

Social, ethics and transformation report

THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE IS A COMMITTEE OF THE BOARD OPERATING IN COMPLIANCE WITH THE COMPANIES ACT. THE COMMITTEE ASSISTS THE BOARD BY MONITORING THE GROUP'S ACTIVITIES RELATING TO SUSTAINABILITY, ETHICS, STAKEHOLDER ENGAGEMENT, EMPOWERMENT AND TRANSFORMATION.

The chairman of the committee presents the following report to shareholders for the 2018 financial year, in accordance with the requirements of the Companies Act of South Africa.

Responsibilities of the committee

Social and ethics

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

Transformation

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

Composition and functioning

The current committee comprises four non-executive directors, namely Professor Fatima Abrahams (Chairperson), Daphne Motsepe, Hilton Saven, and Alan Smart, and executive director, Johan Enslin. Senior management in the human resources, merchandise, socio-economic development and risk departments attend by invitation. Biographical details of the committee members appear on pages 24 and 25. The effectiveness of the committee is assessed as part of the annual board and committee evaluation process.

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

Transformation

The group supports the principles and objectives of Broad-Based Black Economic Empowerment (B-BBEE) contained in the 2015 amended DTI Codes of Good Practice on B-BBEE. The board acknowledges its oversight role in driving transformation and empowerment across all elements of the DTI scorecard.

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

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

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B-BEE element

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

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

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

Employment equity

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

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

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

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

Skills development

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

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

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

Employee profile

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

Preferential procurement and enterprise development

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

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

Race and gender diversity

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

Socio-economic development

The committee reviews the socio-economic development strategy of the group on an annual basis and monitors progress against stated objectives. The group is committed to contributing to the communities where customers live. Many of these communities are affected by a lack of education, poverty and poor health.

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

The group has committed R7.6 million to socio-economic development in 2019.



Annual TSIBA Scholarship handover in May 2018

Primary projects

Rotary Club/Early Development Centres

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

Peninsula School Feeding Association provides daily meals to children in primary, secondary and special-needs schools across the Western Cape. Lewis continues to support 11 adopted schools in the Western Cape where meals are provided for 1 200 children each school day.

Project Build

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

Lasedi La Batho

The Lesedi la Batho centre in Mobopane, Gauteng, was created to address unemployment in the area and now provides basic skills training in sewing and beadwork, baking and computer studies. One of their divisions manufactured teddy bears for the Beares brand and Lewis has taken over the project which supports 20 women from the local community. The teddy bears are donated to children in hospitals, hospices, children's homes and places of safety. To date, the group has donated 2 175 bears to young children.

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

Employee community engagement

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





Bursaries

Internal bursaries

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

TSiBA

TSiBA Education is a private provider of higher education in business. TSiBA targets scholars and potential students that would otherwise not have access to tertiary level education, by offering full tuition scholarships.

Lewis funded bursaries for 10 students during 2018 and also introduced them to the seven habits for effective college students training.

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

Environmental sustainability

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

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

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

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Carbon footprint

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

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

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

The decrease in South African electricity emissions is likely due to reduced electricity consumption as well as a lower South African electricity grid emissions factor. Electricity demand in neighbouring countries

has increased due to an increase in stores and the electricity emissions factor increasing due to higher electricity imports from South Africa.

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

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

Values and ethics

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

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

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

Carbon footprint results for Scope 1 and 2 emissions

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

Carbon footprint results for Scope 3 emissions

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

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

Freedom of association

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

Suppliers and supplier contracts

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

Political party support and lobbying activities

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



Engaging with stakeholders

THE BOARD HAS OVERALL RESPONSIBILITY FOR STAKEHOLDER ENGAGEMENT AND MONITORS ITS APPLICATION. THE LEVEL AND FREQUENCY OF ENGAGEMENT WITH THE VARIOUS STAKEHOLDER GROUPS DIFFERS ACCORDING TO THE NEEDS OF THE BUSINESS AND THE EXPECTATIONS, CONCERNS AND PREFERENCES OF EACH STAKEHOLDER.

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

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

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

STAKEHOLDER GROUP

Customers

Primary contact with customers is through the group's 773 stores, their branch staff, branch manager and the call centres

Shareholders and Investment community

CEO and CFO provide the primary engagement with shareholders and analysts

Employees

Employees primary contact is with line management and the human resources team

Product suppliers

The merchandise team have the primary contact with product suppliers

Regulatory bodies

Senior management represent the group on industry forums and at regulator briefings and work groups

Communities

Group CSI manager co-ordinates the groups community involvement

RATIONALE FOR ENGAGEMENT	MEANS OF ENGAGEMENT	ISSUES OF ENGAGEMENT
<ul style="list-style-type: none"> • Customers purchase household goods for cash or on credit • Customer loyalty and retention • Brand and product awareness • Sustainable revenue stream to generate returns to shareholders 	<ul style="list-style-type: none"> • Customer contact in stores • Media advertising • In-store promotions • Market research • Mystery shopper programme 	<ul style="list-style-type: none"> • High levels of customer retention • Improved credit offerings • Improved service levels
<ul style="list-style-type: none"> • Ensure access to capital by attracting investors • Provide relevant and timeous information • Balanced analysis of the company 	<ul style="list-style-type: none"> • Annual and Interim results presentations • Integrated annual report • Investor website • Shareholder meetings, including annual general meeting • SENS announcements • Brokers conferences • Meetings with local and international investors and analysts 	<ul style="list-style-type: none"> • Trading environment • Performance • Credit management • Store expansion • Capital management • Strategy • Regulation • Prospects
<ul style="list-style-type: none"> • Attract and retain talent • Employee motivation • Increased productivity • Loyalty • Rewards 	<ul style="list-style-type: none"> • Electronic staff communications • Intranet • In-store review meetings • Regular meetings with unions • Teamtalk magazine • Induction and training courses 	<ul style="list-style-type: none"> • Highly trained and skilled staff • Performance-linked incentives and awards • Reduced staff turnover • Employment equity
<ul style="list-style-type: none"> • Securing reliable and sustainable supply of goods and services • Consistent quality of exclusive merchandise 	<ul style="list-style-type: none"> • Regular supplier meetings • Factory visits • Supplier audits • Service level agreements 	<ul style="list-style-type: none"> • Quality standards • Product availability • Product exclusivity • Pricing • Delivery lead times
<ul style="list-style-type: none"> • Legislative and regulatory compliance • Sound governance 	<ul style="list-style-type: none"> • Statutory reporting • Regulatory submissions • Liaison with regulators • Membership of industry bodies and forums 	<ul style="list-style-type: none"> • Insight into regulatory changes • Submissions to draft regulation • Compliance • Statutory reporting and returns
<ul style="list-style-type: none"> • Responsible corporate citizen 	<ul style="list-style-type: none"> • Community investment and upliftment through CSI programmes and local support through stores 	<ul style="list-style-type: none"> • Continued investment in CSI programme • Store and staff involvement in CSI projects