



## corporate social responsibility



Sharon Röhm: corporate social responsibility manager

“To assist the economic and social progress of marginalised communities through the sponsorship of upliftment projects.”

The corporate social responsibility plan is an integral part of the group's overall business strategy. In particular, the group is committed to uplifting the community which we serve. The main objectives of the plan are:

- To continue to transform our employee profile into one that is reflective of the communities with whom we do business.
- To provide training and development to our staff.
- To assist the economic and social progress of marginalised communities through the sponsorship of upliftment projects.
- To support small, medium and micro enterprises through our procurement and enterprise development practices.

### Communities

The aim of our social responsibility programme is to assist the economic and social progress of marginalised communities with the sponsorship of upliftment projects. The majority of our support goes toward education and training followed by health and social development. The focus of the programme has been more towards the plight of children in our society.





Handover ceremony of Ethangeni Combined School, Dundee

We have continued to support the building of classrooms and amenities for schools in KwaZulu-Natal through Project Build. Project Build was established in 1977 and aims to improve the quality of life for impoverished communities in KwaZulu-Natal in respect of education and community facilities. The emphasis of our sponsorship will be in the rural areas where there are no facilities and, in fact, many children in the area still attend school under trees or in overcrowded and dilapidated mud huts with no protection from the climate.



Earlier this year, we completed the building of two sanitation facilities at Sichelwazi Primary School at KwaMashu. We are also sponsoring the building of two classrooms and a sanitation facility at Ifafa Primary School near Umzinto and three classrooms for Ethangeni Combined School near Dundee.



## corporate social responsibility continued



Handover ceremony of Ifafa Junior Primary, Umzinto, KwaZulu-Natal

We continued to support the Children of the Dawn organisation, which focuses on caring for HIV/AIDS orphans and vulnerable children throughout South Africa. Lewis is currently sponsoring 45 children and such sponsorship covers their needs such as schooling, nutrition, clothing, hygiene and health. It is our intention to expand this sponsorship to include a further 38 children.

Support has been given to the following:

- Funding for schooling needs and the provision of such amenities as beds, mattresses, furniture and cupboards to 44 boys and girls at the South African Children's Home in Gardens, Cape Town.
- Sponsorship for projects conducted by the Thembalisha Foundation which has as its main objective the alleviation of poverty through education. We have continued to support the projects at the School of Hope and Graceland Pre-school.
- Sponsorship of the Family Reunion Centre. This care centre provides food parcels to pensioners every month and care for homeless people and single mothers. The centre also has a feeding scheme for the children of Amstellhof Primary School. We have agreed to continue this sponsorship for the following financial year.



Our corporate social responsibility programme has been extended to include communities in Botswana, Lesotho, Namibia and Swaziland which we serve through our extensive retail network. Our major sponsorship has been to the SOS Children's Homes in each country where we have provided merchandise items such as fridges, stoves, television sets, furniture, beds and mattresses. We have also provided funding for the general day to day running costs.

Lewis is one of the major sponsors of the Community Chest Twilight Run, an annual event in Cape Town. The proceeds of the thousands of entries to this run contributes to the Community Chest's fund-raising.

Sundry ad hoc assistance is provided to various non-profit organisations in response to requests. In addition, financial assistance and donations of kit are made to sports clubs in previously disadvantaged areas.



Through the Lewis Club, the following contributions have been made to the social and economic upliftment of our communities:

- The provision of Damelin education bursaries to the value of R1 million per year to club members, thereby assisting previously disadvantaged South Africans to further their education.
- The top three prize winners each month select charities of their choice and donations are made to the selected charities on their behalf.

### **Transformation**

In the Financial Mail/Empowerdex Empowerment survey of April 2008, Lewis Group was placed second in the Retail sector.

The DTI introduced revised codes and we are currently recalibrating systems to be able to measure our rating in terms of the revised standards.

The group continues to measure progress in meeting internal targets for transformation. Regular reports in respect of employment equity, training, procurement and the corporate social responsibility programme are presented bi-annually to the Transformation Committee. The Transformation Committee assesses the progress relative to targets set. To date, we are making good progress, particularly in respect of employment equity.

### **Employees**

Our business success relies on a productive workforce, where sound employee relations are key. We aim to create an environment where loyal people with strong entrepreneurial and work ethic are rewarded and the skills and experience of the staff are retained to ensure the enduring performance of the group.

In particular, Lewis is aware of the costs associated with employee turnover and the cost of acquiring and training new staff. Consequently, priority is given to staff retention, particularly those who show potential to grow within the group. There are a number of benefits to this strategy, one of which is to reward employees who contribute to the success of the group and secondly, to create a culture where

employees feel a sense of belonging to the “Lewis family”.

We are also committed to ensuring a workplace that is representative of the demographics of South Africa and our customer base. We continually monitor our employee profile to ensure that it is reflective of the communities which we serve. 85% of our staff are from black communities.

We provide for the development of our staff offering an extensive range of training courses for all employees concentrating on the skills set for each of the job categories. It is the responsibility of operational management to continually identify candidates who require further training to enhance their performance and overall skills. During 2008, 2 698 staff members attended training courses including 1 908 previous disadvantaged staff. Particular emphasis was placed on training in respect of the National Credit Act.

Staff with management potential are continually being identified and being given the opportunity to further develop their career within the group. Manager development programmes are in place to take the employee through junior management levels through to senior management roles. In addition, a development pool confirming staff from previous disadvantaged communities, who have been identified as having management potential, are receiving further training and exposure.

A training team working closely with the human resources department travels throughout South Africa providing on-site and off-site training supplementing interactive computer training on product knowledge at the stores.

The group has expanded skills training and product knowledge by means of a weekly television broadcast, known as “Lewis Live”, directly to our branches. During the broadcast, employees are exposed to skills training and product knowledge. This contributes to a team culture where the staff understand the requirements of other jobs in the store environment.

We are accredited as a training provider within the Wholesale and Retail Sector Educational and Training Authority.

## corporate social responsibility continued

The group provides a number of other benefits:

- Voluntary medical aid for employees subsidised by the company.
- Compulsory membership of either the Lewis Provident Fund or SACCAWU National Provident Fund.
- Home loan assistance.
- Educational bursaries.
- Medical aid assistance.
- A subsidised canteen at head office.
- Counselling, advice and assistance to the employees who request such as a consequence of difficult personal circumstances.

We recognise our employee's rights to associate freely and to bargain collectively and a recognition agreement exists with the South African Commercial, Catering and Allied Workers' Union (SACCAWU). Recognition agreements have also been concluded with unions in Botswana, Lesotho and Swaziland.



### HIV/AIDS

Lewis has an HIV/AIDS awareness programme which is integrated into the regular company training programmes available to our staff. The aim of the programme is to advise staff members of the effects of HIV/AIDS and available preventative methods. Brochures are regularly distributed to staff.

An HIV/AIDS management programme has been made available to permanent staff and their immediate families. The programme is run by an external service

provider who provides the following services:

- Access to post-AIDS exposure counselling through a care centre.
- The applicant is covered for initial medication, free consultations and assistance in locating the nearest clinic for further treatment.

Participation by employees and their families is voluntary and all counselling given is treated as confidential. The group bears the cost of this cover on behalf of all its employees.

This HIV/AIDS management programme has been promoted through all the staff communication channels.

### Procurement and enterprise development

A substantial amount of merchandise is procured from suppliers, which are mostly small, medium and micro enterprises and mostly owned by persons from designated groups. During the year, approximately 40% of purchases in the furniture category were bought from Black Economic Empowerment (BEE) suppliers. In addition, 90% of all vehicles purchased were bought from a BEE vehicle dealership and approximately 30% of our rental premises are owned or controlled by previously disadvantaged individuals. Our payment terms are 30 days which support the cash flows of these suppliers. Our Enterprise Development initiatives include supporting small black owned businesses that provide services to our group. Financial assistance is also given to these businesses.



Two classrooms for Ifafa Junior Primary, Umzinto, KwaZulu-Natal

## Environment

We recognise that our activities do impact on the environment. The impact is minimised through adopting a strategy of regularly reviewing the group's activities and compliance with relevant legislation.

The main areas of focus are:

- Minimising the usage of electricity and water.
- Wastage disposal companies are contracted to recycle the group's wastage, which relates mainly to consumables such as stationery, paper and plastic.
- The optimisation of fuel and oil consumption is achieved by ensuring that vehicles operate efficiently and the amount of travel for delivery purposes is minimised.

With respect to our suppliers, where practicable, we review their activities and supply chain to determine the impact on the environment and communities.



Pupils and staff at Ifafa Junior Primary School

# corporate governance



**Marlene McConnell:** company secretary

“Effective corporate governance is consistently practiced throughout the group.”

## Introduction

The directors endorse the principles of effective corporate governance and accept responsibility for ensuring that it is consistently practiced throughout the group. In discharging this responsibility, the board has ensured that the company complies in all material respects with the requirements of the Code of Corporate Practices and Conduct as set out in the second King Report on Corporate Governance (King II).

## Governance developments

The board believes that the corporate governance structure should be appropriate for the size and nature of the group, its overall structure and to be able to monitor the business risks and challenges facing the group. This is an on-going assessment and appropriate adjustments to the governance practices are continuously made in response to changing circumstances.

During the year, the following developments in the governance practices were implemented:

- Formation of an Audit and Risk Committee for the group’s insurer, Monarch Insurance Company Limited. While the group’s Audit and Risk Committee has hitherto adequately addressed Monarch’s issues, it was agreed that a separate audit committee be formed by Monarch with the required set of specialised skills to oversee Monarch’s financial reporting, internal control and risk management.
- The composition, functions and responsibilities of audit committees as set out in the Corporate Laws Amendment Act of 2006, have been integrated into the workings and charter of the group’s Audit and Risk Committee.
- Successful implementation of the National Credit Act into all the business processes of the group.
- Continuing compliance with legislation and regulations and monitoring of proposed legislation to assess its impact on the business.
- Compliance with JSE Listings requirements.

- Continual review of existing governance practices to ensure its appropriateness to our circumstances and to benchmark against best practice.

## Board and board committees

### The board

#### Membership

Non-executive members: D M Nurek (chairman), H Saven, B J van der Ross and Professor F Abrahams

Executive members: A J Smart (chief executive officer), L A Davies (chief financial officer)

The directors do not have fixed terms of appointment and all directors are subject to retirement by rotation and re-election by shareholders at least every three years.

Directors are selected to serve on the board, based on their knowledge, experience, independence, the contribution they can make and attention they can devote to the role.

#### Purpose and function

In terms of its charter, the board's responsibilities include the following:

- adoption and oversight of strategic plans;
- matters considered crucial for business success;
- approval of budgets;
- monitoring operational performance against approved budgets;
- ensuring effective risk management and internal control;
- overseeing director selection, orientation and evaluation;
- approving significant accounting policies;
- ensuring effective regulatory compliance;
- assessing the sustainability of the group as a going concern;
- approving the annual and interim financial statements; and
- ensuring balanced and understandable communication to stakeholders.

The board has defined levels of materiality recorded in a written delegation of authority, setting out decisions it wishes to reserve for itself.

A self-evaluation of the board's performance is undertaken annually.

#### Meetings

The board meets four times a year. The charter allows for additional meetings when it is considered necessary.

Meetings are conducted in accordance with formal agendas, ensuring that all substantive matters are properly addressed and monitored. Any director may request additional items be included on the agenda. Meaningful, relevant and complete information is disseminated prior to board meetings to facilitate in-depth discussion.

Non-executive directors bring an independent view and enjoy significant influence at the meetings. In addition, there is on-going communication between the executive and non-executive directors outside of the formal meetings.

The directors have unrestricted access to information and management and may seek independent professional advice at the group's expense, after consultation with the chairman.

Newly appointed directors are taken through an induction programme, outlining their fiduciary responsibilities and the necessary company and industry specific background information.

#### Attendance

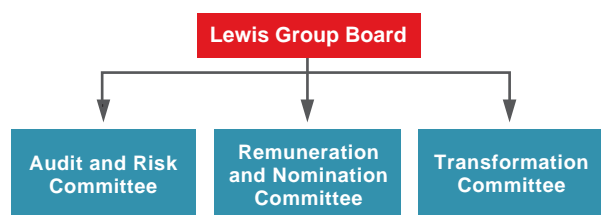
	May 2007	Aug 2007	Nov 2007	Mar 2008
D M Nurek	✓	✓	✓	✓
H Saven	✓	✓	✓	✓
B J van der Ross	✓	Apologies	✓	✓
Prof F Abrahams	✓	✓	✓	✓
A J Smart	✓	✓	✓	✓
L A Davies	✓	✓	✓	✓

# corporate governance continued

## Board committees

The board of directors has delegated specific responsibilities to board committees, each with their own charter and terms of reference. The board committees meet independently and report back through their chairman. Minutes of committee meetings are distributed to the board. The secretary for these committees is the company secretary.

The board structure is illustrated below:



## Audit and Risk Committee

### Membership

Members: H Saven (chairman), D M Nurek, B J van der Ross.

In terms of its charter, the committee consists of the independent non-executive directors. The directors are financially literate and suitably qualified to perform their role.

### Purpose and function

The committee is responsible for:

- approving the internal audit plan and reviewing the activities and findings of the department. Evaluating the performance of the internal audit function;
- reviewing the audit plan of the external auditors, providing guidance as to the extent of services other than audit to be provided. Assessing the independence and objectivity of the external auditors. Considering significant differences of opinion between management and external auditors;
- reviewing the adequacy of internal control and risk management;
- ensuring compliance with regulatory requirements;

- assessing the sustainability of the group in terms of economic, environmental and social considerations; and
- reviewing the financial reporting system, evaluating and approving accounting policies and the financial information issued to the stakeholders in terms of International Financial Reporting Standards.

## Meetings

The committee meets four times a year. Committee meetings are also attended by the group's chief executive officer, chief operating officer, chief financial officer, the company secretary, the group's internal audit manager and the external auditors, PricewaterhouseCoopers Inc.

The charter and meeting agendas have been aligned with the Corporate Laws Amendment Act of 2006.

## Attendance

	May 2007	Aug 2007	Nov 2007	Mar 2008
H Saven	✓	✓	✓	✓
D M Nurek	✓	✓	✓	✓
B J van der Ross	✓	Apologies	✓	✓

## Remuneration and Nomination Committee

### Membership

Members: D.M Nurek (chairman), H Saven, B J van der Ross, Professor F Abrahams

In terms of the charter, all members must be independent non-executive directors.

### Purpose and function

The committee is responsible for the following:

- developing a remuneration philosophy;
- ensuring senior executives are fairly rewarded;
- succession planning;
- ensuring the Board has the required mix of skills, experience and other qualities to effectively manage the group; and

- identifying and nominating candidates to fill board vacancies. Before nominating individuals, appropriate reference checks are performed.

### Meetings

The committee meets twice a year. At the invitation of the committee, the chief executive officer attends the meetings except when matters relating to his own compensation are under discussion.

The committee reviews and approves the compensation of the executive directors, non-executive directors and senior executives. All awards under the group's share incentive plans are approved by the committee. The committee in its discretion may engage independent and professional advice in reviewing remuneration policies.

### Attendance

	Aug 2007	Mar 2008
D M Nurek	✓	✓
H Saven	✓	✓
B J van der Ross	Apologies	✓
Professor F Abrahams	✓	✓

### Transformation Committee

#### Membership

Non-executive members: Professor F Abrahams (chairperson), D M Nurek

Executive members: A J Smart (chief executive officer), J Enslin (chief operating officer), D Loudon (general manager: merchandising), J Horn (general manager: human resources)\*, S Röhm (corporate social responsibility manager)

\* Resigned 31 May 2008

#### Purpose and function

The committee is responsible for:

- developing and maintaining a transformation strategy;
- to set targets appropriate to the group in terms of the Codes of Good Practice issued by the Department of Trade and Industry ("DTI");

- approve the programme of transformation;
- ensure that an annual evaluation of the group's performance in terms of the DTI's scorecard and a comparison to the targets set by the Committee are made; and
- confirm that legislation has been complied with.

### Meetings

The committee meets twice a year. Reports on employment equity, training, procurement and the corporate social responsibility programme are presented by the respective executive members at every meeting. The committee reviews the progress that is being made towards achieving the group's targets in respect of DTI's codes of good practice.

### Attendance

	Aug 2007	Mar 2008
Professor F Abrahams	✓	✓
D M Nurek	✓	✓
A J Smart	✓	✓
J Enslin	✓	Apologies
D Loudon	✓	Apologies
J Horn	✓	✓
S Röhm	✓	✓

### Monarch Insurance Company Limited

#### The board

#### Membership

Executive members: A J Smart (chairman), L A Davies

Non-executive members: D M Nurek\*, R L Shaw and R I Sanger

Alternate director: H Saven\* (for D M Nurek)

\*Appointed 23 July 2007

Monarch Insurance Company Limited is the group's short-term insurer. With due cognisance of this, selection of directors is made based on their knowledge and experience, particularly with respect to short-term insurance, creditability and the contribution they can make to this board.

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R L Shaw and R I Sanger provide insurance advisory services to Monarch.

### Purpose and function

The board performed the following functions:

- approval and oversight of strategic plans for the insurer within the parameters of the overall strategic direction of the group;
- approval of budgets (component of the group budget);
- monitoring operational performance against approved budgets;
- regular review of underwriting criteria;
- adoption of asset allocation strategies for the investment portfolio, based on recommendations from Sanlam who manage the portfolio on Monarch's behalf;
- review of the performance of the investment portfolio against benchmarks;
- ensuring regulatory compliance, specifically with respect to the Short-term Insurance Act of 1998;
- ensuring effective risk management and internal control;
- assessing director selection, orientation and evaluation;
- approving significant accounting policies; and
- approving the annual financial statements

### Meetings

The Monarch board meets four times a year.

Meetings are conducted with a formal agenda, ensuring that all substantive matters are dealt with. Any director may request additional items be included on the agenda. Meaningful, relevant and complete information is disseminated prior to board meetings to facilitate in-depth discussion.

At every meeting, a formal report from Sanlam regarding the investment portfolio is presented and discussed. The report covers the following:

- current market conditions and future expectations;

- asset allocations considering the above;
- returns under each asset category;
- detailed review of the equity portfolio and the positioning of the bond portfolio; and
- recommendations of the asset manager going forward.

The board considers their recommendations. The investment strategy is then formulated for the following quarter and the chief financial officer is then given authority to implement the approved strategy.

### Attendance

	Jul 2007	Sep 2007	Nov 2007	Mar 2008
A J Smart	Apologies	✓	✓	✓
L A Davies	✓	✓	✓	✓
D M Nurek	✓	✓	✓	✓
R L Shaw	✓	✓	✓	✓
R I Sanger	✓	✓	✓	✓

### Audit and Risk Committee

#### Membership

Members: R L Shaw (chairman), D M Nurek and R I Sanger

The committee was constituted in accordance with section 22 of the Short-term Insurance Act of 1998. Its first meeting was held in September 2007.

#### Purpose and function

The committee is responsible for:

- reviewing the company audit plan of the external auditor and its context within the group audit plan. Providing guidance as to the extent of non-audit services to be provided;
- ensuring compliance with regulatory requirements, particularly the Short-term Insurance Act of 1998. The scope of the committee's monitoring of compliance with legal and regulatory requirements has been extended to include group compliance with the Financial Advisory and Intermediary Services Act ("FAIS");

- reviewing the financial reporting system, evaluating and approving accounting policies and approving the financial statements of the company; and
- addressing risks specific to the company that have been identified in the group risk management policies.

Internal control review and internal audit work is done in terms of an overall group plan. The group Audit and Risk Committee refers any matter relating to Monarch to this committee for its consideration.

#### Meetings

The committee meets four times a year. These meetings are attended by the chief executive officer, chief financial officer, the company secretary, the group's internal audit manager and the external auditors, PricewaterhouseCoopers Inc.

#### Attendance

	Sep 2007	Nov 2007	Mar 2008
R L Shaw	✓	✓	✓
D M Nurek	✓	✓	✓
R I Sanger	✓	✓	✓

#### Other governance structures

##### Executive Committee

The chief executive officer, Alan Smart is responsible for formulating, implementing and maintaining strategic directions, as well as ensuring that the day-to-day activities are appropriately supervised and controlled.

The responsibility for the implementation of strategy and management control over the activities of the group rests with the Executive Management Committee. The committee is chaired by the chief executive officer and consists of 12 senior members of the executive team which includes the six directors of Lewis Stores (Pty) Ltd.

The Executive Committee meets regularly and is responsible for assisting the chief executive officer in the management of the group, is accountable for the

performance of the group and makes policy proposals to the board for consideration and adoption.

#### Company secretary

The company secretary acts as adviser to the board and plays a pivotal role in ensuring compliance with statutory regulations and the Code, the induction of new directors, tabling information on relevant regulatory and legislative changes, and giving guidance to the directors regarding their duties and responsibilities. The directors have unlimited access to the advice and services of the company secretary.

The appointment and removal of the company secretary is a matter of the board. On 18 March 2008, P B Croucher resigned as company secretary to move into another role within the group and M G McConnell was appointed in his stead.

#### Internal controls and auditing

##### Internal Control

The group's internal controls and systems are designed to provide reasonable, but not absolute assurance as to the integrity and reliability of the annual financial statements, to safeguard and maintain accountability of its assets, to minimise fraud, loss and material misstatements and to ensure compliance in all material respects with applicable laws and regulations.

The systems of internal control are based on established organisational structures, written policies and procedures and includes the preparation of budgets and forecasts and the subsequent comparison of actual results to these budgets and forecasts. These systems and procedures are implemented, maintained and monitored by appropriately trained personnel with suitable segregation of authority, duties and reporting lines and by the comprehensive use of computer technology.

The effectiveness of the systems of internal control is monitored by the senior executives, general managers and the internal auditors. These reviews indicate that the systems of internal control are appropriate and satisfactory and in addition, no material loss, or misstatement arising from a material breakdown in the

## corporate governance continued

functioning of the systems has occurred. The board is of the view that current controls are adequate and effective to mitigate, to an acceptable level, the significant risks faced by the group.

### Internal audit

The internal audit department reports to the Audit and Risk Committee and has direct access to the chairman of the Audit and Risk Committee. For day-to-day matters, it reports to the chief financial officer.

It provides assurance that management and business processes are adequate to identify and monitor significant foreseeable risks. It monitors the effective operation of the established internal control systems and is responsible for establishing credible processes for feedback on risk management to the board.

The internal audit department's charter has been approved by the Audit and Risk Committee and is consistent with the Institute of Internal Auditors' requirements for internal auditing. The audit coverage plan is reviewed annually and all significant findings and recommendations are reported to executive management and the Audit and Risk Committee.

The internal audit department co-ordinates with the external auditors, as far as practically possible, to ensure proper coverage of financial, operational and compliance controls and to minimise duplication of effort.

### External auditors

The external auditors provide an independent assessment of the annual financial statements and express an opinion on the fair presentation of the financial disclosures.

The external auditors have free and unrestricted access to the Audit and Risk Committee.

The annual audit plan prepared by the external auditors is reviewed by the Audit and Risk Committee to ensure that all significant areas are covered, without infringing on the external auditor's independence and right to audit.

The external auditors report their audit findings to the Audit and Risk Committee and executive management. The committee ensures that the matters identified and significant differences of opinion between management and the external auditors are considered.

Non-audit services provided by the external auditors are reported to the Audit and Risk Committee on a bi-annual basis.

### Compliance and codes of conduct

#### Legislative compliance

We consider compliance with applicable laws, industry regulations and codes an integral part of conducting business. The group facilitates compliance through analysing statutory and regulatory requirements and ensuring that the implementation thereof is in accordance with the applicable laws and regulations.

The implementation of the National Credit Act ("NCA") at the beginning of June 2007 was successful. All the group's business processes were re-engineered, where appropriate, to comply with the various aspects of the NCA. One of the main implications of the NCA was the affordability criteria which requires credit providers to ensure that customers can afford the credit being offered. Lewis has been applying very similar criteria for a number of years and, therefore, compliance with NCA requirements required little change.

Proposed legislation that may impact the group going forward include the following:

- Consumer Protection Bill
- Companies Bill
- Insurance Law Amendment Bill

Management will monitor the progress of these Bills and make continual assessments of their impact on group compliance.

### **Behavioural code**

The group is committed to a culture of the highest levels of professionalism and integrity in its business dealings with stakeholders. The behavioural codes set out standards of honesty, integrity and mutual respect. Employees are expected to act within this code at all times.

The corporate fraud policy sets out the responsibility of the staff and management towards the detection and prevention of fraud.

A hotline is available to all employees to report suspected incidents for investigation. Employees are guaranteed confidentiality and protection from victimisation for reporting such incidences.

### **Conflict of interest**

Directors or senior executives once aware of any conflict of interest are required to disclose such a conflict immediately and are precluded from voting at meetings on conflicted matters.

### **Share dealing**

An insider trader policy exists. During closed periods, the directors, officers and defined employees may not deal in the shares of Lewis.

Directors are required to obtain written clearance from the chairman of the board before dealing. If the chairman wishes to deal, he is required to obtain written permission from the chairman of the Audit and Risk Committee.

A register of share dealings by directors is maintained by the company secretary and reviewed by the board.

### **Stakeholder communication**

In all communications with stakeholders, the board aims to present a balanced and understandable assessment of the group's position. This is done through adhering to principles of openness and substance over form and striving to address material matters of significant interest and concern to all stakeholders. Proactive communication is maintained with institutional investors and investment analysts. The board encourages shareholder attendance at general meetings and provides understandable explanations of the effects of resolutions to be proposed.

# risk management

Risk is integral to any business. Risks need to be managed to ensure that the business continues to meet its goals, but in many instances risk also provides opportunities to grow the business.

Risk management is a process of identifying, evaluating, and responding to business-specific, industry and general risks. Due to their involvement in the business operations, executive management is able to identify risks and to assess whether the risk has to be transferred, avoided or managed. This process has been formalised by the Risk Working Group who reports on a biannual basis to the Audit and Risk Committee.

The primary risks to the group have remained unchanged from the previous year and there has been no shift in their significance. These can be broadly categorised as follows:

## **Credit management**

The extension of credit to our customers and subsequent collectability of these debts is influenced by:

- *Social and economic trends*

Relevant factors include personal debt levels, unemployment levels, food and transport inflation rates and interest rates.

The group has industry-leading credit-granting systems which assess the creditworthiness of customers and ensures manageable levels of bad debt. Any shift in the payment pattern of our customer base would be rapidly identified and the appropriate action taken.

- *The National Credit Act ("NCA")*

Our credit-granting process, which has been in place for many years, was similar to the requirements of the National Credit Act and, therefore, the transition to the NCA was very smooth. The store-based collection process ensures that Lewis will continue to interface closely with its customers and is a major advantage when dealing with certain aspects of the NCA.

## **Human capital**

### **Labour related**

Our employees are unionised and as with all collective bargaining, there is a risk of disputes and work stoppages. In the past, Lewis and the unions have reached mutually acceptable settlement.

## **Key executives**

These persons generally have substantial experience and expertise in the furniture retail business and have made significant contributions to the success and growth of the group.

The retention of key executives is the responsibility of the board through its Remuneration and Nomination Committee.

## **Procurement**

The group imports directly 26.6% of total purchases from foreign suppliers. The foreign exchange risk of imports is mitigated through the use of forward currency contracts.

Our supplier base is diversified and we source from both local and foreign suppliers.

The supply chain is continually being assessed to ensure its cost-effectiveness and efficiency in delivering merchandise at the right time and to the right destination.

## **HIV/AIDS**

South Africa has one of the highest HIV/AIDS infection rates in the world. HIV/AIDS management programme is in operation for the group's permanent staff and their immediate families. The cost of the cover is borne by the group. With respect to customers, the impact is indeterminable, but there has been no significant deterioration in the death claims experience of Monarch Insurance Company ("Monarch").

## **Information technology**

The business is dependent on its information technology platforms. Software development and services are outsourced to a third-party provider. The quality of the service is monitored through a service level agreement.

Disaster recovery planning is in place and tested regularly during the year. In addition, a comprehensive business recovery plan exists for the group.

## **Investments**

Monarch holds investments to support the solvency margins and technical reserves required by the Short-term Insurance Act. The fair value of these investments are affected by the economic and investment climate. The board of Monarch regularly assesses investment strategy in conjunction with our investment advisor, Sanlam Asset Management.

## five-year review

	<b>2008</b>	2007	2006	2005	2004
	<b>Rm</b>	Rm	Rm	Rm	Rm
		(Normalised)			(SA GAAP)
<b>Group Income Statements</b>					
Revenue	<b>3 596.4</b>	3 323.5	2 874.5	2 511.2	2 274.7
Cost of sales	<b>(1 272.1)</b>	(1 194.0)	(1 020.6)	(885.0)	(919.6)
Operating costs	<b>(1 393.9)</b>	(1 269.6)	(1 125.3)	(1 032.7)	(849.5)
Operating profit	<b>930.4</b>	859.9	728.6	593.5	505.6
Investment income	<b>71.7</b>	42.7	28.9	37.6	34.9
Profit before interest and taxes (EBITA)	<b>1 002.1</b>	902.6	757.5	631.1	540.5
Finance costs	<b>(56.8)</b>	(12.4)	(12.8)	(42.7)	(141.7)
Net profit before tax	<b>945.3</b>	890.2	744.7	588.4	398.8
Taxation	<b>(303.0)</b>	(291.9)	(237.6)	(182.4)	(111.5)
<b>Attributable profit</b>	<b>642.3</b>	598.3	507.1	406.0	287.3
<b>Headline earnings</b>	<b>617.9</b>	594.2	510.4	400.9	287.6
<b>Group Balance Sheets</b>					
<b>Assets</b>					
Non-current	<b>706.0</b>	746.9	730.9	608.8	257.4
Property, plant and equipment	<b>200.6</b>	182.9	163.2	159.5	115.4
Investments – insurance business	<b>505.4</b>	461.1	478.0	400.6	146.2
Deferred tax asset	<b>–</b>	102.9	89.7	48.7	–
Other	<b>–</b>	–	–	–	(4.2)
Current	<b>3 101.9</b>	2 653.0	2 249.1	2 066.9	2 562.5
Investments – insurance business	<b>159.5</b>	199.3	111.9	105.2	296.7
Inventories	<b>230.4</b>	230.3	212.6	155.8	155.3
Trade and other receivables	<b>2 615.6</b>	2 187.7	1 896.5	1 750.6	1 751.7
Taxation	<b>29.6</b>	–	–	–	–
Cash and cash equivalents	<b>66.8</b>	35.7	28.1	55.3	358.8
<b>Total assets</b>	<b>3 807.9</b>	3 399.9	2 980.0	2 675.7	2 819.9
<b>Equity and liabilities</b>					
Capital and reserves	<b>2 730.0</b>	2 527.2	2 305.4	2 059.6	1 310.0
Non-current liabilities	<b>72.1</b>	93.0	97.7	86.1	747.9
Interest-bearing borrowings	<b>–</b>	–	1.0	1.7	683.8
Retirement benefits	<b>57.7</b>	67.6	75.8	72.4	36.0
Deferred taxation	<b>14.4</b>	25.4	20.9	12.0	28.1
Current liabilities	<b>1 005.8</b>	779.7	576.9	530.0	762.0
Trade and other payables	<b>302.4</b>	287.7	283.5	225.2	207.4
Current portion of interest-bearing borrowings	<b>–</b>	1.0	0.8	7.2	472.2
Short-term borrowings	<b>703.4</b>	429.3	132.8	172.0	–
Taxation	<b>–</b>	61.7	159.8	125.6	82.4
<b>Total equity and liabilities</b>	<b>3 807.9</b>	3 399.9	2 980.0	2 675.7	2 819.9

## five-year review continued

	<b>2008</b> <b>Rm</b>	2007 Rm (Normalised)	2006 Rm	2005 Rm	2004 Rm (SA GAAP)
<b>Group Cash Flow Statements</b>					
<b>Cash generated from operations</b>	<b>556.2</b>	591.5	593.2	625.2	508.9
Dividends and interest received	<b>61.0</b>	58.7	41.3	46.9	49.5
Interest paid	<b>(68.2)</b>	(30.0)	(18.7)	(319.9)	(18.9)
Tax paid	<b>(290.4)</b>	(403.2)	(244.4)	(207.7)	(99.2)
<b>Net cash retained from operations</b>	<b>258.6</b>	217.0	371.4	144.5	440.3
<b>Cash utilised in investing activities</b>	<b>(97.3)</b>	(66.6)	(45.5)	(53.0)	(59.0)
<b>Net effect of financing activities</b>	<b>(404.3)</b>	(439.3)	(313.9)	(567.0)	(6.3)
<b>Net cash increase/(decrease) in cash and cash equivalents</b>	<b>(243.0)</b>	(288.9)	12.0	(475.5)	375.0
<b>Ratios and Statistics</b>					
<b>Returns</b>					
Return on average shareholders' equity	<b>24.4%</b>	24.8%	23.2%	22.1%	24.8%
After-tax return on average capital employed	<b>21.4%</b>	22.5%	22.1%	18.5%	17.0%
After-tax return on average assets managed	<b>18.9%</b>	19.0%	18.2%	15.9%	14.4%
<b>Margins</b>					
Gross margin	<b>32.7%</b>	34.0%	34.9%	34.5%	33.6%
Operating margin	<b>25.9%</b>	25.9%	25.3%	23.6%	22.2%
<b>Productivity</b>					
Number of stores	<b>525</b>	508	490	475	465
Revenue per store (R 000's)	<b>6 850</b>	6 542	5 866	5 287	4 892
Operating profit per store (R 000's)	<b>1 772</b>	1 693	1 487	1 249	1 087
Average number of employees (permanent employees only)	<b>6 696</b>	6 310	5 879	5 713	5 571
Revenue per employee (R 000's)	<b>537</b>	527	489	440	408
Operating profit per employee (R 000's)	<b>139</b>	136	124	104	91
Trading space (sqm)	<b>220 236</b>	215 076	210 201	207 595	205 793
Revenue per sqm (R)	<b>16 330</b>	15 453	13 675	12 097	11 053
Operating profit per sqm (R)	<b>4 225</b>	3 998	3 466	2 859	2 457
Inventory turn (times)	<b>5.5</b>	5.2	4.8	5.7	5.1
<b>Credit ratios</b>					
Cash and short-term sales % of total sales	<b>33.1%</b>	30.7%	29.9%	30.1%	23.0%
Debtors costs as a % of net debtors	<b>6.5%</b>	5.8%	5.2%	4.8%	5.4%
Debtors impairment provision as a % of net debtors	<b>13.5%</b>	14.9%	16.5%	18.3%	19.3%
Arrear instalments on satisfactory paid accounts as a % of net debtors	<b>10.6%</b>	10.7%	10.5%	11.2%	11.9%
Arrear instalments on slow-paying and non-performing accounts as a % of net debtors	<b>19.3%</b>	19.0%	20.6%	23.3%	23.2%
Doubtful debts provision on non-performing accounts	<b>69.6%</b>	81.2%	86.4%	87.3%	88.8%
Decline rate %	<b>22.5%</b>	20.1%	22.4%	20.5%	22.3%

	2008	2007	2006	2005	2004
<b>Solvency and liquidity</b>					
Financing cover (times)	17.6	72.8	59.2	14.8	3.8
Dividend cover	2.00	2.25	2.25	3.00	n/a
Gearing ratio (%)	23.3%	15.6%	4.6%	6.1%	60.9%
Current ratio (times)	3.1	3.4	3.9	3.9	3.4
<b>Share performance</b>					
Earnings per share (cents)	717.0	649.9	521.2	406.0	287.3
Headline earnings per share (cents)	689.9	645.4	524.6	400.9	287.6
Cash flow per share (cents)	620.9	642.5	609.7	625.2	508.9
Net book asset per share (cents)	3 057.6	2 774.3	2 425.0	2 059.6	1 310.0
Share price:					
Closing price	41.90	68.50	61.60	33.51	n/a
High	74.70	75.00	62.97	41.50	n/a
Low	37.00	43.00	32.75	28.20	n/a
Price-earnings ratio	5.8	10.5	11.8	8.3	n/a
Dividends per share for the financial year (cents)	323	266	225	135	n/a
Number of shares in issue (million)	99.2	100.0	100.0	100.0	n/a
Volume of shares traded (million)	110.5	120.8	156.1	61.8	n/a
Value of shares traded (million)	6 284.7	6 859.1	6 386.8	2 139.5	n/a
Market capitalisation (million)	4 190	6 850	6 160	3 351	n/a
Number of shareholders	1 501	1 776	2 331	2 862	n/a

#### Explanatory Notes:

1. All ratios are based on figures at the end of the period unless otherwise disclosed.
2. All amounts for the 2004 financial year are in accordance with South African Generally Accepted Accounting Practice ("SA GAAP"). The results and financial position are determined in accordance with International Financial Reporting Standards, but in respect of the 2005 and 2006 financial years, it excludes share-based payments (IFRS 2) arising from share awards and options granted at date of listing.
3. The return on equity for the 2005 financial year has been restated to exclude the effect of the restructuring prior to the listing.
4. The solvency/liquidity ratios for 2004 have been affected by the group structure prior to its listing.

# definitions

The definitions below should be read in conjunction with the accounting policies set out in the financial statements on pages 75 to 82.

## **Return on average shareholders' equity**

Profit attributable to ordinary shareholders as a percentage of average shareholders' equity.

## **After-tax return on average capital employed**

After-tax return for capital is the profit attributable to ordinary shareholders plus finance costs paid to providers of capital less the attributable tax on finance costs.

Capital employed is shareholders' interest and interest-bearing debt.

The after-tax return on average capital employed is the after-tax return for capital as a percentage of the average capital employed for the year.

## **After-tax return on average assets managed**

After-tax return is the profit before interest and taxation less taxation and the attributable tax on finance costs.

The after-tax return on average assets managed is the after tax return as a percentage of the average total assets.

## **Gross margin**

Gross profit as a percentage of merchandise sales.

## **Operating margin**

Operating profit as a percentage of revenue.

## **Inventory turn**

Cost of merchandise sales divided by the closing inventory.

## **Slow-paying accounts (receivables)**

These are customers who, to date, have paid between 70% and 65% of the amount due to Lewis over the whole period of the contract.

## **Non-performing accounts (receivables)**

These are customers who, to date, have paid less than 65% of the amount due to Lewis over the whole period of the contract.

## **Financing cover**

Profit before finance costs and taxation divided by the finance costs.

## **Gearing ratio**

Interest-bearing debt, reduced by cash and cash equivalents, divided by shareholders' equity.

## **Current ratio**

Current assets divided by current liabilities.

## **Earnings per share**

Profit attributable to ordinary shareholders divided by the weighted average number of shares in issue.

## **Headline earnings per share**

Headline earnings divided by the weighted average number of shares in issue.

## **Cash flow per share**

Cash generated from operations divided by the weighted average shares in issue.

## **Net asset value per share**

The net asset value divided by the number of shares in issue, after deducting treasury shares, at the end of the year.

## **Price earnings ratio**

The closing price on the JSE Limited on 31 March divided by the earnings per share.

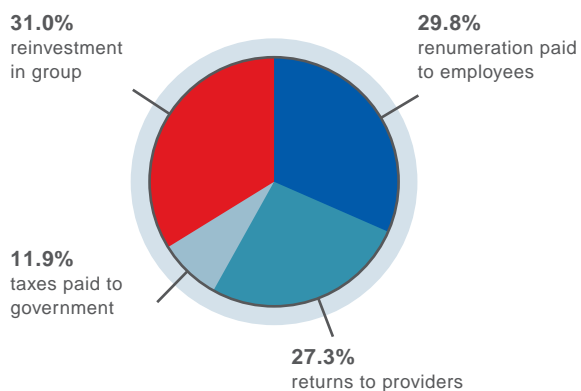
## **Dividends per share for the financial year**

The dividends declared in respect of the financial year expressed as cents per share. Note that this will not correlate to the dividends reflected in the financial accounts since dividends are only recorded on payment.

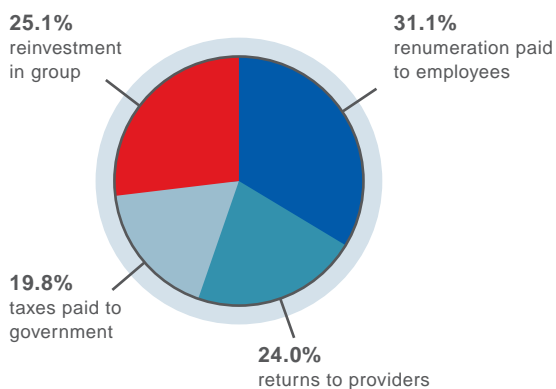
# value added statement

	Group			
	2008		2007	
	Rm	%	Rm	%
Revenue	3 596.4		3 323.5	
Paid to suppliers for goods and services	1 902.7		1 760.6	
<b>Value added by operating activities</b>	<b>1 693.7</b>		1 562.9	
<b>Distributed as follows:</b>				
<b>Remuneration to employees</b>	<b>504.2</b>	<b>29.8%</b>	485.6	31.1%
<b>Returns to providers of capital</b>	<b>463.1</b>	<b>27.3%</b>	375.6	24.0%
To provide lenders with a return on their capital utilised	68.2		29.6	
To provide lessors with a return for the use of their premises	132.2		114.2	
To provide shareholders with a return on their equity	262.7		231.8	
<b>Taxes paid to governments</b>	<b>202.0</b>	<b>11.9%</b>	309.5	19.8%
Income taxation	199.1		305.1	
Regional Service Council Levies	–		1.9	
Municipal rates	2.9		2.5	
<b>Reinvested in the group</b>	<b>524.4</b>	<b>31.0%</b>	392.2	25.1%
Depreciation and amortisation	40.9		38.9	
Deferred taxation	103.9		(13.2)	
Net earnings retained	379.6		366.5	
<b>Total wealth distributed</b>	<b>1 693.7</b>	<b>100.0%</b>	1 562.9	100.0%

distribution of value added 2008



distribution of value added 2007



Lewis' has a proud record of solid growth  
and has an experienced team to manage  
the group through economic cycles

