PEPKOR

Holdings Limited

Audited results

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Providing everyday products at affordable prices at customers' convenience

Highlights

10.9%

REVENUE GROWTH

TO **R64.2bn**

10.7%

Excluding one-off costs

GROWTH IN OPERATING PROFIT[1]

TO **R6.4bn**

1.9%

Including one-off costs

GROWTH IN OPERATING PROFIT[1]

TO **R5.9bn**

R5.3bn

CASH GENERATED FROM OPERATIONS

3.6%

GROWTH IN RETAIL SPACE

R18bn

REFINANCED AND GUARANTEES RELEASED

27.8c

Dividend cover of three times

PER SHARE MAIDEN DIVIDEND DECLARED

[1] *Before capital items*

Overview

The Pepkor group has completed its first financial year as a listed company and this is the first results publication under the Pepkor name. The 2018 financial year (FY18) will be remembered as a year that included numerous significant corporate matters, following the events that occurred at Steinhoff International Holdings N.V. (Steinhoff) in December 2017.

Major milestones include the refinancing of the Steinhoff shareholder funding and release from related financial guarantees, the name change to Pepkor and good overall financial performance under trying circumstances.

The Pepkor corporate management team has made good progress in dealing with corporate matters, mitigating impact on the group and its operations. Pepkor's decentralised management and operational structure made it possible to effectively insulate operations from the corporate noise, allowing the operating companies to focus on trading and providing value to customers. It was, however, very important to ensure that leadership in the operations remained focused and be retained.

Pepkor today is financially independent and its strategy of providing everyday products at affordable prices at customers' convenience continues to underpin performance in a challenging retail environment. The group's culture revolves around the customer and providing everyday products at the best prices. Pepkor's unparalleled low cost of doing business and extensive supply chain make this possible.

Consumers continue to face significant pressure on spending power as a result of a strained economy, and the group's defensive market positioning has effectively supported performance. The resilience of the underlying operating businesses was proven. Despite all the corporate noise and significant deflation affecting the clothing and general merchandise segment, good results were produced, which in many respects stand out in the market. The group has some of the most trusted retail brands in South Africa, which continue to be supported by millions of loyal customers.

During the year the group opened 428 stores, increasing retail space by 3.6%, resulting in a total store base of 5 236 stores. The slowdown of expansion in Africa and consolidation of stores in the JD Group and the Dunns brand impacted store expansion.

Financial performance

Pepkor achieved revenue growth of 10.9% to R64.2 billion during the year ended 30 September 2018. Pepkor's clothing and general merchandise segment, which contributes 66.2% to group revenue, follows a retail trading calendar. FY18 included 52 trading weeks compared to 53 trading weeks in FY17. The additional week in FY17 therefore results in a higher base when compared to FY18, and impacts growth rates. Operating profit before capital items and one-off costs increased by 10.7% to R6.4 billion from the prior year (FY17). As reported to shareholders during Pepkor's interim results in May 2018, the group's exposure to the corporate financial guarantee and associated loans resulted in one-off costs of R511 million. Including the effect of this, operating profit before capital items increased by 1.9% to R5.9 billion. Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 4.2% to R7.1 billion (FY17: R6.8 billion).

As described in the pre-listing statement, significant shareholder funding was introduced in the group's capital structure upon listing. This resulted in an increase in net finance costs from R620 million in FY17 to R1.2 billion in the current year.

The effective tax rate increased to 38.4% (FY17: 30.9%), mainly due to unrecognised tax losses and the non-tax deductibility of the R511 million provision relating to the group's exposure to the corporate financial guarantee and associated loans.

Net debt increased to R12.2 billion (FY17: R12.0 billion) and the contractual net debt-to-EBITDA ratio of the group was 1.64 times. Interest cover reduced to 6.51 times due to the timing of the introduction of debt before listing in FY17. Pepkor successfully refinanced and settled the Steinhoff shareholder funding on 23 May 2018 after raising R18 billion from financial institutions. The Pepkor group was in turn released from all Steinhoff-related guarantees.

Pepkor generated cash from operations of R5.3 billion during the year. Cash generation was impacted due to additional investment in inventory, resulting from an increased store footprint ahead of the peak December trading period, stockholding of direct imported cellphones, earlier stock inflows and some carry-over of inventory from the previous season due to reduced sales.

As announced on 23 November 2018, Pepkor renegotiated its commercial agreements with Century Capital (CenCap). Pepkor considered its options and the decision was made not to acquire consumer loans credit books from CenCap, but rather that Pepkor will build its own internal customer credit books. It was agreed that Pepkor will continue to collect the existing CenCap-owned loan books at a market-related fee.

These renegotiated agreements will ultimately result in Pepkor maintaining its income streams and profitability insofar as it pertains to financial services operations. The funding required to fund these new Pepkor debtors' books will amount to approximately R2.2 billion in FY19.

Pepkor further agreed to purchase 100% of the issued shares in FGI Holdings from Wands Investments, a subsidiary of Fulcrum. FGI provides insurance products via its subsidiaries under the Abacus brand.

Independent fairness opinions were obtained, confirming that the negotiated terms are fair to all Pepkor shareholders.

PEP Africa's operations in Angola were reported in accordance with IAS 29: Financial reporting in hyperinflationary economies, following the country's classification during the year as a hyperinflationary economy. With Angolan operations contributing less than 1.0% to group revenue, this did not significantly affect Pepkor's results.

Enhancement of disclosure

The group revised its financial reporting segments in terms of International Financial Reporting Standards (IFRS) to better reflect the manner in which it is structured and managed internally.

The group has further completed an extensive review process of disclosures made in its annual financial statements in order to enhance disclosure where deemed necessary and appropriate. In addition, Pepkor announced earlier on 26 November 2018 the conclusion of a JSE investigation pertaining to the disclosures made in Pepkor's pre-listing statement, issued in September 2017, and the 2017 annual financial statements.

Comparability

FY17 results

As announced on SENS on 20 November 2018, the comparability of Pepkor's statutory earnings per share metrics is impacted by the issue of 882 million shares during FY17.

This included 132 million shares for the acquisition of Tekkie Town on 1 February 2017 and 750 million shares issued on 20 September 2017, shortly before the FY17 year-end on 30 September 2017, upon Pepkor's listing on the JSE. This resulted in 3 450 million Pepkor shares in issue compared to a weighted average number of shares of 2 678 million applied in the FY17 statutory earnings per share metrics. Should a weighted average number of shares of 3 450 million be applied to the FY17 reported earnings of R3 550 million and reported headline earnings of R3 576 million, FY17 statutory earnings per share is reduced by approximately 30 cents.

FY18 results

As reported in Pepkor's interim results on 29 May 2018, FY18 results are impacted by one-off costs pertaining to a provision for exposure in terms of a corporate financial guarantee of R440 million and associated loans of R60 million. At year-end, the guarantee, including accumulated finance costs of R11 million, amounts to R451 million, with the provision for associated loans remaining unchanged at R60 million. One-off costs in FY18 therefore amount to R511 million, negatively impacting FY18 earnings per share metrics by approximately 15 cents. This is calculated by applying the total impact net of tax of R511 million to a weighted average number of shares of 3 450 million.

In addition, comparability is affected by the acquisition of Tekkie Town, effective 1 February 2017, and the acquisition of Building Supply Group (BSG), effective 1 October 2017.

Dividend

Pepkor has a relatively geared balance sheet compared to other listed retail peers. As a result of future capital commitments, strategic investments and the group's ambition to reduce its gearing to one times net debt-to-EBITDA in the medium term, the board has approved a revised dividend policy of three times earnings cover.

The board has therefore declared a final dividend of 27.8 cents per ordinary share, being Pepkor's maiden dividend, payable to shareholders on Monday, 21 January 2019. The dividend has been declared out of income reserves.

Last date to trade cum dividend	Tuesday, 15 January 2019
Date trading commences ex dividend	Wednesday, 16 January 2019
Record date	Friday, 18 January 2019
Payment date	Monday, 21 January 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 16 January 2019 and Friday, 18 January 2019, both days inclusive.

The local dividend tax rate is 20%. The net local dividend amount is 22.24 cents per share for shareholders liable to pay dividends tax and 27.8 cents per share for shareholders exempt from paying dividends tax. The issued ordinary share capital of Pepkor Holdings Limited as at the date of this declaration is 3 450 million ordinary shares. Pepkor Holdings Limited's tax reference number is IT9542320180.

PEPKOR
Holdings Limited

Commentary

OPERATIONAL PERFORMANCE

Clothing and general merchandise

The clothing and general merchandise segment reported good performance despite a financially constrained South African consumer and significant selling price deflation resulting from a strengthening rand during 2017, translating into a reduction in retail selling prices.

Segmental revenue increased by 7.2% to R42.5 billion, while operating profit increased by 8.1% to R6.1 billion. Clothing, Footwear and Home (CFH) product departments, in particular Footwear, experienced significant deflation. Optimisation and development of the product mix and driving of sales volumes successfully countered the deflationary environment. This resulted in a 7.0% increase in sales units sold during the year, while the number of sales transactions increased by 6.3%. All brands included in this reporting segment continue to provide value to customers and from these results it can be assumed that market share was gained.

The segment opened 335 new stores during the year, expanding the retail footprint to 4 220 stores. Retail space increased by 4.5% to 1.6 million m^2. Brands included in this segment follow a retail trading calendar. FY18 included 52 trading weeks compared to 53 trading weeks in FY17. The additional week in FY17 therefore results in a higher base when compared to FY18, and impacts growth rates. Growth rates reported below are on a comparable 52 trading week basis.

PEP and Ackermans

In aggregate, PEP and Ackermans achieved merchandise sales growth of 8.0% and like-for-like growth of 3.3%. Within CFH product departments in particular, deflation amounted to 4.5%, and pricing benefits were passed on to customers as part of the brands' long-established DNA of providing best prices and value. Growth of 6.1% in transactions and 9.0% in sales units supported performance.

PEP

PEP remained true to its DNA of Best Price Leadership (BPL), notwithstanding deflation and competitive pressure. PEP opened 137 new stores. On a net basis, the total store footprint increased by 118 stores to 2 231 stores, representing growth of 4.1% in retail space. The Adult and Home product categories reported strong growth, while in Cellular, demand for smartphones and data continue to underpin strong performance. PEP remains a significant provider of cellphones in South Africa.

Fast-Moving Consumer Goods (FMCG) reported double-digit growth driven by ongoing product innovation, private label promotional activities and a wider product offering, while strong growth in PEP Money was driven by the FIFA World Cup, resulting in strong DSTV decoder sales. Initiatives like the PAXI parcel delivery service and the new Dealz discount variety retail concept, with four stores, continues to perform in line with expectation.

PEP continued to achieve operating leverage, celebrating its 19th consecutive year of double-digit operating profit growth.

Ackermans

Ackermans continues to outperform competitors in the South African apparel industry as the strong customer value proposition aimed at 'women with kids in their lives' continues to drive performance. Ackermans opened 80 new stores during FY18.

On a net basis the total store footprint expanded with 75 stores to 730 stores, representing 6.7% space growth. This includes three Ackermans Woman stores, the new retail format focused on ladies' wear.

The credit sales contribution was maintained at 17.5% of total sales, with a 9.8% increase in revolving credit accounts to 1.1 million. Growth in CFH was supported by double-digit growth in the Essentials, Boys and Ladies product categories. Ladies continues to grow aggressively. A state-of-the-art 90 000 m^2 distribution centre in Hammarsdale, KwaZulu-Natal was opened in October 2018, which will support future growth and operational efficiencies.

Ackermans continued to achieve operating leverage, celebrating its ninth consecutive year of high double-digit operating profit growth, an exceptional performance in the South African retail market.

PEP Africa

PEP Africa, which contributes 3.6% to group revenue, experienced a very challenging year, marked by the lagging effect of low commodity prices, foreign exchange shortages, and high inflation rates that continue to weigh on consumer spending.

At constant exchange rates, merchandise sales decreased by 1.8% and like-for-like sales reduced by 8.7%. Excluding Angola and Zimbabwe, merchandise sales growth of 12.3% was achieved, supported by double-digit sales growth in Malawi, Nigeria, Uganda and Zambia.

Speciality

The speciality division achieved satisfactory results despite a challenging environment. Merchandise sales growth amounted to 12.5%, and 6.9% on a like-for-like basis was achieved.

Tekkie Town reported good sales growth and respectable like-for-like growth for the year, despite senior management disruptions and a competitive trading environment. A new management team was appointed, and the business remains on track to reach 400 stores in FY19.

The customer value proposition in **Dunns** remains a focus area and a positive trend is emerging as stores are consolidated.

John Craig reported excellent results following the repositioning of the business to focus on the Polo and Muratti in-house brand.

Shoe City celebrated its 150th store opening during the year, but had a challenging year with performance impacted by significant price deflation in footwear.

Refinery reported very good results and is profitable in what is only its second year of operation. The brand has successfully gained traction with young adult customers.

Furniture, appliances and electronics

The furniture, appliances and electronics segment reported good results with a strong year-on-year improvement and achieved its turnaround objectives.

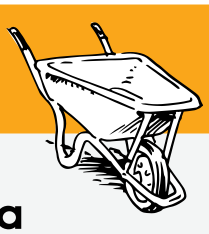
Segmental revenue increased by 10.6% to R8.6 billion. The business is now profitable from an ongoing operations perspective and is optimally positioned following its restructure, brand consolidation, and significant reduction in credit reliance to 18.1%. The operating loss of R137 million was mainly due to the performance and closure of the POCO brand.

Merchandise sales growth amounted to 9.7% and like-for-like growth of 4.7% was achieved. The brands' customer proposition is proving successful with all brands reporting improved trading, despite the challenging durable goods market where consumer spending is easily deferred.

Credit remains an important sales enabler, with 27.5% of furniture brands' sales and 7.8% of electronics and appliances brands' sales transacted on credit.

The business continues its digital transformation to an omni-model with omni-solutions, including the introduction of extended aisle capability in-store, new online marketing channels, and commissioning of an online sales distribution centre. Improved efficiencies and controls were achieved from digital supply chain delivery systems and data analytics.

Building materials



The building materials segment experienced a difficult year, due to a subdued economy with low business confidence and a highly competitive environment within the building industry.

Segmental revenue increased by 19.9% to R8.1 billion, while operating profit decreased by 11.9% to R214 million. This includes the contribution of the BSG business, which was acquired on 1 October 2017.

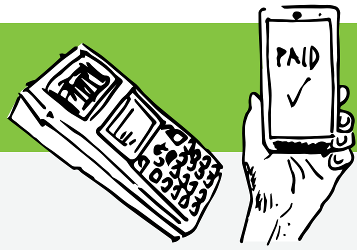
Excluding BSG, the business reported a decline in merchandise sales of 3.1% and a like-for-like sales decline of 1.6%.

Discounting of sales prices was required to compete in the marketplace, which placed pressure on profitability.

The two acquisitions over the last three years (Iliad and BSG) have caused some distraction in the business. To this end, a Customer Centricity and Values programme was launched during the year to renew focus on driving sales.

Good cost control was maintained across the business, which supported profitability.

FinTech



The FinTech segment increased revenue by 35.5% to R5.0 billion, while operating profit increased by 10.6% to R250 million.

The FLASH business, which represents more than 90% of this segment's revenue, reported aggressive growth. FLASH provides virtual solutions in the informal market and increased virtual turnover by more than 20%. The number of FLASH traders increased to 145 000 from 121 000 a year ago.

The Southern View Finance SA call centre and Van As debt collection operations performed below expectation due to additional costs incurred.

OUTLOOK

Management remains confident that the group's defensive market positioning and relentless focus on providing value to customers will continue to underpin good performance and results. While the challenging trading environment and low business confidence is expected to continue for the foreseeable future, this environment will provide opportunities for Pepkor to grow market share. Based on this, the group plans to open 300 stores, on a net basis, in the 2019 financial year, equating to approximately 4.0% retail space growth.

Performance by the CFH retailers is expected to improve as they move into inflationary pricing, and there are numerous initiatives under way by the respective retail brands to capitalise on market opportunities, all of which are focused on customer convenience.

With the furniture business having completed its restructure, it has a good foundation to trade from going forward. The business is optimally positioned to take advantage of improvements in consumer confidence and opportunities to grow market share by focusing on top-line sales to build further scale.

The building materials sector is expected to remain under pressure in the medium term, until confidence in the economy is restored and government infrastructure initiatives are followed through. Focus will be on developing a strong foundation for the business from which it can grow in the future.

APPRECIATION

The Pepkor group comprises 48 000 experienced and dedicated employees who drive the culture of providing value to customers. Management and the board are grateful for their loyalty and continued dedication during a challenging year. The board would like to thank its shareholders, customers and suppliers for their continued support.

Jayendra Naidoo	Leon Lourens	Riaan Hanekom
Chairman	Chief executive officer	Chief financial officer
23 November 2018		

PEPKOR Holdings Limited

Audited summarised consolidated financial statements
FOR THE YEAR ENDED 30 SEPTEMBER 2018

Summarised consolidated income statement

	Notes	Year ended 30 September 2018 Audited Rm	Year ended 30 September 2017 Audited Rm	% change
Revenue		**64 168**	57 850	10.9%
Cost of sales		**(42 027)**	(37 412)	12.3%
Gross profit		**22 141**	20 438	8.3%
Other income		**875**	701	24.8%
Operating expenses		**(15 954)**	(14 364)	11.1%
Operating profit before depreciation, amortisation and capital items		**7 062**	6 775	4.2%
Depreciation and amortisation		**(1 134)**	(960)	18.1%
Operating profit before capital items		**5 928**	5 815	1.9%
Capital items	2	**(37)**	(29)	27.6%
Operating profit		**5 891**	5 786	1.8%
Net finance charges		**(1 192)**	(620)	92.3%
Profit before taxation		**4 699**	5 166	(9.0%)
Taxation	3	**(1 804)**	(1 599)	12.8%
Profit for the year		**2 895**	3 567	(18.8%)
Profit attributable to:				
Owners of the parent		**2 885**	3 550	(18.7%)
Non-controlling interests		**10**	17	(41.2%)
Profit for the year		**2 895**	3 567	(18.8%)
Basic earnings per share (cents)	4	**83.6**	132.6	(37.0%)
Headline earnings per share (cents)	4	**84.5**	133.6	(36.7%)
Diluted earnings per share (cents)	4	**83.3**	132.6	(37.1%)
Diluted headline earnings per share (cents)	4	**84.2**	133.6	(36.9%)

Summarised consolidated statement of comprehensive income

	Year ended 30 September 2018 Audited Rm	Year ended 30 September 2017 Audited Restated[1] Rm
Profit for the year	**2 895**	3 567
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**98**	(84)
Net fair value (loss)/gain on cash flow hedges	**(22)**	186
Net fair value gain on cash flow hedges transferred to inventory	**105**	583
Deferred taxation on cash flow hedges	**(55)**	(74)
Foreign currency translation differences relating to hyperinflation	**69**	–
Deferred taxation on foreign currency differences relating to hyperinflation	**(27)**	–
Exchange differences from translation of net investment in foreign operations	**(538)**	795
Taxation on exchange differences from translation of net investment in foreign operations	**161**	(104)
Total other comprehensive (loss)/income for the year	**(209)**	1 301
Total comprehensive income for the year	**2 686**	4 868
Total comprehensive income attributable to:		
Owners of the parent	**2 676**	4 851
Non-controlling interests	**10**	17
Total comprehensive income for the year	**2 686**	4 868

[1] *Refer to note 6 for details of restatements.*

Summarised consolidated statement of changes in equity

	Year ended 30 September 2018 Audited Rm	Year ended 30 September 2017 Audited Restated[1] Rm
Balance at the beginning of the year	**52 917**	52 695
Profit and other equity movements attributable to group pre internal restructure	**–**	5 756
Issue of shares in terms of internal restructure	**–**	70 177
Net assets acquired in common control transaction	**–**	(58 422)
Recognition of common control reserve	**–**	(11 755)
Shares issued upon listing, net of expenses	**–**	15 145
Capital distribution	**–**	(20 632)
Changes in reserves		
Total comprehensive income for the year attributable to owners of the parent	**2 676**	1 971
Dividends paid	**–**	(2 013)
Shares bought from non-controlling interests	**–**	(5)
Share-based payments	**159**	(2)
Acquired on acquisition of a subsidiary	**–**	–
Transfers and other reserve movements	**(19)**	–
Changes in non-controlling interests		
Profit attributable to the group pre internal restructure and other reserve movements	**–**	10
Total comprehensive income for the year attributable to non-controlling interests	**10**	7
Transactions with non-controlling equity holders	**(17)**	(21)
Dividends paid	**(15)**	–
Other reserve movements	**–**	6
Balance at end of year	**55 711**	52 917
Comprising		
Ordinary stated capital	**64 690**	64 690
Common control reserve	**(11 755)**	(11 755)
Retained earnings	**2 750**	(88)
Share-based payment reserve	**239**	33
Hedging reserve	**270**	242
Foreign currency translation reserve	**(546)**	(309)
Other reserves	**60**	79
Non-controlling interests	**3**	25
	55 711	52 917

[1] *Refer to note 6 for details of restatements.*

Summarised consolidated statement of financial position

	30 September 2018 Audited Rm	30 September 2017 Audited Restated[1] Rm
ASSETS		
Non-current assets		
Goodwill and intangible assets	**61 049**	60 826
Property, plant and equipment	**5 251**	4 613
Investments and loans	**253**	170
Deferred taxation assets	**1 365**	1 586
	67 918	67 195
Current assets		
Inventories	**12 850**	10 954
Trade and other receivables	**5 874**	4 764
Taxation receivable	**277**	167
Loans due by related parties	**224**	236
Cash and cash equivalents	**3 835**	3 797
	23 060	19 918
Total assets	**90 978**	87 113
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary stated capital	**64 690**	64 690
Reserves	**(8 982)**	(11 798)
Total equity attributable to equity holders of the parent	**55 708**	52 892
Non-controlling interests	**3**	25
Total equity	**55 711**	52 917
Non-current liabilities		
Interest-bearing loans and borrowings	**15 518**	16
Loans due to related parties	**–**	11 000
Employee benefits	**91**	112
Deferred taxation liabilities	**4 142**	4 050
Provisions	**564**	727
Trade and other payables	**545**	533
	20 860	16 438
Current liabilities		
Trade and other payables	**11 595**	11 165
Loans due to related parties	**173**	4 868
Employee benefits	**847**	737
Provisions	**728**	331
Taxation payable	**524**	557
Interest-bearing loans and borrowings	**19**	11
Bank overdrafts and short-term facilities	**521**	89
	14 407	17 758
Total equity and liabilities	**90 978**	87 113
Net asset value per ordinary share (cents)	**1 614.7**	1 533.1

[1] *Restatement of current income tax assets and current tax liabilities, previously disclosed as part of trade and other receivables and trade and other payables respectively.*

Fair values of financial instruments

	Fair value as at 30 September 2018 Audited Rm	Fair value as at 30 September 2017 Audited Rm
Derivative financial assets – Level 2 fair value hierarchy	**318**	202
Derivative financial liabilities – Level 2 fair value hierarchy	**(84)**	(27)
	234	175

Level 2 financial instruments consist of foreign exchange contracts that are valued using techniques where all of the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. These inputs included foreign exchange rates.

Summarised consolidated statement of cash flows

	Year ended 30 September 2018 Audited Rm	Year ended 30 September 2017 Audited Restated[1] Rm
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	**5 891**	5 786
Adjusted for:		
Debtors' write-offs and movement in provision	**302**	284
Amortisation and depreciation	**1 134**	960
Inventories written down to net realisable value and movement in provision for inventories	**489**	422
Provision for BVI guarantee	**451**	–
Non-cash adjustments	**376**	(183)
	8 643	7 269
Working capital changes		
Increase in inventories	**(2 161)**	(1 910)
(Increase)/decrease in trade and other receivables	**(834)**	180
Increase in revolving credit and instalment sale receivable movement	**(289)**	(188)
Increase in trade and other payables	**264**	1 153
Decrease in other working capital items	**(311)**	(228)
Net changes in working capital	**(3 331)**	(993)
Cash generated from operations	**5 312**	6 276
Net dividends paid	**(15)**	(1 963)
Net finance charges	**(1 183)**	(670)
Taxation paid	**(1 597)**	(1 396)
Net cash inflow from operating activities	**2 517**	2 247
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	**(1 871)**	(1 813)
Proceeds on disposal of property, plant and equipment and intangible assets	**113**	146
Acquisition of businesses, net of cash on hand at acquisition (note 5)	**(297)**	(429)
(Amounts paid)/amounts received on long-term investments and loans	**(143)**	780
Proceeds on disposal of business	**4**	–
Amounts received on related party loans and receivables	**–**	7 527
Net cash (outflow)/inflow from investing activities	**(2 194)**	6 211
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of ordinary shares issued	**–**	15 375
Capital distributions paid	**–**	(15 132)
Share issue expenses	**1**	(123)
Transactions with non-controlling interests	**(29)**	(26)
Amounts received/(amounts paid) on bank overdrafts and short-term facilities	**351**	(69)
Amounts received/(amounts paid) on long-term interest-bearing loans and borrowings	**15 429**	(15)
Debt raising fees paid	**(110)**	–
Amounts received/(amounts paid) on short-term interest-bearing loans and borrowings	**8**	(88)
Amounts paid on related party payable	**(15 870)**	(7 234)
Net cash outflow from financing activities	**(220)**	(7 312)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**103**	1 146
Effects of exchange rate translations on cash and cash equivalents	**(65)**	(120)
Cash and cash equivalents at beginning of the year	**3 797**	2 771
CASH AND CASH EQUIVALENTS AT END OF YEAR	**3 835**	3 797

[1] *Refer to note 6 for details of restatements.*

PEPKOR
Holdings Limited

Notes to the summarised consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Basis of preparation

The summarised consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for summarised financial statements, and the requirements of the Companies Act applicable to summarised financial statements. The Listings Requirements require summarised financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements from which the summarised consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

Financial statements

These summarised consolidated financial statements for the year ended 30 September 2018 have been audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the annual financial statements from which these summarised consolidated financial statements were derived. Information included under the headings 'Outlook' and 'Operational performance' and any reference to future financial information included in the summarised financial information, has not been audited and is the sole responsibility of the board. The full consolidated financial statements are available at the issuer's office upon request. The auditor's report does not necessarily report on all the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office. The results were approved by the board of directors on 23 November 2018.

Accounting policies

The accounting policies of the group have been applied consistently to the years presented in the summarised consolidated financial statements.

Capital structure

	30 September 2018 Audited Rm	30 September 2017 Audited Rm
Interest-bearing long-term liabilities	**15 518**	16
Net loans due to related parties	**(51)**	15 632
Interest-bearing short-term liabilities	**19**	11
Bank overdrafts and short-term facilities	**521**	89
Cash and cash equivalents	**(3 835)**	(3 797)
Net interest-bearing debt	**12 172**	11 951
Fair value adjustment on BVI guarantee	**451**	
Net interest-bearing debt for covenant purposes	**12 623**	
EBITDA	**7 062**	
Other contractual adjustments	**631**	
Adjusted EBITDA for covenant purposes	**7 693**	
Net finance charges	**(1 192)**	
Other contractual adjustments	**10**	
Net adjusted finance charges for covenant purposes	**(1 182)**	
EBITDA: interest cover (times)	**6.51**	
Net debt: EBITDA (times)	**1.64**	

Significant events

Guarantee to RMB in relation to investment company and impairment of loans due by key management and employees

Pepkor, through its subsidiaries, has been a guarantor of third-party debt related to an investment company since 2012. The investment initially consisted of Pepkor shares, but was exchanged for Steinhoff shares in 2015 following Steinhoff's acquisition of Pepkor. Following the decline in the Steinhoff share price after the publication of Pepkor's results in 2017, the risk of liability in this regard could no longer be considered to be remote and as such the group has provided an amount of R451 million.

In addition, a provision for an impairment of loans associated to the third-party debt amounting to R60 million was raised.

Refinancing of Steinhoff funding

Pepkor successfully refinanced its Steinhoff shareholder funding facilities with various South African banks and financial institutions. The refinancing ensured that Pepkor is financially independent. The facilities were used to settle the Steinhoff shareholder funding, which Steinhoff in turn used to settle its external obligations to which Pepkor group companies were co-guarantors to. Pepkor group companies have subsequently been released from all guarantees relating to the Steinhoff shareholder funding.

The new funding facilities are subject to covenants, which are well within the recommended range.

Events subsequent to the reporting period

As announced on 23 November 2018, Pepkor has agreed to terminate its existing commercial relationship with Century Capital Proprietary Limited (CenCap), in a phased approach.

Under the current commercial agreements, CenCap, a subsidiary of Wands Investments Proprietary Limited (Wands), is responsible for the funding of credit books that provide credit to customers of JD Group (JD consumer credit) and unsecured personal loans (Capfin loans) using the PEP and Ackermans retail footprint. Wands carries the credit risk related to these financial services. Wands is a subsidiary of Fulcrum Financial Services SA. Pepkor, through its internal financial administration service operations (call centre and debt collection operations), provides administration and collection services (outsourced services) to CenCap related to the JD consumer credit and Capfin loans provided to Pepkor customers in return for a fee.

Subsequent to year-end, Pepkor considered its options and decided not to pursue the acquisition of the credit books owned by CenCap, but instead to build its own credit books. With regard to the existing credit books, commercial agreements were renegotiated, granting Pepkor the right to continue collection of the CenCap-owned loan books for the run-down period of the books, up to a maximum period of three years, and to render the outsourced services at a market-related fee.

Pepkor further agreed to purchase 100% of the issued shares in FGI Holdings Proprietary Limited (FGI) from Wands for a purchase price of approximately R150 million. FGI provides insurance products via its subsidiaries under the Abacus brand to Pepkor customers and contains highly regulated, liquid assets. The acquisition is subject to due diligence and other conditions precedent, normal for transactions of this nature.

	Year ended 30 September 2018 Audited Rm	Year ended 30 September 2017 Audited Restated Rm	% change
1. SEGMENTAL ANALYSIS			
REVENUE			
Clothing and general merchandise	**42 472**	39 630	7.2%
Furniture, appliances and electronics	**8 615**	7 790	10.6%
Building supplies	**8 105**	6 759	19.9%
FinTech	**4 976**	3 671	35.5%
	64 168	57 850	10.9%
OPERATING PROFIT BEFORE CAPITAL ITEMS			
Clothing and general merchandise	**6 112**	5 656	8.1%
Furniture, appliances and electronics	**(137)**	(310)	55.8%
Building supplies	**214**	243	(11.9%)
FinTech	**250**	226	10.6%
	6 439	5 815	10.7%
SEGMENTAL ASSETS	**86 666**	82 910	
RECONCILIATION BETWEEN OPERATING PROFIT			
Operating profit per segmental analysis	**6 439**	5 815	
One-off items	**(511)**	–	
Capital items (note 2.1)	**(37)**	(29)	
Operating profit per income statement	**5 891**	5 786	
Net finance costs	**(1 192)**	(620)	
Profit before taxation per income statement	**4 699**	5 166	
RECONCILIATION BETWEEN TOTAL ASSETS AND SEGMENTAL ASSETS			
Total assets per statement of financial position	**90 978**	87 113	
Less: Cash and cash equivalents	**(3 835)**	(3 797)	
Less: Long-term investments and loans	**(253)**	(170)	
Less: Loans due by related parties	**(224)**	(236)	
Segmental assets	**86 666**	82 910	

Basis of segmental presentation

During the period Pepkor revised its internal management reporting structure and consequently revised its segmental reporting to better reflect the group's internal management review structure to the chief operating decision maker (CODM).

The segmental information has been prepared in accordance with IFRS 8: Operating Segments (IFRS 8), which defines requirements for the disclosure of financial information of an entity's operating segments. IFRS 8 requires operating segments to be identified on the basis of internal reporting of group components that are regularly reviewed by the CODM to allocate resources to segments and to assess their performance. The board of directors has been identified as the CODM.

Identification of segments

For management purposes, the group is organised into business units based on their products and services, and has four operating and reportable segments as follows:

- Clothing and general merchandise retail business units including PEP, Ackermans, PEP Africa, Powersales, Dunns, Refinery, Shoe City, Tekkie Town, Tenacity and the corporate office.
- Furniture, appliances and electronics merchandise retail business units including Rochester, Russells, Bradlows, Incredible Connection, HiFi Corp, Sleepmasters and POCO (closed in 2018).
- General building material retail brands include BUCO and Timbercity, while specialist building material brands, servicing both the retail and wholesale market, include inter alia Tiletoria, Floors Direct, MacNeil and Cachet. Other brands include B-One, Buchel, W&B Hardware, Bildware, Citiwood, Chipbase and Brands 4 Africa.
- Auxiliary business units leveraging and utilising the group's retail store footprint in terms of interacting with their respective consumer markets include FLASH, Southern View Finance SA (call centre) and Van As (debt collector).

The board of directors evaluates segmental performance based on revenue and operating profit before capital items and one-off items. Finance cost and taxation are monitored on a group basis and are not allocated to operating segments. Segment revenue excludes value-added taxation. Segment operating profit before capital items represents segment revenue less segment expenses, excluding capital items included in note 2.1 and one-off items. Segment expenses include distribution expenses and other operating expenses.

The segment assets are not reviewed separately by the CODM and therefore have not been presented in line with IFRS 8.

Segmental analysis

Geographical analysis

The revenue, operating profit and assets are all classified as one geographical region.

Major customers

No single customer contributes 10% or more of the group's revenue.

One-off items

Pepkor, through its subsidiaries, has been a guarantor of third-party debt related to an investment company since 2012. The investment initially consisted of Pepkor shares, but was exchanged for Steinhoff shares in 2015 following Steinhoff's acquisition of Pepkor. Following the decline in the Steinhoff share price after the publication of Pepkor's results in 2017, the risk of liability in this regard could no longer be considered to be remote and as such the group has provided an amount of R451 million.

In addition, a provision for an impairment of loans associated to the third-party debt amounting to R60 million was raised.

	Year ended 30 September 2018 Audited Rm	Year ended 30 September 2017 Audited Rm
2. OPERATING PROFIT		
2.1 Capital items		
Capital items reflect and affect the resources committed in producing operating/trading performance and are not the performance itself. These items deal with the platform/capital base of the entity. Capital items are required to be reported by the Johannesburg Stock Exchange (JSE) as part of the calculation of headline earnings.		
Impairments of property, plant and equipment	**20**	7
Loss on disposal of property, plant and equipment and intangible assets	**15**	27
Loss/(profit) on sale and dilution of investments	**2**	(5)
	37	29

	%	%
3. TAXATION		
Reconciliation of rate of taxation		
South African standard rate of taxation	**28.0%**	28.0%
Effect of different statutory taxation rates of subsidiaries in other jurisdictions	**(0.5%)**	(0.3%)
(Utilisation of unrecognised taxation losses)/taxation losses generated not recognised	**3.4%**	(0.6%)
Prior year adjustments	**2.3%**	2.5%
Withholding taxes	**3.3%**	2.0%
Other adjustments	**1.9%**	(0.7%)
Effective rate of taxation	**38.4%**	30.9%

	Year ended 30 September 2018 Audited Million	Year ended 30 September 2017 Audited Million
4. EARNINGS PER SHARE		
4.1 Weighted average number of ordinary shares		
Issued ordinary shares at beginning of the year	**3 450**	2 568
Effect of shares issued during the year	**–**	87
Effect of shares issued in terms of initial public offering	**–**	23
Weighted average number of ordinary shares at end of the year for purpose of basic and headline earnings per share	**3 450**	2 678
Effect of dilution due to share right issues in terms of share scheme	**10**	–
Weighted average number of ordinary shares at end of the year for the purpose of diluted earnings per share and diluted headline earnings per share	**3 460**	2 678

	Year ended 30 September 2018 Audited Rm	Year ended 30 September 2017 Audited Rm
4.2 Earnings and headline earnings		
Profit for the year	**2 895**	3 567
Attributable to non-controlling interests	**(10)**	(17)
Earnings attributable to ordinary shareholders	**2 885**	3 550
Capital items (note 2.1)	**37**	29
Taxation effect of capital items	**(5)**	(3)
Headline earnings attributable to ordinary shareholders	**2 917**	3 576

4.3 Diluted earnings and diluted headline earnings per share

Share rights issued to employees have been taken into account for dilutive earnings and dilutive headline earnings per share purposes.

5. NET CASH FLOW ON ACQUISITION OF BUSINESSES

Effective 1 October 2017, BSG was acquired by SteinBuild, a wholly owned subsidiary of the group, for an equity purchase price of R297 million in cash. (2017: Tekkie Town was acquired for shares to the value of R3.35 billion on 1 February 2017. Predecessor accounting has been applied retrospectively, thus the acquisition has been included in the pre-combination results of the group. A call centre and debt collector company was purchased in cash on 1 October 2016 for R471 million. 100% shareholding in all entities was acquired.)

The fair value of assets and liabilities assumed at date of acquisition	Total September 2018 BSG Audited Rm	Total September 2017 Tekkie Town, call centre and debt collector Audited Rm
Assets		
Intangible assets	**96**	805
Property, plant and equipment	**89**	193
Deferred taxation assets	**23**	25
Tax receivable	**2**	–
Cash on hand	**–**	42
Trade and other receivables	**81**	59
Inventories	**396**	631
Liabilities		
Employee benefits	**(13)**	(19)
Trade and other payables	**(301)**	(143)
Deferred taxation liabilities	**–**	(152)
Current interest-bearing loans and borrowings	**(73)**	(3)
Current income tax liabilities	**–**	(52)
Provisions	**–**	(15)
Current interest-bearing loans and borrowings	**–**	(3)
Bank overdraft and short-term facilities	**(83)**	(79)
Existing non-controlling interests	**1**	–
Total assets and liabilities acquired	**218**	1 288
Goodwill attributable to acquisition	**79**	2 533
Total consideration	**297**	3 821
Cash on hand at date of acquisition	**–**	(42)
Paid through issue of shares	**–**	(3 350)
Net cash outflow on acquisition of subsidiaries	**297**	429

The goodwill arising on the acquisition of these companies is attributable to the strategic business advantages acquired, principal retail locations and leases, as well as knowledgeable employees and management strategies that did not meet the criteria for recognition as other intangible assets on the date of acquisition.

BSG was acquired in the current year in order to gain greater exposure to the floor covering segment of the hardware and building supply market; supplement its current wholesale operations; and to gain access to existing distribution capability into Africa.

6. RESTATEMENT

6.1 Presentation of exchange differences on loans to foreign operations

During the year, the group identified an error in its presentation of exchange differences on translation of net investments in foreign African operations. Although nothing has changed in the net effect in the statement of changes in equity, IAS 21:32 requires that exchange differences arising from the translation of monetary receivables from foreign operations for which settlement is neither planned nor likely to occur are to be recognised in other comprehensive income instead of recognising it directly in the statement of changes in equity.

Exchange differences on translation of net investment in foreign African operations were previously included in other reserves in 2017 and have been presented separately in the foreign currency translation reserve, with restated comparatives presented. There has been no impact on equity as a result of this reclassification between reserves within equity on the statement of changes in equity.

6.2 Restatement of statement of changes in equity

In order to better reflect the equity of the group, the classification of total equity as at 30 September 2016 between the various reserve categories has been restated.

The group was formed as part of a common control transaction. This transaction was accounted for by applying predecessor accounting retrospectively. That is, the financial statements are reflected as though the group was always in existence. As Pepkor Holdings Limited was only formed on 1 July 2017, there were no shares in issue at 30 September 2016. The equity that was allocated to share capital, retained earnings and common control reserve have been moved to other reserves and only allocated to these respective reserves at the date of acquisition. The equity that was allocated to foreign currency translation reserve, share-based payment reserve and changes in non-controlling interest have been retained as they relate to the application of specific accounting standards to the companies within the group, which were in existence before the formation of Pepkor Holdings Limited.

6.3 Statement of cash flows

Certain cash flow comparative figures have been restated. These changes have no effect on cash generated from operating activities.

	Previously reported Audited Rm	Adjustment Audited Rm	Restated Audited Rm
Cash flow from operating activities			
Cash generated from operations	**6 464**	(188)	**6 276**
Increase in revolving credit and instalment sale receivable movement	**(188)**	188	**–**
Net cash flows from operating activities	**6 276**	–	**6 276**
Cash flow from investing activities			
Amounts received from related party loans and receivables	**–**	7 527	**7 527**
Net cash flows from investing activities	**–**	7 527	**7 527**
Cash flow from financing activities			
Amounts paid on related party payables	**293**	(7 527)	**(7 234)**
Net cash flows from financing activities	**293**	(7 527)	**(7 234)**

6.4 Previously undisclosed related parties with Pepkor Group Sourcing (legal name: Fully Sun China Limited (HK)); KAP Industrial Holdings Limited; and its subsidiaries, Shoprite Holdings Limited, Loadstone Brands Proprietary Limited and Tradehold Limited; and entities relating to previous members of key management have been disclosed. The transactions identified have all been in the ordinary course of business.

6.5 The group's liquidity risk and credit risk disclosures have been restated to reflect the nominal value of financial guarantees that existed in 2017.

PEPKOR
Holdings Limited

Corporate information

PEPKOR HOLDINGS LIMITED
('Pepkor' or 'the company' or 'the group')
(Previously Steinhoff Africa Retail Limited)
(Incorporated in Republic of South Africa)

EXECUTIVE DIRECTORS LM Lourens (Chief executive officer), RG Hanekom (Chief financial officer)

NON-EXECUTIVE DIRECTORS J Naidoo (Chairman), JB Cilliers†, PJ Dieperink (appointed 30 July 2018), LJ du Preez, PJ Erasmus (appointed 1 October 2018), MJ Harris• (appointed 30 July 2018), SH Müller•, F Petersen-Cook• (appointed 16 April 2018), DM van der Merwe, JD Wiese, HJ Sonn (Resigned 30 July 2018)

†Lead independent • Independent

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TRANSFER SECRETARIES Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196

COMPANY SECRETARY Pepkor Proprietary Limited (appointed 11 June 2018) | **AUDITORS** PricewaterhouseCoopers Inc. | **SPONSOR** PSG Capital Proprietary Limited

ANNOUNCEMENT DATE 26 November 2018

www.pepkor.co.za