

# The social, ethics and transformation report



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

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

## Responsibilities of the Committee

### SOCIAL AND ETHICS

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

### TRANSFORMATION

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

## Composition and functioning

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

The effectiveness of the committee is assessed as part of the annual board and committee evaluation process.

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

## Transformation

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

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

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

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

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

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

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

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

\*The B-BBEE certificate and scorecard is available on the group's website [www.lewisgroup.co.za](http://www.lewisgroup.co.za).

## Employment equity

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

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

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

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

### Employee profile - South Africa

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

## Skills development

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

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

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

### Preferential procurement and enterprise development

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

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

### Socio-economic development

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

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

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

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

### Primary projects

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

### Rotary Club/Early Development Centres

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

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

### Project Build

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

### Lesedi La Batho

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

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

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

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## Employee community engagement

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

## Bursaries

### INTERNAL BURSARIES

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



## TSIBA

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

## Environmental sustainability

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

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

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

## Carbon footprint

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

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

### Carbon footprint results for Scope 1 and 2 Emissions

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

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

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

### Carbon footprint results for selected Scope 3 emissions

Scope 3 Category	Emission source	Comments	2017 Emissions (tonnes CO <sub>2</sub> e)	% Change	2016 Emissions (tonnes CO <sub>2</sub> e)	% Change	2015 Emissions (tonnes CO <sub>2</sub> e)
Fuel and Energy	Upstream emissions from synfuel production	Complete assessment	25 594	(2.0%)	26 116	8.1%	24 150
Upstream transportation and distribution	Outsourced road distribution within South Africa	Partial assessment - excludes shipping	3 744	(1.4%)	3 798	5.5%	3 600
Business travel	Domestic and international flights	Complete assessment	395	(4.8%)	415	16.9%	355
	Car hire	Complete assessment	205	(4.7%)	215	4.9%	205
Employee commuting	Staff transport emissions travelling to and from work	Average data method used	4 780	(4.6%)	5 012	5.5%	4 750

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

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

# The social, ethics and transformation report (continued)

## Values and ethics

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

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

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

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

## Freedom of association

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

## Suppliers and supplier contracts

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

## Political party support and lobbying activities

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



## Engaging with stakeholders



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

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

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

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



## Engaging with stakeholders (continued)

Stakeholder group	Rationale for engagement	Means of engagement	Issues of engagement
<b>Customers</b>	<p>Primary contact with customers is through the group's 761 stores, their branch staff, branch manager and the call centres</p> <ul style="list-style-type: none"> <li>• Customers purchase household goods for cash or on credit</li> <li>• Customer loyalty and retention</li> <li>• Brand and product awareness</li> <li>• Sustainable revenue stream to generate returns to shareholders</li> </ul>	<ul style="list-style-type: none"> <li>• Customer contact in stores</li> <li>• Media advertising</li> <li>• In-store promotions</li> <li>• Market research</li> <li>• Mystery shopper programme</li> </ul>	<ul style="list-style-type: none"> <li>• High levels of customer retention</li> <li>• Improved credit offerings</li> <li>• Improved service levels</li> </ul>
<b>Shareholders and investment community</b>	<p>CEO and CFO provide the primary engagement with shareholders and analysts</p> <ul style="list-style-type: none"> <li>• Ensure access to capital by attracting investors</li> <li>• Provide relevant and timeous information</li> <li>• Balanced analysis of the Company</li> </ul>	<ul style="list-style-type: none"> <li>• Annual and interim results presentations</li> <li>• Integrated annual report</li> <li>• Investor website</li> <li>• Shareholder meetings, including annual general meeting</li> <li>• SENS announcements</li> <li>• Brokers conferences</li> <li>• Meetings with local and international investors and analysts</li> </ul>	<ul style="list-style-type: none"> <li>• Trading environment</li> <li>• Performance</li> <li>• Credit management</li> <li>• Store expansion</li> <li>• Capital management</li> <li>• Strategy</li> <li>• Regulation</li> <li>• Prospects</li> </ul>
<b>Employees</b>	<p>Employees' primary contact is with line management and the human resources team</p> <ul style="list-style-type: none"> <li>• Attract and retain talent</li> <li>• Employee motivation</li> <li>• Increased productivity</li> <li>• Loyalty</li> <li>• Rewards</li> </ul>	<ul style="list-style-type: none"> <li>• Electronic staff communications</li> <li>• Intranet</li> <li>• In-store review meetings</li> <li>• Regular meetings with unions</li> <li>• <i>Teamtalk</i> magazine</li> <li>• Induction and training courses</li> </ul>	<ul style="list-style-type: none"> <li>• Highly trained and skilled staff</li> <li>• Performance-linked incentives and awards</li> <li>• Reduced staff turnover</li> <li>• Employment equity</li> </ul>

Stakeholder group	Rationale for engagement	Means of engagement	Issues of engagement
<b>Product suppliers</b>	The merchandise team have the primary contact with product suppliers		
	<ul style="list-style-type: none"> <li>• Securing reliable and sustainable supply of goods and services</li> <li>• Consistent quality of exclusive merchandise</li> </ul>	<ul style="list-style-type: none"> <li>• Regular supplier meetings</li> <li>• Factory visits</li> <li>• Supplier audits</li> <li>• Service level agreements</li> </ul>	<ul style="list-style-type: none"> <li>• Quality standards</li> <li>• Product availability</li> <li>• Product exclusivity</li> <li>• Pricing</li> <li>• Delivery lead times</li> </ul>
<b>Regulatory bodies</b>	Senior management represent the group on industry forums and at regulator briefings and work groups		
	<ul style="list-style-type: none"> <li>• Legislative and regulatory compliance</li> <li>• Sound governance</li> </ul>	<ul style="list-style-type: none"> <li>• Statutory reporting</li> <li>• Regulatory submissions</li> <li>• Liaison with regulators</li> <li>• Membership of industry bodies and forums</li> </ul>	<ul style="list-style-type: none"> <li>• Insight into regulatory changes</li> <li>• Submissions to draft regulation</li> <li>• Compliance</li> <li>• Statutory reporting and returns</li> </ul>
<b>Communities</b>	Group CSI Manager co-ordinates the groups community involvement		
	<ul style="list-style-type: none"> <li>• Responsible corporate citizen</li> </ul>	<ul style="list-style-type: none"> <li>• Community investment and upliftment through CSI programme and local support through stores</li> </ul>	<ul style="list-style-type: none"> <li>• Continued investment in CSI programme</li> <li>• Store and staff involvement in CSI projects</li> </ul>