Lewis Group Limited

Group Annual Financial Statements 2016

Company information

Registration number: 2004/009817/06

Registered address:

53A Victoria Road

Woodstock

7925

Postal address:

P.O. Box 43

Woodstock

7915

Auditors: PricewaterhouseCoopers Inc.

Attorneys: Edward Nathan Sonnenbergs

Bankers:

ABSA Bank Ltd

First National Bank of Africa Ltd

Investec Bank Limited

Standard Bank of South Africa Ltd

Lewis Group Limited and its subsidiaries
Annual Financial Statement for the year ended 31 March 2016

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Directors' responsibility statement

Management have prepared the annual financial statements in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act of South Africa.

The financial statements, which present the results and financial position of the Company and its subsidiaries, are the responsibility of the directors. In fulfilling its responsibility, the board of directors has approved the accounting policies applied and established that reasonable and sound judgements and estimates have been made by management when preparing the financial statements.

Adequate accounting records and an effective system of internal controls have been maintained to ensure the integrity of the underlying information. 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 board is satisfied that the system of internal controls, which includes internal financial controls, operates effectively.

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 risks 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.

The board of directors has reviewed the business of the group together with budget and cash flows for the year to 31 March 2017 as well as the current financial position and have no reason to believe that the group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

PricewaterhouseCoopers Inc., as external auditors, have examined the financial statements and their report appears on pages 4.

The financial statements of the group and the Company for the year ended 31 March 2016, which appear on pages 12 to 76 have been approved by the board of directors and signed on their behalf by:

DM NUREK
Chairman

J ENSLIN
Chief executive officer

LA DAVIES
Chief financial officer

Cape Town
27 June 2016

Company secretary certificate

In my capacity as company secretary, I hereby confirm to the best of my knowledge and belief that all returns required of a public company have, in respect of the year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up-to-date.

MG McCONNELL
Company secretary
27 June 2016

Independent auditor's report to the shareholders of Lewis Group Limited

Report on the financial statements

We have audited the consolidated and separate financial statements of Lewis Group Limited set out on pages 12 to 76, which comprise the balance sheets as at 31 March 2016, and the income statements and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Lewis Group Limited as at 31 March 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with IFRS and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 March 2016, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the IRBA rule published in Government Gazette number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Lewis Group Limited for 25 years.

PricewaterhouseCoopers Inc.
Director: Z Abrahams
Registered Auditor
Cape Town

27 June 2016

Directors' report

Nature of business

Lewis Group Limited is a holding company listed on the JSE Limited, operating through two main trading subsidiaries, Lewis Stores Proprietary Limited and Monarch Insurance Company Limited. Lewis Stores Proprietary Limited offers a selected range of furniture and appliances through 526 Lewis, 127 Best Home and Electric and 107 Beares stores. Sales are mainly on credit. Monarch Insurance Company Limited, a registered short-term insurer, underwrites customer protection insurance benefits to South African customers. In addition, there are also trading subsidiaries in Botswana, Lesotho, Namibia and Swaziland operating under the Lewis, Best Home and Electric and Beares brands.

The group entered into agreements on 6 November 2015 subject to conditions precedent to acquire a portfolio of 56 Beares and Ellerines stores in Botswana, Lesotho, Namibia and Swaziland for approximately R 200 million, increasing the store presence outside South Africa to 119 stores.

During the current year, the group's subsidiaries in Lesotho and Botswana acquired on 8 December 2015 and 8 March 2016 respectively the businesses trading under the Ellerines and Beares brands from the relevant in-country subsidiaries of Ellerines Services Proprietary Limited (subsidiary of Ellerines Furnishers Proprietary Limited in business rescue) as the conditions precedent were fulfilled. The businesses consisted of 30 stores, the Ellerines and Beares brands, trade receivables, inventory and fixed assets. The stores will trade either under the Lewis or Beares brands. (Refer to note 27.3 of the financial statements)

The nature of the business of the subsidiaries is set out on page 74.

Post-balance sheet event

The Beares and Ellerines businesses in Namibia and Swaziland mentioned above have subsequently been acquired on 8 May and 8 April respectively and 26 stores have been integrated into the group's business. The total consideration for these businesses is expected to be in the region of R 100 million. (Refer to note 35 of the financial statements)

Review of financial results and activities

The financial results and affairs of the group are reflected in the annual financial statements set out on pages 12 to 76.

Segmental analysis

Segmental information is set out in the segmental report on page 17 of the annual financial statements.

Share capital

The Company's authorised and issued share capital remained unchanged during the year.

Treasury shares

The group holds 9 216 928 (9.4%) of its own shares through its subsidiary, Lewis Stores Proprietary Limited. In addition, the Lewis Employee Incentive Scheme Trust effectively holds 341 666 shares, all of which will be utilised to cover share awards granted to executives. Refer to note 9.1 and 9.2 for more detail.

Directors' report continued

Dividends

The following dividends have been declared or proposed for the financial year ended 31 March 2016:

	Dividend Per share	Date Declared	Date Payable
Interim – declared	215 cents	9 November 2015	25 January 2016
Final – proposed	302 cents	25 May 2016	25 July 2016
For the year	517 cents		

Notice is hereby given that a final gross cash dividend of 302 cents per share in respect of the year ended 31 March 2016 has been declared payable to holders of ordinary shares. The number of shares in issue as of the date of declaration is 98 057 959. The dividend has been declared out of income reserves and is subject to a dividend tax of 15%. The dividend for determining the dividend tax is 302 cents and the dividend tax payable is 45.3 cents for shareholders who are not exempt. The net dividend for shareholders who are not exempt will therefore be 256.7 cents.

The dividend tax rate may be reduced where the shareholder is a tax resident in a foreign jurisdiction which has a double tax convention with South Africa and meets the requirements for a reduced tax rate. The Company's tax reference number is 9551/419/15/4.

The following dates are applicable to this declaration:

Last date to trade "cum" dividend	Tuesday, 19 July 2016
Date trading commences "ex" dividend	Wednesday, 20 July 2016
Record date	Friday, 22 July 2016
Date of payment	Monday, 25 July 2016

Share certificates may not be dematerialised or rematerialised between Wednesday, 20 July 2016 and Friday, 22 July 2016, both days inclusive.

Directors

In terms of the Articles of Association of the Company the following will retire and have offered themselves for re-election:

Fatima Abrahams
Hilton Saven
Alan Smart

Company Secretary

MG McConnell remained as company secretary throughout the year. The address of the company secretary is that of the registered offices as stated on the company information page.

Directors' report continued

Directors' interests

At 31 March 2016, the directors' beneficial direct and indirect interest in the Company's issued shares were as follows:

	2016		2015	
	Direct	Indirect	Direct	Indirect
DM Nurek	–	20 000	–	20 000
H Saven	–	6 440	–	6 440
AJ Smart	319 070	–	319 070	–
J Enslin	131 380	33 070	106 239	28 912
LA Davies	281 289	25 933	242 157	22 944
	731 739	85 443	667 466	78 296

The following share awards have been made to directors:

J Enslin	379 544
LA Davies	288 246

Full details of the terms and conditions in relation to these share awards are set out in note 18.4 to the financial statements.

During the course of the year, no director had a material interest in any contract of significance with the company or any of its subsidiaries that could have given rise to a conflict of interest.

No related party transaction in terms of the JSE Limited Listing Requirements took place between the group and its directors or their associates, other than remuneration for services rendered to the Company as set out in notes 18.4 and 18.5 to the financial statements.

Subsidiary companies

Details of the Company's subsidiaries are set out on page 74.

The Company's interest in the aggregate profits and losses after taxation of the subsidiary companies is as follows:

	2016	2015
	Rm	Rm
Profit	971.0	813.6
Losses	(2.5)	–

Borrowing powers

Borrowings were R 1 975.0 million at 31 March 2016 (2015: R 1 574.0 million). Borrowings are subject to the treasury policy adopted by the board of directors. In terms of the articles of association, the group has unlimited borrowing powers.

Audit committee report

The Audit Committee ("the Committee") has pleasure in submitting its report for the year ended 31 March 2016 in compliance with the Companies Act 71 of 2008, as amended.

Introduction

The committee has an independent role with accountability to the board. The committee operates in accordance with a documented charter and complies with all relevant legislation, regulation and governance codes. The committee's terms of reference are reviewed annually and approved by the board.

The committee's role and responsibilities includes its statutory duties and further responsibilities as assigned by the board. The committee executed its duties in terms of the requirements of King III.

The committee acts as the Audit Committee for all the subsidiaries in the Lewis Group except for Monarch Insurance Company Limited ("Monarch") which has its own Audit and Risk Committee.

Objectives

The objectives of the committee are:

- To assist the board to discharge its duties relating to the safeguarding of assets, the operation of adequate systems and controls, overseeing integrated reporting, reviewing of financial information and the preparation of interim and annual financial statements in compliance with all applicable legal requirements and accounting standards.
- To facilitate and promote communication and liaison between the board of directors and the company's management in respect of the matters referred to above.
- To recommend the introduction of measures which the committee believes may enhance the credibility and objectivity of financial statements and reports concerning the affairs of the company.
- To perform their statutory functions under section 94 of the Companies Act.
- To advise on any matter referred to the committee by the board of directors.

Relationship with the Monarch Audit and Risk Committee

- Due to the integrated nature of the group's systems and processes, the Lewis Group Audit Committee has responsibility relating to:
  - Internal and external audit management
  - Maintenance of an effective internal control system
- In order for the Monarch Audit and Risk Committee to discharge its responsibilities under the Short-term Insurance Act, the Lewis Group Audit Committee refers any issues relating to these matters to the Monarch Audit and Risk Committee where such issues impact on Monarch.
- The duty and scope of the Monarch Audit and Risk Committee in monitoring the compliance with legal and regulatory requirements has been extended to include the Financial Advisory and Intermediary Services Act due to its interrelationship with the insurance activities of the group.
- The minutes of all Monarch Audit and Risk Committee meetings are submitted and reviewed by the Lewis Group Audit Committee.

Membership

The committee consists of three independent non-executive directors:

H Saven (chairman)

D Nurek

BJ van der Ross

Biographical details of the committee members are provided on page 22 of the integrated report. Fees paid to the committee members are outlined in the table of directors' remuneration on page 55 of the Remuneration Report.

The chief executive officer, chief financial officer, certain of the other non-executive directors and representatives of the internal and external auditors attend the meetings as invitees.

Audit committee report continued

The chairman of the committee also meets separately with the external and internal auditors, without members of executive management being present. The effectiveness of the committee is assessed as part of the annual board and committee self-evaluation process.

Committee activities

The committee met four times during the year under review. Attendance of the members has been set out on page 66 of the Corporate Governance Report.

The committee attended to the following material matters:

Financial statements

- the committee appointed a working group to perform a review of the appropriateness of the group's accounting policies. This working group comprised of three non-executive directors, the two executive directors and senior finance staff.

  The working group identified the following restatements during the first half of the year, which were disclosed in the interim results for the six months ended 30 September 2015:
  - The refund of loss of employment insurance premiums and interest thereon to customers;
  - Unearned premium reserve in Monarch – elimination of the 12.5% intercompany commission;
  - Maintenance contracts – deferral of income until expiry of the suppliers warranty (one year) and in the subsequent two years, to recognize revenue from the maintenance contracts on the expected cost basis;
  - Income from reinsurance contracts revised to defer 100% of the unearned reinsurance premiums on a straight line basis over the period of the related reinsurance contract;
  - The contingency reserve in Monarch was no longer required by the Short-term Insurance Act.

  The working group identified the following reclassifications during the second half of the year:
  - the insurance premiums received in advance by Monarch with respect to term business has been separately disclosed in the balance sheet. Previously, insurance premiums received in advance were included with trade receivables;
  - with the separate disclosure of the insurance premiums in advance, the unearned premium reserve has been reclassified with insurance and reinsurance liabilities;
  - the reinsurance and insurance liabilities included reinsurance assets. These reinsurance assets have been reclassified and reflected separately under current assets;
  - the movements in long-term and short-term borrowings in the cash flow statement have been reclassified as proceeds from borrowings and repayments of borrowings.

  The restatements and reclassifications have been disclosed in the summary consolidated financial statements and in the annual financial statements. The group's auditors attended the working group meetings and audited the restatements and reclassifications.
- the committee reviewed the interim results and year-end financial statements, including the public announcements of the company's financial results, and made recommendations to the board for their approval. In the course of its review, the committee :
  - took appropriate steps to ensure that the financial statements were prepared in accordance with International Financial Reporting Standards (IFRS);
  - considered the appropriateness of accounting policies and disclosures and material judgements applied.
  - completed a detailed review of the going concern assumption and confirmed that the going concern assumption was appropriate in the preparation of the financial statements.

Audit committee report continued

Integrated report

The committee fulfills an oversight role regarding the company's integrated report and the reporting process.

- considered the company's integrated report and has assessed its consistency with operational, financial and other information known to the audit committee members, and for consistency with the annual financial statements. The committee is satisfied that the integrated report is materially accurate, complete and reliable and consistent with the annual financial statements.
- the committee has recommended the integrated report for the year ended 31 March 2016 for approval by the board of directors.

External auditors

- reviewed the independence of PricewaterhouseCoopers Inc., the company's external auditors, and the nominee for the appointment of the designated auditor, before recommending to the board that their re-election be proposed to shareholders (refer section on Independence of External Auditors);
- approved, in consultation with management, the audit fee and engagement terms for the external auditors for the 2016 financial year. The fees paid to the auditors are disclosed in note 21 to the annual financial statements;
- determined the nature and extent of allowable non-audit services and approved the contract terms for the provision of non-audit services. It is the policy of the group that the auditor is restricted from rendering accounting, IT consulting services, company secretarial, internal audit and human resource services.
- reviewed and approved the external audit plan, ensuring that material risk areas were included and that coverage of the significant business processes was acceptable; and
- reviewed the external audit reports and management's response, considered their effect on the financial statements and internal financial control.

Internal audit

- reviewed and approved the existing internal audit charter which ensures that the group's internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to discharge its duties;
- satisfied itself as to the credibility, independence and objectivity of the internal audit function.
- internal audit has direct access to the committee, primarily through the committee's chairman.
- reviewed and approved the annual internal audit plan, ensuring that material risk areas were included and that the coverage of significant business processes was acceptable;
- reviewed the quarterly internal audit reports, covering the effectiveness of internal control, material fraud incidents and material non-compliance with group policies and procedures. The committee is advised of all internal control developments and advised of any material losses, with none being reported during the year;
- considered and reviewed with management and internal auditors any significant findings and management responses thereto in relation to reliable financial reporting, corporate governance and effective internal control to ensure appropriate action is taken.
- oversaw the co-operation between internal audit and external auditors, and the committee is satisfied that the company has optimised the assurance coverage obtained from management, internal and external assurance providers in accordance with an appropriate combined assurance model.
- assessed the performance and qualification of the internal audit function and found them to be satisfactory.

Audit committee report continued

Internal financial control and compliance

- reviewed and approved the group's existing treasury policy and reviewed the quarterly treasury reports prepared by management;
- reviewed the quarterly legal and regulatory reports setting out the latest legislative and regulatory developments impacting the group;
- reviewed the quarterly report on taxation;
- reviewed information technology reports; and
- considered and, where appropriate, made recommendations on internal financial control.

Internal audit has performed a written assessment of the effectiveness of the company's system of internal control and risk management, including internal financial controls. This written assessment by internal audit, as well as other information available to the committee, formed the basis for the committee's recommendation to the board, on the effectiveness of the system of internal controls to be included in the Integrated Report and the Annual Financial Statements.

Governance of risk

The board has assigned oversight of the company's risk management function to the Risk committee. The minutes of the Risk committee are made available to the Audit committee to assist them in fulfilling its oversight role with respect to financial reporting risks arising from internal financial controls, fraud and information technology risks.

Evaluation of expertise and experience of the chief financial officer and finance function

In terms of the JSE Listings Requirements, the committee satisfied itself as to the appropriateness of the expertise and experience of the group's chief financial officer.

The committee has considered, and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the financial function.

Independence of External Auditors

The committee is satisfied that PricewaterhouseCoopers Inc. are independent of the group. This assessment was made after considering the following:

- confirmation from the external auditors that they, or their immediate family, do not hold any significant direct or indirect financial interest or have any material business relationship with Lewis. The external auditors also confirmed that they have internal monitoring procedures to ensure their independence.
- The auditors do not, other than in their capacity as external auditors or rendering permitted non-audit services, receive any remuneration or other benefits from the group.
- The auditor's independence was not impaired by the non-audit work performed having regard to the quantum of audit fees relative to the total fee base and the nature of the non-audit work undertaken.
- The auditor's independence was not prejudiced as a result of any previous appointment as auditor. In addition, an audit partner rotation process is in place in accordance with the relevant legal and regulatory requirements.
- The criteria specified for independence by the Independent Regulatory Board for Auditors.
- The audit firm and the designated auditor is accredited with the JSE.

The committee confirms it has functioned in accordance with its terms of reference for the 2016 financial year.

Hilton Saven
Chairman
Audit Committee

27 June 2016

Income statement

for the year ended 31 March 2016

	Notes	Group 2016 Rm	Group 2015 Restated Rm
Revenue		5 785.0	5 660.8
Merchandise sales		2 667.7	2 591.5
Finance charges and initiation fees earned		1 426.3	1 326.4
Insurance revenue		908.2	979.9
Gross earned insurance premiums		896.8	1 033.6
Reinsurance commission		256.7	279.4
Reinsurance premiums		(245.3)	(333.1)
Ancillary services		782.8	763.0
Cost of merchandise sales	17.	(1 652.8)	(1 644.3)
Operating costs		(3 317.2)	(2 918.8)
Employment costs	18.	(946.3)	(880.8)
Administration and IT		(274.5)	(241.1)
Debtor costs	19.	(1 005.1)	(858.1)
Marketing		(192.4)	(177.0)
Occupancy costs		(329.1)	(273.6)
Transport and travel		(224.2)	(215.8)
Depreciation and amortisation		(85.6)	(63.8)
Other operating costs		(260.0)	(208.6)
Operating profit before investment income	21.	815.0	1 097.7
Investment income	22.	600.6	148.0
Profit before finance costs and taxation		1 415.6	1 245.7
Net finance costs		(136.1)	(123.3)
Interest paid	23.1	(158.4)	(138.7)
Interest received	23.2	14.0	12.2
Forward Exchange Contracts	23.3	8.3	3.2
Profit before taxation		1 279.5	1 122.4
Taxation	24.	(318.0)	(316.2)
Net profit attributable to ordinary shareholders		961.5	806.2
Earnings per share (cents)	25.	1 082.6	907.5
Diluted earnings per share (cents)	25.	1 073.9	899.9

Statement of comprehensive income

for the year ended 31 March 2016

	Group	
	2016 Rm	2015 Restated Rm
Net profit for the year	961.5	806.2
Items that may be subsequently reclassified to income statement:		
Fair value adjustments of available-for-sale investments	(71.2)	156.8
Fair value adjustments of available-for-sale investments	(94.5)	192.1
Tax effect	23.3	(35.3)
Disposal of available-for-sale investments recognised	(406.3)	(40.6)
Disposal of available-for-sale investments	(495.6)	(47.1)
Tax effect	89.3	6.5
Foreign currency translation reserve	20.8	3.1
Movement in other reserves	(456.7)	119.3
Items that may not be subsequently reclassified to income statement:		
Retirement benefit remeasurements	(2.3)	(10.4)
Remeasurements of the retirement asset and liabilities	(3.1)	(14.5)
Tax effect	0.8	4.1
Total comprehensive income for the year attributable to ordinary shareholders	502.5	915.1

Balance sheet
at 31 March 2016

		Group		
	Notes	2016 Rm	2015 Restated Rm	2014 Restated Rm
Assets				
Non-current assets				
Property, plant and equipment	4.	**370.4**	352.9	327.3
Trademarks	5.	**61.4**	60.1	–
Deferred taxation	13.	**85.7**	0.5	0.6
Retirement benefit asset	14.	**63.0**	77.4	79.7
Financial assets – Insurance investments	6.	**432.0**	1 715.6	1 415.0
		1 012.5	2 206.5	1 822.6
Current assets				
Inventories	7.	**444.5**	420.3	324.6
Trade and other receivables	8.	**4 514.3**	4 413.3	4 143.3
Reinsurance assets	16.	**397.3**	481.8	498.1
Insurance premiums in advance		**1 185.4**	1 485.5	1 561.2
Taxation		**28.3**	34.8	–
Financial assets – insurance investments	6.	**1 236.5**	127.0	283.7
Cash on hand and deposits		**587.2**	222.3	480.1
		8 393.5	7 185.0	7 291.0
Total assets		**9 406.0**	9 391.5	9 113.6
Equity and liabilities				
Capital and reserves				
Share capital and premium	9.	**92.1**	110.8	109.2
Other reserves	10.	**27.5**	492.4	380.5
Retained earnings	11.	**5 329.8**	4 845.4	4 509.9
		5 449.4	5 448.6	4 999.6
Non-current liabilities				
Long-term interest-bearing borrowings	12.	**1 375.0**	825.0	1 000.0
Deferred taxation	13.	**60.8**	102.4	40.6
Retirement benefit liability	14.	**100.2**	106.7	92.9
		1 536.0	1 034.1	1 133.5
Current liabilities				
Trade and other payables	15.	**270.2**	283.8	227.9
Reinsurance and insurance liabilities	16.	**1 550.4**	1 876.0	1 987.5
Taxation		**–**	–	7.1
Short-term interest-bearing borrowings	12.	**600.0**	749.0	758.0
		2 420.6	2 908.8	2 980.5
Total equity and liabilities		**9 406.0**	9 391.5	9 113.6

Statement of changes in equity

for the year ended 31 March 2016

	Notes	Group 2016 Rm	Group 2015 Restated Rm
Share capital and premium	9.		
Opening balance		110.8	109.2
Cost of own shares acquired (treasury shares)		(53.0)	(26.5)
Share awards to employees		34.3	28.1
		92.1	110.8
Other reserves	10.		
Opening balance		492.4	380.5
Other comprehensive income:			
Fair value adjustments of available-for-sale investments		(71.2)	156.8
Disposal of available-for-sale investments recognised		(406.3)	(40.6)
Foreign currency translation reserve		20.8	3.1
Share-based payment		10.3	19.7
Transfer of share-based payment reserve to retained earnings on vesting		(18.5)	(27.1)
		27.5	492.4
Retained earnings	11.		
Opening balance		4 845.4	4 509.9
Net profit attributable to ordinary shareholders		961.5	806.2
Distribution to shareholders	26.	(459.0)	(459.3)
Transfer of share-based payment reserve to retained earnings on vesting		18.5	27.1
Retirement benefit remeasurements		(2.3)	(10.4)
Share awards to employees		(34.3)	(28.1)
		5 329.8	4 845.4
Balance at 31 March		5 449.4	5 448.6
Dividends paid per share (cents)			
Final dividend 2015 (2014)		302.0	302.0
Interim dividend 2016 (2015)		215.0	215.0
		517.0	517.0
Dividends declared per share (cents)			
Interim dividend 2016 (2015)		215.0	215.0
Final dividend 2016 (2015)		302.0	302.0
		517.0	517.0

Cash flow statement

for the year ended 31 March 2016

	Notes	Group 2016 Rm	Group 2015 Restated Rm
Cash flow from operating activities			
Cash flow from trading		1 104.7	1 333.6
Change in working capital		(154.3)	(467.9)
Cash generated from operations	27.1	950.4	865.7
Interest received		99.3	92.0
Dividends received		19.7	21.1
Interest paid		(150.1)	(135.5)
Taxation paid	27.2	(330.3)	(337.9)
		589.0	505.4
Cash utilised in investing activities			
Net disposals of insurance business investments		79.6	48.2
Purchase of insurance investments		(1 574.8)	(630.5)
Disposals of insurance investments		1 654.4	678.7
Acquisition of property, plant and equipment		(104.3)	(86.7)
Purchase of businesses	27.3	(101.1)	(66.6)
Proceeds on disposal of property, plant and equipment		12.7	11.7
		(113.1)	(93.4)
Cash flow from financing activities			
Dividends paid	26.	(459.0)	(459.3)
Proceeds from borrowings		1 150.0	525.0
Repayments of borrowings		(700.0)	(750.0)
Purchase of own shares		(53.0)	(26.5)
		(62.0)	(710.8)
Net increase / (decrease) in cash and cash equivalents		413.9	(298.8)
Cash and cash equivalents at the beginning of the year		173.3	472.1
Cash and cash equivalents at the end of the year		587.2	173.3

Analysis of borrowings and banking facilities

	Group 2016 Rm	Group 2015 Restated Rm
Borrowings		
Long-term		
Banking facilities	1 375.0	525.0
Domestic Medium-Term Note Program	–	300.0
Short-term		
Banking facilities	300.0	700.0
Domestic Medium-Term Note Program	300.0	–
	1 975.0	1 525.0
Cash and cash equivalents		
Short-term facilities utilised	–	49.0
Cash on hand	(587.2)	(222.3)
	(587.2)	(173.3)
Net borrowings	1 387.8	1 351.7
Unutilised facilities		
Banking facilities	1 337.2	973.3
Domestic Medium-Term Note Program	1 700.0	1 700.0
Banking facilities and Domestic Medium-Term Note Program	4 425.0	4 025.0

Segmental report

for the year ended 31 March 2016

Reportable Segment	Lewis Rm	Best Home and Electric Rm	Beares[2] Rm	Group Rm
2016				
Segment income statement				
Total revenue from external customers				
Merchandise sales	2 039.5	328.8	299.4	2 667.7
Other revenue	2 525.2	464.5	127.6	3 117.3
	4 564.7	793.3	427.0	5 785.0
Cost of merchandise sales	(1 257.4)	(210.5)	(184.9)	(1 652.8)
Operating costs	(2 606.9)	(439.8)	(270.5)	(3 317.2)
Segment operating profit/(loss) before investment income	700.4	143.0	(28.4)	815.0
Segment operating margin	15.3%	18.0%	(6.7%)	14.1%
Segment assets[(1)]	3 759.8	624.1	403.3	4 787.2
Capital expenditure	84.3	6.1	17.0	107.4
Depreciation	68.1	5.7	7.2	81.0
2015 (Restated)				
Segment income statement				
Total revenue from external customers				
Merchandise sales	2 102.2	347.6	141.7	2 591.5
Other revenue	2 543.0	454.4	71.9	3 069.3
	4 645.2	802.0	213.6	5 660.8
Cost of merchandise sales	(1 332.5)	(223.5)	(88.3)	(1 644.3)
Operating costs	(2 390.5)	(409.1)	(119.2)	(2 918.8)
Segment operating profit before investment income	922.2	169.4	6.1	1 097.7
Segment operating margin	19.9%	21.1%	2.9%	19.4%
Segment assets[(1)]	3 864.3	650.2	208.0	4 722.5
Capital expenditure	67.7	5.0	23.7	96.4
Depreciation	54.5	5.4	2.9	62.8

(1) Segment assets include net instalment sale and loan receivables of R 4 342.7 million (2015: R 4 302.2 million) and inventory of R 444.5 million (2015: R 420.3 million).

(2) For the prior year, the Beares / My Home segment consists of the My Home brand for the full year and Beares from the effective date of acquisition of 1 December 2014.

Geographical	South Africa Rm	Namibia Rm	BLS(*) Rm	Total Rm
2016				
Revenue	4 986.4	382.3	416.3	5 785.0
Non-current assets[(1)]	408.0	6.8	17.0	431.8
2015 (Restated)				
Revenue	4 888.5	360.7	411.6	5 660.8
Non-current assets[(1)]	397.4	7.1	8.5	413.0

(*) Botswana, Lesotho and Swaziland

(1) Non-current assets are defined as property, plant and equipment and trademarks.

Notes to the annual financial statements continued

1. Summary of accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IFRIC Interpretations and SAICA Reporting Guidelines and under the historical cost convention, as modified by available-for-sale assets and financial assets and financial liabilities at fair value through profit and loss.

Preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Changes to accounting policies and disclosures arising from the adoption of new standards, amendments and interpretations to standards effective for the current year are disclosed in note 2.

1.2 Basis of consolidation

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is applied for business combinations. The consideration for an acquisition is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of the exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration and the amount of the non-controlling interest, over the fair value of the net identifiable assets, is recorded as goodwill. If the amount are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in income statement as a bargain purchase.

The group recognises a non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the proportionate share of the acquiree's net identifiable assets.

Inter-company transactions, balances and unrealised gains and losses (unless the transaction provides evidence of an impairment of the transferred assets) between group companies are eliminated. The accounting policies and the year ends of all material subsidiaries are consistent throughout the group.

Common control transactions are business combinations in which the combining entities are ultimately controlled by the same entity prior to the combination. The assets and liabilities of the combining entities are not adjusted to fair value but reflected at their carrying amounts at the date of the transaction. The difference between the consideration paid/transferred and the net asset value acquired is accounted for in retained earnings. No additional goodwill will be recognised as a result of a common control transaction.

Employee share trusts are consolidated. Shares in Lewis Group Limited held by subsidiaries and the share trust are classified as treasury shares.

In the company's financial statements, investments in subsidiaries are carried at cost less impairment. Cost of investments includes directly attributable costs.

Notes to the annual financial statements continued

1.3 Goodwill

Goodwill, being the excess of the purchase consideration and the fair value of the non-controlling interest, over the attributable fair value of the identifiable assets and liabilities, at the date of acquisition, is initially carried at cost. Goodwill is subject to an annual impairment test or more frequently if events or changes in circumstances indicate a potential impairment. Goodwill is written down to the recoverable amount, which is the higher of value-in-use and the fair value less costs to sell. This impairment is recognised immediately as an expense. The impairment of goodwill is not reversed. Gains and losses on disposal of an entity include the carrying value of goodwill relating to the entity sold.

A bargain purchase being an excess in the fair value of the identifiable assets and liabilities over the purchase consideration at the date of acquisition, is recognised immediately in the income statement.

1.4 Foreign currency translations

1.4.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated and separate financial statements are presented in South African Rand, which is the Company's and group's functional and presentation currency.

1.4.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in the income statement.

Foreign exchange gains and losses that relate to forward exchange contracts are presented in the income statement, within net finance costs.

Translation differences on assets and liabilities carried at fair value are included in the fair value gain or loss.

1.4.3 Group companies

The results and financial position of foreign operations (none of which operate in a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet.
- Income and expenses are translated at average exchange rates,and
- Resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income. On the sale of a foreign operation, the associated exchange differences are reclassified to the income statement, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Notes to the annual financial statements continued

1.5 Financial instruments

1.5.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held on call with banks, bank overdrafts and demand loans. Cash and cash equivalents are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate.

1.5.2 Derivative instruments

Derivative instruments are utilised to hedge exposure to foreign currency fluctuations. Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. These derivative instruments have been classified as fair value through profit and loss and changes in the fair value are recognised in the income statement.

1.5.3 Financial assets

Investments are classified, based on the purpose for which the investment was acquired. The classification is determined on initial recognition. Derivative instruments are accounted for in terms of note 1.5.2.

Available-for-sale assets are assets designated as available-for-sale or those assets that cannot be classified in any of the other categories of financial instruments as set out in IAS 39. Available-for-sale financial assets are included in non-current assets, unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognised on the trade date, being the date that the group commits to the transaction. The financial assets are initially recognised at their fair value with transaction costs being added to their carrying value in respect of those classified as available-for-sale assets. Available-for-sale assets are subsequently carried at fair value and are valued by reference to quoted bid prices at the close of business on the balance sheet date or, where appropriate, by discounted cash flow with maximum use of market inputs.

Unrealised gains and losses arising from a change in fair value of available-for-sale investments are recognised in other comprehensive income. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustment is included in the income statement as gains and losses on investment.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Notes to the annual financial statements continued

1.5 Financial instruments (continued)

1.5.4 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. They are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate, less a provision for ·impairment when there is objective evidence that a receivable is impaired. Impaired receivables are carried at the net present value of the estimated future cash flow from such accounts, discounted at the original interest rate implicit in the credit agreement. Estimated future cash flows are projected utilising the payment ratings which measure the customers actual payments received over the lifetime of the account relative to the instalments due in terms of the contract. Changes in the impairment provision are recognised in the income statement.

If collection is expected in one year or less or in the normal operating cycle of the business if longer, they are classified as current assets. If not, they are presented as non-current assets.

1.5.5 Financial liabilities

i. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

ii. Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Accounts payable are classified as current liabilities if payment is due within one year or less or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities.

1.5.6 Set off

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.6 Trademarks

Separately acquired trademarks are shown at historical cost.

Trademarks acquired in a business combination are recognised at fair value at acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 20 years.

Notes to the annual financial statements continued

1.7 Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are capitalised when it is probable that future economic benefits will arise and the cost can be measured reliably. All other expenditure is recognised through profit and loss.

Assets are depreciated to their residual value, on a straight-line basis, over their estimated useful lives. The estimated useful lives of the assets in years are:

Buildings	50 years
Furniture, fixtures and equipment	3 to 10 years
Vehicles	4 to 6 years
Land	Not depreciated

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds to the carrying amount and are recognised in the income statement.

1.8 Leases

Leases, mainly store rentals, where the lessor retains a significant portion of the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1.9 Inventories

Inventory, comprising merchandise held for resale, is valued at the lower of cost or net realisable value. Cost is determined using the weighted average basis, net of trade and settlement discounts. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less variable selling expenses. Provision is made for slow-moving, redundant and obsolete inventory.

1.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

1.11 Current and deferred taxation

The tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. The group evaluates positions taken in tax returns with respect to situations in which applicable legislation and regulations are subject to interpretation. Appropriate provisions are established on the basis of amounts expected to be paid to the tax authorities.

Notes to the annual financial statements continued

1.11 Current and deferred taxation (continued)

Deferred taxation, using the liability method, is provided on all temporary differences between the taxation base of an asset or liability and its carrying value. Deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is calculated at current or substantively enacted rates of taxation at balance sheet date. A deferred tax asset is raised to the extent that it is probable that sufficient taxable profit will arise in the foreseeable future against which the asset can be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

1.12 Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that takes into consideration current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

1.13 Insurance business

1.13.1 Classification

Insurance contracts are those contracts that transfer significant risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event in terms of the cover given to the insured.

Contracts entered into with reinsurers under which the group's insurer is compensated for losses on contracts issued by it and that meet the requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the group's insurer under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

1.13.2 Outstanding claims

Provision is made for the estimated final cost of all claims notified but not settled at the accounting date and claims arising from insurance contingencies that occurred before the close of the accounting period, but which had not been reported by that date. Claims and expenses are charged to income as incurred based on the estimated liability for compensation owed to insurance policyholders. The group's own assessors individually assess claims. Outstanding claims provisions are not discounted.

1.13.3 Provision for unearned premiums

The provision for unearned premiums and the reinsurer's share of unearned premiums represents that part of the current year's premiums relating to risk periods that extend to the subsequent years. The unearned premiums are calculated on a straight-line basis over the period of the contract.

1.13.4 Unexpired risk reserve

Provision will be made by the group for underwriting losses if it is anticipated that the unearned premiums at reporting date will not be sufficient to cover future claims, including claims handling fees and related administration costs. This liability adequacy test is peformed annually to ensure the adequacy of short-term insurance liabilities.

Notes to the annual financial statements continued

1.13 Insurance business (continued)

1.13.5 Reinsurance

Income from reinsurance contracts is deferred over the period of the related reinsurance contract on a straight-line basis and is recognised as a current liability.

Reinsurance liabilities are premiums payable for reinsurance contracts.

The reinsurer's share of insurance provisions is dependent on the expected claims and benefits arising under the related reinsured insurance contracts and is measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of the reinsurance contract. Reinsurance assets are recognised in respect of unearned premiums, outstanding claims and claims incurred but not yet reported and separately disclosed under current assets.

The group assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. Impairment losses on reinsurance assets are calculated in the same manner as impairment losses on financial assets.

1.14 Segmental information

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer and the chief financial officer.

The group has identified its reportable segments based on the chains that it operates. These segments reflect how the group's businesses are managed and reported to the chief operating decision makers. All of the business segments operate in the furniture retail business. Set out below is a summary of the operations in each of the reportable segments of the group:

i. Lewis

Lewis sells a range of household furniture, electrical appliances and home electronics to customers in the LSM 4 to 7 categories.

ii. Best Home and Electric

Best Home and Electric is a retailer of electrical appliances, sound and vision equipment and furniture, targeting the LSM 4 to 7 customer.

iii. Beares

Beares is a retailer of upmarket furniture, electrical appliances and home electronics to customers in the LSM 6 to 9 categories.

Information regarding the performance of each segment is disclosed in the segmental report. Performance is measured on the basis of the operating profit (which includes the insurance underwriting result), as management believes that this measure is useful in evaluating the results of the segments, both in relation to each other and in relation to their respective competition. Investment income, net finance costs and taxation (i.e. the items that reconcile total segment operating profit to profit attributable to ordinary shareholders) are reviewed on a group basis. With respect to assets and liabilities, the chief operating decision makers only monitor the trade receivables and inventory for each segment. The remaining assets and the liabilities are reviewed on a group basis.

The group's segments report their segmental result and their segment assets (i.e. trade receivables and inventory) in accordance with the group's accounting policies. There are no significant inter-segmental transactions.

Notes to the annual financial statements continued

1.15 Current assets and liabilities

Current assets and liabilities have maturity terms of less than 12 months, except for instalment sale and loan receivables. Instalment sale and loan receivables, which are included in trade and other receivables, have maturity terms of between six to 36 months but are classified as current as they form part of the normal operating cycle.

1.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including the costs attributable to the acquisition, is deducted from the group's equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in the group's equity. The weighted average number of shares is reduced by the treasury shares for earnings per share purposes. Dividends received on treasury shares are eliminated on consolidation.

1.17 Employee benefits

1.17.1 Retirement plans

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, dependent on factors such as age, years of service and compensation.

The group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. These plans are funded by payments from employees and group companies, taking into account the recommendations of independent, qualified actuaries. The defined benefit obligation is assessed annually by a qualified actuary, in terms of IAS 19, using the projected unit credit method.

The asset and liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have terms to maturity approximating the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the income statement.

For defined contribution plans, the group pays contributions to these separately administered funds on a mandatory basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Notes to the annual financial statements continued

1.17 Employee benefits (continued)

1.17.2 Post-retirement health care costs

The group has an obligation to provide post-retirement medical aid benefits by subsidising medical aid contributions of certain retired employees and ex-gratia pensioners who joined the group prior to August 1997.

The entitlement to these benefits is conditional on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

1.17.3 Share-based payments

The group operates a number of equity-settled share incentive schemes under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of share awards and options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of share awards and options granted, excluding the impact of service and non-market performance vesting conditions. Non-market performance and service vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. The total amount expensed is recognised over the vesting period, which is the period over which all vesting conditions are to be satisfied. At each balance sheet date, the group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. Any accelerated vesting of the share awards and options requires immediate recognition of the remaining expense. On vesting, the attributable value of share awards is transferred from the share-based payment reserve to retained income.

Share awards granted by the company over its equity instruments to the employees of subsidiary undertakings in the group are treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary and a corresponding credit to equity.

1.17.4 Leave pay accrual

Employee entitlements to annual leave are recognised as they accrue to employees. An accrual is made for the estimated liability for annual leave still owing as a result of services provided by employees up to the balance sheet date.

1.18 Trading cycle

The group's trading cycle, consistent with prior financial periods, ends on the fifth day after the month being reported on, unless such day falls on a Sunday, in which case it ends on the fourth day.

Notes to the annual financial statements continued

1.19 Revenue recognition

Revenue is recorded at the fair value of the consideration received or receivable and comprises merchandise sales net of discounts, earned finance charges, earned maintenance contracts, cartage and insurance premiums earned, net of reinsurance premiums paid. Value added tax is excluded.

i. Merchandise Sales
Revenue from the sale of merchandise is recognised on the date of delivery. Sales are mainly conducted as follows:

(a) by instalment sale and loan agreements. Such agreements are subject to credit legislation in the jurisdictions that the group operates.

(b) cash and open accounts

ii. Finance charges and initiation fees earned

For contracts concluded in South Africa, finance charges are recognised by reference to the daily principle outstanding and the effective interest rate implicit in the agreement. For contracts concluded outside South Africa, finance charges are recognised on a basis which approximates the effective interest rate. Initiation fees are recognised over the period of the contract on an effective yield basis.

iii. Insurance revenue

Insurance revenue consists of gross insurance premiums and reinsurance commission earned less reinsurance premiums. Insurance premiums are recognised on a straight-line basis over the period of the contract, after an appropriate allowance is made for commission and reinsurance. Reinsurance commissions are earned on a straight-line basis over the period of the contract.

iv. Ancillary services

Revenue from maintenance contracts is recognised as follows:

- The income is deferred until the expiry of the suppliers warranty in terms of the contractual arrangement with suppliers which is one year.
- For the two years of the maintenance contract, revenue is recognised on an expected cost basis which defers revenue in line with the expected cost of rendering the service under the maintenance contract.

Revenue from the provision of other services is recognised when the services are rendered.

v. Interest and dividends

Interest on investments is recognised on a time proportion basis taking into account the effective interest rate method on the assets. Dividends are recognised when the right to receive payment is established.

1.20 Debtor costs

Debtor costs are bad debts written off, net of recoveries, plus the movement in the debtors' impairment provision.

Notes to the annual financial statements continued

2.1 Restatements

The group has performed a review of the appropriateness of its accounting policies during the course of the first half of the financial year and identified the following restatements which are the result of clarifying certain accounting policies and the application thereof. These restatements were disclosed in the interim results for the six months ended 30 September 2015 released on 9 November 2015 and for purposes of clarity, there have been no further restatements since then.

(a). Two group subsidiaries, Lewis Stores (Pty) Ltd ("Lewis") and Monarch Insurance Company Limited ("Monarch") were referred by the National Credit Regulator ("NCR") to the National Credit Tribunal ("NCT") in July 2015. Details of this matter has been set out in note 32.

The NCR alleged that Lewis and Monarch sold loss of employment insurance to pensioners and self-employed persons in contravention of the National Credit Act ("NCA") since 2007. An internal investigation determined that approximately 15% of pensioners and self-employed persons were invalidly sold such policies through human error and contrary to the group's own internal policies which explicitly prohibit the sale of such policies to such customers. Accordingly, Lewis and Monarch are in the process of refunding the premiums and interest thereon to customers.

The effect of the above was a restatement, which reduced the profit attributable to ordinary shareholders for the year ended 31 March 2015 ("2015 year") by R 3.9 million and retained income as at 31 March 2014 by R 35.4 million.

(b). The unearned premium reserve ("UPR") in Monarch Insurance Company Limited, the insurance subsidiary, has been correctly calculated in terms of the Short-Term Insurance Act by taking into account commission paid to a fellow subsidiary of 12.5%. This commission was previously not eliminated on consolidation. On calculating the group UPR, the 12.5% intercompany commission has now been eliminated to reflect the reserve at 100% of unearned insurance premiums as opposed to the 87.5% provided.

The effect of the error of not eliminating the commission was a restatement, which increased the profit attributable to ordinary shareholders for the 2015 year by R 6.0 million and reduced retained income as at 31 March 2014 by R 123.3 million.

(c). The accounting policy in respect of maintenance contracts has been amended to a more appropriate policy to recognise revenue from maintenance contracts as follows:

- Income is deferred until the expiry of the suppliers warranty in terms of the groups contractual arrangement with suppliers which is one year.
- For the two years of the maintenance contract, revenue will be recognised on an expected cost basis which defers revenue in line with the expected cost of rendering the service under the maintenance contract.

The effect of the above was a restatement, which reduced the profit attributable to ordinary shareholders for the 2015 year by R 29.6 million and retained income as at 31 March 2014 by R 92.2 million.

(d). Income from reinsurance contracts is deferred over the period of the related reinsurance contract. The basis of the deferral, which has been consistently applied, resulted in approximately 75% of the unearned reinsurance premiums being deferred on a straight-line basis over the period of the contract with the remaining balance being recognised in income.

The application of the accounting policy has been revised to defer 100% of the unearned reinsurance premiums on a straight-line basis over the period of the related reinsurance contract. The accounting policy has been updated accordingly.

The effect of the change in policy was a restatement, which reduced the profit attributable to ordinary shareholders for the 2015 year by R 5.7 million and reduced retained income as at 31 March 2014 by R 91.3 million.

(e). With effect from 1 January 2012, the group elected to retain the contingency reserve even though it was no longer required by the Short-Term Insurance Act. This policy has been withdrawn and the contingency reserve of R 55.6 million transferred to retained income as at 31 March 2014.

Notes to the annual financial statements continued

2.1 Restatements (continued)

In terms of IAS 8, the relevant comparative information has been restated and the effect on the financial statements is as follows:

	2016 Rm	2015 Restated Rm
Effect on comprehensive Income:		
Increase / (decrease) in insurance revenue	13.9	(1.5)
Increase / (decrease) in ancillary services	3.0	(41.0)
Increase in interest paid	(2.0)	(3.6)
Increase / (decrease) in profit before taxation	14.9	(46.1)
(Increase) / decrease in taxation	(4.2)	12.9
Effect on net profit attributable to ordinary shareholders	10.7	(33.2)
Movement in other comprehensive income (contingency reserve)	–	0.2
Effect on total comprehensive income	10.7	(33.0)
Effect on earnings per share:		
Increase / (decrease) in earnings per share (cents)	12.0 cents	(37.3 cents)
Increase / (decrease) in diluted earnings per share (cents)	12.0 cents	(37.0 cents)
Effect on total assets:		
Decrease in trade and other receivable	(352.7)	(386.6)
	(352.7)	(386.6)
Effect on total liabilities:		
Increase in reinsurance and insurance liabilities	153.7	134.7
Decrease in deferred taxation	(141.7)	(145.9)
	12.0	(11.2)
Effect on net asset value:		
Increase / (Decrease) in comprehensive income	10.7	(33.0)
Decrease in opening retained income	(319.6)	(286.6)
Decrease in other reserves	(55.8)	(55.8)
	(364.7)	(375.4)
Effect on net asset value per share (in cents)		
Decrease in net asset value per share (cents)	(412)	(423)
Effect on cash flow statement:		
Increase / (Decrease) in cash flow from trading	16.8	(42.5)
(Decrease) / increase in change in working capital	(14.8)	46.1
Increase in interest paid	(2.0)	(3.6)
Effect on cash flow from operating activities	–	–

Effect on 2014 balance sheet:	2014 Restated Rm
Effect on total assets:	
Decrease in trade and other receivables	(348.4)
	(348.4)
Effect on total liabilities:	
Increase in reinsurance and insurance liabilities	126.8
Decrease in deferred taxation	(133.0)
	(6.2)
Effect on net asset value:	
Decrease in closing retained income	(286.6)
Decrease in other reserves	(55.6)
	(342.2)
Effect on net asset value per share (in cents)	
Decrease in net asset value per share (cents)	(385)

Notes to the annual financial statements continued

2.2 Reclassification

(a). The following reclassifications have been made in the presentation of the 2015 comparative figures:

- The insurance premiums received in advance by the group's insurance subsidiary with respect to term business has been separately disclosed in the balance sheet. It was previously included within trade receivables.
- The unearned premium reserve was previously included within trade receivables as was the insurance premium received in advance. With the separate disclosure of the insurance premiums in advance, the unearned premium reserve has been reclassified with insurance and reinsurance liabilities.
- Reinsurance and insurance liabilities included reinsurance assets. These reinsurance assets have been reclassified and reflected separately under current assets.

	Currently Reported	Restated	Previously Reported
Included in the trade and other receivables note (note 8)	4 413.3	5 009.3	5 395.9
Reinsurance assets	481.8	–	–
Insurance premiums received in advance	1 485.5	–	–
Insurance and reinsurance liabilities	1 876.0	504.7	370.0

(b). The movements in long-term and short-term borrowings in the cash flow statement has been reclassified as proceeds from borrowings and repayments of borrowings. The effect of these changes in the cash flow statement are as follows:

Decrease in long-term borrowings	–	(175.0)
Decrease in short-term borrowings	–	(50.0)
Proceeds from borrowings	525.0	–
Repayments of borrowings	(750.0)	–
Net movement in borrowings	(225.0)	(225.0)

2.3 Other standards, interpretations, revisions and amendments effective for the current year.

The following revisions and amendments to standards and interpretations have become effective for the current financial reporting year, but have had no material impact on the group's results and finacial position:

Amendment to IAS 19 – Employee Benefits.

Annual Improvements 2010 – 2012 cycle.

Annual Improvements 2011 – 2013 cycle.

3. Significant accounting estimates and judgements

Estimates and judgements are evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the preparation of the financial statements, the following key estimates were made in determining the assets and liabilities of the group:

3.1 Impairment of receivables

Impaired receivables are carried at their net present value of the expected 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. Payment ratings assess the customer's actual payment pattern as compared to the contractual payments. Customer payment ratings are affected by the overall economic and credit environment such as the levels of employment and interest rates and, consequently, the impairment provision will be dependent on the changing financial circumstances of our customers.

3.2 Bad debts

Customer accounts are written off, where the customers payment behaviour cannot be rehabilitated.

Notes to the annual financial statements continued

3.3 Share-based payment

The share-based payments are valued in terms of an option pricing model. Details of the option pricing model and the assumptions used are detailed in note 18.2.

3.4 Normal and deferred taxation

The tax and deferred tax liabilities and assets are calculated using considered interpretations of the tax laws of the jurisdictions in which the group operates.

3.5 Retirement benefits

The underlying actuarial assumptions are set out in note 14.

3.6 Useful lives and residual values of fixed assets

The estimated useful lives and residual values are reviewed at each balance sheet date taking cognisance of historical trends for that class of asset and the commercial and economic realities at the time.

4. Property, plant and equipment

	Land & Buildings Rm	Vehicles, furniture, fixtures & equipment Rm	Total Rm
Group			
As at 31 March 2016			
Opening net carrying value	111.6	241.3	352.9
Additions	–	107.4	107.4
Disposals	–	(9.0)	(9.0)
Depreciation	(1.0)	(79.9)	(80.9)
Closing net carrying value	110.6	259.8	370.4
Cost	123.7	747.6	871.3
Accumulated depreciation	(13.1)	(487.8)	(500.9)
As at 31 March 2015			
Opening net carrying value	112.7	214.6	327.3
Additions	–	96.4	96.4
Disposals	–	(8.0)	(8.0)
Depreciation	(1.1)	(61.7)	(62.8)
Closing net carrying value	111.6	241.3	352.9
Cost	123.7	671.5	795.2
Accumulated depreciation	(12.1)	(430.2)	(442.3)

A register of the group's land and buildings is available for inspection at the company's registered office.

Notes to the annual financial statements continued

5. Trademarks

	Group	
	2016 Rm	2015 Restated Rm
Opening net carrying value	60.1	–
Additions	6.0	61.1
Disposals	–	–
Amortisation	(4.7)	(1.0)
Closing net carrying value	61.4	60.1
Cost	67.1	61.1
Accumulated amortisation	(5.7)	(1.0)

The Beares and Ellerines trademarks for Botswana and Lesotho were acquired during the year as part of the acquisition of the Beares and Ellerines businesses in Botswana and Lesotho. The acquisition was accounted for under IFRS 3 which requires the identifiable assets acquired and liabilities assumed to be fairly valued and, consequently, the trademarks acquired were valued by an independent valuer at R 6.0 million using the relief from royalty method.

In the prior year, the Beares South African trademarks were acquired as part of the Beares South Africa acquisition which was accounted for under IFRS 3 and, consequently, these trademarks were valued by an independent valuer at R61.1 million using the relief from royalty method.

Trademarks are amortised over their useful lives of 20 years.

6. Financial assets – insurance investments

	Group	
	2016 Rm	2015 Restated Rm
Listed investments		
Listed shares – available-for-sale	–	846.5
Fixed income securities – available-for-sale	432.0	869.1
Unlisted Investments		
Money market – available-for-sale	1 236.5	127.0
	1 668.5	1 842.6
Analysed as follows:		
Non-current	432.0	1 715.6
Current	1 236.5	127.0
	1 668.5	1 842.6
Movement for the year		
Beginning of the year	1 842.6	1 698.7
Additions to investments	1 574.8	630.5
Disposals of investments	(1 654.4)	(678.7)
Movement in fair value transferred to equity	(94.5)	192.1
End of the year	1 668.5	1 842.6

A register of listed investments is available for inspection at the Company's registered office. Purchases and sales of financial assets are accounted for on the trade date.

Notes to the annual financial statements continued

7. Inventories

	Group	
	2016 Rm	2015 Restated Rm
Cost of merchandise	503.9	472.2
Less: provision for obsolescence	(59.4)	(51.9)
	444.5	420.3

8. Trade and other receivables

	2016 Rm	2015 Restated Rm
Instalment sale and loan receivables	6 482.6	6 223.0
Unearned provisions	(606.3)	(626.5)
Provision for unearned maintenance income	(376.5)	(385.0)
Provision for unearned finance charges and unearned initiation fees	(229.8)	(241.5)
Net instalment sale and loan receivables	5 876.3	5 596.5
Provision for impairment	(1 533.6)	(1 294.3)
	4 342.7	4 302.2
Other receivables	171.6	111.1
	4 514.3	4 413.3

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

The average effective interest rate on instalment sale and loan receivables is 22.2% (2015: 21.7%) and the average term of the sale is 32.8 months (2015: 32.3 months).

9. Share capital and premium

9.1 Share capital and premium

	2016 Rm	2015 Restated Rm
Share capital	1.0	1.0
Share premium	2 710.6	2 710.6
Reverse acquisition reserve	(2 123.1)	(2 123.1)
	588.5	588.5
Treasury shares:		
Lewis Stores Proprietary Limited	(477.7)	(477.7)
Lewis Employee Share Incentive Scheme Trust	(18.7)	–
Total share capital and premium	92.1	110.8

The average market price paid for the shares repurchased by the company and the treasury shares held by Lewis Stores Proprietary Limited was R 50.45, with the lowest price being R 32.99 and the highest R 65.90.

On listing, Lewis Group Limited ("Lewis Group") acquired the total shareholding of Lewis Stores Proprietary Limited ("Lewis Stores") through issuing shares to the shareholder at that date. In terms of IFRS 3 requirements for reverse acquisitions, Lewis Stores was the acquirer and Lewis Group the acquiree, although Lewis Group is the holding company and Lewis Stores the subsidiary. The group financial statements were in substance a continuation of the operations of Lewis Stores from the date that the reverse acquisition took place.

Notes to the annual financial statements continued

9.2 Number of ordinary shares in issue

	000's	000's
Number of shares issued	98 058	98 058
Treasury shares held by:		
Lewis Stores Proprietary Limited	(9 217)	(9 217)
Lewis Employee Share Incentive Scheme Trust	(342)	–
Number of shares in issue	88 499	88 841

10. Other reserves

	Fair Value Reserve	Foreign Currency Translation Reserve	Share-Based Payment Reserve	Other	Total
2016:					
Opening balance	449.7	2.1	39.8	0.8	492.4
Fair value adjustments of available-for-sale investments	(71.2)				(71.2)
Disposal of available-for-sale investments recognised	(406.3)				(406.3)
Movement in foreign currency translation reserve		20.8			20.8
Share-based payment			10.3		10.3
Transfer of share-based payment reserve to retained income on vesting			(18.5)		(18.5)
Closing balance	(27.8)	22.9	31.6	0.8	27.5
2015 (Restated):					
Opening Balance	333.5	(1.0)	47.2	0.8	380.5
Fair value adjustments of available-for-sale investments	156.8				156.8
Disposal of available-for-sale investments recognised	(40.6)				(40.6)
Movement in foreign currency translation reserve		3.1			3.1
Share-based payment			19.7		19.7
Transfer of share-based payment reserve to retained income on vesting			(27.1)		(27.1)
Closing balance	449.7	2.1	39.8	0.8	492.4

11. Retained earnings

	Group	
	2016 Rm	2015 Restated Rm
Comprising:		
Company	56.4	63.3
Consolidated subsidiaries	5 273.4	4 782.1
	5 329.8	4 845.4

Distribution by foreign subsidiaries of all their reserves at balance sheet date will potentially give rise to withholding taxes of R 94.6 million (2015: R 81.5 million) which may be offset in certain instances against South African tax.

Notes to the annual financial statements continued

12. Interest-bearing borrowings

	Group	
	2016 Rm	2015 Restated Rm
Long-term	1 375.0	825.0
Short-term	600.0	749.0
	1 975.0	1 574.0
Consisting of:		
- Bank borrowings at interest rates linked to three-month JIBAR. The weighted average interest rate at the end of the reporting period is 9.4% (2015: 8.2%)	1 675.0	1 225.0
- Three year floating note issued under the group's Domestic Medium-Term Note Program at 158 basis points above the three-month JIBAR.	300.0	300.0
- Demand loans at short-term money market rates	–	49.0
	1 975.0	1 574.0

The exposure of the group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are set out below in terms of financial reporting years:

	2016 Rm	2015 Restated Rm
Variable interest rates:		
2016	–	700.0
2017	600.0	525.0
2018	375.0	300.0
2019	1 000.0	–
On demand	–	49.0
	1 975.0	1 574.0

The above borrowings are unsecured. The group has committed facilities with banks and financial institutions of R 2 425 million (2015: R 2 025 million) and has established a Domestic Medium-Term Note program ("DMTN") in October 2013, under which the group can issue notes up to R 2 billion.

The fair value of borrowings approximates its carrying value.

13. Deferred Taxation

	2016 Rm	2015 Restated Rm
Balance at the beginning of the year	101.9	39.9
Movement for the year attributable to:		
Income statement (debit) / credit	(18.8)	20.2
Deferred tax on fair value adjustment in other comprehensive income	(112.6)	28.8
Acquisition of Beares	5.4	17.1
Deferred tax on retirment benefit remeasurements	(0.8)	(4.1)
Balance at the end of the year	(24.9)	101.9
This balance comprises		
Capital allowances	49.6	49.5
Available-for-sale assets	(10.8)	101.8
Debtors allowances	84.8	77.8
Income and expense recognition	1.9	(0.1)
Other provisions	(150.4)	(127.1)
Balance at the end of the year	(24.9)	101.9
Disclosed as:		
Deferred tax asset	(85.7)	(0.5)
Deferred tax liability	60.8	102.4
	(24.9)	101.9

Deferred tax assets relate to provisions which are not deductible for tax purposes. The deferred tax asset will be reversed as these provisions are released.

Notes to the annual financial statements continued

14. Retirement benefits

	Group	
	2016 Rm	2015 Restated Rm
Amounts recognised in the balance sheet		
Defined benefit retirement plan asset	(63.0)	(77.4)
Defined benefit retirement plan liability	2.5	2.0
Post-retirement healthcare benefits	97.7	104.7
	37.2	29.3

Retirement plans

The group operates a number of retirement funds. All retirement fund assets are held separate from the group's assets. There are three defined contribution funds; namely the Lewis Stores Provident Fund; the Lewis Stores Namibia Orion Pension Fund for Namibian employees; and the SACCAWU Provident Fund for employees belonging to SACCAWU Trade Union. In addition, there are two defined benefit funds; namely the Lewis Stores Group Pension Fund which was closed to new members on 1 July 1997; and the Lewis Stores Retirement Fund for executive management. Both defined benefit plans are registered under the Pension Funds Act No. 24 of 1956.

The number of employees on these plans are as follows:

	No. of Employees	
Lewis Group Pension Fund	118	142
Lewis Stores Retirement Pension Fund	28	26
SACCAWU Provident Fund	2 436	2 232
Lewis Stores Provident Fund	4 585	4 529
Lewis Stores Namibia Orion Pension Fund	392	376

Defined benefit plans

The defined benefit funds are final salary defined benefit plans. These schemes are valued by an independent actuary on an annual basis in terms of IAS 19 using the projected unit credit method. The latest valuation was carried out as at 1 January 2016.

Notes to the annual financial statements continued

14. Retirement benefits (continued)

	Group	
	2016 Rm	2015 Restated Rm
Amounts recognised in the balance sheet		
(i) Defined benefit Plans		
Present value of obligations	553.9	484.2
Fair value of plan assets	(616.9)	(561.6)
Defined benefit retirement plan asset	(63.0)	(77.4)

The above defined benefit retirement plan asset was not subject to the asset ceiling as determined in IFRIC 14 being the maximum economic benefit arising from a future unconditional right to a refund and from reductions in future contributions in excess of the minimum funding requirement.

	2016 Rm	2015 Restated Rm
(ii) Unfunded benefit plans		
Present value of obligations	2.5	2.0
(iii) Total benefit plan (asset) / liability		
Present value of obligations	556.4	486.2
Fair value of plan assets	(616.9)	(561.6)
Defined benefit retirement plan (asset) / liability	(60.5)	(75.4)
Total amounts recognised in the income statement		
Current service cost	12.8	11.9
Interest income	(5.3)	(7.1)
Total included in employment costs	7.5	4.8
Total movement in retirement benefit (asset) / liability		
Present value at the beginning of the year	(75.4)	(77.5)
Income statement charge	7.5	4.8
Actuarial gains and losses included in other comprehensive income	16.1	6.0
Contributions paid during the year	(8.7)	(8.7)
Present value at the end of the year	(60.5)	(75.4)
Total present value of defined benefit obligations		
Beginning of year	486.2	446.3
Current service cost	12.8	11.9
Interest cost	36.9	38.8
Employee contributions	1.0	1.2
Benefit payments	(29.8)	(43.2)
Actuarial gains and losses recognised in other comprehensive income	49.3	31.2
End of year	556.4	486.2
Fair value of defined benefit plan assets		
Beginning of year	561.6	523.8
Employee contributions	1.0	1.2
Employer contributions	8.7	8.7
Interest income	42.2	45.9
Benefit payments	(29.8)	(43.2)
Actuarial gains and losses recognised in other comprehensive income	33.2	25.2
End of year	616.9	561.6

Notes to the annual financial statements continued

14. Retirement benefits (continued)

	Group	
	2016 Rm	2015 Restated Rm
Principal actuarial assumptions used were as follows:		
Discount rate	9.75%	7.75%
Inflation rate	7.75%	6.00%
Future salary increases	8.75%	7.00%
Future pension increases	7.75%	6.00%
Assumptions regarding future mortality experience are based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at age 65 on valuation date is as follows:		
Male	14.3 years	14.3 years
Female	17.1 years	16.6 years
Actual return on plan assets	13.3%	11.6%

The weighted average duration of the actuarial liability is 5.3 years (2015: 5.4 years).

The employer's future contribution is set on an annual basis in consultation with the fund's actuary.

Sensitivity analysis

The effect of a 1% increase and decrease in the following assumptions on the present value of the obligation are shown in the table below:

		Change in present value of obligation	
Assumption	Variation	2016	2015
	+1%	(12.3%)	(5.6%)
Discount Rate	-1%	14.9%	6.5%
	+1%	3.3%	3.7%
Salary increases	-1%	(1.3%)	(3.4%)
	+1%	10.8%	1.3%
Pension increases	-1%	(9.6%)	(1.0%)
	x+1	(2.5%)	0.2%
Mortality	x-1	2.0%	(0.2%)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

14. Retirement benefits (continued)

Actuarial risks

The defined benefit funds exposes the group to the risk that the benefit provided in the various funds cost more than the accumulated assets set aside to meet such benefits and ultimately will require additional funding from the group.

The risks can be categorised into a number of actuarial risks as set out below:

Investment risk is the risk of a fall in the asset values of the fund. This market risk to which the funds are exposed may affect the solvency level of the funds. This is reduced via an investment in a diverse portfolio of assets and a variety of asset managers.

Inflation risk is the risk that salary increases are higher than expected or that inflation itself is higher than expected which then impacts the pension increases, increasing the liabilities. The risk is mitigated via investment in real assets which in the long run are expected to match the increases in liabilities.

The funds have a mismatch risk as a change in the bond yields will have the effect on the liabilities of the fund which are not necessarily matched by an equivalent change in the assets. The risk is substantially covered by the surplus assets in the fund and establishment of a solvency reserve.

Liquidity risk is the risk of not having sufficient cash to pay for withdrawals, pensions and expenses of the fund. This is a risk for the Lewis Group Pension Fund due to it being a closed fund.

Longevity risk is the risk that pensioners live longer than expected. This risk has not been significant in the current membership profile.

The funds are exposed to legislative changes which are closely monitored by the fund's consultant to enable timeous action to be taken to mitigate any changes that emerge.

Plan Assets

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2016 %	2015 %
Cash	11.0	8.4
Bonds – Listed	18.5	15.3
Equity – Listed	36.5	43.5
International equity – Listed	23.1	18.6
International bonds – Listed	–	5.4
Other	10.9	8.8
	100.0	100.0

		Experience Adjustments Gain/(loss)	
Trends	Obligation Rm	Plan Assets Rm	Plan Liabilities Rm
2016	**556.4**	**33.2**	**(49.3)**
2015	486.2	25.2	(31.2)
2014	446.3	73.4	(16.9)
2013	428.2	40.9	(30.3)
2012	386.6	(3.5)	(15.6)

Notes to the annual financial statements continued

14. Retirement benefits (continued)

	Group	
		2015
	2016	Restated
Defined contribution plans	Rm	Rm
For defined contribution plans, the group pays contributions to the funds on a contractual basis. Once the contributions have been paid, the group has no further payment obligations.		
Defined contribution plan costs	43.2	39.0
Post-retirement healthcare benefits		
The group provides a subsidy of medical aid contributions to retired employees. Only those employees employed prior to 1 August 1997 qualify for this benefit. The liability was valued as at 31 March 2016 by a qualified actuary in accordance with the requirements of IAS 19. The group has a commitment to meet these unfunded benefits.		
Amounts recognised in the income statement		
Current service cost	8.8	1.5
Interest cost	1.7	8.1
Income statement charge	10.5	9.6
Movement in post-retirement healthcare liability		
Present value of liability at the beginning of the year	104.7	90.7
Charged to income statement	10.5	9.6
Actuarial gains and losses recognised in other comprehensive income	(13.0)	8.5
Employer benefit payments	(4.5)	(4.1)
Post-retirement healthcare benefits liability	97.7	104.7
Present value of post-retirement healthcare obligations		
Beginning of year	104.7	90.7
Current service cost	8.8	1.5
Interest cost	1.7	8.1
Benefit payments	(4.5)	(4.1)
Actuarial gains and losses recognised in other comprehensive income	(13.0)	8.5
End of year	97.7	104.7
Principal actuarial assumptions used were as follows:		
Health Care Inflation Rate	9.90%	8.40%
CPI inflation	7.90%	6.40%
Discount Rate	10.40%	8.60%
Average retirement age (years)	63	63

The weighted average duration of the actuarial liability is 15 years (2015: 16.7 years).

Notes to the annual financial statements continued

14. Retirement benefits (continued)

Sensitivity analysis

The effect of a 1% increase and decrease in the following assumptions on the present value of the obligation are shown in the table below:

		Change in present value of obligation	
Assumption	Variation	**2016**	2015
Discount Rate	+1%	**(12.0%)**	(13.1%)
	-1%	**15.0%**	16.7%
Healthcare cost	+1%	**14.7%**	16.4%
	-1%	**(12.0%)**	(13.1%)
Expected retirement age	x+1	**(2.3%)**	(2.6%)
	x-1	**2.3%**	2.4%

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Actuarial risks

The risks faced by Lewis as a result of the post-retirement healthcare obligation can be summarised as follows:

Inflation: The risk that future CPI inflation and healthcare cost inflation are higher than expected and uncontrolled.

Longevity: The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected.

Open-ended, long-term liability: The risk that the liability may be volatile in the future and uncertain.

Future changes in legislation: The risk that changes to legislation with respect to the post-employment healthcare liability may increase the liability for Lewis.

Trends	Obligation	Adjustments (Gain)/loss
The trends of the present value of the obligation and experience adjustments are as follows:		
2016	**97.7**	**(13.2)**
2015	104.7	8.5
2014	90.7	14.3
2013	73.1	10.4
2012	61.6	(1.0)

15. Trade and other payables

	Group	
	2016 Rm	2015 Restated Rm
Trade payables	**75.1**	86.1
Employment Provisions	**65.2**	69.7
Accruals and other payables	**129.9**	128.0
	270.2	283.8

Notes to the annual financial statements continued

16. Reinsurance and insurance liabilities

	Group	
	2016 Rm	2015 Restated Rm
Unearned premium reserve, net of reinsurance	726.8	889.5
Unearned insurance premiums	1 090.8	1 345.6
Less: reinsurer's share of unearned premiums	(364.0)	(456.1)
Due to reinsurers	98.4	134.4
Other insurance and reinsurance provisions	327.9	370.3
Gross insurance and reinsurance provisions	361.2	396.0
Less: reinsurer's share of insurance provisions	(33.3)	(25.7)
	1 153.1	1 394.2
Disclosed as:		
Reinsurance assets	(397.3)	(481.8)
Reinsurance and insurance liabilities	1 550.4	1 876.0
	1 153.1	1 394.2

17. Cost of merchandise sales

	2016 Rm	2015 Restated Rm
Purchases	1 677.0	1 740.0
Movement in inventory	(24.2)	(95.7)
Cost of merchandise sales	1 652.8	1 644.3
Merchandise Gross Profit	1 014.9	947.2

18. Directors and employees

18.1 Employment costs

	2016 Rm	2015 Restated Rm
Salaries, wages, commissions and bonuses	865.6	800.0
Retirement benefit costs	63.0	53.4
Share-based payments	10.3	19.7
Other employment costs	7.4	7.7
	946.3	880.8

18.2 Share based payments

As the fair value of the services received cannot be measured reliably, the services have been valued by reference to the fair value of shares and options granted. The fair value of such options and shares is measured at the grant date using the Black-Scholes model.

In terms of IFRS 2, share-based payments are required to be expensed over the vesting period. Any accelerated vesting of the awards and options requires immediate recognition of the unrecognised portion.

	2016	2015 Restated
Value of services provided:		
In respect of share awards and options granted subsequent to date of listing (refer to note 18.3)	10.3	19.7
Significant assumptions used were:		
Weighted average share price	81.20	64.30
Weighted average expected volatility	51.1%	48.2%
Weighted average expected dividend yield	5.4%	6.2%
Weighted average risk-free rate (bond yield curve at date of grant)	6.6%	6.4%

Notes to the annual financial statements continued

18.3 Share incentive schemes

The following employee share incentive schemes are in operation for directors holding salaried employment office and executives.

Shareholders at a general meeting held on 24 June 2015 approved two new schemes, namely the Lewis Executive Retention Scheme and the Lewis Long-Term and Short-Term Executive Performance Scheme. It is the intention to terminate the two old schemes, namely the Lewis Executive Performance Scheme and the Lewis Co-investment Scheme once all existing awards have vested and shares transferred to participants in terms of the rules of those schemes.

Lewis Long-Term and Short-Term Executive Performance Scheme ("LSPS") – New Scheme

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 vesting of shares is conditional upon the executive still being in the employ of the group other than in the event of death, ill-health, retirement or retrenchment.

For purposes of determining the performance targets, awards are categorised as follows:

- Short-term awards means 3 year awards or alternative awards in respect of which all portions of the award vest on or before the third anniversary of the grant date.
- Long-term awards means the four year awards, five year awards and alternative awards of which any portion of the awards vests after the third anniversary of the grant date.

In respect of short-term targets, performance targets are set at the grant date for the entire period or for each financial year during the performance period. For long-term awards, the performance targets will be set for the entire performance period as at grant date.

For short-term awards, the committee shall select all or any of the performance targets from the following:

- headline earnings per share
- quality of debtors book being either level of satisfactory paid customers or debtors costs as a percentage of net debtors
- gross margin

Current short-term awards under the scheme use all three performance measures.

For long-term awards, the committee must select the performance targets as follows:

- headline earnings per share (mandatory) and at least one of the targets below:
- return on shareholders equity
- after-tax return on average capital employed
- before-tax return on average assets managed
- gearing ratio

Current long-term awards under the scheme use headline earnings per share, return on shareholders equity and gearing ratio.

	2016	2015
Beginning of year	–	
Granted	1 273 660	
Forfeited	(33 620)	
Vested	–	
End of year	1 240 040	
Maximum awards utilised over the life of the scheme	3 500 000	
Utilised for the scheme to dat	1 240 040	

Notes to the annual financial statements continued

18. Directors and Employees (continued)

18.3. Share Incentive Schemes (continued)

Lewis Executive Retention Scheme – New Scheme

In terms of the scheme, senior executives have been offered the right to acquire shares of the group for no consideration subject to the achievement of performance targets. The committee will select executives who have achieved the requisite performance targets during the previous financial year as eligible for the scheme.

The shares will vest after three years and is conditional upon the executive still being in the employ of the group other than in the event of death, ill-health, retirement or retrenchment.

These shares are deferred for three years and matching shares equal to the before tax bonus are awarded for no consideration at the end of the period. The matching share award will lapse, should the executive terminate his or her employment before the completion of the three-year period other than in the event of death, ill-health, retirement or retrenchment.

The grant in respect of the matching share option is as follows:

	2016	2015
Beginning of year	–	
Granted	131 839	
Forfeited	–	
Vested	–	
End of year	131 839	
Maximum awards utilised over the life of the scheme	1 000 000	
Utilised for the scheme to date	131 839	

Invested shares paid for through the investment of executives net bonuses amounted to 77 781 shares. These shares are held by the Trust on the executives' behalf.

Lewis Executive Performance Scheme – Old Scheme

In terms of the scheme, senior executives have been offered the right to acquire shares of the group for no consideration subject to the achievement of performance targets. The shares will vest after 3 years and is conditional upon the executive still being in the employ of the company other than in the event of death, ill-health, retirement or retrenchment.

The performance targets are set by the Remuneration committee and are approved by the Board. These targets will be set at the beginning of each of the three years and a proportionate number of the shares granted will be allocated to each year.

The performance targets for the remaining three-year and five-year awards are net profit before taxation and net profit attributable to shareholders increasing annually by 6% respectively.

No performance shares will accrue if the group achieves less than 90% of target. Any achievement between 90% and 100% of target will result in a proportionate accrual of shares weighted towards 100% of target.

	2016	2015
Beginning of year	1 406 185	1 842 009
Granted	–	–
Forfeited	(34 013)	(40 800)
Vested	(217 428)	(395 024)
End of year	1 154 744	1 406 185

Notes to the annual financial statements continued

18. Directors and Employees (continued)

18.3. Share Incentive Schemes (continued)

Lewis Co-investment Scheme – Old Scheme

Senior executives are eligible for an annual bonus based on achievement of performance targets. These eligible executives can elect to invest all or part of their net bonus in the group's shares ("invested shares").

These shares are deferred for three years and matching shares equal to the before tax bonus are awarded for no consideration at the end of the period. The matching share award will lapse, should the executive terminate his or her employment before the completion of the three-year period other than in the event of death, ill-health, retirement or retrenchment.

The grant in respect of the matching share option is as follows:

	2016	2015
Beginning of year	188 193	271 432
Granted	–	–
Forfeited	–	–
Vested	(81 312)	(83 239)
End of year	106 881	188 193

Invested shares paid for through the investment of executives net bonuses amounted to 64 128 shares (2015: 112 915 shares). These shares are held by the Trust on the executives' behalf.

	Group	
	2016 R000's	2015 Restated R000's
18.4 Directors' emoluments		
Non-executive directors – fees as directors		
DM Nurek – company	888	849
– for subsidiary	203	241
H Saven – company	704	673
– for subsidiary	265	315
AJ Smart – company	578	552
– for subsidiary	263	312
B van der Ross	578	552
F Abrahams	637	608
MSP Marutlulle	–	121
Z Bassa	–	183
	4 116	4 406
Executive director – J Enslin (paid by subsidiary)		
Salary	3 348	3 125
Bonuses paid during the year	2 936	1 568
Contributions to pension scheme	536	500
Contribution to medical aid	115	105
Gains on share awards	5 808	6 472
	12 743	11 770
Executive director – L A Davies (paid by subsidiary)		
Salary	2 566	2 443
Bonuses paid during the year	2 296	1 213
Contributions to pension scheme	411	391
Contribution to medical aid	88	81
Gains on share awards	4 602	4 866
	9 963	8 994

Notes to the annual financial statements continued

18.4. Directors' emoluments (continued)

Gains on share awards – Executive directors

J Enslin		
Share awards vested	59 797	100 181
Offer date	13 June 2012	20 June 2011/17 Sept. 2009
Date vested	13 June 2015	20 June 2014/11 Nov. 2014
Market value on date of vesting	R5 808 681	6 471 584
Gain	R5 808 681	6 471 584
LA Davies		
Share awards vested	47 370	75 403
Offer date	13 June 2012	20 June 2011 / 17 Sept. 2009
Date vested	13 June 2015	20 June 2014 / 11 Nov. 2014
Market value on date of vesting	R4 601 522	4 865 791
Gain	R4 601 522	4 865 791

Outstanding share awards

	2016		2015	
	J Enslin	LA Davies	J Enslin	LA Davies
Lewis Short-Term and Long-Term Executive Performance Scheme – New Scheme				
30 June 2015 - Short-term award	33 695	25 817		
30 June 2015 - Long-term award	120 000	90 000		
Lewis Executive Retention Scheme – New Scheme				
30 June 2015	29 700	23 220		
In terms of the Lewis Executive Retention Scheme, the Trust holds 31 221 shares on behalf of the above directors by virtue of the investment of their bonuses into the scheme.				
Lewis Executive Performance Scheme – Old Scheme				
13 June 2012			37 527	29 520
14 June 2013: 3 year award	50 232	38 819	50 232	38 819
14 June 2013: 5 year award	120 000	90 000	120 000	90 000
Lewis Co-Investment Scheme – Matching Scheme Options (Old Scheme)				
13 June 2012			22 270	17 850
14 June 2013	25 917	20 390	25 917	20 390
	379 544	288 246	255 946	196 579

In terms of the Lewis Co-Investment Scheme, the Trust holds 27 784 shares (2015: 51 856 shares) on behalf of the above directors by virtue of the investment of their bonuses into the scheme.

Notes to the annual financial statements continued

18.5 Remuneration of key executives

	Group	
	2016 Rm	2015 Restated Rm
Salary	10.8	10.1
Bonus	9.0	4.8
Retirement and medical contributions	2.2	2.0
Gains on share awards vested	17.4	18.4
	39.4	35.3

Key executives comprise the directors of Lewis Stores Proprietary Limited, the main operating subsidiary. Non-executive fees are disclosed in note 18.4

18.6 The directors' interest

The directors' interest are set out on page 7.

19. Debtor costs

	2016 Rm	2015 Restated Rm
Bad debts, repossession losses and bad debt recoveries	765.8	693.3
Movement in debtors' impairment provision	239.3	164.8
Closing balance	1 533.6	1 294.3
Opening balance	(1 294.3)	(1 129.5)
	1 005.1	858.1

20. Lease commitments

The group leases the majority of its properties under operating leases. The lease agreements of certain store premises provide for a minimum annual rental payment and additional payments determined on the basis of turnover.

	2016 Rm	2015 Restated Rm
Payments on a cash flow basis:		
Within one year	177.6	170.3
Two to five years	286.0	274.6
Over five years	–	–
	463.6	444.9
Payments on a straight-line basis:		
Within one year	174.3	167.1
Two to five years	268.5	256.3
Over five years	–	–
	442.8	423.4

21. Operating profit is stated after

	2016 Rm	2015 Restated Rm
Initiation and service fees on accounts receivable	532.9	488.9
Surplus on disposal of property, plant and equipment	3.7	3.7
Depreciation - owned assets	80.9	62.8
Fees payable:		
Investment management fee - insurance investments	5.0	5.0
Outsourcing of IT function	53.5	43.5
	58.5	48.5

Notes to the annual financial statements continued

21. Operating profit is stated after (continued)

	Group	
	2016 Rm	2015 Restated Rm
Operating lease payments on a cash flow basis	243.7	202.9
Lease adjustment	(0.7)	0.3
Operating leases on a straight-line basis	243.0	203.2
Auditors' remuneration		
Audit fees – current year	2.4	2.2
Other services	1.9	2.8
	4.3	5.0
Gain on acquisition of business	0.4	12.0

22. Investment income

	2016 Rm	2015 Restated Rm
Interest – insurance business	85.3	79.8
Dividends from listed investments – insurance business	19.7	21.1
Realised profit on disposal of insurance investments	495.6	47.1
	600.6	148.0

The move from term to monthly insurance policies will significantly reduce the capital required by the group's insurance subsidiary. Consequently, to limit the risk, the insurance subsidiary sold the equity and a large portion of the bond portfolio realising a capital gain of R 495.6 million which was included in investment income.

Operating profit is disclosed on the face of the income statement before investment income.

23. Net Finance costs

	2016 Rm	2015 Restated Rm
23.1 Interest paid		
Bank loans and other	158.4	138.7
23.2 Interest received		
Bank and other	(14.0)	(12.2)
23.3 Forward exchange contracts		
Realised	(7.6)	(2.7)
Unrealised	(0.7)	(0.5)
	(8.3)	(3.2)
23.4 Net finance cost	136.1	123.3

24. Taxation

	2016 Rm	2015 Restated Rm
24.1 Taxation charge		
South Africa	265.1	262.7
Foreign	52.9	53.5
Taxation per income statement	318.0	316.2
Comprising:		
Normal taxation		
Current year	338.9	294.8
Prior year	(2.1)	1.2
Deferred taxation		
Current year	(18.7)	20.2
Prior year	–	–
Rate change	(0.1)	–
Taxation per income statement	318.0	316.2

Notes to the annual financial statements continued

	Group	
	2016 Rm	2015 Restated Rm
24.2 The rate of taxation on profit is reconciled as follows:		
Profit before taxation	1 279.5	1 122.3
Taxation calculated at a tax rate of 28% (2015: 28%)	358.3	314.3
Differing tax rates in foreign countries	5.4	6.5
Disallowances and exemptions	(43.5)	(5.8)
Prior years	(2.2)	1.2
Taxation per income statement	318.0	316.2
Effective tax rate	24.9%	28.2%

25. Earnings per share

25.1 Weighted average number of shares

	000's	000's
Weighted average shares for earnings and headline earnings per share	88 811	88 840
Dilution resulting from share awards outstanding	721	745
Weighted average shares for diluted earnings and headline earnings per share	89 532	89 585

Diluted earnings and diluted headline earnings per share is calculated by adjusting the weighted average number of ordinary shares assuming that all share options will be exercised. The dilution is determined by the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares) less the number of shares that would be issued on the exercise of all the share options.

25.2 Headline earnings

	Gross Rm	Income tax effect Rm	Net Rm
2016			
Attributable earnings	961.5	–	961.5
Profit on disposal of property, plant and equipment	(3.7)	1.0	(2.7)
Profit on disposal of available-for-sale investments	(495.6)	89.3	(406.3)
Gain on acquisition of businesses	(0.4)	–	(0.4)
Headline earnings	461.8	90.3	552.1
2015			
Attributable earnings	806.2	–	806.2
Profit on disposal of property, plant and equipment	(3.7)	1.0	(2.7)
Profit on disposal of available-for-sale investments	(47.1)	6.6	(40.5)
Gain on acquisition of businesses	(12.0)	–	(12.0)
Headline earnings	743.4	7.6	751.0

Notes to the annual financial statements continued

25.3 Earnings per share

	Cents	Cents
Earnings per share	1 082.6	907.5
Diluted earnings per share	1 073.9	899.9
25.4 Headline earnings per share		
Headline earnings per share	621.7	845.3
Diluted headline earnings per share	616.7	838.3

26. Dividends paid

	Group	
		Restated
	2016	2015
	Rm	Rm
Dividend number 20 declared on 28 May 2014 and paid on 21 July 2014	–	296.2
Dividend number 21 declared on 10 November 2014 and paid on 26 January 2015	–	210.8
Dividend number 22 declared on 27 May 2015 and paid on 20 July 2015	296.2	
Dividend number 23 declared on 9 November 2015 and paid on 25 January 2016	210.8	
Dividends received on treasury shares:		
Lewis Stores Proprietary Limited	(47.7)	(47.6)
Lewis Employee Share Incentive Scheme Trust	(0.3)	(0.1)
	459.0	459.3

27. Notes to the cash flow statements

	2016 Rm	2015 Rm
27.1 Cash generated from operations		
Operating profit before investment income	815.0	1 097.7
Adjusted for:		
Share-based payments	10.3	19.7
Depreciation and amortisation	85.6	63.8
Surplus on disposal of property, plant and equipment	(3.7)	(3.7)
Movement in debtors impairment provision	239.3	164.8
Movement in retirement benefits provision	4.8	1.6
Movement in other provisions	(46.2)	1.7
Gain on acquisition of Beares	(0.4)	(12.0)
	1 104.7	1 333.6
Changes in working capital:	(154.3)	(467.9)
Increase in inventories	(6.6)	(76.3)
Increase in trade and other receivables	(242.0)	(431.8)
Decrease in insurance premiums in advance	300.1	75.7
Increase in trade payables	35.3	43.8
Decrease in reinsurance and insurance liabilities	(241.1)	(79.3)
	950.4	865.7
27.2 Taxation paid		
Amount due at the beginning of the year	34.8	(7.1)
Amount charged to the income statement	(318.0)	(316.2)
Adjustment for deferred taxation	(18.8)	20.2
Amount owing at the end of the year	(28.3)	(34.8)
	(330.3)	(337.9)

Notes to the annual financial statements continued

	Group	
		Restated
	2016	2015
	Rm	Rm
27.3 Purchase of businesses		
Trademarks (refer to note 5)	(6.0)	(61.1)
Property, plant and equipment	(3.1)	(9.7)
Inventory	(26.5)	(33.6)
Trade receivables	(77.5)	–
Accounts payable	6.2	8.7
Deferred tax	5.4	17.1
Gain on acquisition of Beares	0.4	12.0
Total consideration	(101.1)	(66.6)

During the current year, the group's subsidiaries in Lesotho and Botswana have acquired on 8 December 2015 and 8 March 2016 respectively the businesses trading under the Ellerines and Beares brands from the relevant in-country subsidiaries of Ellerines Services Proprietary Limited (subsidiary of Ellerines Furnishers Proprietary Limited in business rescue). The businesses consisted of 30 stores, the Ellerines and Beares brands, trade receivables, inventory and fixed assets. The purchase consideration was paid by cash and assumption of liabilities. The stores will trade either under the Lewis or Beares brands.

In the prior year, the wholly-owned subsidairy of the group, Lewis Stores (Pty) Ltd acquired the Beares South African business from Ellerines Furnishers Proprietary Limited (in business rescue). The business consisted of the acquisition of 61 stores, the Beares brand, inventory and fixed assets. The purchase consideration was paid by cash and the assumption of liabilities.

28. Financial risk management

Risk management is the identification of actual and potential areas of risk, followed by a process of risk mitigation. Responsibility for this process of risk management is with the Risk Working Group ("RWG"), a committee consisting of the members of the Executive committee and the company secretary. The RWG formally reports to the Risk committee on a quarterly basis.

The RWG is responsible for identifying, evaluating and monitoring all significant risks facing the business. Members of the RWG are responsible for integrating risk management into the day- to-day activities of the business and ensuring that the staff are aware and accountable for managing risk and maintaining internal control.

The group is exposed to financial risks being credit risk, market risk (including currency, interest rate and price risks), and liquidity risk. The group manages the overall risk by focusing on minimising the potential adverse effects of these risks on the group's financial performance.

The group's primary business is that of a credit retailer. As such, credit risk features as the dominant financial risk. It provides the foundation of the group's profitability, yet the mismanagement of credit risk will threaten the ongoing sustainability of the business.

Due to its pervasive and strategic importance, credit policies are evaluated by the executive committee to ensure that they are in line with prudent lending practices, yet maintain the group's overall profitability and return on assets. The responsibility for the implementation of these policies rests with the chief executive officer, credit risk executive and their teams.

28.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the group's customers and counterparties fail to fulfill 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. The maximum credit exposure is that of accounts receivable, fixed income securities and deposits.

Notes to the annual financial statements continued

28. Financial risk management (continued)

28.1 Credit risk (continued)

i. Accounts receivable

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 places.

  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 NCR'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 borrower's ability to service the proposed monthly instalment. However, collateral exists in that ownership of merchandise is retained until the customer settles the account in full.

Impairment provision

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

The payment rating is integral to the calculation of the debtor's impairment provision. Impaired receivables are carried at their net present value of the estimated future cash flows from such accounts, 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 debtor's book having regard to the age of the debtor's 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.

Notes to the annual financial statements continued

28. Financial risk management (continued)

28.1 Credit risk (continued)

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

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

Contractual arrears

The key aspect of the 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.

Notes to the annual financial statements continued

28. Financial risk management (continued)

28.1 Credit risk (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 split per number of instalments in arrears.

The table referred to above is set out below:

Gross Debtor Analysis

MARCH 2016	Customer grouping		Number of Customers Total	Gross Receivables R'000	Impairment Provision R'000	Total Arrears R'000	Instalments in arrears 1 R'000	2 R'000	3 R'000	4 R'000	> 4 R'000
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.	No %	459 390 68.8%	3 775 137 58.2%	38 319 2.5%	641 286	175 898	121 896	90 493	67 565	185 434
Slow payers	Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 13% to 72% of amounts due and includes an *in duplum* provision.	No %	54 507 8.1%	558 758 8.7%	176 249 11.5%	313 201	37 684	36 322	33 604	30 913	174 678
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 %	50 690 7.6%	589 858 9.1%	241 999 15.8%	353 286	35 071	33 189	31 195	29 501	224 330
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 %	103 495 15.5%	1 558 864 24.0%	1 077 046 70.2%	1 068 377	70 458	68 649	66 504	64 447	798 319
Total			668 082	6 482 617	1 533 613	2 376 150	319 111	260 056	221 796	192 426	1 382 761
Unearned provisions (refer note 8)				(606 354)							
Net instalment sale and loan receivables				5 876 263	26.1%						

Notes to the annual financial statements continued

MARCH 2015	Customer grouping		Number of Customers Total	Gross Receivables R'000	Impairment Provision R'000	Total Arrears R'000	Instalments in arrears 1 R'000	2 R'000	3 R'000	4 R'000	> 4 R'000
Satisfactory paid	Customers fully up to date including those who have paid 70% or more of amounts due over the contract period. The provision in this category results from *in duplum* provision.	No %	473 901 68.7%	3 734 088 60.0%	21 090 1.6%	565 057	171 459	114 831	82 851	60 838	135 078
Slow payers	Customers fully up to date including those who have paid 65% to 70% of amounts due over the contract period. The provision in this category ranges from 12% to 74% of amounts due and includes an *in duplum* provision.	No %	56 347 8.2%	515 896 8.3%	140 419 10.8%	267 921	36 137	34 574	31 424	28 511	137 275
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 23% to 87% of amounts due.	No %	52 433 7.6%	535 674 8.6%	199 613 15.4%	293 763	33 284	30 851	28 464	26 565	174 599
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 %	107 167 15.5%	1 437 358 23.1%	933 224 72.1%	919 049	68 722	66 159	62 982	60 396	660 790
Total			689 848	6 223 016	1 294 346	2 045 790	309 602	246 415	205 721	176 310	1 107 742
Unearned provisions (refer note 8)				(626 428)							
Net instalment sale and loan receivables				5 596 588	23.1%						

Note:

1. Due to the reclassification of insurance premiums in advance, gross receivables have been presented for the first time, analysed by payment rating grouping. This information could not be presented in the past, as insurance premiums in advance were included in gross receivables and it was not possible to analyse insurance premiums in advance into payment rating groupings.
2. The unearned provisions have not been allocated to gross receivables.
3. Arrears have been categorised by number of instalments in arrear.

Notes to the annual financial statements continued

28. Financial risk management (continued)

28.1 Credit risk (continued)

i. Accounts receivable (continued)

The ageing of satisfactory paid receivables past due but not impaired is as follows:

Satisfactory paid arrears	2016 Rm	2015 Rm
1 instalment in arrears	175.9	171.5
2 instalments in arrears	121.9	114.8
3 instalments in arrears	90.5	82.9
4 instalments in arrears	67.6	60.8
5 or more instalments in arrears	185.4	135.1
Satisfactory paid receivables past due but not impaired	641.3	565.1

An *in duplum* provision of R 38.3 million (2015: R 21.1 million) has been provided across all arrears categories for satisfactory paid customers.

Debtor costs (impairment losses)

The group employs a store-based collection system which allows the collection staff to deal with customers face-to-face, thus maximising collections and minimising debtors costs. Bad debt write-offs are initiated where the customer payment behaviour cannot be rehabilitated. Bad debts result where the customer's account is written off or the goods repossessed. The decision to write off will take into account where applicable, recent payment behaviour, payment ratings, age of the account, whether the customer has exceeded their contractual terms and arrears. Debtor costs are set out in note 19.

ii. Fixed income securities and deposits

Credit risk may also arise when an entity has its credit rating downgraded, causing the fair value of the group's investment in that entity's financial instruments to fall. The credit ratings of the financial institutions holding deposits on our behalf and those whose securities we hold are monitored on a regular basis.

Deposits are placed with high-quality South African institutions. Included in the cash-on-hand and deposits are bank balances held in foreign currency amounting to R 58.3 million (2015: R 45.7 million).

Fixed income securities are almost entirely risk-free government bonds or government-backed securities.

iii. Reinsurance asset

Reinsurance is placed with Constantia Insurance Company Limited ("Constantia"). Constantia has been given a rating of A-(ZA) by Global Credit Ratings Co.

Notes to the annual financial statements continued

28.2 Market risk

Treasury management is carried out by the chief financial officer and senior members of the finance team under policies approved by the Audit Committee ("the committee"). The committee has approved written treasury policies covering cash management, foreign exchange management, interest rate management and investment risk.

The group's attitude to treasury risk can be summarised as follows:

- Investment risk: maximise returns at an acceptable level of risk.
- Foreign exchange risk: eliminate transaction risk and net investment risk as far as practically possible.
- Interest rate risk: manage short-term volatility.

i. Foreign exchange risk management

Foreign exchange risk is present in respect of imports of merchandise and the net investment in Botswana.

Imports of merchandise

Merchandise is sourced from foreign suppliers, particularly in the Far East. In order to minimise exposure to foreign currency fluctuations, forward cover is taken out to cover forward purchase commitments made with foreign suppliers. The group strives to maintain forward cover for the next six months' purchase commitments.

During the year, 18.4% (2015: 15.4%) of the purchases were in foreign denominated currencies. Below is a summary of the amounts payable under forward contracts:

	Term	Rate	Foreign currency FC'm	Rand equivalent R'm	Fair value (gain)/loss
2016					
US dollar	Less than 3 months	Rate at 14.83	1.5	22.4	(0.7)
2015					
US dollar	Less than 3 months	Rates vary from R11.64 to R 12.21	5.0	59.4	(0.5)

Below is a sensitivity analysis of the effect of currency movements of 5% and 10% respectively on the year end valuation of the forward exchange contracts:

	–10%	–5%	+5%	+10%
2016				
Effect on (profit)/loss	1.6	0.8	(0.8)	(1.6)
(Increase)/Decrease in equity	1.6	0.8	(0.8)	(1.6)
2015				
Effect on (profit)/loss	4.3	2.2	(2.2)	(4.3)
(Increase)/Decrease in equity	4.3	2.2	(2.2)	(4.3)

Net investment in foreign entities

The currency exposure is limited to the net investment in Botswana of R 190.4 million (2015: R 100.7 million), which includes a long-term loan account. The currency exposure is managed by keeping the net investment at a minimum practical level by remitting cash to South Africa on a regular basis through loan repayments and dividends.

Notes to the annual financial statements continued

28. Financial risk management (continued)

28.2 Market risk (continued)

i. Foreign exchange risk management (continued)

Below is a sensitivity analysis of the effect of currency movements of 5% and 10% on the year end value of our net investment in Botswana:

	–10%	–5%	+5%	+10%
2016				
(Increase)/Decrease in equity	22.2	11.1	(11.1)	(22.2)
2015				
(Increase)/Decrease in equity	8.7	4.4	(4.4)	(8.7)

ii. Interest rate risk

The principal objective of interest rate management is to:

- minimise the impact of interest rate volatility on profits in the short-term
- ensure that the group is protected from volatile interest rate movements for the medium to long-term

Borrowings

As part of the process of managing floating rate interest-bearing debt, the interest rate characteristics of borrowings are positioned according to the expected movements in interest rates. The chief financial officer may recommend to the Audit Committee ("the committee") the use of fixed interest debt and interest rate swaps as circumstances dictate. The use of such instruments must be specifically approved by the committee. During the current year, no interest rate swaps were entered into.

Interest rate profiles are analysed by the changes in its borrowing levels and the interest rates applicable to the facilities available to the group. The sensitivity analysis for a 50 basis points change in the interest is set out below, assuming the current level of borrowings at year end is maintained throughout the year:

	+50bp	–50bp
2016		
Effect on (profit)/loss	7.7	(7.7)
(Increase)/Decrease in equity	7.7	(7.7)
2015		
Effect on (profit)/loss	6.2	(6.2)
(Increase)/Decrease in equity	6.2	(6.2)

Accounts receivable

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.

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.

The average effective interest rate on instalment sale and loan receivables is 22.2% (2015: 21.7%) and the average term of the sale is 32.8 months (2015: 32.3 months).

Notes to the annual financial statements continued

28. Financial risk management (continued)

28.2 Market risk (continued)

ii. Interest rate risk (continued)

Interest rate profile

The interest rate profiles of financial instruments are as follows:

	Term of Investment	Average closing effective interest rate %	Floating or fixed	Carrying value R'm
2016				
Assets				
Gross instalment sale and loan receivables	Up to 3 years	22.2%	Fixed	**6 482.6**
Fixed income securities	Varies	7.0%	Fixed	**432.0**
Money market investments	Up to 12 months	7.4%	Floating	**1 236.5**
Liabilities				
Long-term interest-bearing borrowings	Varies (refer to note 12)	9.5%	Floating	**1 375.0**
Short-term interest-bearing borrowings	Varies (refer to note 12)	9.2%	Floating	**600.0**
2015				
Assets				
Gross instalment sale and loan receivables	Up to 3 years	21.7%	Fixed	6 223.0
Fixed income securities	Varies	8.3%	Fixed	869.1
Money market investments	Up to 12 months	6.8%	Floating	127.0
Liabilities				
Long-term interest-bearing borrowings	Varies (refer to note 12)	8.2%	Floating	825.0
Short-term interest-bearing borrowings	Varies (refer to note 12)	7.9%	Floating	749.0

iii. Price risk

There is exposure to securities price risk because of investments held by Monarch Insurance Company Limited ("Monarch"). These investments are classified as available-for-sale investments.

Monarch holds investments in order to meet the insurance liabilities and solvency margins required by the Short-term Insurance Act of 1998. The investments are managed by Sanlam Investment Management (Pty) Ltd ("Sanlam") on Monarch's behalf.

The overall management objectives of the Monarch investment portfolio are:

- preservation of capital over the long-term
- managing market risk over the short to medium term; and
- to ensure the portfolio is adequately diversified.

Monarch's board controls the investment strategy adopted by Sanlam. At each of the board's quarterly meetings, a comprehensive report from Sanlam is presented and discussed. Particular emphasis is placed on:

- current market conditions and future expectations;
- asset allocations considering the above;
- returns under each asset category;

Notes to the annual financial statements continued

28. Financial risk management (continued)

28.2 Market risk (continued)

iii. Price risk (continued)

- detailed reviews of the equity portfolio and the positioning of the bond portfolio; and
- recommendations of the asset manager going forward.

The Monarch board considers the recommendations of the asset managers. The investment strategy is then formulated for the following quarter and authority given to the chief financial officer to implement the strategy. The performance of this portfolio is presented to the group's Audit Committee on a quarterly basis.

The market risk of the fixed security portfolio is monitored through the modified duration of the portfolio, a measure which approximates the movement in the fair value of such securities relative to interest rate movements. The modified duration of the fixed income portfolio at the respective year ends and the JSE All-Bond Index are as follows:

	2016	2015
Modified duration of Monarch's fixed income portfolio	7.4	6.1
Modified duration of the JSE All Bond index	6.8	6.7

The market risk of the equity portfolio is monitored through the portfolio's sectoral allocation and beta. The respective measures for the portfolio at year end can be summarised as follows:

Portfolio sectorial analysis		
Resources	–	5.1%
Financials	–	38.4%
Industrial	–	56.5%
Beta of portfolio relative to JSE Index	–	0.91
Beta of portfolio relative to JSE Index, excluding resources	–	0.89

Beta measures the portfolio volatility relative to the market index, which by definition has a beta of 1.0.

28.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed facilities. Due to the dynamic nature of the underlying business, the group maintains flexibility in funding through the use of committed facility lines.

Management monitors the group's cash flows through the monitoring of actual inflows and outflows against forecasted cash flows and the utilisation of borrowing facilities. A quarterly analysis is presented to the audit committee.

Below is a summary of the committed facilities and the utilisation thereof at year end:

	2016 Rm	2015 Restated Rm
Total facilities – Banking and DMTN programme	4 425.0	4 025.0
Less: drawn portion of facility	(1 975.0)	(1 574.0)
Plus cash on hand	587.2	222.3
Available cash resources and facilities	3 037.2	2 673.3

The maturity profile of financial liabilities has been set out in note 30.

Notes to the annual financial statements continued

29. Insurance risk

The risks covered under insurance contracts entered into with customers by the group's insurer, Monarch Insurance Company ("Monarch"), are as follows:

- replacement of customer's goods in the event of damage or theft of goods;
- settlement of customer's outstanding balance in the event of death or disability; and
- settlement of customer's outstanding balance, should the customer become unemployed after three months subsequent to the sale.

As Monarch is part of the group, the underwriting of the above insurance risks will form part of the credit assessment made prior to entering an instalment sale or loan with the customer for the purchase of goods.

The risk under the insurance contract is the possibility that the insured events as detailed above occur and the uncertainty of the amount of the resulting claim. By the very nature of the insurance contract, this risk is random and therefore unpredictable.

The principle risk that the group faces is that the actual claims exceed the amount of the insurance claims provisions. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are random and the actual number of claims will vary from year-to-year from the estimated claims provision established using historical claims patterns.

The development of insurance claims provisions provides a measure of the group's ability to estimate the ultimate value of the claims. The group does not underwrite long-term risks and, consequently, the uncertainty about the amount and timing of claim payments is limited. Regular estimates of claims are performed in reviewing the adequacy of the insurance claims provisions. Claims development is reviewed by management on a regular basis. Insurance claim provisions will generally be settled within one year.

The frequency and severity of claims can be affected due to unforeseen factors such as patterns of crime, Aids and employment trends. The group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The geographical spread of the group ensures that the underwritten risks are well-diversified. No significant concentrations of insurance risks exist.

Reinsurance is used to manage insurance risk. This does not discharge Monarch's liability as a primary insurer. If a reinsurer fails to pay a claim for any reason, Monarch still remains liable for the payment to the policyholder. There is some exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.

A proportional reinsurance arrangement has been entered into by Monarch to facilitate the transfer of 40% of the risk under these policies to an external reinsurer. Catastrophe cover has been placed with third-party insurers and reinsurers in order to reduce the potential impact of a single event on the earnings and capital of Monarch. Due to the nature of the insurance risk, claims can be measured reliably. Past experience has indicated that claims provision estimates approximately the actual claims costs. The insurance result is dependent on the trend in the group's merchandising sales. There is no insurance business other than with the group's customers.

Notes to the annual financial statements continued

29. Insurance risk (continued)

	2016 Rm	2015 Restated Rm
Movement in provisions:		
i. Unearned Premium Reserve		
Opening balance	889.5	973.9
Gross unearned premiums	1 345.6	1 453.2
Reinsurers share of provisions	(456.1)	(479.3)
Recognised in income statement	(162.7)	(84.4)
Gross unearned premiums	(254.8)	(107.6)
Reinsurers share of provisions	92.1	23.2
Closing balance	726.8	889.5
Gross unearned premiums	1 090.8	1 345.6
Reinsurers share of provisions	(364.0)	(456.1)
ii. Other reinsurance and insurance provisions		
Opening balance	370.3	383.1
Gross reinsurance and insurance provisions	396.0	401.9
Reinsurers share of insurance provisions	(25.7)	(18.8)
Recognised in income statement	(42.4)	(12.8)
Gross reinsurance and insurance provisions	(34.8)	(5.9)
Reinsurers share of insurance provisions	(7.6)	(6.9)
Closing balance	327.9	370.3
Gross reinsurance and insurance provisions	361.2	396.0
Reinsurers share of insurance provisions	(33.3)	(25.7)

Regulatory requirements

The group's wholly-owned insurance company, Monarch Insurance Company Ltd ("Monarch"), is subject to the regulations as set out in the Short-Term Insurance Act of 1998 ("STIA"). The STIA stipulates that an insurer must maintain a minimum solvency margin of 15% of the premium income (after deduction of reinsurance premiums).

On 1 January 2012 Board Notice 169 of 2011 ("BN169") became effective. BN169 stipulates the requirements for the calculation of the value of assets, liabilities and the capital adequacy requirement of short-term insurers. This new calculation, as part of the Solvency Assessment and Management ("SAM") regime, requires Monarch to hold certain prescribed assets to meet its insurance liabilities and capital adequacy requirement.

Monarch has met all these requirements relating to the STIA and BN169.

Notes to the annual financial statements continued

30. Financial instruments

i. Categories

	Loans and receivables	Available-for-sale	Amortised cost	Total
Assets				
2016				
Insurance investments		1 668.5		1 668.5
Trade and other receivables	4 514.3			4 514.3
Cash on hand and on deposit			587.2	587.2

The Group's cash and cash equivalents was invested in the following financial institutions. The Group uses Moody's credit ratings (unless otherwise indicated):

Financial institutions	Credit rating	2016	2015
FNB	Baa2	371.8	65.4
ABSA	Baa2	211.0	154.7
Other		4.4	2.2
Total		587.2	222.3

	Loans and receivables	Available-for-sale	Amortised cost	Total
2015 (Restated)				
Insurance investments		1 842.6		1 842.6
Trade and other receivables	4 413.3			4 413.3
Cash on hand and on deposit			222.3	222.3
Liabilities				
2016				
Trade payables			75.1	75.1
Borrowings			1 975.0	1975.0
Insurance and reinsurance liabilities			1 054.7	1 054.7
2015 (Restated)				
Trade payables			86.1	86.1
Borrowings			1 574.0	1 574.0
Insurance and reinsurance liabilities			1 259.8	1 259.8

Notes to the annual financial statements continued

30. Financial Instruments (continued)

ii. Maturity profile of financial liabilities

The maturity profiles of undiscounted financial liabilities are as follows:

	0 – 12 months	2 – 5 years	>5 years	Total
2016				
Borrowings	(600.0)	(1 375.0)	–	(1 975.0)
Interest on borrowings to maturity	(30.6)	(304.5)	–	(335.1)
Trade payables	(75.1)	–	–	(75.1)
Insurance and reinsurance liabilities	(548.4)	(506.3)	–	(1 054.7)
	(1 254.1)	(2 185.8)	–	(3 439.9)
2015 (Restated)				
Borrowings	(749.0)	(825.0)	–	(1 574.0)
Interest on borrowings to maturity	(23.0)	(141.6)	–	(164.6)
Trade payables	(86.1)	–	–	(86.1)
Insurance and reinsurance liabilities	(655.1)	(604.7)	–	(1 259.8)
	(1 513.2)	(1 571.3)	–	(3 084.5)

The fair value of trade payables and borrowings approximate their carrying values.

iii. Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted prices at the balance sheet date. The quoted market price used is the current bid price.

The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet dates.

iv. Fair value hierarchy

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

	Level 1 Rm	Level 2 Rm	Total Rm
2016			
Available-for-sale assets:			
Insurance investments:			
Equities	–		–
Fixed income securities	432.0		432.0
Money market		1 236.5	1 236.5
Forward exchange contracts		0.7	0.7
	432.0	1 237.2	1 669.2
2015 (Restated)			
Available-for-sale assets:			
Insurance investments:			
Equities	846.5		846.5
Fixed income securities	869.1		869.1
Money market		127.0	127.0
Forward exchange contracts		0.5	0.5
	1 715.6	127.5	1 843.1

Notes to the annual financial statements continued

30. Financial Instruments (continued)

iv. Fair value hierarchy (continued)

A description of the categorisation of the valuation techniques used to value the assets and liabilities at fair value is set out below:

Level 1:

Financial instruments valued with reference to quoted prices in active markets where the quoted price is readily available and the price represents actual and recurring market transactions on an arms-length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2:

Financial instruments valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted prices for similar assets/liabilities in an active market;
- quoted prices for identical or similar assets/liabilities in inactive markets;
- valuation model using observable inputs;
- valuation model using inputs derived from/corroborated by observable market data.

Level 3:

Financial instruments valued using inputs that are not based on observable market data. The group does not have any assets or liabilities that fall into this category.

31. Capital risk management

The group's objectives when managing capital are to:

- safeguard the group's ability to continue as a going concern.
- provide returns for shareholders.
- provide benefits for other stakeholders.
- maintain an optimal capital structure as approved by the board.

In order to maintain the optimal capital structure, dividends paid to shareholders may be adjusted, capital could be returned to shareholders or new shares could be issued.

Consistent with others in the industry, capital is monitored on the basis of the gearing ratio. This ratio is calculated as net debt divided by equity capital. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents.

During the 2016 financial year, the strategy was to maintain the gearing below 30%, which in the current credit conditions is considered to be prudent. The gearing rates at 31 March 2016 and 31 March 2015 were as follows:

	Group	
	2016 Rm	2015 Restated Rm
Interest-bearing borrowings	1 975.0	1 574.0
Less: cash and cash equivalents	(587.2)	(222.3)
Net debt	1 387.8	1 351.7
Shareholders equity	5 449.4	5 448.6
Gearing ratio (%)	25.5	24.8

Notes to the annual financial statements continued

32. Regulatory matters

Referrals by the National Credit Regulator to the National Credit Tribunal
As shareholders are aware, in July 2015, the National Credit Regulator ("NCR") referred both Lewis and Monarch to the National Credit 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 an internal investigation the group 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 and contrary to company policy. Lewis is currently refunding the premiums and interest totalling approximately R 67.7 million to the affected customers. (Refer to note 2.1(a)).

Lewis and Monarch have opposed the referral, filing detailed answering affidavits which address both issues.

The NCT has set the date of hearing for the matter as 28 July 2016. Shareholders will in due course be advised of the outcome of the hearing, once the ruling of the NCT has been made available.

In April 2016, the NCR referred Lewis 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. A date of hearing will be set in due course by the NCT.

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 R 85 082 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.

Section 165 of Companies Act
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 also consulted the company'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 the company launch proceedings in terms of section 165(3) of the Companies Act to set the demand aside. Those proceedings were launched on 8 June 2016, in the Western Cape Division of the High Court, in Cape Town and the matter will be heard on 18 August 2016. Once the court has delivered its judgement in the matter, shareholders will be advised on the outcome.

33. Contingencies

	Group	
	2016 Rm	2015 Restated Rm
Bank guarantees given by the group to third parties. The directors are of the opinion that no loss will be incurred on these guarantees.	9.1	8.4

34. Capital commitments

	2016 Rm	2015 Restated Rm
Material capital commitments contracted for or authorised and contracted at the end of the year:		
The purchase of the Beares and Ellerines businesses in Namibia and Swaziland on 8 May 2015 and 8 April 2016 respectively.	100.0	–

Notes to the annual financial statements continued

35. Post-balance sheet events

There were no significant post-balance sheet events that occurred between the year end and the date of approval of the financial statements by the directors, other than the purchase of the Beares and Ellerines businesses in Namibia and Swaziland noted above.

36. Approval of financial statements

These accounts have been approved by the board of directors on 27 June 2016:

37. New Standards and Interpretations not yet effective

The following standards, amendments resulting from the Improvements Project and interpretations are not yet effective and have not been adopted by the group:

IFRS 9: Financial Instruments	New standard that will replace IAS 39: Financial Instruments Recognition and Measurement. This standard becomes effective for years commencing after 1 January 2018. The main impact is that classification of financial assets is now driven by the entity's business model for managing these assets with only two classifications, namely cost and fair value. With respect to impairment, the expected credit loss model has been introduced. It contains a three-stage approach which is based on the change in credit quality since initial recognition. On initial recognition, an expected 12-month loss will need to be recognised on financial assets that are not credit impaired. IFRS 9 also deals with hedging. The overall approach is to align hedge accounting more closely with an entity's risk management policies and approach.
IFRS 15: Revenue from Contracts with Customers	This statement introduces a single comprehensive revenue recognition model for all contracts with customers. In substance, revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to the customer. This standard becomes effective for years commencing after 1 January 2018.
IAS 19: Employee Benefits	Amendment to simplify accounting for contributions that do not relate to years of service.
IAS 1: Presentation of Financial Statements	Amendment issued to clarify guidance on materiality and aggregation, the structure of financial statements and disclosure of accounting policies.
IFRS 13: Fair Value Measurement	Amendment to allow the entity to measure short-term receivables and payables at invoice amounts in certain circumstances.
IAS 32: Financial Instruments – Presentation	Amendment to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
IFRS 16: Leases	This standard requires that lessees should recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet.
IAS 7: Statement of Cash Flows	This amendment introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
IAS 12: Income Taxes	The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses where an asset is measured at fair value and that fair value is below the asset's tax base.
IAS 16: Property, Plant and Equipment	This amendment clarifies when a method of depreciation based on revenue may be appropriate.
IAS 38: Intangible Assets	This amendment clarifies when a method of amortisation based on revenue may be appropriate.

Annual improvements to IFRS issued December 2013 and September 2014 for years commencing on or after 31 March 2016.

Management has not performed an assessment of the potential impact, if any, that the implementation of these standards and interpretations will have on the consolidated financial statements. The IFRS 9, IFRS 15 and IFRS 16 standards issued may have a significant impact on the group's accounting and requires investigation and research to assess the potential impact of these two standards.

Company statement of comprehensive income

for the year ended 31 March 2016

	Notes	2016 Rm	2015 Rm
Revenue	2	531.0	530.7
Operating costs	3	(7.1)	(7.5)
Interest paid to note holders under DMTN programme		(23.8)	(23.5)
Profit before taxation		500.1	499.7
Taxation	4	(0.1)	(0.1)
Net profit and comprehensive income attributable to ordinary shareholders		500.0	499.6

Company balance sheet

as at 31 March 2016

	Notes	2016 Rm	2015 Rm
ASSETS			
Non-current assets			
Interest in subsidiaries	5	2 831.6	2 839.8
Loan to subsidiary	6	–	304.0
Current assets			
Loan to subsidiary	6	304.6	–
Deposits at bank		0.3	–
Total assets		3 136.5	3 143.8
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital and premium	7	2 711.6	2 711.6
Share-based payment reserve		31.6	39.8
Retained earnings		56.4	63.3
		2 799.6	2 814.7
Non-current liabilities			
Long-term interest-bearing borrowings	8	–	304.0
Current liabilities			
Trade and other payables		5.9	5.2
Short-term interest-bearing borrowings	8	304.6	–
Amounts due to subsidiary		26.4	19.9
		336.9	25.1
Total equity and liabilities		3 136.5	3 143.8

Company statement of changes in equity

for the year ended 31 March 2016

	Share capital and premium Rm	Share-based payment reserve Rm	Retained earnings Rm	Total Rm
Balance as at 1 April 2014	2 711.6	47.2	70.7	2 829.5
Net profit attributable to ordinary shareholders			499.6	499.6
Dividends paid			(507.0)	(507.0)
Capital contribution in respect of share-based payment		(7.4)		(7.4)
Balance as 31 March 2015	2 711.6	39.8	63.3	2 814.7
Net profit attributable to ordinary shareholders			500.0	500.0
Dividends paid			(506.9)	(506.9)
Capital contribution in respect of share-based payment		(8.2)		(8.2)
Balance as 31 March 2016	2 711.6	31.6	56.4	2 799.6

Company cash flow statement

for the year ended 31 March 2016

	Notes	2016 Rm	2015 Rm
Cash flow from operating activities			
Cash utilised in operations	9	(6.4)	(9.4)
Dividends received		507.2	507.0
Taxation paid		(0.1)	(0.1)
		500.7	497.5
Cash flow from investment activities			
Loan repayment received from subsidiary		–	200.0
		–	200.0
Cash flow from financing activities			
Dividends paid		(506.9)	(507.0)
Repayment of borrowings		–	(200.0)
Increase in amounts due from subsidiary		6.5	9.3
		(500.4)	(697.7)
Net increase/(decrease) in cash and cash equivalents		0.3	(0.2)
Cash and cash equivalents at the beginning of the year		–	0.2
Cash and cash equivalents at the end of the year		0.3	–

Notes to the Company annual financial statements
for the year ended 31 March 2016

1. Accounting policies

The financial statements have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act. The accounting policies used in the preparation of these financial statements are set out on pages 18 to 27.

2. Revenue

	2016 Rm	2015 Rm
Dividends received from subsidiary – Lewis Stores Proprietary Limited	507.0	507.0
Interest received from subsidiary – Lewis Stores Proprietary Limited	23.8	23.5
Interest received – banks	0.2	0.2
	531.0	530.7

3. Operating profit

	R'000	R'000
Stated after:		
Audit fees – current year	60	60
directors' fees (refer to note 18.4 to the group financial statements)	3 385	3 538

4. Taxation

	Rm	Rm
Taxation	0.1	0.1
The rate of taxation on profit is reconciled as follows:		
Profit before taxation	500.1	499.7
Taxation calculated at a tax rate of 28% (2015: 28%)	140.0	139.9
Exempt income	(139.9)	(139.8)
Taxation per income statement	0.1	0.1

5. Interest in subsidiaries

Shares at cost	2 800.0	2 800.0
Capital contribution for share-based payment	31.6	39.8
	2 831.6	2 839.8
Refer Annexure A.		

6. Loan to subsidiary

The following loans are made to Lewis Stores Proprietary Limited:		
Long-term	–	304.0
Short-term	304.6	–
	304.6	304.0

The commercial terms of all the above loans will mirror the applicable terms of the notes issued under the Domestic Medium-Term Note programme. Refer to note 8.

No impairment of the loan to the subsidiary, Lewis Stores Proprietary Limited is required, as the subsidiary has sufficient reserves and liquidity to settle the loan. The carrying value approximates fair value.

7. Share capital and premium

	2016 Rm	2015 Rm
Authorised		
150 000 000 ordinary shares of 1 cent each	1.5	1.5
Issued		
98 057 959 (2015: 98 057 959) ordinary shares of 1 cent each	1.0	1.0
Share premium	2 710.6	2 710.6
Total share capital and premium	2 711.6	2 711.6

8. Borrowings

	2016 Rm	2015 Rm
Three-year floating note issued under the group's Domestic Medium-Term Note programme at 158 basis points above the three-month JIBAR	304.6	304.0
	304.6	304.0

The group has establish a Domestic Medium-Term Note programme in October 2013, under which the group can issued notes up to R2 billion. For further details, refer to note 12 in the group annual financial statements.
The carrying value approximates fair value.

9. Cash utilised in operations

	2016 Rm	2015 Rm
Profit before taxation	500.1	499.7
Dividends received	(507.2)	(507.0)
Increase/(Decrease) in trade and other payables	0.7	(2.1)
	(6.4)	(9.4)

Annexure A
Interest in subsidiary companies

for the year ended 31 March 2016

	Nature of business	2016 Carrying value of subsidiaries R'm	2016 Holding %	2015 Carrying value of subsidiaries R'm	2015 Holding %
Directly held					
Lewis Stores Proprietary Limited	F	2 800.0	100	2 800.0	100
Indirectly held					
Incorporated in South Africa					
Monarch Insurance Company Limited	I				
Kingtimm Proprietary Limited	D				
Lifestyle Living Proprietary Limited	D				
Incorporated in Botswana					
Lewis Stores (Botswana) (Pty) Ltd	F				
Lewis Insurance Services (Botswana) (Pty) Ltd	M				
Lewis Management Services (Botswana) (Pty) Ltd	D				
Incorporated in Swaziland					
Lewis Stores (Swaziland) (Pty) Ltd	F				
Incorporated in Namibia					
Lewis Stores (Namibia) (Pty) Ltd	F				
Lewis Management Services (Namibia) (Pty) Ltd	D				
Incorporated in Lesotho					
Lewis Stores (Lesotho) (Pty) Ltd	F				
Cost of subsidiaries		2 800.0		2 800.0	
Capital contribution in respect of share-based payment		31.6		39.8	
Loans to/(from) subsidiaries:					
Long-term		–		304.0	
Short-term		304.6		–	
Amounts due to subsidiary		(31.0)		(23.9)	
Interest in subsidiaries		3 105.2		3 119.9	

F Furniture dealer
I Insurance company
M Management services company
D Dormant company

Annexure B
Shareholders' information

Shareholders spread as at 31 March 2016

	Number of shareholders		Number of shares	
	Total	%	Total	%
1 – 1 000 shares	1 478	61.33	575 169	0.59
1 001 – 10 000 shares	599	24.85	2 042 027	2.08
10 001 – 100 000 shares	237	9.83	7 780 900	7.94
100 001 – 1 000 000 shares	78	3.24	22 090 284	22.53
1 000 001 shares and over	18	0.75	65 569 579	66.86
Total	2 410	100.00	98 057 959	100.00

Distribution of shareholders as at 31 March 2016

	Number of shareholders		Number of shares	
	Total	%	Total	%
Public	2 400	99.59	87 562 163	89.30
Unit Trusts/Mutual Funds			50 673 590	51.67
Pension Funds			20 140 025	20.54
Other			16 748 548	17.09
Non-public	10	0.41	10 495 796	10.70
Lewis Stores Proprietary Limited	1	0.04	9 216 928	9.40
Lewis Employee Incentive Scheme Trust	1	0.04	341 666	0.34
Directors:				
Lewis Group Limited	5	0.21	817 184	0.83
Lewis Stores Proprietary Limited	3	0.12	120 018	0.13
	2410	100.00	98 057 959	100.00

Major shareholdings as at 31 March 2016

According to the company's register of disclosures of beneficial interests made by registered shareholders acting in a nominee capacity, and the disclosures made by fund managers in terms of section 56 of the Companies Act of 2008, the following entities owned in excess of 3% of the company's shares as at 31 March 2016:

Beneficial shareholders	%
Trimark Global Endeavour Fund	12.92%
Lewis Stores Proprietary Limited	9.40%
Government Employee Pension Fund	8.57%
Trimark Global Balanced Fund	4.50%
Pyramis Group Trust Employee Benefit Plan	3.12%
Allan Gray Balanced Fund	3.10%
By Fund Manager	
Invesco Limited	17.43%
Allan Gray	9.81%
FMR LLC	8.24%
Public Investment Corporation	8.19%
Dimensional Fund Advisors	4.89%
Stonehage Trust Holdings (Jersey)	4.54%
LSV Asset Management	3.50%

Shareholders' information

Geographical analysis of shareholders

Beneficial shareholders	%
South Africa	47.70
North America	39.69
Rest of World	12.61
	100.00
By Fund Manager	
South Africa	44.77
North America	39.45
Rest of World	15.78
	100.00

Domestic Medium-Term Note Programme

Under this programme, the following notes have been issued:

– Three-year floating note maturing on 31 October 2016

In accordance with section 56(7) of the Companies Act, disclosure of beneficial holdings in excess of 5% of each class of note issued is set out below:

Nedcor Capital Treasury	50.00
Sanlam Life Insurance Limited	21.66
PT Conservative Managed Fund	13.33