009
Revenue	Rm	503.4	454.3
Revenue growth	%	10.8	9.1
Merchandise sales	Rm	243.7	226.0
Merchandise sales growth	%	7.8	3.6
Comparable store merchandise sales growth	%	4.3	1.7
Operating profit	Rm	96.2	91.2
Operating profit margin	%	19.1	20.1
New stores opened during year		6	3
Number of stores		92	88
Total trading space	m ²	13 458	12 829
Annual revenue per m ²	R'000	37.4	35.4
Credit sales	%	67.6	60.3

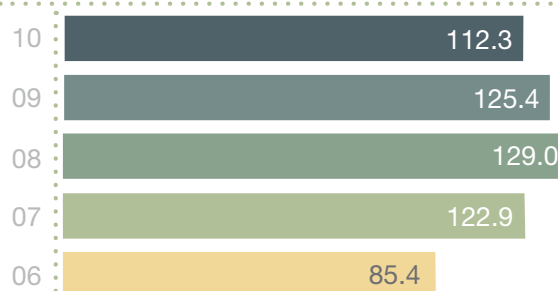


LIFESTYLE LIVING

REVENUE



MERCHANDISE SALES



Lifestyle Living is a niche retailer aimed at consumers in the LSM 8 to 10 market. Following continued underperformance Lifestyle Living will cease trading during the second half of the new financial year.

Performance

		2010	2009
Revenue	Rm	136.9	148.3
Revenue growth	%	(9.2)	(0.5)
Merchandise sales	Rm	112.3	125.4
Merchandise sales growth	%	(10.4)	(2.8)
Comparable store merchandise sales growth	%	(8.3)	(6.5)
Operating profit	Rm	2.3	4.1
Operating profit margin	%	1.7	2.8
Number of stores		20	20
Total trading space	m ²	8 835	8 815
Annual revenue per m ²	R'000	15.5	16.8
Credit sales	%	31.4	27.4

MY HOME

A new trading brand, My Home, has been launched to target aspirational customers in the LSM 7 – 8 categories. This new chain is aimed at attracting customers requiring more upmarket furniture who have a need for in-store credit facilities. My Home will adopt the successful Lewis business model and use the group's well-established credit infrastructure. The focus will be on differentiating the merchandise offering through exclusive and innovative ranging of more aspirational yet still traditional furniture.

MONARCH INSURANCE COMPANY LIMITED

Monarch offers a range of short-term insurance products to the group's customers purchasing merchandise on credit.

Insurance cover is provided for the settlement of customers' outstanding debt in the event of death or permanent disability. Other insurance products cover the replacement of goods as a result of any form of accidental loss, such as fire, theft or natural disaster. A retrenchment cover benefit is also available.

Customers purchasing insurance products through Monarch qualify for free membership of the Lewis Club.

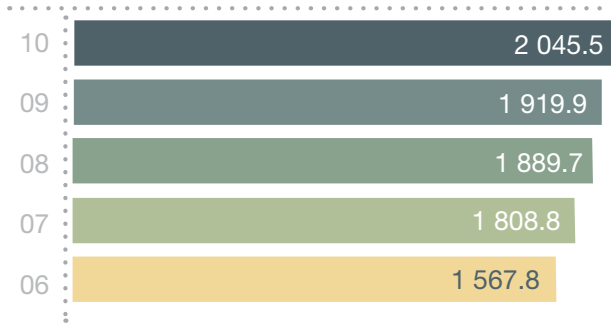
Monarch is registered with the Financial Services Board and operates under a restricted short-term insurance licence. The Short-term Insurance Act requires the company to hold assets to meet future financial obligations and total insurance assets were R894 million at year-end.

The investment of the insurance portfolio is outsourced to Sanlam Investment Management (SIM), with the investment and asset allocation strategies being determined in consultation with the boards of Lewis and Monarch. Funds may only be invested in conservative asset classes and within prescribed regulatory limits. At year-end the portfolio consisted of 35% equities and 65% cash and bonds.

OPERATIONS CONTINUED

MERCHANDISING

MERCHANDISE SALES (R MILLIONS)



Innovative product sourcing both locally and internationally enables the group to offer customers exclusive and distinctive furniture ranges at affordable prices.

The merchandising strategy has focused on increasing sales of the higher margin furniture product category. In the past year furniture sales grew by 9.1% and the contribution from furniture increased to 55% of total sales (2009: 53%). Appliance sales (27% of merchandise) increased by 7.3% while electronic sales (18% of sales), which is a discretionary purchase spend in tough economic conditions, were flat. Product price inflation averaged 3% for the year.

Gross profit margin improved from 31.3% to 34.9% fully recovering currency losses reported at the half-year. After

adjusting for currency losses, which are shown separately, the net position improved from 31.9% to 33.4%.

An electronic merchandise catalogue is displayed in all stores. As the complete merchandise range cannot be stocked in stores, customers are able to navigate their way through the full range on a large touch screen, as well as view all colour and fabric options.

The import programme enables the group to offer distinctive and exclusive merchandise ranges which have the latest designs, manufacturing techniques and fashion trends. Direct imports accounted for 24% of total purchases in the period under review.

International factories are able to accommodate a broader range of developmental designs and have access to a wider variety and diversity of raw materials, which allows for product differentiation.

Imports offer price and design advantages and mitigate the risk of disruption in local supply. As part of the group's commitment to quality, all products are supported by local and overseas after-sales service.

The supply chain model is based on merchandise being delivered directly by suppliers to stores. Stores are responsible for deliveries to customers, with an average of 90% of deliveries completed within 24 hours of the sale.

Efficient stock management and successful product ranging during the year resulted in the inventory turn improving from 5.8 to 6.0 times.





MARKETING

The group's marketing strategy has proved effective in achieving high levels of customer loyalty, strong repeat sales and consistently high consumer awareness through the creative use of mainstream media advertising and non-traditional marketing strategies.

Targeted marketing campaigns are tailored for the Lewis target market. These are aimed at communicating the group's customer promise of value for money, quality, merchandise exclusivity and personalised service to current, settled and potential customers.

Targeted brochure distribution is undertaken in core trading areas each month. Brochures feature the depth of the merchandise range while leaflets featuring promotional lines are distributed in high traffic commuter areas.

In-store promotions are effective in retaining and regaining customers. Selected customers are invited by the store management to special in-store events and exposed to the Lewis product offering.

Customer loyalty is entrenched through the Lewis Club. Through this customer loyalty programme, over 600 000 Lewis customers receive the Club magazine bimonthly which includes competitions, coupons and merchandise give-aways for readers. Membership of the Lewis Club is free to customers taking out insurance when purchasing merchandise.

The high level of repeat sales made to current and settled customers reflect the level of customer loyalty to the group's brands. A re-serve programme identifies current customers for further credit extension based on payment history and current level of debt to the group. Marketing campaigns are targeted at these customers.

The creative and media functions within the Lewis marketing division have been outsourced to specialist agencies. This is aimed at enhancing the quality of the creative product, ensuring effective media strategy, planning and buying across all media and improving cost efficiencies.

CREDIT

THE EARLY SIGNS OF A TURNAROUND IN THE CREDIT CYCLE APPEARED IN THE SECOND HALF OF THE YEAR AS THE COLLECTION ENVIRONMENT IMPROVED AFTER A TOUGH FIRST SIX MONTHS. THE RATE OF INCREASE IN DEBTOR COSTS STARTED TO SLOW IN THE SECOND HALF.

INTRODUCTION

Debtor costs for the year increased to 10.9% of net debtors (2009: 10.0%), well within the range of 10% to 13% indicated at the half-year. The improving collection environment is encouraging and debtor costs are expected to reduce to around 8% of net debtors over the next three years as conditions improve further.

While the credit application decline rate rose from 25.4% in 2009 to 27.5% in 2010, the decline rate remained stable between the first and second half and reflects the improving health of consumers.

Signs of an upswing in the economy are reflected in the increasing volume of credit applications. The average growth in credit applications for the financial year was 17.8%, with volumes for the first half increasing by 13.1% and 22.0% for the second half.

Following the introduction of the National Credit Act in 2007 the group introduced longer term contracts for top-rated customers over periods of mostly 30 months. These accounts have performed better than 24-month accounts while generating additional revenue for the group. The targeted level of longer term business has been reached. As this is now in the base we do not expect debtor growth to exceed sales growth on a like-for-like basis next year.



Credit ratios and statistics

		2010	2009
Credit sales as % of total sales	%	68.5	64.3
Net debtors book	Rm	3 971.0	3 387.8
Increase in net debtors book	%	17.2	15.2
Doubtful debt provision	Rm	635.4	532.7
Doubtful debt provision as % of net debtors book	%	16.0	15.7
Debtor costs	Rm	434.2	338.8
Debtor costs as a percentage of net debtors	%	10.9	10.0
Slow-paying and non-performing accounts as a % of net debtors book	%	27.3	28.0
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors book	%	19.8	20.9
Arrear instalments on satisfactory paid accounts as a percentage of net debtors book	%	9.3	9.5
Doubtful debt provision coverage on non-performing accounts	%	74.9	71.3
Credit application decline rate	%	27.5	25.4

CREDIT RISK MANAGEMENT

The group's centralised credit-granting process has been a core strength in managing credit risk through the downturn in the economic cycle. Credit risk management strategies have been consistently applied and it remains company policy to never reschedule contracts.

Credit applications are transmitted to head office where the credit application scorecards are applied. Credit policies are used to determine the credit limit, term and deposit required for each customer. The group currently uses 15 risk scorecards, while 76 risk segments have been defined for the application of credit policies across the group.

Application risk scorecards predict the risk of a potential new customer becoming delinquent in the future taking into account the applicant's payment record with other credit providers. Behavioural scorecards predict the risk for repeat customers and are based on customers' payment behaviour with Lewis as well as outside credit providers. However the majority of the predictive data is derived from the customers' payment behaviour with the group.

Current and new customers are referenced at the credit bureaux every month in order to ensure changing risk profiles are immediately taken into account and to ensure that affordability calculations are accurate and up to date. All application and behavioural scorecards were reviewed during the year to take account of the current economic climate and levels of consumer indebtedness.

CREDIT COLLECTION

Lewis operates a decentralised credit collection process, with stores responsible for the cash collection and follow-up of defaulting customers.

This decentralised model is highly efficient as stores are located close to where the customers work, shop, commute and live. Customers pay their monthly accounts in cash at the store and the convenient locations make it easy to visit the stores.

Store collection staff have a direct relationship with the customers who are often from the same community and this benefits the collection rate.

The store-based collections model has proved its worth through the economic slowdown of the past two years as the monthly contact with customers provides an early indication of payment difficulties. It is more challenging to determine the financial position of customers where a credit provider uses a centralised, call centre-based collections approach.

CUSTOMER RATINGS

Lewis operates a payment rating system which assesses customer payment behaviour over the lifetime of an account. Customers are assessed monthly based on their payment behaviour and allocated one of 13 lifetime payment ratings. Customer accounts are impaired monthly based on the performance of the accounts. These payment categories have been summarised into four main groupings

CREDIT CONTINUED

of customers. The average impairment provision on non-performing customers increased from 71.3% to 74.9% in 2010.

The improving trend in payment performance is reflected in the following:

- “Satisfactory paid” customers now comprise 72.7% of net debtors compared to 72.0% last year.

- The impairment provision at 16% improved on the level of 17.9% reflected at half-year.
- The percentage of non-performing customers has declined from 19.8% to 18.8% of net debtors.

Debtors payment analysis		Number of customers		Impairment provision %		NCA over 24 months
		2010	2009	2010	2009	
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period	No. %	498 370 72.7%	497 296 72.0%	0% 0%	237 124 79.2%
Slow payers	Customers who have paid between 70% and 65% of amounts due over the contract period	No. %	58 476 8.5%	57 042 8.2%	23% 20%	19 633 6.5%
Non-performing customers	Customers who have paid between 65% and 55% of amounts due over the contract period	No. %	48 446 7.1%	50 300 7.3%	43% 42%	16 283 5.4%
Non-performing customers	Customers who have paid 55% or less of amounts due over the contract period	No. %	80 417 11.7%	86 448 12.5%	94% 88%	26 533 8.9%
			685 709	691 086	16.0% 15.7%	299 573