PEPKOR
Holdings Limited

2022

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2022

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Approval of the annual financial statements

for the year ended **30 September 2022**

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.

The directors of the group and company are responsible for the controls over and the security of the website and, where applicable, for establishing and controlling the process for electronically distributing annual reports and other financial information to shareholders and to the Companies and Intellectual Property Commission.

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;
- the annual financial statements fairly present the results and the financial position of the company and the group; and
- the board of directors has executed its responsibilities under the evaluation policy.

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 2022, which appear on pages 4 to 130, 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 12 December 2022, and are signed on its behalf by PJ Erasmus (chief executive officer) and RG Hanekom (chief financial officer)

PJ Erasmus

PJ Erasmus
Chief executive officer

RG Hanekom

RG Hanekom
Chief financial officer

Statement of chief executive officer and chief financial officer responsibility

Each of the directors, whose names are stated below, hereby confirm that:

- the annual financial statements set out on pages 4 to 130, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;
- to the best of our knowledge and belief, no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer;
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function as executive directors with primary responsibility for implementation and execution of controls;
- where we are not satisfied, we have disclosed to the audit and risk committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls and have taken steps to remedy the deficiencies; and
- we are not aware of any fraud involving directors.

PJ Erasmus

PJ Erasmus
Chief executive officer

RG Hanekom

RG Hanekom
Chief financial officer

Secretary certification

I 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.

M Allie

M Allie
Company secretary

12 December 2022

Report of the directors

for the year ended **30 September 2022**

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, Brazil, Eswatini, Lesotho, Malawi, Mozambique, Namibia, Nigeria, South Africa and Zambia.

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, CODE, Dunns, Refinery, Shoe City, S.P.C.C and Tekkie Town
- Dealz
- Avenida

Other components included in this segment:

- Tenacity Financial Services supports the Ackermans and Pepkor Speciality CFH brands in terms of credit sales through store cards to customers.
- Club Mais supports the Avenida brand in terms of credit sales through store cards to customers.
- The Pepkor central office cost, excluding IT cost, property management cost and internal audit cost, are fully allocated to the clothing and general merchandise segment, on the basis that it represents the dominant segment in the group. Corporate costs are not allocated to individual segments, although all segments enjoy support and services from the central corporate functions.

Furniture, appliances and electronics

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

- Bradlows
- Russells
- Rochester
- Sleepmasters
- Incredible
- HiFi Corp

Other components included in this segment:

- Connect Financial Solutions provides credit through instalment sale receivables to the furniture, appliances and electronics brands.
- Abacus provides insurance products via its subsidiaries to customers of the JD Group and other group businesses.

Building materials

This segment includes The Building Company and comprises retail, wholesale and specialised divisions that serve the full spectrum of the construction industry, including the residential, commercial and industrial markets. The retail brands include:

- BUCO
- Timbercity
- Chipbase

The wholesale division comprises:

- MacNeil
- Cachet
- Brands 4 Africa
- 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 unique businesses that are complimentary to Pepkor retail brands' performance. These businesses utilise certain parts of the Pepkor retail store footprint to varying degrees 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 their customers greater convenience, providing access to mobile data and airtime, prepaid electricity, money transfers, bill payments and Lotto.
- Capfin SA provides unsecured credit to customers under the Capfin brand.

Retail footprint

The group sold its products across a retail footprint consisting of 5 830 (2021: 5 470) stores at 30 September 2022.

Financial review

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

REPORT OF THE DIRECTORS *continued*

for the year ended **30 September 2022**

Effect of South Africa's political and social unrest during July 2021

The group suffered damage to 549 stores which were looted and damaged in the social unrest that erupted in South Africa during July 2021. The group carries comprehensive insurance cover in terms of South African Special Risks Insurance Association (SASRIA) for material damage and business interruption and has recovered the total loss suffered of R1.5 billion.

KwaZulu-Natal floods

During April 2022, KwaZulu-Natal experienced severe weather conditions that led to wide-scale flooding across the region. One of PEP's three distribution centres (Isipingo) sustained significant damage. It took 16 weeks to fully restore operations. The total damage is estimated to be c.R800 million and the group has received an interim payment of R396 million for material damage and business interruption.

Share capital

The authorised and issued share capital of the company as at 30 September 2022 is set out in note 20 of the annual financial statements.

The following movements in ordinary shares were recorded during the year:

- The group issued 11.8 million ordinary shares on 1 March 2022 for share rights that vested under the Pepkor Executive Share Rights Scheme.
- The group issued 1.3 million ordinary shares in September 2022 as consideration for the transfer by way of cession and delegation of a long-term material lease in respect of a property.
- The group repurchased and cancelled 32.2 million ordinary shares during the current financial year from the open market on the JSE.
- A company within the group purchased 427 651 ordinary shares during the current financial year from the open market on the JSE which is classified as treasury shares in the annual financial statements.

Share rights

During the course of the year, 15.3 million share rights (2021: 26.4 million) were granted in terms of the Pepkor Executive Share Rights Scheme (Pepkor Scheme). Refer to note 27.

Corporate activity

Steinhoff global settlement

During the 2020 financial year, Pepkor advanced a bridge loan facility to an investment company, Business Venture Investments 1499 (RF) Proprietary Limited (BVI), to settle the external funding, including the guarantee, with RMB, where Pepkor was a guarantor. This follows Pepkor providing for the full exposure, including associated employee loans, in the 2018 financial year. The Steinhoff global settlement (refer to Steinhoff SENS announcement issued 15 February 2022) resulted in the recovery and consequent reversal of the impairment pertaining to the guarantee of R529 million and associated employee loans of R90 million.

Further, as part of the global settlement agreement, all legal disputes relating to the former owners and management of Tekkie Town, as previously reported in the consolidated annual financial statements as at 30 September 2021, were settled. The net impact of the settlement was R180 million.

Acquisition of the Grupo Avenida business in Brazil

Effective 3 February 2022, Pepkor acquired an effective shareholding of approximately 87% in the Brazilian retailer Grupo Avenida S.A. (Avenida) for a total cash consideration representing less than 4% of Pepkor's market capitalisation at the time. Avenida is a Brazilian value apparel retail business established by the Caseli family and has operated successfully for more than 42 years in the low end of the retail market. It has a highly regarded management team with a proven track record and a culture that resonates with the group's own values and beliefs. Between the two organisations there is great opportunity for synergies for Avenida to leverage from the core assets and competencies of Pepkor. This platform allows Pepkor the ideal opportunity to enter the Brazilian market and enable Avenida to fulfil its potential over time. Refer to note 29 for further detail.

Interest-bearing loans and borrowings

During March 2022, the group replaced Term Loan D of R2.5 billion, which carried interest at three-month JIBAR plus 205 bps, and revolving credit facility B of R2.5 billion, which carried interest at three-month JIBAR plus 210 bps, with the following two term loans and revolving credit facility:

- Revolving credit facility C: three-year facility of R1.5 billion at three-month JIBAR plus 140 bps
- Term loan H: four-year term loan of R1 billion at three-month JIBAR plus 150 bps
- Term loan I: five-year term loan of R2.5 billion at three-month JIBAR plus 155 bps

This further strengthens the group's liquidity and debt repayment profile and reduces the group's cost of funding. Refer to note 21.

REPORT OF THE DIRECTORS *continued*

for the year ended **30 September 2022**

Directors

The following changes in the directorate occurred during the year:

Resignation:
LM Lourens effective 30 September 2022.

Appointment:
PJ Erasmus effective 12 January 2022 to 30 September 2022 as non-executive director.

PJ Erasmus effective 1 October 2022 as chief executive officer.

Particulars of the present directors are provided in note 32.3 of the annual financial statements. None of the directors have long-term service contracts with the company or any of its controlled entities.

Directors' shareholding

Directors' shareholding was 2 786 920 (2021: 448 060) shares. From 1 October 2022 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 32.4 and 32.7.

Events subsequent to the reporting date

The board is not aware of any 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 declared a dividend to shareholders in respect of the year ended 30 September 2022 of 55.2 cents (2021: 44.2 cents). The dividend will be payable to the holders of ordinary shares in the share capital of the company recorded in the securities register of the company on 20 January 2023. The last date to trade in order to be eligible to receive the dividend will be 17 January 2023, and the ex-dividend date will be 18 January 2023. The dividend will be paid and broker accounts updated, as the case may be, on 23 January 2023.

Going concern

The board of directors have evaluated the going concern assumption as at 30 September 2022, taking into account 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.

The cash flows and liquidity projections of the group have been prepared for a period exceeding 12 months from the reporting date and included performing sensitivity analyses based on various scenarios. The group made substantial progress in reducing net debt and strengthening its financial position. Refer to note 21.

Litigation report

Except to the extent referred to under note 30.5 Contingent liabilities, 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.

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

The group company secretary's responsibilities are fulfilled by Mr M Allie. The board is satisfied that the company secretarial role is carried out by a person who has the necessary competence, qualifications and experience, and that there is an arm's-length relationship between the company secretarial function and the board members as required by JSE Listings Requirement 3.84(h).

Closing

The group achieved another commendable set of results for the year. The retail market remains constrained under prevailing global and local macroeconomic conditions as well as the impact of load shedding. As the leader in the discount and value retail space, Pepkor has an unparalleled ability to operate in close proximity to customers from both the formal and informal retail market perspectives, enabled by its physical and virtual presence and capability. Pepkor will remain true to its purpose to make a positive difference in the lives of our customers and the communities in which we operate by providing convenient access to everyday products and services at affordable prices. The Pepkor board and management wish to thank our stakeholders for their continued support.

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Audit and risk committee report

for the year ended **30 September 2022**

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, No. 71 of 2008, as amended (the Companies Act). The committee oversees audit and risk matters for Pepkor Holdings Limited and all its subsidiaries (the group), as permitted by section 94(2)(a) of the Companies Act.

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

The committee is pleased to present its report for the financial period ended 30 September 2022.

Membership

The committee consists of four (4) members, who all are independent non-executive directors of the company:

Director	Designation	Date appointed	Qualifications
HH Hickey*	Chair	1 June 2021	BCompt (Hons), CA(SA)
ZN Malinga	Member	1 June 2021	BAcc (Hons), CA(SA)
SH Müller	Member	2018 AGM	BAcc, BAcc (Hons), CA(SA), Sanlam EDP, IoDSA
F Petersen-Cook	Member	16 April 2018	BBusSc (Act.Sc.), FIFoA, Certificate in Climate Change and Sustainability, FASSA, PGDip Global Business OXON, PGDip (MgtPrac) UCT GSB, CD(SA) IoDSA

* HH Hickey was appointed as chair of the committee on 1 January 2022. Prior to this date, F Petersen-Cook served as interim chair of the committee from 17 February 2021.

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, head of group enterprise risk, 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, who is a member of the board, also attended the meetings by invitation. The group company secretary is the secretary to this committee.

AUDIT AND RISK COMMITTEE REPORT *continued*

for the year ended **30 September 2022**

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 period under review, until 30 September 2022, the committee held four (4) scheduled meetings. After the financial year-end, the committee held a further scheduled meeting on 16 November 2022, which was attended by all members of the committee. The attendance of the committee members for the period under review is recorded below:

Meeting date	Nature of meeting	HH Hickey	ZN Malinga	SH Müller	F Petersen-Cook
15 November 2021	Scheduled	√	√	√	√
14 February 2022	Scheduled	√	√	√	√
19 May 2022	Scheduled	√	√	A	√
18 August 2022	Scheduled	√	√	√	√

Note: A representative quorum for meetings shall be a majority of members present, which was attained at all meetings.

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 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 on 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 co-operation 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 (CA) model** is effectively applied to provide a coordinated approach to all assurance activities and, in particular, ensure that the combined assurance received is appropriate to address all the significant risks facing the group. A CA framework has been formalised during FY22 and the committee has received and considered a formal CA report for the first time during the year under review. The committee also monitors 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, information technology (IT) risks as they relate to financial reporting and the risk of cybercrime;
   - oversee the development and regular review of a policy and plan for risk management and, recommending 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, in confidence, 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. Set the direction on the management of technology and information, while overseeing management's governance of information technology, including cyber security, value delivered from IT investments, responsible use of information and compliance with applicable laws.

7. **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 thereafter annually for every re-appointment;
   - consider and make recommendations to the board, to be put to the shareholders for approval at the AGM of the company, in relation to the appointment, re-appointment 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 fee for the external audit;
   - meet with the external auditors 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 auditors, 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 reviewed non-audit services rendered by the auditors for impact on independence; 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.
8. To perform duties which 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:

- evaluated the performance and independence of the external auditors and executed its responsibilities in terms of paragraphs 3.84 (g), 22.15 (h) and 7.3 (e) of the JSE Listings and Debt Listings Requirements, respectively. The committee recommended the re-appointment of the external auditors and audit partner at the company's AGM;
- received and reviewed quarterly business performance review reports presented by the CFO, assessing group and divisional operating performances, key financial indicators pertaining to underlying drivers and considered indications of unmitigated business risk;
- monitored compliance with the group's foreign exchange forward cover policy, and monitored the board approved borrowings limits, and external debt covenants;
- monitored the status quo of completion of tax returns and assessments for the group and its subsidiaries;
- reviewed the appropriateness and ongoing adequacy of tax provisions raised by the group;
- monitored the progress on the exercise to simplify the group structure through the deregistration of dormant subsidiaries and reduction of intermediate holding companies;
- considered the effectiveness of internal audit, approved the three-year internal audit plan and monitored the adherence of internal audit to its annual plan;
- 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 being addressed;
- reviewed the key audit matters in the audit opinion and are in agreement that the issues raised are areas of key risk;
- considered the independence and objectivity of the external auditors and ensured that the scope of any additional services provided was not such that they could be seen to have impaired their independence;
- reviewed the governance regarding group information and communication technology, including IT risk assessments;
- oversaw the integrated risk management process and the implementation of combined assurance. The committee assessed the risk governance structures and lines of defence to ensure roles, responsibilities and accountabilities for identifying and managing risks were appropriately defined;
- reviewed risk registers and the material risks the group is exposed to;
- reviewed the suitability of the borrowing facilities of the group, and ongoing appropriateness of the interest rate risk exposure;
- reviewed and approved the foreign exchange policy of the group, and monitored the forward cover position of the group and subsidiaries;
- reviewed the solvency and liquidity of the group, as required, for the declaration of dividends and financial assistance to subsidiaries;
- reviewed the group's dividend policy, and made recommendations to the board in this regard;
- reviewed and recommended for adoption by the board, such financial information that is publicly disclosed which, for the year, included the interim reports and consolidated financial statements for the year ended 30 September 2022;
- considered the group's liquidity and debt repayment profile and reviewed the company's replacement of its term loans; and
- reviewed the audit and risk activities of insurance subsidiaries of the group.

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

AUDIT AND RISK COMMITTEE REPORT *continued*

for the year ended **30 September 2022**

Reporting

Matters and risk areas pertaining to the 2022 consolidated annual financial statements

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

- Consideration was given to management's budgets and forecasts, given the current economic uncertainty. These forecasts directly impacted the goodwill and intangible asset impairment assessments, IFRS 9 impairment assessments, as well as the impairment of the right-of-use assets. These matters are discussed in further detail below.
- PEP's Isipingo distribution centre, the PEP Africa distribution centre and Tiletoria in Durban sustained significant damage due to the floods in April 2022. Supply chain operations were adversely affected. The committee considered the insurance claims process and the recognition of the interim payment received from the insurers.
- The impact of the political and social unrest at the beginning of July 2021, which led to wide scale looting and destruction in the KwaZulu-Natal and Gauteng provinces, impacting 549 stores across the group. The committee considered the insurance claims relating to material damage and business interruption arising from this event and whether the insurance income had been appropriately recognised in the consolidated financial statements.
- Goodwill and indefinite life intangible asset impairment assessments of all operating segments resulted in no further material impairment of the goodwill and other intangible assets in the current financial year.
- Careful consideration was given to the recognition of, as well as disclosures relating to the Steinhoff global settlement.
- The purchase price allocation and the calculation of goodwill following the acquisition of Grupo Avenida in February 2022.
- The IFRS 9-based expected credit loss models and the resultant provisioning on instalment sales, credit sales through store cards and loans to customer books, as disclosed in the annual financial statements.
- IFRS 16: *Leases*. The accounting treatment of the events which led to the profit and loss on modification in the year under review were considered and deemed to be appropriate.
- The impairment assessment relating to the right-of-use assets which are tested for impairment as part of the cash-generating unit (CGU) it relates to (i.e. retail store), when indicators of impairment are identified.
- 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.
- Provision for slow-moving and obsolete stock, as well as ongoing levels of shrinkage.
- The scope and extent of other general and specific provisions recognised.
- Considered transactions for related-party disclosure, and the adequacy of the disclosure.
- The committee has considered whether there were any circumstances which led to the restatement of the current annual financial statements and is satisfied that there are none.
- Having oversight of and considering the reporting, monitoring and communication process regarding the CEO and CFO attestation regarding internal financial controls.
- Considering the content of reports released by the JSE during 2022 on the proactive monitoring of financial statements for compliance with IFRS and ensuring that the annual financial statements contain the required disclosure.

The committee, in forming a view of the specific matters highlighted, considered the opinion of the external auditors on all of these matters, in addition to that of management. 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 represented 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 period under review.

Combined assurance model

The committee provides oversight that the assurance arrangements in place are effective. The combined assurance model comprises management, the group risk management function, 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 which enables the provision of reliable information for decision-making purposes.

AUDIT AND RISK COMMITTEE REPORT *continued*

for the year ended **30 September 2022**

Evaluation of the CFO and finance function

As required by the JSE Listings and Debt Listings Requirements, as well as the recommended practices as per 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 meet his responsibilities.

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

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

The internal audit function maintains general conformance to the Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics. In addition, the internal audit function adopts leading internal control frameworks, including COSO, COBIT, NIST and the ISO27000 series. An audit quality assessment review (QAR) programme is in place and is maintained by the head of internal audit. Internal audit conducted a QAR self-assessment during the year. Based on the results of this assessment, an overall 'Generally Conforms' rating was maintained, which is in line with FY19 to FY21.

The centralised 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, regulatory, operational and IT areas of each operating division, and group support functions. The internal audit plan has been informed by the group strategies, risk registers, comprehensive risk assessments, 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. The external auditor, as permitted, places reliance on internal audit work performed.

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.

Financial year overview

During the year, the group internal audit department determined whether the group's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner that ensures that risks are appropriately identified and managed, information is accurate and reliable, compliance with policies and applicable laws and regulations is maintained, and resources and assets are adequately protected.

Pepkor's internal audit function completed audits of key financial controls as well as business processes, focusing on known or anticipated areas of business risk. In addition, the function completed several unique projects and consulting engagements, including reviews of major new computer systems, and internal controls consulting on major business initiatives.

Furthermore, the internal audit function covered the following:

- Reviewed compliance with legislation and good governance, including the Protection of Personal Information Act No. 4 of 2013 and the JSE Listings Requirements 3.84(k): CEO/CFO sign-off on internal financial control in the Pepkor group;
- Reviewed Pepkor's integrated report prior to publication;
- Performed a corporate governance (King IV™) follow-up review, including areas related to the Pepkor code of ethics, whistle-blower facilities, fraud awareness, compliance and risk management;
- Tested and reviewed network cyber security, incident management and IT general controls in the operating businesses for weaknesses;
- Reviewed project governance and assisted with data migration efforts for the implementation of SAP Finance in PEP SA and PEP Africa;
- Performed post-implementation internal control and efficiency reviews covering the implementation of SAP Finance in Ackermans and Pepkor Speciality earlier in the financial year;
- Performed audits on management's continuing systems of internal control that support the preparation of periodic financial statements and management accounts;

AUDIT AND RISK COMMITTEE REPORT *continued*

for the year ended **30 September 2022**

- Assisted with the coordination of the group's combined assurance efforts; and
- Performed follow-up reviews audit findings previously raised.

The results of the reviews performed indicated that governance and internal control systems and processes were generally adequate and reliable across the group. No material instances of control breakdown were identified.

Digital transformation and innovation

Technology adoption is the main driver behind future-proofing the internal audit function. While people and processes form the foundation, technology is the accelerator that internal audit needs in order to be more innovative and effective. A digital strategy is in place and is continuously refined and improved. The function is fully digitally enabled with powerful analytical, process automation and visualisation tools at its disposal.

Future trends

The heightened awareness locally and internationally of environmental, social and governance (ESG) matters, coupled with developing regulation in this space, underscores the perception that long-term sustainability is not only about financial performance, but also hinged on anticipating and effectively dealing with risk, adopting good governance and ethical principles, treating employees and customers fairly, and being conscious of how business activities impact on the environment. Pepkor's group internal audit department is partaking in group initiatives that aim to reliably and accurately report on ESG indicators and measurements in the group.

Performance and independence

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 discharge their functions.

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

Scope of risk-related oversight by the audit and risk committee

The committee is 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 on in more detail below);
- insurance strategy, adequacy and cost of insurance cover, and claims experience; material legal claims against and by the group, and potential exposure based on advice of the group's legal counsel, and taken in account in the assessment of provisions raised;
- reported occurrences of fraud; although numerous occurrences were reported, especially in the store environment, the impact and frequency were not assessed as abnormal, and no material frauds were brought to the attention of the committee, nor are the overall amounts reported viewed as material or significant;
- insurance risk exposure assumed by subsidiaries of the group, and the adequacy of the reinsurance thereof;
- regulatory compliance (reported on in more detail below); and
- IT governance and risk management (reported on in more detail below).

Risk management

The focus of risk management is centred on establishing a common risk management framework to ensure that all significant risks facing the business are identified and proactively assessed, to manage the impact of these risks in relation to the group's key performance indicators and targets.

Pepkor's risk management processes are still maturing. Risk management is prioritised at an operational level to ensure that risk management and control activities are effectively implemented, monitored and reported to the appropriate governance structures.

The Pepkor risk management framework provides a group-wide view of the operations' key risks, the strategic group risks, as well as interrelated risks that have a compounding effect on the overall group risk profile. A formal risk appetite and tolerance has been defined and each operation continues to develop and enhance their risk management activities. The group will continue to drive risk management initiatives to identify significant threats and opportunities.

During the past year, further development regarding the risk management methodology took place. There was increased focus on developing combined assurance reporting and completing operational risk assessments in order to evaluate material risks. The company will continue to work on maturing combined assurance.

Risk management oversight, implementation and assurance

The group risk management framework is designed to ensure that effective oversight, implementation and assurance of risk management and control systems are achieved throughout the group. The audit committee serves as a combined oversight structure mandated by the board to monitor risk management activities. Operational risk management forums are held regularly to discuss prevailing and emerging risks, as well as to consider effective risk treatment plans.

The committee is committed to improving risk management and achieving Pepkor's strategic objectives in accordance with the requirements of King IV™. Each operating entity is mandated to adopt and implement a risk management methodology to ensure risks are effectively identified, evaluated, mitigated, monitored and communicated. The methodology ensures that regular risk management assessments are completed by each operation.

This approach ensures that risk management is continuously being embedded in business activities and decision-making processes at all levels of the group. The Pepkor risk appetite and tolerance thresholds provide a common risk nomenclature and set impact guidelines for each category of risk (strategic, operational, financial, compliance, sustainability, health and safety, business continuity and disaster recovery). Executive management are held accountable for designing, implementing and monitoring the systems and processes underpinning risk management.

Risk management approach

Risks are identified from both a bottom-up and top-down perspective. The primary output of the top-down approach is the annual identification, evaluation and reporting of the material group risks. The bottom-up approach delivers the quarterly operational risk report, which presents the material risks per operating segment. The group prescribes strict minimum standards for the control environment and regularly deploys internal and independent audit teams to test control effectiveness across operating entities. Failure to implement significant/key controls within set time frames is escalated to the operational executive management and/or the group audit and risk committee.

Risk retention and transfer strategy

The risk retention and transfer strategy continues to be evaluated to identify opportunities for alternative risk transfer structures, which may improve risk retention and reduce risk transfer costs. This has become an increasingly significant cost as corporates continue to experience escalating insurance costs. Incident management by operations support the identification of potential exposures and emerging trends, and informs decision-making for enhanced mitigation activities for losses, where the frequency of incidents continues to rise. Incidents are investigated by operational management, internal and/or independent teams to identify and rectify any current and future exposure of the group.

Significant events, resilience and future considerations

The floods experienced during April 2022 caused significant disruption to operations. The various risk mitigation measures that were in place and implemented (including having insurance cover in place) mitigated losses sustained by the group.

The consolidation of risk management information across a decentralised group provides valuable insights into the risk management and control activities. Material risks are consolidated and assessed to identify interconnected risks. Risk management is a key agenda point at the divisional executive committee meetings and the increased awareness is translating into increasing focus around business continuity initiatives.

Risk management assurance

Risk management plays an increasingly important role in the combined assurance efforts of the group and serves as a second line of assurance to the board audit and risk committee. Internal audit regularly engages with operational management and group risk management to discuss current and emerging risks and use the operational risk registers and reports as an input for the internal audit requirements.

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. Reporting from the various business units on litigation and compliance takes place on at least a quarterly basis and is reported to the audit committee.

The group's compliance officer provides a regular written report to the audit committee as substantive compliance assurance. The business continues to focus on consumer data privacy rights. For the period under review, the regulatory compliance universe for the Pepkor group has been stable. 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.

The Prudential Authority has designated Pepkor Holdings as an insurance group. Pepkor Holdings, the ultimate holding company of Abacus, has therefore applied for an (insurance) controlling company licence, together with an application to be exempted from certain requirements of the Insurance Act (due to Pepkor Holdings being a listed entity), as well as an outsourcing notification in terms of which all insurance compliance functions will be outsourced to Abacus.

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 besides South Africa.

IT governance and IT risk management

IT governance in the group is premised on decentralised operating divisions 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.

Divisional strategic IT projects and change portfolios are managed through IT steering committees in each division, in co-operation with each division's exco. Strategic alignment and prioritisation within each divisional portfolio are achieved through these steering committees. IT risks are managed through continuous risk assessment and monitoring, and risk registers are updated quarterly within each division.

Pepkor IT, a business unit within the Group Strategic 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

AUDIT AND RISK COMMITTEE REPORT *continued*

for the year ended **30 September 2022**

segment of the group only. The furniture, appliances and electronics, building materials, and FinTech segments have their own integrated IT functions serving their respective businesses. The group has selected COBIT 5 as an overarching framework for IT governance and process maturity, which is at varying levels of implementation within each division. During the year, the committee received updates regarding the IT governance maturity self-assessment on the identified focus areas against the governance framework. Changes to address shortcomings that were identified have been implemented.

Progress made during the year included the following:

- addressing vulnerabilities to mitigate cyber risk in the operating businesses and strengthening the internal environment. Network penetration tests were performed in the various businesses and user awareness programmes were conducted;
- conducting disaster recovery and business continuity testing and addressing constraints identified; and
- overseeing the development and implementation of key IT projects.

External audit

Audit fees

The committee, in consultation with executive management, has approved the audit fee for the 2022 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 financial year is summarised as follows:

DESCRIPTION OF SERVICE	
Audit services and other assurance-related services (Rm)	**44.81**
Non-audit services (Rm)	**3.62**
Total audit and non-audit services (Rm)	**48.43**

Non-audit services policy

There is a formal policy governing approval of non-audit services provided by the appointed external auditors. 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 auditors are at a level and of a nature 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 auditors 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 required. In addition, the committee chair privately meets with the auditors prior to the final meeting of the committee after year-end to facilitate confidential inputs on audit progress and matters of sensitivity.

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 the external auditors of Pepkor and its subsidiaries (PwC) are 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, and its materiality in relation to the audit firm's overall fees generated from its national client base;
- 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 Companies Act and the relevant provision in the JSE Listings Requirements; and
- the existence of any relationships between the auditor and the group which may impede the auditor's independence.

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

Recommendation on appointment for 2023 financial year

The audit committee has satisfied itself that PwC and the designated audit partner remain accredited by the JSE for 2023. The committee reviewed the last inspection findings from IRBA and are comfortable with the firm remediation processes and the quality of the audit and designated audit partner.

The audit committee considered the information stated in paragraph 22.15(h) of the JSE Listings Requirements.

AUDIT AND RISK COMMITTEE REPORT *continued*

for the year ended **30 September 2022**

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 re-appointed as the independent external auditor and that, in terms of the regulations and policies governing rotation of designated auditors, Mr Dawid de Jager be appointed as the designated auditor for the 2023 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, prior to the review of the solvency and liquidity assessment performed relating to the recommendation of the dividend declared to the board. The board's statement on the going concern status of the group, as supported by the audit committee, is contained in the report of the directors.

Financial statements

The audit committee has evaluated the consolidated financial statements for the year ended 30 September 2022, and considers that they comply, in all material aspects, with the requirements of the Companies Act and International Financial Reporting Standards. The committee has therefore recommended the financial statements for approval to the board. The board has subsequently approved the financial statements, which will be tabled for adoption at the forthcoming AGM.

Functioning of the audit committee

The committee is satisfied that it has discharged its duties efficiently and that it has functioned in accordance with its ToR for the 2022 financial year.

All members of the audit committee meet the independence requirements.

Recognition

In conclusion, I wish to express my gratitude to the other members of the audit committee for their invaluable input, advice and support. I also wish to thank the CFO, Pepkor finance function staff, the financial directors of the group businesses, our internal and external auditors, and all other contributors to the combined assurance process, for enabling the audit committee to execute its mandate.

HH Hickey

HH Hickey
Audit and risk committee chair

12 December 2022

Independent auditor's report

To the shareholders of Pepkor Holdings Limited

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 2022, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

WHAT WE HAVE AUDITED

Pepkor Holdings Limited's consolidated and separate financial statements set out on pages 22 to 130 comprise:

- the consolidated and separate statements of financial position as at 30 September 2022;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the "Pepkor Holdings Limited 2022 Annual Financial Statements for the year ended 30 September 2022", rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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.

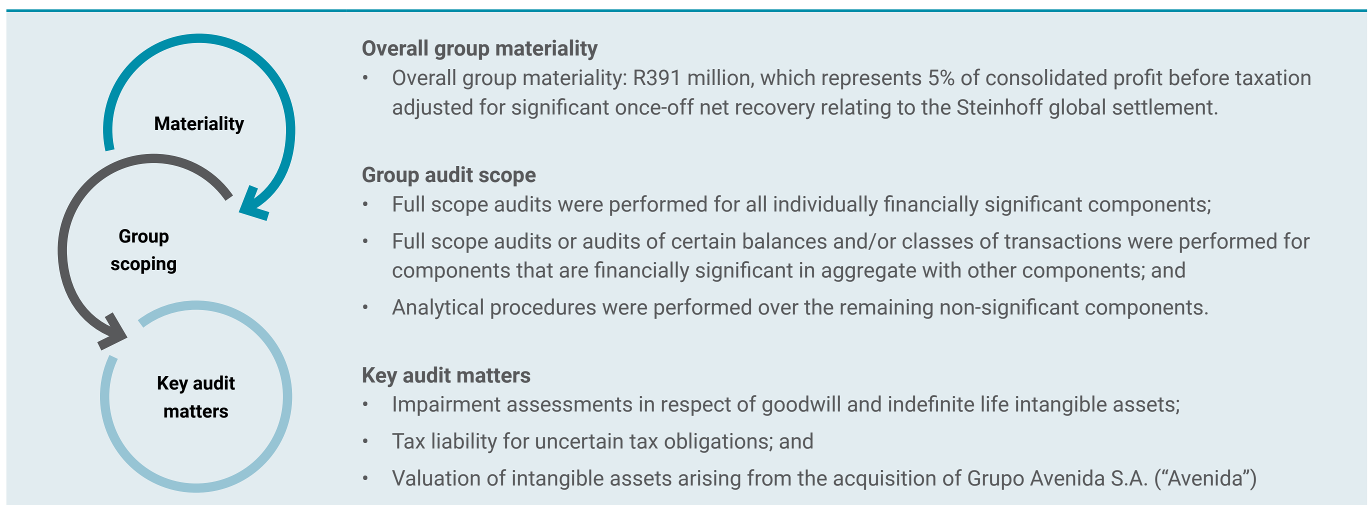
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Our audit approach

Overview



Overall group materiality

- Overall group materiality: R391 million, which represents 5% of consolidated profit before taxation adjusted for significant once-off net recovery relating to the Steinhoff global settlement.

Group audit scope

- Full scope audits were performed for all individually financially significant components;
- Full scope audits or audits of certain balances and/or classes of transactions were performed for components that are financially significant in aggregate with other components; and
- Analytical procedures were performed over the remaining non-significant components.

Key audit matters

- Impairment assessments in respect of goodwill and indefinite life intangible assets;
- Tax liability for uncertain tax obligations; and
- Valuation of intangible assets arising from the acquisition of Grupo Avenida S.A. ("Avenida")

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 of 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.

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended **30 September 2022**

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	R391 million.
How we determined it	5% of consolidated profit before taxation adjusted for significant once-off net recovery relating to the Steinhoff global settlement.
Rationale for the materiality benchmark applied	We chose consolidated profit before taxation from continuing operations 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. Consolidated profit before taxation was adjusted to exclude the impact of once-off net recovery on the consolidated financial statements as disclosed in note 3.9 (Steinhoff global settlement net recovery). 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 consolidated financial statement line items. We identified two individually financially significant components in the Group, namely PEP SA 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 taxation, we also included eleven other components in the scope of our Group audit. For these components, we performed a combination of full scope audits and audits of balances and/or classes of transactions. The remainder of the components were insignificant to the Group, individually and in aggregate, and we performed analytical review procedures on these components.

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 consolidated financial statements as a whole.

Detailed group audit instructions were communicated to all in scope components and the group engagement team was involved in determining the audit approaches adopted in relation to significant risk areas. Throughout the audit, various discussions were held with the component auditors 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, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended **30 September 2022**

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessments in respect of goodwill and indefinite life intangible assets The Group's net assets include a significant amount of goodwill amounting to R37.2 billion, and trade and brand names amounting to R18.3 billion classified as indefinite life intangible assets, allocated to groups of cash generating units ("CGUs"). Please refer to Note 9 (Goodwill) and Note 10 (Intangible assets) to the consolidated financial statements. In the current financial year the acquisition of Avenida resulted in R1.9 billion additional goodwill. 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 fair value less cost of disposal calculations, determined using discounted cash flow models. Based on their impairment assessments and calculations, management recognised no impairment losses within goodwill and indefinite life intangible assets in relation to any of its groups of CGUs. We considered this area to be a matter of most significance to our current year audit due to the following: • the significant judgement and key assumptions applied by management in performing the impairment assessments, which included the discount rate, long term growth rate, short- to medium term revenue growth rate and future cash flows; and • the magnitude of the related goodwill and indefinite life intangible asset balances.	Our audit procedures included testing of the principles, integrity and mathematical accuracy of the Group's discounted cash flow models. The details of these audit procedures are listed below: • Through inspection of relevant documentation and discussions we assessed management's judgements relating to the allocation of goodwill and indefinite life intangible assets into the relevant CGUs against the principles of IAS 36, 'Impairment of Assets' to ensure that they relate to the lowest level of aggregation at which the assets are being monitored. • We utilised our internal valuations expertise to test the principles of management's calculation for each model: – Compared the inputs to discount rates used by management to externally obtained data such as risk-free rates, equity market risk premiums and the betas of comparable companies. We noted no material differences and accepted management inputs to the discount rates; – We challenged management's key assumptions by comparing long term growth rates and short- to medium term revenue growth rates to approved business plans and independent market and economic data as applicable. We noted no material differences and accepted management's key assumption. • In assessing management's forecasts, we evaluated sales and margin forecasts by comparing it to the past performance of each of the groups of CGUs. Where variances were noted we obtained reasons from management and performed independent stress tests to ascertain the impact on the impairment assessment and noted no material impacts. • We performed independent sensitivity calculations on the impairment assessments, to assess 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.

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended **30 September 2022**

Key audit matter	How our audit addressed the key audit matter
Tax liability for uncertain tax obligations The Group operates across numerous jurisdictions which have differing tax legislation. Determination of the amounts which should be recognised for uncertain tax liabilities is subject to management's judgement, including consideration of regulations by various tax authorities. Tax liabilities for uncertain tax obligations are provided for in current income tax liabilities as disclosed in the consolidated statement of financial position. Refer to 'Income taxation provisions' accounting policy, included in the significant judgements and the estimates note to the consolidated financial statements. Taxation positions are provided based on either the most probable outcome method or the expected value of the taxation position for each type of taxation exposure. Determining the tax liability 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.	Making use of our tax expertise, we performed the following procedures: • We challenged management's judgement of the most probable outcome by considering alternative views as informed by case law and probability factors and our assessments of tax risks, legislative developments, tax regulations, contingencies and the recognition thereof. • We inspected correspondence with tax authorities, the company's reply to these supported by external legal opinions where applicable. • We performed sensitivity analyses around the key assumptions, such as probability, used in management's assessments and the calculation of the tax liability. • Making use of the information obtained as referred to above, we independently calculated an expected range in respect of the Group's tax liability. Based on the results of our evaluation, we accepted management's estimation, taking into account the significant judgement involved in management's estimation.
Valuation of intangible assets arising as a result of the acquisition of Avenida The Group acquired Avenida, effective 3 February 2022 for a consideration of R2.8 billion. As a result of this acquisition, the Group recognised intangible assets of R745 million and goodwill of R1.7 billion. Please refer to Note 9 (Goodwill), Note 10 (Intangible assets) and note 29 (Net cash flow on acquisition of businesses) to the consolidated financial statements. In accordance with IFRS 3, 'Business Combinations', the accounting for this acquisition requires management to perform a purchase price allocation which requires significant judgement by management to determine the fair value of the identifiable assets and liabilities and the resulting goodwill. As part of the valuation process, management involved external valuation experts to assist in the determination of the purchase price allocation and valuation of identified assets and liabilities. The valuation of the intangible assets arising as a result of acquisitions was a matter of significance due to the judgement and complexity involved in performing the purchase price allocations, specifically the underlying estimates involved in forecasting cash flows and other significant assumptions used in the valuation. Therefore, we considered the accounting for the valuation of the intangible assets as a key audit matter.	Using our valuation expertise, we performed, among others, the following procedures: • We agreed transaction details to supporting documentation such as signed purchase agreements and proof of payment; • We evaluated the competence, capabilities and objectivity of valuation experts engaged by the Group by assessing their professional qualifications, experience and objectivity of these experts with reference to the profiles of the valuation company and individual experts. No aspects requiring further consideration were noted; • We assessed the appropriateness and completeness of the identifiable intangible assets identified by management and their valuation experts based on our knowledge of the business models of similar business as Avenida; • We assessed the methodologies utilised by management and their valuation expert in determining the fair value of the intangible assets against the requirements of IAS 38 Intangible Assets and did not note any aspects requiring further consideration. • We independently calculated the discount rate with our own assumptions and publicly available data such as risk-free rates, equity market risk premiums and the betas of comparable companies; • We tested the mathematical accuracy of the fair value measurement calculations prepared by management and their valuation experts and no material findings were identified; • We assessed the reasonability of management's forecasted cash flows by reconciling the business valuation with the purchase consideration and noted no material inconsistencies; • We assessed the disclosure against the requirements of IFRS 3 and no material disclosure deficiencies were noted.

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended **30 September 2022**

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Pepkor Holdings Limited 2022 Annual Financial Statements for the year ended 30 September 2022", which includes the Report of the directors, the Audit and risk committee report and the Secretary certification as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled "Pepkor Holdings Limited 2022 Integrated report", 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 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, 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 International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material 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.

INDEPENDENT AUDITOR'S REPORT *continued*

for the year ended **30 September 2022**

- 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, actions taken to eliminate threats or safeguards applied.

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 five years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: D de Jager

Registered Auditor
Stellenbosch, South Africa
12 December 2022

Consolidated annual financial statements

for the year ended **30 September 2022**

Consolidated income statement

	Notes	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
Revenue	2	81 396	77 329
Retail revenue		78 915	75 208
Financial services revenue		2 150	1 798
Insurance revenue		331	323
Cost of sales		(52 583)	(50 795)
Cost of merchandise sold		(52 729)	(50 622)
Cost of merchandise written off – social unrest and floods	3.1	(318)	(673)
Insurance claim recovery – social unrest and floods	3.1	464	500
Gross profit		28 813	26 534
Other income	3.10	1 448	1 052
Other income excluding insurance claim recovery – social unrest and floods	3.10	938	881
Insurance claim recovery – social unrest and floods	3.10	510	171
Steinhoff global settlement net recovery	3.9	439	–
Operating expenses	3	(14 989)	(13 697)
Debtors' costs	3.6	(1 085)	(785)
Operating profit before depreciation, amortisation and capital items		14 626	13 104
Depreciation and amortisation	3.2	(4 293)	(3 799)
Operating profit before capital items		10 333	9 305
Capital items	4	146	(164)
Capital items excluding insurance claim recovery – social unrest and floods		(151)	(164)
Insurance claim recovery – social unrest and floods	4.4	297	–
Operating profit		10 479	9 141
Finance costs	5	(2 468)	(2 334)
Finance income	5	262	275
Profit before associated income		8 273	7 082
Share of net profit of associate	13	4	2
Profit before taxation		8 277	7 084
Taxation	6	(2 168)	(2 208)
Profit for the year		6 109	4 876
Profit attributable to:			
Owners of the parent		6 114	4 875
Non-controlling interests		(5)	1
Profit for the year		6 109	4 876
Earnings per share (cents)			
Total basic earnings per share	8	165.5	132.7
Total diluted earnings per share	8	163.0	130.8

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

Consolidated statement of comprehensive income

	Notes	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
Profit for the year		6 109	4 876
Other comprehensive (OCI) income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		598	(77)
Net fair value gain/(loss) on cash flow hedges	31.3	1 350	(740)
Deferred taxation on cash flow hedges		(60)	52
Foreign currency translation reserve (FCTR) released to profit or loss on liquidation of foreign subsidiaries	4.5	(50)	(89)
Total other comprehensive income/(loss) for the year, net of taxation		1 838	(854)
Total comprehensive income for the year		7 947	4 022
Total comprehensive income attributable to:			
Owners of the parent		7 952	4 021
Non-controlling interests		(5)	1
Total comprehensive income for the year		7 947	4 022

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

Consolidated statement of financial position

	Notes	30 September 2022 Rm	30 September 2021 Rm
ASSETS			
Non-current assets			
Goodwill	9	39 204	37 280
Intangible assets	10	19 004	18 090
Property, plant and equipment	11	8 341	6 874
Right-of-use assets	12	11 101	10 230
Interest in associate	13	64	55
Investments and loans	14	49	69
Loans to customers	17	5	1
Deferred taxation assets	15	3 022	2 764
		80 790	75 363
Current assets			
Trade and other receivables	16	8 511	6 984
Loans to customers	17	1 842	1 534
Insurance and reinsurance receivables	19.2	39	16
Inventories	18	17 066	13 347
Current income taxation assets		262	233
Investments and loans	14	110	31
Cash and cash equivalents		4 947	6 174
		32 777	28 319
Total assets		113 567	103 682
EQUITY AND LIABILITIES			
Total equity attributable to equity holders of the parent		62 762	58 188
Non-controlling interests		183	–
Total equity		62 945	58 188
Non-current liabilities			
Interest-bearing loans and borrowings	21	10 350	10 720
Lease liabilities	23	11 861	11 952
Employee benefits	24	233	146
Deferred taxation liabilities	15	4 235	4 152
Provisions	25	315	91
Put option liability	22	682	–
		27 676	27 061
Current liabilities			
Trade and other payables	26	14 712	12 235
Insurance payables	19.3	76	74
Employee benefits	24	1 250	1 268
Current income taxation liabilities		2 273	1 975
Provisions	25	92	73
Interest-bearing loans and borrowings	21	1 129	–
Lease liabilities	23	2 836	2 377
Bank overdrafts		578	431
		22 946	18 433
Total equity and liabilities		113 567	103 682

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

Consolidated statement of changes in equity

	Notes	Stated capital Rm	Treasury shares 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	Put option reserve	Total equity attributable to owners of the parent Rm	Non-controlling interests Rm	Total Rm
Balance as at 30 September 2020		67 234	–	(2 087)	(749)	269	1	(11 755)	466	–	53 379	9	53 388
Total comprehensive income/(loss) for the year		–	–	4 875	(166)	–	–	–	(688)	–	4 021	1	4 022
Profit for the year		–	–	4 875	–	–	–	–	–	–	4 875	1	4 876
Recognised in other comprehensive income		–	–	–	(166)	–	–	–	(688)	–	(854)	–	(854)
Dividends paid		–	–	–	–	–	–	–	–	–	–	(9)	(9)
Share issued under Pepkor Executive Share Rights Scheme	20	118	–	–	–	(118)	–	–	–	–	–	–	–
Share issued as properties purchase consideration	20	1 031	–	–	–	–	–	–	–	–	1 031	–	1 031
Share buy-back and cancellation	20	(762)	–	–	–	–	–	–	–	–	(762)	–	(762)
Share-based payment expense and relating taxation		–	–	37	–	229	–	–	–	–	266	–	266
Net fair value gain on cash flow hedges transferred to inventory		–	–	–	–	–	–	–	263	–	263	–	263
Transactions with non-controlling interests		–	–	–	–	–	(10)	–	–	–	(10)	(1)	(11)
Balance at 30 September 2021		67 621	–	2 825	(915)	380	(9)	(11 755)	41	–	58 188	–	58 188
Total comprehensive income/(loss) for the year		–	–	6 114	548	–	–	–	1 290	–	7 952	(5)	7 947
Profit for the year		–	–	6 114	–	–	–	–	–	–	6 114	(5)	6 109
Recognised in other comprehensive income		–	–	–	548	–	–	–	1 290	–	1 838	–	1 838
Dividends paid		–	–	(1 634)	–	–	–	–	–	–	(1 634)	–	(1 634)
Share issued under Pepkor Executive Share Rights Scheme	20	231	–	–	–	(231)	–	–	–	–	–	–	–
Share issued as properties purchase consideration	20	19	–	–	–	–	–	–	–	–	19	–	19
Share buy-back and cancellation	20	(643)	–	–	–	–	–	–	–	–	(643)	–	(643)
Treasury shares purchased	20	–	(9)	–	–	–	–	–	–	–	(9)	–	(9)
Share-based payment expense and relating taxation		–	–	20	–	260	–	–	–	–	280	–	280
Net fair value gain on cash flow hedges transferred to inventory		–	–	–	–	–	–	–	(785)	–	(785)	–	(785)
Transfer between reserves		–	–	(33)	–	–	33	–	–	–	–	–	–
Recognition of put option reserve	22	–	–	–	–	–	–	–	–	(606)	(606)	–	(606)
Recognition of non-controlling interests on acquisition of subsidiary	29	–	–	–	–	–	–	–	–	–	–	172	172
Exchange differences on consolidation of foreign subsidiaries		–	–	–	–	–	–	–	–	–	–	16	16
Balance at 30 September 2022		67 228	(9)	7 292	(367)	409	24	(11 755)	546	(606)	62 762	183	62 945

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

Consolidated statement of cash flows

	Notes	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	28	**11 187**	11 033
Dividends paid		**(1 634)**	–
Finance cost paid	5.2	**(2 321)**	(2 221)
Finance income received	5.2	**238**	252
Taxation paid		**(2 005)**	(1 953)
Net cash inflow from operating activities		**5 465**	7 111
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	11	**(2 281)**	(1 639)
Additions to intangible assets	10	**(269)**	(212)
Proceeds on disposal of property, plant and equipment and intangible assets		**39**	26
Payment for acquisition of subsidiary, net of cash and cash equivalents acquired	29	**(1 843)**	–
Disposal of business, net of cash and cash equivalents	7	**–**	63
Proceeds from settlement of BVI loan	3.9	**609**	–
Decrease in investments and loans		**305**	17
Increase in investments and loans		**(25)**	(16)
(Increase)/decrease in investments and loans in equity accounted companies		**(5)**	1
Net cash outflow from investing activities		**(3 470)**	(1 760)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amount paid on share buy-back	20.3	**(643)**	(762)
Treasury shares purchased	20.5	**(9)**	–
Transactions with non-controlling interests		**–**	(20)
Amounts paid on long-term interest-bearing loans and borrowings	21.4	**(5 338)**	(6 500)
Amounts received on long-term interest-bearing loans and borrowings	21.4	**5 000**	4 700
Principal lease liability repayments		**(2 783)**	(2 403)
Net cash outflow from financing activities		**(3 773)**	(4 985)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1 778)**	366
Effects of exchange rate translations on cash and cash equivalents		**404**	(75)
Cash and cash equivalents at beginning of the year		**5 743**	5 452
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**4 369**	5 743
Consisting of:			
Cash and cash equivalents		**4 947**	6 174
Bank overdrafts		**(578)**	(431)
		4 369	5 743

Summary of accounting policies

for the year ended **30 September 2022**

Statement of compliance

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the IFRS Interpretations Committee interpretations, 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 Limited Listings Requirements and Debt 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.

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* 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 do 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 Holdco group, SA Poco Retail Proprietary Limited, JD Group Proprietary Limited and Tekkie Town Proprietary Limited from Steinhoff in 2017 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 that 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.

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 2022**

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 (NCI) 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) in terms of IFRS 10: *Consolidated Financial Statements*.

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. Refer to significant judgements and estimates note, capital items (use of adjusted measures), for the treatment of the impairment.

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 exist.

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
Customer lists	Indefinite/16 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

The group's main leasing activities relate to that of retail stores, office space and distribution centres. On entering a contract, the group assesses whether a contract is, or contains, a lease based on the definition of a lease as per IFRS 16: *Leases*. The criteria to assess a contract include whether a contract involves the use of an identified asset, the group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period in use, and the group has the right to direct the use of the asset. The group then allocates the consideration in the contract to each lease component on the basis of its stand-alone price. The group has applied the practical expedient not to reassess any contract entered into before the initial recognition date.

If a contract is assessed to be, or contains, a lease, the group recognises a right-of-use asset and corresponding lease liability at the lease commencement date over the lease term. The group determines the lease term as the non-cancellable period of a lease, including any beneficial occupation periods, and assesses if the lessee is reasonably certain to exercise an option available on a lease to extend or terminate the lease.

Management exercises judgement to assess the likelihood of whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease. The lease term will not include any renewal options where there is no reasonable certainty that the lease will be renewed until the option is exercised.

Right-of-use assets are initially measured at cost, which is made up of the initial measurement of the lease liabilities, any initial direct costs incurred by the group, and any lease payments made in advance of the lease commencement date, less any lease incentives received. Right-of-use assets are subsequently measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurement of the related lease liabilities. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the useful life or lease term as noted above. Right-of-use assets are tested for impairment as part of the CGU it relates to (i.e. retail store) when indicators of impairment are identified and are periodically reduced by the impairment losses, if required.

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 2022**

Lease liabilities are initially measured at the present value of future lease payments discounted using the discount rate implicit in the lease or, where this has not been stipulated, the group's incremental borrowing rate. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that are based on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group and payments of penalties for terminating a lease, if the group exercises the option to terminate. Variable lease payments, which do not depend on an index or a rate, are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease liabilities are subsequently measured at amortised cost using the effective interest method and reduced by future lease payments net of interest charged. It is remeasured, with a corresponding adjustment to right-of-use assets, when there is a change in future lease payments resulting from a rent review, change in relevant index or rate, such as inflation, or change in the group's assessment of whether it is reasonably certain to exercise a renewal or termination option and thus a change in lease term. The lease liability is remeasured by discounting the revised lease payments using a revised discount rate when there is a change in the lease terms. The remeasurement results in a corresponding adjustment to the carrying amount of right-of-use assets, with the difference recorded in profit or loss if the carrying amount of right-of-use assets has been reduced to zero.

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.

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time, which the group considers as 12 months or more, to get ready for its intended use or sale, are capitalised to the cost of that qualifying asset.

The group calculates the general borrowing costs which are capitalised by calculating the weighted average expenditure on the qualifying asset and applying a weighted average borrowing rate to the expenditure. All other borrowing costs incurred are recognised as an expense in the income statement as finance costs and are accrued on a time basis by reference to the principal amounts outstanding and at the interest rate applicable.

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

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 2022**

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 is still considered not to be in a hyperinflationary economy.

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.

Insurance receivables and payables

Classification

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

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

Initial recognition and measurement

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment using the general expected credit loss (ECL) model, with the impairment loss recorded in the income statement. Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

Insurance contract liabilities include the outstanding claims provision and the provision for unearned premiums. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision is recognised for equalisation or catastrophe reserves.

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 2022**

The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged. It is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Insurance recovery receivable

Insurance recovery receivables are recognised to the extent that the group is virtually certain that the group is insured for the material losses or business interruption losses incurred (insured event) and the insured event claim will be settled by its insurers.

Share capital

Share buy-back

Consideration paid including any directly attributable incremental costs (net of income taxes) for share repurchased by the group, is deducted from equity in stated capital as treasury shares until the shares are cancelled or reissued.

Dividends

Non-discretionary dividends on preference shares are recognised as a liability and recognised as an interest expense using the effective interest method. Other dividends are recognised as a liability in the period in which they are declared.

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 with reference to the share price at grant date (2021: 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 repay the parent based on the market value of the shares at vesting date. 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 based on the market value at vesting date and a corresponding adjustment to the carrying amount of the capital contribution.
- 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 market value at each subsequent reporting date until settlement date to the extent vested. At each reporting date, the unvested rights are adjusted by the number of rights forfeited during the year, to reflect the actual number of instruments outstanding.

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.

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

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.

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 2022**

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.

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 on 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 on 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 on disposal of that foreign operation.

Exchange differences arising from the translation of monetary items receivable 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 include 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.

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 2022**

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.

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 where 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 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.

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.

Put option liability

Where a minority shareholder has the right to put equity instruments of a subsidiary to another group entity, the group records a financial liability for its obligation to pay the put option exercise price. This recognition occurs when the put option contract is signed. Where the put option is entered into as part of a business combination, the put option is accounted for as a financial liability at the present value of the redemption amount with a corresponding charge directly to equity.

Given that the value varies with non-financial variables that are specifically to the parties in the contract, management has classified the put option as a financial liability at amortised cost. As such the put option liability is subsequently accreted through finance cost in profit or loss for the period, using the effective interest rate method, up to the redemption amount that is payable at the date at which the options becomes exercisable or vests.

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 fair value and subsequently measured at amortised cost using the effective interest method.

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, supportable

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 2022**

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, short-term deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within current liabilities in the statement of financial position.

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.

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 through cost of sales.

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. In accordance with the provisions of IFRS 9, the application of hedge accounting requires management to adjust the cost of inventory to incorporate the impact of forward exchange hedging contracts. 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 at the point of sale. For goods that are due for delivery to the customer, the sale is recognised on delivery, as this is deemed to be when the performance indicators are met and control 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 in the furniture, appliances and electronics segment, the present value of the instalment sale payments is recognised as a receivable using the effective interest rate computed at initial recognition over the one- to five-year term of the agreement.

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 2022**

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 segment, 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.

INSURANCE REVENUE

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

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.

Cost of sales

Cost of sales primarily comprises the cost of goods sold and services provided, including an allocation of direct overhead expenses, net of supplier rebates, and costs incurred that are necessary to acquire and store goods. Cost of sales also includes: the cost to distribute goods to customers where delivery is invoiced; inbound freight costs; internal transfer costs between distribution centres and stores; warehousing costs and the cost of other shipping and handling activities; as well as write-downs and reversals of write-downs to inventory.

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

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 2022**

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 is in substance, a cost recovery is 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 businesses, other than the FinTech segment, 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.

Government grants

Government grants, in the form of allowances and refunds for certain expenditure by government, are recognised at fair value when the group complies with the conditions attached to the grants and the grants have been received. The grants are recognised, on a systematic basis, in the income statement as a deduction of the related expense over the periods necessary to match them with the related costs.

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 executive members of the board of directors), 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 2022

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 1	Classification of Liabilities as Current or Non-Current	2023
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use	2023
Amendments to IFRS 3	Business Combinations (Reference to the Conceptual Framework)	2023
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	2023
Amendments to IFRS 1 and IAS 12	Deferred Tax related Assets and Liabilities arising from a Single Transaction	2023
Amendments to IAS 1 and IFRS Practice Statement 2)	Disclosure of accounting policies	2023
Amendments to IAS 8	Definition of Accounting Estimates	2023
IFRS 17	Insurance Contracts	2024
Various	Annual Improvements to IFRS Standards 2018 – 2020	2023

SUMMARY OF ACCOUNTING POLICIES *continued*

for the year ended **30 September 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, expect for the standards noted below:

During the current financial year management completed a detailed gap analysis and is in the process of finalising key inputs and estimates to the IFRS 7 model. Management is however still in the process of quantifying the impact on the financial statements due to the adoption of this standard only being effective from the 2024 financial year, due to the size of the insurance business in relation to the rest of the group, the effect is not expected to be material. Further, the amendments to IFRS 3 will be applied prospectively to transactions or events that occur on or after the date of first application, therefore this will not affect the group on the date of transition.

Standards, interpretations and amendments effective for the year ended 30 September 2022

The following amendments to existing standards are effective for the year ended 30 September 2022. This had no significant effect on the group's operations:

Number	Title
IFRS 9, IAS 39, IFRS 7 and IFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendments to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021

In March 2021, the board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The group has elected not to utilise the practical expedient for rent concessions that meet the criteria. Therefore the rent concessions are accounted for as lease modifications, remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset.

Significant judgements and estimates

for the year ended **30 September 2022**

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 of finite useful life intangible assets are reviewed annually, taking cognisance of the forecasted commercial and economic realities and through benchmarking of accounting treatments in the specific industries in which these assets are used. Refer to note 10 where this significant estimate is discussed.

Leases

Lease terms applicable to lease agreements, relating to the group's lease liabilities, are negotiated on an individual basis and contain a wide range of different terms and conditions. The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Judgement is exercised in determining the likelihood of exercising termination or extension options in determining the lease term, including considerations of the initial term/age of the lease, economic uncertainty of countries the group trades in and uncertainty over the feasibility of certain business units.

Subsequent to the commencement date of lease agreements, lease terms are reassessed when there is a significant event or change in circumstances that is within the group's control and affects its ability to exercise or not to exercise the option to renew or to terminate. Significant events could include a change in the group's assessment of whether it is reasonably certain to exercise a renewal or termination option, which includes if a store is flagged for relocation or closure, or if it is more favourable not to exercise the option.

Incremental borrowing rates applied in the measurement of certain lease liabilities are specific to the country, term, currency and commencement date of the applicable lease agreement. Incremental borrowing rates are based on a series of inputs, including the prime lending rate, the JIBAR rate, a credit risk adjustment and a country-specific adjustment.

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. Investments, property, plant and equipment, right-of-use assets and finite intangibles are only tested if an impairment indicator is identified. Refer to notes 9, 10, 11 and 12 for detail of impairment of assets where applicable. The impairment review requires estimation uncertainty (refer to note 10). The group evaluates, among other things, losses incurred, duration and the 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 it a period of one year after the acquisition date to adjust the provisional amounts recognised for a business combination.

Recognition of put option derivate and non-controlling interest

The group has elected and consistently applied an accounting policy of which in accounting for put options in relation to NCI shareholding, the group has elected that IFRS 10: *Consolidated Financial Statements* takes precedence over IAS 32 *Financial Instruments: Presentation* when considering forwards over NCI. In assessing whether the NCI should be recognised the group takes into consideration whether the put and call option was entered into simultaneously, the exercise price for both the put and call option is based on the same formula and the NCI shareholders retains the ability to legally exercise its voting rights and right to any distributions declared in relation to the shares retained.

The non-controlling interest portion is recognised in equity at its proportionate share of the fair value of identifiable net assets of the subsidiary at acquisition date if the party to the non-controlling interest is deemed to have control over the contractual put and call option, whereas the put option derivative is recognised directly in equity at its fair value on the date acquisition.

SIGNIFICANT JUDGEMENTS AND ESTIMATES *continued*

for the year ended **30 September 2022**

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 15.

Income taxation 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 either the most probable outcome method (the single most likely amount in a range of possible outcomes: the most likely amount may better predict the resolution of the uncertainty if the possible outcomes are binary or are concentrated on one value) or the expected value of the taxation position (the sum of the probability weighted amounts in a range of possible outcomes: the expected value may better predict the resolution of the uncertainty if there is a range of possible outcomes that are neither binary nor concentrated on one value), for each type of taxation provision.

South African Revenue Service (SARS) audit

The group has been subject to an income tax audit by SARS relating to Pepkor Trading Proprietary Limited. SARS has raised additional assessments for the 2016 and 2017 years of assessment. The group, together with its tax and legal advisors do not agree with the additional assessments and have appealed against the additional assessments raised.

The group will pursue all the legal options available to resolve the dispute. The group believes that any potential additional liability resulting from these assessments would be substantially less than the additional tax liability assessed by SARS and the group is furthermore adequately provided for such potential additional liability.

Contingent liabilities

Management apply their judgement to the fact patterns and advice they receive from their 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 30.5.

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 the nature of the product and/or product category, past trends (including historical sales volumes and prices of the product and/or similar products), evidence of impairment at year-end (including damaged goods and days on hand) and an assessment of future saleability (product seasonality, technological obsolescence and aesthetic obsolescence).

SIGNIFICANT JUDGEMENTS AND ESTIMATES *continued*

for the year ended **30 September 2022**

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 31.5, of which the most significant are as follows:

Impairment of financial assets judgements

SIGNIFICANT INCREASES IN CREDIT RISK (SICR)

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 a 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 a 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 an SICR. In the event that no application rating is available, the loan will be classified as an 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 SICRs.	A customer is in default when their account is 30 days in arrears.

LOAN WRITE-OFF POINT

	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.

SIGNIFICANT JUDGEMENTS AND ESTIMATES *continued*

for the year ended **30 September 2022**

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.

	Loans to customers	Instalment sale agreements	Credit sales through store cards
Macroeconomic variables	Forward-looking factors surrounding high levels of unemployment, rising costs of living and higher interest rates.	Forward-looking factors surrounding private sector wages, repo rate, gross domestic expenditure lagged 4 months, household debt to disposable income, petrol price index, and credit extension to households. In addition to this an overlay for the lagged effect of the increases in the interest rates, prices of energy (fuel, diesel, electricity etc.) was incorporated, inflationary increases together with the detrimental effect of load shedding on the GDP of South Africa.	Forward-looking factors surrounding the rising cost of living for the retail credit consumer.

Management has assigned a probability of 49% (2021: 55%) to the baseline scenario, 37% (2021: 23%) to the negative scenario and 14% (2021: 22%) to the positive scenario for the 12-month forecast. The impact of incorporating forward-looking information into ECL for instalment sale agreements granted by the group is as follows:

Probability-weighted impact of all three scenarios for instalment sale agreements	30 September 2022	30 September 2021
100% negative scenario	544	520
% change in ECL (Rm)	3.16%	0.11%
100% baseline scenario	527	519
% change in ECL (Rm)	0.00%	0.00%
100% positive scenario	523	515
% change in ECL (Rm)	-0.82%	-0.82%

Modelling assumptions

Historical data may not always be reflective of the future. The way in which it is used by statistical ECL models (probability of default (PD), exposure at default (EAD), loss given default (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.

Hyperinflation

The group exercises judgement 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 *continued*

for the year ended **30 September 2022**

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 years ended 30 September 2022 and 2021. Hyperinflation accounting therefore ceased, and the 2018 adjustments will unwind over time.

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

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 2022, the cumulative three-year inflation rate was 77.29 (2021: 75.25%).

Segmental reporting

Management identified operating segments in line with internal reporting structures in accordance with IFRS 8: *Operating Segments*. 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 27.

Capital items (use of adjusted measures)

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 include all remeasurements excluded from the calculation of headline earnings per share (HEPS) in accordance with the guidance contained in SAICA Circular 1/2021: Headline Earnings. 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, and any non-trading items, such as gains and losses and the release of FCTR on disposal of investments, operations and subsidiaries. Refer to note 8.

Insurance recovery receivable/ income

Insurance recovery receivables are recognised to the extent that the group is virtually certain that the group is insured for the material losses or business interruption losses incurred (insured event) and the insured event claim will be settled by its insurers.

Notes to the consolidated annual financial statements

for the year ended **30 September 2022**

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 executive members of the Pepkor Holdings Limited 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 2021. The executive members of the board of directors identified and monitors segments in relation to differences in products and services.

Geographical analysis

The CODM reviews revenue, operating profit and assets as one geographical region.

Major customers

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

1.2 Segmental analysis

	Clothing and general merchandise[1,2] Rm	Furniture, appliances and electronics Rm	Building materials Rm	FinTech[1,2] Rm	Total Rm
Year ended 30 September 2022					
Revenue	53 627	11 411	8 458	7 900	81 396
Significant expenses[3]					
Amortisation and depreciation (recognised in operating expenses)	(3 471)	(451)	(284)	(87)	(4 293)
Personnel expenses	(6 017)	(1 357)	(1 043)	(627)	(9 044)
Debtors' costs	(537)	(195)	(15)	(338)	(1 085)
Operating profit before capital items and Steinhoff global settlement net recovery	8 107	601	462	724	9 894
Reconciliation of operating profit					
Operating profit per segmental analysis					9 894
Capital items (note 4)					146
Steinhoff global settlement net recovery (note 3.9)					439
Operating profit per income statement					10 479
Share of net profit of associate (note 13)					4
Finance costs (note 5)					(2 468)
Finance income (note 5)					262
Profit before taxation per income statement					8 277

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Clothing and general merchandise[1,2] Rm	Furniture, appliances and electronics Rm	Building materials Rm	FinTech[1,2] Rm	Total Rm
1. SEGMENTAL ANALYSIS					
1.2 Segmental analysis (continued)					
Year ended 30 September 2021					
Revenue	49 267	10 763	8 416	8 883	77 329
Significant expenses[3]					
Amortisation and depreciation (recognised in operating expenses)	(2 985)	(459)	(273)	(82)	(3 799)
Personnel expenses	(5 454)	(1 296)	(1 060)	(574)	(8 384)
Debtors' costs	(432)	(129)	8	(232)	(785)
Operating profit before capital items and profit on modification relating to the Steinhoff property acquisition[4]	7 637	396	371	636	9 040
Reconciliation of operating profit					
Operating profit per segmental analysis					9 040
Capital items (note 4)					(164)
Profit on modification relating to the Steinhoff property acquisition[4]					265
Operating profit per income statement					9 141
Share of net profit of associate (note 13)					2
Finance costs (note 5)					(2 334)
Finance income (note 5)					275
Profit before taxation per income statement					7 084

[1] FinTech segment revenue is disclosed net of intergroup revenue of R1.8 billion (2021: R2.0 billion) earned relating to the sale of virtual vouchers and airtime to the clothing and general merchandise segment.
[2] The FinTech segment operating profit is disclosed net of intersegment expenses of R15 million (2021: R10 million) paid to the clothing and general merchandise segment relating to the use of its footprint.
[3] The segmental analysis has been updated in the current and prior year to reflect significant expenses identified by the CODM per segment.
[4] During the 2022 financial year, the CODM adjusted the prior year comparatives in order to review the financial results per operating segment without the effect of non-recurring gains. The CODM further reallocated R65 million from the clothing and general merchandise segment to the FinTech segment as they were of the opinion that certain expenses should be measured under the FinTech segment. The reallocations were as follows:

Operating profit before capital items	Clothing and general merchandise	Furniture, appliances and electronics	Building materials	FinTech	Total
Previously reported	7 786	447	371	701	9 305
Profit on modification relating to the Steinhoff property acquisition	(214)	(51)	–	–	(265)
Reallocation of FinTech segment related expenses	65	–	–	(65)	–
Prior year comparatives as reported above	7 637	396	371	636	9 040
Operating profit per segmental analysis					9 040
Capital items (note 4)					(164)
Profit on modification relating to the Steinhoff property acquisition					265
Operating profit per income statement					9 141

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
1. SEGMENTAL ANALYSIS		
1.2 Segmental analysis (continued)		
SEGMENTAL ASSETS	108 461	97 408
RECONCILIATION BETWEEN TOTAL ASSETS AND SEGMENTAL ASSETS		
Total assets per statement of financial position	113 567	103 682
Less: Cash and cash equivalents	(4 947)	(6 174)
Less: Long-term investments and loans	(49)	(69)
Less: Short-term investments and loans	(110)	(31)
Segmental assets	108 461	97 408
2. REVENUE		
Revenue from contracts with customers		
Sale of goods and related revenue (note 2.1.1)[1]	78 233	74 644
Service fee income	469	397
Other revenue[1]	213	167
Other sources of revenue		
Financial services revenue (note 2.1.2)[2]	2 150	1 798
Insurance revenue (note 2.1.3)[2]	331	323
	81 396	77 329
2.1 Disaggregation of revenue from contracts		
2.1.1 Sale of goods and related revenue		
Clothing and general merchandise		
South Africa	44 091	41 980
Other countries[3]	8 598	6 607
Furniture, appliances and electronics		
South Africa	9 749	9 054
Other countries	653	711
Building materials		
South Africa	8 159	8 027
Other countries	299	389
FinTech		
South Africa	6 573	7 773
Other countries	111	103
	78 233	74 644

[1] Revenue is recognised at a point in time when either the point of sale transaction or the delivery of goods is concluded, or when any significant uncertainty is resolved on variable consideration.

[2] Financial services revenue relates to finance income and other revenue measured in terms of the effective-interest method in accordance with IFRS 9 and is therefore recognised over the term of the financial instrument. Insurance revenue is also recognised over the time of the contract entered into with the customer. The non-South African split is not deemed to be material for the group.

[3] Revenue from other countries includes the Brazilian market revenue from Avenida, which was acquired during the current financial year. The Brazilian contribution to total revenue is not deemed to be material for the current financial year and is therefore not separately disclosed.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
2. REVENUE (continued)		
2.1 Disaggregation of revenue from contracts (continued)		
2.1.2 Financial services revenue		
Finance income earned	1 812	1 529
Loan origination fees	338	269
	2 150	1 798
2.1.3 Insurance revenue		
Gross premiums written	333	352
Change in provision for unearned premium	(2)	(29)
	331	323
3. OPERATING PROFIT		
Cost of sales includes the following items:		
3.1 Cost of sales		
Cost of merchandise written off – social unrest	–	673
Cost of merchandise written off – KwaZulu-Natal floods	318	–
Insurance claim recovery – social unrest	(173)	(500)
Insurance claim recovery – KwaZulu-Natal floods	(291)	–
	(146)	173
Operating profit includes the following items:		
3.2 Amortisation and depreciation (recognised in operating expenses)		
Amortisation (note 10)	218	140
Depreciation (note 11)	1 258	1 200
Right-of-use assets depreciation (note 12)	2 817	2 459
	4 293	3 799
3.3 Personnel expenses		
Post-employment benefit contributions to defined benefit plans	229	215
Salaries and wages	8 555	7 940
Share-based payments – equity-settled	260	229
	9 044	8 384

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
3. OPERATING PROFIT (continued)		
3.4 Lease related expenses		
Short-term lease expense	348	434
Low value asset lease expense	13	11
Variable lease payments not included in the measurement of lease liabilities	557	442
Turnover rentals	16	10
	934	897
3.5 Auditor's remuneration:		
Audit fees	45	40
Fees for other services	4	8
	49	48
3.6 Debtors' costs		
Debtor/loan balances written off	1 162	1 281
Debtor/loan balances increase/(decrease) in ECLs	95	(358)
Debtor/loan balances recovered	(172)	(138)
	1 085	785
3.7 Advertising and marketing		
Advertising and marketing	1 038	1 032
3.8 Foreign exchange losses		
Foreign exchange losses	210	586

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
3. OPERATING PROFIT (continued)		
3.9 Steinhoff global settlement net recovery[1]		
BVI impairment provision reversal	529	–
Employee loans impairment provision reversal	90	–
Settlement expense of litigation disputes	(180)	–
	439	–
Steinhoff global settlement net recovery cash flow reconciliation		
BVI impairment provision reversal		
Cash generated from operations – adjusted for non-cash adjustments	(529)	
Cash flows from investing activities – proceeds from settlement of BVI loan	609	
BVI impairment provision reversal	529	–
Receivable balance not previously provided for	80	
Employee loans impairment provision reversal		
Cash generated from operations – adjusted for non-cash adjustments	(90)	–
Cash flows from investing activities – decrease in investments and loans	90	–
Settlement expense of litigation disputes		
Cash generated from operations – operating profit	(200)	–
Cash generated from operations – adjusted for non-cash adjustment	20	–

[1] Refer to the directors' report for more information regarding the Steinhoff global settlement net recovery.

Other income includes the following items:

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
3.10 Other income		
Commission received	538	528
Marketing and advertising income	126	104
Dividend income	72	69
Employee taxation incentives (non-COVID-19-related)	70	56
Cancelled lay-bys	22	52
Profit on factoring of debtors	–	24
Other income	110	48
	938	881
Insurance claim recovery – social unrest	405	171
Insurance claim recovery – KwaZulu-Natal floods	105	–
	1 448	1 052

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022		Year ended 30 September 2021	
	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				
The effect of capital items should be excluded from earnings when determining headline earnings. Refer to note 8.				
Items of a capital nature are included in the 'capital items' line in the income statement. These items are:				
4.1 Impairment	128	92	228	172
Goodwill (note 9)	–	–	13	13
Intangible assets (note 10)	5	3	–	–
Property, plant and equipment (note 11)	5	5	27	20
Property, plant and equipment – social unrest and floods (note 11)	–	–	32	23
Right-of-use assets (note 12)	118	84	156	116
4.2 Loss/(profit) on disposal of property, plant and equipment and intangible assets	59	56	(18)	(17)
4.3 Scrapping of property, plant and equipment – social unrest (note 11)	14	14	44	32
4.4 Insurance claim received of property, plant and equipment – social unrest	(297)	(217)	–	–
4.5 Foreign currency translation reserve released to profit or (loss) on liquidation of foreign subsidiary	(50)	(50)	(89)	(89)
4.6 Loss on sale of subsidiaries (note 7.1.1)	–	–	(1)	(1)
	(146)	(105)	164	97

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Expense Rm	Income Rm	Net expense/ (income) Rm
5. FINANCE COSTS AND FINANCE INCOME			
5.1 Year ended 30 September 2022			
Interest			
Banks	169	(192)	(23)
Loans	755	–	755
Discounting of payables/(receivables)	124	(24)	100
Lease liability finance cost (note 23)	1 383	–	1 383
Put option liability	52	–	52
Other	29	(46)	(17)
	2 512	(262)	2 250
Interest capitalised to property, plant and equipment (note 5.3)	(44)	–	(44)
	2 468	(262)	2 206
Year ended 30 September 2021			
Interest			
Banks	162	(202)	(40)
Loans	650	–	650
Discounting of payables/(receivables)	105	(23)	82
Lease liability finance cost (note 23)	1 317	–	1 317
Related party lease liability finance cost (note 23)	83	–	83
Other	17	(50)	(33)
	2 334	(275)	2 059

5.2 Finance costs and finance income cash flow reconciliation

	Expense Rm	Income Rm	Net expense/ (income) Rm
Year ended 30 September 2022			
Finance costs and finance income recognised in profit or loss	2 468	(262)	2 206
Amortisation of debt raising fees	(15)	–	(15)
Discounting of trade (payables)/receivables	(124)	24	(100)
Put option liability recognised at amortised cost	(52)	–	(52)
Interest capitalised to property, plant and equipment	44	–	44
Cash outflow/(inflow) per the consolidated statement of cash flows	2 321	(238)	2 083
Year ended 30 September 2021			
Finance costs and finance income recognised in profit or loss	2 334	(275)	2 059
Amortisation of debt raising fees	(8)	–	(8)
Discounting of trade (payables)/receivables	(105)	23	(82)
Cash outflow/(inflow) per the consolidated statement of cash flows	2 221	(252)	1 969

5.3 Interest capitalised to property, plant and equipment

Borrowing costs relate to the construction of a distribution centre by the group. The group used existing borrowings and cash on hand to fund the construction and therefore a weighted average interest rate of 6.4% was used to calculate the borrowing costs to be capitalised.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
6. TAXATION		
6.1 Taxation charge		
Normal taxation		
South African normal taxation – current year	1 990	1 682
South African normal taxation – prior year adjustment	71	176
South African normal taxation – capital gains taxation	1	4
Foreign normal taxation – current year	124	93
Foreign normal taxation – prior year adjustment	75	(1)
Withholding taxation – South African	54	49
	2 315	2 003
Deferred taxation		
South African deferred taxation – current year	(9)	189
South African deferred taxation – change in corporate taxation rate	(54)	–
South African deferred taxation – prior year adjustment	(90)	(22)
Foreign deferred taxation – current year	16	16
Foreign deferred taxation – prior year adjustment	(10)	22
	(147)	205
Taxation expense recognised in profit and loss	2 168	2 208

For detail on deferred taxation (liabilities)/assets refer to note 15.

	%	%
6.2 Reconciliation of rate of taxation		
South African standard rate of taxation	28.0	28.0
Foreign taxation rate differential	(0.2)	0.1
Irrecoverable foreign taxes	0.6	0.7
Unrecognised taxation losses net of prior year unrecognised taxation losses utilised	(1.0)	(0.4)
Prior year adjustments	0.8	2.5
Tax-exempt income[1]	(3.1)	(1.2)
Non-deductible expenses[2]	2.8	1.7
Change in South African corporate taxation rate to 27%	(0.7)	0.0
Special allowances	(0.4)	0.0
FCTR release through profit and loss	(0.1)	(0.4)
Other	(0.5)	0.2
Effective rate of taxation	26.2	31.2

[1] Tax-exempt income mainly relates to non-recurring income of a capital nature, franchise fees and tax incentives.
[2] Non-deductible expenses mainly relates to expenses of a capital nature, expenses not incurred in the production of income and depreciation on leasehold improvements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm

7. DISPOSAL GROUPS

John Craig

During the 2020 financial year the group decided to dispose of the John Craig business, which was concluded during the first half of the prior year. The business mainly operated in the smart/formalwear sector of the menswear market. This sector did not represent a strategic fit with the group's main business proposition of supplying discounted value-added products to its customers. Refer to note 7.1.1 for details regarding the sale.

7.1 Sale of business

7.1.1 Details of the sale of the John Craig business

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
Consideration received in cash	–	29
Carrying amount of net assets sold	–	(30)
Loss on sale before taxation	–	(1)
Taxation	–	–
Loss on sale after taxation (note 4.6)	–	(1)

7.1.2 Details regarding the sale of various small subsidiaries within The Building Company

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
Consideration received in cash	–	34
Carrying amount of net assets sold	–	(34)
Gain on sale before taxation	–	–
Taxation	–	–
Gain on sale after taxation	–	–

8. EARNINGS AND HEADLINE EARNINGS PER SHARE

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

	2022 Cents	2021 Cents
Earnings per share		
Basic (note 8.3)	**165.5**	132.7
Headline (note 8.4)	**162.6**	135.4
Diluted basic (note 8.3)	**163.0**	130.8
Diluted headline (note 8.4)	**160.2**	133.4

8.1 Earnings and headline earnings attributable to owners of the parent

	2022 Rm	2021 Rm
Profit for the year	**6 109**	4 876
Attributable to non-controlling interests	**5**	(1)
Earnings attributable to ordinary shareholders	**6 114**	4 875
Capital items (note 4)	**(146)**	164
Taxation effect of capital items (note 4)	**41**	(67)
Headline earnings	**6 009**	4 972

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Million	Year ended 30 September 2021 Million
8.2 Weighted average number of ordinary shares		
Issued ordinary shares at beginning of the year (note 20)	3 697	3 660
Treasury shares (note 20)[1]	–	–
Shares vested under Pepkor Executive Share Rights Scheme	7	4
Shares issued as properties purchase consideration [1]	–	12
Share buy-back and cancellation of shares	(8)	(2)
Weighted average number of ordinary shares at end of the year for the purpose of basic earnings per share and headline earnings per share	3 696	3 674
Effect of dilution due to share rights issues in terms of share scheme (note 27)[2]	55	54
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	3 751	3 728

[1] Less than 500 000 shares in the 2022 financial year.
[2] Share rights issued to employees have been taken into account for diluted earnings and diluted headline earnings per share purposes.

	Cents	Cents
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	165.5	132.7
Diluted earnings per share		
Diluted earnings per share	163.0	130.8
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 1/2021: *Headline Earnings*.		
Headline earnings per share		
Headline earnings per share	162.6	135.4
Diluted headline earnings per share		
Diluted headline earnings per share	160.2	133.4
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	1 706.5	1 573.8

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm
9. GOODWILL		
Carrying amount at beginning of the year	37 280	37 280
Arising on business combinations (note 29)	1 694	13
Impairments (note 4)	–	(13)
Exchange differences on consolidation of foreign subsidiaries	230	–
Carrying amount at end of the year	39 204	37 280
Cost	44 588	42 664
Accumulated impairment	(5 384)	(5 384)
Carrying amount at end of the year	39 204	37 280

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 fair value less cost to sell calculation (fair value hierarchy level 3), using a discounted cash flow model. The key assumptions for the fair value less cost to sell 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 three years and extrapolated cash flows for the following years based on an estimated growth rate as set out below. Management has further assessed the impact of the wide-scale flooding in KwaZulu-Natal during 2022 (2021: the impact of the political and social unrest in South Africa) on future cash flows and is comfortable that the impact is not significant and does not lead an impairment of goodwill.

Management assessed the various CGUs for impairment based on the input factors above and found it to be reasonable to not impair any goodwill. None of the group of CGUs were identified as being sensitive to further impairments in the current year.

An impairment charge is recognised for both goodwill and indefinite life intangible assets when the carrying amount exceeds the recoverable amount. The recoverable amount of the group of CGUs reflected the fair value less cost to sell. During the year, no impairment was recognised (2021: R13 million impairment was processed relating to the Eezi CGU).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

9. GOODWILL (continued)

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:

	Cost Rm	Accumulated impairment Rm	Carrying value Rm
2022			
Clothing and general merchandise			
Ackermans, Dunns, PEP, PEP Africa, Refinery, Shoe City, Tenacity	**39 320**	**(3 019)**	**36 301**
Tekkie Town	**2 251**	**(1 645)**	**606**
S.P.C.C., CODE	**24**	**–**	**24**
Avenida	**1 924**	**–**	**1 924**
Furniture, appliances and electronics			
Bradlows, Rochester, Russells, Sleepmasters	**12**	**–**	**12**
Abacus	**55**	**–**	**55**
Building materials			
BUCO, Hardware Warehouse, Timbercity	**593**	**(593)**	**–**
BSG	**79**	**(79)**	**–**
FinTech			
Call centre and debt collector	**282**	**–**	**282**
Eezi	**48**	**(48)**	**–**
	44 588	**(5 384)**	**39 204**
2021			
Clothing and general merchandise			
Ackermans, Dunns, PEP, PEP Africa, Refinery, Shoe City, Tenacity	39 320	(3 019)	36 301
Tekkie Town	2 251	(1 645)	606
S.P.C.C., CODE	24	–	24
Furniture, appliances and electronics			
Bradlows, Rochester, Russells, Sleepmasters	12	–	12
Abacus	55	–	55
Building materials			
BUCO, Hardware Warehouse, Timbercity	593	(593)	–
BSG	79	(79)	–
FinTech			
Call centre and debt collector	282	–	282
Eezi	48	(48)	–
	42 664	(5 384)	37 280

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

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 and Avenida)	Tekkie Town	Avenida	Furniture and appliances	Electronics	FinTech
2022						
Post-taxation discount rate	**14.4%**	**15.1%**	**14.5%**	**16.8%**	**16.3%**	**17.4%**
Short- to medium-term revenue (compound annual growth rate)	**10.3%**	**11.4%**	**26.2%**	**6.2%**	**5.0%**	**11.8%**
Long-term growth rate	**6.0%**	**4.8%**	**6.0%**	**5.0%**	**4.6%**	**4.5%**
Forecasted cash flows	**5 years**	**5 years**	**10 years[1]**	**5 years**	**5 years**	**5 years**
2021						
Post-taxation discount rate	14.3%	14.3%	n/a	15.5%	14.5%	14.9%
Short- to medium-term revenue (compound annual growth rate)	10.4%	9.8%	n/a	6.8%	3.0%	7.4%
Long-term growth rate	6.0%	4.8%	n/a	4.8%	4.6%	4.5%
Forecasted cash flows	5 years	5 years	n/a	5 years	5 years	5 years

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

Post-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.
Cash flow assumptions	Management base future cash flow assumptions on historical performance and approved budgets.

Sensitivity analysis

Based on sensitivity analysis of all the CGUs of the post-tax discount rates being adjusted to the low and high of the post-tax discount rates determined, an increase and decrease of 0.5% in the short- to medium-term revenue (compound annual growth rate) and an increase and decrease of 0.5% in the long-term growth rate, would not result in an impairment in any of the CGUs that would have significant goodwill allocated to them. A further sensitivity has been performed for the clothing and general merchandise CGU which indicated that a decrease in the annual revenue growth over the forecast period together with a decrease in the terminal growth rate of more than 124bps would result in the headroom being depleted.

[1] Forecasted cash flows of 10 years was used relating to the calculation of the fair value less cost to sell of the Avenida CGU as the group is of the opinion that the synergies and expansion plans for this recent acquisition will only start maturing after 5 years.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Trade and brand names[1] Rm	Software and ERP systems Rm	Customer lists Rm	Work in progress ERP systems Rm	Other Rm	Total Rm
10. INTANGIBLE ASSETS						
Balance at 30 September 2020	17 573	305	11	143	–	18 032
Additions	–	147	–	46	19	212
Amortisation (note 3.2)	(1)	(137)	–	–	(2)	(140)
Disposals	–	(4)	–	–	–	(4)
Transfer to property, plant and equipment (note 11)	–	(10)	–	–	–	(10)
Balance at 30 September 2021	17 572	301	11	189	17	18 090
Additions	–	219	–	50	–	269
Acquired on acquisition of business (note 29)	655	35	36	–	19	745
Amortisation (note 3.2)	(1)	(196)	(2)	–	(19)	(218)
Disposals	–	(7)	–	–	–	(7)
Impairment (note 4)	(3)	(2)	–	–	–	(5)
Reclassification from work-in-progress assets	–	107	–	(107)	–	–
Transfer from property, plant and equipment (note 11)	–	14	–	–	–	14
Exchange differences on consolidation of foreign subsidiaries	89	19	5	–	3	116
Balance at 30 September 2022	18 312	490	50	132	20	19 004
Cost	18 223	1 408	36	189	19	19 875
Amortisation and impairment	(651)	(1 107)	(25)	–	(2)	(1 785)
Net book value at 30 September 2021	17 572	301	11	189	17	18 090
Cost	18 972	1 862	77	132	41	21 084
Amortisation and impairment	(660)	(1 372)	(27)	–	(21)	(2 080)
Net book value at 30 September 2022	18 312	490	50	132	20	19 004
Classification of intangible assets						
2022						
Indefinite useful life assets	18 297	–	–	–	–	18 297
Definite life assets	15	490	50	132	20	707
	18 312	490	50	132	20	19 004
2021						
Indefinite useful life assets	17 556	–	–	–	–	17 556
Definite life assets	16	301	11	189	17	534
	17 572	301	11	189	17	18 090

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

10. INTANGIBLE ASSETS (continued)

Trade and brand names

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

	Cost Rm	Accumulated depreciation and impairment Rm	Exchange differences on consolidation of foreign subsidiaries Rm	Carrying value Rm
2022				
Clothing and general merchandise				
Ackermans, CODE, Dunns, PEP, PEP Africa, Refinery, Shoe City, Tenacity	15 998	(2)	–	15 996
Tekkie Town	766	–	–	766
Avenida[1]	660	(8)	89	741
Furniture, appliances and electronics				
Bradlows, Rochester, Russells, Sleepmasters	619	–	–	619
Incredible	293	(103)	–	190
BUCO, BSG, Tiletoria, Timbercity	547	(547)	–	–
	18 883	(660)	89	18 312
2021				
Clothing and general merchandise				
Ackermans, CODE, Dunns, PEP, PEP Africa, Refinery, Shoe City, Tenacity	15 998	(1)	–	15 997
Tekkie Town	766	–	–	766
Furniture, appliances and electronics				
Bradlows, Rochester, Russells, Sleepmasters	619	–	–	619
Incredible	293	(103)	–	190
BUCO, BSG, Tiletoria, Timbercity	547	(547)	–	–
	18 223	(651)	–	17 572

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, and work in progress ERP systems.

[1] Acquired in the current financial year, refer to note 29.

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 fair value less cost to sell calculation, using a discounted cash flow model. The key assumptions for the fair value less cost to sell 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 three years and extrapolated cash flows for the following years based on an estimated growth rate as set out below.

Where an intangible asset, such as a trademark, trade name and brand name, 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

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 fair value less cost to sell in both the current and prior year. Indefinite useful life intangible assets were tested for impairment during the current and prior year and no impairment was required in light of the recovery in the market over the last two years.

There is no indication based on a reasonable fluctuation in the key assumptions that the remaining balance of the indefinite useful life intangible assets should be impaired.

Software and ERP systems to the value R2 million (2021: Rnil) were impaired in the current year due to the replacement of certain ERP systems.

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

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 indefinite useful life intangible assets are further impaired or that the impairment model is sensitive to a reasonable change in the assumptions.

Based on sensitivity analysis of the post-tax discount rates being adjusted to the low and high of the post-tax discount rates determined, an increase and decrease of 0.5% in the short- to medium-term revenue (compound annual growth rate) and an increase and decrease of 0.5% in the long-term growth rate, no further impairments are required.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Land and buildings Rm	Furniture and fittings Rm	Leasehold improvements Rm	Computer equipment Rm	Other assets Rm	Total Rm
11. PROPERTY, PLANT AND EQUIPMENT						
Balance at 30 September 2020	1 239	2 576	620	429	664	5 528
Additions	1 351	612	138	217	352	2 670
Depreciation (note 3)	(36)	(644)	(187)	(192)	(141)	(1 200)
Disposals	(3)	(15)	(7)	(7)	(16)	(48)
Impairment and scrapping (note 4)	–	(50)	(3)	(2)	(4)	(59)
Reclassification from work-in-progress assets	31	8	44	67	(150)	–
Transfer (to)/from intangible assets (note 10)	–	–	–	(71)	81	10
Exchange differences on consolidation of foreign subsidiaries	(3)	(23)	(3)	–	2	(27)
Balance at 30 September 2021	**2 579**	**2 464**	**602**	**441**	**788**	**6 874**
Additions	**593**	**940**	**242**	**173**	**396**	**2 344**
Depreciation (note 3)	**(58)**	**(643)**	**(219)**	**(190)**	**(148)**	**(1 258)**
Disposals	**–**	**(74)**	**–**	**(1)**	**(16)**	**(91)**
Impairment and scrapping (note 4)	**(1)**	**(13)**	**(3)**	**–**	**(2)**	**(19)**
Acquisition of business (note 29)	**–**	**17**	**346**	**29**	**6**	**398**
Reclassification from work-in-progress assets	**–**	**79**	**55**	**34**	**(168)**	**–**
Transfer to intangible assets (note 10)	**–**	**–**	**–**	**(11)**	**(3)**	**(14)**
Exchange differences on consolidation of foreign subsidiaries	**23**	**50**	**29**	**4**	**1**	**107**
Balance at 30 September 2022	**3 136**	**2 820**	**1 052**	**479**	**854**	**8 341**
Cost	2 762	5 665	1 518	1 570	1 553	13 068
Accumulated depreciation and impairment	(183)	(3 201)	(916)	(1 129)	(765)	(6 194)
Net book value at 30 September 2021	2 579	2 464	602	441	788	6 874
Cost	**3 378**	**6 197**	**2 567**	**1 846**	**1 592**	**15 580**
Accumulated depreciation and impairment	**(242)**	**(3 377)**	**(1 515)**	**(1 367)**	**(738)**	**(7 239)**
Net book value at 30 September 2022	**3 136**	**2 820**	**1 052**	**479**	**854**	**8 341**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Useful lives

The estimated useful lives are reflected in the accounting policies.

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.

KwaZulu-Natal flooding

During April 2022, KwaZulu-Natal experienced severe weather conditions which led to wide-scale flooding across the region. PEP's Isipingo distribution centre in Durban sustained significant damage, while the PEP Africa distribution centre was damaged to a lesser extent due to the flooding. An amount of R14 million was scrapped for property, plant and equipment damaged by the flooding. The group is adequately insured for these types of events expected to receive an insurance claim pay-out relating to the replacement value of these property, plant and equipment in the 2023 financial year.

Social unrest

During the prior year, a total of 549 stores across the group were impacted by the unrest and subsequent looting in July 2021. Stores were burnt, looted or damaged to varying degrees. In addition one of the JD Group's distribution centres in Cato Ridge, KwaZulu-Natal was looted. This led to an impairment and scrapping of various categories of property, plant and equipment to the value of R76 million in the prior year. The group submitted a claim from its insurers on the replacement value of the covered property, plant and equipment, which was paid out during September 2022 to the value of R297 million.

	2022 Rm	2021 Rm
Cash outflow on additions to property, plant and equipment		
Additions per (note 11)	**2 344**	2 670
Property, plant and equipment settled in shares (note 20)	**(19)**	(1 031)
Capitalistion of borrowing costs (note 5.1)	**(44)**	–
	2 281	1 639
Impairment losses and scrappings consist of (note 4):		
Clothing and general merchandise[1]	**16**	52
Furniture, appliances and electronics[2]	**3**	7
	19	59

[1] The current year impairment losses mainly relate to assets of R14 million for the scrapping of property, plant and equipment damaged in the KwaZulu-Natal floods in April 2022 and R2 million property write off for property no longer in use (2021: R25 million for the impairment of stores looted during the social unrest and riots in South Africa during July 2021, assets of PEP Africa to the value of R19 million where stores were closed and R8 million to assets no longer in use).

[2] The current year impairment losses mainly relate to assets of R3 million no longer in use (2021: R7 million for the impairment of stores looted during the social unrest and riots in South Africa during July 2021).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Land and buildings Rm	Other assets Rm	Total Rm
12. RIGHT-OF-USE ASSETS			
Balance at 30 September 2020	11 349	4	11 353
Additions	3 460	–	3 460
Remeasurement due to lease modifications	(1 899)	–	(1 899)
Depreciation (note 3)	(2 457)	(2)	(2 459)
Impairment (note 4)	(156)	–	(156)
Exchange differences on consolidation of foreign subsidiaries	(69)	–	(69)
Balance at 30 September 2021	**10 228**	**2**	**10 230**
Additions	**5 587**	**–**	**5 587**
Acquired on acquisition of business (note 29)	**360**	**–**	**360**
Remeasurement due to lease modifications	**(2 270)**	**–**	**(2 270)**
Depreciation (note 3)	**(2 816)**	**(1)**	**(2 817)**
Impairment (note 4)	**(118)**	**–**	**(118)**
Exchange differences on consolidation of foreign subsidiaries	**129**	**–**	**129**
Balance at 30 September 2022	**11 100**	**1**	**11 101**
Cost	13 323	9	13 332
Accumulated depreciation and impairment	(3 095)	(7)	(3 102)
Net book value at 30 September 2021	10 228	2	10 230
Cost	**15 277**	**2**	**15 279**
Accumulated depreciation and impairment	**(4 177)**	**(1)**	**(4 178)**
Net book value at 30 September 2022	**11 100**	**1**	**11 101**

Remeasurement due to lease modifications

The remeasurement of the right-of-use assets and relating lease liability remeasurement of R3.0 billion (2021: R2.8 billion) (note 23) led to the recognition of R769 million (2021: R903 million) profit on modification and is mainly due to the following:

- Favourable lease renewals.
- Retail footprint consolidation in specific retail brand.
- The acquisition of certain Steinhoff properties in the prior year (2021: R265 million profit on modification effect).

Impairment

The right-of-use assets relating to retail stores, office space and distribution centres are each seen as an individual CGU. The group assesses each of these CGUs when indicators of impairment are identified. These mainly include loss-making stores and stores marked for closure. The impairment test compares the carrying amount of the CGU to the higher of the value-in-use, or fair value of the unit. For retail stores, the recoverable amount of the CGU is determined from the value in use calculation, whereas office space and distribution centres CGUs are determined from its fair value. The key assumptions for the value-in-use calculation are those regarding the discount rates and growth rates. The discount rates are based on the pre-taxation weighted average cost of capital of 13.4% (2021: 12.9%) relating to South Africa (other African countries use different weighted average cost of capital rates, but the effect thereof is immaterial), while growth rates are based on management's experience and expectations that are in line with the growth rates used for the goodwill impairment assessment as per note 9. Growth rates used do not exceed the long-term average growth rate for the area in which the CGU operates.

Lease term

Right-of-use assets are written off over the shorter of the useful life or the lease term of the specific right-of-use asset. The lease term of the group is generally between 3 – 5 years and if a lease contains an option to renew which is included in the lease term if it is reasonably certain that the option will be exercised, the option period also ranges between 3 – 5 years.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

13. INTERESTS IN ASSOCIATE

13.1 Balance at 30 September 2022

	Place of incorporation	% ownership interest	Nature of relationship	Carrying amount Investment Rm	Carrying amount loan Rm
S'Ya Phanda Proprietary Limited	**South Africa**	**46%**	**Associate**	**–**	**64**
				–	**64**

Balance at 30 September 2021

	Place of incorporation	% ownership interest	Nature of relationship	Carrying amount Investment Rm	Carrying amount loan Rm
S'Ya Phanda Proprietary Limited	South Africa	46%	Associate	–	55
				–	55

The group holds 46 shares at R1 each in S'Ya Phanda Proprietary Limited and advanced loan funding in previous years to the entity for black supplier development initiatives. The entity provides B-BBEE consulting services and is intended to make strategic investments.

R55 million (2021: R50 million) of the interest in associate relate to a loan that is secured, interest free and is repayable on 396 day notice. The loan was assessed for impairment using the ECL model. Management concluded that the impact is not deemed to be material for both the current and prior year.

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.

13.2 Details of assets and liabilities of associate at year-end:

	2022 Rm	2021 Rm
Non-current assets		
Investments	51	51
Current assets		
Cash and cash equivalents	4	2
Other receivables	5	1
Total assets	60	54
Equity		
Retained earnings	4	3
Non-current liabilities		
Loans due to related parties	56	51
Total equity and liabilities	60	54

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm
14. INVESTMENTS AND LOANS		
Long-term investments and loans		
Fair value through OCI		
Unlisted investments – Other	19	–
Impairment of other unlisted investments	(10)	–
Net unlisted investments – other	9	–
Loans and receivables at amortised cost		
Gross loans to current and previous members of key management and employees	12	119
Impairment against loans (note 31.5)	(10)	(100)
Net loans to current and previous members of key management and employees	2	19
Unlisted bonds	–	52
Investments with banking institutions serving as security over term loans (note 21)	107	–
Investments with banking institutions – other	5	–
Loan receivable	36	29
Total investments and loans	159	100
Portion payable within 12 months included in current assets	(110)	(31)
Total non-current investments and loans	49	69

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 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 the underlying pledged share in BVI.

During the 2020 financial year, Pepkor advanced a bridge loan facility to an investment company, BVI, to settle the external funding, including the guarantee, with RMB, where Pepkor was a guarantor. This follows Pepkor providing for the full exposure, including associated employee loans, in the 2018 financial year. The Steinhoff global settlement resulted in the recovery and consequent reversal of the impairment pertaining to the guarantee of R529 million and associated employee loans of R90 million. This was due to the fact that following the settlement, BVI distributed Pepkor shares and/or cash to its shareholders which resulted in the group recovering loans from employees to the value of R107 million. Following the settlement, the group only has 8 loans that are still outstanding against current and previous members of key management and employees to the current value of R12 million of which the group is still in process of recouping.

These loans were measured using the general model based on lifetime ECLs. 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. BVI's underlying investment is an investment in Pepkor shares (2021: cash). Refer to notes 32.6 and 31.5 for the details relating to the loan balances to key management members and relating ECL provision.

The loans to current members of key management bear interest at market-related interest rates. The remaining loans with previous members of key management are repayable in accordance with agreed payment plans, bearing interest at market-related interest rates.

These loans are shown net of a provision for expected credit losses of R10 million (2021: R100 million).

The fair value of loans are disclosed in note 31.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

14. INVESTMENTS AND LOANS (continued)

Unlisted bonds

Unlisted bonds consist of:

	2022 Rm	2021 Rm
Standard Bank bond: issued by Standard Bank Angola	–	52
	–	52

The details relating to the bonds are as follows:

	Denomination	Issue date	Coupon interest rate	Maturity date
2021				
Standard Bank bond	Angola Kwanza	11/12/2018	17.00%	11/12/2021

The government bonds matured during the current financial year and was reinvested in fixed deposits and bank accounts. (2021: The maximum exposure to credit risk at reporting date was limited to the carrying value. None of the government bonds were past due or impaired. The group did not hold any collateral as security.)

The Moody's credit rating classified the credit risk relating to Angola bonds as at the end of the previous reporting period at B3. Refer to note 31.5 for the Moody's rating scale.

Refer to note 31.5 for credit risk assessment of the above investments and loans.

Investments with banking institutions

Investments with banking institutions relates to cash held as security over the Avenida term loans and bank guarantees. The investments held as security bears interest at 100%-103% of the Brazilian Interbank Deposit Certificates rate and are invested mostly with bank institutions with a Ba3 credit rating (refer to note 31.5 for Moody's rating scale). These investments approximates 30% of the outstanding term loans and can be redeemed as the term loans are settled.

Loan receivable

During the year, the group granted and additional R6 million (2021: R15 million) to companies for various BBBEE initiatives. These loans bears interest at various rates approximating the South Africa prime lending rate. Management has assessed the ECL for the loans in both the current and prior year and found it to be immaterial.

Consolidated structured entities

During the 2020 financial year, a loan facility was advanced by the group amounting to R519 million in order to settle the external guarantee with RMB and thereby settling the outstanding guarantee. Proceeds that BVI may have received in respect of a claim that was instituted by BVI against Steinhoff, would be used to repay the group for its settlement of the external debt. Since extinguishing the BVI guarantee exposure to RMB, in exchange for direct credit exposure to BVI, the assessment of the group's ability to control BVI has changed to that of a control nature, which would have led to the consolidation thereof. The impact was, however, immaterial to the group. In February 2022, the debt was settled and the group no longer had any credit exposure and therefore no longer met the requirements of control, thereby consolidation is no longer required.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm
15. DEFERRED TAXATION (LIABILITIES)/ASSETS		
15.1 Deferred taxation movement (liabilities)/assets		
Balance at beginning of the year	(1 388)	(1 263)
Amounts charged directly to OCI and equity		
Share-based payments	15	37
Cash flow hedging reserve	(60)	52
Current year charge		
Income statement charge (note 6)	147	(205)
Acquired on acquisition of business (note 29)	56	–
Exchange differences on consolidation of foreign subsidiaries	17	(9)
Balance at end of the year	(1 213)	(1 388)

15.2 Deferred taxation balances

The corporate taxation rate in South Africa is 28% (2021: 28%) and the capital gains taxation rate 22.4% (2021: 22.4%). The corporate rate in South Africa reduced to 27%, which will be become effective from the 2023 financial year, the deferred taxation rate was therefore adjusted in the current year for temporary differences expected to reverse after 1 April 2022 to reflect the prospective change. Deferred taxes for non-South African subsidiaries are calculated based on taxation rates that have been enacted or substantively enacted by the reporting date.

	2022 Rm	2021 Rm
Total deferred taxation liabilities	(4 235)	(4 152)
Total deferred taxation assets	3 022	2 764

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. Certain companies within the group do however not recognise its deferred taxation assets due to there not being sufficient future taxable income, refer to note 15.3.

	2022 Rm	2021 Rm
Deferred taxation balance comprises:		
Intangible assets	(4 042)	(3 917)
Prepayments and provisions	714	576
Taxation losses	314	69
Doubtful debts	523	432
Property, plant and equipment	(134)	(73)
Right-of-use assets	(3 275)	(3 262)
Lease liabilities	4 170	4 345
Share-based payments	163	144
Unrealised foreign exchange gain	(5)	9
Deferred revenue	315	312
Other	44	(23)
	(1 213)	(1 388)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm
15. DEFERRED TAXATION (LIABILITIES)/ASSETS (continued)		
15.3 Unrecognised deferred taxation assets		
Deferred taxation assets have not been recognised in respect of the following item:		
Taxation losses		
The taxation losses and deductible temporary differences do not expire under current taxation, 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.	1 713	1 945
15.4 Taxation losses		
Estimated taxation losses available for offset against future taxable income[1]	2 664	2 169
Recognised estimated taxation losses	951	224
Unrecognised estimated taxation losses	1 713	1 945

[1] The increase in estimated taxation losses from prior year is due to the acquisition of Avenida (note 29) which contributes R706 million of the total taxation losses. The group is of the opinion that Avenida will be able to utilise the losses based on the current three year plan and medium-term historic growth year-on-year.

	2022 Rm	2021 Rm
16. TRADE AND OTHER RECEIVABLES		
Current trade and other receivables		
Trade receivables	1 768	1 603
Related-party receivables (note 32)	2	4
Instalment sale receivables	1 751	1 523
Credit sales through store cards	4 089	3 092
Total gross trade receivables, instalment sale receivables and credit sales through store cards	7 610	6 222
Less: provision for expected credit losses relating to trade receivables (note 31.5)	(179)	(137)
Less: provision for expected credit losses relating to instalment sale receivables (note 31.5)	(544)	(547)
Less: provision for expected credit losses relating to credit sales through store cards (note 31.5)	(860)	(633)
Total trade receivables, instalment sale receivables and credit sales through store cards	6 027	4 905
Other amounts due	1 226	1 462
Insurance receivable – social unrest and floods	166	272
Less: provision for expected credit losses relating to other amounts due (note 31.5)	(67)	(113)
Derivative financial assets	608	145
Current trade and other receivables (financial assets)	7 960	6 671
Prepayments	298	187
Value-added taxation receivable	253	126
	8 511	6 984

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

16. TRADE AND OTHER RECEIVABLES (continued)

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 rates as determined by the National Credit Act on the gross outstanding balances, unless the outstanding balance is credit-impaired, in which case 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 in South Africa and Botswana, Lesotho, Namibia, Eswatini (BLNE) countries, 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.

For credit sales through store cards in Brazil, 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 credit score models obtained from authorised agencies regarding the credit approval and purchase limits.

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 is disclosed in note 31.5.

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 31.3 for the foreign currency risk relating to derivative financial assets.

	2022 Rm	2021 Rm
17. LOANS TO CUSTOMERS		
Current loans to customers		
Loans receivable from customers	**2 225**	1 885
Less: Provision for expected credit losses (note 31.5)	**(378)**	(350)
	1 847	1 535
Long-term loans receivable from customers	**5**	1
Short-term loans receivable from customers	**1 842**	1 534
	1 847	1 535

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

17. LOANS TO CUSTOMERS (continued)

Loans receivables from customers consist of unsecured lending with repayment terms of between three and 12 months and existing customers rescheduled loans of between three and 24 months. These loans 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 31.5.

	2022 Rm	2021 Rm
18. INVENTORIES		
18.1 Inventories at cost less provisions		
Finished goods and merchandise	15 077	11 783
Goods in transit	1 863	1 483
Raw materials and other inventories	126	81
	17 066	13 347
18.2 Amount of write-down to net realisable value recognised in cost of sales during the year	851	810
18.3 Movement in the provision for inventory shrinkage, obsolescence and markdowns was as follows:		
Balance at the beginning of the year	(725)	(781)
Acquired on acquisition of business	(13)	–
Charge for the year	(334)	(245)
Amounts used during the year	235	98
Unused amounts reversed	33	201
Disposal of business	–	(4)
Foreign currency translation	(13)	6
Balance at the end of the year	(817)	(725)

The group considers the following inputs, judgements and assumptions in calculating the provision for inventory shrinkage, obsolescence and markdowns:

- The nature of the product and/or product category.
- Past trends (including historical sales volumes and prices of the product and/or similar products).
- Evidence of impairment at year-end (including damaged goods, days on hand).
- Assessment of future saleability (product seasonality, technological obsolescence, aesthetic obsolescence).
- Specific events (inventory stolen, destroyed during social unrest or damaged due to natural disasters).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm

19. INSURANCE

19.1 Insurance investments

Insurance investments consist of short-term deposits that realise within 3 – 6 months. Due to the investment being highly liquid in nature, the investments have been disclosed as part of cash and cash equivalents.

Refer to note 31.4 and 31.5.2 for interest rate risk and credit risk associated with cash and cash equivalents, respectively.

19.2 Insurance and reinsurance receivables

	2022 Rm	2021 Rm
Insurance receivables		
Intermediary receivables from brokers and other third parties	–	10
Premium debtors	–	5
Less: provision for expected credit losses relating to other amounts due (note 31.5)	–	–
	–	15
Reinsurance receivables	39	1
	39	16

19.3 Insurance payables

	2022 Rm	2021 Rm
Insurance liabilities	76	74
Long-term insurance contracts		
Outstanding claims	3	7
Claims incurred but not reported	8	18
Discounted cash flow reserve	45	6
Total	56	31
Short-term insurance contracts		
Claims reported	–	1
Claims incurred but not reported	4	4
Unearned premium reserve	16	38
Total	20	43

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	30 September 2022 Number of shares	30 September 2021 Number of shares
20. SHARE CAPITAL		
20.1 Authorised – ordinary		
Ordinary shares of no par value (number)	20 000 000 000	20 000 000 000
20.2 Issued – ordinary		
Balance at the beginning of the year	3 697 270 680	3 660 350 881
Share issued under Pepkor Executive Share Rights Scheme[1]	11 824 414	6 234 794
Share issued as properties purchase consideration [2]	1 279 253	68 720 747
Share buy-back and cancellation[3]	(32 232 801)	(38 035 742)
Total issued ordinary stated share capital	3 678 141 546	3 697 270 680

	Rm	Rm
20.3 Issued – ordinary		
Balance at the beginning of the year	67 621	67 234
Share issued under Pepkor Executive Share Rights Scheme[1]	231	118
Share issued as properties purchase consideration [2]	19	1 031
Share buy-back and cancellation, including transaction costs and related taxes[3]	(643)	(762)
Total issued ordinary stated share capital	67 228	67 621

	Number of shares	Number of shares
20.4 Treasury shares		
Treasury share purchased by subsidiary[4]	427 651	–
Total treasury shares	427 651	–

	Rm	Rm
20.5 Treasury shares		
Treasury share purchased by subsidiary[4]	9	–
Total treasury shares	9	–

	Number of shares	Number of shares
20.6 Unissued shares		
Shares reserved for future participation in share schemes	154 440 792	166 265 206
Shares under the control of the directors	–	–
Unissued shares	16 167 417 662	16 136 464 114
Total unissued shares	16 321 858 454	16 302 729 320

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.

[1] 11.8 million (2021: 6.2 million) new ordinary no par value shares were issued as part of the options which vested under the Pepkor Executive Share Rights Scheme. The shares were issued at a price of R22.19 (2021: R18.86) per share.

[2] 1.3 million (2021: 68.7 million) new ordinary no par value shares were issued as purchase consideration for the acquisition of various properties from Steinhoff. The shares were issued at a price of R15 per share.

[3] The group repurchased 32.2 million (2021: 38.0 million) shares from the open market on the JSE. The shares were acquired at an average price of R19.78 (2021: R19.99) per share, ranging from R19.04 to R20.50 (2021: R19.85 to R20.50). The total cost, including related after-tax transaction costs, was deducted from stated capital.

[4] 427 651 new ordinary no par value shares were purchased by a subsidiary within the group. The shares were purchased at a price of R20.50 per share.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Number of shares 2022	Number of shares 2021
20. SHARE CAPITAL (continued)		
20.7 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 are not in issue.

	2022 Rm	2021 Rm
21. INTEREST-BEARING LOANS AND BORROWINGS		
21.1 Analysis of closing balance: External interest-bearing loans and borrowings		
Secured financing		
Term loans	**6 759**	5 000
Revolving credit facilities	**1 500**	2 500
Floating rate notes	**3 206**	3 206
Other	**14**	14
	11 479	10 720
Total interest-bearing loans and borrowings	**11 479**	10 720
Portion payable within 12 months included in current liabilities	**(1 129)**	–
Total non-current interest-bearing loans and borrowings	**10 350**	10 720
21.2 Analysis of repayment: External loans		
Repayable within the next year and thereafter – current and non-current split		
Next year	**1 129**	–
Within two years	**2 246**	5 800
Within three years	**2 751**	1 935
Within four years	**2 824**	1 220
Within five years	**2 529**	1 765
	11 479	10 720

Long- and short-term investments at banking institutions serves as security over the Avenida's term loans in the current year as detailed in note 14. 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 31.6.

The group is expected to settle its future debt as it falls due out of current reserves.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

21. INTEREST-BEARING LOANS AND BORROWINGS (continued)

21.3 Loan details

	Facility Rm	Maturity date	Interest rate	2022 Rm	2021 Rm
Unsecured					
Loans due:					
Term Loan D[1]	2 500	30 September 2023	Three-month JIBAR plus 205 bps	–	2 500
Term Loan E	500	30 June 2024	Three-month JIBAR plus 159 bps	500	500
Term Loan F	1 000	30 June 2025	Three-month JIBAR plus 168 bps	1 000	1 000
Term Loan G	1 000	30 June 2026	Three-month JIBAR plus 174 bps	1 000	1 000
Term Loan H[1]	1 000	31 March 2026	Three-month JIBAR plus 150 bps	1 000	–
Term Loan I[1]	2 500	31 March 2027	Three-month JIBAR plus 155 bps	2 500	–
Term loans – Avenida	759	Various (30 January 2023 – 18 May 2027)	Variable rates linked to CDI and IPCA	759	–
Bridge facility (RCF)	1 000	31 March 2025	Three-month JIBAR plus 140 bps	–	–
Revolving credit facility (RCF B)[1]	2 500	30 September 2023	Three-month JIBAR plus 210 bps	–	2 500
Revolving credit facility (RCF C)[1]	1 500	31 March 2025	Three-month JIBAR plus 140 bps	1 500	–
Floating rate notes – PEP01	800	10 March 2023	Three-month JIBAR plus 159 bps	800	800
Floating rate notes – PEP02	206	10 March 2025	Three-month JIBAR plus 174 bps	206	206
Floating rate notes – PEP03	1 435	5 May 2024	Three-month JIBAR plus 152 bps	1 435	1 435
Floating rate notes – PEP04	765	5 May 2026	Three-month JIBAR plus 170 bps	765	765
Other loans		21 September 2025	Prime	14	14
				11 479	10 720

Term loans

[1] The group settled Term loan D which was due in the 2023 financial year during March 2022, which was replaced by Term loan H and I. During March 2022 the group further settled Revolving credit facility B which was due in the 2023 financial year and replaced it with Revolving credit facility C.

Floating rate notes

On 5 May 2021, notes to the value of R2.2 billion (none in the current year), were issued under the Domestic Medium-Term Note (DMTN) programme, which is a further source of funding to the group. The DMTN is guaranteed by Pepkor Trading Proprietary Limited.

Interest-bearing loans and borrowings

Interest-bearing borrowings bear interest at variable, market-determined rates. These borrowings are measured at amortised cost, which approximates their fair value. Interest on external borrowings are payable quarterly in arrears except for the Avenida term loans which is paid monthly in arrears.

Refer to note 31.6 for the financial covenants and the guarantees provided in relation to the interest-bearing borrowings and loans.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm
21 INTEREST-BEARING LOANS AND BORROWINGS (continued)		
21.4 Total net debt		
Cash and cash equivalents	4 947	6 174
Bank overdrafts	(578)	(431)
Interest bearing loans and borrowings	(11 479)	(10 720)
Lease liabilities	(14 697)	(14 329)
	(21 807)	(19 306)
Net debt reconciliation		
Net debt at the beginning of the year	19 306	23 249
Movement in interest bearing loans and borrowings		
Cash outflow with settlement of various loans and borrowings through refinancing process[1]	(5 000)	(2 500)
Cash inflow from various loans and borrowings through refinancing process[2]	5 000	2 500
Cash outflow from repayment of term loans[1]	(338)	(2 000)
Full/partial settlement of preference shares[1]	–	(2 000)
Floating rate notes issued[2]	–	2 200
Acquisition of business (note 29)	977	–
Exchange differences on consolidation of foreign subsidiaries	120	–
Movement in Lease liabilities		
Cash outflow on payment of lease liability (note 23)	(4 166)	(3 803)
Foreign currency adjustments (note 23)	178	(137)
Additions to lease liabilities (note 23)	5 620	3 490
Other movements	(1 264)	(1 402)
Net movement in cash and cash equivalents	1 227	(304)
Net movement in bank overdrafts	147	13
Net debt at the end of the year	21 807	19 306

[1] Included in amounts paid on long-term and short-term interest-bearing loans and borrowings in the consolidated statement of cash flows.
[2] Included in amounts received on long-term interest-bearing loans and borrowings in the consolidated statement of cash flows.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm
22. PUT OPTION LIABILITY		
22.1 Reconciliation of put option liability		
Recognition of put option liability	**606**	–
Interest cost (note 5)	**52**	–
Exchange differences on consolidation of foreign subsidiaries	**24**	–
Closing balance	**682**	–

Effective 3 February 2022 the group acquired 81.7% of the issued share capital of Avenida and further increased its shareholding to 87.1% through a capital injection (refer to note 29). As part of the transaction the group entered into a written symmetrical put and call agreement, with three natural persons with equal number of share options, over the remaining 12.9% interest in Avenida which can be exercised in three tranches. Tranche one and two each representing 25% of the remaining shareholding, and tranche three representing 50% of the remaining shareholding. Each tranche may be exercised within 60 days from the date Avenida delivers to the group its audited annual financial statements for the financial year ending 30 September 2024 (tranche one), 30 September 2026 (tranche two) and 30 September 2028 (tranche three). In the case the put options are not exercised within a certain exercise window, it shall accumulate to the following exercise window.

The consideration on exercise will be determined based on the growth ratio (determined as the actual or forecasted EBITDA divided by the targeted EBITDA over the period determined), net debt value and EBITDA figures of Avenida at a point in time. The exercise price is formula based. In the current year valuation, a growth ratio of between 22% and 32% was used and an EBITDA multiple of 10 times. The group did not revise its estimates of payments by adjusting the amortised cost of a financial liability as the multiple remained unchanged at 10 times, with no major fluctuations to the EBITDA and net debt inputs used in the measurement for the put option liability as at 3 February 2022. The amount that may become payable under the option on exercise date is initially recognised at the present value of the redemption amount. The corresponding charge is accounted for directly as a reduction in the parent's equity since the risks and rewards have not been transferred to the parent until the option is exercised. The liability is subsequently adjusted for changes in the estimated performance and increased/decreased up to the redemption amount that is payable at the date at which the option is exercised.

Given that the value varies with non-financial variables that are specifically to the parties in the contract, management has classified this put option as a financial liability at amortised cost.

Refer to note 31.6 for the undiscounted cash flows due.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm
23. LEASE LIABILITIES		
23.1 Reconciliation of lease liabilities		
Opening balance	14 329	16 181
Recognition of lease liability	5 620	3 490
Interest cost (note 5)	1 383	1 400
Lease liability repayments	(4 166)	(3 803)
Foreign exchange losses	(3)	(1)
Remeasurement on modification of leases	(3 039)	(2 802)
Acquisition of business (note 29)	392	–
Exchange differences on consolidation of foreign subsidiaries	181	(136)
Closing balance	14 697	14 329
Secured liabilities total capital balances:		
Long-term liabilities: Lease liabilities	11 861	11 952
	11 861	11 952
Less: repayable in the next 12 months included in short-term liabilities		
Short-term liabilities: Lease liabilities	2 836	2 377
	2 836	2 377
23.2 Analysis of repayments		
Repayable within the next year and thereafter – current and non-current split		
Next year	2 836	2 377
Within two years	2 769	2 478
Within three to five years	6 023	5 509
Thereafter	3 069	3 965
	14 697	14 329
23.3 The group is exposed to the following potential future undiscounted cash outflows which are not included in the measurement of lease liabilities:		
Extension and termination options not reasonable assured	269	320

Refer to note 31.6 for the undiscounted cash flows due.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm
24. EMPLOYEE BENEFITS		
Post-retirement medical benefits (note 24.1 and 24.2)	**81**	84
Performance-based bonus accrual (note 24.3)	**794**	816
Leave pay accrual (note 24.3)	**350**	341
Thirteenth cheque	**258**	173
Total employee benefits	**1 483**	1 414
Transferred to short-term employee benefits	**(1 250)**	(1 268)
Long-term employee benefits	**233**	146

24.1 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.

24.2 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.

24.3 Performance-based bonus and leave pay accruals

	Performance based bonus Rm	Leave pay Rm	Total Rm
Balance at 30 September 2020	395	327	722
Accrual raised	787	192	979
Amounts unused reversed	(11)	(24)	(35)
Amounts utilised	(355)	(153)	(508)
Exchange differences on consolidation of foreign subsidiaries	–	(1)	(1)
Balance at 30 September 2021	816	341	1 157
Accrual raised	411	114	525
Amounts unused reversed	(24)	(19)	(43)
Amounts utilised	(411)	(87)	(498)
Exchange differences on consolidation of foreign subsidiaries	2	1	3
Balance at 30 September 2022	794	350	1 144

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

25. PROVISIONS

	Dilapidation provision Rm	Contingent liabilities raised on business combinations Rm	Other Rm	Total Rm
Balance at 30 September 2020	156	–	118	274
Provision raised	17	–	14	31
Amounts unused reversed	(40)	–	(31)	(71)
Amounts utilised	(26)	–	(44)	(70)
Balance at 30 September 2021	**107**	**–**	**57**	**164**
Provision raised	**66**	**–**	**(6)**	**60**
Acquisition of business (note 29)	**–**	**174**	**17**	**191**
Amounts unused reversed	**(13)**	**–**	**(20)**	**(33)**
Amounts utilised	**–**	**–**	**(3)**	**(3)**
Exchange differences on consolidation of foreign subsidiaries	**–**	**24**	**4**	**28**
Balance at 30 September 2022	**160**	**198**	**49**	**407**

	2022 Rm	2021 Rm
Long-term provisions	**315**	91
Short-term provisions	**92**	73
	407	164

Dilapidation provision

This includes provision for dilapidation of buildings occupied by the group. Both the timing and the amount of the provision is uncertain. Key uncertainties include estimated dilapidation costs to cover repairs and restorations at the end of the lease term. The amount of the provision raised is estimated based on the most likely amount/the expected value for each item and is expected to be settled within one to three years.

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 employee disputes and indirect tax credits. Both the timing and the amount of the provision is uncertain. Key uncertainties in the contingent liabilities raised on a business combination includes the estimation of the amount relating to uncertain indirect tax credits and employee disputes. The amount of the provision raised is estimated based on the most likely amount/the expected value for each item and is expected to be settled within one to seven years.

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 for transaction-related, legal and regulatory matters and for warranties on products sold. Both the timing and the amount of the provision is uncertain. Key uncertainties in the other provisions include the estimation of the outcome and probable settlement amounts of various legal disputes, and the estimation of warranty costs based on the number of goods within the warranty period and the likelihood of the products being defective. The amount of the provision raised is estimated based on the most likely amount/the expected value for each item and is expected to be settled within one to three years.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	2022 Rm	2021 Rm
26. TRADE AND OTHER PAYABLES		
Current trade and other payables		
Trade payables	9 844	7 449
Related-party payables (note 32)	2	14
Accruals	1 649	1 251
Payroll-related creditors and other payables	1 957	2 096
Derivative financial liabilities	36	255
Trade and other payables (financial liabilities)	13 488	11 065
Deferred revenue[1]	990	1 006
Contract liability (Lay-bys)	574	575
Deposit received from customers	355	354
Refund liability	21	28
Other deferred revenue	40	49
Value added taxation payable	234	164
	14 712	12 235

[1] Deferred revenue recognised will realise in the 2023 financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

27. SHARE SCHEME

Pepkor Scheme

Terms of the scheme

Pepkor grants 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 Right 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 2022 Number of rights	Year ended 30 September 2021 Number of rights
The number of Pepkor share rights outstanding is:		
At the beginning of the year	**53 821 135**	37 237 358
Granted during the year	**15 333 958**	26 408 733
Forfeited during the year[1]	**(2 177 066)**	(3 590 162)
Vested during the year	**(11 824 414)**	(6 234 794)
Outstanding at end of the year	**55 153 613**	53 821 135

[1] Forfeited share rights consist of certain individuals who left the group and therefore forfeited their share rights relating to the initial grants made as well as share rights that did not vest in the current year relating to the 2019 grant (2021: 2018 grant).

Assumptions
The fair value of services received in return for share rights granted is measured at fair value of the share rights granted. The estimated value of the services received is measured based on the assumption that all vesting conditions are met and all employees remain in service. The value of the share rights granted is measure by reference to the market value of the shares. (2021: The pricing model used was the Monte Carlo simulation model. The equity volatility was determined using an exponentially weighted moving average of Pepkor's historical daily closing share price.)

	2022 grant	2021 grant	2020 grant	2019 grant
Fair value of Pepkor share rights and assumptions:				
Fair value at grant date	**22.02**	13.56	13.03	19.51
Share price at grant date	**22.02**	14.64	13.96	20.50
Strike price	**n/a**	Rnil	Rnil	Rnil
Expected volatility	**n/a**	41.2%	28.2%	35.9%
Dividend yield	**n/a**	2.5%	2.3%	1.7%
Risk-free interest rate	**n/a**	4.8%	6.5%	7.2%
Vesting period	**3 years**	3 years	3 years	3 years

Refer to note 3.3 for the share-based payment expense for the year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
28. CASH GENERATED FROM OPERATIONS		
Operating profit	**10 479**	9 141
Adjusted for non-cash adjustments:		
Debtors' write-offs and movement in provision	**1 357**	1 159
Amortisation and depreciation (note 10, 11 and 12)	**4 293**	3 799
Impairments (note 4)	**128**	228
Inventories written down to net realisable value (note 18)	**851**	810
Net loss on scrapping/disposal of property, plant and equipment and intangible assets (note 4)	**73**	26
Profit on disposal of operations (note 7)	**–**	(1)
Share-based payment expense (note 3.3)	**260**	229
Profit on lease modification	**(769)**	(903)
FCTR release on liquidation of foreign subsidiary (note 4)	**(50)**	(89)
Non-working capital provisions releases and other non-cash adjustments	**(28)**	320
Cash generated before working capital changes	**16 594**	14 719
Working capital changes		
Increase in inventories	**(5 115)**	(1 854)
Increase in trade and other receivables	**(490)**	(212)
Decrease/(increase) in derivative financial assets/liabilities	**520**	(480)
Increase/(decrease) in non-current and current provisions	**26**	(111)
Increase in non-current and current employee benefits	**84**	526
Increase/(decrease) in trade and other payables	**1 639**	(56)
Increase in instalment sale receivables and credit sales through store cards	**(1 331)**	(930)
Increase in loans to customers	**(740)**	(569)
Net changes in working capital	**(5 407)**	(3 686)
Cash generated from operations	**11 187**	11 033

29. NET CASH FLOW ON ACQUISITION OF BUSINESSES

The group acquired the following business during the financial period. The board is of the opinion that this acquisition presents an attractive investment opportunity that is aligned with the group's strategy to grow through value accretive acquisitions.

Effective 3 February 2022, 81.7% of the issued share capital of Avenida was acquired for a purchase price of R1.899 billion. On the same day, the group further injected R969 million into the business which increased its shareholding to 87.1%. The purchase price and capital injection was settled in cash from existing borrowings and cash reserves in the group. Avenida is a leading and recognised brand with a successful value and discount business model. It has a highly regarded management team with a proven track record and a culture that resonates with the group's own values and beliefs. Between the two organisations there is opportunity for synergies and for Avenida to leverage off the core assets and competencies of Pepkor. This platform allows Pepkor the ideal opportunity to enter the Brazilian market and enable Avenida to fulfil its potential over time.

The remaining 12.9% non-controlling interests measured in the net assets (excluding goodwill) of Avenida 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). The group entered into a symmetrical put/call arrangements as part of the purchase agreement to acquire and the minority holders of Avenida has the right to sell the minority shareholding in three tranches of which the arrangements differ with each tranche. As these put/call arrangements are a consequence of the business combination, they are accounted for as a financial liability in the statement of financial position. The group did not revise its estimates of payments by adjusting the amortised cost of a financial liability as the multiple remained unchanged at 10 times, with no major fluctuations to the EBITDA and net debt inputs used in the measurement for the put option liability as at 3 February 2022. Refer to note 22 for further detail.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm
29. NET CASH FLOW ON ACQUISITION OF BUSINESSES (continued)	
29.1 The fair value of assets and liabilities assumed at date of acquisition	
Assets	
Intangible assets (note 10)	**745**
Property, plant and equipment (note 11)	**398**
Right-of-use assets (note 12)	**360**
Long-term investments and loans (note 14)	**81**
Deferred taxation asset (note 15)	**264**
Trade and other receivables (note 16)	**733**
Inventories (note 18)	**213**
Short-term investments and loans (note 14)	**136**
Current income taxation asset	**21**
Cash on hand	**1 025**
Non-controlling interest	**(172)**
Liabilities	
Long-term interest-bearing loans and borrowings (note 21)	**(320)**
Long-term provisions (note 25)	**(191)**
Long term lease liability (note 23)	**(256)**
Employee benefits (note 24)	**(29)**
Non-current income taxation liability	**(61)**
Deferred taxation liability (note 15)	**(208)**
Trade and other payables (note 26)	**(756)**
Short-term interest-bearing loans and borrowings (note 21)	**(657)**
Current income taxation liability	**(16)**
Short term lease liability (note 23)	**(136)**
Total assets and liabilities acquired	**1 174**
Goodwill attributable to acquisition	**1 694**
Total consideration paid in cash	**2 868**
Cash on hand at date of acquisition	**(1 025)**
Net cash outflow on acquisition of business	**1 843**

The goodwill arising on the acquisition of the company 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm
29. NET CASH FLOW ON ACQUISITION OF BUSINESSES (continued)	
29.2 Trade and other receivables consist of the following:	
Trade receivables	30
Credit sales through store cards	637
Less: provision for expected credit losses relating to credit sales through store cards	(153)
Prepayments	35
Value-added taxation receivable	167
Other amounts due	17
	733

29.3 Contingent liabilities

Contingent liabilities currently recognised on business combination amount to 174 million (refer to note 25 for further detail).

29.4 Revenue contribution from Avenida	
Revenue since acquisition date	1 931
Revenue as if from the beginning of the financial year	3 269

	2022 Rm	2021 Rm
30. COMMITMENTS AND CONTINGENCIES		
30.1 Capital expenditure		
Contracts for capital expenditure	182	82
Capital expenditure authorised but not contracted for	290	300

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

30.2 Borrowing facilities

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

30.3 Unutilised borrowing facilities at year-end	2022 Rm	2021 Rm
Short-term facilities	6 543	5 755
Letters of credit, forex facilities and asset-based finance facilities	2 492	2 240
	9 035	7 995
30.4 Contingent rent payable – calculated based on turnover level	16	10

30.5 Contingent liabilities

There is not litigation, current or pending, which is considered likely to have a material adverse effect on the group.

30.6 Contingent assets

Loss adjustors were appointed for the quantification of the Material losses and Business Interruption loss relating to the KwaZulu-Natal floods in April 2022. Initial estimates have been submitted to the insurers; these values show that the estimates are within policy limits.

As at year-end, the group submitted gross claims for material damage loss and business interruption to the value circa R800 million (of which R396 million was recognised at year-end).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. 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.

31.1 Total financial assets and liabilities

	At fair value through other comprehensive income[1] Rm	At fair value through profit or loss[1] Rm	Financial assets and liabilities at amortised[2] Rm	Total carrying values Rm
30 September 2022				
Investments and loans (note 14)	9	–	40	49
Loans to customers (note 17)	–	–	5	5
Non-current financial assets	9	–	45	54
Trade and other receivables (financial assets) (note 16)	598	10	7 350	7 958
Insurance and reinsurance receivables (note 19.2)	–	–	39	39
Loans to customers (note 17)	–	–	1 842	1 842
Related-party receivables (note 16)	–	–	2	2
Investments and loans (note 14)	–	–	110	110
Cash and cash equivalents	–	–	4 947	4 947
Current financial assets	598	10	14 290	14 898
Long-term interest-bearing loans and borrowings (note 21)	–	–	(10 350)	(10 350)
Non-current financial liabilities	–	–	(10 350)	(10 350)
Short-term interest-bearing loans and borrowings (note 21)	–	–	(1 129)	(1 129)
Bank overdrafts	–	–	(578)	(578)
Trade and other payables (financial liabilities) (note 26)	(4)	(32)	(13 450)	(13 486)
Insurance payables (note 19.3)	–	–	(76)	(76)
Related-party payables (note 26)	–	–	(2)	(2)
Current financial liabilities	(4)	(32)	(15 235)	(15 271)
	603	(22)	(11 250)	(10 669)
Net (gains) and losses recognised in profit or loss	–	–	–	–
Net (gains) and losses recognised in OCI	1 350	–	–	1 350
	1 350	–	–	1 350
Total interest income (note 5)	–	–	–	(262)
Total interest expense (note 5)	–	–	–	2 468
	–	–	–	2 206

[1] This category includes derivative financial instruments.
[2] Financial assets and liabilities carried at amortised cost which approximates their fair value.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.1 Total financial assets and liabilities

	At fair value through other comprehensive income[1] Rm	At fair value through profit or loss[1] Rm	Financial assets and liabilities at amortised[2] Rm	Total carrying values Rm
Total financial assets and liabilities				
30 September 2021				
Investments and loans (note 14)	–	–	69	69
Loans to customers (note 17)	–	–	1	1
Non-current financial assets	–	–	70	70
Trade and other receivables (financial assets) (note 16)	139	6	6 522	6 667
Insurance and reinsurance receivables (note 19.2)	–	–	16	16
Loans to customers (note 17)	–	–	1 534	1 534
Related-party receivables (note 16)	–	–	4	4
Investments and loans (note 14)	–	–	31	31
Cash and cash equivalents	–	–	6 174	6 174
Current financial assets	139	6	14 281	14 426
Long-term interest-bearing loans and borrowings (note 21)	–	–	(10 720)	(10 720)
Non-current financial liabilities	–	–	(10 720)	(10 720)
Bank overdrafts	–	–	(431)	(431)
Trade and other payables (financial liabilities) (note 26)	(155)	(100)	(10 796)	(11 051)
Insurance payables (note 19.3)	–	–	(74)	(74)
Related-party payables (note 26)	–	–	(14)	(14)
Current financial liabilities	(155)	(100)	(11 315)	(11 570)
	(16)	(94)	(7 684)	(7 794)
Net (gains) and losses recognised in profit or loss	–	–	–	–
Net (gains) and losses recognised in OCI	(740)	–	–	(740)
	(740)	–	–	(740)
Total interest income (note 5)	–	–	–	(275)
Total interest expense (note 5)	–	–	–	2 334
	–	–	–	2 059

[1] This category includes derivative financial instruments.
[2] Financial assets and liabilities carried at amortised cost which approximates their fair value.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

	Fair value hierarchy	Valuation techniques and key inputs	Fair value 2022 Rm	Fair value 2021 Rm
31.2 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).	**608**	145
Derivative financial liabilities	**Level 2**		**(36)**	(255)
FVTOCI investments	**Level 3**		**9**	–

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 2022 and 30 September 2021. There were no transfers between levels during the year.

31.3 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, Botswana pula, Brazilian real (from February 2022), Chinese yuan, Mozambiquan metical, Nigerian naira, United States dollar and Zambian kwacha.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.3 Foreign currency risk (continued)

	Reporting date spot rate 2022	Reporting date spot rate 2021
South African rand		
US dollar	**17.99**	14.49
European euro	**17.54**	17.56
Pound sterling	**19.86**	20.41
Chinese yuan	**2.53**	2.35
Polish złoty	**3.62**	3.80
Brazilian real	**3.33**	n/a
Botswana pula	**1.35**	1.31
Zambian kwacha	**1.12**	0.88
Angolan kwanza	**0.04**	0.02
Mozambiquan metical	**0.28**	0.23
Malawian kwacha	**0.02**	0.02
Nigerian naira	**0.04**	0.04

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 significant ineffectiveness during 2022 or 2021 in relation to the forward exchange contracts.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.3 Foreign currency risk (continued)

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

	2022 Rm	2021 Rm
Short-term derivatives		
Assets		
Fair value of foreign exchange contracts		
US dollar	**375**	45
Chinese yuan	**233**	100
	608	145
Liabilities		
Fair value of foreign exchange contracts		
US dollar	**(10)**	(138)
Chinese yuan	**(26)**	(117)
	(36)	(255)
Net short-term derivative assets/(liabilities)	**572**	(110)

The group has established a hedge ratio of 1:1 (current and prior year) since the notional amount and currency of the hedged item is 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				
2022				
US dollar	174	375	USD16.01	USD18.1
Chinese yuan	2 089	233	CNY2.44	CNY2.55
	2 263	608		
2021				
US dollar	110	45	USD14.99	USD14.92
Chinese yuan	1 818	100	CNY2.25	CNY2.28
	1 928	145		
Foreign currency forward contracts – liabilities				
2022				
US dollar	2	(10)	USD15.95	USD18.06
Chinese yuan	251	(26)	CNY2.43	CNY2.53
	253	(36)		
2021				
US dollar	154	(138)	USD15.52	USD14.9
Chinese yuan	942	(117)	CNY2.38	CNY2.28
	1 096	(255)		

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.3 Foreign currency risk

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 (losses)/gains on financial instruments recognised within OCI comprises of:

	2022 Rm	2021 Rm
Forward exchange contracts	1 350	(740)
Transferred to inventory	(785)	263
Fair value adjustment on cash flow hedges	565	(477)

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.

31.4 Interest rate risk

The group follows a policy of maintaining a balance between loans from 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 21.

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
2022						
Non-current financial assets	–	–	16	5	24	45
Current financial assets	6 117	–	1 293	3 696	3 184	14 290
Non-current financial liabilities	(14)	(9 906)	(230)	(200)	–	(10 350)
Current financial liabilities	(3 104)	(800)	(2 329)	(3)	(8 999)	(15 235)
	2 999	(10 706)	(1 250)	3 498	(5 791)	(11 250)
2021						
Non-current financial assets	3	–	–	53	14	70
Current financial assets	7 541	–	928	2 543	3 269	14 281
Non-current financial liabilities	(14)	(10 706)	–	–	–	(10 720)
Current financial liabilities	(3 616)	–	(349)	–	(7 350)	(11 315)
	3 914	(10 706)	579	2 596	(4 067)	(7 684)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.4 Interest rate risk (continued)

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 14 (Investments and loans) and note 17 (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 200 basis points (2021: 100) for each interest category. These rates are also used when reporting sensitivities internally to key management employees.

	2022 Rm	2021 Rm
Through (profit)/loss		
SA Prime – 100 basis point increase	**(96)**	(54)
JIBAR – 100 basis point increase	**214**	107

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

31.5 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, R1 722 million (2021: R330 million) of receivables were insured. At 30 September 2022, 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, estimated by the group companies' management based on past events, current conditions and supportable forecasts and economic conditions.

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.

	2022 Rm	2021 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 14)	**148**	81
Loans to employees and key management (note 14)	**2**	19
Cash and cash equivalents (note 31.5.2)	**4 947**	6 174
Loan to associate (note 13)	**55**	51
Instalment sale agreements (note 31.5.1)	**1 207**	976
Credit sales through store cards (note 31.5.1)	**3 229**	2 459
Trade and other receivables (note 31.5.1)	**2 916**	3 091
Insurance and reinsurance receivables (note 19.2)	**39**	16
Loans to customers (note 17)	**1 847**	1 535
Financial assets	**14 390**	14 402

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

31.5.1 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. For disclosure purposes the stage 1 ECLs are split between performing and in arrears, where performing represents up to date debt outstanding and its corresponding ECL provision and in arrears represents debt outstanding where debt is outstanding for more than 30 days and its corresponding ECL provision.

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

Stage 3: Financial assets are considered to be credit-impaired when one or 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Significant increases in credit risk (SICR) sensitivity analysis:
Refer to significant judgements and estimates for events triggering a SICR.

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 2022:

Impact on SICR on ECL	Loans to customers	Instalment sale agreements	Credit sales through store cards
Positive	374	540	853
% change in ECL	(1.07%)	(0.81%)	(0.82%)
Base	378	544	860
% change in ECL	0.00%	0.00%	0.00%
Negative	382	561	867
% change in ECL	1.07%	3.14%	0.82%

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 2021:

Impact on SICR on ECL	Loans to customers	Instalment sale agreements	Credit sales through store cards
Positive	347	546	627
% change in ECL	(0.79%)	(0.24%)	(0.88%)
Base	350	547	633
% change in ECL	0.00%	0.00%	0.00%
Negative	353	551	639
% change in ECL	0.79%	0.67%	0.88%

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

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 forward-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.

COVID-19 overlays

During the prior year, the group applied additional COVID-19 overlays in order to derive the 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.

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

Investments

Investments consist of unlisted Standard Bank of Angola bonds (see note 14). 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Insurance and reinsurance receivables

Insurance and reinsurance receivables relate to insurance granted under the Abacus business. The ECL on the receivables 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.

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 13. 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 to current and previous employees and members of key management

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.

Prior to the Steinhoff global settlement net recovery in February 2022, 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, thus being an indicator of impairment. In addition to the shares pledged as security, management assesses each employee or member of key management's abilities to repay the loan when it falls due annually based on the employees' future remuneration, financial health and payment plan. Management used historical and current information to estimate the ECL.

Macroeconomic and forward-looking factors have been incorporated into the ECL valuation of these employee loans. The macroeconomic factors include changes in the interest rate which may impact the employees' abilities to service the loans. Forward-looking information includes evaluating the employees' abilities to repay the loans and the future returns from the investment in BVI. Each employee loan is assessed individually based on formal agreements with these employees which stipulates that either future remuneration will be used to settle part of the loan or through formalised payment plans based on the employees' financial health.

Following the Steinhoff global settlement net recovery the majority of the loans were repaid. The remaining (2021: majority) of loans to current and previous employees and members of key management were classified as stage 2, as there was a SICR due to the loans being outstanding for more than 90 days. Although the underlying investment which acts as security to the loans is sufficient to cover the outstanding loan amount (2021: underlying investment which acted as security to the loans devalued to Rnil), a prudent approach was taken to not take the value of the security into consideration on calculation of the ECLs. Previous employees' loans were classified as stage 3 as these are deemed to be credit impaired, due to the uncertainty of whether these loans will be repaid due to these individuals no longer being employed by the company. This is, however, an insignificant portion to the total amount outstanding.

	2022 Rm	2021 Rm
Balance at beginning of year	(100)	(100)
Provision reversed	90	–
Balance at end of year	(10)	(100)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Instalment sale agreements

Instalment sale agreements relate to the credit purchases of goods by customers in South Africa within the furniture, appliances and electronics operating segment (the majority of these borrowings are deemed to be secured by the product purchased by the customer) (refer to note 16 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:

2022	Performing (stage 1)	In arrears (stage 1)	Under-performing (stage 2)	Non-performing (stage 3)	Total
Expected credit loss rate	12.4%	0.0%	39.9%	74.9%	31.1%
Estimated gross carrying amount of default (Rm)	1 065	–	291	395	1 751
12-month ECL (Rm)	(132)	–	–	–	(132)
Lifetime ECL (Rm)	–	–	(116)	(296)	(412)
Total ECL (Rm)	(132)	–	(116)	(296)	(544)
Net carrying amount (Rm)	933	–	175	99	1 207
2021					
Expected credit loss rate	14.4%	0.0%	40.8%	73.6%	35.9%
Estimated gross carrying amount of default (Rm)	804	–	299	420	1 523
12-month ECL (Rm)	(116)	–	–	–	(116)
Lifetime ECL (Rm)	–	–	(122)	(309)	(431)
Total ECL (Rm)	(116)	–	(122)	(309)	(547)
Net carrying amount (Rm)	688	–	177	111	976

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

	Performing (stage 1) Rm	In arrears (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Balance at 30 September 2020	(71)	–	(129)	(507)	(707)
Allowance on credit granted during the year	(103)	–	(92)	(47)	(242)
Derecognition of allowance due to settlement of outstanding debt	20	–	18	20	58
Amounts written off	3	–	12	244	259
Amounts recovered	48	–	42	47	137
Net remeasurement of loss allowances	(13)	–	27	(66)	(52)
Balance at 30 September 2021	(116)	–	(122)	(309)	(547)
Allowance on credit granted during the year	(115)	–	(95)	(93)	(303)
Derecognition of allowance due to settlement of outstanding debt	23	–	16	18	57
Amounts written off	4	–	13	138	155
Amounts recovered	46	–	31	30	107
Net remeasurement of loss allowances	26	–	41	(80)	(13)
Balance at 30 September 2022	(132)	–	(116)	(296)	(544)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Credit sales through store cards

Credit sales through store cards relate to the credit purchases of goods by customers in South Africa (with an insignificant portion in Botswana, Namibia and Eswatini) and Brazil within the clothing and general merchandise operating segment (these borrowings are deemed to be unsecured) (refer to note 16 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 exposure in South Africa (including Botswana, Namibia and Eswatini) as at year-end is determined as follows:

2022	Performing (stage 1)	In arrears (stage 1)	Under-performing (stage 2)	Non-performing (stage 3)	Total
Expected credit loss rate	8.4%	0.0%	22.9%	72.6%	20.4%
Estimated gross carrying amount of default (Rm)	2 331	–	584	508	3 423
12-month ECL (Rm)	(195)	–	–	–	(195)
Lifetime ECL (Rm)	–	–	(134)	(369)	(503)
Total ECL (Rm)	(195)	–	(134)	(369)	(698)
Net carrying amount (Rm)	2 136	–	450	139	2 725
2021					
Expected credit loss rate	6.2%	0.0%	22.4%	78.2%	20.5%
Estimated gross carrying amount of default (Rm)	2 075	–	522	495	3 092
12-month ECL (Rm)	(129)	–	–	–	(129)
Lifetime ECL (Rm)	–	–	(117)	(387)	(504)
Total ECL (Rm)	(129)	–	(117)	(387)	(633)
Net carrying amount (Rm)	1 946	–	405	108	2 459

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

The loss allowance provision for credit sales through store cards exposure in South Africa (including Botswana, Namibia and Eswatini) is reconciled to the opening loss allowance as follows:

	Performing (stage 1) Rm	In arrears (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Balance at 30 September 2020	(161)	–	(138)	(352)	(651)
Allowance on credit granted during the year	(286)	–	(31)	(90)	(407)
Derecognition of allowance due to settlement of outstanding debt	198	–	169	147	514
Amounts written off	–	–	–	446	446
Net remeasurement of loss allowances	120	–	(117)	(538)	(535)
Balance at 30 September 2021	**(129)**	**–**	**(117)**	**(387)**	**(633)**
Allowance on credit granted during the year	**(404)**	**–**	**(37)**	**(67)**	**(508)**
Derecognition of allowance due to settlement of outstanding debt	**273**	**–**	**191**	**149**	**613**
Amounts written off	**–**	**–**	**–**	**370**	**370**
Net remeasurement of loss allowances	**65**	**–**	**(171)**	**(434)**	**(540)**
Change in credit risk parameters	**–**	**–**	**–**	**–**	**–**
Balance at 30 September 2022	**(195)**	**–**	**(134)**	**(369)**	**(698)**

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

2022	Performing (stage 1)	In arrears (stage 1)	Under-performing (stage 2)	Non-performing (stage 3)	Total
Expected credit loss rate	**1.1%**	**0.0%**	**25.0%**	**63.9%**	**24.3%**
Estimated gross carrying amount of default (Rm)	**348**	**–**	**116**	**202**	**666**
12-month ECL (Rm)	**(4)**	**–**	**–**	**–**	**(4)**
Lifetime ECL (Rm)	**–**	**–**	**(29)**	**(129)**	**(158)**
Total ECL (Rm)	**(4)**	**–**	**(29)**	**(129)**	**(162)**
Net carrying amount (Rm)	**344**	**–**	**87**	**73**	**504**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

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

	Performing (stage 1) Rm	In arrears (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Acquisition of business (note 29)	(17)	–	(24)	(112)	(153)
Allowance on credit granted during the year	(2)	–	(5)	(10)	(17)
Derecognition of allowance due to settlement of outstanding debt	1	–	4	5	10
Amounts written off	–	–	–	533	533
Net remeasurement of loss allowances	16	–	(1)	(530)	(515)
Exchange differences on consolidation of foreign subsidiaries	(2)	–	(3)	(15)	(20)
Balance at 30 September 2022	(4)	–	(29)	(129)	(162)

Loans to customers

Loans to customers relate 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 17 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:

2022	Performing (stage 1)	In arrears (stage 1)	Under-performing (stage 2)	Non-performing (stage 3)	Total
Expected credit loss rate	4.6%	0.0%	33.6%	71.8%	17.0%
Estimated gross carrying amount of default (Rm)	1 652	–	286	287	2 225
12-month ECL (Rm)	(76)	–	–	–	(76)
Lifetime ECL (Rm)	–	–	(96)	(206)	(302)
Total ECL (Rm)	(76)	–	(96)	(206)	(378)
Net carrying amount (Rm)	1 576	–	190	81	1 847
2021					
Expected credit loss rate	7.2%	0.0%	29.5%	78.7%	18.6%
Estimated gross carrying amount of default (Rm)	1 423	–	237	225	1 885
12-month ECL (Rm)	(103)	–	–	–	(103)
Lifetime ECL (Rm)	–	–	(70)	(177)	(247)
Total ECL (Rm)	(103)	–	(70)	(177)	(350)
Net carrying amount (Rm)	1 320	–	167	48	1 535

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

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

	Performing (stage 1) Rm	In arrears (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Balance at 30 September 2020	(94)	–	(86)	(309)	(489)
Allowance on credit granted during the year	(270)	–	(72)	(182)	(524)
Derecognition of allowance due to settlement of outstanding debt	106	–	70	100	276
Amounts written off	–	–	–	386	386
Net remeasurement of loss allowances	155	–	18	(172)	1
Balance at 30 September 2021	(103)	–	(70)	(177)	(350)
Allowance on credit granted during the year	(222)	–	(102)	(136)	(460)
Derecognition of allowance due to settlement of outstanding debt	83	–	43	80	206
Amounts written off	–	–	–	328	328
Net remeasurement of loss allowances	166	–	33	(301)	(102)
Balance at 30 September 2022	(76)	–	(96)	(206)	(378)

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.

Trade receivables are written off when the customer's outstanding balance has been outstanding for more than 120 days.

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

	2022 Rm	2021 Rm
Balance at beginning of the year	(250)	(291)
Decrease in loss allowance during the year	4	41
Balance at end of the year	(246)	(250)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Provision matrix used in the calculation of ECL allowances:

	2022				2021			
	Expected loss rate %	Gross carrying amount Rm	Loss allowance provision Rm	Net carrying amount Rm	Expected loss rate %	Gross carrying amount Rm	Loss allowance provision Rm	Net carrying amount Rm
Current	4.5	2 664	(119)	2 545	4.6	2 877	(133)	2 744
More than 30 days past due	9.4	235	(22)	213	7.0	185	(13)	172
More than 60 days past due	15.5	84	(13)	71	27.1	59	(16)	43
More than 90 days past due	51.4	179	(92)	87	40.0	220	(88)	132
	7.8	3 162	(246)	2 916	7.5	3 341	(250)	3 091

31.5.2 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:

	2022 Rm	2021 Rm
Rating		
Bank balances: A1	–	–
Bank balances: Aa3	–	–
Bank balances: Ba1	3 401	5 086
Bank balances: Baa2	–	–
Bank balances: Baa3	–	–
Fixed deposits – African Banks: Ba1	168	277
Bank balances: No rating available	959	212
Cash on hand/cash in transit	419	599
	4 947	6 174

Local currency cash and short-term deposits of R236 million (2021: R218 million) are held in Angola and Nigeria and are subject to onerous local exchange control regulations. These local exchange control regulations impose restrictions on exporting capital from these countries, other than through normal dividend. These restricted cash balances held by the respective subsidiaries are not available for general use by the holdings company or other subsidiaries in the group.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.6 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
2022						
Interest-bearing loans and borrowings	(1 400)	(1 516)	(3 089)	(9 151)	–	(15 156)
Lease liabilities	(1 000)	(3 023)	(4 373)	(7 178)	(5 707)	(21 281)
Put option liability	–	–	–	(445)	(859)	(1 304)
Bank overdrafts	(578)	–	–	–	–	(578)
Trade and other payables (financial liabilities)	(13 797)	(229)	–	–	–	(14 026)
Insurance payables	(16)	(60)	–	–	–	(76)
Related-party payables	(2)	–	–	–	–	(2)
	(16 793)	(4 828)	(7 462)	(16 774)	(6 566)	(52 423)
2021						
Interest-bearing loans and borrowings	(151)	(452)	(6 379)	(5 358)	(1)	(12 341)
Lease liabilities	(812)	(2 229)	(2 731)	(6 465)	(4 627)	(16 864)
Bank overdrafts	(431)	–	–	–	–	(431)
Trade and other payables (financial liabilities)	(11 184)	(77)	–	–	–	(11 261)
Insurance payables	(53)	(21)	–	–	–	(74)
Related-party payables	(14)	–	–	–	–	(14)
	(12 645)	(2 779)	(9 110)	(11 823)	(4 628)	(40 985)

Covenants regarding term loans and revolving credit facilities as disclosed in note 21:	As at 30 September 2022	As at 30 September 2022
	Required covenant	**Achieved**
Net debt:EBITDA[1] cover	**<3.00**	**0.71**
Interest cover	**>3.50**	**12.32**

[1] EBITDA is adjusted for IFRS 16: *Leases* and one-off transactions which includes capital items as disclosed in note 4 and non-cash share based payments as allowed per the covenants.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

31. FINANCIAL INSTRUMENTS (continued)

31.7 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

31.8 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 21, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The group's audit and risk committee reviews the capital structure of the group on a quarterly 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.

31.9 Insurance risk

The risks covered under insurance contracts entered into with customers by the group's insurer, Abacus are as follows:

- replacement of customers' goods or settlement of balances in the event of damage or theft of goods. Where the goods are replaced, the cost of the claim is determined with reference to the cost of the goods acquired;
- settlement of customers' outstanding balance in the event of death.

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

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

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

The development of insurance claims provisions provides a measure of the group's ability to estimate the ultimate value of the claims. Regular estimates of claims are performed in reviewing the adequacy of the insurance claims provisions. Claims development is reviewed by management on a regular basis. Insurance claim provisions will generally be settled within one year.

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

32. RELATED-PARTY TRANSACTIONS

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.

Key management and directors did not have any material transactions with the group.

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.

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 International Holdings N.V. (2021: Lancaster 101 Proprietary Limited owned 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.

32.1.1 Related-party transactions in place for the current and previous year:

Nature of related-party relationship	Nature of service
Ainsley Holdings Proprietary Limited	Payment of dividends to holding company.
Steinhoff Africa Holdings Proprietary Limited, wholly owned subsidiaries of Steinhoff.	Payment of non-executive director fees.
Pepco Poland Sp. z.o.o and Poundland UK and Europe Limited	EeziGlobal manages the relationship between the suppliers of virtual products (being Domestic airtime, International airtime, e-vouchers and Point of sale activation cards) and the retailers being Pepco Poland Sp. z.o.o, Poundland UK Europe Limited and Dealz. EeziGlobal manage the relationship, distribution and commissions for physical sim cards sold from the Poundland stores.
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.

32.1.2 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
Pepco Group Sourcing, a wholly owned subsidiary of Steinhoff.	The sourcing agreement with Steinhoff to source products for a commission has reached the end of its term as at 30 September 2021. The planned transition to a Pepkor owned international sourcing office (PPS) in China was completed on 1 October 2021.
Steinhoff Properties Proprietary Limited and JD Group Property Holdings Proprietary Limited and its subsidiaries, wholly owned subsidiaries of Steinhoff.	Rental paid for properties previously rented by the group, purchased from Steinhoff properties during the latter part of the previous financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
32. RELATED-PARTY TRANSACTIONS (continued)		
32.1 Related-party transactions and balance		
32.1.3 Related-party transactions in the current and prior year		
Receivables		
Pepco Poland Sp. z o.o.	–	2
Poundland UK and Europe Limited	2	2
	2	4
Payables		
Pepco Group Sourcing (Fully Sun China Limited (HK))	–	(10)
Steinhoff Africa Holdings Proprietary Limited	(1)	–
Poundland UK and Europe Limited	(1)	(4)
	(2)	(14)
Loans receivable from associated companies		
S'Ya Phanda Proprietary Limited	56	51
	56	51
Dividends paid to:		
Ainsley Holdings Proprietary Limited	(963)	–
Lancaster 101 Proprietary Limited	(135)	–
	(1 098)	–
Revenue from:		
Pepco Poland Sp. z o.o.	45	68
Poundland UK and Europe Limited	3	2
	48	70
Commission paid to:		
Pepco Poland Sp. z o.o.	(1)	(1)
Poundland UK and Europe Limited	(3)	(22)
	(4)	(23)
Directors' fees paid to:		
Steinhoff Africa Holdings Proprietary Limited	(2)	(2)
Sourcing fees paid to:		
Pepco Group Sourcing (Fully Sun China Limited (HK))	(8)	(88)
Net rent paid to:		
Steinhoff Properties Proprietary Limited	–	(64)
JD Group Property Holding Proprietary Limited and its subsidiaries	(2)	(38)
	(2)	(102)
Capex purchases		
Steinhoff Properties Proprietary Limited	–	810
JD Group Property Holdings Proprietary Limited and its subsidiaries	19	221
	19	1 031

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

32. RELATED-PARTY TRANSACTIONS (continued)

32.2 Significant subsidiaries

	2022 year-end	2021 year-end	30 September 2022 Ownership %	30 September 2021 Ownership %
Pepkor Holdco Proprietary Limited	24 September	25 September	100	100
Pepkor Trading Proprietary Limited	24 September	25 September	100	100
Pepkorfin Proprietary Limited	24 September	25 September	100	100
Pepkor Speciality Proprietary Limited	24 September	25 September	100	100
Iliad Africa Trading Proprietary Limited	30 September	30 September	100	100

All significant subsidiaries noted above are incorporated in South Africa. A full list of subsidiaries of the company is available for inspection by shareholders on request at the registered office of the company.

32.3 Directorate

The directors of the company are as follows:

Executive directors

LM Lourens (Chief executive officer)	Resigned 30 September 2022
PJ Erasmus (Chief executive officer)	Appointed as executive director 1 October 2022
RG Hanekom (Chief financial officer)	

Non-executive directors

TLR de Klerk	
LJ du Preez	
PJ Erasmus	Served as non-executive director from 12 January 2022 to 30 September 2022

Independent non-executive directors

WYN Luhabe (Chair)
P Disberry
HH Hickey
IM Kirk
ZN Malinga
LI Mophatlane
SH Müller
F Petersen-Cook

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

32. RELATED-PARTY TRANSACTIONS (continued)

32.3 Directorate (continued)

Composition of board committees:

	Audit and risk committee	Human resources and remuneration committee	Nomination committee	Social and ethics committee	Investment committee
Non-executive directors					
LJ du Preez	–	x	x	–	–
TLR de Klerk	–	–	–	–	x
PJ Erasmus	–	x	–	–	x
Independent non-executive directors					
P Disberry	–	–	–	x	–
HH Hickey	Chair	–	–	–	x
IM Kirk	–	x	–	–	Chair
WYN Luhabe	–	–	Chair	–	–
ZN Malinga	x	–	–	x	–
LI Mophatlane	-	x	x	–	–
SH Müller	x	Chair	–	–	x
F Petersen-Cook	x	–	–	Chair	x
Executive directors					
LM Lourens	–	–	–	x	x
RG Hanekom	–	–	–	–	x

32.4 Directors' shareholding

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

	2022		2021	
	Direct/ indirect	Number of shares	Direct/ indirect	Number of shares
LM Lourens through Leon Lourens Beleggings Proprietary Limited	**Indirect**	**692 652**	Indirect	286 378
LM Lourens	**Direct**	**1 659 259**	n/a	–
RG Hanekom	**Direct**	**420 839**	Direct	147 512
LJ du Preez	**Direct**	**10 122**	Direct	10 122
F Petersen-Cook	**Direct**	**4 048**	Direct	4 048
		2 786 920		448 060

From 1 October 2022 to the date of approval of the company's consolidated financial statements, there were no dealings by directors in the company's ordinary shares.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

32. RELATED-PARTY TRANSACTIONS (continued)

32.5 Compensation of key management personnel

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 with 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. Details relating to directors' emoluments are disclosed in note 33.

	Year ended 30 September 2022 R'000	Year ended 30 September 2021 R'000
Compensation paid to key management and directors – Pepkor	**162 531**	126 666
Compensation paid to key management and directors – Steinhoff	**113 265**	127 427
Share-based payments – Pepkor scheme	**76 124**	63 967
	351 920	318 060

	Rm	Rm
32.6 Loans to related-parties		
The loans, which terms are disclosed in note 14, include the following loans to key management employees (as defined in note 32.5):		
JL Hamman	**–**	7
CA Cronje	**–**	1
CJ Klem	**–**	6
S Voges	**–**	3
E Morkel	**–**	8
	–	25

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

32.7 Other director's interest

As part of the Steinhoff global settlement, Trevo Capital Limited which is associated with PJ Erasmus was granted call options to purchase 120 million Pepkor shares. The options are exercisable in the 2025 financial year at an exercise price of R24.9215 per share subject to adjustments applicable for certain limited circumstances. These options were granted to PJ Erasmus and disclosed to the public prior to his appointment to the board of directors on 12 January 2022. The value of the options would have been nil if it was exercisable at year-end as Pepkor's shares traded under the exercise price as at 30 September 2022.

32.8 Directors' interest in contracts

In 2020, Shop2Shop Proprietary Limited (Shop2Shop) entered into an agreement with Flash Mobile Vending Proprietary Limited (Flash), a wholly owned subsidiary of the group (Agreement). The services per the Agreement related to the sale of bulk airtime to Shop2Shop on which Flash earns commission, rentals and services fees paid to Shop2Shop for the use of drop safes and a profit share on the sale of tap2pay devices. After entering into the Agreement, and prior to his appointment as a member of the Pepkor board, a company associated with PJ Erasmus acquired a 30% shareholding in Shop2Shop.

An associate company of PJ Erasmus is the indirect holder of 19.2% of Bounty Group Proprietary Limited, the owner of the VANS and Reebok agencies in South Africa, which are brands that are distributed through the Tekkie Town retail channel.

An associate company of PJ Erasmus holds 14.3% of the shares in POD Property Fund Proprietary Limited, a company that owns 5 retail centres where members of the group are current tenants.

An associate company of PJ Erasmus are the indirect holders of 37.5% of ikeja Wireless Proprietary Limited (ikeja), a tech company that builds infrastructure and systems to enable affordable internet access in the informal market in South Africa. Flash is a distributor of ikeja's prepaid Wi-Fi voucher.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

33. REMUNERATION REPORT

33.1 Remuneration of the executive directors

	Basic remuneration 'R000	Company and pension fund contributions 'R000	Company directors' fees 'R000	Annual leave paid out 'R000	Annual bonus 'R000	Deferred cash long term 'R000	Long-term incentive 'R000	Total remuneration and fees 'R000
2022								
LM Lourens	7 168	1 146	–	–	4 450	–	15 939	28 703
RG Hanekom	4 218	917	–	–	2 749	–	10 723	18 607
Paid by Pepkor	11 386	2 063	–	–	7 199	–	26 662	47 310
2021								
LM Lourens	6 826	1 092	–	–	7 601	1 200	5 958	22 677
RG Hanekom	4 166	725	–	–	4 687	1 200	4 077	14 855
Paid by Pepkor	10 992	1 817	–	–	12 288	2 400	10 035	37 532

33.2 Remuneration of the other executive director's

	Basic remuneration 'R000	Company and pension fund contributions 'R000	Company directors' fees 'R000	Annual leave paid out 'R000	Annual bonus 'R000	Deferred cash long term 'R000	Long-term incentive 'R000	Total remuneration and fees 'R000
2022								
Total other executive committee members	32 158	5 151	–	–	20 397	–	46 614	104 320
2021								
Total other executive committee members	27 159	4 848	–	–	25 303	5 860	18 560	81 730

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

33. REMUNERATION REPORT (continued)

33.3 Remuneration of the non-executive director's

	Basic remuneration 'R000	Company and pension fund contributions 'R000	Company directors' fees 'R000	Annual leave paid out 'R000	Annual bonus 'R000	Deferred cash long term 'R000	Retention bonus and long-term incentive 'R000	Total remuneration and fees 'R000
2022								
SH Müller	–	–	1 385	–	–	–	–	1 385
F Petersen-Cook	–	–	1 686	–	–	–	–	1 686
WYN Luhabe	–	–	1 996	–	–	–	–	1 996
P Disberry	–	–	815	–	–	–	–	815
HH Hickey	–	–	1 255	–	–	–	–	1 255
IM Kirk	–	–	1 016	–	–	–	–	1 016
ZN Malinga	–	–	1 098	–	–	–	–	1 098
LI Mophatlane	–	–	929	–	–	–	–	929
PJ Erasmus	–	–	721	–	–	–	–	721
Paid by Pepkor	–	–	10 901	–	–	–	–	10 901
TLR de Klerk	19 342	1 203	–	278	15 521	14 028	2 233	52 605
LJ du Preez	22 570	1 121	–	321	17 897	16 176	2 575	60 660
Paid by Steinhoff[1]	41 912	2 324	–	599	33 418	30 204	4 808	113 265
Total	41 912	2 324	10 901	599	33 418	30 204	4 808	124 166
2021								
J Naidoo	–	–	468	–	–	–	–	468
JD Wiese	–	–	315	–	–	–	–	315
SH Müller	–	–	1 289	–	–	–	–	1 289
JB Cilliers	–	–	578	–	–	–	–	578
F Petersen-Cook	–	–	1 455	–	–	–	–	1 455
WYN Luhabe	–	–	1 817	–	–	–	–	1 817
P Disberry	–	–	261	–	–	–	–	261
HH Hickey	–	–	323	–	–	–	–	323
IM Kirk	–	–	278	–	–	–	–	278
ZN Malinga	–	–	353	–	–	–	–	353
LI Mophatlane	–	–	267	–	–	–	–	267
Paid by Pepkor	–	–	7 404	–	–	–	–	7 404
TLR de Klerk	21 113	1 202	–	1 286	15 729	–	19 390	58 720
LJ du Preez	24 618	1 115	–	1 354	18 138	–	23 482	68 707
Paid by Steinhoff[1]	45 731	2 317	–	2 640	33 867	–	42 872	127 427
Total	45 731	2 317	7 404	2 640	33 867	–	42 872	134 831

[1] Relates to remuneration received for services provided to Steinhoff. The fees to directors include fees paid as 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 Pepkor board meetings as well as being non-executive Pepkor board members amounts to R1.74 million, of which R0.80 million was for TL de Klerk and R0.94 million for LJ de Preez (2021: R1.62 million, of which R0.73 million was for TL de Klerk and R0.89 million for LJ du Preez).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

33. REMUNERATION REPORT (continued)

33.4 Share rights – Pepkor scheme

	Offer date	Conditional vesting date	Total number of rights granted	Number of rights awarded during the year	Number of rights exercised during the year	Number of rights forfeited during the year	Number of rights as at 30 September 2022	Value of rights exercised during the prior and current year R	Value of rights awarded during the year[1] R
Directors paid for services at Pepkor level									
Fair value per share at date of exercise/vesting and/or grant date								21.18	22.02
RG Hanekom									
	March 2018	March 2021	390 244	–	(273 171)	(117 073)	–	4 077 214	–
	March 2019	March 2022	536 756	–	(506 161)	(30 595)	–	10 722 869	–
	March 2020	March 2023	623 365	–	–	–	623 365	–	–
	March 2021	March 2024	966 665	–	–	–	966 665	–	–
	March 2022	March 2025	–	533 819	–	–	533 819	–	11 754 694
			2 517 030	533 819	(779 332)	(147 668)	2 123 849	14 800 083	11 754 694
30 September 2021	March 2018	March 2021	390 244	–	(273 171)	(117 073)	–	4 077 214	–
30 September 2022	March 2019	March 2022	536 756	–	(506 161)	(30 595)	–	10 722 869	–
LM Lourens									
	March 2018	March 2021	570 244	–	(399 171)	(171 073)	–	5 957 827	–
	March 2019	March 2022	797 835	–	(752 358)	(45 477)	–	15 938 479	–
	March 2020	March 2023	1 013 832	–	–	–	1 013 832	–	–
	March 2021	March 2024	1 445 334	–	–	–	1 445 334	–	–
	March 2022	March 2025	–	794 522	–	–	794 522	–	17 495 374
			3 827 245	794 522	(1 151 529)	(216 550)	3 253 688	21 896 306	17 495 374
30 September 2021	March 2018	March 2021	570 244	–	(399 171)	(171 073)	–	5 957 827	–
30 September 2022	March 2019	March 2022	797 835	–	(752 358)	(45 477)	–	15 938 479	–
Total executive directors			6 344 275	1 328 341	(1 930 861)	(364 218)	5 377 537	36 696 389	29 250 068

[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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

34. GOING CONCERN

The board of directors have evaluated the going concern assumption as at 30 September 2022, taking into account 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.

The cash flows and liquidity projections for the group have been prepared for a period exceeding 12 months from the reporting date and included performing sensitivity analyses based on various scenarios. The group further renegotiated its interest-bearing loans and borrowings, strengthening the group's balance sheet. The cash flows and liquidity projections of the group have been prepared for a period exceeding 12 months from the reporting date and included performing sensitivity analyses based on various scenarios. The group has made substantial progress in reducing net debt and strengthening its financial position. Refer to note 21.

35. EVENTS AFTER BALANCE SHEET DATE

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

36. DISTRIBUTION TO ORDINARY SHAREHOLDERS

The board has declared a dividend to shareholders in respect of the year ended 30 September 2022 of 55.2 cents (2021: 44.2 cents). The dividend will be payable to the holders of ordinary shares in the share capital of the company recorded in the securities register of the company on 20 January 2023. The last date to trade in order to be eligible to receive the dividend will be 17 January 2023, and the ex-dividend date will be 18 January 2023. The dividend will be paid and broker accounts updated, as the case may be, on 23 January 2023.

Separate financial statements

for the year ended **30 September 2022**

Separate income statement

	Notes	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
Revenue	1	**4 804**	2 516
Operating (expenses)/income		**(368)**	51
Operating profit	2	**4 436**	2 567
Finance cost	3	**(187)**	(98)
Profit before taxation		**4 249**	2 469
Taxation	4	**–**	–
Profit for the year		**4 249**	2 469

Separate statement of comprehensive income

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
Profit for the year	**4 249**	2 469
Other comprehensive income	**–**	–
Total comprehensive profit for the year, net of taxation	**4 249**	2 469

SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

Separate statement of financial position

As at **30 September 2022**

	Notes	30 September 2022 Rm	30 September 2021 Rm
ASSETS			
Non-current assets			
Investment in subsidiary companies	5	60 360	61 051
Related-party loan receivable	6	4 666	–
		65 026	61 051
Current assets			
Investment in subsidiary companies	5	264	–
Receivables	7	188	44
Related-party loan receivable	6	165	3 473
Cash and cash equivalents		–	–
		617	3 517
Total assets		65 643	64 568
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated share capital	9	67 228	67 621
Reserves		(5 014)	(7 659)
		62 214	59 962
Non-current liabilities			
Interest-bearing loans and borrowings	11	2 406	3 206
		2 406	3 206
Current liabilities			
Interest-bearing loans and borrowings	11	800	–
Other payables and accruals	10	223	157
Related-party loans payable and payables	14	–	1 243
		1 023	1 400
Total equity and liabilities		65 643	64 568

SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

Separate statement of changes in equity

	Notes	Ordinary stated share capital Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at 30 September 2020		67 234	(10 509)	270	56 995
Total comprehensive profit for the year		–	2 469	–	2 469
Share issued under Pepkor Executive Share Rights Scheme	9	118	–	118	236
Share issued as properties purchase consideration	9	1 031	–	–	1 031
Share buy-back and cancellation	9	(762)	–	–	(762)
Share-based payments		–	–	(7)	(7)
Balance at 30 September 2021		67 621	(8 040)	381	59 962
Total comprehensive profit for the year		–	4 249	–	4 249
Dividends paid		–	(1 634)	–	(1 634)
Share issued under Pepkor Executive Share Rights Scheme	9	231	–	231	462
Share issued as properties purchase consideration	9	19	–	–	19
Share buy-back and cancellation	9	(643)	–	–	(643)
Share-based payments		–	–	(201)	(201)
Balance at 30 September 2022		67 228	(5 425)	411	62 214

SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

Separate statement of cash flows

	Notes	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	13	**85**	152
Dividends paid		**(1 634)**	–
Interest paid		**(187)**	(98)
Net cash (outflow)/inflow from operating activities		**(1 736)**	54
CASH FLOWS FROM INVESTING ACTIVITIES			
Amounts received from related-party loans receivable	6	**1 736**	200
Amounts paid to related-party loans receivable		**–**	(271)
Net cash inflow/(outflow) from investing activities		**1 736**	(71)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts received from related-party loans payable	11.4	**–**	31
Amounts paid to related-party loans payable	11.4	**–**	(16)
Net cash inflow from financing activities		**–**	15
NET DECREASE IN CASH AND CASH EQUIVALENTS		**–**	(2)
Cash and cash equivalents at beginning of the year		**–**	2
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**–**	–

Notes to the separate financial statements

for the year ended **30 September 2022**

	Year ended 30 September 2022	Year ended 30 September 2021
1. REVENUE		
Dividends received – group companies (note 14.3)	**2 471**	2 400
Dividends in specie received – group companies (note 14.3)	**2 126**	–
Interest received – group companies (note 14.3)	**187**	116
Deferred dividend realised	**20**	–
	4 804	2 516
2. OPERATING PROFIT		
Operating profit is stated after taking account of the following items:		
Impairment of related party loan receivable reversed (note 6)	**–**	(89)
Management fees paid – group companies (note 14.3)	**4**	4
Settlement expense of litigation disputes	**180**	–
Impairment of investment in Pepkor Capital (RF) Proprietary Limited (note 5)	**144**	–

All directors' fees and remuneration was paid by subsidiary companies and the ultimate holding company. (Refer to note 14.4)

	Year ended 30 September 2022	Year ended 30 September 2021
3. FINANCE COSTS		
Finance cost paid on medium-term notes issued	**(187)**	(98)
4. TAXATION		
Taxation charge		
Normal taxation		
South African normal taxation – current year	**–**	–
Deferred taxation		
South African deferred taxation – current year	**–**	–
	–	–

	%	%
Reconciliation of rate of taxation		
Standard rate of taxation	**28.0**	28.0
Exempt income	**(30.0)**	(27.2)
Non-deductible expenditure	**2.0**	(0.8)
Effective rate of taxation	**–**	–

No deferred taxation asset has been recognised in the current and prior year due to the uncertainty regarding the generation of future taxable income against which this can be utilised.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
5. INVESTMENT IN SUBSIDIARY COMPANIES		
Shares at cost at the beginning of the year	**60 501**	59 735
Investment in Pepkor Capital (RF) Proprietary Limited received through dividend in specie	**144**	–
Investment in Pepkor Proprietary Limited received through dividend in specie[2]	**–**	–
Capital distribution received	**(508)**	–
Subscription in shares of The Building Company Proprietary Limited (Note 6)	**–**	766
Impairment of investment	**(144)**	–
Shares at cost at the end of the year	**59 993**	60 501
Share-based payments (note 8)	**631**	550
	60 624	61 051
Share-based payments receivable within 12 months included in current assets	**(264)**	–
Total non-current investment in subsidiary companies	**60 360**	61 051

2022

As part of a restructure during the year Pepkor Holdco Proprietary Limited and Pepkor Capital (RF) Proprietary Limited respectively declared its investment in Pepkor Capital (RF) Proprietary Limited and Pepkor Proprietary Limited to the company through a dividend in specie. The investment in Pepkor Capital (RF) Proprietary Limited was subsequently impaired as the company has been dormant for the 2022 financial year and in the process of being deregistered in the 2023 financial year.

During the year, Tekkie Town Proprietary Limited (Tekkie Town) declared a capital distribution to the full extent of the loan receivable balance due to Tekkie Town by Pepkor Speciality Proprietary Limited, which in turn declared a capital distribution to the company. The capital distribution was treated as a reduction in the company's investment in subsidiaries.

2021

On 30 September 2021, the company subscribed in an additional share in The Building Company to the value of R766 million through the capitalisation of the loan receivable from The Building Company.

Impairment methodology

The company considers its investments in subsidiaries for impairment at each reporting date. The investments' carrying amounts are written down to its recoverable amounts if the investments' carrying amounts are greater than its estimated recoverable amounts. Pepkor Holdco Proprietary Limited is the holding company for the majority of the group's clothing and general merchandise investments which is a significant contributor to the company's investment in subsidiary companies. The clothing and general merchandise segment is seen as a separate cash generating unit (CGU). The recoverable amount of each CGU is the higher of its value-in-use and its fair value less costs of disposal. Each CGU is tested for impairment at the reporting date to determine if any indicators of impairment have been identified.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

5. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

Refer to note 9 in the group financial statements for the assumptions used for the clothing and general merchandise and Tekkie Town group of CGUs.

	Issued share capital Rm	Shareholding %	Cost Rm	Accumulated impairment Rm	Carrying value Rm
30 September 2022[1]					
Pepkor Holdco Proprietary Limited	41 157	100	64 433	(6 998)	57 435
JD Group Proprietary Limited[2]	3 046	100	–	–	–
Tekkie Town Proprietary Limited	636	100	2 915	(1 645)	1 270
The Building Company Proprietary Limited	101	100	2 651	(1 546)	1 105
SA Poco Retail Proprietary Limited[2]	351	100	–	–	–
Abacus Holdco Proprietary Limited	100	100	183	–	183
Pepkor Capital (RF) Proprietary Limited	–	100	144	(144)	–
Pepkor Proprietary Limited[2]	218	100	–	–	–
			70 326	(10 333)	59 993
30 September 2021[1]					
Pepkor Holdco Proprietary Limited	41 157	100	64 433	(6 998)	57 435
JD Group Proprietary Limited[2]	3 046	100	–	–	–
Tekkie Town Proprietary Limited	636	100	3 423	(1 645)	1 778
The Building Company Proprietary Limited	100	100	2 651	(1 546)	1 105
SA Poco Retail Proprietary Limited[2]	351	100	–	–	–
Abacus Holdco Proprietary Limited	100	100	183	–	183
			70 690	(10 189)	60 501

[1] All companies are incorporated in South Africa.
[2] Investment in subsidiary is less than R500 000.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
6. RELATED PARTY LOAN RECEIVABLES		
Related party loan receivable	6 947	5 589
Provision for impairment	(2 116)	(2 116)
Net of impairment provision	4 831	3 473
Related party loan receivable within 12 months included in current assets	(165)	(3 473)
Total non-current related party loan receivable	4 666	–
Reconciliation of movement for the year		
Balance at beginning of the year	3 473	877
Loan receivable raised through capital distribution (note 5)	508	–
Loan receivable raised through dividend in specie (note 14.3)	739	–
Additional loan (repaid)/granted	(686)	271
Share buy-back and relating transaction costs and taxes (note 9)	(643)	(762)
Dividend received (note 1)	2 471	2 400
Loans receivable regarding share issue on properties purchased (note 9)	19	1 031
Loans repaid regarding share issue on properties purchased	(1 050)	–
Floating rate notes issued via intercompany nominated bank account	–	533
Impairment provision reversed against loan advanced (note 2)	–	89
Partial repayment of loan receivable from The Building Company	–	(200)
Subscription in shares of The Building Company Proprietary Limited (Note 5)	–	(766)
Balance at the end of the year	4 831	3 473

During the prior year, the company subscribed in shares in The Building Company amounting to R766 million.

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
7. TRADE AND OTHER RECEIVABLES		
Insurance claim receivable	146	–
Related party receivables	42	44
	188	44

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

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 Right 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 market value (2021: fair value) of the share rights granted. The estimated value of the services received is measured based on the assumption that all vesting conditions are met and all employees remain in service. The value of the share rights granted is measure by reference to the market value of the shares. (2021: The pricing model used was the Monte Carlo simulation model. The equity volatility was determined using an exponentially weighted moving average of Pepkor's historical daily closing share price.)

	2022 grant	2021 grant	2020 grant	2019 grant
Fair value of Pepkor share rights and assumptions:				
Fair value at grant date	22.02	13.56	13.03	19.51
Share price at grant date	22.02	14.64	13.96	20.50
Strike price	n/a	Rnil	Rnil	Rnil
Expected volatility	n/a	41.2%	28.2%	35.9%
Dividend yield	n/a	2.5%	2.3%	1.7%
Risk-free interest rate	n/a	4.8%	6.5%	7.2%
Option life	3 years	3 years	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.

	2022 Rm	2021 Rm
Fair value of share scheme settlement receivable		
Balance at the beginning of the year	525	167
Increase in fair value	337	441
Settlement	(260)	(83)
Balance at the end of the year	602	525
Capital contribution investment in subsidiary		
Balance at the beginning of the year	25	103
Capital contribution	4	(78)
Balance at the end of the year	29	25
Total	631	550

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	30 September 2022 Number of shares	30 September 2021 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		
Balance at the beginning of the year	3 697 270 680	3 660 350 881
Share issued under Pepkor Executive Share Rights Scheme	11 824 414	6 234 794
Share issued as properties purchase consideration	1 279 253	68 720 747
Share buy-back and cancellation	(32 232 801)	(38 035 742)
Total issued ordinary stated share capital	3 678 141 546	3 697 270 680

	Rm	Rm
9.3 Issued – ordinary		
Balance at the beginning of the year	67 621	67 234
Share issued under Pepkor Executive Share Rights Scheme	231	118
Share issued as properties purchase consideration	19	1 031
Share buy-back and cancellation, net of transaction costs and related taxes	(643)	(762)
Total issued ordinary stated share capital	67 228	67 621

	Number of shares	Number of shares
9.4 Unissued shares		
Shares reserved for future participation in share schemes	154 440 792	166 265 206
Shares under the control of the directors	–	–
Unissued shares	16 167 417 662	16 136 464 114
Total unissued shares	16 321 858 454	16 302 729 320

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	30 September 2022 Rm	30 September 2021 Rm
10. OTHER PAYABLES		
Other payables and amounts due	28	23
Deferred dividend – Pepkor Executive Share Right Scheme	195	133
Payroll-related creditors and other payables	–	1
Total financial liabilities	223	157

The fair values of accounts payable are disclosed in note 15.

11. INTEREST-BEARING LOANS AND BORROWINGS

11.1 Analysis of closing balance: External interest-bearing loans and borrowings

	30 September 2022 Rm	30 September 2021 Rm
Secured financing		
Floating rate notes	3 206	3 206
Portion payable within 12 months included in current liabilities	(800)	–
Total non-current interest-bearing loans and borrowings	2 406	3 206

11.2 Analysis of repayment: External loans

	30 September 2022 Rm	30 September 2021 Rm
Repayable within the next year and thereafter – current and non-current split		
Next year	800	–
Within two years	1 435	800
Within three years	206	1 435
Within four years	765	206
Within five years	–	765
	3 206	3 206

11.3 Loan details

	Facility Rm	Maturity date	Interest rate	30 September 2022 Rm	30 September 2021 Rm
Loans due:					
Floating rate notes – PEP01	800	10 March 2023	Three-month JIBAR plus 159 bps	800	800
Floating rate notes – PEP02	206	10 March 2025	Three-month JIBAR plus 174 bps	206	206
Floating rate notes – PEP03	1 435	5 May 2024	Three-month JIBAR plus 152 bps	1 435	1 435
Floating rate notes – PEP04	765	5 May 2026	Three-month JIBAR plus 170 bps	765	765
				3 206	3 206

Floating rate notes

On 5 May 2021, notes to the value of R2.2 billion (none in the current year), were issued under the Domestic Medium-Term Note (DMTN) programme, which is a further source of funding to the group. The DMTN is guaranteed by Pepkor Trading Proprietary Limited.

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

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 15.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	30 September 2022 Rm	30 September 2021 Rm
11. INTEREST-BEARING LOANS AND BORROWINGS (continued)		
11.4 Total net debt		
Cash and cash equivalents	–	–
Interest bearing loans and borrowings	(3 206)	(3 206)
Related-party loans and accounts payable	–	(1 243)
	(3 206)	(4 449)
Net debt reconciliation		
Net debt at the beginning of the year	4 449	3 899
Movement in interest bearing loans and borrowings		
Floating rate notes issued via intercompany nominated bank account	–	2 200
Movement in related-party loans payable		
Floating rate notes issued during the year via intercompany nominated bank account	–	(1 667)
Cash inflow on partial settlement of related party loans payable	–	31
Cash outflow on partial settlement of related party loans payable	–	(16)
Dividend in specie declared (note 14,3)	(1 243)	–
Net movement in cash and cash equivalents	–	2
	3 206	4 449

12. CONTINGENCIES

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

	30 September 2022 Rm	30 September 2021 Rm
13. CASH GENERATED FROM OPERATIONS		
Operating profit	4 436	2 567
Adjusted for:		
Impairment reversal of loans due from subsidiary company (note 2)	–	(89)
Dividends received (note 1)	(2 471)	(2 400)
Dividends in specie received (note 1)	(2 126)	–
Share-based payment expense	180	(51)
Impairment of investment in subsidiary (note 5)	144	–
Cash generated from operations before working capital changes	163	27
Working capital changes		
Increase in receivables	(144)	(25)
Increase in payables and accruals	66	150
Net changes in working capital	(78)	125
Cash generated from operations	85	152

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
14. RELATED PARTY TRANSACTIONS		
Related-party relationships exist between shareholders and subsidiaries within the group and its company directors and key management employees.		
14.1 Subsidiaries		
Details of investments in direct subsidiaries are disclosed in note 5.		
14.2 Financial guarantee contracts		
Details of financial guarantee contracts are disclosed in note 16 of the company financial statements.		
14.3 Trading transactions and balances		
The following is a summary of transactions with related parties during the year and balances at year end:		
Loans receivable from:		
Pepkorfin Proprietary Limited	3 661	2 442
JD Group Proprietary Limited	–	296
Ultimo Properties Proprietary Limited	–	735
Pepkor Proprietary Limited	662	–
Pepkor Speciality Proprietary Limited	508	–
	4 831	3 473
The loans receivable bears no interest, except for the loan with Pepkorfin Proprietary Limited which bears interest at market-related interest rates. All loans has no fixed terms of repayment.		
Loan payable to:		
Pepkor Capital (RF) Proprietary Limited	–	(1 243)
	–	(1 243)
The loan was interest free and was settled during the year by means of a dividend in specie received from Pepkor Capital (RF) Proprietary Limited as noted below.		
Accounts receivable from:		
Pepkor Trading Proprietary Limited	1	1
Pepkorfin Proprietary Limited	41	43
	42	44
Dividends received:		
Pepkor Holdco Proprietary Limited	2 400	2 400
Abacus Holdings Proprietary Limited	71	–
	2 471	2 400
Dividends in specie received:		
Pepkor Holdco Proprietary Limited (note 5)	144	–
Pepkor Capital (RF) Proprietary Limited[1]	1 982	–
	2 126	–

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Year ended 30 September 2022 Rm	Year ended 30 September 2021 Rm
14. RELATED PARTY TRANSACTIONS (continued)		
14.3 Trading transactions and balances (continued)		
Dividends paid:		
Ainsley Holdings Proprietary Limited	**963**	–
Management fees paid:		
Pepkor Trading Proprietary Limited	**(4)**	(4)
Directors' fees paid		
Steinhoff Africa Holdings Proprietary Limited	**(2)**	(2)
Interest received:		
Pepkorfin Proprietary Limited	**187**	116

[1] The dividend in specie received from Pepkor Capital (RF) Proprietary Limited as part of a restructure during the current year comprise R1 243 million for the loan receivable from the company, R662 million loan receivable from Pepkor Proprietary Limited and R77 million loan receivable from Pepkorfin Proprietary Limited.

14.4 Compensation of key management personnel

Refer to note 33 of the consolidated financial statements.

15. 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

	Loans and receivables and other financial liabilities at amortised cost[1]	
	30 September 2022 Rm	30 September 2021 Rm
15. FINANCIAL INSTRUMENTS (continued)		
15.1 Total financial assets and liabilities		
Related-party loans receivable	**4 666**	–
Non-current financial assets	**4 666**	–
Related-party loans receivable	**165**	3 473
Receivables	**188**	44
Cash and cash equivalents	**–**	–
Current financial assets	**353**	3 517
Interest-bearing loans and borrowings	**(2 406)**	(3 206)
Non-current financial liabilities	**(2 406)**	(3 206)
Interest-bearing loans and borrowings	**(800)**	–
Other payables	**(223)**	(157)
Related-party loans payable and payables	**–**	(1 243)
Current financial liabilities	**(1 023)**	(1 400)
	1 590	(1 089)

[1] Financial assets and liabilities carried at amortised cost which approximates their fair value.

No items were classified as ‘at fair value through profit or loss’ or ‘at fair value through other comprehensive income’ during the current and previous financial year.

No fair value adjustments were made to any of the financial assets and liabilities.

15.2 Foreign currency risk

All the financial assets and liabilities of the company are denominated in the company’s functional currency of South African rand.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

15. FINANCIAL INSTRUMENTS

15.3 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 2022				
Non-current financial assets	3 496	–	1 170	4 666
Current financial assets	165	–	188	353
Non-current financial liabilities	–	(2 406)	–	(2 406)
Current financial liabilities	–	(800)	(223)	(1 023)
	3 661	(3 206)	1 135	1 590
30 September 2021				
Current financial assets	2 442	–	1 075	3 517
Non-current financial liabilities	–	(3 206)	–	(3 206)
Current financial liabilities	–	–	(1 400)	(1 400)
	2 442	(3 206)	(325)	(1 089)

15.4 Credit risk

Potential concentration of credit risk consists principally of related-party loans receivable. Management has assessed the ECL for these current financial assets in both the current and prior year and found it to be immaterial.

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 2022 Rm	30 September 2021 Rm
Non-current financial assets	4 666	–
Current financial assets	353	3 517
Maximum exposure to financial guarantees	18 247	17 445
	23 266	20 962

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

15. FINANCIAL INSTRUMENTS

15.5 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 company can also call on financial assistance from certain companies within the Pepkor group of companies based on an agreement if the need arise.

The following are the contractual maturities of financial liabilities:

	Total Rm	0 to 3 months Rm	4 to 12 months Rm	Year 2 Rm	Years 3 to 5 Rm
2022					
Non-current financial liabilities	**2 868**	**57**	**143**	**1 587**	**1 081**
Current financial liabilities	**1 052**	**1 052**	**–**	**–**	**–**
Financial guarantee contracts	**18 247**	**18 247**	**–**	**–**	**–**
	22 167	**19 356**	**143**	**1 587**	**1 081**
2021					
Non-current financial liabilities	3 697	43	129	948	2 577
Current financial liabilities	1 400	1 400	–	–	–
Financial guarantee contracts	17 445	17 445	–	–	–
	22 542	18 888	129	948	2 577

Further details of financial guarantee contracts are provided in note 16.

15.6 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.

15.7 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 audit and risk committee reviews the capital structure of the company on a quarterly 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS *continued*

for the year ended **30 September 2022**

16. FINANCIAL GUARANTEE CONTRACTS

The company along with other subsidiaries guaranteed the term loans, revolving credit facilities and general banking facilities 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 fellow subsidiaries within the group in the event that the company is called upon to perform on such commitment.

	Face value 2022 Rm	Drawn down balance 2022 Rm	Face value 2021 Rm	Drawn down balance 2021 Rm
Term loans	**6 000**	**6 000**	5 000	5 000
Revolving credit facilities	**1 500**	**1 500**	2 500	2 500
General banking facilities	**9 218**	**1 278**	8 425	1 531
Guarantee facilities	**529**	**434**	520	419
Bridge facilities	**1 000**	**–**	1 000	–
	18 247	**9 212**	17 445	9 450

The financial liability relating to the current guarantee contracts has been provided by Pepkor Trading Proprietary Limited as it is probable that the trading entity will pay the guarantees in the event of default at group level.

17. DISTRIBUTION TO ORDINARY SHAREHOLDERS

The board has declared a dividend to shareholders in respect of the year ended 30 September 2022 of 55.2 cents (2021: 44.2 cents). The dividend will be payable to the holders of ordinary shares in the share capital of the company recorded in the securities register of the company on 20 January 2023. The last date to trade in order to be eligible to receive the dividend will be 17 January 2023, and the ex-dividend date will be 18 January 2023. The dividend will be paid and broker accounts updated, as the case may be, on 23 January 2023.

18. EVENTS AFTER THE BALANCE SHEET DATE

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

19. GOING CONCERN

The board of directors have evaluated the going concern assumption as at 30 September 2022, taking into account 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.

The cash flows and liquidity projections of the group have been prepared for a period exceeding 12 months from the reporting date and included performing sensitivity analyses based on various scenarios. The group has made substantial progress in reducing net debt and strengthening its financial position. Refer to note 21 of the consolidated financial statements.

Shareholder analysis

for the year ended **30 September 2022**

Shareholder spread	Ordinary shares Number of shareholders	%	Number of shares	%
1 – 1 000 shares	20 628	76.87	2 081 173	0.06
1 001 – 10 000 shares	4 572	16.81	14 866 659	0.40
10 001 – 100 000 shares	1 112	4.09	38 442 744	1.05
100 001 – 1 000 000 shares	674	2.48	218 433 893	5.94
1 000 001 shares and over	205	0.75	3 404 317 077	92.55
	27 191	100.00	3 678 141 546	100.00

Distribution of shareholders	Number of shareholders	%	Number of shares	%
Strategic investments	3	0.01	1 876 708 550	51.02
Unit trusts	331	1.22	511 822 724	13.92
Pension funds	237	0.87	449 695 553	12.23
Private investors	173	0.64	258 146 149	7.02
Sovereign wealth	13	0.05	145 444 903	3.95
Mutual funds	126	0.46	117 105 914	3.18
Insurance companies	26	0.10	80 110 351	2.18
Hedge funds	15	0.06	34 147 860	0.93
Trading position	25	0.09	31 125 731	0.85
Corporate holdings	2	0.01	30 556 725	0.83
Exchange-traded funds	29	0.11	26 945 306	0.73
Charities	17	0.06	10 790 326	0.29
Custodians	15	0.06	8 519 587	0.23
Medical aid schemes	18	0.07	5 848 171	0.16
Universities	11	0.04	4 986 873	0.14
Investment trusts	4	0.01	3 692 737	0.10
Local authorities	3	0.01	2 256 397	0.06
Foreign governments	3	0.01	1 857 411	0.05
Other managed funds	3	0.01	282 233	0.01
ESG	2	0.01	276 287	0.01
Black economic empowerment	3	0.01	190 000	0.01
Remainder	26 132	96.09	77 631 758	2.10
Total	27 191	100.00	3 678 141 546	100.00

SHAREHOLDER ANALYSIS *continued*

for the year ended **30 September 2022**

Public/non-public shareholders	Number of shareholders	%	Number of shares	%
Public shareholders	27 184	99.97	1 798 646 076	48.90
Non-public shareholders				
Directors and associates	4	0.02	2 786 920	0.08
Strategic holdings (more than 10%)	3	0.01	1 876 708 550	51.02
Total	27 191	100.00	3 678 141 546	100.00

Beneficial shareholders holding 1% or more	Number of shares	%
Ainsley Holdings Proprietary Limited	1 806 708 550	49.12
Government Employees Pension Fund (PIC)	227 970 176	6.20
Titan Premier Investments Proprietary Limited	199 394 550	5.42
GIC Asset Management Private Limited	81 190 593	2.21
Steinhoff International Holdings N.V.	68 720 747	1.87
Alexander Forbes Investments	65 175 774	1.77
Old Mutual Life Assurance Company Limited	61 311 936	1.66
Total	2 510 472 326	68.25

Fund managers holding 1% or more	Number of shares	%
Coronation Asset Management Proprietary Limited	205 799 637	5.60
Titan Premier Investments Proprietary Limited	199 394 550	5.42
PIC	168 376 593	4.58
Ninety One SA Proprietary Limited	98 979 022	2.69
Old Mutual Limited	96 324 117	2.62
GIC Asset Management Private Limited	81 190 593	2.21
The Vanguard Group Inc.	69 460 268	1.89
Value Capital Partners	68 844 345	1.87
M&G Investment Managers Proprietary Limited	68 595 318	1.86
BlackRock Incorporated	57 820 602	1.57
Allan Gray Proprietary	52 557 793	1.43
Truffle Asset Management Proprietary Limited	49 042 796	1.33
Sanlam Investment Management	41 545 318	1.13
Total	1 257 930 952	34.20

Corporate information

Registration number
2017/221869/06

Share code
PPH

Debt code
PPHI

ISIN
ZAE000259479

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(Registration number 2006/015817/07)

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Sandton office
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PO Box 650957, Benmore 2010

Debt sponsor
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(Registration number 1929/001225/06)
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Sandton 2196
PO Box 786273, Sandton 2146

Corporate broker
Rand Merchant Bank (A division of FirstRand Bank Limited)

Transfer secretary
Computershare Investor Services Proprietary Limited
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PEPKOR
Holdings Limited

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