PEPKOR

Holdings Limited

CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

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APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

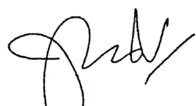
The preparation and presentation of the consolidated and separate annual financial statements, and all information included in this report, is the responsibility of the directors. The consolidated and separate annual financial statements were prepared in accordance with the provisions of the South African Companies Act, No. 71 of 2008, as amended (Companies Act) and comply with International Financial Reporting Standards (IFRS). In discharging their responsibilities, the directors rely on the internal controls and risk management procedures applied by management for both the integrity and fairness of these statements, and are satisfied that the controls and procedures are in operation.

Based on the information and explanations provided by management and the internal auditors, the directors are of the opinion that:

- the internal controls are adequate;
- the financial records may be relied upon in the preparation of the annual financial statements;
- appropriate accounting policies, supported by reasonable judgements and estimates, have been applied; and
- the annual financial statements fairly present the results and the financial position of the company and the group.

The annual financial statements are prepared on the going concern basis and nothing has come to the attention of the directors to indicate that the company and the group will not remain a going concern.

These annual financial statements as at 30 September 2019, which appear on pages 4 to 116, have been prepared under the supervision of the chief financial officer, Mr RG Hanekom CA(SA). The consolidated and separate financial statements have been audited by, PricewaterhouseCoopers Inc. in compliance with the Companies Act. The annual financial statements of the company and the group were approved by the board on 25 November 2019, and are signed on its behalf by:



J Naidoo
Non-executive chairman

LM Lourens
Chief executive officer

RG Hanekom
Chief financial officer

SECRETARY CERTIFICATION

[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

We certify, in accordance with section 88(2)(e) of the Companies Act, that the company has lodged with the Companies and Intellectual Properties Commission all such returns as are required for a public company in terms of the Act and that all such returns are true, correct and up to date.

Company secretary
25 November 2019
On behalf of Pepkor Proprietary Limited

REPORT OF THE DIRECTORS
[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

Nature of business

The group is a diversified retailer of significant size and scale operating across four segments. All the retail brands within the segments focus on discount, value and specialised goods and retail clothing, general merchandise, household goods, furniture, appliances, consumer electronics, building materials, cellular products and services and financial services in Angola, Botswana, eSwatini, Lesotho, Malawi, Mozambique, Namibia, Nigeria, South Africa, Uganda, Zambia and Zimbabwe.

The four operating segments include the following brands:

Clothing and general merchandise

This segment includes all clothing, footwear and homeware (CFH) retail brands.

- PEP
- PEP Africa
- Ackermans
- Pepkor Speciality, which includes Dunns, John Craig, Refinery, Shoe City and Tekkie Town
- Dealz

Other components included in this segment:

- Tenacity Financial Services supports certain CFH brands in terms of credit sales through store cards to customers.
- The Pepkor central office is fully allocated to the clothing and general merchandise segment, on the basis that it represents the dominant segment in the group, and corporate costs are not allocated to individual segments, notwithstanding that all segments enjoy support and services from the central corporate functions.

Furniture, appliances and electronics

This segment includes the JD Group brands, which provide value-conscious mass-market customers in southern Africa with the opportunity and the means to create a comfortable lifestyle, through its diversified retail businesses:

- Bradlows
- Russells
- Rochester
- Sleepmasters
- Incredible Connection
- HiFi Corporation
- Connect Financial Solutions provides credit through instalment sale receivables to the furniture, appliances and electronics brands. Pepkor commenced the funding of the South African credit book on 1 October 2018.

Building materials

This segment includes The Building Company (previously named SteinBuild) and comprises retail, wholesale and specialised divisions that serve the full spectrum of the construction industry, including the residential, commercial and industrial markets. Retail brands include BUCO, Timbercity and Chipbase. The wholesale division comprises MacNeil, Cachet, Brands 4 Africa and Citiwood. Specialist building material brands, servicing both the retail and wholesale market, include Buchel, W&B Hardware, Bildware, B-One, Tiletoria and Floors Direct.

FinTech

This segment includes businesses that are unique and do not support any Pepkor retail brand's performance. These businesses rather, to varying degrees, utilise certain parts of the Pepkor retail store footprint in terms of interaction with their respective consumer markets.

- FLASH is a technology-driven company committed to adding value to the lives of traders in the informal retail market. Using smart technology, traders are able to offer greater convenience to their customers, providing access to mobile data and airtime, prepaid electricity, money transfers and Lotto.
- Capfin SA provides unsecured credit to customers under the Capfin brand. Pepkor commenced funding the of the loan book on 20 March 2019.

Retail footprint

The group sells its products across a retail footprint consisting of 5 435 (2018: 5 236) stores and operates in Angola, Botswana, eSwatini, Lesotho, Malawi, Mozambique, Namibia, Nigeria, South Africa, Uganda, Zambia and Zimbabwe at 30 September 2019. This includes 20 stores from discontinued operations in Zimbabwe (2018: 39).

Financial review

The financial results are set out in the attached annual financial statements.

Completion of the forensic investigation at Steinhoff International Holdings N.V. (Steinhoff)

On 15 March 2019, Steinhoff released the findings of the forensic investigation conducted by PricewaterhouseCoopers Inc. that was launched following the identification of accounting irregularities at Steinhoff. The findings concluded that Pepkor was not involved in these accounting irregularities and its financial results for the 2017 and 2018 financial years were therefore not affected.

Disclosures were made in the 2018 annual financial statements pertaining to transactions with parties which were believed to have business relationships with Steinhoff and were disclosed under the heading affected parties. This was done in a prudent manner with the objective of enhancing transparency. Following the finalisation of the Steinhoff forensic investigation, it emerged that transactions with these parties do not require disclosure in terms of IFRS and therefore these disclosures are not included in the 2019 annual financial statements.

Share capital

The authorised and issued share capital of the company as at 30 September 2019 is set out in note 19 of the annual financial statements.

At the annual general meeting of shareholders held on 11 March 2019, shareholders resolved that 172.5 million (5% of issued share capital) of the company's authorised but unissued shares of no par value be placed under the control of the directors with a general authority to allot and issue shares for cash, subject to certain conditions outlined in the resolution. No shares were allotted or issued in terms of this resolution.

During the course of the year, 13.2 million shares rights were granted in terms of the Pepkor Executive Share Rights Scheme (Pepkor Scheme). Refer to note 24.

Corporate activity

Discontinued operations in Zimbabwe

A decision has been made to sell the group's operations in Zimbabwe. The decision was mainly driven by the increasing difficulty of trading in Zimbabwe as result of adverse macroeconomic conditions. Management is in final negotiations with the relevant parties to conclude the terms of sale. Refer to note 7.

Commencement of credit granting

On 1 October 2018, JD Group commenced with credit granting to its retail customers in South Africa via a subsidiary company named Connect Financial Solutions Proprietary Limited. Capfin SA Proprietary Limited commenced with unsecured credit granting on 20 March 2019. Details of these credit books are disclosed in note 15 and 16 under instalment sale receivables and loans to customers respectively.

Interest-bearing loans and borrowings

The group entered into bridge facilities to the value of R2.5 billion on 19 March 2019 for a maximum period of 18 months. The bridge facilities were introduced to fund the instalment sale receivables and loans to customers. As at 30 September 2019, only R1.5 billion of these facilities were drawn. The terms and conditions of the facilities are aligned with the current loans and external borrowings as disclosed in note 20.

As a result of the bridge facilities, the group's overall level of debt increased from R15.5 billion to R17.0 billion during the financial year under review. Refer to note 20.

Guarantee to Rand Merchant Bank (RMB) in relation to an investment company and impairment of loans due by current and previous members of key management and employees

The group, 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 converted to 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 was no longer considered to be remote. Accordingly, the group has increased the amount payable to R491 million (2018: R451 million). Refer to note 28.6.

In addition, the impairment of loans due by current and previous members of key management and employees increased to R100 million (2018: R60 million). Refer to note 13.

Progress relating to FGI acquisition (renamed Abacus Holdco Proprietary Limited (Abacus) in June 2019)

The Competition Commission approved the group's acquisition of Abacus on 27 February 2019, and the due diligence investigation was concluded on 15 July 2019. The group has applied to the Prudential Authority for certain approvals, which are still in progress.

Directors

The following changes in the directorate occurred during the year:

WYN Luhabe, an independent non-executive director was appointed on 1 January 2019;
PJ Erasmus, a non-executive director, resigned on 29 January 2019;
DM van der Merwe, a non-executive director, resigned on 28 May 2019;
TL de Klerk, a non-executive director, was appointed on 29 May 2019; and
PJ Dieperink, a non-executive director, resigned on 1 September 2019.

Particulars of the present directors are provided in note 29.3 of the annual financial statements. None of the directors have long-term services contracts with the company or any of its controlled entities.

Directors' shareholding

Directors` shareholding was 302 518 994 (2018: 302 518 994) shares. From 1 October 2019 to the date of approval of the company's consolidated financial statements, there were no dealings by directors in the company's ordinary shares.

Details of individual direct and indirect holdings are disclosed in note 29.4.

Events subsequent to the reporting date

The board is not aware of any other significant events after the reporting date that will have a material effect on the group's results or financial position as presented in these financial statements.

Distribution to ordinary shareholders

The board has elected to declare a scrip dividend to shareholders in respect of the year ended 30 September 2019, with a cash alternative of 20.9 cents (27.8 cents in the prior year). The dividend will be payable to the holders of ordinary shares in the share capital of the company and recorded in the securities register of the company on 24 January 2020. Shareholders will be entitled to elect to receive a gross cash dividend of 20.9 cents per share held in respect of all or part of their ordinary shareholding, instead of the scrip dividend (cash dividend), payable out of the company's distributable retained profits. The finalisation of information, including the ratio applicable to the scrip dividend is expected to be released on SENS on or about Tuesday, 14 January 2020. A circular setting out the terms and salient dates of the scrip dividend and cash dividend alternative will be published separately in due course. The last date to trade in order to be eligible to receive the dividend will be 21 January 2020, and the ex-dividend date will be 22 January 2020. The dividend will be paid and broker accounts updated, as the case may be, on 27 January 2020. Pepkor's two largest shareholders, representing 79.8% of the group's issued share capital, have committed to receive the scrip dividend.

Going concern

The directors have reviewed the group's budget and cash flow forecast for the year. On the basis of this review, and after considering the current financial position and existing borrowing facilities, the directors are satisfied that the group is a going concern and have continued to adopt the going concern basis in preparing the annual financial statements.

Litigation report

The directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened that may have or had in the recent past, being at least the previous 12 months, a material effect on the group's financial results. Details of the earn-out dispute with previous Tekkie Town management is set out in note 27.5.

Corporate governance

The group complies with the Listings Requirements of the JSE and in all material respects with the Code of Corporate Practice and Conduct published in the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™)*.

Auditor

The group's auditor, PricewaterhouseCoopers Inc., will continue in office in accordance with section 90(6) of the Companies Act.

Secretary

Pepkor Proprietary Limited acts as secretary to the company.

Closing

The group achieved respectable results for the 2019 financial year in a challenging and volatile trading environment. The group's defensive discount and value market positioning, disciplined focus on customer needs and low cost of doing business proved resilient in tough operating conditions as evidenced through continued market share gains in most of the retail brands. The Pepkor board and management wish to thank their stakeholders for their continued support.

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Holdings Limited

AUDIT COMMITTEE REPORT
[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

Introduction

The audit and risk committee (the audit committee or the committee) is established as a statutory committee in terms of section 94(2) of the Companies Act, and oversees audit and risk matters for the group, as permitted by section 94(2)(a) of the Act.

The audit committee's operation is guided by formal detailed Terms of Reference (ToR) that are in line with the Companies Act, the JSE Listings Requirements and the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™) and have been approved by the board. During the year under review, the committee has discharged its responsibilities as required by the ToR.

The committee is pleased to present its report for the financial year ended 30 September 2019.

Membership

The audit committee consists of three (3) members who all are independent non-executive directors of the company and are as follows:

Director	Designation	Date appointed	Qualifications
JB Cilliers	Chairman	2018 AGM	BAcc (Cum laude), BAcc Hons, CA(SA)
SH Müller	Member	2018 AGM	BAcc, BAcc (Hons), CA(SA), Sanlam EDP, IoD
F Petersen-Cook	Member	16 April 2018	BBusSc (Act.Sc.), FIA, FASSA, PGDip (MgtPrac), IoD (Cert.Dir.)

The nomination committee and the board are satisfied that these members have the required knowledge and experience as set out in section 94(5) of the Companies Act and regulation 42 of the Companies Regulations, 2011. The appointment of committee members will be a matter for consideration by shareholders at the forthcoming annual general meeting (AGM).

The chief executive officer (CEO), chief financial officer (CFO), internal and external auditors, specialist members of the group finance function, the financial directors of the main group businesses, and specialists contributing to combined assurance attended the audit committee meetings by invitation. In addition, the CFO of the controlling shareholder also attended the meetings by invitation. The company secretary of the group acted as the secretary to this committee.

Meetings of the audit committee

The committee performs the duties required of it by section 94(7) of the Companies Act by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditor. Audit committee meetings are required to be held at least twice a year in terms of the ToR. During the year under review, until 30 September 2019, the committee held four (4) regular full-agenda meetings, i.e. meetings comprising an agenda covering the full mandate of the audit committee. After financial year-end, the committee held a further regular full-agenda meeting on 19 November 2019. In addition, the audit committee held several special purpose meetings to review and approve profit announcements and the annual financial statements.

All meetings of the audit committee since 1 October 2018, as outlined above, were attended by all members of the committee.

Responsibilities of the audit committee

The audit committee has the following specific responsibilities, which must be undertaken in compliance with all applicable legislation, regulations and accounting practices, as amended/introduced from time to time, and to ensure the application by the committee of the relevant principles of King IV™:

1. **Oversee integrated reporting,** and in particular:
   - have regard to all known factors and risks that may impact the integrity of the integrated report;
   - review the annual financial statements, interim reports, preliminary or provisional results announcements, summarised integrated information and prospectuses, trading statements and similar documents;
   - review the principles, policies and practices adopted in the preparation of the financial statements of the group and ensure that the financial statements of the group and any other formal announcements relating to the financial performance comply with all statutory and regulatory requirements as may be required;
   - review the effectiveness of the internal financial controls; and
   - in cooperation with the group social and ethics committee, oversee the disclosure of sustainability issues in the integrated report to ensure that it does not conflict with the financial information.
2. Ensure that a **combined assurance model** is applied to provide a coordinated approach to all assurance activities and, in particular, to ensure that the combined assurance received is appropriate to address all the significant risks facing the group. The committee shall also monitor the relationship between the external assurance providers and the group.
3. Review the expertise, resources and experience of the company's **finance function**, and satisfy itself annually as to the suitability of the expertise and experience of the **CFO**.
4. Monitor and review the effectiveness of the **internal audit function** and, in particular, review and approve the annual internal audit plan, ensure that the internal audit function is subject to an independent quality review, as and when appropriate, and obtain assurance as to whether the internal audit function has adequate resources, skills and qualifications and appropriate access to information to enable it to perform its function effectively.
5. **Oversee risk management**, and in particular:
   - consider financial reporting risks, internal financial controls, fraud risks as they relate to financial reporting, IT risks as they relate to financial reporting, general IT risk, and the risk of cybercrime;
   - oversee the development and regular review of a policy and plan for risk management and recommend the same to the board for approval, monitor implementation of the policy and plan by means of risk management systems and processes;
   - review the group's arrangements for its employees to raise concerns confidentially, about possible wrongdoing in financial or other matters and receive reports on the investigation of such matters and the appropriate follow-up action; and

- ensure that risk management assessments are performed on a continuous basis, that management continuously monitors risk and implements appropriate risk responses.

6. **External audit review**, and in particular:
   - assess the suitability of the audit firm and designated individual partner both when they are appointed for the first time and annually thereafter for every reappointment;
   - consider and make recommendations to the board, to be presented to the shareholders for approval at the AGMs of the company, in relation to the appointment, reappointment and removal of the company's independent external registered auditor in compliance with the provisions of the Companies Act;
   - review and approve the terms of engagement and audit plan and approve the remuneration for the external audit;
   - meet with the external auditor and review the findings of the audit, including but not limited to any major issues that arose during the audit, disagreements between management and the auditor, accounting and audit judgements and the level of errors identified during the audit;
   - verify and report on the independence of the external auditor in the annual financial statements;
   - establish and implement a policy for non-audit services provided by the external auditor and determine the level of non-audit services provided by the external auditor that will require pre-approval by the committee; and
   - ensure that there is a process for the committee to be informed of any reportable irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor.
7. To **perform duties** that are attributed to it by its mandate from the board, the Companies Act, the JSE Limited and regulatory requirements, and such other **oversight functions** as may be determined by the board.

Overview of activities of the audit committee

During the year under review, the committee's general activities included the following:

- received and reviewed a quarterly business performance review report presented by the CFO, assessed group and divisional operating performances, key financial indicators pertaining to underlying drivers and considered indications of unmitigated business risk;
- considered the effectiveness of internal audit, approved the three-year internal audit plan and monitored the adherence of internal audit to its annual plan. In addition, the committee also oversaw the performance of an independent quality assurance review on the group internal audit function and approved the group's internal audit charter;
- received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes;
- reviewed the reports of both internal and external auditors detailing their concerns arising out of their audits and requested appropriate responses from management to ensure that their concerns were addressed;
- considered the independence and objectivity of the external auditor and ensured that the scope of any additional services provided was not such that they could be seen to have impaired their independence;
- held meetings with the internal and external auditors where management was not present, evaluated and discussed matters of concern that were raised, and took appropriate actions;
- received briefings on new IFRS that come into effect in FY19 (IFRS 9 and 15) and FY20 (IFRS 16), reviewed the effect on the accounting policies of the group's adoption of the new IFRS, as well as the impact on the 2019 and 2020 financial results and resulting additional disclosures required;
- reviewed the governance of group information and communication technology, including an IT risk assessment on data and email retention practices, business continuity and cybersecurity;
- adopted a policy and plan for the group risk management function, including a statement on the group's risk appetite and tolerance levels;
- reviewed amendments to the board's approval framework, which forms the foundation for the delegation of authority by the board to the executive, and simultaneously encodes the necessary limitations on the authority of the executive and made recommendations to the board in this regard;
- reviewed the group's dividend policy and made recommendations to the board in this regard; and
- reviewed and recommended for adoption by the board, such financial information that is publicly disclosed, which included the interim reports and consolidated financial statements for the year ended 30 September 2019.

In the sections that follow, more information is provided on the specific areas of responsibility of the committee.

Reporting

Matters and risk areas pertaining to the 2019 consolidated annual financial statements

With reference to the group's results for the current financial year, the committee, paid specific attention to the matters highlighted below:

- Goodwill and indefinite life intangible asset impairment assessments of all operating segments, and the headroom estimated for each segment, which resulted in the impairment of the goodwill and other intangible assets of The Building Company, as disclosed in the annual financial statements.
- The IFRS 9-based expected credit loss models and impairment methodologies developed and adopted by management, and the resultant provisioning on instalment sales, credit sales through store cards and loans to customer books, as disclosed in the annual financial statements.
- Revisions to income recognition as required by IFRS 15, and the resultant restatement of results required.
- Impact assessment of the new IFRS 16: *Leases*, which is disclosed in the accompanying annual financial statements, and will be applied in the coming financial year.
- Provision for slow-moving and obsolete stock, as well as ongoing levels of shrinkage experienced in the various retail chains.
- The exposure to and adequacy of provisions for the corporate financial guarantee, and loans provided in previous years to current and previous members of key management and employees.
- The scope and extent of other general and specific provisions recognised.
- Provision for taxation, including deferred taxation, the factors impacting the effective rate of taxation, and remedial measures possible within the scope of taxation regulations of the countries within which the group is doing business, which may improve the effective rate.
- Considered transactions for related-party disclosure.

The committee, in forming a view of the specific matters highlighted, considered the opinion of the external auditor and management on all these matters. No differences of opinion were noted by the committee.

The committee accordingly considers the group's accounting policies, accounting practices and financial disclosures, as amended, to be appropriate.

Internal controls

Internal controls and systems have been designed to provide reasonable assurance as to the integrity and reliability of the financial information presented in the financial statements, and to safeguard, verify and maintain the assets of the group.

The systems of internal control are based on established organisational structures, together with written policies and procedures, and provide for suitably qualified employees, segregation of duties, clearly defined lines of authority and accountability. They also include cost and budgeting controls, and comprehensive management reporting.

Nothing has come to the attention of the committee to indicate that any material breakdown in the functioning of the group's key internal control systems has occurred during the year under review.

Combined assurance model

The committee oversees that the assurance arrangements in place are effective. The combined assurance model comprises management, the internal audit function, external audit services and other specialists contributing to combined assurance. The committee is satisfied that these arrangements are effective in providing a robust control environment that enables the provision of reliable information for decision-making purposes.

Evaluation of the finance function

As required by JSE Listings Requirement 3.84(g)(i) as well as the recommended practices of King IV™, the committee has formally assessed the competence and performance of the CFO and believes that he possesses the appropriate expertise and experience to fulfil his responsibilities.

The manpower, roles and responsibilities, qualifications and experience of senior members of the group finance function, including the financial directors of the main group businesses, were also considered. Based on this assessment, the audit committee is satisfied with the expertise and adequacy of resources within the finance function and the experience of financial staff in this function.

The committee believes the group has appropriate financial reporting procedures and is satisfied that these procedures are operating adequately.

Internal audit

The group's internal audit function operates in terms of an internal audit charter (approved by the committee during the year), under the direction of the committee, which approves the scope of the work to be performed. The activities of internal audit are measured against that approved scope, and an approved annual internal audit plan. The head of internal audit submits a progress report in this regard at each meeting.

Internal audit is independent of all other organisational functions and reports functionally to the committee and administratively to the CFO. Internal audit has direct access to the committee, primarily through the chairman, as well as free and unrestricted access to all areas within the group.

The internal audit function comprises 32 suitably qualified and experienced associates, under the direction of the group chief audit executive. The diversity of skills and experience within internal audit has enabled extensive and appropriate coverage of significant and strategy-relevant business systems, processes, functions and activities across the group, including all aspects of information technology (IT).

The group internal audit function adopts a risk-based audit approach and is responsible for providing assurance and consulting services on the adequacy of the internal control environment across all the operating and support divisions of the group. The internal audit scope covers the significant financial, operational and IT areas of each operating division and group support function. The internal audit plan has been formed by the group strategies, risk registers, comprehensive risk assessment, compliance requirements and input from management, the audit committee and external audit.

The efforts of internal audit are aligned with those of the external auditor in order to integrate assurance activities for the group. Internal audit regularly interacts with the external auditor on matters such as sharing audit plans, working papers and reports.

Significant findings are reported to both executive management and the committee, and corrective action is taken to address identified internal control deficiencies. Internal audit follows up on any significant audit findings to assess implementation of such agreed corrective actions.

During the past financial year, internal audit covered key business processes, focusing on known or anticipated areas of business risk. In addition, internal audit completed a number of special projects and consulting engagements, including reviews of new computer systems, internal controls consulting on major business initiatives, operational risk management benchmarking in the group, and disaster recovery processes in IT. Internal audit also assisted the business with the development of data analytic tools to manage operational and financial risks.

The results of the reviews performed indicated that governance and internal control systems and processes were generally adequate and reliable across the group, subject to defined risk tolerance levels. No material instance of control breakdown was identified.

The internal audit function underwent an independent quality assessment review (QAR) during the year. The QAR primarily covers compliance with the Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics, as well as organisational positioning and independence, skills and proficiency, nature and quality of work and the ability of internal audit to meet the board's and management's expectations.

Based on a comprehensive assessment exercise, the independent external reviewer's opinion was that there is general conformance to the IIA Standards and Code of Ethics, the highest applicable rating.

The reviewer concluded that 'the internal audit function is well regarded by management and is seen as a critical function, rather than a compliance requirement. Stakeholders noted that, due to the extensive knowledge of the business and internal audit's attitude to drive business improvement, the function really adds value to the group's governance, risk and control environments. This was also indicated by the number of ad hoc audits and special requests that internal audit received from management. The management team are supportive of internal audit and this creates an environment that enables internal audit to function effectively to assist in improving the control environment throughout the Pepkor businesses.

The committee is satisfied with the effectiveness and performance of the internal auditors and compliance with their mandate.

The committee is further of the view that the internal auditors have the necessary resources, budget, standing and authority to enable them to effectively fulfil their functions.

Internal audit reported that there were no undue scope limitations or impairments to its independence.

Risk management

The committee is also responsible for overseeing risk management in the group. This function includes regular review of:

- the group risk analysis and major business and operational risks reported, including actions to mitigate those risks, and opportunities inherent to such risks (reported upon in more detail below);
- insurance strategy, adequacy and cost of insurance cover, claims experience, material legal claims against and by the group, and potential exposure based on advice of the group's legal counsel, and taken into account in the assessment of provisions raised;
- reported occurrences of fraud, the impact and frequency of which was not assessed as abnormal. The reported cases were limited to the store environment, and no material fraud was brought to the attention of the committee, nor are the overall amounts reported viewed as material or significant;
- regulatory compliance (reported upon in more detail below);
- reporting from the ethics hotline, compiled by the head of internal audit, which the committee monitored for trends at each meeting; and
- IT governance and risk management (reported upon in more detail below).

Although the risk management framework is newly established, the risk management processes are adequate to mitigate key risks and to support the achievement of the group's strategic goals. Risk management continues to improve as the principles and practices of enterprise risk management are embedded in decision-making across the group.

The audit committee has formally defined its risk appetite, which is reviewed annually. The risk appetite was defined after considering the group strategy, stakeholder expectations and the risk profile. The group encourages entrepreneurial behaviour but assesses risk carefully. There were no material deviations from the group's risk appetite in the year.

Combined assurance is in the early implementation stage and management has identified initiatives to progress these areas over the next two years. The continued improvement on governance, risk and compliance practices are supported by a risk management specialist that provides independent assurance to the committee on the effectiveness of the group risk management processes as an additional assurance provider.

More detail is provided on selected sections of the scope of risk management below.

Group risk profile

Uncertainties affecting the long-term sustainability of the group have been highlighted and reviewed by the audit committee. In determining which key uncertainties are material risks and opportunities for the group, risks that substantively affect, or have the potential to substantively affect, the group's strategy, business model or available resources and ultimately its ability to affect value over time, are considered key uncertainties for the group. Material risks are evaluated against the industry and global landscape to ensure that relevant emerging and current risks are considered.

Risks vary from one operating segment to another. However, the key uncertainties affecting operations include the deteriorating economic conditions in South Africa and Africa, business disruption and interruption, access to capital, currency volatility, loss of retail expertise, non-compliance with local and foreign legislation and the associated cost of compliance (and non-compliance).

Regulatory compliance

The group legal and compliance function is responsible for the day-to-day management of regulatory compliance, including coordinating the identification and management of compliance risk and identifying and assessing compliance obligations, including legislative updates and reporting. Each business manages its own specific regulatory compliance risk, with oversight and support from group legal and compliance as a second line of defence. Reporting from the various business units on litigation and compliance takes place on at least a quarterly basis. This is reported to the audit committee as well as the board.

The group's compliance officer provides the committee with a regular written report as substantive compliance assurance. For the year under review, the regulatory compliance universe for the group has remained stable. Other than what is disclosed in the corporate governance report, there have been no material fines or penalties as a result of statutory or regulatory contraventions. Businesses across the group continue to resolve consumer complaints adequately, and where complaints are received from regulators and industry ombudsmen, it is dealt with in a timely manner and with acceptable outcomes.

New regulatory developments are monitored by the group compliance function and presented for discussion and awareness at regular meetings with representation from all the businesses. This includes regulatory developments in countries beside South Africa.

IT governance and IT risk management

- IT governance in the group is premised on decentralised operating companies (OPCOs) being responsible for decisions relating to IT within an agreed strategic framework, supported at group level through enablement and support, the building of capacity where required, and facilitation of initiatives where possible.

- OPCO's strategic IT projects and change portfolios are managed through IT steering committees in each business in cooperation with each OPCO's exco. Strategic alignment and prioritisation within each OPCO portfolio is achieved through these steering committees.
- IT risks are managed by each OPCO through continuous risk assessment and monitoring, and risk registers are updated quarterly.
- Pepkor IT, a business unit within the Group Services division, is an enabler of business, providing IT services through a shared services model. Pepkor IT currently manages the IT functions on behalf of the clothing and general merchandise segment of the group only. The furniture, appliances and electronics, building materials and FinTech segments have their own integrated IT functions serving their respective OPCOs.
- The focus and activities of the audit committee include regular review of the following:
  - IT governance and its effectiveness across the group;
  - material risks and mitigation plans associated with IT systems;
  - cybersecurity and potential vulnerabilities posing a material threat to the group; and
  - major IT projects and associated risks.

External audit

Audit fees
The committee, in consultation with executive management, has agreed to the audit fee for the 2019 financial year. The fee is considered appropriate for the work that could reasonably have been foreseen at that time. A breakdown of the audit, audit-related and non-audit fees for the 2018/2019 financial year is summarised as follows:

Description of service

	R'000
Audit services and other assurance related services	**35 505**
Non-audit services	**4 156**
Total audit and non-audit services	**39 661**

Non-audit services policy
There is a formal policy governing approval of non-audit services provided by the appointed external auditor. The policy outlines the procedure that governs the process whereby the external auditor is considered for the provision of non-audit services, and each engagement for such work is reviewed in accordance with this policy and approval procedures.

The non-audit services policy adopted clearly defines prohibited non-audit services, non-audit services permitted under general pre-approval, and non-audit services permissible only under specific pre-approval.

The committee is satisfied that the non-audit services provided by the external auditor are at a level that has not compromised their independence.

Effectiveness and quality of the external audit process
The committee assesses the effectiveness and quality of the external audit process by considering, among others:

- the extent and focus of the external audit plan submitted and discussed by the auditor;
- assessment of key audit matters disclosed by the external auditor in the external audit plan submitted to the committee;
- the nature of the aspects reported on to the audit committee by the auditor;
- the quality of the discussions with the external auditor regarding audit, accounting and reporting matters at audit committee meetings; and
- ongoing progress towards the completion of the audit.

The external auditor was given the opportunity to engage at each meeting with the audit committee members without management being present, if deemed necessary. Matters of concern were debated, and appropriate measures and actions agreed on. In addition, via the committee chairman, several private ad hoc meetings were held with the auditors to keep abreast of audit progress, matters of sensitivity, and matters under specific investigation, as agreed with and/or specifically requested.

The committee can report that it is satisfied with the effectiveness and quality of the external audit.

Independence of the external auditor
The committee has to satisfy itself that PwC, the auditor of the group, is independent as defined by the Companies Act. This was assessed through, inter alia, consideration of:

- the composition of the auditor's total fees and remuneration earned from the group from its appointment;
- the quantum and nature of non-audit services performed;
- the existence of an audit partner rotation process;
- the auditor's confirmation that they remain independent as required by section 94(8) of the Act and the relevant provision in the JSE Listings Requirements; and
- the existence of any relationships between the auditor and the group that may impede the auditor's independence.

Based on the above assessment, the committee is satisfied that PwC is independent of the group.

Recommendation on appointment for 2020 financial year
The audit committee has satisfied itself that PwC and the designated audit partner remain accredited by the JSE for 2020. The committee is also satisfied with the last inspection findings of the IRBA as presented by PwC.

AUDIT COMMITTEE REPORT
[FOR THE YEAR ENDED 30 SEPTEMBER 2019] CONTINUED

The committee has further established that no reportable irregularities (as identified in the Auditing Profession Act, 2005) have been identified and reported by the external auditor.

On the basis of the assessment of independence, the assessment of the effectiveness and quality of the external audit process, and the assurances obtained on qualification for appointment, the committee recommends to the board and shareholders that PwC be reappointed as the independent external auditor, and that, in terms of the regulations and policies governing rotation of designated auditor, Mr Dawid de Jager be appointed as the designated auditor for the 2020 financial year.

Going concern
The audit committee has reviewed a documented assessment, including key assumptions, prepared by the financial function on the going concern status of the group. The board's statement on the going concern status of the group, as supported by the audit committee, is contained in the directors' report.

Financial statements
The audit committee has evaluated the consolidated financial statements for the year ended 30 September 2019, and considers that they comply, in all material aspects, with the requirements of the Companies Act and IFRS. The committee has therefore recommended the financial statements for approval to the board. The board has subsequently approved the financial statements, which will be open for discussion at the forthcoming AGM.

Functioning of the audit and risk committee
The committee has performed a self-evaluation in order to assess the efficiency of its operations. Overall the committee is satisfied that it has discharged its duties efficiently and that it has functioned in accordance with its ToR for FY19.

All members of the audit committee meet the independence requirements.

Recognition
To conclude, I wish to express my gratitude to the other members of the audit committee for their invaluable input, advice and support. My thanks also to the CFO, all Pepkor finance function staff, the financial directors of the main group businesses, our internal and external auditors, and all other contributors to the combined assurance process, for enabling the committee to fulfil its mandate.

JB Cilliers
Audit and risk committee chairman
25 November 2019

PEPKOR
Holdings Limited

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED
[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

Report on the audit of the consolidated and separate financial statements

Our opinion
In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Pepkor Holdings Limited (the company) and its subsidiaries (together the group) as at 30 September 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with IFRS and the requirements of the Companies Act.

What we have audited
Pepkor Holdings Limited's consolidated and separate financial statements set out on pages 19 to 116 comprise:

- the consolidated statement of financial position and separate statement of financial position as at 30 September 2019;
- the consolidated income statement and the separate income statement for the year then ended;
- the consolidated statement of comprehensive income and separate statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity and separate statement of changes in equity for the year then ended;
- the consolidated statement of cash flows and separate statement of cash flows for the year then ended;
- the summary of accounting policies;
- the significant judgements and estimates;
- the notes to the consolidated annual financial statements; and
- the notes to the separate financial statements.

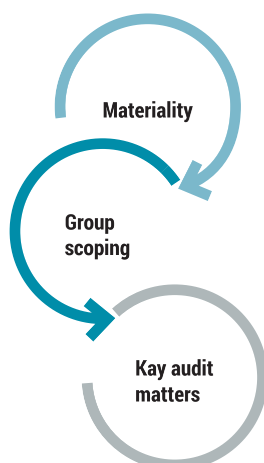
Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

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

Independence
We are independent of the group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview



Overall group materiality

- Overall group materiality: R260 100 000, which represents 5% of profit before tax adjusted for significant one-time impairment charges.

Group audit scope

- The group audit scope has been tailored based on indicators such as the contribution to consolidated revenue and consolidated profit before tax from each component. A combination of full scope audits, analytical review procedures and specified audit procedures was performed at the various components of the group.

Key audit matters

- Goodwill and indefinite life intangible asset impairment assessments
- Expected credit losses on financial assets
- Taxation – provision for tax positions
- Provision for shrinkage, obsolescence and markdown of inventories

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R260 100 000
How we determined it	5% of adjusted profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users and is a generally accepted benchmark. Profit before taxation was adjusted to exclude the impact of one-time impairment charges as disclosed in note 4.1 (***Capital items, From continuing operations, Impairment***) to the financial statements. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Our scoping assessment included consideration of the financial significance of the group's components as well as the sufficiency of work planned to be performed over material financial statement line items. We identified two financially significant components in the group, namely PEP and Ackermans, both divisions of Pepkor Trading Proprietary Limited. We performed full scope audits for these components. Based on indicators such as the contribution to consolidated revenue and consolidated profit before tax, we also included several other components in the scope of our group audit. For these components, we performed a combination of audit of balances and/or classes of transactions, analytical review procedures and specified audit procedures. The remainder of the components were insignificant to the group, individually and in aggregate.

The above, together with additional procedures performed at the group level including substantive procedures over the consolidation process, gave us sufficient and appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.

In establishing the overall approach to the group audit, we determined the extent of the work that needed to be performed by us, as the group engagement team and by component auditors from other PwC network firms operating under our instruction, in order to issue our audit opinion on the consolidated financial statements of the group. Where the work was performed by component auditors, we determined the level of involvement necessary in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the group financial statements as a whole.

Detailed group audit instructions were communicated to all components in scope and the group engagement team has been involved in determining the audit approaches adopted in relation to significant risk areas by the component teams. Throughout the audit, various discussions were held with the teams of the components and we inspected component auditors' working papers relating to areas of significant risks in the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

Consolidated financial statements:

Key audit matter	How our audit addressed the key audit matter
Goodwill and indefinite life intangible asset impairment assessments The group's net assets include a significant amount of goodwill amounting to R41.9 billion and trade and brand names amounting to R17.7 billion classified as indefinite life intangible assets allocated to groups of cash generating units (CGUs) as disclosed in note 9 (Goodwill) and note 10 (Intangible assets) in the consolidated financial statements, respectively. Management performs annual impairment tests to assess the recoverability of the carrying value of goodwill and indefinite life intangible assets. The recoverable amount of the CGUs to which goodwill has been allocated is based on value in use calculations, determined using discounted cash flow models. Based on their impairment assessments and calculations, management recognised impairment losses of R672 million against goodwill and R547 million against indefinite life intangible assets, relating to the building materials groups of CGUs. No further impairment losses were recognised to goodwill and indefinite life intangible assets in relation to any other CGUs. We considered this area to be a matter of most significance to our current year audit due to the following: • the magnitude of the related goodwill and indefinite life intangible asset balances; and • the significant judgement and key assumptions applied by management in performing the impairment assessments, which included the discount rate, long-term growth rate, medium-term revenue growth rate and future cash flows.	Our audit procedures included, among others, testing of the principles, integrity and mathematical accuracy of the group's discounted cash flow models. The detail of these audit procedures has been listed below. • We utilised our valuation expertise to test the principles of management's calculation for each model. We challenged key inputs in the calculations, which included the discount rate, long-term growth rate, medium-term revenue growth rate and future cash flow assumptions by comparing them to approved business plans and independent market data. We noted no material differences and found the key inputs applied by management to be reasonable. • In assessing management's forecasts, we considered the historical accuracy of the underlying businesses' forecasts by comparing the actual results for the year with the original forecasts. We noted only insignificant variances, for which management could provide appropriate explanations, and we corroborated these. • We performed independent sensitivity calculations on the impairment assessments where no impairments were recognised, to determine the degree by which the key assumptions needed to change in order to trigger an impairment. The results of our sensitivity analyses were consistent with management's conclusions.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on financial assets The group adopted International Financial Reporting Standard 9 – *Financial Instruments* (IFRS 9) for the first time in the current financial year. The group adopted IFRS 9 using the modified-retrospective approach with an adjustment for Expected Credit Losses (ECL) to opening retained earnings. The comparative financial statements were not restated, as permitted by IFRS 9 (refer to note 34.1.3, *Changes in accounting policies, Effect of adopting IFRS 9: Financial instruments*). On a forward-looking basis, the group assesses the ECL associated with all financial assets measured at amortised cost and recognises an allowance for ECL on these financial assets. Refer to note 34.1.2 (*Changes in accounting policies, Impairment of financial assets under the new impairment model*) of the financial statements where the types of financial assets impacted and the ECL impairment models have been disclosed. The key audit matter relates to the ECL raised on the following financial assets: • Loans to customers through the provision of unsecured short-term loans from the group's Capfin business; • Instalment sale receivables through financing options within the furniture, electronics and appliances segment; and • Receivables relating to credit sales through store cards at Ackermans and Pepkor Speciality. Refer to the accounting policies note on *impairments of financial assets* and note 28.5 (*Financial instruments, credit risk*) for detail. Management used the general approach in determining the ECL relating to loans to customers, instalment sale receivables and receivables relating to credit sales through store cards. Under this approach the group assesses at the end of each reporting period whether there has been a significant increase in credit risk (SICR) since initial recognition. Where there has been an SICR, the group recognised an allowance for ECL resulting from all possible default events over the expected life of the financial asset. Refer to the significant judgements and estimates note on *Impairment of financial assets* for detail. The measurement of the ECL under this approach reflects a probability-weighted outcome, the time value of money and the best forward-looking information available to the group. This incorporates the probability of default (PD), exposure at default (EAD), timing of when default is likely to occur, and the loss given default (LGD). We determined the ECL on the specific financial assets referred to above to be a matter of most significance to our current year audit due to the following: • the first-time adoption of IFRS 9 by the group; • the magnitude of the ECL provided as at 30 September 2019; and • the degree of judgement and estimation applied by management in determining the ECL being determination of significant increase in credit risk, the loan write-off point, use of forward-looking information and event-driven credit estimates.	Our audit procedures included, inter alia, the following: • With the assistance of our accounting specialists, we assessed whether the model methodology and application of the methodology are in line with the requirements of IFRS 9. We found that the principles and methodology applied in the models are consistent with the requirements of IFRS 9; and • We utilised our actuarial expertise to assess the reasonability of the key judgements and estimates, i.e. determination of significant increase in credit risk, the loan write-off point, use of forward-looking information and event-driven credit estimates applied in the ECL calculations by evaluating management's estimates to actual results or independent market data where applicable; and to test the appropriateness and accuracy of the methodology applied by management in their calculations of the ECL. No material differences were noted.

Key audit matter	How our audit addressed the key audit matter
Taxation – provision for tax positions The group operates across numerous jurisdictions that have differing tax legislation. Determining the amounts that should be recognised for tax is subject to management's judgement, including consideration of regulations by various tax authorities. Tax positions are provided for based on the most probable outcome method. Determining the provision amount that should be recognised for uncertain tax positions for the group was considered to be a matter of most significance to our current year audit due to the significant judgement applied by management in the application of existing tax laws in each jurisdiction and in accordance with relevant tax regulations. For further information, refer to note 22 (*Provisions*), Current income tax liabilities balance in the statement of financial position and note 27.5 (*Commitments and Contingencies, Contingent liabilities*) of the consolidated financial statements.	With the assistance of our tax specialists, we performed the following procedures: • We challenged management's judgement of the most probable outcome by considering alternative views and probability factors in terms of assessing tax risks, legislative developments, tax regulations, contingencies and the provision thereof; and • We performed sensitivity analyses around the key assumptions used in assessing the most probable outcome and the calculation of the tax provision. • We found the group's overall tax provision to be within an acceptable independently determined range, taking into account the significant judgement applied by management in determining these provisions.
Provision for shrinkage, obsolescence and markdown of inventories As at the financial year-end, the group held R13.8 billion of inventories that is net of a provision of R536 million for inventory that will be sold below cost price, shrinkage and obsolescence. Refer to the accounting policies note on inventories; Significant judgements and estimates note on *Provision for inventory shrinkage, obsolescence and markdowns;* and note 17 (*Inventories*) in the consolidated financial statements for detail. Management recognises inventories at the lower of cost and net realisable value. The inventory provision considers management's expectations of inventory on hand that will be sold below cost or not sold at all. We considered the provisions for shrinkage, obsolescence and markdown of inventories to be a matter of most significance to the current year audit due to the significant judgement applied by management in determining the extent to which merchandise on hand at the reporting date will be sold below cost.	Our procedures included, among others, the following: • We considered the relevance of historical data with respect to prior year inventory sold below cost, inventory aging profiles, outcomes of inventory counts, as well as different market factors impacting the sale of specific product lines; • We evaluated the provision for obsolete and slow-moving inventory by comparing this to historical data trends of inventory sold below cost price and noted no material variances; and • We tested the historical information of sales below cost applied and independently recalculated against the current balances of merchandise on hand at the reporting date to calculate the provision and found no material differences.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled 'Pepkor Holdings Limited Consolidated and Separate annual financial statements for the year ended 30 September 2019', which includes the report of the directors, the audit committee report and the secretary certification as required by the Companies Act, which we obtained prior to the date of this auditor's report, and the other sections of the document titled 'Pepkor Holdings Limited Integrated report 2019', which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

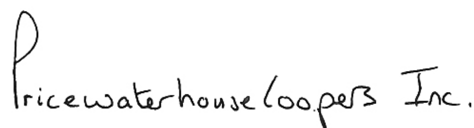
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Pepkor Holdings Limited for two years.



PricewaterhouseCoopers Inc.
Director: JA Hugo
Registered auditor
Cape Town
25 November 2019

Consolidated income statement

	Notes	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Restated[1] Rm
Revenue	2	**69 634**	63 912
Cost of sales		**(45 639)**	(41 815)
Gross profit		**23 995**	22 097
Operating income	3.9	**960**	938
Operating expenses	3	**(17 021)**	(16 853)
Debtors' costs[2]	3.7	**(1 137)**	(302)
Capital items	4	**(1 278)**	(37)
Operating profit	3	**5 519**	5 843
Finance costs	5	**(1 779)**	(1 410)
Finance income	5	**198**	242
Profit before taxation		**3 938**	4 675
Taxation	6	**(1 707)**	(1 791)
Profit from continuing operations		**2 231**	2 884
(Loss)/profit from discontinued operations	7	**(70)**	11
Profit for the year		**2 161**	2 895
Profit attributable to:			
Owners of the parent		**2 160**	2 885
Non-controlling interests		**1**	10
Profit for the year		**2 161**	2 895
Earnings per share (cents)			
Basic from continuing operations	8	**64.6**	83.3
Basic from discontinued operations	8	**(2.0)**	0.3
Basic operations	8	**62.6**	83.6
Diluted basic from continuing operations	8	**64.2**	83.1
Diluted basic from discontinued operations	8	**(2.0)**	0.3
Diluted basic from operations	8	**62.2**	83.3

[1] Refer to note 34 for details of restatements relating to new accounting standards effective for the current financial year.
[2] Debtors' costs have been reclassified from operating expenses in terms of IAS 1: Presentation of Financial Statements.

Consolidated statement of comprehensive income	Notes	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
Profit from continuing operations		**2 231**	2 884
(Loss)/profit from discontinued operations		**(70)**	11
Profit for the year		**2 161**	2 895
Other comprehensive income (OCI) from continuing operations			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(286)**	98
Net fair value gain/(loss) on cash flow hedges	28.3	**427**	(22)
Net fair value (loss)/gain on cash flow hedges transferred to inventory	28.3	**(532)**	105
Deferred taxation on cash flow hedges		**37**	(55)
Foreign currency translation differences relating to hyperinflation[1]		**–**	69
Deferred taxation on foreign currency differences relating to hyperinflation[1]		**–**	(27)
Exchange differences from translation of net investment in foreign operations[2]		**12**	(538)
Taxation on exchange differences from translation of net investment in foreign operations[2]		**(5)**	161
Other comprehensive loss for the year, net of taxation		**(347)**	(209)
Total comprehensive income for the year		**1 814**	2 686
Total comprehensive income attributable to:			
Owners of the parent		**1 813**	2 676
Non-controlling interests		**1**	10
Total comprehensive income for the year		**1 814**	2 686
Total comprehensive income/(loss) for the year attributable to owners of the parent arises from:			
Continuing operations		**2 100**	2 665
Discontinued operations		**(287)**	11
Total comprehensive income for the year		**1 813**	2 676

[1] The economy of Angola was reassessed in accordance with IAS: 29: Financial Reporting in Hyperinflationary Economies and was found no longer to be in hyperinflation for the year ended 30 September 2019. Refer to note 1.3.

[2] It has been agreed during the current reporting period, by mutual consent between the Pepkor African subsidiaries and Pepkor Trading Proprietary Limited not to repay certain loans. The intergroup loans are now viewed to be capital in nature and therefore non-monetary. As a result, no foreign exchange gains and losses were recognised in OCI for the current period.

PEPKOR
Holdings Limited

Consolidated statement of financial position

	Notes	30 September 2019 Rm	30 September 2018 Rm
ASSETS			
Non-current assets			
Goodwill	9	**41 865**	42 537
Intangible assets	10	**17 979**	18 512
Property, plant and equipment	11	**5 466**	5 251
Interest in associate	12	**50**	–
Investments and loans	13	**174**	253
Loans to customers	16	**154**	–
Deferred taxation assets	14	**1 242**	1 365
		66 930	67 918
Current assets			
Trade and other receivables	15	**6 809**	5 874
Loans to customers	16	**1 669**	–
Inventories	17	**13 825**	12 850
Current income taxation assets		**363**	277
Loans due by related parties	29	**–**	224
Cash and cash equivalents		**3 925**	3 835
		26 591	23 060
Non-current assets classified as held for sale	18	**–**	–
		26 591	23 060
Total assets		**93 521**	90 978
EQUITY AND LIABILITIES			
Total equity attributable to equity holders of the parent		**56 592**	55 708
Non-controlling interests		**6**	3
Total equity		**56 598**	55 711
Non-current liabilities			
Interest-bearing loans and borrowings	20	**15 508**	15 518
Employee benefits	21	**89**	91
Deferred taxation liabilities	14	**4 037**	4 142
Provisions	22	**464**	564
Trade and other payables	23	**461**	545
		20 559	20 860
Current liabilities			
Trade and other payables	23	**11 792**	11 595
Loans due to related parties	20	**–**	173
Employee benefits	21	**942**	847
Current income taxation liabilities		**1 107**	524
Provisions[1]	22	**173**	277
Interest-bearing loans and borrowings	20	**1 510**	19
Financial guarantees[1]	28.6	**491**	451
Bank overdrafts and short-term facilities		**347**	521
		16 362	14 407
Liabilities associated directly with non-current assets classified as held for sale	18	**2**	–
		16 364	14 407
Total equity and liabilities		**93 521**	90 978

[1] *Financial guarantees have been presented separately in the current financial year to improve disclosure. This was previously presented within provisions.*

Consolidated statement of changes in equity

	Notes	Stated capital Rm	Retained earnings Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Changes in non-controlling interests Rm	Common control reserve Rm	Hedging reserve Rm	Other reserves Rm	Total equity attributable to owners of the parent Rm	Non-controlling interests Rm	Total Rm
Balance at 30 September 2017		64 690	(88)	(309)	33	3	(11 755)	242	76	52 892	25	52 917
Total comprehensive income		–	2 885	(237)	–	–	–	28	–	2 676	10	2 686
Profit for the year		–	2 885	–	–	–	–	–	–	2 885	10	2 895
Recognised in other comprehensive income												
Foreign exchange movement from translation of net investment in foreign operations		–	–	(538)	–	–	–	–	–	(538)	–	(538)
Taxation effect of foreign exchange differences relating to net investment		–	–	161	–	–	–	–	–	161	–	161
Foreign exchange differences on translation of foreign operations		–	–	98	–	–	–	–	–	98	–	98
Foreign exchange differences relating to hyperinflation		–	–	69	–	–	–	–	–	69	–	69
Income tax effect of foreign exchange differences relating to hyperinflation		–	–	(27)	–	–	–	–	–	(27)	–	(27)
Net fair value gain on cash flow hedges	28.3	–	–	–	–	–	–	(22)	–	(22)	–	(22)
Net fair value gain on cash flow hedges transferred to inventory	28.3	–	–	–	–	–	–	105	–	105	–	105
Taxation effect on gain in cash flow hedges		–	–	–	–	–	–	(55)	–	(55)	–	(55)
Dividends paid		–	–	–	–	–	–	–	–	–	(15)	(15)
Shares bought from non-controlling interests		–	–	–	–	–	–	–	–	–	(1)	(1)
Share-based payment expense		–	–	–	120	–	–	–	–	120	–	120
Transfer to share scheme settlement payable	24.1	–	(47)	–	86	–	–	–	–	39	–	39
Transactions with non-controlling interests		–	–	–	–	(19)	–	–	–	(19)	(16)	(35)
Balance at 30 September 2018		**64 690**	**2 750**	**(546)**	**239**	**(16)**	**(11 755)**	**270**	**76**	**55 708**	**3**	**55 711**
Effect of adopting IFRS 9: *Financial Instruments*, net of taxation[1]		**–**	**(82)**	**–**	**–**	**–**	**–**	**–**	**–**	**(82)**	**–**	**(82)**
Restated balance as at 30 September 2018		**64 690**	**2 668**	**(546)**	**239**	**(16)**	**(11 755)**	**270**	**76**	**55 626**	**3**	**55 629**
Total comprehensive income/(loss) for the year		**–**	**2 160**	**(279)**	**–**	**–**	**–**	**(68)**	**–**	**1 813**	**1**	**1 814**
Profit for the year		**–**	**2 160**	**–**	**–**	**–**	**–**	**–**	**–**	**2 160**	**1**	**2 161**
Recognised in other comprehensive income												
Foreign exchange movement from translation of net investment in foreign operations		**–**	**–**	**12**	**–**	**–**	**–**	**–**	**–**	**12**	**–**	**12**
Taxation effect of foreign exchange differences relating to net investment		**–**	**–**	**(5)**	**–**	**–**	**–**	**–**	**–**	**(5)**	**–**	**(5)**
Foreign exchange differences on translation of foreign operations		**–**	**–**	**(286)**	**–**	**–**	**–**	**–**	**–**	**(286)**	**–**	**(286)**
Net fair value gain on cash flow hedges	28.3	**–**	**–**	**–**	**–**	**–**	**–**	**427**	**–**	**427**	**–**	**427**
Net fair value gain on cash flow hedges transferred to inventory	28.3	**–**	**–**	**–**	**–**	**–**	**–**	**(532)**	**–**	**(532)**	**–**	**(532)**
Taxation effect on gain in cash flow hedges		**–**	**–**	**–**	**–**	**–**	**–**	**37**	**–**	**37**	**–**	**37**
Dividends paid		**–**	**(959)**	**–**	**–**	**–**	**–**	**–**	**–**	**(959)**	**(3)**	**(962)**
Shares bought from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Share-based payment expense		**–**	**–**	**–**	**108**	**–**	**–**	**–**	**–**	**108**	**–**	**108**
Transfer due to share scheme reversal[2]		**–**	**213**	**–**	**(204)**	**–**	**–**	**–**	**–**	**9**	**–**	**9**
Transactions with non-controlling interests		**–**	**–**	**–**	**–**	**(5)**	**–**	**–**	**–**	**(5)**	**–**	**(5)**
Balance at 30 September 2019		**64 690**	**4 082**	**(825)**	**143**	**(21)**	**(11 755)**	**202**	**76**	**56 592**	**6**	**56 598**

[1] *The group applied IFRS 9: Financial Instruments using the modified retrospective approach, by recognising the cumulative effect of initially applying IFRS 9 as an adjustment to the opening balance of equity on date of initial application on 1 October 2018. Refer to note 34.*
[2] *The cumulative reserve of R204 million at 30 September 2018, including the settlement payable of R7 million has been transferred to retained earnings as the share scheme was determined unlikely to vest. Refer to note 24.*

Consolidated statement of cash flows

	Notes	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	25	**4 086**	5 312
Dividends paid		**(962)**	(15)
Finance cost paid		**(1 599)**	(1 425)
Finance income received		**147**	242
Taxation paid		**(1 116)**	(1 597)
Net cash inflow from operating activities		**556**	2 517
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	11	**(1 572)**	(1 799)
Additions to intangible assets	10	**(145)**	(72)
Proceeds on disposal of property, plant and equipment and intangible assets		**57**	113
Clawback on acquisition of business/(acquisition of businesses, net of cash on hand at acquisition)	26	**26**	(297)
Proceeds on disposal of business		**–**	4
Decrease in related-party loan and receivables		**56**	–
Decrease in short-term investments and loans		**52**	–
Increase in investments and loans in equity-accounted companies		**(50)**	–
Amounts paid on long-term investments and loans		**–**	(143)
Net cash outflow from investing activities		**(1 576)**	(2 194)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share issue expenses		**–**	1
Transactions with non-controlling interests		**–**	(29)
(Amounts paid)/amounts received on bank overdrafts and short-term facilities		**(21)**	351
(Amounts paid)/amounts received on long-term interest-bearing loans and borrowings		**(173)**	15 429
Debt raising fees paid		**–**	(110)
Amounts received on short-term interest-bearing loans and borrowings		**1 500**	8
Amounts paid on related-party payable		**–**	(15 870)
Net cash inflow/(outflow) from financing activities		**1 306**	(220)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**286**	103
Effects of exchange rate translations on cash and cash equivalents		**(196)**	(65)
Cash and cash equivalents at beginning of the year		**3 835**	3 797
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**3 925**	3 835

SUMMARY OF ACCOUNTING POLICIES
[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

Statement of compliance
The consolidated and separate annual financial statements have been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants (SAICA), Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the requirements of the Companies Act and the JSE Listings Requirements.

Basis of preparation
The consolidated and separate annual financial statements are prepared on the historical cost and going concern bases, except where otherwise indicated. The presentation and functional currency is the South African rand, rounded to the nearest million, except where otherwise indicated.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The financial statements are prepared under the historical cost convention adjusted for the effects of inflation where entities operate in hyperinflationary economies and for the revaluation of certain financial instruments to fair value. During the year, the Angolan economy was reconsidered in accordance with the accounting principles set out in IAS 29: *Financial Reporting in Hyperinflationary Economies*, and has been considered to be out of hyperinflation. In the prior year, the Angolan economy was assessed as hyperinflationary and accordingly, the results, cash flows and financial position of the group's subsidiary in Angola was expressed in terms of the measuring unit current at the reporting date.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed under judgements and estimates.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these annual financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2: *Share-based Payments*, leasing transactions that are within the scope of IAS 17: *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2: *Inventories* or value in use in IAS 36: *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are defined as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included in level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The material accounting policies applied by the group and the company, as well as accounting policies where IFRS allows choice, are set out below and have been applied consistently to the periods presented in these consolidated annual financial statements, except where stated otherwise.

The accounting policies have been applied consistently by all the group entities.

Basis of preparation – common control transactions
IFRS does not provide guidance on the accounting for common control transactions. In the absence of specific guidance relating to common control transactions, entities should select an appropriate accounting policy using the hierarchy described in IAS 8: *Accounting policies, changes in accounting estimates and errors*. The hierarchy permits the consideration of pronouncements of other standard-setting bodies.

The acquisition by the group of Pepkor Holdings group, SA Poco Retail Proprietary Limited, JD Group Proprietary Limited and Tekkie Town Proprietary Limited from Steinhoff in the prior year meets the definition of a common control transaction as all the combining entities are ultimately controlled by the same party, being Steinhoff, before and after the combination, and that control is not transitory.

The group accounted for the common control transaction by applying the predecessor method, that is the assets and liabilities of the acquired entities are stated at their predecessor carrying amounts, being the carrying amount of these assets and liabilities in Steinhoff's consolidated financial statements.

The transaction was accounted for retrospectively as though the group was always in existence, using the results from the date from when each entity joined the group, where such a date is later.

No new goodwill arises on the transaction. Instead, any difference between the value of the shares issued and the aggregate book value of the assets and liabilities of the acquired entities at the date of the transaction is included in a common control reserve within equity.

Earnings per share, diluted earnings per share and headline earnings per share
The calculation of the weighted average number of shares weighed the shares issued in terms of IAS 33: *Earnings per share*.

Basis of consolidation

Subsidiaries
Subsidiaries are entities controlled by the group (including structured entities). An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, substantive rights relating to an investee are taken into account. For a right to be substantive, the holder must have the practical ability to exercise that right.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any difference between the cost of acquisition and the group's share of the net identifiable assets, liabilities and contingent liabilities, fairly valued, is recognised and treated in terms of the group's accounting policy for goodwill. All intergroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between group entities are eliminated.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination (the proportionate share method).

Subsequently, any losses applicable to the non-controlling interests are allocated to the non-controlling interests even if this results in the non-controlling interests having deficit balances.

Consolidation of a subsidiary begins when a company obtains control over a subsidiary and ceases when the company loses control over the subsidiary.

Contingent consideration
Contingent consideration is measured at fair value at each reporting date, and changes in fair value are recognised in profit or loss.

Premiums and discounts arising on subsequent purchases from, or sales to non-controlling interests in subsidiaries
Any increases or decreases in ownership interest in subsidiaries without a change in control are recognised as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received are recognised directly in equity and attributed to owners of the company.

Associate companies
The company's investments in the ordinary shares of its associates are carried at cost less impairment losses. Purchases and sales of these investments are recognised on the trade date at cost, including transaction costs.

Associates are those entities over which the group exercises significant influence but not control. Significant influence is presumed to exist when the group holds between 20% and 50% of the voting rights of another entity. The group's investments in associates are accounted for using the equity method and are initially recognised at cost. Investments in associates include goodwill identified on acquisition, net of any accumulated impairment losses.

The group's share of post-acquisition profit or loss and its share of post-acquisition movements in OCI are recognised in the statement of comprehensive income and in OCI respectively, with a corresponding adjustment to the carrying amount of the investment, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses in an associate equals or exceeds its investment in the associate, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Goodwill
All business combinations are accounted for by applying the acquisition method. Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate consideration transferred, non-controlling interest in the acquisition and in business combinations achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. An impairment loss in respect of goodwill is not reversed.

Gains on bargain purchases arising on acquisition are recognised directly as capital items in profit or loss.

Goodwill is allocated to groups of CGUs and is tested annually for impairment, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Intangible assets

Intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses. If an intangible asset is acquired in a business combination, the cost of that intangible asset is measured at its fair value at the acquisition date.

Computer software

Computer software acquired from external suppliers is initially recognised at cost. Computer software development costs are capitalised if the recognition criteria outlined below under Research and development are met.

Research and development

Research costs are expensed as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the technical feasibility of the asset has been demonstrated and the intention to complete and utilise the asset is confirmed. Capitalisation commences when it can be demonstrated how the intangible asset will generate probable future economic benefits, that it is technically feasible to complete the asset, that the intention and ability to complete and use the asset exist, that adequate financial, technical and other resources to complete the development are available and the costs attributable to the process or product can be identified separately and measured reliably. Where development costs are recognised, it has a finite useful life and is amortised over its useful life on a straight-line basis and is tested for impairment if indications of impairment exists.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the assets' estimated useful lives, unless such lives are indefinite. An intangible asset is regarded as having an indefinite useful life when, based on analysis of all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortised but are tested annually for impairment, or more often when there is an indication that the asset may be impaired. Other intangible assets are amortised from the date they are available for use.

Trade and brand names	Indefinite
Software and enterprise resource planning (ERP) systems	1 – 8 years

The amortisation methods, estimated useful lives and residual values are reassessed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Leases

Where the group is the lessee

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Certain premises and other assets are leased. Payments made in respect of operating leases with a fixed escalation clause are charged to the statement of comprehensive income on a straight-line basis over the lease term. All other lease payments are expensed as they become due. Incentives paid to enter into a lease agreement are expensed in the statement of comprehensive income as operating lease expense over the lease term. Minimum rentals due for the non-cancellable periods after year-end are reflected under commitments. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense and any unamortised portion of the fixed escalation lease accrual is recognised in the statement of comprehensive income in the period in which termination takes place.

Where the group is the lessor

Portions of owner-occupied properties and leased properties are leased or subleased under operating leases. The owner-occupied properties are included in property, plant and equipment in the statement of financial position. Rental income in respect of operating leases with a fixed escalation clause is recognised on a straight-line basis over the lease term. Incentives received to enter into a lease agreement are released to the statement of comprehensive income as operating lease income over the lease term. All other rental income is recognised as it becomes due. When an operating lease is terminated before the lease period has expired, any payment received from the lessee by way of penalty is recognised as income and any unamortised portion of the fixed escalation lease accrual is recognised in the statement of comprehensive income in the period in which termination takes place.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost to the group, less accumulated depreciation and impairment losses.

Leased assets

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. All other leases are classified as operating leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease.

The capital element of future obligations under the leases is included as a liability in the statement of financial position. Lease payments are allocated using the effective-interest method to determine the lease finance costs, which are charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Subsequent costs
The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, if it is probable that additional future economic benefits embodied within the item will flow to the group and the cost of such item can be measured reliably. Costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as an expense when incurred.

Depreciation
Depreciation is recognised in profit or loss on a straight-line basis at rates that will reduce the book values to estimated residual values over the estimated useful lives of the assets.

Land is not depreciated. Leasehold improvements on premises occupied under operating leases are written off over their expected useful lives or, where shorter, the term of the relevant lease.

The depreciation methods, estimated useful lives and residual values are reassessed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Management determines the estimated useful lives, residual values and the related depreciation charges at acquisition. The estimates are reviewed at each reporting date. If appropriate, adjustments are made and accounted for prospectively as a change in estimate:

Buildings	5 – 50 years
Computer equipment	2 – 4 years
Motor vehicles	4 – 10 years
Office equipment	3 – 16 years
Furniture and fittings	3 – 10 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Effect of hyperinflation
In the current year, PEP Africa's Angolan operations were assessed in accordance with the criteria stipulated in IAS 29: *Financial Reporting in Hyperinflationary Economies* and, based on the factors indicated under judgements, concluded that the country was no longer considered in a hyperinflationary economy. During the prior year, PEP Africa's operations in Angola were reported in accordance with IAS 29: *Financial Reporting in Hyperinflationary Economies* following its classification as a hyperinflationary economy. Contributing less than 1% to group revenue, the classification did not significantly affect Pepkor's results in the prior year, increasing operating profit by R35 million.

Taxation

Current taxation
Income taxation on the profit or loss for the year comprises current and deferred taxation. Income taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in OCI or equity, in which case it is recognised directly in OCI or equity.

Current taxation is the expected taxation payable on the taxable income for the year, using taxation rates enacted or substantially enacted at the reporting date, and any adjustment to taxation payable in respect of previous years.

Deferred taxation
Deferred taxation is provided for using the statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income. The following temporary differences are not provided for: goodwill not deductible for taxation purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current taxation assets and liabilities on a net basis.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the taxation rates (and taxation laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred taxation liabilities and assets reflects the taxation consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset will be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling and distribution expenses. Merchandise, raw materials and consumables are initially recognised at cost, determined using the weighted average cost formula.

The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of inventory is the net of: invoice price of merchandise, insurance, freight; customs duties, an appropriate allocation of distribution costs between distribution centres and stores, trade discounts, advertising and other rebates and settlement discounts.

Where necessary, the carrying amounts of inventory are adjusted for shrinkage, obsolescence and markdowns.

As the functional currency of the group's subsidiary in Angola was the currency of a hyperinflationary economy in the prior year, inventories relating to the subsidiary were measured at the lower of the restated cost and net realisable value.

Share-based payment transactions

Equity settled

The fair value of the share rights granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and is expensed over the period during which the employees are required to provide services in order to become unconditionally entitled to the equity instruments. The fair value of the instruments granted is measured using the Monte Carlo simulation model, taking into account the terms and conditions upon which the instruments are granted. At the end of each period, the entity revises its estimates of the number of share rights that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Group share-based payment transactions

Transactions in which a parent grants rights to its equity instruments directly to the employees of its subsidiaries are classified as equity settled in the financial statements of the subsidiary as the entity does not have the obligation to settle the share-based payment transaction.

The subsidiary recognises the services acquired with the share-based payment as an expense and recognises a corresponding increase in equity representing a capital contribution from the parent for those services acquired. The parent recognises in equity the equity-settled share-based payment and recognises a corresponding increase in the investment in subsidiary.

A recharge arrangement exists whereby the subsidiary is required to fund the difference between the exercise price on the share rights and the market price of the share at the time of exercising the right. The recharge arrangement is accounted for separately from the underlying equity-settled share-based payment as follows upon initial recognition:

- The subsidiary recognises a share scheme settlement provision at fair value, using cash-settled share-based payment principles; and
- The parent recognises a corresponding share scheme settlement asset at fair value and a corresponding adjustment to the carrying amount of the investment in the subsidiary.

Subsequent to initial recognition, the recharge arrangement is remeasured at fair value at each subsequent reporting date until settlement date to the extent vested. Where the settlement provision recognised is greater than the initial capital contribution recognised by the subsidiary in respect of the share-based payment, the excess is recognised as a net capital distribution to the parent. The amount of the settlement asset in excess of the capital contribution recognised as an increase in the investment in subsidiary is deferred and recognised as dividend income by the parent when settled by the subsidiary.

Provisions

Provisions are recognised when the group has a present constructive or legal obligation as a result of a past event, and when it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities raised on business combinations

IFRS 3 requires certain contingent liabilities of the acquiree to be recognised and measured in a business combination at acquisition date fair value. Therefore, contrary to IAS 37: *Provision, Contingent Liabilities and Contingent Assets*, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of economic benefits will be required to settle the obligation. This provision includes amounts for possible supplier settlements, customer claims, legal disputes and taxation contingencies.

Subsequent measurement relating to taxation contingencies after the date of acquisition is at the highest of fair value recognised on the date of acquisition or IAS 37.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Financial guarantees (until 30 September 2018)

Financial guarantee contracts are recognised initially at fair value. Subsequently, the contract is measured at the higher of the amount determined in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognised, less cumulative amortisation recognised. Financial guarantee contracts provided by the company to subsidiaries are provided at no cost to subsidiaries. Subsequently, these contracts are measured at the higher of fair value less amortisation or in accordance with IAS 37. Financial guarantees are derecognised when the obligation is extinguished, expires or transferred.) Intragroup financial guarantees are eliminated on consolidation.

Financial guarantees (from 1 October 2019)

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified party fails to make a payment when it becomes due, in accordance with the terms of a debt instrument. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with the expected credit loss model under IFRS 9: *Financial Instruments* and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15: *Revenue from Contracts with Customers*. Intragroup financial guarantees are eliminated on consolidation.

Restructuring

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Dilapidation and onerous contracts

A provision for dilapidation and onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligation under the contract.

Foreign currency

Foreign currency transactions

The presentation currency of the group and the company's annual financial statements is the South African rand. Certain individual companies in the group have different functional currencies and are translated upon consolidation. Transactions in currencies other than the functional currency of entities are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates ruling on the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

The assets and liabilities of all foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at rates of exchange ruling at the reporting date. The revenues and expenses of foreign operations are translated at rates approximating the foreign exchange rates ruling at the date of the transactions.

Foreign exchange differences arising on translation are recognised in OCI and aggregated in the foreign currency translation reserve (FCTR). The FCTR applicable to a foreign operation is released to profit or loss as a capital item upon disposal of that foreign operation.

The results and the financial position of group entities that are accounted for as entities that operate in hyperinflationary economies and that have a functional currency that is different from the presentation currency of the group are translated into the presentation currency of its immediate parent at the exchange rates ruling at the reporting date.

Hyperinflation

The results and the financial position, including comparative amounts, of group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit current at the end of the reporting period.

As the presentation currency of the group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the price level or exchange rates in the current year. Differences between these comparative amounts and the hyperinflation-adjusted equity opening balances are recognised in OCI.

The carrying amounts of non-monetary assets and liabilities are adjusted to reflect the change in the general price index from the date of acquisition to the end of the reporting period. An impairment loss is recognised in profit or loss if the restated amount of a non-monetary item exceeds its estimated recoverable amount.

Gains or losses on the net monetary position are recognised in profit or loss and included in operating profit.

All items recognised in the statement of comprehensive income are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

At the beginning of the first period of application, the components of owners' equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. These restatements are recognised in OCI. Restated retained earnings are derived from all other amounts in the restated statement of financial position.

At the end of the first period and in the subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later.

All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are recognised in OCI and accumulated in the FCTR. They are released to profit or loss as a capital item upon disposal of that foreign operation.

Exchange differences arising from the translation of monetary items receivable from to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) are recognised initially in OCI and reclassified from equity to profit or loss on repayment of the monetary items.

Financial instruments

Initial recognition
Financial assets and financial liabilities are recognised on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument.

Financial instruments are initially recognised at fair value, with the exception of trade debtors where there is no significant financing component, which is initially recognised at transaction price. Financial instruments includes transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability, except for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'at fair value through other comprehensive income' (FVTOCI) and 'loans and receivables at amortised cost'. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Until 30 September 2018, financial assets were classified into the following specified categories: financial assets 'at FVTPL, 'held to maturity', 'available for sale' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortised cost.

Classification and measurement

Financial assets at FVTPL
The group classifies financial assets at FVTPL when the assets are held within a different business model other than 'hold to collect', unless the group has elected to classify an equity instrument at FVTOCI. Financial assets whose contractual cash flows are not solely payments of principal and interest are also recognised as FVTPL irrespective of business model. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets at FVTOCI
The group classifies financial assets at FVTOCI where management has made an irrevocable election at initial recognition to present fair value gains and losses on equity instruments not held for trading in OCI.

Fair value gains and losses on equity investments carried at FVTOCI are recognised in OCI with no subsequent reclassification/recycling of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from these investments continue to be recognised in profit or loss as revenue when the group's right to receive payments is established.

Financial assets at amortised cost
The group classifies financial assets as at amortised cost only if the asset is held within a business model with the objective of collecting the contractual cash flows and the contractual terms give rise to fixed or determinable cash flow that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are carried at amortised cost, with interest recognised in profit or loss for the period, using the effective-interest method.

Current and non-current financial assets
Current assets have maturity terms of less than 12 months, except for instalment sale receivables. Instalment sale receivables, which are included in trade and other receivables, have maturity terms of between one and five years, but are classified as current as they form part of the normal operating cycle.

AFS financial assets under IAS 39 (until 30 September 2018)
AFS financial assets are non-derivative financial assets either designated to this category or those that did not previously qualify for inclusion under other categories of financial assets under IAS 39.

AFS financial assets were measured at fair value, with any gains and losses recognised directly in equity along with the associated deferred taxation.

Held-to-maturity financial assets under IAS 39 (until 30 September 2018)
Held-to-maturity financial assets are assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at FVTPL or as AFS.

Held-to-maturity financial assets were carried at amortised cost, with interest recognised in profit or loss for the period, using the effective-interest method.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is either 'held for trading' or where management has designated it as at FVTPL (management has not designated financial liabilities at FVTPL).

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities
Financial liabilities that are not classified as at FVTPL are classified as other financial liabilities and are carried at amortised cost, with interest recognised in profit or loss for the period, using the effective-interest method.

Trade and other payables
These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year, which are unpaid. The amounts are unsecured and are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective-interest method.

Embedded derivatives (until 30 September 2018)
Certain derivatives embedded in financial host contracts are treated as separate derivatives and recognised on a stand-alone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains and losses reported in profit or loss.

Derecognition
The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when, and only when, the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

Impairment of financial assets
Impairment of loans measured at amortised cost are measured using the ECL model under IFRS 9. The ECL model factors in information regarding past events, current conditions and supportable forecasts and economic conditions that affect the expected collectability of future cash flows at reporting date. The estimation of ECL takes into account the time value of money.

For trade and other receivables without a significant financing component, the group has adopted the simplified approach that recognises lifetime ECL regardless of the stage classification. The group applied a provision matrix based on historical credit loss experience, which was adjusted for forward-looking factors applicable to the trade and other receivables balances and economic factors.

Impairment of financial assets under IAS 39 (until 30 September 2018)
An impairment loss for loans and receivables is recognised in profit or loss when there is evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

When there is objective evidence that an AFS financial asset is impaired, the cumulative unrealised gains and losses recognised in equity are reclassified to profit or loss, even though the financial asset has not been derecognised. Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than AFS debt securities are not reversed through profit or loss but through OCI.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Instalment sale and loan receivables, such as up-to-date and early-stage delinquent trade receivables, i.e. assets that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the level of arrears of a customer, part payment of instalments or missed instalments, as well as observable changes in national or economic conditions that correlate with defaults on receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks and on hand, as well as short-term deposits held at call with banks.

Effective-interest method
The effective-interest method is a method of calculating the amortised cost of a financial instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of a financial instrument or, where appropriate, a shorter period.

Hedge accounting
The group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges in foreign exchange risk on firm commitments are accounted for as cash flow hedges. These derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period.

At inception of the hedge relationship, the group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The group documents its risk management objective and strategy for undertaking its hedge transactions.

Fair value hedges
Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in fair value of the hedged item that are attributable to the hedged risk.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When forward contracts are used to hedge forecast transactions, the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item (forward points) is recognised within operating expenses.

Amounts accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss, and it is included in the same line of the income statement as the recognised hedged item.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Revenue recognition

Revenue from contracts with customers
Revenue is recognised when the group satisfies performance obligations and transfers control of goods or services to its customers at an amount that reflects the consideration the group expects to be entitled to in exchange for these goods or services, allocated to each specific performance obligation. Revenue is measured at the fair value of consideration received or receivable.

The main categories of revenue and the basis of recognition are as follows:

Sale of goods and related revenue – retail sales
Revenue from the sale of goods from ordinary group operating activities, which comprise clothing and general merchandise, furniture, appliances and electronics and building materials, is measured net of value-added taxation, rebates and discounts and after eliminating sales within the group.

Revenue from the sale of goods is recognised at a point in time when control of goods is transferred to the customer.

Payment is usually received via cash, debit card or credit card. Related card transaction costs are recognised in the statement of comprehensive income as other expenses. When goods are sold under instalment sale agreements, the present value of the instalment sale payments is recognised as a receivable using the effective interest rate computed at initial recognition.

The group earns ongoing revenue on starter packs that have been sold in stores. The recognition of ongoing revenue under IFRS 15 requires a certain level of judgement (refer to significant accounting judgements below). The group's policy is only to recognise the variable consideration as revenue as and when it is received, because it is only at this point that it is highly probable that a significant reversal in revenue for that contract will not occur in the future.

Deposits received from customers are recognised as deferred revenue. These balances are considered contract liabilities, as they are received prior to the satisfaction of performance obligations.

Sale of goods and related revenue – right of return
The group estimates variable consideration to be included in the transaction price for the sale of goods where customers are entitled to a right of return within a specified time frame. The group uses projection methods to forecast sales returns that are based on historical return data. Any significant changes in experience as compared to historical return patterns will impact the expected return percentages estimated by the group. Estimated return percentages are updated regularly and the refund liability adjusted accordingly.

Sale of goods and related revenue – lay-by sales
Lay-by revenue is recognised on the initiation of the contract with the customer for the clothing and general merchandise segment, as this is deemed to be when control of the goods passes to the customer. The group recognises revenue at the amount of consideration to which they expect to be entitled and for which a significant reversal of revenue is not considered probable. A contract liability for the expected possible unsuccessful lay-bys is recognised as an adjustment to revenue as well as an asset (with a corresponding adjustment to cost of sales) representing its right to recover the products from the customer. The group uses projection methods to forecast unsuccessful lay-bys that are based on historical data. Any significant changes in experience as compared to historical patterns will impact the percentages estimated by the group. Estimated percentages are updated regularly and the contract liability for unsuccessful lay-bys is adjusted accordingly.

Lay-by revenue is recognised when the final payment for the goods is received from the customer for the furniture, appliances and electronics and building materials segments as this is deemed to be when control of the goods passes to the customer and all performance obligations are met. Proceeds from these lay-by sales are recognised as contract liabilities, and the revenue is deferred until all the performance obligations are met.

Sale of goods and related revenue – gift vouchers
Prepaid gift cards provide rights to customers that are deemed to be accounted for as separate performance obligations. The consideration allocated to unredeemed gift cards is measured by reference to its stand-alone selling prices adjusted for an expected forfeiture rate. The group applies projection methods in its estimation of forfeiture rates by using customers' historical redemption patterns as the main input.

Service fee income
Service fee income is recognised on a monthly basis when charged to a customer's account as the services are provided by the group.

Other revenue – collection revenue
Service fee revenue is earned based on a fixed percentage of outstanding debtor balances collected on behalf of third parties. Performance obligations are deemed to be met once the group recovers the outstanding balance from a debtor or a portion thereof, at which point the revenue is recognised.

Financial services revenue – effective interest income
Interest income earned is recognised on a time-proportion basis. The group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired, the group calculates interest income by applying the effective interest rate to the net amortised cost (gross carrying amount less the allowance for expected credit losses) of the financial asset. If the financial asset is no longer deemed to be credit-impaired, the group reverts to calculating interest income on a gross basis.

Other operating income

Other operating income is recognised as follows:

Income earned from suppliers
The group enters into various agreements with suppliers, which provide for various purchase rebates and other income. Rebates are recognised as part of the cost of merchandise sold when they are closely related to the purchase of inventory. Where the income earned relates to inventories that are held by the group at year-end, the income is included within the cost of those inventories, and recognised in cost of sales when the inventory is sold.

Other income earned from suppliers is recognised in other income when services are provided to suppliers that are not closely related to the purchase of inventory and when the group can reasonably estimate the fair value of the service. Management uses judgement in determining whether the services provided to suppliers are sufficiently separable from the purchase of inventory, by determining if the supplier could have entered into an agreement with a party, other than a purchaser of its inventory, in order to receive those services.

Income earned from suppliers that are, in substance, a cost recovery are offset against the operating expense to which the recovery relates.

Commission received
The group acts as an agent for the services and products provided by a variety of third parties to the group's customers through its retail footprint. The agent's commissions received by the group from the third parties for the services are recognised as other income. Commissions relating to third-party products, money transfers and bill payments are recognised at the point in time when the underlying third-party payment takes place as control is transferred to the customer and all performance obligations are deemed to be met.

Dividend income
Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Operating lease income
Payments and receipts under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Discontinued operation

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

Segmental reporting

An operating segment is a component of the group that engages in business activities that may earn revenues and incur expenses and whose operating results are regularly reviewed by the group's chief operating decision-maker (CODM, which represent the directors of the board), in order to allocate resources and assess performance and for which discrete financial information is available.

The group has the following four operating and reportable segments: clothing and general merchandise; furniture, appliances and electronics; building materials and FinTech.

Refer to note 1 for further detail relating to these segments.

Adoption of new or revised standards

Standards, interpretations and amendments that are not yet effective at 30 September 2019
At the date of authorisation of these annual financial statements, there are standards and interpretations in issue but not yet effective. These include the following standards and interpretations that have not been early adopted and may have an impact on future financial statements:

Number	Title	Effective for year ending
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures	2020
Amendments to IFRS 9	Financial Instruments (Prepayment Features with Negative Compensation)	2020
IFRS 16	Leases	2020
IFRIC 23	Uncertainty Over Income Taxation Treatments	2020
Various	Annual improvements to IFRS 2015 – 2017 Cycle	2020
Amendments to IAS 1 and IAS 8	Disclosure Initiative (Definition of Material)	2021
Amendments to IFRS 3	Business Combinations (Definition of a Business)	2021
IFRS 17	Insurance Contracts	2022

The application of the above in future financial periods is not expected to have a significant impact on the group's reported results, financial position or cash flows, except for the standard set out below:

IFRS 16: Leases	
Nature of change	IFRS 16 replaces IAS 17: *Leases* and requires lessees to account for all leases under a single on-balance-sheet model where a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments, with the exception of low-value and short-term leases, which are expensed through operating expenses in the income statement on a straight-line basis. This will result in the operating rental expense being replaced by the amortisation of the right-of-use asset and associated finance costs of the lease liability in the income statement.
Impact	The group has elected to adopt the modified retrospective approach by accounting for the right-of-use asset since the commencement date of the lease contract and lease liability as at the date of initial application of IFRS 16. The application of IFRS 16 will have a material impact on the group's statement of financial position, statement of comprehensive income and classification in the statement of cash flows. The group effect on the statement of financial position for all store, office and distribution centre leases is estimated to be between R13.1 billion and R14.1 billion for the right-of-use asset and R17.2 billion to R18.2 billion for the lease liability as at 1 October 2019.
Mandatory application date/Date of adoption by the group	IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. The group has elected not to early adopt IFRS 16 and will apply this standard from 1 October 2019, using the modified retrospective approach, which will not lead to the restatement of the prior year comparatives.

Standards, interpretations and amendments effective for the year ended 30 September 2019
The following amendments to existing standards are effective for the year ended 30 September 2019 and had no significant effect on the group's operations, except for IFRS 9 and 15, which led to changes in group accounting policies as detailed below:

Number	Title
Amendments to IFRS 2	Share-Based Payments
Amendments to IFRS 4	Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency Transactions and Advance Consideration

SUMMARY OF ACCOUNTING POLICIES

[FOR THE YEAR ENDED 30 SEPTEMBER 2019] CONTINUED

Number	Title	Effective for annual periods beginning
IFRS 9	Financial Instruments	1 January 2018

The group applied IFRS 9: *Financial Instruments* using the modified retrospective approach, by recognising the cumulative effect of initially applying IFRS 9 as an adjustment to the opening balance of equity on date of initial application on 1 October 2018. Therefore the comparative information has not been restated and continued to be reported under IAS 39: *Financial Instruments*.

The key impact of IFRS 9 is the new impairment model for financial assets, impacting the group's debtors and loan books. The new impairment model reflects expected credit losses based on forward-looking information as opposed to incurred credit losses under IAS 39. The group has adopted the following approaches across the group:

Financial asset	Approach
Retail debtors	Simplified approach
Loans to customers	General impairment model
Instalment sale receivables	General impairment model
Credit sales through store cards	General impairment model
Government bonds	General impairment model
Loans to employees and key management	General impairment model
Loan to associate	General impairment model

The combined financial impact for the group is detailed in note 34.

The group has reviewed and assessed existing financial assets as at 1 October 2018, based on the facts and circumstances that existed at that date, and concluded that the initial application of IFRS 9 has had the following impact on the group's financial assets with regard to their classification and measurement:

Instrument	Classification: IAS 39	Classification: IFRS 9
Trade and other receivables	Loans and receivables	Amortised cost
Loans receivable	Loans and receivables	Amortised cost
Government bonds	Held to maturity	Amortised cost
Unlisted investments	Available for sale	Fair value through other comprehensive income
Derivative financial instruments	Derivatives accounted for as hedges	Derivatives accounted for as hedges
Financial guarantees	Other financial liability	Financial liability at amortised cost

Financial liabilities are classified as amortised cost except for those derivatives that are measured at fair value through OCI.

IFRS 9 did not have a material impact on hedge accounting applied by the group.

Number	Title	Effective for annual periods beginning
IFRS 15	Revenue from Contracts with Customers	1 January 2018

During the current financial year, IFRS 15: *Revenue from Contracts with Customers* (replacing IAS 18: *Revenue*) came into effect for the group and is based on the principle that revenue is recognised as the group satisfies performance obligations and when control of a good or service transfers to a customer, rather than the use of the risks and rewards criteria under IAS 18.

Agent vs principal assessment

The group assessed its different revenue streams based on the new guidance under the agent and principle requirements. In certain instances, revenue previously recognised on a gross basis and included in revenue and cost of sales is now required to be recognised on a net basis in other income.

Rebates from suppliers

During the impact assessment of IFRS 15, the group identified different rebates received from suppliers that were accounted for incorrectly under the old standard. In certain instances, rebates relating to the purchase of inventory were recognised either as revenue, operating income or net of operating expenses. Rebates relating to the purchase of inventory should be accounted for net of the cost of inventory, unwinding to cost of sales as the goods are sold.

The group has elected to apply the impact of IFRS 15 retrospectively and reclassify classification errors identified according to IAS 8, therefore comparative information for the prior periods has been restated. The key impact of IFRS 15 for the group is detailed in note 34.

The other interpretations and amendments listed above had no significant effect on the group's operations.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next financial year are discussed below.

The following areas require significant estimates to be made by management in the application of the group's accounting policies:

Intangible assets

Trade names and brand names, which are considered to be well-established growing brands and product lines for which there is no foreseeable limit to the period in which these assets are expected to generate cash flows, are classified as indefinite useful life assets. The classification of such assets is reviewed annually.

Indefinite useful life intangible assets, excluding goodwill, recognised at fair value in business combinations, are expected to generate cash flows indefinitely and the carrying value would only be recovered in the event of disposal of such assets. Accordingly, deferred taxation is raised at the capital gains taxation rate on the fair value of such assets exceeding its taxation base.

The estimated useful lives and residual values are reviewed annually, taking cognisance of the forecasted commercial and economic realities and through benchmarking of accounting treatments in the specific industries where these assets are used. Refer to note 10 where this significant estimate is discussed.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life or are not yet ready for use, are assessed annually for impairment. Whereas investments, property, plant and equipment and finite intangibles are only tested if an impairment indicator is identified. Refer to note 9, 10 and 11 for detail of impairment of assets where applicable. The impairment review requires estimation uncertainty (refer note 10). The group evaluates, among other things, losses incurred, duration and extent of losses and near-term business outlook.

Allocation of goodwill to CGUs

Goodwill is allocated to a group of CGUs based on the lowest level at which goodwill is monitored.

Fair values in business combinations

Management uses valuation techniques to determine the fair value of assets, liabilities and contingent liabilities acquired in business combination.

Although a comprehensive valuation exercise is performed for each business combination, the group applies initial accounting for its business combinations that will allow the group a period of one year after the acquisition date to adjust the provisional amounts recognised for a business combination. Refer to note 26 for business combinations concluded during the year.

The following areas require significant judgements to be made by management in the application of the group's accounting policies:

Recoverability of deferred taxation assets

Deferred taxation assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable profits are estimated based on business plans that include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces. Refer to note 14.

Income tax provision

The group is subject to income taxation in more than one jurisdiction. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate taxation determination is uncertain during the ordinary course of business. Taxation positions are provided for based on the most probable outcome method.

Contingent liabilities

Management applies its judgement to the fact patterns and advice it receives from its attorneys, advocates and other advisors in assessing whether an obligation is probable, more likely than not, or remote. This judgement application is used to determine whether the obligation is recognised as a liability or disclosed as a contingent liability. Refer to note 27.5.

Provision for inventory shrinkage, obsolescence and markdowns

The provision for inventory obsolescence and markdowns represents management's judgement in relation to the extent to which merchandise on hand at the reporting date will be sold below cost. This estimate takes into consideration past trends, evidence of impairment at year-end and an assessment of future saleability. Refer to note 17.

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the history, existing market conditions, as well as forward-looking estimates at the end of each reporting period. Key assumptions and inputs used are detailed in note 28, of which the most significant are as follows:

Impairment of financial assets judgements

Significant increases in credit risk

In terms of IFRS 9: *Financial Instruments*, all loans and other receivables are assessed at each reporting date to determine whether there has been a SICR. In cases where SICR has occurred, an impairment equal to the lifetime ECL is recognised. If, at reporting date, the credit risk has not significantly increased, the group recognises a 12-month ECL. The group identifies SICR on clients that are up to date on their loans and other receivables, but who have been subject to SICR events of which the most significant are detailed below:

Event trigger	Loans to customers	Instalment sale agreements	Credit sales through store cards
Change in customer behaviour	Triggers includes: a customer entering into debt review or rescheduling an existing loan or a customer that is in arrears as defined below.	Application and behavioural scorecards are segmented into ratings. For each application rating, an appropriate notch deterioration in behavioural scorecard will result in SICR. In the event no application rating is available, the loan will be classified as SICR.	Not deemed to be SICR event.
Customer defaulting on repayments	A customer's loan is in default when 90% of an instalment is not paid or the account is 30 days in arrears.	A customer is in default when their account is 30 days in arrears. All debt counselling accounts that are less than 90 days in arrears will be classified as SICR.	A customer is in default when their account is 30 days in arrears.

Shifting of the SICR threshold by 5% (reflects the full stage 2 ECL if the deterioration or improvement in the factor used, as a behavioural or granting scores threshold is stressed by 5%) at 30 September 2019:

Impact on SICR on ECL	Loans to customers	Instalment sale agreements	Credit sales through store cards
Positive	329	488	469
% change in ECL	(0.69%)	(0.47%)	(2.10%)
Base	331	490	479
% change in ECL	0.00%	0.00%	0.00%
Negative	333	494	489
% change in ECL	0.69%	0,80%	2.10%

Loan write-off point

Event trigger	Loans to customers	Instalment sale agreements	Credit sales through store cards
Loan write-off policy	Five consecutive instalments in arrears and three consecutive instalments in arrears on rescheduled accounts.	Nine consecutive instalments in arrears with no qualifying payments made in the last 90 days.	Eight instalments in arrears with no payment in the previous three months.

Impairment of financial assets estimates

Forward-looking information

It is one of the fundamental principles of IFRS 9 that the ECL impairment provision that the group holds against potential future losses takes into account changes in the economic environment in the future.

In order to quantify the effects of changes to the economic environment, the group utilises the Bureau of Economic Research's (BER) macroeconomic outlook for the country over a planning horizon of five years. Three economic scenarios (negative, baseline and positive scenario) are taken into account when calculating future expected credit losses. The probability of each scenario is determined by management estimation.

The relevance of the group's loan and other receivables is proven by the following linear relationship between the change in the following basket of macroeconomic variables:

Event trigger	Loans to customers	Instalment sale agreements	Credit sales through store cards
Macroeconomic variables	No significant variables identified	GDP growth Household debt service cost ratio	No significant variables identified

Management has assigned a probability of 59% to the baseline scenario, 21% to the negative scenario and 20% to the positive scenario for the 12-month forecast. The impact of incorporating forward-looking information to ECL for instalment sale agreements granted by the group is as follows:

Probability-weighted impact of all three scenarios	Instalment sale agreements
100% negative scenario	413
% change in ECL	(7.64%)
100% baseline scenario	447
% change in ECL	0.00%
100% positive scenario	532
% change in ECL	19.05%

Event-driven management credit estimates
Certain events or risks arise from time to time that may not be incorporated into the statistical forward-looking model. In such instances, the additional inclusions into the ECL are reviewed and approved by management.

These events, for which an amount was included in ECL, include the introduction of DebiCheck from October 2019 and the draft new legislation relating to the Debt Relief Bill.

DebiCheck will have an impact on the collection of cash flows on loans and other receivables with customers, change debit order dates or where changes in the rescheduled contractual cash flows are greater than 1.5 times the original debit order. If the client fails to confirm electronically the updated debit order, the group could fail to collect the agreed upon instalment from the client on the agreed upon loan date. The group expects a minimal impact on ECL relating to DebiCheck due to positive results from the testing phase of the DebiCheck collections system.

The Debt Relief Bill is not expected to have a material effect on ECLs as it does not entail a blanket amnesty of debt, but rather a rigorous process to assess a customer's ability to service unsecured debt.

Modelling assumptions
Historical data may not always be reflective of the future. The way in which it is used by statistical ECL models (PD, EAD, LGD) to estimate the timing and amount of the forecasted cash flows based on historical default data, roll rates and recoveries, requires consideration of sub-segments. These include aspects such as client risk groups, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status and the behaviour score of the client.

Provision for bad debts (until 30 September 2018)
The provision for bad debts was based on a combination of specifically identified doubtful debtors and providing for older debtors.

A provision for bad debts held against instalment sales receivables is raised when there is objective evidence that the assets are impaired based on the group's judgement. Factors taken into account to determine impairment of an asset are the level of arrears, part-payment of instalments or missed instalments. Estimated future cash flows, that are discounted at the effective interest rate, are determined utilising past-payment history and probability of default. Refer to note 28.

Hyperinflation
The group exercises judgment in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its subsidiaries, joint arrangements and associates is the currency of a hyperinflationary economy.

Various characteristics of the economic environment of each country are taken into account to assess whether an economy is hyperinflationary or not. These characteristics include, but are not limited to, the following:

- The general population prefer to keep their wealth in non-monetary assets or in a relatively stable foreign currency;
- Prices are quoted in a relatively stable foreign currency;
- Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- Interest rates, wages and prices are linked to a price index; and
- The cumulative inflation rate over three years is approaching, or exceeds, 100%.

Management exercises judgment as to when a restatement of the financial statements of a group entity becomes necessary.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

[FOR THE YEAR ENDED 30 SEPTEMBER 2019] CONTINUED

The economy of Angola was reassessed in accordance with IAS 29: *Financial Reporting in Hyperinflationary Economies* and was found no longer to be in hyperinflation for the year ended 30 September 2019. Hyperinflation accounting was therefore ceased, and the 2018 adjustments will unwind over time.

Accordingly, the results and financial position of the group's Angolan subsidiary has been expressed in terms of the measuring units current at the reporting date.

In the prior year, the hyperinflation impact reduced the group's sale of merchandise by R125.7 million, while prior period gains of R42.1 million, which arose from the net monetary position, were recognised in OCI. Operating income increased by R35 million in the prior year.

The general price indices, as published by the National Institute of Statistics of Angola, were used in adjusting the historical cost local currency results and financial positions of the group's Angolan subsidiaries. As at 30 September 2019, the cumulative three-year inflation rate was 73.22% (2018: 105.1%).

Segmental reporting
Management identified operating segments in line with internal reporting structures in accordance with IFRS 8: *Operating Segments* (IFRS 8). Refer to note 1.

Ongoing revenue
The group earns ongoing revenue on starter packs that have been sold in stores. The group earns this ongoing revenue on all future prepaid airtime loaded and/or spent on these prepaid starter packs by the subscriber, even if the subscriber does not top up through group companies in the future.

Ongoing revenue earned is variable in nature as the group's entitlement to these amounts is dependent on the future spending patterns of the prepaid customers, and therefore contingent on a future event occurring or not occurring. IFRS 15 requires an entity to estimate the amount of variable consideration it will be entitled to for the contracts it has entered into with its customers and include this in the transaction price at contract inception, to the extent the variable consideration is not constrained.

The group has concluded that the ongoing revenue is fully constrained at the individual contract level due to the high variability in behaviour of the individual customers, including:

- the period over which prepaid customers remain on the same SIM card (this can range from one day to a number of years); and
- the spending patterns of individual customers, which are also highly variable.

In addition, because the terms of the ongoing revenue structure with the telecommunication companies are regularly up for negotiation, the group is not able to predict the likelihood or magnitude of a revenue reversal. The group's policy is therefore only to recognise the variable consideration as revenue as and when it is received, because it is only at this point that it is highly probable that a significant reversal in revenue for that contract will not occur in the future.

Share scheme
Various assumptions are applied in determining the valuations of share-based payment reserves and the number of share rights expected to vest at the end of the vesting period. Refer to note 24.

Use of adjusted measure
The measure listed below is presented as management believes it to be relevant to the understanding of the group's financial performance. The measure is used to provide additional useful information on underlying trends to shareholders. The measure is not defined under IFRS and may therefore not be comparable with similarly titled measures reported by other entities. It is not intended to be a substitute for, or superior to, measures as required by IFRS.

Capital items on the face of the statement of comprehensive income, being all remeasurements excluded from the calculation of headline earnings per share in accordance with the guidance contained in SAICA Circular 4/2018: *Headline Earnings* (HEPS). The principal items that will be included under this measure are: gains and losses on disposal and scrapping of property, plant and equipment, intangible assets and assets held for sale, impairments or reversal of impairments, any non-trading items such as gains and losses on disposal of investments, operations and subsidiaries. Refer to note 8.

Assessment of risk and rewards
The group sold its lending book and shares in JD Consumer Finance Proprietary Limited and JDG Investments Holdings Proprietary Limited to Wands Investments Proprietary Limited on 1 January 2016. The group remains exposed to the risks and rewards from the lending book to a certain extent from a commission structure. IFRS requires the book to be recognised to the extent that the initial consideration received upon sale could be returned. However, as the group does not have any obligation to return any portion of the original sale proceeds under the agreement, the carrying amount of the receivable was derecognised in its entirety upon sale. The assessment of the extent of risks and rewards transferred and retained by the group and the extent of continued involvement in the lending book entailed significant judgement being applied.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

1. SEGMENTAL ANALYSIS

1.1 Basis of segmental presentation

The segmental information has been prepared in accordance with 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
The identification of segments is consistent with those identified in the annual consolidated financial statements for the year ended 30 September 2018. The board of directors identified and monitors segments in relation to differences in products and services.

Geographical analysis
The revenue, operating profit and assets are as one geographical region.

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

Change in accounting policy
[1]Refer to note 34 for details of restatements relating to new accounting standards effective for the current financial year. Revenue and operating profit before capital items were presented in line with the discontinued operation presented in note 7.

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Restated[1] Rm
1.2 Segmental analysis		
REVENUE		
Clothing and general merchandise	**44 964**	42 216
Furniture, appliances and electronics	**9 330**	8 615
Building materials	**8 180**	8 105
FinTech[2]	**7 160**	4 976
	69 634	63 912
OPERATING PROFIT BEFORE CAPITAL ITEMS AND BVI[3]-RELATED COSTS		
Clothing and general merchandise4	**6 286**	6 064
Furniture, appliances and electronics	**(85)**	(137)
Building materials	**153**	214
FinTech[3]	**483**	250
	6 837	6 391
RECONCILIATION OF OPERATING PROFIT		
Operating profit per segmental analysis	**6 837**	6 391
BVI-related costs (note 3.4)	**(40)**	(511)
Capital items (note 4)	**(1 278)**	(37)
Operating profit per income statement	**5 519**	5 843
Finance costs (note 5)	**(1 779)**	(1 410)
Finance income (note 5)	**198**	242
Profit before taxation per income statement	**3 938**	4 675
SEGMENTAL ASSETS	**89 422**	86 666
RECONCILIATION BETWEEN TOTAL ASSETS AND SEGMENTAL ASSETS		
Total assets per statement of financial position	**93 521**	90 978
Less: Cash and cash equivalents	**(3 925)**	(3 835)
Less: Long-term investments and loans	**(174)**	(253)
Less: Loans due by Steinhoff and its subsidiaries	**–**	(224)
Segmental assets	**89 422**	86 666

[2] FinTech segment revenue is disclosed net of intergroup revenue of R441 million (2018: R10 million) earned relating to the sale of virtual vouchers and airtime to the clothing and general merchandise segment.
[3] Business Venture Investments 1499 (RF) Proprietary Limited
[4] The FinTech segment operating profit is disclosed net of intersegment expenses of R90 million (2018: Rnil) paid to the clothing and general merchandise segment relating to the use of its footprint . The fee was included in other income note 3.9 for the full year in 2018 as Capfin did not give loans to customers under the group.

1. SEGMENTAL ANALYSIS (CONTINUED)

1.3 Effect of hyperinflation on segmental results

Operating profit before capital items and BVI-related costs items, for the prior year, include the effect of hyperinflation accounting applied in Angola, amounting to R35 million, included under the clothing and general merchandise segment. In the current year, PEP Africa's Angolan operations were assessed in accordance with the criteria stipulated in IAS 29: *Financial Reporting in Hyperinflationary Economies*, and based on the factors indicated under judgements, concluded that the country was no longer considered a hyperinflationary economy. Accordingly, no adjustment was reflected in the operating profit of the clothing and general merchandise segment.

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Restated[1] Rm
2. REVENUE		
Revenue from contracts with customers		
Sale of goods and related revenue (note 2.1.1)	**67 098**	62 729
Service fee income	**262**	192
Other revenue	**1 179**	520
Other sources of revenue		
Financial services revenue (note 2.1.2)	**1 095**	471
	69 634	63 912
2.1 Disaggregation of revenue from contracts		
2.1.1 Sale of goods and related revenue		
Clothing and general merchandise		
South Africa	**37 453**	35 199
Other countries	**6 809**	6 398
Furniture, appliances and electronics		
South Africa	**7 937**	7 773
Other countries	**766**	726
Building materials		
South Africa	**7 742**	7 647
Other countries	**438**	457
FinTech		
South Africa	**5 953**	4 529
	67 098	62 729
2.1.2 Financial services revenue[2]		
Finance income earned	**1 056**	470
Loan origination fees	**39**	1
	1 095	471

[1] Refer to note 34 for details of restatements relating to new accounting standards effective for the current financial year.
[2] Financial services revenue relates to finance income and other revenue measured in terms of the effective-interest method in accordance with IFRS 9. The non-South African split is not deemed to be material for the group.

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Restated[1] Rm
3. OPERATING PROFIT		
Operating profit includes the following items:		
3.1 Amortisation and depreciation (recognised in operating expenses)		
Amortisation (note 10)	**141**	85
Depreciation (note 11)	**1 158**	1 049
	1 299	1 134
3.2 Personnel expenses		
Post-employment benefit contributions to defined benefit and contribution plans	**175**	164
Salaries and wages	**7 426**	7 069
Share-based payments – equity settled	**108**	120
	7 709	7 353
3.3 Operating lease charges – properties		
Rental of properties	**3 825**	3 538
Leases of plant, equipment, vehicles and other	**32**	37
	3 857	3 575
3.4 BVI-related costs		
Guarantee to RMB in relation to BVI (note 28.6)	**–**	451
Impairment against loans to key management and employees (note 13)	**40**	60
	40	511
3.5 Hyperinflation		
Gain from hyperinflation accounting (note 1.3)	**–**	35
	–	35
3.6 Auditor's remuneration		
Audit fees	**36**	40
Fees for other services	**4**	3
Under/(over)provision in previous years	**4**	(1)
	44	42
3.7 Debtors' costs		
Debtor/loan balances written off	**418**	327
Debtor/loan balances increase in ECLs (2018: bad debt provision)	**809**	69
Debtor/loan balances recovered	**(90)**	(94)
	1 137	302
3.8 Advertising and marketing		
Advertising and marketing[1]	**1 082**	991
	1 082	991

[1] *Refer to note 34 for details of restatements relating to new accounting standards effective for the current financial year.*

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Restated[1] Rm
3. OPERATING PROFIT (CONTINUED)		
3.9 Other income		
Commission received	**535**	434
Commission received – distribution fees	**81**	147
Marketing and advertising income[1]	**93**	129
Dividend income	**49**	46
Employee taxation incentives	**45**	46
Cancelled lay-bys	**44**	20
Building Supply Group (BSG) settlement income (note 26)	**28**	–
Other income	**85**	116
	960	938

[1] Refer to note 34 for details of restatements relating to new accounting standards effective for the current financial year.

	Year ended 30 September 2019		Year ended 30 September 2018	
	Gross of taxation and non-controlling interests Rm	Net of taxation and non-controlling interests Rm	Gross of taxation and non-controlling interests Rm	Net of taxation and non-controlling interests Rm
4. CAPITAL ITEMS				
Capital items reflect the items that are allowed to be adjusted for HEPS purpose as described within significant judgements and estimates.				
Expenses of a capital nature are included in the 'capital items' line in the income statement. These expense items are:				
From continuing operations				
4.1 Impairment	**1 263**	**1 148**	20	20
Goodwill (note 9)	**672**	**672**	–	–
Intangible assets (note 10)	**547**	**433**	–	–
Property, plant and equipment (note 11)	**44**	**43**	20	20
4.2 Loss on disposal of property, plant and equipment and intangible assets	**15**	**15**	15	12
4.3 Loss on sale and dilution of investments	**–**	**–**	2	–
	1 278	**1 163**	37	32
From discontinued operations				
4.4 Loss recognised due to remeasurement of disposal group to fair value (note 7)	**18**	**18**	–	–
	18	**18**	–	–

	Expense Rm	Income Rm	Net expense/ (income) Rm
5. FINANCE COSTS AND FINANCE INCOME			
Year ended 30 September 2019			
Interest			
Banks	**203**	**(156)**	**47**
Loans	**1 417**	**–**	**1 417**
BVI guarantee unwinding	**40**	**–**	**40**
Discounting of payables/(receivables)	**111**	**(36)**	**75**
Other	**8**	**(6)**	**2**
	1 779	**(198)**	**1 581**
Year ended 30 September 2018			
Interest			
Banks	106	(200)	(94)
Loans	494	(15)	479
Related-party interest (note 29)	639	–	639
Other	171	(27)	144
	1 410	(242)	1 168

During the prior year, loans from Steinhoff and its subsidiaries were repaid and replaced with external borrowings. The details relating to the interest rates on these loans are disclosed in note 20.

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
6. TAXATION		
6.1 Taxation charge		
Normal taxation		
South African normal taxation – current year	**1 289**	1 074
South African normal taxation – prior year adjustment	**(35)**	3
Foreign normal taxation – current year	**222**	152
Foreign normal taxation – prior year adjustment	**2**	34
Withholding taxation – South African	**107**	137
Withholding taxation – foreign	**35**	17
	1 620	1 417
Deferred taxation		
South African deferred taxation – current year	**(109)**	350
South African deferred taxation – prior year adjustment	**43**	53
Foreign deferred taxation – current year	**164**	(48)
Foreign deferred taxation – prior year adjustment	**(11)**	19
	87	374
Total tax from continuing operations	**1 707**	1 791
Normal taxation		
Foreign normal taxation – current year	**1**	16
Withholding taxation – foreign	**1**	–
Deferred taxation		
Foreign deferred taxation – current year	**(6)**	(1)
Foreign deferred taxation – prior year	**–**	(2)
Taxation from discontinued operation	**(4)**	13
Taxation expense recognised in profit and loss	**1 703**	1 804

For detail on deferred taxation (liabilities)/assets refer to note 14.

	%	%
6.2 Reconciliation of rate of taxation		
South African standard rate of taxation	**28.0**	28.0
Foreign tax rate differential	**(0.1)**	(0.5)
Withholding taxes	**2.4**	1.4
Unrecognised taxation losses	**1.5**	3.4
Prior year adjustments	**–**	2.3
Tax-exempt income	**(2.7)**	(4.3)
Non-deductible expenses	**4.4**	3.8
Impairment of goodwill and intangibles	**6.0**	–
Preference share dividends	**3.3**	1.0
Unproductive interests	**1.0**	–
BVI-related costs	**0.6**	3.1
Other	**(0.3)**	0.2
Effective rate of taxation	**44.1**	38.4

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
7. DISCONTINUED OPERATION		
7.1 Description		
During the year, the board decided to exit the group's Zimbabwe business, under the Power Sales brand. The decision was driven mainly by the increasing difficulty of trading in Zimbabwe as a result of adverse macroeconomic conditions. Management is in final negotiations with the relevant parties to conclude the terms of sale. The associated assets and liabilities were consequently presented as held for sale and are presented below.		
The discontinued operation was previously included under the clothing and general merchandise segment.		
7.2 Income statement		
Revenue	**47**	232
Cost of sales	**(20)**	(98)
Gross profit	**27**	134
Operating expenses	**(83)**	(86)
Capital items (note 4)	**(18)**	–
Operating (loss)/profit	**(74)**	48
Finance costs	**(1)**	(24)
Finance income	**1**	–
(Loss)/profit before taxation	**(74)**	24
Taxation	**4**	(13)
(Loss)/profit for the year	**(70)**	11
7.3 Statement of cash flows		
Net cash (outflow)/inflow from operating activities	**(29)**	60
Net cash outflow from investing activities	**–**	(6)
Net cash outflow from financing activities	**(14)**	(8)
Net (decrease)/increase in cash and cash equivalents	**(43)**	46
Effects of exchange rate translations on cash and cash equivalents	**(161)**	58
Cash and cash equivalents at beginning of the year	**213**	109
Cash and cash equivalents at end of the year	**9**	213

7.4 The economy of Zimbabwe was assessed in accordance with IAS 29: *Financial Reporting in Hyperinflationary Economies*, and was found to be in hyperinflation for the year ended 30 September 2019. However, the hyperinflation accounting impact was found to be immaterial in consideration of the group's decision to dispose of the operations. Therefore, it was decided that no adjustments would be made to the group's results for the Zimbabwean operations as being hyperinflationary.

8. EARNINGS AND HEADLINE EARNINGS PER SHARE

Earnings and headline earnings per share are calculated in notes 8.1 to 8.5 below:

	Year ended 30 September 2019 Continuing Cents	Year ended 30 September 2019 Discontinued Cents	Year ended 30 September 2019 Total Cents	Year ended 30 September 2018 Continuing Cents	Year ended 30 September 2018 Discontinued Cents	Year ended 30 September 2018 Total Cents
Earnings per share (cents)						
Basic (note 8.3)	**64.6**	**(2.0)**	**62.6**	83.3	0.3	83.6
Headline (note 8.4)	**98.3**	**(1.5)**	**96.8**	84.2	0.3	84.5
Diluted basic (note 8.3)	**64.2**	**(2.0)**	**62.2**	83.1	0.3	83.3
Diluted headline (note 8.4)	**97.7**	**(1.5)**	**96.2**	84.0	0.3	84.2

8.1 Earnings and headline earnings attributable to owners of the parent

	Rm	Rm	Rm	Rm	Rm	Rm
Profit for the year	**2 231**	**(70)**	**2 161**	2 884	11	2 895
Attributable to non-controlling interests	**(1)**	**–**	**(1)**	(10)	–	(10)
Earnings attributable to ordinary shareholders	**2 230**	**(70)**	**2 160**	2 874	11	2 885
Capital items (note 4)	**1 278**	**18**	**1 296**	37	–	37
Taxation effect of capital items (note 4)	**(115)**	**–**	**(115)**	(5)	–	(5)
Headline earnings	**3 393**	**(52)**	**3 341**	2 906	11	2 917

8.2 Weighted average number of ordinary shares

	30 September 2019 Million	30 September 2018 Million
Issued ordinary shares at beginning of the year	**3 450**	3 450
Weighted average number of ordinary shares at end of the year for the purpose of basic earnings per share and headline earnings per share	**3 450**	3 450
Effect of dilution due to share rights issues in terms of share scheme (note 24)[1]	**22**	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	**3 472**	3 460

[1]Share rights issued to employees have been taken into account for diluted earnings and diluted headline earnings per share purposes.

	Year ended 30 September 2019			Year ended 30 September 2018		
	Continuing Cents	Discontinued Cents	Total Cents	Continuing Cents	Discontinued Cents	Total Cents
8. EARNINGS AND HEADLINE EARNINGS PER SHARE (CONTINUED)						
8.3 Earnings per share						
The calculation of per share numbers uses the exact unrounded numbers, which may result in differences when compared to calculating the numbers using the rounded number of shares and earnings as disclosed below.						
Basic earnings per share						
Basic earnings per share	**64.6**	**(2.0)**	**62.6**	83.3	0.3	83.6
Diluted earnings per share						
Diluted earnings per share	**64.2**	**(2.0)**	**62.2**	83.1	0.3	83.3
8.4 Headline earnings per share						
Headline earnings is an additional earnings number that is permitted by IAS 33. The starting point is earnings as determined in IAS 33, excluding separately identifiable remeasurements, net of related taxation (both current and deferred) and related non-controlling interests other than remeasurements specifically included in headline earnings. This number is required to be reported by the JSE and is defined by Circular 4/2018: *Headline Earnings*.						
Headline earnings per share						
Headline earnings per share	**98.3**	**(1.5)**	**96.8**	84.2	0.3	84.5
Diluted headline earnings per share						
Diluted headline earnings per share	**97.7**	**(1.5)**	**96.2**	84.0	0.3	84.2
8.5 Net asset value per share						
Net asset value per ordinary share is calculated by dividing the ordinary shareholders' equity by the number of ordinary shares in issue at year-end.						
Net asset value per share			**1 640.4**			1 614.7

	2019 Rm	2018 Rm
9. GOODWILL		
Carrying amount at beginning of the year	**42 537**	42 458
Arising on business combinations (note 26)	**–**	79
Impairments (note 4)	**(672)**	–
Carrying amount at end of the year	**41 865**	42 537
Cost	**43 391**	43 391
Accumulated impairment	**(1 526)**	(854)
Carrying amount at end of the year	**41 865**	42 537

When the group acquires a business that qualifies as a business combination in respect of IFRS 3: *Business Combinations*, the group determines the fair value of assets acquired, including identifiable intangible assets, and the liabilities assumed. Any excess of the aggregate of the consideration transferred, non-controlling interest in the acquiree and for a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the fair value of those net assets, is considered to be goodwill. The goodwill acquired in a business combination is allocated, at acquisition, to the group of CGUs that is expected to benefit from that business. Goodwill is assessed for impairment annually, irrespective of whether there is any indication of impairment.

Review of impairment
The impairment test compares the carrying amount of the CGU, including goodwill to the higher of the value in use, or fair value less cost to sell of the unit. The recoverable amount of the group of CGUs is determined from the value-in-use calculation, using a discounted cash flow model. The key assumptions for the value-in-use calculation are those regarding the discount rates, growth rates, expected changes to the revenue growth during the forecast period and working capital requirements. The discount rates are based on the weighted average cost of capital, while growth rates are based on management's experience and expectations. Growth rates used do not exceed the long-term average growth rate for the area in which the group of CGUs operates. Assumptions are based on past practices and expectations of future changes in the market and are derived from the most recent financial budgets and forecasts that have been prepared by management for the next year and extrapolated cash flows for the following years based on an estimated growth rate as set out below.

The general slowdown experienced in the construction sector at large continued during the current financial year. The building contractors' element of the Business Confidence Index recorded a 20-year low[1]. The building materials segment was significantly affected by the depressed activity during the financial year. The current performance, considered in line with the medium-term outlook of the business and the industry, has led to a significant decrease in expected future cash generation relating to the building materials segment.

An impairment charge is required for both goodwill and other indefinite life intangible assets when the carrying amount exceeds the recoverable amount. The recoverable amount of the CGU reflected the value in use, which was higher than the fair value less cost to sell. During the year, an impairment charge of R672 million was processed to impair the goodwill relating to the building materials' CGU to its recoverable amount (2018: Rnil).

Impairment tests for CGUs containing goodwill
Goodwill is monitored by management at the following group of CGUs, not greater than the four operating segments identified in note 1:

	2019 Rm	2018 Rm
Clothing and general merchandise		
Ackermans, Dunns, John Craig, PEP, PEP Africa, Refinery, Shoe City, Tenacity	**39 320**	39 320
Tekkie Town	**2 251**	2 251
Furniture, appliances and electronics		
Bradlows, HiFi Corporation, Incredible Connection, Rochester, Russells, Sleepmasters	**12**	12
Building materials		
BUCO, Hardware Warehouse, Timbercity	**–**	593
BSG	**–**	79
FinTech		
Call centre and debt collector	**282**	282
	41 865	42 537

[1] *BER 2019 Q3 report*

9. GOODWILL (CONTINUED)

The following table sets out the key assumptions for the group of CGUs that have significant goodwill allocated to them:

	Clothing and general merchandise (excl Tekkie Town)	Tekkie Town	Furniture, appliances and electronics	Building materials	FinTech
2019					
Pre-tax discount rate	**16.5%**	**16.2%**	**17.4%**	**18.0%**	**19.8%**
Medium-term revenue (annual growth rate)	**10.5%**	**10.8%**	**6.0%**	**4.5%**	**10.3%**
Long-term growth rate	**6.0%**	**6.0%**	**6.0%**	**5.0%**	**6.0%**
Forecasted cash flows	**5 years**	**5 years**	**5 years**	**5 years**	**5 years**
2018					
Pre-tax discount rate	16.4%	16.7%	16.9%	16.9%	16.4%
Medium-term revenue (annual growth rate)	11.9%	11.1%	7.4%	5.4%	5.6%
Long-term growth rate	6.0%	6.0%	6.0%	5.0%	6.0%
Forecasted cash flows	5 years	5 years	5 years	5 years	5 years

Management have determined the values assigned to each of the above key assumptions as follows:

Pre-tax discount rate	Reflect specific risks relating to the relevant segments and the countries in which they operate.
Revenue	Average annual growth rate over the budgeted period; based on current industry trends and including long-term inflation forecasts for each group of CGUs.
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the five-year period. The rates are consistent with forecasts included in industry reports.

Sensitivity analysis

Management has adjusted the cash flows of the group of CGUs for entity-specific risk factors to arrive at the future cash flows expected to be generated from the group of CGUs. There is no indication based on a reasonable fluctuation in those risk factors that the goodwill is impaired.

The recoverable amount substantially exceeds the carrying amount of the following group of CGUs: clothing and general merchandise excluding Tekkie Town, furniture, appliances and electronics, and FinTech. No sensitivity analysis is therefore presented in relation to changes in assumptions underpinning the impairment tests performed.

The recoverable amount of the Tekkie Town CGU is estimated to exceed the carrying amount of the CGU at 30 September 2019 by R260 million (30 September 2018: R283 million).

The recoverable amount of the Tekkie Town CGU would be equal to its carrying amount if the key assumptions were to change as follows:

	From %	To %
2019		
Pre-tax discount rate	**16.2**	**16.9**
Long-term growth rate	**6.0**	**5.2**
Medium-term working capital improvement	**10.0**	**5.7**
2018		
Pre-tax discount rate	16.7	17.5
Long-term growth rate	6.0	5.0

The directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the Tekkie Town CGU to exceed its recoverable amount.

	Trade and brand names[1] Rm	Software and ERP systems Rm	Customer lists Rm	Total Rm
10. INTANGIBLE ASSETS				
Balance at 1 October 2017	18 127	241	–	18 368
Additions	–	72	–	72
Acquired on acquisition of businesses (note 26)	72	5	19	96
Amortisation	–	(81)	(4)	(85)
Transfer from property, plant and equipment (note 11)	–	61	–	61
Balance at 30 September 2018	**18 199**	**298**	**15**	**18 512**
Additions	**3**	**141**	**–**	**144**
Amortisation	**–**	**(137)**	**(4)**	**(141)**
Impairment (note 4)	**(547)**	**–**	**–**	**(547)**
Transfer from property, plant and equipment (note 11)	**–**	**11**	**–**	**11**
Balance at 30 September 2019	**17 655**	**313**	**11**	**17 979**
Cost	18 840	1 301	36	20 177
Amortisation and impairment	(641)	(1 003)	(21)	(1 665)
Net book value at 30 September 2018	18 199	298	15	18 512
Cost	**18 843**	**1 453**	**36**	**20 332**
Amortisation and impairment	**(1 188)**	**(1 140)**	**(25)**	**(2 353)**
Net book value at 30 September 2019	**17 655**	**313**	**11**	**17 979**

[1] Patents and trademarks have been aggregated with trade and brand names

An impairment charge is required on indefinite life intangible assets when the carrying amount exceeds the recoverable amount. During the year, an impairment charge of R547 million was processed to impair the trade and brand names relating to the building materials CGU to its recoverable amount (2018: Rnil).

	Trade and brand names Rm	Software and ERP systems Rm	Customer lists Rm	Total Rm
Classification of intangible assets				
2019				
Indefinite useful life assets	**17 655**	**–**	**–**	**17 655**
Definite life assets	**–**	**313**	**11**	**324**
	17 655	**313**	**11**	**17 979**
2018				
Indefinite useful life assets	18 199	–	–	18 199
Definite life assets	–	298	15	313
	18 199	298	15	18 512

Trade and brand names

The carrying value of the trademarks below are included in the following group of CGUs:

	2019 Rm	2018 Rm
Clothing and general merchandise		
Ackermans, Dunns, John Craig, PEP, PEP Africa, Refinery, Shoe City, Tenacity	**15 981**	15 978
Tekkie Town	**766**	766
Furniture, appliances and electronics		
Bradlows, HiFi Corporation, Incredible Connection, Rochester, Russells, Sleepmasters	**908**	908
Building materials		
BUCO, BSG, Tiletoria, Timbercity	**–**	547
	17 655	18 199

Refer to note 9 for the assumptions relating to the impairment tests for the group of CGUs containing intangible assets other than software and ERP systems.

10. INTANGIBLE ASSETS (CONTINUED)

Impairment

An impairment charge is required for both goodwill and other indefinite life intangible assets when the carrying amount exceeds the recoverable amount. The recoverable amount of the CGU reflected the value in use. Indefinite useful life intangible assets were tested for impairment during the year and an impairment of R547 million (30 September 2018: Rnil) was recognised relating to the building materials segment.

There is no indication based on a reasonable fluctuation in the key assumptions that the remaining balance of the indefinite useful life intangible assets is impaired, other than those specifically indicated in note 9 under sensitivity disclosure.

No impairment relating to software was recognised in the current and prior financial year. There is no indication that the software and ERP systems are impaired.

All impairment testing was done consistently with methods used in the prior year.

Useful lives

Under IAS 38, the useful life of an asset is either finite or indefinite. An indefinite life does not mean an infinite useful life, but rather that there is no foreseeable limit to the period over which the asset can be expected to generate cash flows for the entity. Intangible assets with an indefinite useful life are not amortised; an impairment test is performed at least annually as well as an annual review of the assumptions used to determine the useful life.

The majority of the group's trade names, brand names and/or trademarks have been assessed as having an indefinite useful life. The majority of these trade names and brand names were assessed independently at the time of the acquisitions, and the indefinite useful life assumptions were supported by the following evidence:

- The industry is mature and well established.
- The trade names, brand names and/or trademarks are long established relative to the market and have been in existence for a long time.
- The intangible assets relate to trade names, brand names, trademarks and patents rather than products and are therefore not vulnerable to typical product life cycles or to the technical, technological, commercial or other types of obsolescence that can be seen to limit the useful lives of other trade names and brand names.
- There is a relatively low turnover of comparable intangible assets, implying stability within the industry.

Review of impairment

The impairment test compares the carrying amount of the CGU, including goodwill to the higher of the value in use, or fair value of the unit. The recoverable amount of the group of CGUs is determined from the value-in-use calculation. The key assumptions for the value-in-use calculation are those regarding the discount rates, growth rates and the expected changes to the selling prices and the direct costs during the period. The discount rates are based on the weighted average cost of capital, while growth rates are based on management's experience and expectations. Growth rates used do not exceed the long-term average growth rate for the area in which the CGU operates. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market and are derived from the most recent financial budgets and forecasts that have been prepared by management for the next year and extrapolated cash flows for the following years based on an estimated growth rate.

Where an intangible asset, such as a trademark, trade name and brand name and/or patent, has been assessed as having an indefinite useful life (see accounting policies), the cash flow of the group of CGUs, supporting the goodwill and driven by the trademark, brand or patent is also assumed to be indefinite.

The key assumptions for those groups of CGUs that have significant intangible assets allocated to them are presented in note 9.

	Land and buildings Rm	Furniture and fittings Rm	Leasehold improvements Rm	Other assets Rm	Total Rm
11. PROPERTY, PLANT AND EQUIPMENT					
Balance at 30 September 2017	943	2 072	445	1 153	4 613
Additions	108	830	190	671	1 799
Depreciation	(24)	(552)	(141)	(332)	(1 049)
Disposals	–	(20)	(16)	(10)	(46)
Disposals to related party (note 29)	(83)	–	–	–	(83)
Impairment (note 4)	–	(11)	(3)	(6)	(20)
Acquisition of businesses (note 26)	30	6	1	52	89
Reclassification	(13)	5	40	(32)	–
Transfer to intangible assets (note 10)	–	–	–	(61)	(61)
Exchange differences on consolidation of foreign subsidiaries	(33)	43	1	(2)	9
Balance at 30 September 2018	**928**	**2 373**	**517**	**1 433**	**5 251**
Additions	**70**	**769**	**193**	**539**	**1 571**
Depreciation from continuing and discontinued operations	**(30)**	**(593)**	**(154)**	**(381)**	**(1 158)**
Disposals	**–**	**(38)**	**(6)**	**(27)**	**(71)**
Impairment (note 4)	**–**	**(17)**	**(5)**	**(22)**	**(44)**
Reclassification	**1**	**322**	**22**	**(345)**	**–**
Transfer to intangible assets (note 10)	**–**	**–**	**–**	**(11)**	**(11)**
Transfer to discontinued operation (note 18)	**(3)**	**–**	**–**	**–**	**(3)**
Exchange differences on consolidation of foreign subsidiaries	**(24)**	**(41)**	**(4)**	**–**	**(69)**
Balance at 30 September 2019	**942**	**2 775**	**563**	**1 186**	**5 466**
Cost	1 023	5 121	1 105	3 194	10 443
Accumulated depreciation and impairment	(95)	(2 748)	(588)	(1 761)	(5 192)
Net book value at 30 September 2018	928	2 373	517	1 433	5 251
Cost	**1 060**	**5 718**	**1 283**	**3 155**	**11 216**
Accumulated depreciation and impairment	**(118)**	**(2 943)**	**(720)**	**(1 969)**	**(5 750)**
Net book value at 30 September 2019	**942**	**2 775**	**563**	**1 186**	**5 466**

Land and buildings
Details of land and buildings are available for inspection by shareholders on request at the various registered offices of the company and its subsidiaries.

Other assets
Other assets comprise: computer equipment, motor vehicles, office equipment and capital work in progress. Capital work in progress is not depreciated.

Encumbered assets
Assets with a book value of R22 million (2018: R38 million) are encumbered. The encumbered assets relate to the finance leases disclosed under note 20.

Insurance
Property, plant and equipment, with the exception of motor vehicles and land, are insured at approximate cost of replacement. Motor vehicles are insured at market value.

Impairment losses
During the year, an impairment charge of R44 million was processed to impair the property, plant and equipment to its recoverable amount. The impairment related to assets included in the clothing and general merchandise segment. An impairment of R18 million related to assets of PEP Africa, where stores were closed and assets no longer in use. Computer assets of R21 million were no longer in use as these assets were replaced by newer versions (making the previous versions redundant), and R5 million relates to other assets no longer in use.

Refer to Capital items included in note 4.

Useful lives
The estimated useful lives are reflected in the accounting policies.

	Place of incorporation	% ownership interest	Nature of relationship	Carrying amount Investment[1] Rm	Carrying amount Loan Rm
12. INTERESTS IN ASSOCIATE					
12.1. Balance at 30 September 2019					
S'Ya Phanda Proprietary Limited	**South Africa**	**46**	**Associate**	**–**	**50**
				–	**50**

[1] During the year, the group acquired 46 shares at R1 each in S'Ya Phanda Proprietary Limited and advanced loan funding to the entity for black supplier development initiatives. The entity provides BEE consulting services and is intended to make strategic investments.

The loan is secured, interest free and is repayable on 396 day notice.

Through the shareholder agreement, the group is guaranteed one of three or two of five seats on the board of S'Ya Phanda and participates in all significant financial and operating decisions. The group has therefore determined that it has significant influence over this entity.

	2019 Rm
12.2 Details of assets and liabilities of associate at year-end	
Current assets	
Cash and cash equivalents	**50**
Total assets	**50**
Non-current liabilities	
Loans due to related parties	**50**
Total equity and liabilities	**50**

	2019 Rm	2018 Rm
13. INVESTMENTS AND LOANS		
Long-term investments and loans		
Held to maturity[1]		
Unlisted investments		
Angola government bonds	–	128
Available for sale[1]		
Unlisted investments		
Other	–	33
Fair value through OCI[1]		
Unlisted investments		
Other	**2**	–
Loans and receivables at amortised cost[1]		
Gross loans to employees and key management	**167**	152
Impairment against loans	**(100)**	(60)
Net loans to employees and key management	**67**	92
Unlisted bonds	**105**	–
	174	253

[1] *Refer to note 28.1 for the reclassification of financial asset under IFRS 9.*

Details of other investments are available at the registered office of the company for inspection by shareholders.

Loans to current and previous members of key management and employees

Loans were advanced in the prior years to current and previous employees and members of key management to enable them to purchase shares in an investment company (BVI). Refer to note 29 for the details relating to the loan balances to key management members. Refer to note 28 for more information on the guarantee exposure that has been provided by Pepkor to a third party, for loans due by BVI.

The loans to current and previous members of key management and employees consist of various loans that are repayable by November 2021, bearing interest at market-related interest rates.

These loans are shown net of a provision for expected credit losses of R100 million (provision for doubtful debts 2018: R60 million). On adoption of IFRS 9, the group assessed the impairment provision recognised under IAS 39 and concluded that there was no material impact on adoption of IFRS 9.

The group holds the employee shares in BVI as security for the loans provided to current and previous employees and members of key management and employees.

The fair value of loans are disclosed in note 28.

Unlisted bonds

Angola government bonds are issued by the ministry of finance in Angola. The bonds are denominated in Angola kwanza and earn interest at the rates below. The balance of the ministry of finance bond is R98 million at 30 September 2019.

Standard Bank bonds are issued by the Standard Bank in Angola. The bonds are denominated in Angola kwanza, earn interest at the rates stated below. The balance of the Standard Bank bond is R7 million at 30 September 2019.

	Issue date	Coupon rate	Maturity date
Ministry of finance bond	23/08/2018	12.25%	23/08/2021
Standard Bank bond	11/12/2018	17.00%	11/12/2021

The maximum exposure to credit risk at reporting date is limited to the carrying value. None of the government bonds are past due or impaired. The group does not hold any collateral as security.

The Moody's credit rating classifies the credit risk relating to Angola bonds as B3 (refer to note 28.5 for the Moody's rating scale).

On adoption of IFRS 9, the group assessed the bonds for expected credit losses and concluded that there was no significant impact on adoption.

Refer to note 28.5 for credit risk assessment of the above investments and loans.

Unconsolidated structured entities

BVI is an investment company in which the group does not hold an equity interest. Current and previous employees and members of key management are shareholders of BVI. The group has extended loans to these employees and key management (as described above) and has guaranteed the debt of BVI to RMB (refer to notes 22 and 28.6). BVI's only asset consists of an investment in Steinhoff shares.

14. DEFERRED TAXATION (LIABILITIES)/ASSETS

14.1 Deferred taxation movement (liabilities)/assets

	2019 Rm	2018 Rm
Balance at beginning of the year	**(2 777)**	(2 464)
Deferred taxation of businesses acquired (note 26)	**–**	23
Amounts charged directly to OCI and equity		
Cash flow hedging reserve and share-based payment reserve	**41**	(100)
Current year charge		
Exchange differences from translation of net investment in foreign operations	**(5)**	161
Effect of adopting IFRS 9: *Financial instruments*	**32**	–
Hyperinflation	**–**	(27)
Current year charge from continuing operations (note 6)	**(87)**	(374)
Current year charge from discontinued operations (note 6)	**6**	3
Exchange differences on consolidation of foreign subsidiaries	**(5)**	1
Balance at end of the year	**(2 795)**	(2 777)

14.2 Deferred taxation balances

The corporate taxation rate in South Africa is 28% (2018: 28%) and the capital gains taxation rate 22.4% (2018: 22.4%). Deferred taxes for non-South African subsidiaries are calculated based on taxation rates that have been enacted or substantively enacted by the reporting date.

	2019 Rm	2018 Rm
Total deferred taxation liabilities	**(4 037)**	(4 142)
Total deferred taxation assets	**1 242**	1 365

Realisation of the deferred taxation assets are expected out of future taxable income, which was assessed and deemed to be reasonable based on the budgets of the various statutory entities.

Deferred taxation balance comprises:	2019 Rm	2018 Rm
Intangible assets	**(3 953)**	(4 070)
Prepayments and provisions	**405**	482
Taxation losses	**48**	298
Operating leases	**161**	176
Doubtful debts	**300**	101
Property, plant and equipment	**(37)**	94
Share-based payments	**40**	23
Unrealised foreign exchange gain	**27**	9
Deferred revenue	**168**	38
Other	**46**	72
	(2 795)	(2 777)

	2019 Rm	2018 Rm
14. DEFERRED TAXATION (LIABILITIES)/ASSETS (CONTINUED)		
14.3 Unrecognised deferred taxation assets		
Deferred taxation assets have not been recognised in respect of the following item:		
Taxation losses	**2 271**	2 009

The taxation losses and deductible temporary differences do not expire under current taxation legislation, with the exception of certain African jurisdictions. Deferred taxation assets have not been recognised in respect of these items because it is not yet probable that future taxable profits will be available against which the group can realise the benefits therefrom. Deferred taxation assets are assessed at each statutory entity individually. The utilisation of the deferred taxation asset recognised is dependent on future taxable profits that are in line with budgets.

	2019 Rm	2018 Rm
14.4 Taxation losses		
Estimated taxation losses available for offset against future taxable income	**2 475**	3 081

	2019 Rm	2018 Rm
15. TRADE AND OTHER RECEIVABLES		
Current trade and other receivables		
Trade receivables[1]	**1 562**	1 838
Related-party receivables (note 29)	**2**	69
Instalment sale receivables[2]	**1 479**	187
Credit sales through store cards[2]	**2 822**	2 350
Total gross trade receivables, instalment sale receivables and credit sales through store cards	**5 865**	4 444
Less: Provision for expected credit losses (2018: bad debts) relating to trade receivables (note 28.5)[2]	**(184)**	(112)
Less: Provision for expected credit losses (2018: bad debts) relating to instalment sale receivables (note 28.5)[2]	**(490)**	(46)
Less: Provision for expected credit losses (2018: bad debts) relating to credit sales through store cards (note 28.5)[2]	**(479)**	(329)
Total trade receivables, instalment sale receivables and credit sales through store cards	**4 712**	3 957
Other amounts due[1, 2]	**1 641**	1 339
Less: Provision for expected credit losses (2018: bad debts) relating to other amounts due (note 28.5)[2]	**(69)**	(43)
Derivative financial assets	**186**	318
Current trade and other receivables (financial assets)	**6 470**	5 571
Prepayments	**139**	173
Value-added taxation receivable	**200**	130
	6 809	5 874

[1] Reclassification of R228 million between trade receivables and other amounts due in the prior year to better reflect comparative results.
[2] Receivables and provision for bad debts for the prior year have been split between other amounts due, instalment sale receivables and credit sales through store cards to better reflect the nature of the credit granted. Refer to note 34 for details of restatements relating to new accounting standards effective for the current financial year.

For normal trade receivables the credit period on the sale of goods is between 30 and 90 days, whereas the credit period for credit granted through store cards is between 30 and 360 days and instalment sales can be up to three to five years. Where relevant, interest is charged at market-related rates on the gross outstanding balances, unless the outstanding balance is credit-impaired. Then interest is calculated on the net outstanding balance.

Before accepting any new customers, credit risk management uses various credit bureaux and performs credit assessments. These customers' credit ratings are reviewed on a regular basis. To assess the new customer's credit potential and credit limit, the credit rating together with the customer affordability, as detailed below, is taken into consideration.

For credit sales through instalment sale receivables customer affordability is also taken into consideration before accepting any new customers. This process involves collecting information regarding the customer's income, current debt obligations and additional expenses. The group has its own expense model, in addition to the National Credit Regulator's expense table. The following factors are then taken into consideration, in consultation with the customer, to conclude the affordability of each: assessing existing financial means and prospects, existing financial obligations and debt repayment history.

For credit sales through store cards, customer affordability is also taken into consideration before accepting any new customers. This process involves collecting information regarding the customer's income and expenses as well as independently obtained data regarding the prescribed minimum expenses and listed credit commitments. The customer's disposable income is then derived and the calculation with the most conservative value is used in determining the potential customer's credit limit.

Given the diverse nature of the group's operations, it does not have significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers.

No customer represents more than 5% of the total trade receivables at year-end.

The group's exposure to credit risk related to trade and other receivables and the movement in the provision for expected credit losses (2018: bad debts) is disclosed in note 28.5.

The trade and other receivables, other than derivative financial assets, are denominated in the functional currency of the various subsidiaries. The total exposure to credit risk is therefore limited to the carrying value of the receivables. Refer to note 28.3 for the foreign currency risk relating to derivative financial assets.

	2019 Rm	2018 Rm
16. LOANS TO CUSTOMERS		
Current loans to customers		
Loans receivable from customers	**2 154**	–
Less: Provision for expected credit losses	**(331)**	–
	1 823	–
Long-term loans receivable from customers	**154**	–
Short-term loans receivable from customers	**1 669**	–
	1 823	–

Loans receivables from customers consist of unsecured lending with repayment terms of between three and 24 months and attract interest based on rates as determined by the National Credit Act.

Before accepting any new customers, credit risk management uses various credit bureaux and performs credit assessments. These customers' credit ratings are reviewed on a regular basis. To assess the potential customer's credit potential and credit limit, the credit rating together with the customer affordability, as detailed below, is taken into consideration.

Customer affordability is also taken into consideration before accepting any new customers. This process involves collecting information regarding the customer's income, current debt obligations and additional expenses. The group has its own expense model, in addition to the National Credit Regulator's expense table. The following factors are then taken into consideration, in consultation with the customer, to conclude the affordability of each: assessing existing financial means and prospects, existing financial obligations and debt repayment history.

Given the diverse nature of the group's operations, it does not have significant concentration of credit risk in respect of loans to customers, with exposure spread over a large number of customers.

The group's exposure to credit risk related to loans to customers is disclosed in note 28.5.

	2019 Rm	2018 Rm
17. INVENTORIES		
17.1 Inventories at cost less provisions		
Finished goods and merchandise	**12 603**	11 755
Goods in transit	**1 146**	1 030
Raw materials and other inventories	**76**	65
	13 825	12 850
17.2 Amount of write-down to net realisable value recognised as an expense during the year	**449**	489
17.3 Movement in the provision for inventory shrinkage, obsolescence and markdowns was as follows:		
Balance at beginning of the year	**(643)**	(778)
Acquired on acquisition of businesses (note 26)	**–**	(36)
Charge for the year	**(309)**	(210)
Amounts used during the year	**199**	255
Unused amounts reversed	**189**	110
Transferred to discontinued operation	**25**	–
Foreign currency translation	**3**	16
Balance at end of the year	**(536)**	(643)

	2019 Rm
18. ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS DISCONTINUED OPERATION	
The following assets and liabilities were classified as held for sale in relation to the discontinued operation as at 30 September 2019. Refer to note 7 for further detail:	
18.1 Assets	
Property, plant and equipment (note 11)	**3**
Investments and loans	**2**
Trade and other receivables	**2**
Inventories	**2**
Cash and cash equivalents	**9**
Total gross assets	**18**
Loss recognised due to remeasurement of disposal group to fair value (note 4)	**(18)**
Total assets post impairment	**–**
18.2 Liabilities	
Trade and other payables	**(2)**
Total liabilities	**(2)**
18.3 Net assets	**(2)**

	2019	2018
19. SHARE CAPITAL		
19.1 Authorised – ordinary		
Ordinary shares of no par value (number)	**20 000 000 000**	20 000 000 000
19.2 Issued – ordinary		
Balance at beginning of the year	**3 450 000 000**	3 450 000 000
Total issued ordinary stated share capital (number)	**3 450 000 000**	3 450 000 000
19.3 Issued – ordinary		
Balance at beginning of the year (Rm)	**64 690**	64 690
Total issued ordinary stated share capital (Rm)	**64 690**	64 690
19.4 Unissued shares		
Shares reserved for future participation in share schemes	**500 000 000**	500 000 000
Shares under the control of the directors	**172 500 000**	258 750 000
Unissued shares	**15 877 500 000**	15 791 250 000
Total unissued shares (number)	**16 550 000 000**	16 550 000 000

By way of general authority, shareholder approval was granted to the board to issue up to 172.5 million (5% of issued share capital) (2018: 258.7 million, 7.5% of issued share capital) shares for cash, subject to the provisions of the memorandum of incorporation (MOI) and the JSE Listings Requirements, which authority shall endure until the next AGM of the company.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the company.

	2019	2018
19.5 Authorised – preference share capital		
Non-redeemable, non-cumulative, non-participating preference shares of no par value	**5 000 000**	5 000 000
Non-redeemable, cumulative, non-participating preference shares of no par value	**2 500 000**	2 500 000
Redeemable, non-cumulative, non-participating preference shares of no par value	**2 500 000**	2 500 000
Redeemable, cumulative, non-participating preference shares of no par value in the following classes:		
Class A1 redeemable, cumulative, non-participating preference shares of no par value	**10 000 000**	10 000 000
Class A2 redeemable, cumulative, non-participating preference shares of no par value	**10 000 000**	10 000 000
Class A3 redeemable, cumulative, non-participating preference shares of no par value	**10 000 000**	10 000 000
Class A4 redeemable, cumulative, non-participating preference shares of no par value	**10 000 000**	10 000 000
Class A5 redeemable, cumulative, non-participating preference shares of no par value	**10 000 000**	10 000 000
Total authorised preference share capital	**60 000 000**	60 000 000

As at the reporting date, preference share capital authorised is not in issue.

	2019 Rm	2018 Rm
20. INTEREST-BEARING LOANS AND BORROWINGS		
20.1 Analysis of closing balance: External interest-bearing loans and borrowings		
Secured financing		
Term loans	**7 000**	7 000
Preference debt[1]	**6 000**	6 000
Revolving credit facilities	**2 500**	2 500
General banking facility	**–**	–
Bridge facility	**1 500**	–
Capitalised finance lease and instalment sale agreements	**18**	37
	17 018	15 537
Total interest-bearing loans and borrowings	**17 018**	15 537
Portion payable within 12 months included in current liabilities	**(1 510)**	(19)
Total non-current interest-bearing loans and borrowings	**15 508**	15 518
20.2 Analysis of closing balance: Loans due to related parties		
Total loans to related parties (note 29)	**–**	173
Portion payable within 12 months included in current liabilities	**–**	(173)
Total non-current loans due	**–**	–
20.3 Analysis of repayment: External loans		
Repayable within the next year and thereafter – current and non-current split		
Next year	**1 510**	19
Within two years	**5 006**	10
Within three years	**8 002**	5 005
Within four years	**2 500**	8 003
Within five years	**–**	2 500
	17 018	15 537
20.4 Analysis of repayment: Loans due to related parties		
Repayable within the next year and thereafter		
Next year	**–**	173
	–	173

[1] The Class A cumulative redeemable preference shares are subject to repayment terms and qualify as a financial liability in accordance with IFRS 9 (2018: IAS 32).

The group entered into bridge facilities to the value of R2.5 billion on 19 March 2019 for a maximum period of 18 months. The bridge facilities were mainly introduced to fund the growth in the instalment sale receivables and loans to customers as disclosed under note 15 and 16 respectively. As at 30 September 2019, only R1.5 billion of these facilities was drawn.

Assets with a book value of R22 million (2018: R38 million) are encumbered as disclosed in note 11. No other financial assets have been pledged as collateral for either year presented.

The undiscounted cash flows of the remaining contractual maturity as well as the fair values of interest-bearing loans and borrowings are disclosed in note 28.6.

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20 . INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

20.5 Loan details

	Facility Rm	Maturity date	Interest rate	2019 Rm	2018 Rm
Unsecured					
Capitalised finance lease and instalment sale agreements	–	Various	Various	**18**	37
Secured hire purchase and lease agreements repayable in monthly or annual instalments over periods of one to five years. These leases are with various counterparties.					
Loans due:					
Term Loan A	2 500	24 May 2021	Three-month JIBAR plus 200 bps	**2 500**	2 500
Term Loan B	2 000	18 May 2022	Three-month JIBAR plus 215 bps	**2 000**	2 000
Term Loan C	2 500	18 May 2023	Three-month JIBAR plus 225 bps	**2 500**	2 500
Class A cumulative redeemable preference shares	6 000	23 May 2022	74% of Prime	**6 000**	6 000
Revolving credit facility (RCF)	2 500	24 May 2021	Three-month JIBAR plus 200 bps	**2 500**	2 500
General banking facility (GBF)	2 500	364 days	Linked to RSA Prime	**–**	–
Bridge facility	2 500	31 August 2020	Three-month JIBAR plus 145 bps	**1 500**	–
				17 018	15 537

Interest-bearing borrowings bear interest at variable, market-determined rates. These borrowings are measured at amortised cost, which approximates their fair value.

Refer to note 28.6 for the financial covenants and the guarantees provided in relation to the interest-bearing borrowings and loans.

Interest on external borrowings other than the GBF are payable quarterly in arrears. The interest on the GBF is payable on a monthly basis.

	2019 Rm	2018 Rm
21. EMPLOYEE BENEFITS		
Post-retirement medical benefits	**92**	78
Performance-based bonus accrual (note 21.3)	**549**	526
Leave pay accrual (note 21.3)	**284**	265
Other[1]	**106**	69
Total employee benefits	**1 031**	938
Transferred to short-term employee benefits	**(942)**	(847)
Long-term employee benefits	**89**	91

[1] Other relates to provision for thirteenth cheque.

21.1 Defined contribution plans

The group has various defined contribution plans to which employees contribute. The assets of these schemes are held in administered trust funds separate from the group's assets.

21.2 Defined benefit plans

A defined benefit plan is in operation within the group. The assets of this scheme are held in administered trust funds separate from the group's assets. If the funds have surpluses, these have not been recognised as the employer is not entitled to any of the surpluses or unutilised reserves.

	Performance-based bonus Rm	Leave pay Rm	Total Rm
21.3 Performance-based bonus and leave pay accruals			
Balance at 30 September 2017	467	249	716
Accrual raised	281	54	335
Amounts unused reversed	(36)	(12)	(48)
Amounts utilised	(193)	(31)	(224)
Acquisition of subsidiaries and businesses (note 26)	7	6	13
Exchange differences on consolidation of foreign subsidiaries	–	(1)	(1)
Balance at 30 September 2018	**526**	**265**	**791**
Accrual raised	**346**	**69**	**415**
Amounts unused reversed	**(9)**	**(7)**	**(16)**
Amounts utilised	**(457)**	**(39)**	**(496)**
Reclassification from accruals	**143**	**–**	**143**
Exchange differences on consolidation of foreign subsidiaries	**–**	**(4)**	**(4)**
Balance at 30 September 2019	**549**	**284**	**833**

Performance-based bonus accrual
The bonus payable is calculated by applying specific formulas based on the achievement of performance targets within the various divisions.

Leave pay accrual
The leave pay accrual relates to vesting leave pay to which employees may become entitled on leaving the employment of the group. The accrual arises as employees render a service that increases their entitlement to future compensated leave and is calculated based on an employee's total cost of employment. The accrual is utilised when employees become entitled to and are paid for the accumulated leave or utilise compensated leave due to them.

22. PROVISIONS

	Dilapidation, onerous lease and onerous contract provisions Rm	Severance provision Rm	Contingent liabilities raised on business combinations Rm	Financial guarantee regarding BVI Rm	Other Rm	Total Rm
Balance at 30 September 2017	136	–	713	–	209	1 058
Reclassification from other provisions	–	54	–	–	(54)	–
Provision raised	59	13	–	451	118	641
Amounts unused reversed	(4)	(26)	–	–	1	(29)
Amounts utilised	(73)	(3)	(240)	–	(62)	(378)
Reclassification between categories	17	–	–	–	(17)	–
Balance at 30 September 2018	**135**	**38**	**473**	**451**	**195**	**1 292**
Reclassification to financial guarantees[1] (note 28.6)	**–**	**–**	**–**	**(451)**	**–**	**(451)**
Balance at 30 September 2018	**135**	**38**	**473**	**–**	**195**	**841**
Provision raised	**7**	**–**	**–**	**–**	**15**	**22**
Reclassification between provisions and accruals	**–**	**–**	**–**	**–**	**46**	**46**
Reclassification due to accounting standard changes[2]	**–**	**–**	**–**	**–**	**(23)**	**(23)**
Amounts unused reversed	**–**	**–**	**(100)**	**–**	**–**	**(100)**
Amounts utilised	**(84)**	**(38)**	**–**	**–**	**(27)**	**(149)**
Balance at 30 September 2019	**58**	**–**	**373**	**–**	**206**	**637**

[1] Financial guarantees have been presented separately in the current financial year to improve disclosure. This was previously presented in provisions.
[2] The amount has been reclassified to deferred revenue in the current year due to accounting standard changes.

	2019 Rm	2018 Rm
Long-term provisions	**464**	564
Short-term provisions	**173**	277
	637	841

Dilapidation, onerous lease and onerous contract provisions
This includes provision for dilapidation of buildings occupied by the group and provision for long-term leases containing onerous provisions or terms in comparison with average terms and conditions of leases.

Contingent liabilities raised on business combinations
IFRS 3 requires certain contingent liabilities of the acquiree to be recognised and measured in a business combination at acquisition date fair value. Therefore, contrary to IAS 37: *Provision, Contingent Liabilities and Contingent Assets,* the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of economic benefits will be required to settle the obligation. This provision includes amounts for tax contingencies.

Other provisions
Other provisions are recognised when the group has a present constructive or legal obligation as a result of a past event, and when it is probable that it will result in an outflow of economic benefits that can be reasonably estimated. Included in other provisions are estimated costs related to product warranties and other transaction-related, legal and regulatory matters.

	2019 Rm	2018 Rm
23. TRADE AND OTHER PAYABLES		
Non-current trade and other payables		
Equalisation of operating lease payments	**461**	545
	461	545
Current trade and other payables		
Trade payables	**8 448**	7 544
Related-party payables (note 29)	**32**	221
Accruals	**1 025**	1 108
Overhead accruals, payroll-related creditors and other payables[1]	**1 245**	1 642
Derivative financial liabilities	**16**	84
Deferred revenue[2]	**796**	785
Contract liability (Lay-bys)	**477**	456
Deposit received from customers	**270**	305
Refund liability[3] (note 22)	**23**	–
Other deferred revenue	**26**	24
Trade and other payables (financial liabilities)	**11 562**	11 384
Equalisation of operating lease payments	**115**	86
Value-added taxation payable	**115**	118
Share scheme settlement payable (note 24)	**–**	7
	11 792	11 595

[1] Trade payables and deferred revenue for the prior year have been split between contract liability, deposit received from customers, refund liability and other deferred revenue to better reflect the nature of the items. Refer to note 34 for details of restatements relating to new accounting standards effective for the current financial year.
[2] Deferred revenue recognised will realise in the 2020 financial year, except for loan origination fees that are recognised over the lifetime of the loans granted to customers, which vary from six to 24 months.
[3] Refund liability of R9 million was included in provisions in the prior year. The amount has been reclassified to deferred revenue in the current year due to accounting standard changes.

24. SHARE SCHEME

24.1 Steinhoff scheme

Terms of the scheme
The obligations of Steinhoff and respective employer entities will remain for open grants granted prior to the listing of Pepkor. Pepkor now grants future share rights under the Pepkor Executive Share Rights Scheme. See note 24.2.

Executive Steinhoff Share Rights Scheme
The Executive Steinhoff Share Rights Scheme is subject to the following conditions:

a) Rights are granted to qualifying senior executives on an annual basis.
b) Vesting of rights occurs on the third anniversary of grant date, provided performance criteria, as set by Steinhoff's remuneration committee at or about the time of the grant date, have been achieved.
c) In the event of performance criteria not being satisfied by the third anniversary of the relevant annual grant, all rights attaching to the particular grant will lapse.

Reversal of Steinhoff share rights in the current year
Steinhoff published its 2017 results in May 2019. These financial statements included a restatement for the reversal of the Steinhoff Share Rights Scheme IFRS 2 charges. The restatement did not result in any material adjustment to the Pepkor financial statements. The group transferred the cumulative amount related to these grants from the share-based payment reserve to retained earnings in the year.

	Year ended 30 September 2019 Number of rights	Year ended 30 September 2018 Number of rights
Number of shares relating to grants still within measurement period		
The number of Steinhoff share rights outstanding is:		
At beginning of the year	**4 430 227**	5 774 774
Forfeited during the year[1]	**(2 030 893)**	(1 344 547)
Outstanding at end of the year	**2 399 334**	4 430 227

[1] Certain individuals left the group and therefore forfeited their share rights relating to the initial grants made. The Steinhoff remuneration committee decided, during the 2018 and 2019 financial years respectively, that the 2014 and 2016 grants would not vest.

Share scheme settlement arrangement
Rights granted under the Steinhoff Executive Share Rights Scheme are subject to a share scheme settlement arrangement whereby the subsidiary companies are required to pay the subscription price of shares granted to employees, equivalent to the quoted market price of such shares on the vesting date when the shares are secured by the subsidiary companies for delivery to the employees.

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
Fair value of share scheme settlement payable		
At beginning of the period	**7**	124
Decrease in fair value	**–**	(117)
Reversal to share-based payment reserve	**(7)**	–
Balance at end of the year	**–**	7

24.2 Pepkor Scheme

Terms of the scheme
Pepkor granted future share rights to share scheme participants under the Pepkor Executive Share Rights Scheme. The grants remain subject to meeting certain performance conditions (vesting conditions) over the vesting period.

Pepkor Executive Share Rights Scheme
The Pepkor Executive Share Rights Scheme is subject to the following conditions:

a) Rights are granted to qualifying senior executives on an annual basis.
b) Vesting of rights occurs on the third anniversary of grant date, provided performance criteria, as set by Pepkor Holdings Limited's remuneration committee at or about the time of the grant date, have been achieved.
c) In the event of performance criteria not being satisfied by the third anniversary of the relevant annual grant, all rights attaching to the particular grant will lapse.

	Year ended 30 September 2019 Number of rights	Year ended 30 September 2018 Number of rights
24. SHARE SCHEME (CONTINUED)		
24.2 Pepkor Scheme (continued)		
The number Pepkor share rights outstanding is:		
At beginning of the year	**9 726 354**	–
Granted during the year	**13 167 723**	11 262 942
Forfeited during the year[1]	**(421 039)**	(1 536 588)
Outstanding at end of the year	**22 473 038**	9 726 354

[1] Certain individuals left the group and therefore forfeited their share rights relating to the initial grants made.

Assumptions
The fair value of services received in return for share rights granted is measured by reference to the fair value of the share rights granted. The estimated fair value of the services received is measured based on the assumption that all vesting conditions are met and all employees remain in service. The pricing model used was the Monte Carlo simulation model. As the group was only listed in September 2017, the equity volatility was determined using the volatility of surrogate listed per daily closing share price over a rolling three-year period.

	2019 grant	2018 grant
Fair value of Pepkor share rights and assumptions:		
Fair value at grant date	**R19.51**	R18.86
Share price at grant date	**R20.50**	R20.41
Strike price	**Rnil**	Rnil
Expected volatility	**35.9%**	37.0%
Dividend yield	**1.7%**	2.7%
Risk-free interest rate	**7.2%**	6.9%
Option life	**3 years**	3 years

Refer to note 3.2 for the share-based payment expense for the year.

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
25. CASH GENERATED FROM OPERATIONS		
Operating profit from continuing operations	**5 519**	5 843
Operating (loss)/profit from discontinued operations	**(74)**	48
Operating profit	**5 445**	5 891
Adjusted for non-cash adjustments included in continuing and discontinued operations:		
Debtors' write-offs and movement in provision	**1 227**	302
Amortisation and depreciation (note 3.1)	**1 299**	1 134
Impairments (note 4)	**1 281**	20
Impairment of loans to current and previous employees and members of key management (note 13)	**40**	60
Inventories written down to net realisable value (note 17)	**449**	489
Net loss on disposal of property, plant and equipment and intangible assets (note 4)	**15**	16
Share-based payment expense (note 3.2)	**108**	120
Guarantee to RMB in relation to BVI (note 3.4)	**–**	451
BSG clawback settlement released through income statement (note 26)	**(28)**	–
Non-working capital provisions releases and other non-cash adjustments	**(77)**	160
Cash generated before working capital changes	**9 759**	8 643
Working capital changes		
Increase in inventories	**(1 981)**	(2 161)
Increase in trade and other receivables	**(302)**	(834)
Decrease/(increase) in derivative financial assets/liabilities	**498**	(137)
Decrease in non-current and current provisions	**(206)**	(204)
(Decrease)/increase in non-current and current employee benefits	**(12)**	121
Increase in trade and other payables	**289**	173
Increase in instalment sale receivables and credit sales through store cards	**(1 805)**	(289)
Increase in loans to customers	**(2 154)**	–
Net changes in working capital	**(5 673)**	(3 331)
Cash generated from operations	**4 086**	5 312

26. NET CASH FLOW ON ACQUISITION OF BUSINESSES

During the prior year, the group raised a receivable of R50 million, relating to the BSG clawback, based on the Building Supply Group of companies not achieving the contractually agreed EBITDA during the earn-out period ending 30 September 2018. During the year, management and the sellers, Invicta South Africa Holdings Proprietary Limited and NSM Holdings Proprietary Limited, agreed on a full and final settlement of R78 million. The settlement will be paid in three equal instalments, the first falling within the current financial year, on 1 July 2019, and the second and third falling after year-end on 1 October 2019 and 1 April 2020.

During the prior year, effective 1 October 2017, BSG was acquired by The Building Company, a wholly owned subsidiary of the group, for a equity purchase price of R297 million in cash.

26.1 The fair value of assets and liabilities recognised at date of acquisition

	2019 Rm	2018 Rm
Assets		
Intangible assets	–	96
Property, plant and equipment	–	89
Deferred taxation assets	–	23
Inventories	–	396
Trade and other receivables	–	84
Liabilities		
Interest-bearing loans and borrowings	–	(73)
Trade and other payables	–	(302)
Employee benefits	–	(13)
Bank overdraft and short-term facilities	–	(83)
Existing non-controlling interests	–	1
Total assets and liabilities acquired	**–**	218
Purchase price clawback	**(78)**	–
Goodwill attributable to acquisition	–	79
Total consideration	**(78)**	297
Purchase price clawback outstanding (included in debtors)	**52**	–
Net cash (inflow)/outflow on acquisition of subsidiaries	**(26)**	297

The goodwill arising on the acquisition of these companies is attributable to the strategic business advantages acquired, principal retail locations, 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 prior year in order to gain greater exposure to the floor covering segment of the hardware and building supply market, to supplement its current wholesale operations and to gain access to existing distribution capability into Africa.

Subsequent to acquisition, BSG continued to purchase from Invicta. These transactions were in the ordinary course of business.

Contingent liabilities currently recognised on business combination amount to Rnil (2018: Rnil).

26.2 Acquisition of businesses where all conditions precedent have not yet been met

The Competition Commission approved the group's acquisition of Abacus Holdco Proprietary Limited on 27 February 2019, and the due diligence investigation was concluded on 15 July 2019. The group has applied to the Prudential Authority for certain approvals, which process is still in progress.

	2019 Rm	2018 Rm
27. COMMITMENTS AND CONTINGENCIES		
27.1 Capital expenditure		
Contracts for capital expenditure	**82**	275
Capital expenditure authorised but not contracted for	**205**	176

Capital expenditure will be financed from cash and existing loan facilities.

27.2 Borrowing facilities

In terms of the MOI, the borrowing powers of the company are unlimited.

	2019 Rm	2018 Rm
27.3 Unutilised borrowing facilities at year-end		
Short term cash facilities	**4 706**	3 532
Other[1]	**2 354**	1 248
	7 060	4 780

[1] Other includes letters of credit, forex facilities and asset-based finance facilities.

27.4 Operating leases

Minimum payments under non-cancellable operating lease agreements payable within the next year and thereafter:

	2019 Rm	2018 Rm
Next year	**3 709**	3 381
Within two to five years	**6 454**	6 052
Thereafter	**873**	907
Total	**11 036**	10 340

The group has entered into various operating lease agreements on premises. Leased premises are contracted for remaining periods of between one and three years, with further renewal options thereafter. The majority of the property operating leases relate to retail stores from which the group trades. Other operating leases are negligible.

Contingent rent payable is calculated based on turnover level. The amount recognised in profit or loss was R10 million (2018: R6 million).

27.5 Contingent liabilities

Sellers of the Tekkie Town business allege that Pepkor is responsible for the payment of an earn-out to the sellers based on the performance of Pepkor Speciality Proprietary Limited (the legal entity under which the Tekkie Town business operates) for the period from 1 October 2017 to 30 September 2020. The sellers have also commenced legal proceedings for restitution of the Tekkie Town business. Based on legal advice, the directors are confident that outflow or potential success against Pepkor is remote.

Pepkor is exposed to a corporate financial guarantee pertaining to BVI. The investment by BVI initially consisted of Pepkor shares, but was converted to Steinhoff shares in 2015, following Steinhoff's acquisition of Pepkor. Due to the decline of the Steinhoff share price, the risk of liability to the guarantee given by Pepkor for third-party debt of BVI can no longer be considered remote and we have increased the amount payable to R491 million, representing the group's full exposure as at 30 September 2019 (2018: R451 million).

Refer to note 28.6 for the notional value and the maximum exposure to guarantees.

Certain companies in the group are involved in disputes where the outcomes are uncertain. The amounts arising in the course of business relate to uncertain tax positions, disputes with previous Tekkie Town management and other transactions. The directors are, however, confident that they will be able to defend these actions and that the potential of outflow or settlement is remote and, if not, that the potential impact on the group will not be material.

There is no other litigation, current or pending, which is considered likely to have a material adverse effect on the group.

28. FINANCIAL INSTRUMENTS

The executive team is responsible for implementing the risk management strategy to ensure that an appropriate risk management framework is operating effectively across the group, embedding a risk management culture throughout the group. The board and the audit and risk committee are provided with a consolidated view of the risk profile of the group, and any major exposures and relevant mitigating actions are identified.

The system of risk management is designed so that the different business units are able to tailor and adapt their risk management processes to suit their specific circumstances.

Regular management reporting and internal audit reports provide a balanced assessment of key risks and controls. The financial director provides quarterly confirmation to the board that financial and accounting control frameworks have operated satisfactorily and consistently.

The group does not speculate in the trading of derivative or other financial instruments. It is group policy to hedge exposure to cash and future contracted transactions.

	At fair value through other comprehensive income[1] Rm	At fair value through profit or loss[2] Rm	Financial assets and liabilities at amortised cost Rm	Total carrying values Rm
28.1 Total financial assets and liabilities				
30 September 2019				
Investments and loans (note 13)	2	–	172	174
Loans to customers (note 16)	–	–	154	154
Non-current financial assets	2	–	326	328
Trade and other receivables (financial assets) (note 15)	186	–	6 282	6 468
Loans to customers (note 16)	–	–	1 669	1 669
Related-party receivables (note 15)	–	–	2	2
Cash and cash equivalents	–	–	3 925	3 925
Current financial assets	186	–	11 878	12 064
Long-term interest-bearing loans and borrowings (note 20)	–	–	(15 508)	(15 508)
Non-current financial liabilities	–	–	(15 508)	(15 508)
Short-term interest-bearing loans and borrowings (note 20)	–	–	(1 510)	(1 510)
Bank overdrafts and short-term facilities	–	–	(347)	(347)
Trade and other payables (financial liabilities) (note 23)	(16)	–	(11 514)	(11 530)
Related-party payables (note 23)	–	–	(32)	(32)
Financial guarantees (note 28.6)	–	–	(491)	(491)
Current financial liabilities	(16)	–	(13 894)	(13 910)
	172	–	(17 198)	(17 026)
Net (gains) and losses recognised in profit or loss	–	47	–	47
Net (gains) and losses recognised in OCI	(427)	–	–	(427)
	(427)	47	–	(380)
Total interest income (note 5)	–	–	–	(198)
Total interest expense (note 5)	–	–	–	1 779
	–	–	–	1 581

[1] This category includes derivative financial instruments.
[2] On adoption of IFRS 9 on 1 October 2018, unlisted bonds were reclassified from held-to-maturity investments to financial assets at amortised cost (unlisted bonds are held to collect contractual cash flows that represent solely payments of principal and interest on the principal amount). Unlisted investments were also reclassified from AFS investments to FVTOCI financial assets (unlisted investment are deemed not to be held for trading). Financial guarantees were reclassified from provisions under IAS 37 to financial liabilities at amortised cost. The reclassification did not lead to a change in the carrying amount of these financial assets or the impact thereof on profit or loss.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.1 Total financial assets and liabilities

	Held to maturity Rm	Available for sale Rm	At fair value through profit or loss[1] Rm	Loans and receivables and other financial liabilities at amortised cost Rm	Total carrying values Rm
30 September 2018					
Investments and loans (note 13)	128	33	–	92	253
Non-current financial assets	128	33	–	92	253
Trade and other receivables (financial assets) (note 15)	–	–	318	5 184	5 502
Related-party receivables (note 15)	–	–	–	69	69
Loans due by Steinhoff and its subsidiaries (note 29)	–	–	–	224	224
Cash and cash equivalents	–	–	–	3 835	3 835
Current financial assets	–	–	318	9 312	9 630
Long-term interest-bearing loans and borrowings (note 20)	–	–	–	(15 518)	(15 518)
Loans due by Steinhoff and its subsidiaries (note 29)	–	–	–	(173)	(173)
Non-current financial liabilities	–	–	–	(15 691)	(15 691)
Short-term interest-bearing loans and borrowings (note 20)	–	–	–	(19)	(19)
Bank overdrafts and short-term facilities	–	–	–	(521)	(521)
Trade and other payables (financial liabilities) (note 23)	–	–	(84)	(11 079)	(11 163)
Related-party payables (note 23)	–	–	–	(221)	(221)
Financial guarantees (note 28.6)	–	–	–	(451)	(451)
Current financial liabilities	–	–	(84)	(12 291)	(12 375)
	128	33	234	(18 578)	(18 183)
Net (gains) and losses recognised in profit or loss	–	–	162	–	162
Net (gains) and losses recognised in OCI	–	–	22	–	22
	–	–	184	–	184
Total interest income (note 5)	–	–	–	–	(242)
Total interest expense (note 5)	–	–	–	–	1 410
	–	–	–	–	1 168

[1] *This category includes derivative financial instruments.*

The carrying value of these financial assets and liabilities approximates fair value.

	Fair value hierarchy	Valuation techniques and key inputs	Fair value 2019 Rm	Fair value 2018 Rm
28. FINANCIAL INSTRUMENTS (CONTINUED)				
28.2 Fair value				
Derivative financial assets	Level 2	The fair values of forward exchange contracts are based on their listed market price, if available. If a listed market price is not available, then the fair value is estimated by discounting the difference between the contractual forward price and current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).	**186**	318
Derivative financial liabilities	Level 2		**(16)**	(84)
FVTOCI investments	Level 3		**2**	–
Available-for-sale investments	Level 3		**–**	33

The fair value calculation of the financial assets and liabilities was performed at the reporting date. The group enters into derivative financial instruments with various counterparties, principally financial institutions with investment-grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, foreign exchange spot and forward rates and forward rate curves of the underlying index. At year-end, the marked-to-market value of derivative asset positions is net of a debit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value. Between the reporting date and the date of this report, the fair values reported may have fluctuated with changing market conditions and therefore the fair values are not necessarily indicative of the amounts the group could realise in the normal course of business after the reporting date. These contracts are to hedge the foreign currency exposure of the anticipated purchase of goods. Derivatives are expected to mature within 12 months.

There were no level 1 financial assets or financial liabilities at 30 September 2019 and 30 September 2018. There were no transfers between levels during the year.

28.3 Foreign currency risk

The group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts.

The fair value of the forward exchange contracts has been classified as Level 2.

It is group policy to hedge exposure to cash and future contracted transactions in foreign currencies for a range of forward periods, but not to hedge exposure for the translation of reported profits or reported assets and liabilities.

Exposure to currency risk

Currency risk (or foreign exchange risk), as defined by IFRS 7, arises on financial instruments that are denominated in a foreign currency, i.e. in a currency other than the functional currency in which they are measured. For the purpose of IFRS 7, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

Differences resulting from the translation of subsidiary financial statements into the group's presentation currency are not taken into consideration.

Foreign currency sensitivity analysis

The group is exposed mainly to fluctuations in the Angolan kwanza, Botswanan pula, Chinese yuan, United States dollar and Zambian kwacha.

The spot rates used to translate assets and liabilities denominated in foreign currency at year-end were as follows:

	Reporting date spot rate 2019	Reporting date spot rate 2018
South African rand		
US dollar	**15.21**	14.20
European euro	**16.56**	16.43
Pound sterling	**18.69**	18.52
Chinese yuan	**2.13**	2.06
Botswanan pula	**1.34**	1.35
Zambian kwacha	**1.14**	1.15
Angolan kwanza	**0.04**	0.05
Mozambiquan metical	**0.24**	0.23
Malawian kwacha	**0.02**	0.02
Nigerian naira	**0.04**	0.04
Ugandan shilling	**0.00**	0.00
Zimbabwean RTGS[1]	**1.00**	N/A

The group's exposure to its African subsidiaries is not considered material.

[1] *The group's Zimbabwean operations were converted by using RTGS in the current year (2018: US dollar).*

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.3 Foreign currency risk (continued)

Forward exchange contracts
It is the policy of the group to enter into forward exchange contracts to cover specific foreign currency payments based on a predefined profile that takes into account the future expected date of payment. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. The risk is measured through a forecast of highly probable US dollar and Chinese yuan expenditures. The risk is hedged with the objective of minimising the volatility of the South African rand cost of highly probable forecast inventory purchases.

The group uses forward exchange contracts to hedge its foreign currency risk against the functional currency of its various global operations. Most of the forward exchange contracts have maturities of less than one year after reporting date. The group's risk management policy is to hedge between 60% and 80% of forecast US dollar and Chinese yuan cash flows for inventory purchases up to 12 months in advance, subject to a review of the cost of implementing each hedge. As a matter of policy, the group does not enter into derivative contracts for speculative purposes.

For hedges of foreign currency purchases, the group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the group uses the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the entity or the derivative counterparty. There was no recognised ineffectiveness during 2019 or 2018 in relation to the forward exchange contracts.

The fair values of such contracts at period-end, by currency, were:

	2019 Rm	2018 Rm
Short-term derivatives		
Assets		
Fair value of foreign exchange contracts		
US dollar	**144**	192
Chinese yuan	**42**	126
	186	318
Liabilities		
Fair value of foreign exchange contracts		
US dollar	**(2)**	(39)
Chinese yuan	**(14)**	(45)
	(16)	(84)
Net short-term derivative assets	**170**	234

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.3 Foreign currency risk (continued)

The group has established a hedge ratio of 1:1 (current and prior year) since the notional amount and currency of the hedged item are the same as the notional amount of the foreign currency leg of the hedging instrument.

At year-end the group holds the following forward exchange contracts that form part of a hedging relationship:

	Notional amount	Fair value adjustment Rm	Average forward rate	Year-end revaluation rate
Foreign currency forward contracts – assets				
2019				
US dollar	**196**	**144**	**14.66**	**15.35**
Chinese yuan	**1 227**	**42**	**2.13**	**2.15**
	1 423	**186**		
2018				
US dollar	141	192	13.66	14.39
Chinese yuan	1 270	126	2.05	2.09
	1 411	318		
Foreign currency forward contracts – liabilities				
2019				
US dollar	**1**	**(2)**	**14.66**	**15.35**
Chinese yuan	**637**	**(14)**	**2.13**	**2.15**
	638	**(16)**		
2018				
US dollar	41	(39)	13.66	14.39
Chinese yuan	442	(45)	2.05	2.09
	483	(84)		

	2019 Rm	2018 Rm
Cash flow hedges		
The group classifies certain of its forward exchange contracts that hedge forecast transactions as cash flow hedges. The fair value of such contracts recognised as derivative assets and liabilities and adjusted against the hedging reserve at year-end was:		
The gains/(losses) on financial instruments recognised within OCI comprises:		
Forward exchange contracts	**(427)**	22
Transferred to inventory	**532**	(105)
Fair value adjustment on cash flow hedges	**105**	(83)

Changes in the fair value of forward exchange contracts of economically hedged monetary assets and liabilities in foreign currencies for which no hedge accounting is applied, are recognised in profit or loss.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.4 Interest rate risk

The group follows a policy of maintaining a balance between fixed and variable rate loans to reflect, as accurately as possible, different interest rate environments, the stability of the relevant currencies, the effect that the relevant interest rates have on group operations, and consumer spending within these environments. These variables are taken into account in structuring the group's borrowings to achieve a reasonable, competitive, market-related cost of funding.

As part of the process of managing the group's borrowings mix, the interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates. Interest rate exposure is managed within limits agreed by the board.

The interest and related terms of the group's interest-bearing loans are disclosed in note 20.

At the reporting date, the interest rate profile of the group's financial instruments was:

	Subject to interest rate movement					
	Variable SA prime Rm	Variable JIBAR Rm	Other variable rates Rm	Fixed rate Rm	Non-interest-bearing Rm	Total Rm
2019						
Non-current financial assets	**67**	**–**	**–**	**259**	**2**	**328**
Current financial assets	**2 962**	**–**	**3 242**	**2 658**	**3 016**	**11 878**
Non-current financial liabilities	**(6 008)**	**(9 500)**	**–**	**–**	**–**	**(15 508)**
Current financial liabilities	**(847)**	**(1 500)**	**–**	**–**	**(11 547)**	**(13 894)**
	(3 826)	**(11 000)**	**3 242**	**2 917**	**(8 529)**	**(17 196)**
2018						
Non-current financial assets	–	–	–	128	125	253
Current financial assets	4 254	–	1 014	–	4 362	9 630
Non-current financial liabilities	(6 018)	(9 500)	–	–	(173)	(15 691)
Current financial liabilities	(941)	–	(50)	–	(11 384)	(12 375)
	(2 705)	(9 500)	964	128	(7 070)	(18 183)

Market-related rates were used in the determination of the fair values of the fixed-rate financial assets. The carrying amounts presented are not materially different from the fair value. Further details pertaining to these are disclosed in note 13 (Investments and loans) and note 16 (Loans to customers).

Sensitivity analysis
The group is sensitive to movements in the JIBAR and SA prime rates, which are the primary interest rates to which the group is exposed. Within some African countries, the group is exposed to other variable rates mainly relating to bank and cash.

The sensitivities calculated below are based on an increase of 100 basis points for each interest category. These rates are also used when reporting sensitivities internally to key management employees.

	2019 Rm	2018 Rm
Through (profit)/loss		
SA Prime – 100 basis point increase	**38**	23
JIBAR – 100 basis point increase	**110**	95

A 100 basis point decrease in the above rates would have had an equal, but opposite, effect on profit or loss.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Credit risk

Potential concentration of credit risk consists principally of short-term cash and cash equivalent investments, trade and other receivables, instalment sale receivables, credit sales through store cards, loans to customers as well as related-party receivables and financial guarantees. The group deposits short-term cash surpluses with major banks of quality credit standing. Instalment sale receivables, credit sales through store cards and loans to customers comprise a large and widespread customer base and group companies perform ongoing credit evaluations on the financial condition of their customers. As at year-end, R426 million (2018: R557 million) of receivables were insured. At 30 September 2019, the group did not consider there to be any significant concentration of credit risk that had not been adequately provided for. The amounts presented in the statement of financial position are net of provisions for expected credit losses (2018: bad debts), estimated by the group companies' management based on past events, current conditions and supportable forecasts and economic conditions (2018: prior experience and the current economic environment).

The company has guaranteed various long-term borrowings, revolving facilities and also guarantees a third-party loan relating to an investment company as mentioned. Financial guarantees are kept to an operational minimum and reassessed regularly.

	2019 Rm	2018 Rm
The maximum exposure to credit risk at the reporting date without taking account the value of any collateral obtained was:		
Investments and loans (note 13)	**174**	253
Cash and cash equivalents (note 28.5.2)	**3 925**	3 835
Instalment sale agreements (note 28.5.1)	**989**	141
Credit sales through store cards (note 28.5.1)	**2 343**	2 021
Trade and other receivables (note 28.5.1)	**2 952**	3 091
Loans due by Steinhoff and its subsidiaries (note 29)	**–**	224
Loans to customers (note 16)	**1 823**	–
Financial assets	**12 206**	9 565
Financial guarantees (note 28.6)	**1 949**	2 376
	14 155	11 941

28.5.1 Credit risk modelling applied to financial assets at amortised cost

The group's financial assets measured at amortised cost are subject to impairment under the ECL model. The inputs, assumptions and estimation techniques used in measuring ECL are explained below.

Measurement of ECL in terms of the general model for impairment
ECLs are measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted value of the PD and EAD, of which PD represents the likelihood of a counterparty defaulting on its financial obligation, either over 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. EAD is based on the amounts the group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). The group calculates LGD as discounted EAD.

These three components are multiplied together, which effectively calculates the ECL. The ECL is then discounted back to the reporting date, using the original effective interest rate, and aggregated. ECL is a probability weighted outcome.

The 12-month and lifetime EADs are determined based on the probability of default, which varies by type of financial asset.

The group considers the probability of default on initial recognition of its financial asset measured at amortised cost and whether there has been a SICR on an ongoing basis throughout each reporting period. To assess whether there is an SICR, the group compares the risk of a default occurring on these asset as at the reporting date with the risk of default as at the date of initial recognition. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the credit risk team (refer to significant judgements and estimates for the groups of significant judgement exercised in assessing the SICR). Receivables with a significant financing component are grouped into stage 1, 2 and 3 as described below:

Stage 1: On recognition of financial assets, the group recognises a loss allowance based on 12 months ECLs.

Stage 2: When there is an indication that the financial assets has an SICR since origination, the group records a loss allowance for the lifetime ECLs.

Stage 3: Financial assets are considered to be credit-impaired. Financial assets are considered to be credit-impaired when one of more events that have an unfavourable impact on its estimated future cash flows have occurred. The group records a loss allowance for the lifetime ECLs.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Credit risk (continued)

28.5.1 Credit risk modelling applied to financial assets at amortised cost (continued)

Default and credit-impaired assets

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

	Loans to customers	Instalment sale agreements	Credit sales through store cards
Criteria used for credit-impaired accounts	Debt review accounts and non-performing accounts. As a backstop for all other customers, customers with three consecutive unpaid instalments.	Suspected fraud on a loan and loans exceeding maturity date. As a backstop for all other customers, customers with three consecutive unpaid instalments.	Three consecutive unpaid instalments/90 days in arrears.

A credit-impaired account will cure when the customer does not meet the criteria for being a credit-impaired account. For a customer to cure, a significant improvement in the customer's payment behaviour is required.

	Loans to customers	Instalment sale agreements	Credit sales through store cards
Curing occurs in the following instances	Customers with rescheduled loans are deemed to be rehabilitated once they have made contractual payments for 12 months post-rescheduling and are up to date with their amended contractual obligations. For all other customers to cure, the customer is required to make 12 months of clean payments.	Customers where the facility is 90 days in arrears will cure after the customer has settled arrears causing the 90 days arrears and have maintained less than 90 days arrears for three consecutive months.	Customer accounts will cure when three consecutive instalments are paid. Accounts in debt counselling will cure when the customer is deemed to no longer be under debt counselling in terms of the National Credit Act.

Forward-looking factors

The group further considers available reasonable and supportive forwarding-looking information without undue cost or effort and for which significant judgements and estimates are applied. Refer to significant judgements and estimates for the forward-looking information incorporated in the determination of ECLs.

Measurement of ECL in terms of the provision matrix

For short-term trade receivables, e.g. trade receivables without a significant financing component, the determination of forward-looking economic scenarios may be less significant given that over the credit risk exposure period a significant change in economic conditions may be unlikely, and historical loss rates might be an appropriate basis for the estimate of expected future losses. The group has elected to apply the provision matrix for trade receivables without a significant financing component and measures the impairment allowance at an amount equal to lifetime ECL. Lifetime ECL is assessed by applying the relevant loss rates to the trade receivable balance outstanding (i.e. a trade receivable age analysis). Due to the diversity of the group's customer base, the group used appropriate groupings if the historical credit loss experience showed significantly different loss patterns for different customer segments.

Write-off policy

Financial assets are written off when there is no reasonable expectation of recovery of the receivable or part thereof. The write-off periods differ for each type of financing the group offers to their respective clients and are detailed in the significant judgements and estimates note. Where these financial assets have been written off, the group continues to engage in enforcement activity to attempt to recover the receivable due. Subsequent recoveries made are recognised in profit or loss. Refer to note 3 for more detail on receivables written off.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Credit risk (continued)

28.5.1 Credit risk modelling applied to financial assets at amortised cost (continued)

ECLs for the different financial assets at amortised cost within the group

Investments

Investments consist of unlisted Angolan government bonds and unlisted Standard Bank of Angola bonds (see note 13). The ECL on these bonds is measured using the general model based on 12-month ECLs as there was no significant increase in credit risk from initial recognition of these bonds. There has been no default in payments based on historical information and no significant decrease in credit ratings since initial recognition.

The group has assessed ECLs based on past events, current conditions and supportable forecasts, and economic conditions that affect the expected collectability of future cash flows at reporting date and has deemed the ECLs to be insignificant.

Loan to associate

Loan to associate consist of a loan granted to S'Ya Phanda Proprietary Limited for funding the entity for black supplier development initiatives as detailed in note 12. The ECL on the loan is measured using the general model based on 12-month ECLs as there was no significant increase in credit risk from initial recognition of this loan. There has been no default in payments based on historical information and no significant decrease in credit ratings since initial recognition.

The group has assessed ECLs based on past events, current conditions and supportable forecasts, and economic conditions that affect the expected collectability of future cash flows at reporting date and has deemed the ECLs to be insignificant.

Loans due by current and previous members of key management and employees

Loans were advanced in the prior years to current and previous employees and members of key management to enable them to purchase shares in BVI. The loans were granted after reviewing each employee or member of key management's ability to repay the loan when it falls due, as well as with the underlying pledged shares in BVI. These loans were measured using the general model based on lifetime ECLs. The 2019 management was of the view that an additional impairment provision should be raised as the underlying security to the loans' value had decreased since the inception of these loans. Management used historical and current information to estimate the ECL and did not deem forward-looking information to be significant in the ECL calculation.

	2019 Rm	2018 Rm
Balance at beginning of the period	**(60)**	–
Provision raised	**(40)**	(60)
Balance at end of the period	**(100)**	(60)

Instalment sale agreements

Instalment sale agreements relate to the credit purchases of goods by customers within the furniture, appliances and electronics operating segment (the majority of these borrowings are deemed to be secured) (refer to note 15 for more detail on the process of granting instalments to customers). The group applies the general approach to calculating the ECL allowance for these balances as they are deemed to have a significant financing component.

The loss allowance provision for the group as at year-end is determined as follows:

	Performing (stage 1)	Underperforming (stage 2)	Non-performing (stage 3)	Total
Expected credit loss rate	**15.43%**	**52.76%**	**78.60%**	**33.13%**
Estimated gross carrying amount of default (Rm)	**946**	**290**	**243**	**1 479**
12-month ECL (Rm)	**(146)**	**–**	**–**	**(146)**
Lifetime ECL (Rm)	**–**	**(153)**	**(191)**	**(344)**
Total ECL (Rm)	**(146)**	**(153)**	**(191)**	**(490)**
Net carrying amount (Rm)	**800**	**137**	**52**	**989**

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Credit risk (continued)

28.5.1 Credit risk modelling applied to financial assets at amortised cost (continued)

The loss allowance provision for instalment sale agreements is reconciled to the opening loss allowance as follows:

	Performing (stage 1) Rm	Underperforming (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Balance at beginning of the period (calculated under IAS 39)	–	–	(46)	(46)
Amounts restated through opening retained earnings	(12)	(36)	8	(40)
Balance at beginning of the period (calculated under IFRS 9)	(12)	(36)	(38)	(86)
Allowance on credit granted during the year	(143)	(132)	(175)	(450)
Derecognition of allowance due to settlement of outstanding debt	2	2	4	8
Amounts written off	1	3	24	28
Amounts recovered	5	10	3	18
Net remeasurement of loss allowances	–	–	(8)	(8)
Balance at end of the period	(147)	(153)	(190)	(490)

Credit sales through store cards

Credit sales through store cards relates to the credit purchases of goods by customers within the clothing and general merchandise operating segment (these borrowing are deemed to be unsecured) (refer to note 15 for more detail on the process of granting credit to customers). The group elected to apply the general approach to calculating the ECL allowance for these balances.

The loss allowance provision for the group as at year-end is determined as follows:

	Performing (stage 1)	Arrears (stage 2)	Non-performing (stage 3)	Total
Expected credit loss rate	5.02%	44.05%	68.53%	16.97%
Estimated gross carrying amount of default (Rm)	2 171	311	340	2 822
12-month ECL (Rm)	(109)	–	–	(109)
Lifetime ECL (Rm)	–	(137)	(233)	(370)
Total ECL (Rm)	(109)	(137)	(233)	(479)
Net carrying amount (Rm)	2 062	174	107	2 343

The loss allowance provision for credit sales through store cards is reconciled to the opening loss allowance as follows:

	Performing (stage 1) Rm	Arrears (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Balance at beginning of the period (calculated under IAS 39)	(77)	(90)	(162)	(329)
Amounts restated through opening retained earnings	(15)	(18)	(31)	(64)
Balance at beginning of the period (calculated under IFRS 9)	(92)	(108)	(193)	(393)
Allowance on credit granted during the year	(208)	(56)	(63)	(327)
Derecognition of allowance due to settlement of outstanding debt	139	269	101	509
Amounts written off	–	–	245	245
Net remeasurement of loss allowances	55	(239)	(329)	(513)
Balance at end of the period	(106)	(134)	(239)	(479)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Credit risk

28.5.1 Credit risk modelling applied to financial assets at amortised cost

Loans to customers

Loans to customers relates to unsecured loans granted to customers in South Africa for a period of three to 24 months up to the value of R50 000 per loan granted (refer to note 16 for more detail on the process of granting loans to customers). The group applies the general approach to calculating the ECL allowance for these balances as they are deemed to have a significant financing component.

The loss allowance provision for the group as at year-end is determined as follows:

	Performing (stage 1)	Underperforming (stage 2)	Non-performing (stage 3)	Total
Expected credit loss rate	**5.72%**	**37.08%**	**85.26%**	**15.37%**
Estimated gross carrying amount of default (Rm)	**1 731**	**267**	**156**	**2 154**
12-month ECL (Rm)	**(99)**	**–**	**–**	**(99)**
Lifetime ECL (Rm)	**–**	**(99)**	**(133)**	**(232)**
Total ECL (Rm)	**(99)**	**(99)**	**(133)**	**(331)**
Net carrying amount (Rm)	**1 632**	**168**	**23**	**1 823**

The loss allowance provision for loans to customers is reconciled to the opening loss allowance as follows:

	Performing (stage 1) Rm	Underperforming (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Balance at beginning of the period (calculated under IAS 39)	**–**	**–**	**–**	**–**
Amounts restated through opening retained earnings	**–**	**–**	**–**	**–**
Balance at beginning of the period (calculated under IFRS 9)	**–**	**–**	**–**	**–**
Allowance on credit granted during the year	**(99)**	**(99)**	**(149)**	**(347)**
Amounts written off	**–**	**–**	**16**	**16**
Balance at end of the period	**(99)**	**(99)**	**(133)**	**(331)**

Trade receivables and other amounts due

Trade receivables consist mainly of credit purchases of goods by customers within the building materials operating segment and receivables from cellular companies, of which the receivables from cellular companies are mainly not exposed to ECLs. The group applies the simplified approach to calculating the ECL allowance for trade receivables that do not have a significant financing component. This approach permits the use of the lifetime ECL regardless of stage classification and is based on a provision matrix that incorporates historical credit losses as well as forward-looking information as detailed above (2018: Provision for bad debts was calculated using the incurred losses approach under IAS 39).

Trade receivables are written off when the customer's outstanding balance has been outstanding for more than 120 days or 30 days in the case of cash on delivery (COD) customers.

The loss allowance provision for trade receivables is reconciled to the opening loss allowance as follows:

	2019 Rm	2018 Rm
Balance at beginning of the year (calculated under IAS 39)	**(155)**	(186)
Amounts restated through opening retained earnings	**(11)**	–
Balance at beginning of the year (calculated under IFRS 9)	**(166)**	(186)
Increase in loss allowance during the year	**(87)**	31
Balance at end of the year	**(253)**	(155)

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.5 Credit risk (continued)

28.5.1 Credit risk modelling applied to financial assets at amortised cost

Provision matrix used in the calculation of ECL allowances:

	Expected loss rate %	Gross carrying amount Rm	Loss allowance provision Rm
2019			
Current	**6.2**	**2 700**	**(168)**
More than 30 days past due	**1.9**	**155**	**(3)**
More than 60 days past due	**4.5**	**110**	**(5)**
More than 90 days past due	**32.1**	**240**	**(77)**
	7.9	**3 205**	**(253)**

Ageing of trade and other receivables as required under IAS 39:

	2018 Rm	2018 %
Ageing of financial assets, excluding instalment sales, credit sales through store cards and loan receivables		
Not past due or impaired	**3 192**	85.6
Past due 1 to 30 days but not impaired	**303**	8.1
Past due 31 to 60 days but not impaired	**140**	3.8
Past due more than 60 days but not impaired	**40**	1.1
Past due but not impaired in full	**56**	1.5
	3 731	100.0

28.5.2 Cash and cash equivalents

The table below reflects the cash invested on the statement of financial position date at financial institutions grouped per Moody's credit rating of financial institutions:

	2019 Rm	2018 Rm
Rating		
Bank balances: A1	**–**	84
Bank balances: Aa3	**–**	429
Bank balances: Baa2	**–**	2 958
Bank balances: Baa3	**3 212**	–
Fixed deposits – African Banks	**49**	130
Bank balances: No rating available	**167**	85
Cash on hand/cash in transit	**497**	149
	3 925	3 835

Moody's appends the numerical modifiers 1, 2, and 3 to each generic rating classification (as indicated below) as per the global long-term rating scale from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Global Long-Term Rating Scale:

- Aaa Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
- Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
- A Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.
- Baa Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
- Ba Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
- B Obligations rated B are considered speculative and are subject to high credit risk.

28. FINANCIAL INSTRUMENTS (CONTINUED)

28.6 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected.

The group manages liquidity risk by monitoring forecast cash flows and by ensuring that adequate borrowing facilities are available. Cash surpluses and short-term financing needs are mainly centralised. These central treasury offices invest net cash reserves on the financial markets, mainly in short-term instruments linked to variable interest rates.

The following table details the group's remaining contractual maturity for its financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay. The table includes both interest and principal cash flows:

	0 to 3 months Rm	4 to 12 months Rm	Year 2 Rm	Years 3 to 5 Rm	After 5 years Rm	Total Rm
2019						
Interest-bearing loans and borrowings	**(396)**	**(2 610)**	**(6 191)**	**(11 310)**	**(1)**	**(20 508)**
Bank overdrafts and short-term facilities	**(347)**	**–**	**–**	**–**	**–**	**(347)**
Trade and other payables (financial liabilities)	**(11 532)**	**(9)**	**–**	**–**	**–**	**(11 541)**
Related-party payables	**(32)**	**–**	**–**	**–**	**–**	**(32)**
Financial guarantees	**(1 949)**	**–**	**–**	**–**	**–**	**(1 949)**
	(14 256)	**(2 619)**	**(6 191)**	**(11 310)**	**(1)**	**(34 377)**
2018						
Interest-bearing loans and borrowings	(8)	(1 355)	(1 350)	(17 473)	–	(20 186)
Bank overdrafts and short-term facilities	(521)	–	–	–	–	(521)
Trade and other payables (financial liabilities)	(11 168)	(4)	–	–	–	(11 172)
Related-party payables	–	(394)	–	–	–	(394)
Financial guarantees	(2 376)	–	–	–	–	(2 376)
	(14 073)	(1 753)	(1 350)	(17 473)	–	(34 649)

Financial guarantees
The financial guarantees are included in the maturity analysis under the 0 to 3 months bracket based on the maximum amount that can be called for under the financial guarantee contract. In 2018, the BVI financial guarantee was provided for in full as at 30 September 2019 (2018: provided for in full) as disclosed on the face of the statement of financial position and below. All Steinhoff-related guarantees were cancelled during 2018.

	2019 Rm	2018 Rm
28. FINANCIAL INSTRUMENTS (CONTINUED)		
28.6 Liquidity risk (continued)		
Financial institutions – bank accounts	**(692)**	(1 194)
BVI	**(491)**	(451)
Guarantees to South African Revenue Authorities and municipalities	**(766)**	(731)
	(1 949)	(2 376)
Reclassification and movement in BVI guarantees in terms of IFRS 9 (note 34)		
Opening balance	**(451)**	–
Provision for expected credit losses	**(40)**	(451)
Balance at end of the year	**(491)**	(451)

The funding facilities, as disclosed in note 20 is subject to the following debt covenants:

	Covenant	As at 30 September 2019 Actual
Net debt: EBITDA cover	**< 2.75**	**1.70**
Interest cover	**> 4**	**5.42**

28.7 Treasury risk

A finance forum, consisting of senior executives of the group, meets on a regular basis to analyse currency and interest rate exposure and to review and, if required, adjust the group's treasury management strategies in the context of prevailing and forecast economic conditions.

28.8 Capital risk

The group manages its capital to ensure that entities of the group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The group's risk management committee reviews the capital structure of the group on a semi-annual basis. As a part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

29. RELATED-PARTY TRANSACTIONS

29.1 Related-party transactions and balance

Related-party relationships exist between shareholders, subsidiaries, joint-venture companies and associate companies within the group and its company directors and group key management employees.

These transactions are concluded in the normal course of business and include transactions as a result of the group-wide treasury management of foreign currency movements. All material intergroup transactions are eliminated on consolidation.

Key management and directors did not have any material transaction with the group, other than those transactions disclosed below. Refer to directors' interest in contracts for directors' interest in transactions with the group (note 29.7).

At the date of this report, the direct holding company of the group is Ainsley Holdings Proprietary Limited. The Ultimate Holding company of the group is Steinhoff (Lancaster 101 Proprietary Limited owns a minority share).

The summary below reflects the material transactions with fellow subsidiaries, associate companies and joint-venture companies during the year and related receivables and payables balances at year-end:

29.1.1 Related-party transactions in place for the current and previous period

Nature of related-party relationship	Nature of service
Pepkor Group Sourcing, a wholly owned subsidiary of Steinhoff.	Sourcing certain of its products for a sourcing commission mainly within the clothing and general merchandise segment.
Steinhoff Properties Proprietary Limited and JD Group Property Holding Proprietary Limited and its subsidiaries, wholly owned subsidiaries of Steinhoff.	Rental of properties owned by Steinhoff. The properties include warehouses used by the furniture, appliances and electronics segment, distribution centres used by the clothing and general merchandise segment and a call centre used to collect on the debtors relating to credit sales through store cards.
Retail Holdings S.à r.l., a wholly owned subsidiary of Steinhoff.	Net amount receivable due in prior year, due to historical restructuring of the group.
Unitrans Automotive Proprietary Limited, a wholly owned subsidiary of Steinhoff.	Car rentals from Hertz and purchase of vehicles and related vehicle expenses from Unitrans.
Unitrans Insurance Limited, a wholly owned subsidiary of Steinhoff.	Vehicle-related insurance
Lancaster Electricity Solutions Proprietary Limited, a company controlled by the chairman of Pepkor.	Agreement with FLASH Mobile Vending Proprietary Limited, a wholly owned subsidiary of the Pepkor group, in terms of which a commission is earned net of costs incurred and is shared on an equal basis. The services relate to the sale of electricity.

29.1.2 Agreements terminated during the prior year

Nature of related-party relationship	Nature of service
Steinhoff at Work Proprietary Limited, wholly owned subsidiary of Steinhoff.	Management service agreement, cancelled during the prior year.
Steinhoff Africa Holdings Proprietary Limited, Steinhoff Services Proprietary Limited and Steinhoff at Work Proprietary Limited, wholly owned subsidiaries of Steinhoff.	Funder of debt, refinanced with external borrowings in March 2018. Refer to note 20.
Steinhoff Risk Solutions Proprietary Limited, a wholly owned subsidiary of Steinhoff	Fees paid relating to insurance services provided to Pepkor.

29.1.3 Transactions no longer classified as related in the current year/classified as related party only for a period during the year:

Nature of related-party relationship	Nature of service
KAP Industrial Holdings Limited and its subsidiaries, previously an associated company of Steinhoff, was disposed of on 29 March 2019. Related-party information has therefore been presented until 29 March 2019.	Mainly relates to purchases from PG Bison by the Pepkor building materials segment and purchase from Restonic by the furniture, appliances and electronics segment.
Tradehold Limited, a company controlled by the previous chairman of Steinhoff, no longer chairman of Steinhoff in the current year.	Rental of properties from the Collins Group.
Lodestone Brands Proprietary Limited, a company controlled by a previous member of key management of Steinhoff, no longer a member of key management in the current year. No related-party information has therefore been presented in the current year.	Purchase of fast moving consumer goods for sale in the clothing and general merchandise segment.
Shoprite Holdings Limited, a company controlled by the previous chairman of Steinhoff, no longer chairman of Steinhoff in the current year. No related-party information has therefore been presented in the current year.	Rental of stores from Shoprite, and sale of products to Shoprite by FLASH and the building materials segment.

29. RELATED-PARTY TRANSACTIONS (CONTINUED)

29.1 Related-party transactions and balance (continued)

29.1.3 Transactions no longer classified as related in the current year/classified as related party only for a period during the year (continued)

Nature of related-party relationship	Nature of service
Titan Financial Services Proprietary Limited and Mettle Solar Investments Proprietary Limited, companies controlled by the previous chairman of Steinhoff, no longer chairman of Steinhoff in the current year. No related-party information has therefore been presented in the current year.	Rental received for occupation of part of Pepkor premises.
Companies associated with previous key management of Pepkor, no longer part of key management in the current year. No related-party information has therefore been presented in the current year.	Rental of premises and related warehouse used by Tekkie Town.

29.1.4 New related-party transactions in the current year

Nature of related-party relationship	Nature of service
Goscor Lift Truck Company Proprietary Limited, a subsidiary of the Investec Equity Partner Group, a company controlled by Steinhoff.	Purchase of forklifts used in distribution centres and distribution hubs.
S'Ya Phanda Proprietary Limited, an associated company of Pepkor.	Provision of B-BBEE consulting services and is intended to make strategic investments in the supply chain.

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
Trading transactions		
Receivables		
Pepkor Group Sourcing (Fully Sun China Limited (HK))	**2**	–
Shoprite Holdings Limited	**–**	69
	2	69
Payables		
Steinhoff at Work Proprietary Limited	**–**	(2)
Steinhoff International Holdings N.V.	**(23)**	(23)
KAP Industrial Holdings Limited and its subsidiaries	**–**	(168)
Pepkor Group Sourcing (Fully Sun China Limited (HK))	**(7)**	(13)
Unitrans Automotive Proprietary Limited	**(1)**	(9)
Lodestone Brands Proprietary Limited	**–**	(6)
Lancaster Electricity Solutions Proprietary Limited	**(1)**	–
	(32)	(221)
Share scheme settlement payable		
Steinhoff International Holdings N.V. (note 24)	**–**	(7)
	–	(7)
Loans receivable		
Retail Holdings S.à r.l.	**–**	224
	–	224
Loans payable		
Retail Holdings S.à r.l.	**–**	(173)
	–	(173)
Loans receivable from associated companies		
S'Ya Phanda Proprietary Limited	**50**	–
	50	–
Dividends paid to		
Ainsley Holdings Proprietary Limited	**681**	–
Lancaster 101 Proprietary Limited	**84**	–
	765	–

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
29. RELATED-PARTY TRANSACTIONS (CONTINUED)		
29.1 Related-party transactions and balance (continued)		
29.1.4 New related-party transactions in the current year (continued)		
Revenue from:		
Shoprite Holdings Limited	**–**	13
Other related parties	**–**	1
	–	14
Purchases from:		
KAP Industrial Holdings Limited and its subsidiaries	**(385)**	(687)
Unitrans Automotive Proprietary Limited	**(4)**	(30)
Unitrans Insurance Proprietary Limited	**(11)**	(21)
Lodestone Brands Proprietary Limited	**–**	(39)
Other related parties	**(1)**	–
	(401)	(777)
Net operating fees (including administration and management fees (paid to)/ received from:		
Steinhoff at Work Proprietary Limited	**–**	(12)
Steinhoff Africa Holdings Proprietary Limited	**(2)**	–
Pepkor Group Sourcing (Fully Sun China Limited. (HK))	**(90)**	(80)
Steinhoff Risk Solutions Proprietary Limited	**–**	(10)
Unitrans Automotive Proprietary Limited	**(1)**	–
Unitrans Insurance Proprietary Limited	**2**	–
Other related parties	**–**	1
	(91)	(101)
Net rebates received from:		
KAP Industrial Holdings Limited and its subsidiaries	**25**	47
	25	47
Settlement discounts received from:		
KAP Industrial Holdings Limited and its subsidiaries	**3**	–
	3	–
Net rent paid to:		
Steinhoff Properties Proprietary Limited	**(98)**	(62)
JD Group Property Holding Proprietary Limited and its subsidiaries	**(62)**	(33)
Shoprite Holdings Limited	**–**	(137)
Tradehold Limited	**–**	(9)
Other related parties	**–**	(2)
	(160)	(243)
Rent received from:		
Titan Financial Services Proprietary Limited	**–**	4
Mettle Solar Investments Proprietary Limited	**–**	1
	–	5
Rent paid and related operating expenses to entities controlled by previous members of key management of the group:		
Entities controlled by previous key management	**–**	(9)
	–	(9)

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
29. RELATED-PARTY TRANSACTIONS (CONTINUED)		
29.1 Related-party transactions and balance (continued)		
29.1.4 New related-party transactions in the current year (continued)		
Finance costs paid to:		
Steinhoff Services Proprietary Limited	–	(212)
Steinhoff Africa Holdings Proprietary Limited	–	(416)
Steinhoff at Work Proprietary Limited	–	(11)
	–	(639)
Fees paid to:		
Lancaster Electricity Solutions Proprietary Limited	**(8)**	(6)
	(8)	(6)
Capex purchases		
Goscor Lift Truck Company Proprietary Limited (subsidiary of IEP Group)	**(6)**	–
Unitrans Automotive Proprietary Limited	**(22)**	(8)
	(28)	(8)
Property sold		
Steinhoff Properties Proprietary Limited[1]	–	83
	–	83

[1] The group sold Erf 3680 Isipingo and property named Jeffels Road to Steinhoff Africa Property Services Proprietary Limited during the prior financial year. Both properties were sold at net carrying value.

	Country of incorporation	2019 year-end	30 September 2019 Ownership %	30 September 2018 Ownership %
29.2 Significant subsidiaries				
Pepkor Holdco Proprietary Limited	South Africa	**28 September**	**100**	100
Pepkor Trading Proprietary Limited	South Africa	**28 September**	**100**	100
Pepkorfin Proprietary Limited	South Africa	**28 September**	**100**	100
Pepkor Capital (RF) Proprietary Limited	South Africa	**28 September**	**100**	100
Pepkor Speciality Proprietary Limited	South Africa	**28 September**	**100**	100
Iliad Africa Trading Proprietary Limited	South Africa	**30 September**	**100**	100

A full list of subsidiaries of the company is available for inspection by shareholders on request at the registered office of the company.

29. RELATED-PARTY TRANSACTIONS (CONTINUED)

29.3 Directorate

The directors of the company are as follows:

Executive directors

LM Lourens (chief executive officer)	Appointed 6 December 2017
RG Hanekom (chief financial officer)	

Non-executive directors

J Naidoo (chairman)	
JD Wiese	
TL de Klerk	Appointed 29 May 2019
LJ du Preez	Appointed 24 January 2018

Independent non-executive directors

SH Müller	
JB Cilliers	Appointed as lead independent director with effect from 28 May 2018
F Petersen-Cook	Appointed 14 April 2018
MJ Harris	Appointed 30 July 2018
WYN Luhabe	Appointed 1 January 2019

Directors who resigned

VP Khanyile	Appointed 18 August 2017 and resigned 10 January 2018
AE Swiegers	Appointed 18 August 2017 and resigned 15 February 2018
HJ Sonn	Appointed 18 August 2017 and resigned 30 July 2018
PJ Erasmus	Appointed 1 October 2018 and resigned 29 January 2019
PJ Dieperink	Appointed 30 July 2018 and resigned 1 September 2019
DM van der Merwe	Appointed 1 July 2017 and resigned 28 May 2019

Composition of board committees:

	Audit and risk committee	Human resources and remuneration committee	Nomination committee	Social and ethics committee
Non-executive directors				
J Naidoo	–	x	**Chairman**	–
LJ du Preez	–	x	x	–
Independent non-executive directors				
SH Müller	x	**Chairman**	–	–
JB Cilliers	**Chairman**	–	x	–
F Petersen-Cook	x	–	–	**Chairman**
WYN Luhabe	–	–	–	x
MJ Harris	–	x	–	–
Executive directors				
LM Lourens	–	–	–	x
RG Hanekom	–	–	–	–

29. RELATED-PARTY TRANSACTIONS (CONTINUED)

29.4 Directors' shareholding

The present and resigned directors of the company held no direct or indirect interests in the company's issued ordinary shares other than:

	2019		2018	
	Direct/ indirect	**Number of shares**	Direct/ indirect	Number of shares
J Naidoo through Lancaster 101 Proprietary Limited	**Indirect**	**302 439 024**	Indirect	302 439 024
LM Lourens through Leon Lourens Beleggings Proprietary Limited	**Indirect**	**69 970**	Indirect	69 970
LJ du Preez who declares his interest in Taurus Trust of which he is a trustee (not beneficiary)	**Indirect**	**10 000**	Indirect	10 000
		302 518 994		302 518 994

From 1 October 2019 to the date of approval of the company's consolidated financial statements, there were no dealings by directors in the company's ordinary shares.

29.5 Compensation of key management employees

Key management employees are those persons who have authority and responsibility for planning, directing and controlling the activities of the company as a whole. The company considers all members of the executive committee as well as any other person having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, to be key management employees as defined in IAS 24: *Related parties*.

Remuneration of the executive and non-executive directors was paid by Steinhoff and Pepkor during the year. Share-based payments are linked to the Steinhoff scheme as defined under note 24. Details relating to directors' emoluments are disclosed in note 30.

	Year ended 30 September 2019 R'000	Year ended 30 September 2018 R'000
Compensation paid to key management and directors – Pepkor	**85 049**	98 810
Compensation paid to key management and directors – Steinhoff	**90 591**	43 899
Share-based payments – Steinhoff scheme – pre-2018 (includes reversal of 2014 scheme)	**–**	(80 842)
Share-based payments – Pepkor scheme – post-2018	**23 808**	7 767
	199 448	69 634

29.6 Loans to related parties

The loans to employees and key management, which terms are disclosed in note 13, include the following loans to key management members:

	Rm	Rm
JL Hamman	**8**	7
CA Cronje	**1**	1
CJ Klem	**6**	6
S Voges[1]	**4**	–
	19	14

[1]*During the current year, S Voges became a member of key management. His loan has therefore been disclosed from 2019.*

The loans and receivables at amortised cost consist of various loans with no fixed repayment terms, bearing interest at market-related interest rates.

29.7 Directors' interest in contracts

In 2015, Lancaster Electricity Solutions Proprietary Limited, ultimately owned by J Naidoo, the chairman of the Pepkor board, entered into an agreement with FLASH Mobile Vending Proprietary Limited, a wholly owned subsidiary of the group, in terms of which a commission is earned net of costs incurred and shared between the partners on an equal basis. The services relate to the sale of electricity.

30. REMUNERATION REPORT

30.1 Remuneration of the executive directors

	Basic remuneration R'000	Company and pension fund contributions R'000	Company directors' fees R'000	Annual bonus R'000	Deferred cash long term R'000	Retention bonus/ strategic bonus R'000	Total remuneration and fees R'000
2019							
LM Lourens	**6 449**	**1 021**	**–**	**3 287**	**1 200**	**3 901**	**15 858**
RG Hanekom	**3 830**	**650**	**–**	**1 971**	**1 200**	**3 724**	**11 375**
Paid by Pepkor	**10 279**	**1 671**	**–**	**5 258**	**2 400**	**7 625**	**27 233**
Total	**10 279**	**1 671**	**–**	**5 258**	**2 400**	**7 625**	**27 233**
2018							
LM Lourens	5 802	899	–	2 100	1 071	3 901	13 773
RG Hanekom	3 598	602	–	1 260	1 071	3 724	10 255
Paid by Pepkor	9 400	1 501	–	3 360	2 142	7 625	24 028
AB la Grange[1]	3 400	88	–	–	–	15 500	18 988
Paid by Steinhoff	3 400	88	–	–	–	15 500	18 988
Total	12 800	1 589	–	3 360	2 142	23 125	43 016

[1] Payments made to AB la Grange in the prior year relate to payments made for a director of Steinhoff. AB la Grange resigned as executive director of Pepkor on 6 December 2017. The salary reflected, represents AB la Grange's full salary and deferred bonus until the end of December 2017.

30.2 Remuneration of the other executive committee members

	Basic remuneration R'000	Company and pension fund contributions R'000	Company directors' fees R'000	Annual bonus R'000	Deferred cash long term R'000	Retention bonus/ strategic bonus R'000	Total remuneration and fees R'000
2019							
Total other executive committee members	**19 702**	**3 919**	**–**	**7 021**	**4 900**	**14 424**	**49 966**
2018							
Total other executive committee members	25 548	3 335	–	4 879	3 388	12 169	49 319

30. REMUNERATION REPORT (CONTINUED)

30.3 Remuneration of the non-executive committee

	Basic remuneration R'000	Company and pension fund contributions R'000	Company directors' fees R'000	Annual bonus R'000	Deferred cash long term R'000	Retention bonus/ strategic bonus R'000	Total remuneration and fees R'000
2019							
J Naidoo	**–**	**–**	**2 071**	**–**	**–**	**–**	**2 071**
JD Wiese	**–**	**–**	**621**	**–**	**–**	**–**	**621**
SH Müller	**–**	**–**	**1 355**	**–**	**–**	**–**	**1 355**
JB Cilliers	**–**	**–**	**1 451**	**–**	**–**	**–**	**1 451**
F Petersen-Cook	**–**	**–**	**1 046**	**–**	**–**	**–**	**1 046**
MJ Harris	**–**	**–**	**690**	**–**	**–**	**–**	**690**
PE Erasmus	**–**	**–**	**262**	**–**	**–**	**–**	**262**
WYN Luhabe	**–**	**–**	**354**	**–**	**–**	**–**	**354**
Paid by Pepkor	**–**	**–**	**7 850**	**–**	**–**	**–**	**7 850**
PJ Dieperink	**21 430**	**308**	**–**	**14 241**	**–**	**–**	**35 979**
DM van der Merwe	**9 917**	**480**	**–**	**9 360**	**–**	**–**	**19 757**
TL de Klerk	**4 904**	**296**	**–**	**–**	**–**	**–**	**5 200**
LJ du Preez	**19 321**	**974**	**–**	**9 360**	**–**	**–**	**29 655**
Paid by Steinhoff[1]	**55 572**	**2 058**	**–**	**32 961**	**–**	**–**	**90 591**
Total	**55 572**	**2 058**	**7 850**	**32 961**	**–**	**–**	**98 441**
2018							
SH Müller	–	–	1 247	–	–	–	1 247
AE Swiegers	–	–	389	–	–	–	389
JB Cilliers	–	–	1 170	–	–	–	1 170
J Naidoo	–	–	1 948	–	–	–	1 948
JD Wiese	–	–	623	–	–	–	623
HJ Sonn	–	–	529	–	–	–	529
F Petersen-Cook	–	–	437	–	–	–	437
MJ Harris	–	–	132	–	–	–	132
Paid by Pepkor	–	–	6 475	–	–	–	6 475
MJ Jooste	5 011	62	–	–	–	–	5 073
DM van der Merwe	15 432	557	–	–	–	8 333	24 322
PJ Dieperink	3 887	–	–	–	–	–	3 887
LJ du Preez	10 058	559	–	–	–	–	10 617
Paid by Steinhoff	34 388	1 178	–	–	–	8 333	43 899
Total	34 388	1 178	––		–	8 333	50 374

[1] Relates to remuneration received for services provided to Steinhoff. The fees to directors include fees paid to directors of ultimate holding company Steinhoff where directors serve on the board of the company and holding company. The amount payable to Steinhoff for the attendance of board meetings as well as being non-executive board members excluding VAT amounts to R1.96 million (2018: R1.27 million).

	2019 R'000	2018 R'000
30. REMUNERATION REPORT (CONTINUED)		
30.4 Directors' fees and remuneration		
Remuneration paid by:		
Steinhoff and its subsidiary companies	**90 591**	62 887
Pepkor and its subsidiary companies	**35 083**	30 503
	125 674	93 390

	Offer date	Vesting date	Number of rights as at 30 September 2018	Number of rights forfeited during the year[1]	Number of rights as at 30 September 2019	Value of rights exercised during the year R	Value of rights awarded during the year R
30.5 Share rights – Steinhoff Scheme							
Directors paid for services at Pepkor level							
RG Hanekom	March 2016	March 2019	89 550	(89 550)	–	–	–
	March 2017	March 2020	111 251	–	111 251	–	–
			200 801	(89 550)	111 251	–	–
LM Lourens	March 2016	March 2019	89 550	(89 550)	–	–	–
	March 2017	March 2020	121 365	–	121 365	–	–
			210 915	(89 550)	121 365	–	–
Total executive directors paid by Pepkor			411 716	(179 100)	232 616	–	–
Directors paid for services at Steinhoff level only							
DM van der Merwe	March 2016	March 2019	335 509	(335 509)	–	–	–
	March 2017	March 2020	490 484	–	490 484	–	–
			825 993	(335 509)	490 484	–	–
PJ Dieperink	March 2016	March 2019	122 923	(122 923)	–	–	–
	March 2017	March 2020	140 462	–	140 462	–	–
			263 385	(122 923)	140 462	–	
LJ du Preez	No shares granted		–	–	–		
			–	–	–	–	–
TL de Klerk	March 2016	March 2019	67 301	(67 301)	–	–	–
	March 2017	March 2020	83 438	–	83 438	–	–
			150 739	(67 301)	83 438	–	–
Total non-executive directors paid by Steinhoff			1 240 117	(525 733)	714 384	–	–
Total directors paid at Steinhoff level			1 651 833	(704 833)	947 000	–	–

[1] *The rights relating to DM van der Merwe, PJ Dieperink and TL de Klerk are for services rendered relating to Steinhoff.*

The 2016 rights grant was forfeited as the non-market-performance conditions were not met.

	Offer date	Conditional vesting date	Number of rights as at 30 September 2018	Number of rights awarded during the year	Number of rights as at 30 September 2019	Value of rights exercised during the year	Value of rights awarded during the year[1]
30. REMUNERATION REPORT (CONTINUED)							
30.6 Share rights – Pepkor Scheme							
Directors paid for services at Pepkor level							
Fair value per share at date of exercise/vesting and/or grant							R19.51
RG Hanekom	March 2018	March 2021	390 244	–	390 244	–	–
	March 2019	March 2022	–	536 756	536 756	–	10 472 110
			390 244	536 756	927 000	–	10 472 110
LM Lourens	March 2018	March 2021	570 244	–	570 244	–	–
	March 2019	March 2022	–	797 835	797 835	–	15 565 761
			570 244	797 835	1 368 079	–	15 565 761
Total executive directors			960 488	1 334 591	2 295 079	–	26 037 870

[1] *The value of rights granted during the year represents the value of the rights for the full service condition (three-year vesting condition).*

Executive directors and executives of the group do not have bespoke executive contracts, but are employed in terms of the group's standard contract of employment.

31. GOING CONCERN

The directors have reviewed the group's budget and cash flow forecast for the year. On the basis of this review, and in light of the current financial position and existing borrowing facilities, the directors are satisfied that the group is a going concern and have continued to adopt the going concern basis in preparing the annual financial statements.

32. EVENTS SUBSEQUENT TO THE REPORTING DATE

The board is not aware of any other significant events after the reporting date that will have a material effect on the group's results or financial position as presented in these financial statements.

33. DISTRIBUTION TO ORDINARY SHAREHOLDERS

The board has elected to declare a scrip dividend to shareholders in respect of the year ended 30 September 2019 with a cash alternative of 20.9 cents (27.8 cents in the prior year). The dividend will be payable to the holders of ordinary shares in the share capital of the company and recorded in the securities register of the company on 24 January 2020. Shareholders will be entitled to elect to receive a gross cash dividend of 20.9 cents per share held in respect of all or part of their ordinary shareholding, instead of the scrip dividend (cash dividend), payable out of the company's distributable retained profits. The finalisation of information, including the ratio applicable to the scrip dividend is expected to be released on SENS on or about Tuesday, 14 January 2020. A circular setting out the terms and salient dates of the scrip dividend and cash dividend alternative will be published separately in due course. The last date to trade in order to be eligible to receive the dividend will be 21 January 2020 and the ex-dividend date will be 22 January 2020. The dividend will be paid and broker accounts updated, as the case may be, on 27 January 2020. Pepkor's two largest shareholders, representing 79.8% of the group's issued share capital, have committed to receive the scrip dividend.

34. CHANGES IN ACCOUNTING POLICIES

On 1 October 2018, the group adopted the following accounting standards, effective for financial years ending on or after 1 January 2018, which had an effect on the prior year's disclosures. The restatement did not have any material impact on the statement of financial position and statement of cash flows, nor basic earnings per share, diluted earnings per share, headline earnings per share or diluted headline earnings per share.

34.1 IFRS 9: *Financial Instruments*

IFRS 9: *Financial Instruments* (replacing IAS 39: *Financial Instruments: Recognition and Measurement*) addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The key impact of IFRS 9 for the group is due to the new impairment model for financial assets as set out below:

34.1.1 Classification and measurement of financial instruments

The group has reviewed and assessed existing financial assets as at 1 October 2018, based on the facts and circumstances that existed at that date, and concluded that the initial application of IFRS 9 has had the following impact on the group's financial assets with regard to their classification:

Instrument	Classification: IAS 39	Classification: IFRS 9
Trade and other receivables	Loans and receivables	Amortised cost
Loans to customers	Loans and receivables	Amortised cost
Government bonds	Held to maturity	Amortised cost
Unlisted investments	Available for sale	Fair value through other comprehensive income
Derivative financial instruments	Derivatives accounted for as hedges	Derivatives accounted for as hedges
Financial guarantees	Other financial liabilities	Financial liability at amortised cost

34.1.2 Impairment of financial assets under the new impairment model

The new impairment model applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15: *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts.

At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument.

The key impact of IFRS 9 is the new impairment model for financial assets, impacting the group's debtors and loan books. The new impairment model reflects expected credit losses based on forward-looking information as opposed to incurred credit losses under IAS 39. The following approaches have been adopted across the group:

Financial asset	Approach
Retail debtors	Simplified approach
Loans to customers	General impairment model
Instalment sale receivables	General impairment model
Credit sales through store cards	General impairment model
Government bonds	General impairment model
Loans to employees and key management	General impairment model
Loan to associate	General impairment model

Financial assets where a 12-month ECL is recognised are considered to be 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'. The assessment of credit risk and the estimation of ECL is unbiased and probability-weighted, and incorporates all available information that is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

34. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

34.1 IFRS 9: *Financial Instruments*

34.1.2 Impairment of financial assets under the new impairment model (continued)

For financial assets where objective evidence of impairment exists (stage 3), the standard requires interest income to be calculated on the carrying value of the debtors, after allowance for expected credit losses based on the original effective interest rate.

For trade and other receivables without a significant financing component, the group has adopted the simplified approach that recognises lifetime ECL regardless of the stage classification. The group applied a provision matrix based on historical credit loss experience, which was adjusted for forward-looking factors applicable to the trade and other receivables balances and economic factors.

34.1.3 Effect of adopting IFRS 9: *Financial Instruments*

The group has elected to apply the impact of IFRS 9 retrospectively with an adjustment to opening retained earnings on 1 October 2018, therefore comparative information for the prior year has not been restated.

	Rm
Closing retained earnings on 30 September 2018 as previously reported	**2 750**
Net adjustment to retained earnings	**(82)**
Increase in impairment allowance for trade and other receivables	**(114)**
Increase in deferred tax relating to impairment allowances	**32**
Opening retained earnings on 1 October 2018	**2 668**

34.1.4 Derivatives and hedging activities

On adoption of IFRS 9, the group elected to apply the hedge accounting requirements under IFRS 9 (2018: the group applied hedge accounting under the requirements of IAS 39). The most significant change between the two standards is the 'assessment of effectiveness' test that allows greater flexibility for the types of transactions eligible for hedge accounting. Further the effectiveness test has been replaced with the principle of an 'economic relationship'. The group has assessed its current hedging relationships as well as other possible types of transactions that might be eligible for hedge accounting under the requirement of IFRS 9. The outcome was not material.

34.2 Effect of adopting IFRS 15: *Revenue from Contracts with Customers*

IFRS 15: *Revenue from Contracts with Customers* (replacing IAS 18: *Revenue*) is based on the principle that revenue is recognised as the group satisfies performance obligations and when control of a good or service transfers to a customer, rather than the use of the risks and rewards criteria under IAS 18.

The group has elected to apply the impact of IFRS 15 retrospectively, therefore comparative information for the prior year has been restated. The key impact of IFRS 15 for the group is set out below:

Agent vs principal assessment
IFRS 15 provides new guidance that impacted the group's assessment of whether it acts as principal or agent when recognising revenue from certain value-added services. In certain instances, contracts have been reassessed and revenue previously recognised on a gross basis and included in revenue and cost of sales, is now recognised on a net basis in other income where the group acts as the agent.

Accounting for refunds
It is policy to sell goods with the right of return in terms of current consumer legislation. Such sales are cancelled where the right of return is exercised. Under IFRS 15, a refund liability for the expected refunds to customers is recognised as an adjustment to revenue and is included in trade and other payables. The accumulated experience of the group's returns has been utilised to estimate such refund liability at the time of sale. Based on past experience, it is estimated that goods returned in a saleable condition will be insignificant. Therefore the group does not recognise an asset and a corresponding adjustment to cost of sales for its right to recover the product from the customer where the customer exercises the right of return.

Rebates from suppliers
The group assessed its different rebates received from suppliers. In certain instances, rebates relating to the purchase of inventory were recognised either as revenue, operating income or net of operating expenses. Rebates relating to the purchase of inventory should be accounted for net of the cost of inventory, unwinding to cost of sales as the goods are sold.

34. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

34.2 Effect of adopting IFRS 15: *Revenue from Contracts with Customers* (continued)

34.2.1 Effect of adopting IFRS 15: *Revenue from Contracts with Customers*

Impact on statement of comprehensive income:

	Previously reported Year ended 30 September 2018 Audited Rm	IFRS 15 adjustment Rm	Restated Year ended 30 September 2018 Audited Rm
Revenue	64 168	(24)	**64 144**
Cost of sales	(42 027)	114	**(41 913)**
Gross profit	22 141	90	**22 231**
Operating income	875	63	**938**
Operating expenses	(17 088)	(153)	**(17 241)**
Capital items	(37)	–	**(37)**
Operating profit	5 891	–	**5 891**
Finance costs	(1 434)	–	**(1 434)**
Finance income	242	–	**242**
Profit before taxation	4 699	–	**4 699**
Taxation	(1 804)	–	**(1 804)**
Profit for the year	2 895	–	**2 895**
Profit attributable to:			
Owners of the parent	2 885	–	**2 885**
Non-controlling interests	10	–	**10**
Profit for the year	2 895	–	**2 895**

The application of IFRS 15 did not have a material impact on the reported earnings or financial position for the period presented. The segmental analysis has been restated as indicated in note 1. The adjustment resulted in a R24 million decrease in revenue relating to the clothing and general merchandise segment.

PEPKOR
Holdings Limited

SEPARATE INCOME STATEMENT
[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

	Notes	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
Revenue	1	**1 855**	43
Operating expenses		**(147)**	(81)
Operating profit/(loss)	2	**1 708**	(38)
Finance cost	3	**–**	(26)
Profit/(loss) before taxation		**1 708**	(64)
Taxation	4	**(7)**	7
Profit/(loss) for the year		**1 701**	(57)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
Profit/(loss) for the year	**1 701**	(57)
Other comprehensive income	**–**	–
Total comprehensive profit/(loss) for the year, net of taxation	**1 701**	(57)

SEPARATE STATEMENT OF FINANCIAL POSITION

[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

	Notes	30 September 2019 Rm	30 September 2018 Rm
ASSETS			
Non-current assets			
Investment in subsidiary companies	5	**68 000**	70 213
Deferred taxation assets	6	**–**	7
		68 000	70 220
Current assets			
Receivables	7	**4**	–
Related-party loans and other receivables	13	**1**	27
Cash and cash equivalents		**–**	–
		5	27
Total assets		**68 005**	70 247
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated share capital	9	**64 690**	64 690
Reserves		**655**	(195)
		65 345	64 495
Current liabilities			
Other payables and accruals	10	**1**	1
Related-party loans payable and payables	13	**2 659**	5 751
		2 660	5 752
Total equity and liabilities		**68 005**	70 247

SEPARATE STATEMENT OF CHANGES IN EQUITY
[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

	Ordinary stated share capital Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at 30 September 2017	64 690	(174)	–	64 516
Total comprehensive loss for the year	–	(57)	–	(57)
Share-based payments	–	–	36	36
Balance at 30 September 2018	64 690	(231)	36	64 495
Total comprehensive profit for the year	**–**	**1 701**	**–**	**1 701**
Dividends paid	**–**	**(959)**	**–**	**(959)**
Share-based payments	**–**	**–**	**108**	**108**
Balance at 30 September 2019	**64 690**	**511**	**144**	**65 345**

SEPARATE STATEMENT OF CASH FLOWS
[FOR THE YEAR ENDED 30 SEPTEMBER 2019]

	Note	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(utilised in) operations	12	**963**	(162)
Dividends paid		**(959)**	–
Interest paid		**–**	(26)
Net cash inflow/(outflow) from operating activities		**4**	(188)
CASH FLOWS FROM INVESTING ACTIVITIES			
Amounts paid to related-party loans receivable		**–**	(8)
Proceeds from related-party loans receivable		**26**	111
Net cash inflow from investing activities		**26**	103
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from related-party loans payable		**–**	5 751
Related-party loans repaid		**(30)**	(5 666)
Net cash (outflow)/inflow from financing activities		**(30)**	85
NET INCREASE IN CASH AND CASH EQUIVALENTS		**–**	–
Cash and cash equivalents at beginning of the year		**–**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**–**	–

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

[FOR THE YEAR ENDED 30 SEPTEMBER 2019] CONTINUED

		Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
1.	**REVENUE**		
	Dividends received – group companies (note 13.3)	**1 830**	–
	Management fees received – group companies (note 13.3)	**25**	27
	Interest received – group companies (note 13.3)	**–**	16
		1 855	43
2.	**OPERATING PROFIT/(LOSS)**		
	Operating profit/(loss) is stated after taking account of the following items:		
	Impairment of loan – group companies (note 13.3)	**89**	–
	Management fees paid – group companies (note 13.3)	**30**	42
	Impairment of loan – other	**–**	8
	All directors' fees and remuneration was paid by subsidiary companies and ultimate holding the company (note 13).		
3.	**FINANCE COSTS**		
	Finance cost – Related-party (note 13.3)	**–**	(26)
		–	(26)
4.	**TAXATION**		
	Taxation charge		
	Normal taxation		
	South African normal taxation – current period	**–**	–
	Deferred taxation		
	South African deferred taxation – current year	**(7)**	7
		(7)	7

	%	%
Reconciliation of rate of taxation		
Standard rate of taxation	**28.0**	28.0
Creation of unrecognised tax losses	**0.7**	–
Tax exempt income	**(30.0)**	–
Non-deductible expenditure	**1.7**	(17.1)
Effective rate of taxation	**0.4**	10.9

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
5. INVESTMENT IN SUBSIDIARY COMPANIES		
Shares at cost at beginning of the year	**70 177**	70 177
Capital distribution received	**(2 321)**	–
Shares at cost at end of the year	**67 856**	70 177
Share-based payments	**144**	36
	68 000	70 213

Capital distribution received
During the year, JD Group Proprietary Limited (JD Group) declared a capital distribution to the full extent of Pepkor's investment of R2.321 billion in JD Group. The capital distribution was treated as a reduction in the company's investment in subsidiaries. Further to the capital distribution, JD Group declared a normal distribution amounting to R830 million recognised as dividend income. Both distributions were made by way of distributions in specie as follows:

	Capital distribution Rm	Dividend in specie Rm	Total Rm
Loan to – The Building Company Proprietary Limited	**–**	**89**	**89**
Loan to – Pepkorfin Proprietary Limited	**2 321**	**741**	**3 062**
Investment in subsidiaries – The Building Company Proprietary Limited[2]	**–**	**–**	**–**
	2 321	**830**	**3 151**

The Pepkorfin Proprietary Limited loan of R3.1 billion was in turn ceded to Pepkor Capital (RF) Proprietary Limited as partial settlement of the company's loan due.

	Country of incorporation	Issued share capital Rm	Shareholding %	Total Rm
30 September 2019				
Pepkor Holdco	**South Africa**	**41 157**	**100**	**64 433**
JD Group Proprietary Limited[1]	**South Africa**	**3 046**	**100**	**–**
Tekkie Town Proprietary Limited[1]	**South Africa**	**636**	**100**	**3 423**
The Building Company[2]	**South Africa**	**100**	**100**	**–**
SA Poco Retail Proprietary Limited[1,2]	**South Africa**	**3 582**	**100**	**–**
				67 856
30 September 2018				
Pepkor Holdco	South Africa	41 157	100	64 433
JD Group Proprietary Limited[1]	South Africa	3 046	100	2 321
Tekkie Town Proprietary Limited[1]	South Africa	636	100	3 423
SA Poco Retail Proprietary Limited[1,2]	South Africa	3 582	100	–
				70 177

[1] *Acquired entire issued share capital via Internal Restructure on 1 July 2017.*
[2] *Investment in subsidiary is less than R500 000.*

	30 September 2019 Rm	30 September 2018 Rm
6. DEFERRED TAXATION ASSETS		
6.1 Deferred taxation movement		
Assets		
Balance at beginning of the year (note 4)	**7**	–
Current year charge	**–**	7
Balance at end of the year	**7**	7
6.2 Deferred taxation balances		
The corporate taxation rate in South Africa is 28% (2018: 28%) and the capital gains taxation rate 22.4% (2018: 22.4%). Deferred taxes for non-South African subsidiaries are calculated based on tax rates that have been enacted or substantively enacted by the reporting date.		
Total deferred taxation liabilities	**–**	–
Total deferred taxation assets	**–**	7
Deferred taxation balance comprises:		
Taxation losses	**–**	7
	–	7
7. TRADE AND OTHER RECEIVABLES		
Value-added taxation receivable	**4**	–
	4	–

8. PEPKOR GROUP SCHEME

Terms of the scheme

Pepkor granted future share rights to share scheme participants under the Pepkor Executive Share Rights Scheme. The grants remain subject to meeting certain performance conditions (vesting conditions) over the vesting period.

Pepkor Executive Share Rights Scheme

The Pepkor Executive Share Rights Scheme is subject to the following conditions:

a) Rights are granted to qualifying senior executives on an annual basis.
b) Vesting of rights occurs on the third anniversary of grant date, provided performance criteria, as set by Pepkor Holdings Limited's remuneration committee at or about the time of the grant date, have been achieved.
c) In the event of performance criteria not being satisfied by the third anniversary of the relevant annual grant, all rights attaching to the particular grant will lapse.

Assumptions

The fair value of services received in return for share rights granted is measured by reference to the fair value of the share rights granted. The estimated fair value of the services received is measured based on the assumption that all vesting conditions are met and all employees remain in service. The pricing model used was the Monte Carlo simulation model. As the company was only listed in September 2017, the equity volatility for the 2018 grant was determined using the volatility of surrogate listed peer daily closing share price over a rolling three-year period.

	2019 grant	2018 grant
Fair value of Pepkor share rights and assumptions:		
Fair value at grant date	**R19.51**	R18.86
Share price at grant date	**R20.50**	R20.41
Strike price	**Rnil**	Rnil
Expected volatility	**35.9%**	37.0%
Dividend yield	**1.7%**	2.7%
Risk-free interest rate	**7.1%**	6.9%
Option life	**3 years**	3 years

Share scheme settlement provision affecting equity

Rights granted under the Pepkor Executive Share Rights Scheme are subject to a share scheme settlement arrangement whereby the subsidiary companies are required to pay the subscription price of shares granted to employees, equivalent to the quoted market price of such shares on the vesting date when the shares are secured by the subsidiary companies for delivery to the employees less the rights subscription price payable by the employees.

This share scheme settlement arrangement does not impact on profit or loss, as the share scheme is equity-settled and recognised in equity.

	2019 Rm	2018 Rm
Fair value of share scheme settlement receivable		
Balance at beginning of the year	**28**	–
Increase in fair value	**106**	28
Balance at end of the year	**134**	28
Deferred dividend receivable		
Balance at beginning of the year	**8**	–
Dividend deferred in current year	**2**	8
Balance at end of the year	**10**	8
Total	**144**	36

	30 September 2019 Number of shares	30 September 2018 Number of shares
9. SHARE CAPITAL		
9.1 Authorised – ordinary		
Ordinary shares of no par value	**20 000 000 000**	20 000 000 000
9.2 Issued – ordinary		
Total issued ordinary stated share capital	**3 450 000 000**	3 450 000 000

	Rm	Rm
9.3 Issued – ordinary		
Total issued ordinary stated share capital	**64 690**	64 690

	Number of shares	Number of shares
9.4 Unissued shares		
Shares reserved for future participation in share schemes	**500 000 000**	500 000 000
Shares under the control of the directors	**172 500 000**	258 750 000
Unissued shares	**15 877 500 000**	15 791 250 000
Total unissued shares	**16 550 000 000**	16 550 000 000

By way of general authority, shareholder approval was granted to the board to issue up to 172 500 000 (2018: 258 750 000) shares for cash, subject to the provisions of the MOI and the JSE Listings Requirements, which authority shall endure until the next AGM of the company.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the company.

	Number of shares	Number of shares
9.5 Authorised – preference		
Non-redeemable, non-cumulative, non-participating preference shares of no par value	**5 000 000**	5 000 000
Non-redeemable, cumulative, non-participating preference shares of no par value	**2 500 000**	2 500 000
Redeemable, non-cumulative, non-participating preference shares of no par value	**2 500 000**	2 500 000
Redeemable, cumulative, non-participating preference shares of no par value in the following classes:		
Class A1 redeemable, cumulative, non-participating preference shares of no par value;	**10 000 000**	10 000 000
Class A2 redeemable, cumulative, non-participating preference shares of no par value;	**10 000 000**	10 000 000
Class A3 redeemable, cumulative, non-participating preference shares of no par value;	**10 000 000**	10 000 000
Class A4 redeemable, cumulative, non-participating preference shares of no par value;	**10 000 000**	10 000 000
Class A5 redeemable, cumulative, non-participating preference shares of no par value.	**10 000 000**	10 000 000
Total authorised preference share capital	**60 000 000**	60 000 000

	30 September 2019 Rm	30 September 2018 Rm
10. OTHER PAYABLES		
Other payables and amounts due	**1**	1
Total financial liabilities	**1**	1

The fair values of accounts payable are disclosed in note 14.

11. CONTINGENCIES

Sellers of the Tekkie Town business allege that Pepkor is responsible for the payment of an earn-out to the sellers based on the performance of Pepkor Speciality Proprietary Limited (the legal entity under which the Tekkie Town business operates) for the period from 1 October 2017 to 30 September 2020. The sellers have also commenced legal proceedings for restitution of the Tekkie Town business. Based on legal advice, the directors are confident that outflow or potential success against Pepkor is remote.

The group is exposed to guarantees relating to external borrowings detailed in note 20 of the consolidated annual financial statements. Refer to note 28.6 of the consolidated annual financial statements for the notional value relating to the exposure to guarantees on external borrowings. The directors are confident that no material liability will arise from any other guarantee. The maximum exposure relating to guarantees is disclosed in note 28.6 of the consolidated annual financial statements. Pepkor Holdings Limited is a party to such guarantees as detailed in note 15. Refer to note 15 for the value relating to the exposure to guarantees on external borrowings. The company has secured a letter of support from Pepkor Holdco Proprietary Limited in the event that the company is called upon to perform on such commitment.

Certain companies in the group are involved in disputes where the outcomes are uncertain. The amounts arising in the course of business relate to uncertain tax positions, disputes with previous Tekkie Town management and other transactions. The directors are, however, confident that they will be able to defend these actions and that the potential of outflow or settlement is remote and, if not, that the potential impact on the group will not be material.

The directors are confident that no material liability will arise from any other guarantee. The maximum exposure relating to guarantees is disclosed in note 15.

There is no other litigation, current or pending, which is considered likely to have a material adverse effect on the company.

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
12. CASH GENERATED FROM/(UTILISED IN) OPERATIONS		
Operating profit/(loss)	**1 708**	(38)
Adjusted for:		
Impairment of loans due from subsidiary company	**89**	(19)
Dividend in specie (note 5)	**(830)**	–
Cash generated from/(utilised in) operations before working capital changes	**967**	(57)
Working capital changes		
Increase in receivables	**(4)**	–
Decrease in payables and accruals	**–**	(105)
Net changes in working capital	**(4)**	(105)
Cash generated from/(utilised in) operations	**963**	(162)

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
13. RELATED-PARTY TRANSACTIONS		
Related-party relationships exist between shareholders and subsidiaries within the group and its company directors and key management employees.		
These transactions are concluded in the normal course of business.		
13.1 Subsidiaries		
Details of investments in direct subsidiaries are disclosed in note 5.		
13.2 Financial guarantee contracts		
Details of financial guarantee contracts are disclosed in note 15 of the company financial statements.		
13.3 Trading transactions		
The following is a summary of transactions with related parties during the period and balances at year-end:		
Loans receivable from:		
The Building Company Proprietary Limited[1]	**89**	–
SA Poco Retail Proprietary Limited	**184**	184
Cumulative impairment provision	**(273)**	(184)
	–	–
The loan to The Building Company Proprietary Limited is non-interest bearing and has no fixed terms of repayment.		
The loan to SA Poco Retail Proprietary Limited is non-interest bearing and has no fixed terms of repayment.		
Loan payable to:		
Pepkorfin Proprietary Limited	**(346)**	(378)
Pepkor Capital (RF) Proprietary Limited	**(2 312)**	(5 373)
	(2 658)	(5 751)
These loans bear no interest and are repayable on demand. The intention of the parties is to settle amounts when the underlying external debt in Pepkor Capital (RF) Proprietary Limited and Pepkorfin Proprietary Limited falls due, on 23 May 2022.		
Accounts receivable from:		
The Building Company Proprietary Limited[1]	**–**	3
Pepkor Speciality Proprietary Limited	**–**	2
FLASH Mobile Vending Proprietary Limited	**–**	2
Pepkor Trading Proprietary Limited	**1**	20
	1	27
Accounts payable to:		
Pepkorfin Proprietary Limited	**(1)**	–
	(1)	–
Dividends received:		
Pepkor Holdco Proprietary Limited	**1 000**	–
JD Group Proprietary Limited	**830**	–
	1830	–

[1] *Name change in current year from Steinhoff Doors and Building Materials Proprietary Limited to The Building Company Proprietary Limited.*

	Year ended 30 September 2019 Rm	Year ended 30 September 2018 Rm
13. RELATED-PARTY TRANSACTIONS		
13.3 Trading transactions (continued)		
Dividends paid:		
Ainsley Holdings Proprietary Limited	**(681)**	–
Lancaster 101 Proprietary Limited	**(84)**	–
	(765)	–
Management fees received:		
The Building Company Proprietary Limited[1]	**3**	3
Pepkor Speciality Proprietary Limited	**2**	2
FLASH Mobile Vending Proprietary Limited	**2**	2
Pepkor Trading Proprietary Limited	**18**	20
	25	27
Management fees paid:		
Pepkor Trading Proprietary Limited	**(28)**	–
Steinhoff at Work Proprietary Limited	**–**	(12)
Steinhoff Africa Holdings Proprietary Limited	**(2)**	(30)
	(30)	(42)
Finance costs:		
Steinhoff Africa Holdings Proprietary Limited	**–**	(15)
Steinhoff at Work Proprietary Limited	**–**	(11)
	–	(26)
Interest received:		
Pepkor Speciality Proprietary Limited	**–**	16
	–	16

[1] Name change in current year from Steinhoff Doors and Building Materials Proprietary Limited to The Building Company Proprietary Limited.

13.4 Compensation of key management employees

Refer to note 30 of the consolidated financial statements.

14. FINANCIAL INSTRUMENTS

The management, board and executive team are responsible for implementing the risk management strategy to ensure that an appropriate risk management framework is operating effectively within the company, embedding a risk management culture. The board and the audit and risk committee are provided with a view of the risk profile of the company and any major exposures and relevant mitigating actions are identified.

The system of risk management is designed so that the different business units are able to tailor and adapt their risk management processes to suit their specific circumstances.

Regular management reporting and internal audit reports provide a balanced assessment of key risks and controls. The financial director provides quarterly confirmation to the board that financial and accounting control frameworks have operated satisfactorily and consistently.

14.1 Total financial assets and liabilities

	Loans and receivables and other financial liabilities at amortised cost	
	30 September 2019 Rm	30 September 2018 Rm
Total financial assets and liabilities		
Related-party loans receivable	**–**	27
Related-party receivables	**1**	–
Current financial assets	**1**	27
Other payables	**(1)**	(1)
Related-party short-term loans payable	**(2 659)**	(5 751)
Current financial liabilities	**(2 660)**	(5 752)
	(2 659)	(5 725)

No items were classified as 'at fair value through profit or loss' or 'at fair value through other comprehensive income' (2018: 'available for sale', 'held to maturity', 'at fair value through profit or loss' or 'designated as at fair value through profit or loss') during the year.

The carrying amount of financial assets and liabilities approximates its fair value.

No fair value adjustments were made to any of the financial assets and liabilities.

14.2 Foreign currency risk

All the financial assets and liabilities of the company are denominated in the company's functional currency of South African rand.

14.3 Interest rate risk

As part of the process of managing the company's borrowings mix, the interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates. Interest rate exposure is managed within limits agreed by the board.

At the reporting date, the interest rate profile of the company's financial instruments was:

	Subject to interest rate movement			
	Variable South African prime Rm	Variable JIBAR Rm	Non-interest-bearing Rm	Total Rm
30 September 2019				
Current financial assets	**–**	**–**	**1**	**1**
Current financial liabilities	**–**	**–**	**(2 660)**	**(2 660)**
	–	**–**	**(2 659)**	**(2 659)**
30 September 2018				
Current financial assets	–	–	27	27
Current financial liabilities	–	–	(5 752)	(5 752)
	–	–	(5 725)	(5 725)

	30 September 2019 Rm	30 September 2018 Rm

14. FINANCIAL INSTRUMENTS (CONTINUED)

14.4 Credit risk

Potential concentration of credit risk consists principally of related-party loans receivable. At 30 September 2019, the company did not consider there to be any significant concentration of credit risk that had not been adequately provided.

The carrying amounts of financial assets represent the maximum credit exposure.

The maximum exposure to credit risk at the reporting date, without taking account of the value of any collateral and financial guarantees are as follows:

	30 September 2019 Rm	30 September 2018 Rm
Current financial assets	**1**	27
Maximum exposure to financial guarantees	**19 295**	18 397
	19 296	18 423

Credit risk is concentrated within southern Africa, which has been assessed based on the ECL model and has concluded that the effect would not be material.

14.5 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected. The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are available.

The following are the contractual maturities of financial liabilities:

	Carrying amount Rm	0 to 3 months Rm	4 to 12 months Rm	More than 1 year Rm
2019				
Current financial liabilities	**2 660**	**2 660**	**–**	**–**
Financial guarantee contracts	**19 295**	**19 295**	**–**	**–**
	21 955	**21 955**	**–**	**–**
2018				
Current financial liabilities	5 752	5 752	–	–
Financial guarantee contracts	18 397	18 397	–	–
	24 149	24 149	–	–

Further details of financial guarantee contracts are provided in note 15.

14.6 Treasury risk

A finance forum, consisting of senior executives of the company, meets on a regular basis to analyse currency and interest rate exposure and to review and, if required, to adjust the company's treasury management strategies in the context of prevailing and forecast economic conditions.

14.7 Capital risk

The company manages its capital to ensure that the company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of equity, comprising issued capital, distributable reserves and retained earnings as disclosed in the statement of changes in equity.

The company's risk management committee reviews the capital structure of the company on a semi-annual basis. As a part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the company will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

15. FINANCIAL GUARANTEE CONTRACTS

The company along with other subsidiaries has guaranteed the term loans, revolving credit facilities and general banking facilities of Pepkorfin Proprietary Limited and the preference share funding of Pepkor Capital (RF) Proprietary Limited under the terms of the guarantee. The company will make payments to reimburse the lenders upon failure of the guarantee entity to make payments when due. The company has secured a letter of support from Pepkor Holdco Proprietary Limited, a wholly owned subsidiary, in the event that the company is called upon to perform on such commitment.

	Face value 2019 Rm	**Drawn down balance 2019 Rm**	Face value 2018 Rm	Drawn down balance 2018 Rm
Term loans	**9 500**	**8 500**	7 000	7 000
Preference share funding	**6 000**	**6 000**	6 000	6 000
Revolving credit facilities	**2 500**	**2 500**	2 500	2 500
General banking facilities	**6 935**	**1 039**	6 608	1 715
Guarantee facilities	**1 420**	**1 256**	1 069	1 182
	26 355	**19 295**	23 177	18 397

16. DISTRIBUTION TO ORDINARY SHAREHOLDERS

The board has elected to declare a scrip dividend to shareholders in respect of the year ended 30 September 2019, with a cash alternative of 20.9 cents (27.8 cents in the prior year). The dividend will be payable to the holders of ordinary shares in the share capital of the company and recorded in the securities register of the company on 24 January 2020. Shareholders will be entitled to elect to receive a gross cash dividend of 20.9 cents per share held in respect of all or part of their ordinary shareholding, instead of the scrip dividend (cash dividend), payable out of the company's distributable retained profits. The finalisation of information, including the ratio applicable to the scrip dividend is expected to be released on SENS on or about Tuesday, 14 January 2020. A circular setting out the terms and salient dates of the scrip dividend and cash dividend alternative will be published separately in due course. The last date to trade in order to be eligible to receive the dividend will be 21 January 2020, and the ex-dividend date will be 22 January 2020. The dividend will be paid and broker accounts updated, as the case may be, on 27 January 2020. Pepkor's two largest shareholders, representing 79.8% of the group's issued share capital, have committed to receive the scrip dividend.

17. EVENTS AFTER THE REPORTING DATE

The board is not aware of any other significant events after the reporting date that will have a material effect on the group's results or financial position as presented in these financial statements.

18. GOING CONCERN

The directors have reviewed the company's budget and cash flow forecast for the year. On the basis of this review, and in light of the current financial position and existing borrowing facilities, the directors are satisfied that the company is a going concern and have continued to adopt the going concern basis in preparing the annual financial statements.

CORPORATE INFORMATION

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