
PEPKOR
Holdings Limited
Integrated report 2018
Clothing and general merchandise
PEP
ACKERMANS
PEP AFRICA
Tekkie Town
ShoeCity
REFINERY
JOHN CRAIG
DUNNS
Furniture, appliances and electronics
Russells
B. BRADLOWS
Sleepmasters
ROCHESTER
Incredible CONNECTION
HiFi Corp
Building materials
BUCO
TIMBERCITY
tiletoria
FinTech
FLASH
capfin

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About this report

THIS REPORT
forms part of the integrated report suite and should be read together with the full audited annual financial statements and corporate social responsibility report, which are available on the company's website at
www.pepkor.co.za.

The Pepkor Holdings Limited (Pepkor or the group) 2018 integrated report focuses on the group's strategy and its ability to create long-term sustainable value.

To review the group comprehensively, this report should be read together with the audited annual financial statements and the corporate social responsibility report.

The group listed on the Johannesburg Stock Exchange Limited (JSE) on 20 September 2017. The 2018 financial year therefore represents its first full year as a listed company and much progress has been made in establishing and developing integrated reporting. The group aims to enhance disclosures and application of integrated reporting principles as it matures and as deemed appropriate.

In preparing this report, the following principles were considered and applied:
The Companies Act, No. 71 of 2008, as amended (Companies Act)
The JSE Listings Requirements
The International Financial Reporting Standards (IFRS)
The King IV Report on Corporate Governance for South Africa, 2016 (King IV)
The International Integrated Reporting (<IR>) Framework as issued by the International Integrated Reporting Council (IIRC)
Materiality, which determines the context and extent of disclosure of any material issues relating to the businesses or the group.

A responsible approach towards sustainability (environmental, social, governance) practices has been part of the group's underlying businesses for many years and still underpins the fundamental approach to business practices. The group continues to evaluate relevant and group-wide material issues.

In determining the material issues, matters that could have a significant impact on the ability of the group to create sustainable value for stakeholders are considered.

Scope and boundary

The scope of the report includes all subsidiaries and operating businesses and covers the reporting period 1 October 2017 to 30 September 2018.

The audited annual financial statements were approved for release on 23 November 2018. There were no significant restatements from prior periods other than those described in note 30 to the annual financial statements. This integrated report was approved by the board for distribution on 31 January 2019.

The annual financial statements have been prepared in accordance with IFRS. Financial information contained in the integrated report was extracted from the audited annual financial statements.

All references to Pepkor, the group, the company or the business refer to Pepkor Holdings Limited and its underlying subsidiaries. These subsidiaries include all operating businesses.

With the group's long history and scale of operations in Africa, it has taken due regard of all legislation and regulations in the countries of operation. Being listed on the JSE and, as a guiding principle, the group also reviews its business practices against King IV.

Forward-looking information

This integrated report contains certain forward-looking statements which relate to the financial position and results of the operations of the group. These statements are solely based on the view and considerations of the directors.

These statements, by nature, involve risk and uncertainty, relate to events and depend on circumstances that may occur in the future. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, global and national economic and market conditions, interest and foreign exchange rates, gross and operating margins achieved, competitive conditions and regulatory factors. These forward-looking statements have not been reviewed or reported on by the group's external auditors.

Responsibility and assurance

The board, is ultimately responsible for overseeing the integrity of the integrated report. This was achieved through setting up appropriate teams and structures to undertake the reporting process and the review and approval of the integrated report.

External assurance obtained in the current year was limited to the audit opinion on the group annual financial statements and the group's broad-based black economic empowerment (B-BBEE) contributor level status.

Approval of the integrated report

The board acknowledges its responsibility to ensure the integrity of the integrated report. The directors confirm they have reviewed the content of the integrated report and believe it is a fair presentation of the performance of the group in accordance with the International <IR> Framework and best practice.

Going concern

The directors report that, after making enquiries, they have a reasonable expectation that the group has adequate resources to continue its operational existence for the foreseeable future. For this reason, they continue adopting the going concern basis in preparing the annual financial statements.

Salient features

Revenue growth

↑ 10.9%
to R64.2bn

EBITDA[1] growth

↑ 4.2%
to R7.1bn

Growth in operating profit[2]

↑ 10.7%
to R6.4bn

Excluding one-off costs

↑ 1.9%
to R5.9bn

Including one-off costs

R5.3bn
Cash generated from operations

R18bn
Refinanced and guarantees released

Retail space
3.6%
growth

Maiden dividend of
27.8c
per share declared

Dividend cover of three times

[1] *Earnings before interest, taxation, depreciation, amortisation and capital items*
[2] *Before capital items*

Everything we do is focused on bringing value to our customers,

from the way we select and source products to enabling customers to access our products and services, bringing it to them at the best quality and at the lowest possible prices. We believe in giving people, especially those with limited disposable income, the opportunity to live their lives with dignity, respect and pride. We have done this for more than 100 years and will continue to do so through our trusted brands.

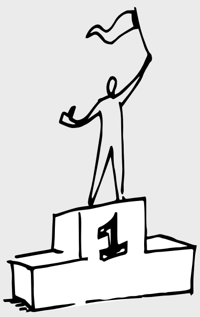
We are the largest non-grocery retailer in South Africa[1]

Pepkor delivers quality products at the best possible prices to customers, high growth and profitability for shareholders, and we are the employer of choice for our employees.

Our purpose
Offering customers access to products and services they can afford, that are close to their homes, and that will make a difference in their lives. It's also about growing our people and our business. When people grow, their businesses grow – and ultimately our group grows.

Our business
To keep costs down so that we can sell at the best prices, which is part of our down-to-earth attitude. We make sure that we are efficient in what we do by using world-class systems and processes throughout all our operations.

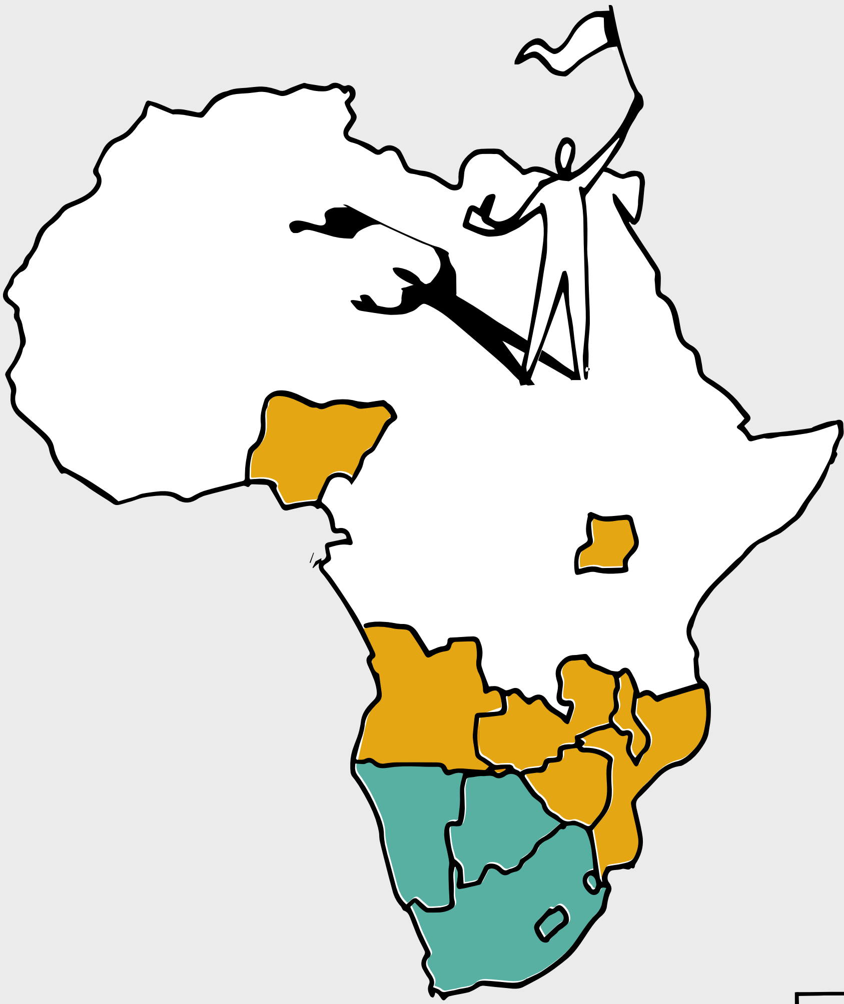
Our vision
To be the preferred destination for delivering value to the African consumer and all other stakeholders.



Our values
Pepkor's values and culture are centred on the unwavering goal of improving the lives of our customers, who mostly find themselves in very challenging circumstances. We strive to make their lives easier and better.

- Dignity and respect
- Trust and credibility
- Value and affordability

[1] *JSE General Retailers by revenue*



12
African countries

ANGOLA
MALAWI
MOZAMBIQUE
NIGERIA
UGANDA
ZAMBIA
ZIMBABWE

362
stores

BOTSWANA
LESOTHO
NAMIBIA
SOUTH AFRICA
SWAZILAND

4 874
stores

2.4 million
total retail space (m²)

5 236
total stores

428
new stores
opened during
FY18

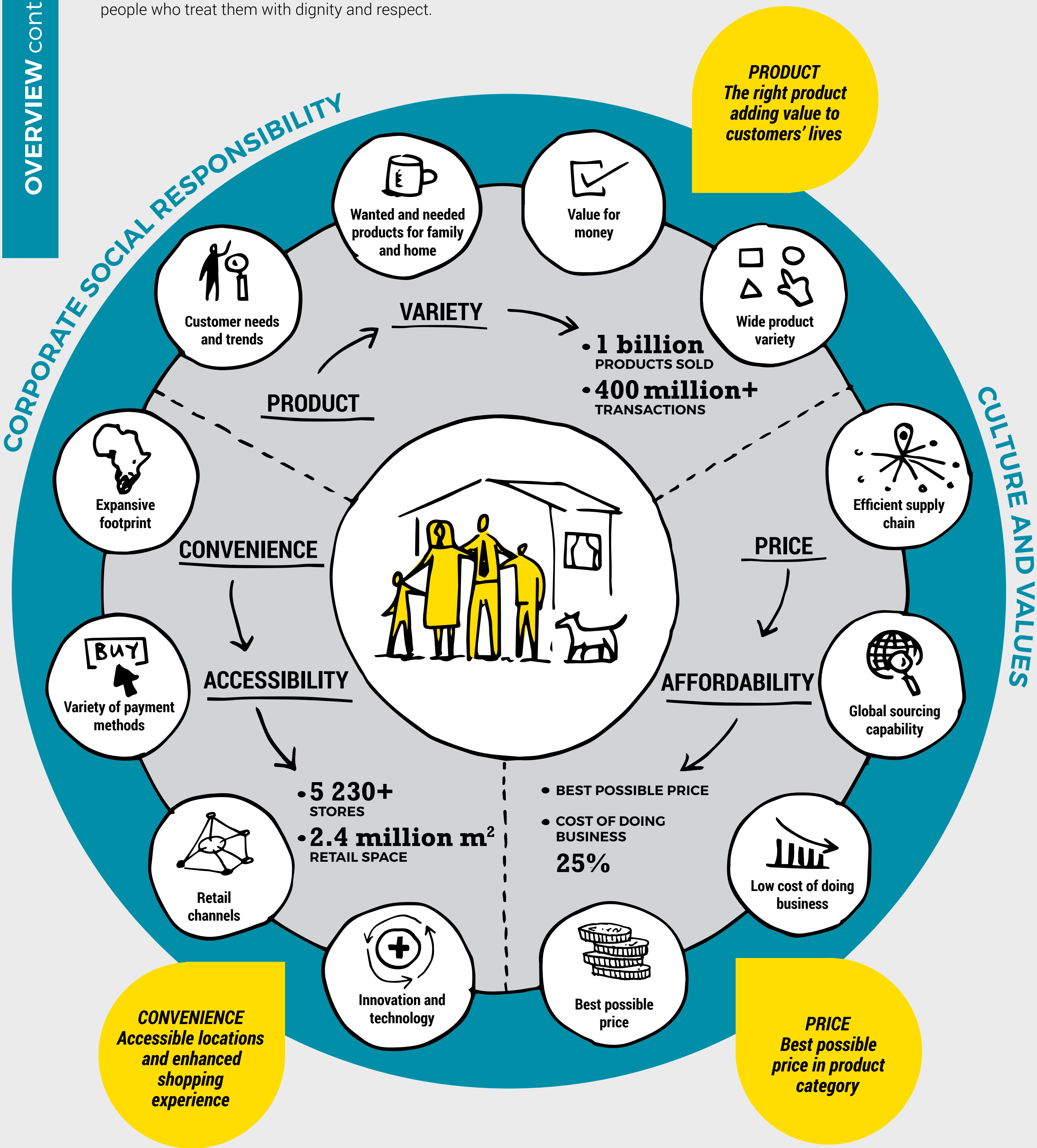
48 000
employees

400 million+
transactions per annum

Creating value

We place our customers at the centre of everything we do.

Our focus remains on our remarkable customers – satisfying their needs and helping to make their lives better and easier. Everyone, rich and poor, deserves the same access to products, services and friendly customer service from people who treat them with dignity and respect.



The outcomes we achieve addressing the needs of our stakeholders.

Operational businesses implement the group's strategy in ways that are material and relevant to them while staying focused on their customers.

FINANCIAL CAPITAL

Shareholders + suppliers + financiers

TURNOVER	R64.2bn
REFINANCED	R18.0bn
REINVESTED	R3.7bn
MAIDEN DIVIDEND DECLARED	R960m

SOCIAL CAPITAL

Communities + customers

Giving back to build sustainable communities

THE LARGEST PORTION OF OUR CUSTOMERS ARE LOW-INCOME EARNERS >> Our social investment strategy is integrated into our business – to give customers the opportunity to save money and to help build communities to be self-sustainable mostly through education. We help to provide dignity and respect to those most in need, by providing access to products.

INCOME TAX PAID	R1.6bn

HUMAN CAPITAL

Employees

Training and development

WE DEVELOP PEOPLE >> We create opportunities.

INCREASE IN PERMANENT EMPLOYEES	43 000+ to 48 000+
NEW JOBS CREATED	2 500+
SALARIES PAID	R8.0bn

INTELLECTUAL CAPITAL

Customers

Building efficiencies

BEST PRICE LEADERSHIP >> With our experience and processes, we look at every aspect of the supply chain to keep the costs of doing business down to give our customers the best products at the best possible prices.

LOW COST OF DOING BUSINESS	25%

MANUFACTURED CAPITAL

Customers

Managing 2.4 million m^2 retail space

INFRASTRUCTURE PROVIDES ACCESSIBILITY >> Bringing our brands to where our customers are, saving them money and increasing the demand for merchandise and services.

STORES OPENED	428
TOTAL STORE FOOTPRINT	5 236

NATURAL CAPITAL

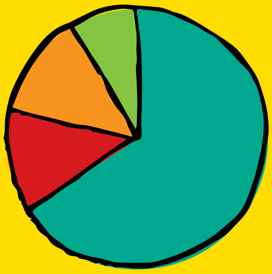
Communities + customers + business partners

TOTAL CARBON FOOTPRINT	273 348 tonnes CO_2e
TOTAL SCOPE 1 (FUEL)	56 100 tonnes CO_2e
TOTAL SCOPE 2 (ELECTRICITY)	217 248 tonnes CO_2e

Pepkor's operations are spread across four reporting segments,

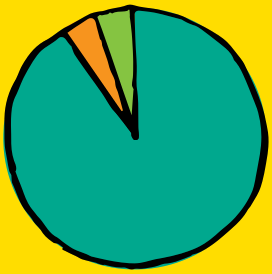
a diversified retail champion of significant size and scale, combining some of southern Africa's most iconic retail brands.

Group revenue contribution FY18



Clothing and general merchandise	66%
Furniture, appliances and electronics	13%
Building materials	13%
FinTech	8%

Group operating profit[1] contribution FY18



Clothing and general merchandise	93%
Furniture, appliances and electronics	0%
Building materials	3%
FinTech	4%

[1] *Before capital items*

Clothing and general merchandise

PEP
ACKERMANS
PEP | AFRICA
Tekkie Town
ShoeCity
REFINERY
JOHN CRAIG
DUNNS

Furniture, appliances and electronics

Russells
You pay less for more
BRADLOWS
Sleepmasters
the bed experts
ROCHESTER
Incredible CONNECTION
HiFi Corp
Why shop anywhere else?

Building materials

BUCO
HARDWARE · BUILDWARE
TIMBERCITY
Your Project Partner
tiletoria
sanware · tiles · vinyl · laminate

FinTech

FLASH
capfin

Chairman's letter

We believe Pepkor has managed, under exceptionally trying circumstances, to achieve top-tier operating results.

JAYENDRA NAIDOO
NON-EXECUTIVE CHAIRMAN

Dear stakeholder,

This is my first chairman's letter under the Pepkor banner following the change in the company's former name – Steinhoff Africa Retail (STAR). On behalf of the board and management of Pepkor, I am very pleased that we can present our first integrated report. The name change is not only symbolic, as it reconnects us to the special history of this company. It also represents the firm commitment by the board and management to doing business 'the Pepkor way', i.e. to provide our customers the very best value while operating in line with the highest standards of good governance, business performance and ethics.

The year 2018 will go down in the company's history as the 'year of the struggle' – one filled with unexpected crises and drama and requiring extraordinary resilience and actions from board members and management alike. During this year, the company has had to play defence often and has focused on consolidation. However, we believe it has managed, under exceptionally trying circumstances, to achieve top-tier operating results. As the crescendo of bad news fades away, we stand strong and fully prepared for a winning 2019.

Similarly, we take note that Steinhoff International Holdings N.V. (Steinhoff), under the new leadership of Louis du Preez and Heather Sonn, is now in the final stages of negotiations to conclude a successful restructuring and lock-up agreement with their European creditors. There are positive implications for Pepkor with regard to the perception of an overhang on Pepkor shares. With Steinhoff currently holding 71% of Pepkor's issued shares, it will be positive news for Pepkor shareholders if these developments enable Steinhoff to turn their focus, for the next few years, to creating value from their existing Pepkor shareholding, rather than disposing of assets to service their debt. From our review of the publicly available information, it appears that the market risk of a sale by Steinhoff of its Pepkor shareholdings is further mitigated through their creditors having certain rights in relation to asset disposals by Steinhoff. We await the final conclusions between Steinhoff and its creditors with interest.

Governance has been the top priority for the board this year. The classification of each board member was reviewed afresh by an independent expert to determine which directors can be considered independent. A lead independent director was appointed in the light of the chairman's reclassification, and new board members were appointed, equipping the board with added and, in my opinion, world-class expertise in retailing, finance, legal and IT. The board pays close attention to detail and conducts its business with full autonomy from Steinhoff, regardless of the latter's large shareholding.

As chairman, with the responsibility to oversee the board's independence, I am assisted by the terms of our recent refinancing agreement with the financial institutions that strictly restricts conflicts of interest and related-party transactions. The board committees are well-led, very active and well-functioning. The board discussions and debates are robust and frank, and we are not afraid to put matters to the vote when necessary.

The audit and risk committee has conducted a comprehensive review of the company policies, its major contracts, the approval framework for delegation of authority in the group, risk management systems and our internal and external audit capabilities. Their report is incorporated in the annual financial statements. Several ad hoc board committees have been established to investigate and make recommendations on various issues, such as litigation matters, the existing guarantee and loans by Pepkor relating to Business Venture Investments 1499 RF Proprietary Limited (BVI), overseeing negotiations with regard to the JD Group and Capfin loan books with Century Capital, engaging with the JSE and the consideration of certain investments.

We have taken note of the feedback received from investors from time to time. This year's report attempts to provide greater transparency and visibility of the company's operations and performance, in part through the newly defined segmental reporting. We welcome the feedback received and will continue to engage thoughtfully and constructively.

During the year under review, five board members resigned and seven new members were appointed. I can report with confidence that the board now has many strong and independent-minded individuals with considerable experience and expertise. Notwithstanding the crisis he inherited when he was appointed CEO in December 2017, Leon Lourens and the entire management team have adapted well to the corporate challenges and the many struggles that they had to contend with. They have gained experience in dealing with the listed regulatory environment, and have become more accustomed to dealing with unexpected external events.

The remuneration committee acted swiftly after the Steinhoff-related events of December 2017 to introduce a cash retention mechanism to supplement the pre-existing Steinhoff share scheme in order to ensure retention of management. The maiden long-term share grant under the Pepkor share scheme was approved and is subject to a three-year performance period and performance conditions. In addition, the committee has closely reviewed the different short-term and long-term incentive structures to achieve improved alignment between remuneration and performance. In this regard, good progress has been made in the incentive plans for the current financial year.

The operating businesses have maintained a high level of performance, with double-digit growth from both PEP and Ackermans, our main businesses. In addition, the JD Group and the Speciality group of brands have also improved substantially relative to the previous year's performances. We are conscious that this year's results are lower than what we wanted to achieve. However, it is a very competitive result compared to our peers.

The company has successfully dealt with several major issues arising from the Steinhoff debacle. We have agreed a phased termination of the Fulcrum/Century Capital relationship associated with the provision of funding to JD Group customers and the Capfin loan book, while phasing in new self-funded loan books. We have managed to retain future income and profitability, without taking any additional risk.

The unfortunate events at Tekkie Town and the unprecedented mass resignation of over 100 key people was a major blow. However, despite that, Tekkie Town performed well under interim management. With the new permanent management team that has now fully replaced all those who left, Tekkie Town has stabilised and is performing at a satisfactory level. Furthermore, to bring Tekkie Town fully in line with normal Pepkor financial policies, provisions and asset impairments were processed, thereby rebasing its balance sheet. No doubt this will improve the quality of earnings of this business in years to come.

The board subcommittee on the BVI matter has conducted a detailed due diligence on the contractual arrangements between BVI and Pepkor since 2012. The company is advised that guarantees issued by certain Pepkor subsidiaries in 2012 remained valid. At that time, all the shareholders of BVI were 'old Pepkor' managers. However, as at the time of the formation of STAR in 2017, less than 60% of BVI shareholders were employees of STAR or its subsidiaries. The remaining shareholders were employed in companies that have not become a part of STAR or the current Pepkor Holdings, and remain in the Steinhoff fold. The full exposure was, however, prudently provided for during the interim results.

In decisively shutting down POCO, the company has demonstrated that it will not hold onto businesses that prove not to be viable. Similarly, management has taken account of other businesses in the Pepkor fold that are performing suboptimally and amended the capital allocation accordingly. We do not intend to invest capital in businesses that do not provide adequate returns to shareholders.

The formation and listing of STAR in 2017 was accompanied by several aspects of poor disclosure. While the co-guarantees issued by Pepkor Holdings entities in terms of Steinhoff funding have all been cleansed as a result of the debt refinancing entered into by the company, the board has had no choice but to accept the censure imposed by the JSE. We welcome the fact that we can now close the chapter on this unfortunate legacy. The board has requested management to conduct a proactive self-audit to investigate any other matters that may need to be disclosed. The annual financial statements provide specific disclosures in this regard, although these tend to be mostly technical in nature with no bottom-line impact. In addition, the board has embarked on a process to strengthen the company secretariat capability to mitigate future risks.

The maiden dividend, albeit on a conservatively amended dividend policy, reflects the board's confidence and expectation that operating performance will continue to improve. For the coming years, the company expects to continue good organic growth. The company also intends to consider potential acquisition opportunities that add value and fit with the strategy of the group. Our immediate priorities for the year ahead are to remain focused on the quality of the business, reduce our level of debt, pay careful attention to the company's high tax rate, undertake a strategic review of our portfolio of assets and continue to improve our systems and risk management. Furthermore, we intend to return to the high rate of growth that Pepkor has customarily delivered.

I must point out that Pepkor is led by a highly experienced, committed and passionate leadership team that has done a superb job. They have experienced individual personal trauma and losses from the entire Steinhoff debacle, yet have stayed focused, inspired their people, and turned in a very credible performance. The management and staff of Pepkor are the heroes of the struggles of 2018! They are, in my opinion, the best retail team in South Africa and I remain confident in their ability to execute at the highest level of performance. In conclusion, I wish to thank the board members for their tireless efforts, the management and staff of Pepkor and all its businesses for their excellent work, and our shareholders for their continued interest and support. Thank you!

Jayendra Naidoo
Non-executive chairman

Chief executive officer's report

Our strategy remains one of providing everyday products at affordable prices at customers' convenience.

LEON LOURENS
CHIEF EXECUTIVE OFFICER

The Pepkor group has completed its first financial year as a listed company – and what a year it has been. The year will be remembered as a tumultuous one that included numerous extraordinary matters that created major challenges and required significant time and focus at a corporate level.

Despite the considerable distractions, I am proud of the group's performance and achievements. Our retail brands and management teams delivered when we needed it most. Their continued focus paid dividends as they strive to make the lives of their customers better and easier while helping to provide dignity and respect to large parts of the communities in South Africa and the rest of Africa.

Our strategy remains one of providing everyday products at affordable prices at customers' convenience. The focus on price leadership and minimising the cost of doing business ensures that prices remain low and affordable, ultimately adding value to customers' lives.

The retail sector in South Africa has been facing some of the most challenging times in decades. The defensive discount and value market positioning of the group has been an asset in an economy where consumers continue to face significant pressure on spending power. In addition to this, most of the brands had the enormous challenge to combat significant deflation. Under these circumstances, we are satisfied with the revenue growth that we were able to achieve.

Pepkor was one of the top performers in the South African retail market, which proves the quality and resilience of our retail brands, business model and leadership. Pepkor achieved revenue growth of 10.9% for FY18 with operating profit growth of 1.9%, which was impacted by the one-off cost of R511 million pertaining to the BVI provision. Excluding the one-off costs, operating profit growth of 10.7% was achieved, which was very satisfactory under the operating circumstances.

I am confident that the business is now in a much better position than it was a year ago.

Corporate milestones achieved

During the year, we achieved many milestones in dealing with various complicated matters following the events at Steinhoff International Holdings N.V. (Steinhoff), further entrenching the group's independence. The Pepkor board's independence has also been strengthened, as discussed in the chairman's letter.

All related-party links between Pepkor and Steinhoff were thoroughly investigated and analysed in terms of risk and commercial significance. Links were severed where necessary and appropriate (most notably the refinancing of the Steinhoff shareholder funding and cancellation of all related cross guarantees), while the name change back to Pepkor was a significant step in re-establishing the history, identity and culture of the group among employees and investors alike.

The commercial agreements between Pepkor and Century Capital relating to the JD Group and Capfin loan books were renegotiated, ultimately terminating the relationship in a commercially responsible manner that sustains Pepkor's profitability from a financial services perspective. The group further cancelled the service-level agreement with Steinhoff for corporate services.

The publication and confirmation of Pepkor's audited financial statements and results for 2017 and 2018 may not seem like a major achievement, but the suspicion and doubt created by events beyond the group's control and the intense scrutiny that we had to endure during this period make this a significant milestone. PricewaterhouseCoopers were also appointed as the group's new auditors during the year.

Pepkor's decentralised management and operating structure allowed the corporate office to effectively shield the operating businesses from the many corporate matters and noise. We were successful in retaining senior management during these very uncertain times thanks to strong corporate cultures in the various businesses. To further support this, a cash retention agreement was implemented to supplement the pre-existing Steinhoff share option scheme, which is no longer effective in driving performance.

An interim management team, assembled from various businesses within the Pepkor group, successfully stabilised the Tekkie Town business following the walkout of more than 100 employees. This clearly demonstrates the capability and commitment within the Pepkor group to act in times of crisis. A new CEO and management team have been appointed at Tekkie Town and the business continues to trade well and achieved satisfactory growth.

Finally, in our commitment to transparency, we have improved the segmental disclosure of our business and results, allowing the investment community to better analyse and understand the group's performance.

Segmental performance and outlook

The group's largest clothing, footwear and homeware (CFH) retailers, PEP and Ackermans, performed well despite the challenging economic circumstances and deflationary environment. PEP maintained and entrenched its position as the price leader in CFH and general merchandise in southern Africa, achieving significant unit growth and resulting in positive sales growth for the year. Ackermans again performed very well as it strives to 'create value for women with kids in their lives'. These businesses continue to gain market share and should benefit from an inflationary environment in the new financial year.

PEP Africa experienced a challenging year marked by the lagging effect of low commodity prices, foreign exchange shortages and high inflation rates, which continue to weigh on consumer spending. The recent recovery in commodity prices bodes well for Africa and we are positive about results for the coming year.

The Speciality group performed well despite a turbulent year, with most of the brands delivering very positive results. This group, benefitting from the addition of Tekkie Town, is gaining in confidence and credibility and is gathering positive momentum.

The furniture business has now completed its restructure and has a good foundation to trade from going forward. It has restored profitability, and the business is optimally positioned to take advantage of opportunities to grow market share by focusing on top-line sales to build further scale.

The building materials sector had a tough year and performance is expected to remain under pressure in the medium term until confidence in the economy is restored. Focus will be on developing a strong infrastructure for the business, which will provide the ideal platform from which it can grow in the future.

FLASH had an excellent year with very strong growth numbers. This is expected to continue during the coming year, as we continue to invest in the development and future growth of the business.

Store expansion for the group has been in line with our forecast and three-year plan, and we remain positive that we will again achieve our planned performance for FY19.

The future

With various corporate milestones now behind us, I am looking forward to the 2019 financial year as our retail brands continue to put the customer at the centre of what they do, continuing to support Pepkor's growth momentum.

Pepkor remains optimistic despite the current trading environment and low business confidence, which is expected to remain unchanged for the foreseeable future. The changes in the political landscape have been positive and the benefit of the changes in focus and policy should start flowing through to retail within the next year or two. Until then, management remains confident that the group's defensive market positioning and relentless focus on providing value to customers will continue to underpin good performance and results, supported by opportunities provided by the current operating environment to gain market share.

The group continues with the consideration and review of its portfolio strategy to optimise capital allocation and returns of brands and businesses. Any decisions flowing from this will be supported by commerciality and the group's ambition to create long-term sustainable value for its stakeholders.

I am very grateful to each of my 48 000 colleagues at Pepkor for their loyalty, passion and commitment that carried us through a very challenging year. The healthy and productive cultures within all the businesses are invaluable in driving performance.

Pepkor is fortunate to have a board of directors comprising high-calibre individuals who are committed to the success and growth of the group. My management team and I are very appreciative of their continued assistance, support and guidance.

Thank you.

Leon Lourens
Chief executive officer

Chief financial officer's report

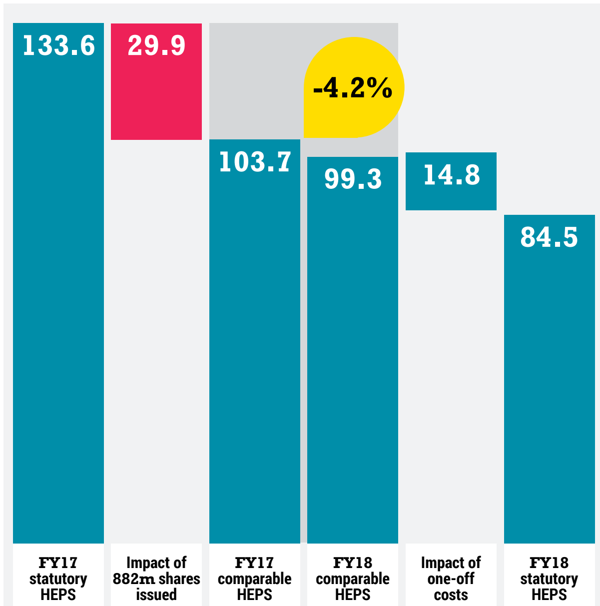
The Pepkor group achieved a credible performance during the 2018 financial year (FY18).

RIAAN HANEKOM
CHIEF FINANCIAL OFFICER

The comparability of the group's results are impacted by the following factors:

- **Weighted average number of shares in issue**
  The comparability of Pepkor's statutory earnings per share metrics is impacted by the issue of 882 million shares during FY17. This included 132 million shares for the acquisition of Tekkie Town on 1 February 2017 and 750 million shares issued on 20 September 2017, shortly before the FY17 year-end on 30 September 2017, upon Pepkor's listing on the JSE.

  This resulted in 3 450 million Pepkor shares in issue compared to a weighted average number of shares of 2 678 million applied in the FY17 statutory earnings per share metrics. Should a weighted average number of shares of 3 450 million be applied to the FY17 reported earnings of R3 550 million and reported headline earnings of R3 576 million, FY17 statutory earnings per share is reduced by approximately 30 cents.
- **One-off costs and acquisitions**
  As reported in Pepkor's interim results on 29 May 2018, FY18 results are impacted by one-off costs pertaining to a provision for exposure in terms of a corporate financial guarantee and associated loans. At year-end, the guarantee, including accumulated finance costs of R11 million, amounts to R451 million, with the provision for associated loans amounting to R60 million. One-off costs in FY18 therefore amount to R511 million, negatively impacting FY18 earnings per share metrics by approximately 15 cents. This is calculated by applying the total impact net of tax of R511 million to a weighted average number of shares of 3 450 million.

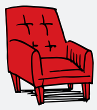


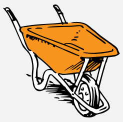
STATUTORY VERSUS COMPARABLE HEADLINE EARNINGS PER SHARE (HEPS) – CENTS

Including the effect of this, headline earnings per share decreased by 4.2% to 99.3 cents, in comparison to a decrease of 36.7% to 84.5 cents from a statutory perspective. The decrease is attributable to the phasing in of finance costs and an increased effective tax rate mainly due to the one-off costs and unrecognised tax losses.

The group enhanced the disclosure of its financial reporting segments to better reflect the manner in which the group is structured and managed internally:


Clothing and general merchandise


Furniture, appliances and electronics

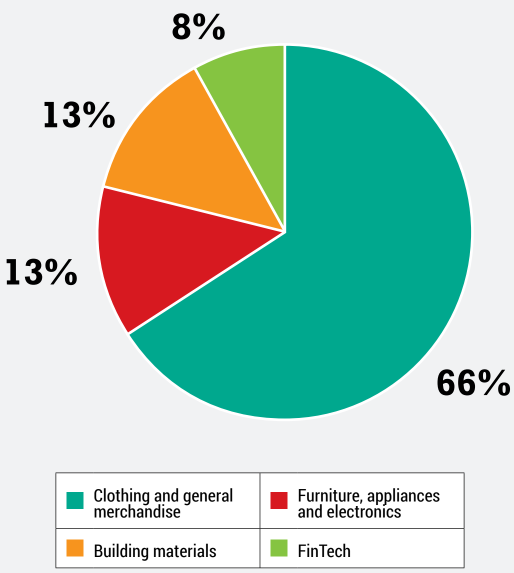

Building materials

FinTech

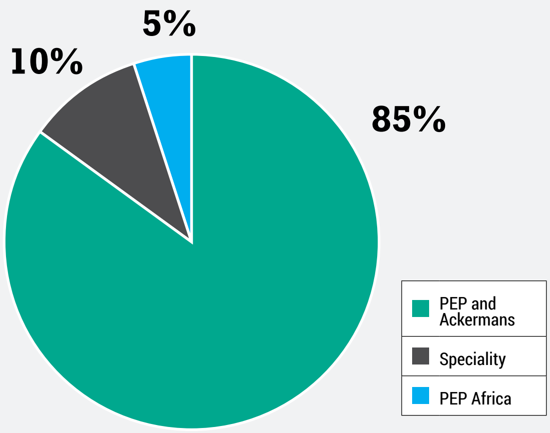
The group has further completed an extensive review process of disclosures made in its annual financial statements in order to enhance disclosure where deemed necessary and appropriate. In addition, Pepkor announced on 26 November 2018 the conclusion of a JSE investigation pertaining to the disclosures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

Revenue

Pepkor achieved revenue growth of 10.9% to R64.2 billion during the year. Revenue growth was supported by good like-for-like growth in all brands, taking operating conditions into account, and retail space growth of 3.6%.



FY18 REVENUE COMPOSITION



FY18 CLOTHING AND GENERAL MERCHANDISE REVENUE COMPOSITION

Pepkor's clothing and general merchandise segment, which contributes 66.2% to group revenue, reported revenue growth of 7.2% to R42.5 billion. The brands follow a retail trading calendar that, in FY18, included 52 trading weeks compared to 53 trading weeks in FY17. The additional week in FY17 therefore resulted in a higher base when compared to FY18, and impacted growth rates by approximately 2%. The deflationary effects of the stronger rand further impacted revenue growth, although this was largely compensated for by optimisation of the product mix and driving of sales volumes.

The furniture, appliances and electronics segment reported 10.6% revenue growth to R8.6 billion – a very good performance in the durable market segment where expenditure is easily deferred.

Segmental revenue increased by 19.9% to R8.1 billion in the building materials segment. This includes the contribution from the BSG business acquired on 1 October 2017.

The FinTech segment continues to achieve aggressive growth, increasing revenue by 35.5% to R5.0 billion, mainly due to FLASH virtual voucher sales.

Gross margins

The gross profit margin of the group reduced by 80 basis points to 34.5%. Historically, the group's gross profit margin has been relatively stable. This year's decrease is attributable to increased markdowns and discounts in response to the deflationary environment and discounts and reduced rebates due to lower sales in the building materials segment.

Other income

Growth of 24.8% to R875 million in other income was reported. Growth was achieved in commissions earned on in-store services, such as bill and DStv payments. Other income includes R147 million in the form of a distribution fee earned on the facilitation of Capfin loans, which will be phased out in FY19, as discussed later in this report.

Operating profit and margin

On a statutory basis, operating profit before capital items increased by 1.9% to R5.9 billion, impacted by one-off costs. Excluding the impact of one-off costs, operating profit before capital items increased by 10.7% to R6.4 billion from the prior year, which is mostly in line with revenue growth. Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 4.2% to R7.1 billion (FY17: R6.8 billion). The group continues to operate with the lowest cost of doing business in the market at 25.8%. On a comparable basis, operating margin was maintained at 10.0%.

In response to the deflationary operating environment within the clothing and general merchandise segment, increased distribution costs were incurred as a result of higher sales volumes. This, in turn, was compensated for by operating cost efficiencies.

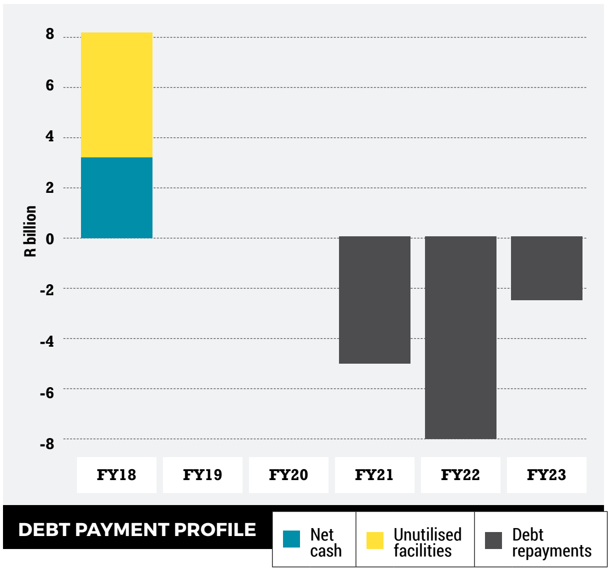
The closure of the POCO brand (totalling two stores) was completed during the year and is the main reason for the operating loss reported in the current year. The furniture, appliance and electronics segment has achieved its turnaround objectives and is well positioned to take advantage of any improvement in customer sentiment.

The building materials segment remains profitable despite the level of profitability being severely impacted by the unfavourable operating conditions. An improvement in these will underpin future performance.

The group continues to invest in the FinTech segment, which will see operating margins remaining stable in the foreseeable future.

Net finance costs and net debt

As described in the pre-listing statement, significant shareholder funding was introduced in the group's capital structure upon listing. This resulted in an increase in net finance costs from R620 million in FY17 to R1.2 billion in the current year. Net debt increased to R12.2 billion (FY17: R12.0 billion) and the contractual net debt to EBITDA ratio of the group was 1.64 times. Interest cover reduced to 6.51 times due to the timing of the introduction of debt before listing in FY17. Pepkor successfully refinanced and settled the Steinhoff shareholder funding on 23 May 2018, after raising R18 billion from financial institutions. The Pepkor group was, in turn, released from all Steinhoff-related guarantees and is financially independent today. The group's debt repayment profile is included below:



Taxation

The effective tax rate increased to 38.4% (FY17: 31.0%), mainly due to increased withholding taxes, unrecognised tax losses and the non-tax deductibility of one-off costs. It is expected that the effective tax rate will reduce in FY19 to approximately 34% and to 31% in the longer term.

Consumer financing

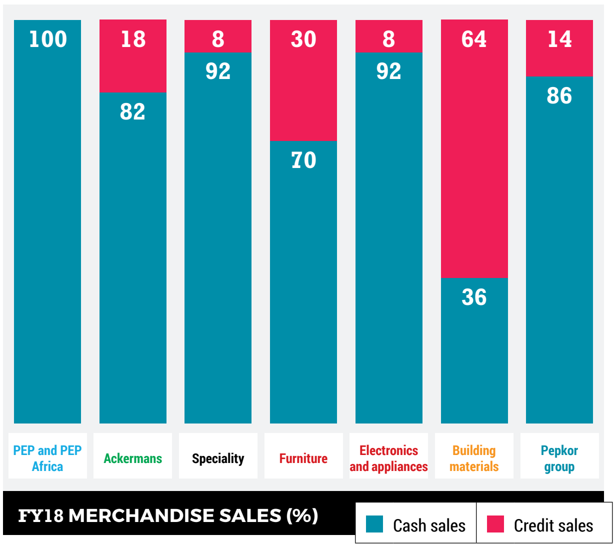
The group announced on 23 November 2018, that its commercial agreements with Century Capital (CenCap) were renegotiated. Pepkor considered its options and the decision was made not to acquire consumer loans credit books from CenCap, but rather to build its own internal customer credit books. It was agreed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

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

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

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

Credit sales within the group will not be affected by this transaction. In FY18, credit sales remained fairly stable at 14%.



Returns

The group has significant value of goodwill and intangible assets on the balance sheet amounting to R61 billion. These items predominantly arose when Steinhoff acquired Pepkor in 2015 and the nuance in the application of predecessor accounting treatment in the formation of the Pepkor listed entity. Growth in the Pepkor group was historically achieved on an organic basis and not through acquisitions. Management therefore focuses on returns on net assets, excluding goodwill and intangible assets, as opposed to return on equity, to evaluate performance. In FY18, the group achieved return on net assets of 27.5%, excluding the impact of one-off costs.

Cash flow

Pepkor generated cash from operations of R5.3 billion during the year. Cash generation was impacted due to additional investment in inventory, resulting from an increased store footprint ahead of the peak December trading period, stockholding of direct imported cellphones, earlier stock inflows, and some carry-over of inventory from the previous season due to reduced sales. This translated into cash conversion of 79.3%, excluding the movement relating to revolving credit loans. When including the revolving credit loans, the cash conversion ratio amounted to 75.2%.

Capital expenditure amounted to R1.9 billion, equating to 2.9% of revenue and is slightly higher than the norm of 2.6%. Depreciation amounted to R1.1 billion or 1.8% of revenue.

Dividend

Pepkor has a relatively geared balance sheet compared to other listed retail peers. As a result of future capital commitments, strategic investments, and the group's ambition to reduce its gearing to one times net debt-to-EBITDA in the medium term, the board has approved a revised dividend policy of three times earnings cover. The board has therefore declared a final dividend of 27.8 cents per ordinary share, being Pepkor's maiden dividend.

I would like to thank the Pepkor executive team and board for their continued support during a very difficult year. I look forward to the 2019 financial year as Pepkor continues its quest of delivering value to our customers and being an employer of choice in our industry. This will ultimately translate into value creation for our shareholders.

Riaan Hanekom
Chief financial officer

Audited summarised consolidated financial statements

Independent auditor's report on the summary consolidated financial statements

To the shareholders of Pepkor Holdings Limited

Opinion

The summary consolidated financial statements of Pepkor Holdings Limited, which comprise the summary consolidated statement of financial position as at 30 September 2018, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Pepkor Holdings Limited for the year ended 30 September 2018.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's requirements for summary consolidated financial statements, as set out in the statement of compliance on page 23 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary consolidated financial statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 26 November 2018. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Directors' responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements of the JSE Limited's requirements for summary consolidated financial statements, set out in the statement of compliance on page 23 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Other matters

We have not audited future financial performance and expectations expressed by the directors included in the commentary in the accompanying summary consolidated financial statements, nor the note relating to the capital structure of the group and accordingly do not express an opinion thereon.

PricewaterhouseCoopers Inc.
Director: A Hugo
Registered auditor
Cape Town
26 November 2018

Summarised consolidated income statement

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

Summarised consolidated statement of comprehensive income

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

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

Summarised consolidated statement of changes in equity

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

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

Summarised consolidated statement of financial position

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

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

Fair values of financial instruments

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

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

Summarised consolidated statement of cash flows

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

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

Notes to the summarised consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Basis of preparation

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

Financial statements

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

Accounting policies

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

Capital structure

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

Significant events

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

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

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

Refinancing of Steinhoff funding

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

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

Events subsequent to the reporting period

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

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

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

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

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

Basis of segmental presentation

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

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

Identification of segments

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

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

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

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

Segmental analysis

Geographical analysis

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

Major customers

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

One-off items

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

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

	Year ended 30 September 2018 Audited Rm	Year ended 30 September 2017 Audited Rm
2. OPERATING PROFIT		
2.1 Capital items		
Capital items reflect and affect the resources committed in producing operating/trading performance and are not the performance itself. These items deal with the platform/capital base of the entity. Capital items are required to be reported by the JSE as part of the calculation of headline earnings.		
Impairments of property, plant and equipment	**20**	7
Loss on disposal of property, plant and equipment and intangible assets	**15**	27
Loss/(profit) on sale and dilution of investments	**2**	(5)
	37	29
	%	%
3. TAXATION		
Reconciliation of rate of taxation		
South African standard rate of taxation	**28.0**	28.0
Effect of different statutory taxation rates of subsidiaries in other jurisdictions	**(0.5)**	(0.3)
(Utilisation of unrecognised taxation losses)/taxation losses generated not recognised	**3.4**	(0.6)
Prior year adjustments	**2.3**	2.5
Withholding taxes	**3.3**	2.0
Other adjustments	**1.9**	(0.7)
Effective rate of taxation	**38.4**	30.9
	Million	Million
4. EARNINGS PER SHARE		
4.1 Weighted average number of ordinary shares		
Issued ordinary shares at beginning of the year	**3 450**	2 568
Effect of shares issued during the year	**–**	87
Effect of shares issued in terms of initial public offering	**–**	23
Weighted average number of ordinary shares at end of the year for purpose of basic and headline earnings per share	**3 450**	2 678
Effect of dilution due to share right issues in terms of share scheme	**10**	–
Weighted average number of ordinary shares at end of the year for the purpose of diluted earnings per share and diluted headline earnings per share	**3 460**	2 678

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

4.3 Diluted earnings and diluted headline earnings per share

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

5. NET CASH FLOW ON ACQUISITION OF BUSINESSES

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

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

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

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

6. RESTATEMENT

6.1 Presentation of exchange differences on loans to foreign operations

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

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

6.2 Restatement of statement of changes in equity

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

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

6.3 Statement of cash flows

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

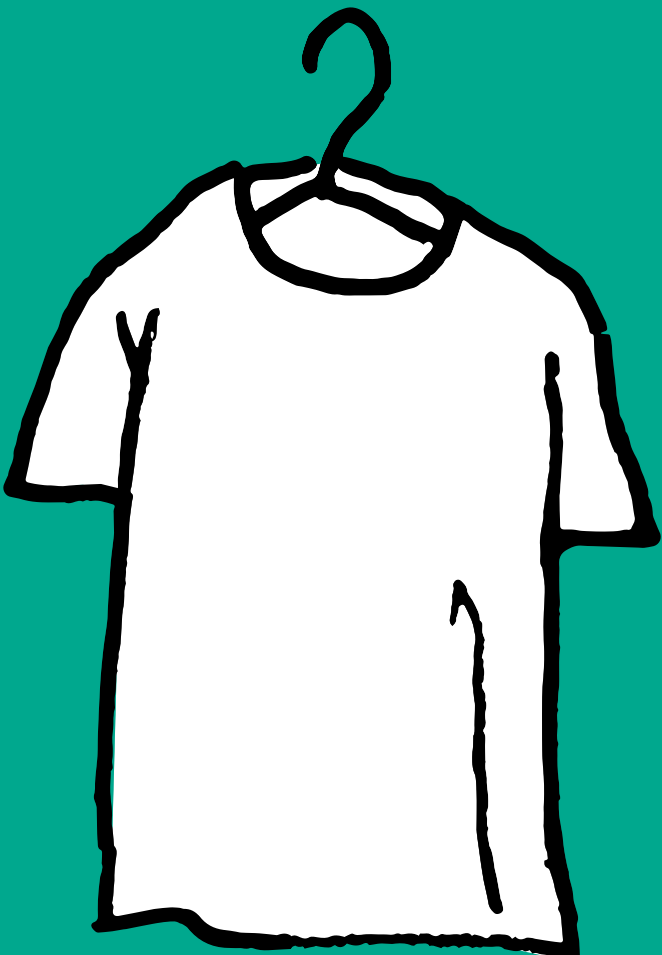
	Previously reported Audited Rm	Adjustment Audited Rm	Restated Audited Rm
Cash flow from operating activities			
Cash generated from operations	**6 464**	(188)	**6 276**
Increase in revolving credit and instalment sale receivable movement	**(188)**	188	**–**
Net cash flows from operating activities	**6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

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

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

Clothing and general merchandise

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



4 220
stores

335
new stores opened during the year

4.5%
increase in retail space

28 000
employees

400 million+
transactions per annum, excluding FLASH

Segmental revenue increased by **7.2%** to **R42.5 billion**, while operating profit increased by **8.1%** to **R6.1 billion**. Clothing, footwear and homeware (CFH) product departments, in particular footwear, experienced significant deflation. Optimisation and development of the product mix and driving of sales volumes successfully countered the deflationary environment. This resulted in a **7.0%** increase in sales units sold during the year, while the number of sales transactions increased by **6.3%**.

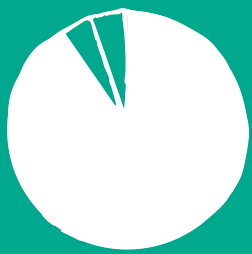
All brands included in this reporting segment continue to provide value to customers. It can be assumed from these results that market share was gained during this year.

The segment opened **335** new stores during the year, expanding the retail footprint to **4 220** stores. Retail space increased by **4.5%** to **1.6 million m²**.

Brands included in this segment follow a retail trading calendar. FY18 included **52** trading weeks compared to **53** trading weeks in FY17. The additional week in FY17 therefore results in a higher base when compared to FY18, and impacts growth rates. Growth rates reported are on a comparable **52**-trading-week basis.

Represents
66%
of Pepkor's revenue in the 2018 financial year

Contributed
93%
to Pepkor's operating profit[1] in the 2018 financial year



In aggregate, **PEP** and **Ackermans** achieved merchandise sales growth of **8.0%** and like-for-like growth of **3.3%**. Within CFH product departments in particular, deflation amounted to **4.5%**, and pricing benefits were passed on to customers as part of the brands' long-established DNA of providing best prices and value. Growth of **6.1%** in transactions and **7.0%** in sales units supported performance.

[1] *Before capital items*

A town is not a town without a PEP

The first **PEP** store was opened in **1965** in De Aar by Renier van Rooyen with the aim of giving dignity and respect to customers by providing products they need at the lowest prices. The PEP brand has grown to be the biggest single-brand retailer in southern Africa today, with **2 231** stores and **12 000** employees or 'Dynamos', as they call themselves.




300 million transactions during FY18

137 new stores opened during the year

12 000 employees

2 231 stores

OUR VISION	OUR CAUSE	OUR VALUES	OUR MISSION
Delighted customers: our focus and pleasure	To make it possible for everyone to look and feel good	Honesty, passion and resourcefulness	We are the friendliest and most trusted retailer offering wanted products and services at the lowest prices

PEP customers are remarkable people who, on a very small budget, make it possible for their families to live with dignity and pride.

PEP's growth plan focuses on the customer, lowest prices, low cost, and its culture, Sikhula KunYe, which means growing together. Sikhula KunYe was introduced 20 years ago and it's instrumental in PEP's success story. It unites everyone at PEP and was recently rated once again as one of the top one percent of inspiring cultures in the world.

PEP has the lowest cost of doing business in the market and has achieved double-digit operating profit growth for the past 19 years as it continues to focus on its customers' needs.

PEP is defensively positioned in the discount market segment and has no competitor when it comes to product prices. It grows its market share through best price leadership (BPL), where margins are maintained and any pricing benefits or operational efficiencies are passed on to customers. Product prices are benchmarked monthly to ensure that BPL, and therefore its competitive strength, is maintained.

PEP continues to find new and innovative ways in which customer needs can be met. The extensive store footprint takes the brand as close as possible to the customer who, in many instances, cannot afford to pay for transport. There are 463 stand-alone **PEPcell** stores that sell airtime and cellular products and 216 stand-alone homeware stores called **PEPhome**.

PEP effectively leverages and monetises this store footprint by continuing to introduce new products and services based on customers' needs. In addition to clothing and footwear, PEP sells homeware, Fast-Moving Consumer Goods (FMCG), cellular and airtime products, and also offers a range of other services such as cashbacks, **Capfin** loans, funeral insurance, cross-border and local money transfers, selected bill payments (such as DStv), **FLASH** tokens and **PAXI** parcel services.

With more locations than the South African Post Office, the opportunity was identified to start PAXI. PAXI is a parcel service that allows consumers, agents, suppliers and institutions to send, collect and return parcels to any of the more than 2 000 PEP in-store PAXI collection points.

PEP recently took on the challenge to open discount variety stores called **Dealz**. The first four stores opened their doors in the Western Cape and offer a variety of exciting products at discounted prices.

PEP believes in giving back to the communities it serves, and each PEP region is empowered to give back to the communities at a local level. PEP's flagship CSI project is the **PEP Academy**. From 2008 to 2018 the PEP Academy has helped more than 16 000 learners, as well as hundreds of teachers and school managers.

Performance

PEP remained true to its focus on BPL, notwithstanding deflation and competitive pressure. BPL of 97% was achieved, meaning that 97% of products sold by PEP are priced equally or cheaper than in the market. A significant price differential is maintained between PEP and its competitors.

Deflation resulted in muted sales growth as pricing benefits were passed on to customers. In response, the product mix was optimised between entry, mid and exit price points.

PEP opened 137 new stores during the year. On a net basis, the total store footprint increased by 118 stores to 2 231 stores, representing growth of 4.1% in retail space.

The Adult and Home product categories reported strong growth, while in Cellular, demand for smartphones and data continues to underpin strong performance. PEP remains a significant provider of cellphones in South Africa, and the direct importation of handsets is growing profitability. FMCG reported double-digit growth, driven by ongoing product innovation, private label promotional activities, and a wider product offering, while strong growth in PEP Money was driven by the FIFA World Cup, resulting in strong DStv decoder sales.

The future

PEP will continue to grow its market share by being the best price leader in the market, offering a product assortment that meets customers' needs. The business will continue to optimise its supply chain and business systems and processes to minimise its cost of doing business, enabling it to keep prices low. Performance will be supported by the return of inflation in product pricing and growth in Adult and Home product categories.

Initiatives like the PAXI parcel delivery service and the new Dealz discount variety retail concept continue to represent future growth areas. PEP will also focus on growing Stylo, its own imported range of cellular phones and accessories. Momentum in new store openings will be maintained with PEP, PEPcell, and Dealz retail concepts, with an aggressive roll-out plan for PEPhome stand-alone stores. The expansion of the FMCG ranges in stores will also be a priority.

Digital has become a focus area of our growth plan for the business. In future, a digital transformation will be applied in the way people work, operate, communicate with customers on social media channels, and use digital channels to sell products and services to customers.

Key statistics

55% of all schoolwear in South Africa is sold by PEP*

72% of all school shoes in South Africa are sold by PEP*

PEP sells more prepaid cellular handsets in South Africa than all the other retailers combined – one handset every second during store trading hours

PepClo, a clothing factory situated in Cape Town, manufactures most of PEP's schoolwear

50 million DISPOSABLE NAPPIES ARE SOLD BY PEP EVERY YEAR

*RLC Jan 2015

ACKERMANS

Bringing value to life

The first **Ackermans** store was opened in 1916, with the vision of creating a place where customer's could find great products at fantastic prices. This vision remains an intrinsic part of Ackermans today, as it remains true to its purpose of bringing value to life for all its stakeholders.

The **Ackermans** values of Courage, Respect, Integrity, Simplicity and Performance (CRISP) have nurtured a strong culture throughout the business, as confirmed by an external benchmarking process. This has been integral to the success of Ackermans over the years, with the retailer celebrating its ninth consecutive year of high double-digit operating profit growth, an exceptional performance in the South African retail market.

Today, Ackermans is one of the best value retailers in clothing and footwear in South Africa and continues to strengthen its market position. Its customer value proposition focuses on women with kids in their lives. With more than 700 stores in six countries, Ackermans continues to set the standard for value, providing a wide range of clothing, footwear and value-added services.

With a strong market share in children's clothing, Ackermans has become synonymous with children's clothing through its aggressive promotional strategy. This includes its 'famous for' product categories, selling 18 million T-shirts, 4 million track tops and 5 million track pants annually.

Ackermans has been successful in growing its market share in women's wear and in building capacity to deliver fashion that is on-trend and relevant. Successful first-to-market campaigns, such as the Nude underwear promotion, along with various other marketing campaigns focusing on mothers, continue to support growth.

Value-added services that are relevant to customer needs are provided in-store. This includes cellular and financial services, such as insurance, personal loans, bill payments and money transfers.

Performance

During FY18, Ackermans continued to outperform competitors in the South African apparel industry. Its strong customer value proposition continues to drive performance, resulting in 13% growth in transactions and sales of more than 170 million units. Ackermans opened 80 new stores during FY18 and the total store footprint expanded to 731 stores covering more than 400 000 m^2, representing 6.7% space growth. This includes three Ackermans' Woman stores, the new retail format concept focused on women's wear.

Deflation, although effectively managed, impacted sales growth as pricing benefits were passed on to customers. Notwithstanding, exceptional volume growth of close to 20% was achieved, driven by tactical marketing campaigns.

The credit sales contribution level was maintained at 17.5% of total sales. A total of 250 000 new revolving credit accounts were opened, representing an increase of 9.8% and resulting in a total of 1.1 million accounts. Lay-by sales, where customers pay for products in instalments over an average period of three months before taking delivery, contributed 17% to sales during the year.

Performance was supported by high double-digit growth in the Boys, Women and Cellular categories. In 2018, 94% of respondents surveyed by Ask Afrika voted Ackermans as best brand in terms of value for money. In addition, Ackermans was awarded 'icon brand' status at Ask Afrika's 2018/2019 Icon Brands insights awards and voted the number one children's clothing brand for four years running. Through its dominance in character merchandise, Ackermans was named Disney retailer of the year during 2018.

In continuing to enhance its value offering to customers, Ackermans continues to drive efficiencies through its value chain, keeping its cost of doing business as low as possible.

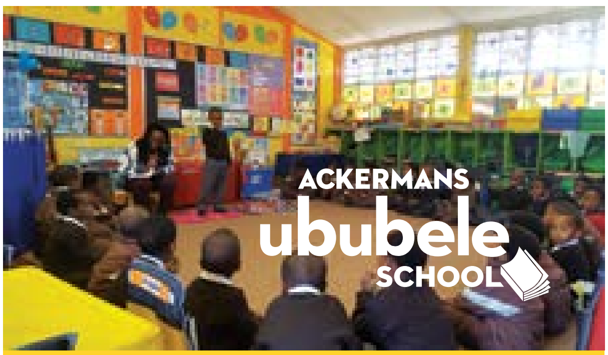
The future

Ackermans continues to focus on its customer value proposition and understanding its core customer needs at all levels of the business. This forms the basis for the consistent execution of its robust and relevant strategy of providing value to customers.

The brand aims to grow its dominance in children's wear through innovative and relevant product enhancements. Expansion into women's wear remains a strategic priority through the Ackermans' Woman retail concept. It is expected that the return to an inflationary environment will further support sales performance.

To support the business in its aggressive growth trajectory, an investment was made in a cutting-edge 90 000 m^2 distribution centre in Hammarsdale, KwaZulu-Natal, which was opened in 2018. This facility will support future growth and enhance operational efficiencies. The distribution centre is ideally located close to the Cato Ridge railway station, allowing for transport of merchandise by either road or rail.

The digital strategy of Ackermans focuses on omnichannel engagement across customer journeys. This includes multi-channel value-added services (VAS), real-time engagement and influence, online to offline research, e-commerce and m-commerce, flexible transaction fulfilment through click-and-collect, and leveraging data capability. The development of the Ackermans store of the future further focuses on leveraging technology and improving the customer's in-store experience.



Ackermans provides value to its customers, more than 7 000 employees or 'Phadimas', which means 'shine' in Northern Sotho, and communities in which it operates through its Ububele social responsibility initiative, which focuses on early childhood development.

PEP | AFRICA

Best prices every day!

The PEP Africa business was born out of the PEP culture and way of doing business. The first African country entered into north of the Southern African Customs Union (SACU) territory was Zambia in 1995.

Today, **PEP Africa** operates in seven African countries outside SACU and aspires to be the best discount retailer in Africa. The business continues to make it possible for its customers and their families, with a very limited budget, to live with dignity and pride.

Customers in Africa have limited spending power and economic growth is dependent on the performance of commodity prices. Over the years, management has learnt that these operating conditions dictate decisions to expand or consolidate the business.

Performance

PEP Africa experienced a very challenging year, marked by the lagging effect of low commodity prices, foreign exchange shortages, and high inflation rates, which continue to weigh on consumer spending. The recent recovery in commodity prices bodes well for performance in Zambia and Angola. Management's focus remains on improving efficiencies to enhance profitability and ultimately benefit customers. Transaction growth of 3.8% was achieved, resulting in 23 million transactions recorded during the year.

In aggregate, merchandise sales declined by 1.8% and like-for-like sales reduced by 8.7% at constant rates. Excluding Angola and Zimbabwe, sales growth of 12.3% was achieved, supported by double-digit sales growth in Malawi, Nigeria, Uganda and Zambia. PEP Africa opened 36 new stores during the year, predominantly in Nigeria, expanding the store footprint to 347 stores.

Due to the economic crisis and fiscal policies in Zimbabwe, stock inflows have been temporarily halted while we await more clarity on the political and economic prospects in the near future. In addition, selling prices have been increased to preserve margins. Performance in Angola has improved due to recovering oil prices and increased availability of foreign exchange currency. The business further secured a trading licence during the year to trade in cellular products in Angola, which has facilitated the launch of cellphone handsets in-store. Repatriation of cash, especially from Zimbabwe, remains a challenge, notwithstanding successful repatriations from Angola in the recent past.

The future

PEP Africa will continue to focus on its customers' needs and aims to expand its product assortment in terms of adult wear, general merchandise, and cellular and financial services, including bill payments, etc. With the supply chain into African countries outside SACU being well established, it remains a high priority for management to improve efficiencies in the supply chain systems and processes in order to shorten lead times and reduce costs.

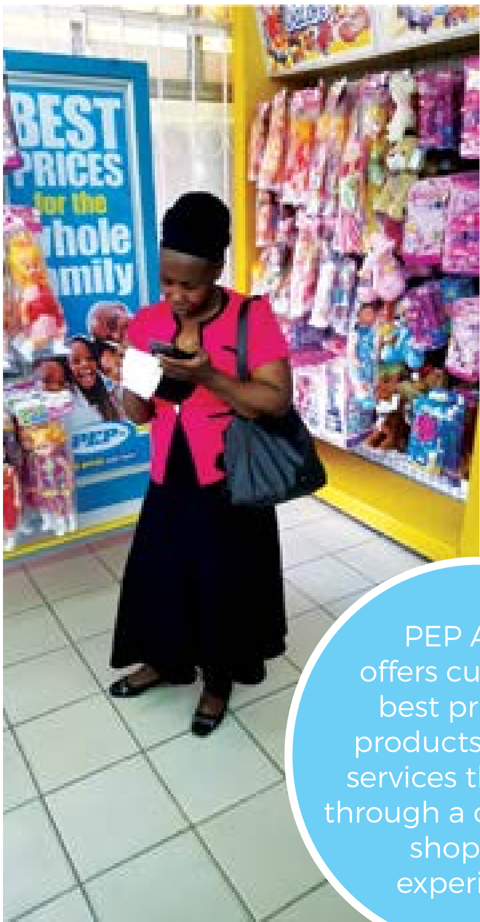
The store expansion programme will continue, underpinned by a robust process employed by Pepkor in evaluating new stores' prospects and viability. This process is governed by stringent hurdle rates, considering external factors unique to each country, to ensure that required rates of returns are achieved. Likewise, through this process, existing stores are continually evaluated to ensure optimal profitability and generation of returns.

20 million+
transactions during FY18

36
new stores opened during the year

3 000
employees

347
stores in seven countries



PEP Africa offers customers best prices on products and the services they need through a convenient shopping experience.

Speciality

Tekkie Town DUNNS JOHN CRAIG
REFINERY ShoeCity

A world of value

The Speciality division includes five unique retail brands, with different stages of maturity and performance. The Speciality division provides a central infrastructure to launch new brands, nurture subscale brands, rescue loss-making brands and house acquisitions.

THE SPECIALITY INFRASTRUCTURE ALLOWS THESE BUSINESSES ACCESS TO:

- Group resources, such as financial administration and human resources at significantly lower costs compared to an independent operating environment.
- Group capabilities, such as properties and logistics where scale can be leveraged.
- Specialised skills, such as IT, store installations and data analytics.
- Capital to invest ahead of the curve.

As a result, the central infrastructure provides costing benefits to be shared between brands, allowing brands to be tested in a shorter period of time. The Speciality group includes Tekkie Town, Dunns, John Craig, Refinery and Shoe City.

82 new stores opened

Tekkie Town, founded in 2001, is a leading sports and lifestyle shoe chain. With nearly 400 stores countrywide, it caters for the entire family. Tekkie Town is the answer to quality leisure, fashion or sports footwear, stocking the widest range of branded footwear and accessories, like Adidas, Converse, Vans, Cat, Hi-Tec, Merrell, New Balance, Nike, Puma, Reebok and many more.

Tekkie Town found a niche in the South African sports and lifestyle footwear market due to the lack of service and attention to customers' needs, and the unchecked inflation of product prices in the marketplace. Tekkie Town was also brave enough to identify and open stores in rural South Africa, living close to their purpose of bringing branded footwear to all South Africans at the best possible prices.

The Tekkie Town business was acquired by Pepkor in 2017, shortly before Pepkor's listing on the JSE. The business provides much credibility to the Speciality division and contributes 50% of its revenue.

Dunns was established in 1978 and has a strong South African heritage as the destination for unique, accessible, well-priced fashion for the aspiring adult who sees clothing as an extension of their identity – reflecting confidence and pride. Dunns aims to offer contemporary on-trend, well-fitted, quality items that are available at great prices. Ranges include smart and casual wear for men and women – denim, footwear, tops, dresses, skirts, accessories and underwear. A competitive cellular range – phones, tablets, airtime and accessories – is also offered across its footprint of more than 220 stores.

John Craig was established in 1947 in Johannesburg as a family-owned men's outfitter. It has grown to more than 100 stores nationwide. John Craig is continuing its growth and popularity among South African men. This local brand has evolved with the customer and the times and continues its dedication to classic styling, quality and exclusivity. John Craig followed its customers, who enjoy smart casual, yet affordable, stylish clothing. Polo is the iconic brand still loved by South African men with discerning taste. This is underpinned by Muratti, a funky in-house brand that delivers stylish, affordable designs.

The **Refinery** brand was born three years ago and has 54 stores today. In a time of unprecedented media clutter and pop culture noise, Refinery is an authentic, honest fashion retailer that caters for today's inspired young adults. Everything that is non-essential has been eliminated and instead they focus on providing affordable, on-trend style solutions that will stand the test of time.

The world of fashion has changed. Trends are no longer dictated by catwalk fashion, it is created for the people, by the people. At Refinery, the belief is that quality and affordability should not be mutually exclusive, which is why accessible, inspirational pieces that speak to the needs of its customers have been hand-selected.

Ever since denim went from durable workwear to fashion statement in the 1900s, it has become a pivotal part of the universal fashion outlook. It has since evolved from the fabric of hard, honest work to an expression of freedom and urban uniform. This is why we have chosen this iconic fabric to underpin our apparel offering of fun, long-lasting fashion essentials.

As part of the Pepkor group, Refinery stands on the shoulders of retail giants. The combined experience and influence of its predecessors provide an invaluable road map for success that is based solely on the needs and wants of the customer.

The first **Shoe City** store opened in 1986 and set out to be the leading specialty footwear retailer in southern Africa, offering stylish shoes that are comfortable and durable. This means providing for everyone, all at affordable prices. Customers drive decision-making in the business and are provided with a unique and inspiring shopping experience. The brand was recently voted best shoe store and awarded golden crown status by *Die Burger* newspaper.

Performance

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

Tekkie Town reported good sales growth and respectable like-for-like growth for the year, despite the senior management disruptions and a competitive trading environment. Performance was supported during this challenging period with the appointment of a new management team and the assistance of Pepkor Installations (PKI), who designed and developed a new store concept for the business within a month. Pepkor Properties also assisted in ensuring that the expansion programme continues unabated. The business remains on track to reach 400 stores in FY19.

A new credit offering was introduced through Tenacity, and the credit contribution is expanding and enhancing performance.

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

John Craig reported excellent results. The repositioning of the business to focus only on the Polo and in-house Muratti brands has proved successful in delivering value to the smart modern customer at affordable prices.

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

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

The future

The Speciality division will continue to leverage the scale of the business to the benefit of the various retail brands. The performance during the year proves that merit remains in testing and experimenting with retail brands in an environment with deep retail skills and experience, and creating fresh and unique product offerings that appeal to customers.

Tekkie Town will continue its growth trajectory to provide a compelling value branded offering ahead of all competitors.

Dunns continues to refine its customer value proposition and to consolidate its retail footprint where deemed necessary.

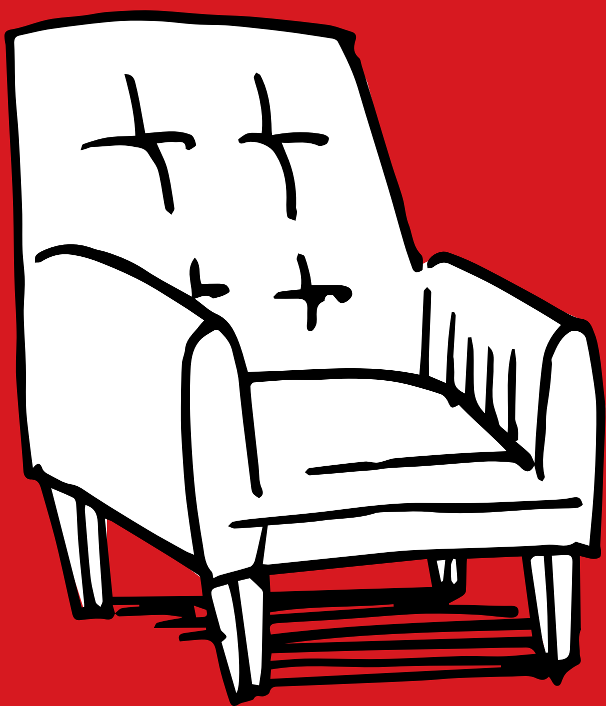
John Craig will continue to focus on its in-house Muratti brand to further support profitability while opening new stores.

The Refinery brand has achieved great customer acceptance in a very short space of time. The brand will focus on expansion in the next year.

Performance in Shoe City is expected to improve as deflation reduces.

Furniture, appliances and electronics

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



892
stores

81
new stores opened during FY18

7 000
employees

2.1%
increase in retail space

3.5 million
transactions per annum

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

Represents
13%
of Pepkor's revenue in the 2018 financial year

Achieved turnaround objectives, restoring future profitability prospects.

Creating a comfortable lifestyle

The JD Group comprises furniture, appliances and electronics brands, some of which have existed since the beginning of the previous century.

The business has completed a major restructure, lasting several years, which included the consolidation of retail brands, the closure of nearly 300 stores and a significant reduction in dependence on consumer credit to drive sales, resulting in the credit sales mix reducing from 70% to 30% of furniture sales.

Today, JD Group provides value-conscious mass-market customers in southern Africa the opportunity and means to create a comfortable lifestyle through its diversified retail and consumer finance businesses. The business includes four furniture brands targeting customers in the discount, value and niche segments. In the discount segment, **Russells** enables aspirational customers to create stylish, warm homes by offering quality, long-lasting furniture and appliances through affordable payment options. **Bradlows**, in the value segment, has been providing top-quality furniture to customers at affordable prices since 1901. In the niche segment, **Rochester** provides a wide range of timelessly elegant furniture that boasts top quality, at affordable prices. **Sleepmasters** is a speciality bedding brand providing a wide range of beds from own and leading brands at competitive prices.

The business further includes two appliances and electronics brands. **HiFi Corp** is a discount retailer supplying electronic goods, appliances and related accessories to consumers in the mass middle market of southern Africa at the lowest prices, while **Incredible Connection** is the retailer of choice for integrated technology products, services, content and solutions with the widest range of leading national and international brands.

The business, with 892 stores, is supported by centralised supply chain and financial services.

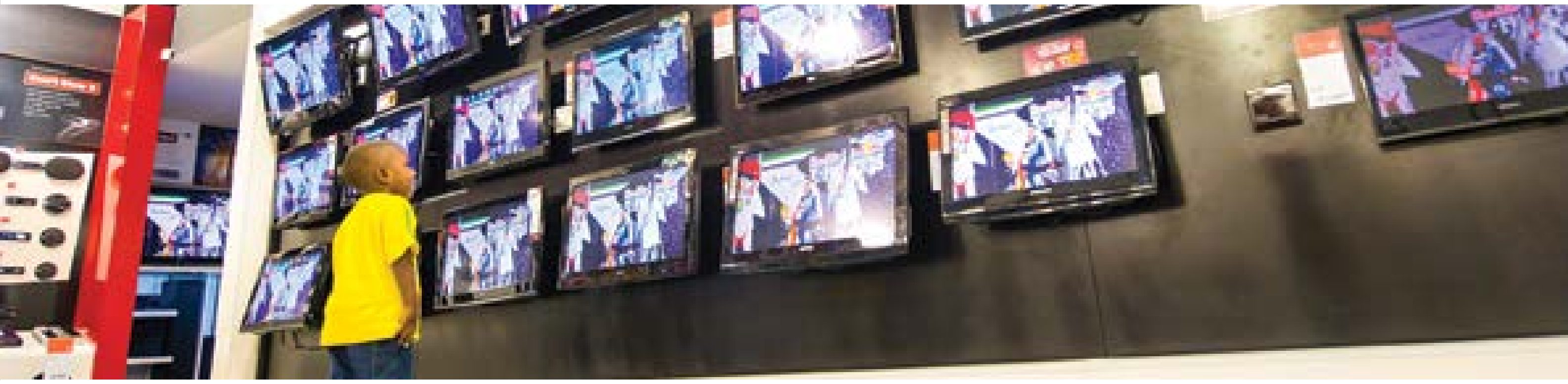
Performance

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

Credit remains an important sales enabler, with 27.5% of furniture brands' sales and 7.8% of electronics and appliances brands' sales transacted on credit. The long-term targeted credit mix in furniture is 35% and 15% in electronics and appliances. Lay-bys represent 9% of total sales and are still growing.

Bradlows was named both best furniture and bedding retailer by the *Sunday Times/Sowetan* retail awards, while Incredible Connection was awarded the best Microsoft retail partner of the year.

The business continues its digital transformation to an omnimodel with omnisolutions, including the introduction of extended aisle capability in-store, new online marketing channels, and commissioning of an online sales distribution



centre. Improved efficiencies and controls were achieved from digital supply chain delivery systems and data analytics.

Continued cost reduction and optimisation has resulted in a significant reduction in the total cost of doing business.

The future

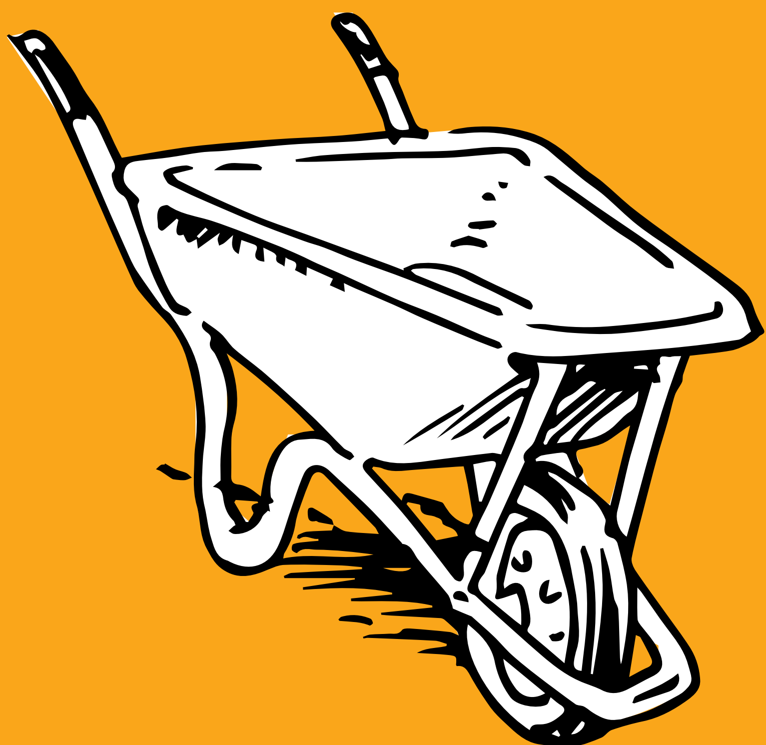
JD Group has secured its market position as a leading furniture, appliance and electronics retailer in southern Africa. The business has a solid infrastructure and will continue to grow market share and profitability. Growth in online sales is a primary focus going forward.

Building materials

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

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

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



Represents
13%
of Pepkor's revenue in the 2018 financial year

Contributed
3%
to Pepkor's operating profit[1] in the 2018 financial year

3
divisions

124
stores

7 000
employees

[1] *Before capital items*

PEPKOR Holdings Limited

THE BUILDING COMPANY

The freshly rebranded business, The Building Company, comprises three divisional businesses

General building materials (GBM): BUCO, Timbercity, Chipbase, Suncol

Specialised building materials wholesale (SBMW): Macneil, Cachet, Citiwood, Brands 4 Africa

Specialised building materials retail (SBMR): Bechel, Bildware, H&B Hardware, B One, tiletoria, floors direct

Sharp sharp, be Number 1

The Building Company sources, distributes, wholesales and retails general and specialised building materials. Retail activities expand throughout southern Africa. Stores are located in major centres in **South Africa**, **Namibia**, **Swaziland** and **Botswana** and are managed as either corporate or franchise stores.

The business includes various brands that serve the full spectrum of the construction industry, including the residential, commercial and industrial markets, and enjoys the custom of professional and private developers, project managers, building contractors, builders, plumbers, electricians, joiners, cabinetmakers, tilers, roofing specialists, owner-builders and home improvers.

The Building Company's approach to business

DRIVING FORCE

Our strength is to meet the product needs of the building industry through sourcing, retailing and redistribution of goods into selected markets

PHILOSOPHY

Maximise stakeholder value, through a decentralised front end, supported by an integrated back office

STAKEHOLDERS

Customers, community, employees, suppliers and shareholders

CORE COMPETENCIES

Customer orientation, market intelligence, product knowledge, trading skills, procurement, managerial leadership and excellence

Be number one, be helpful, be polite, be committed and remember the small things

VALUES

HONESTY
Ability to communicate and behave openly without fear, focused on one truth as the only norm, based on mutual trust and respect and where the intent of any communication and/or behaviour is unquestionable

RESPECT DIVERSITY
Individually and/or collectively understanding, accepting, valuing and embracing the different backgrounds, cultures, personal preferences and competencies of people

ACCOUNTABILITY
Role-defined responsibilities and accountabilities are not only vested in the function, but also fundamentally in the person fulfilling that function, and are not transferable.

ENERGY
Urgency and energy in all we do is a non-negotiable value

PERFORMANCE CULTURE
The journey to achieve world-class status is impossible without the individual and collective commitment of all The Building Company staff to own and live our performance-driven culture

GBM

The philosophy of a genuine partnership with customers is best exemplified by **BUCO**'s motto of 'Let's Build Together'. The retailer offers a full range of products that are primarily sourced locally and supplied to partners, which comprise major development groups, contractors and DIY enthusiasts. Stores are designed to provide a seamless experience for contractors through dedicated counters with easy access to payment and pick-up facilities. At the same time, DIY customers are equally well catered for, being able to navigate their way around well-merchandised stores and enjoy the benefits of extensive product ranges. A new improved store format and prototype blueprint was implemented during 2018, which has been well received by customers.

BUCO has a comprehensive range of elegant and innovative decor products that will transform a house into a home. They stock a diverse range of outdoor accessories and paint for every application. BUCO's Trusses and Timber cluster is South Africa's largest roof truss manufacturer, providing personalised service, which includes design, site visits, manufacture and delivery of roof trusses and coverings. Suncol provides a packaged solution to the local insurance industry with regard to plumbing-related repairs and replacement items.

With the brand consolidation of **Pennypinchers** and **Hardware Warehouse** into **BUCO**, a comprehensive national footprint has been established to service customers better throughout South Africa and Namibia.

With over 40 years of experience in providing superior products and outstanding service, **Timbercity** has become one of southern Africa's most recognised and trusted brands. Specialising in board, timber and hardware-related products, we complement this with competitive prices, and excellent advice. We offer our customers all the essentials to complete their projects on time and within budget. The **Chipbase** brand is a board merchant that specialises in the cutting and edging of all board products in the kitchen and cupboard industry.

SBMW

This division specialises in the wholesale of differentiated or value-adding building materials. The following brands are included in this division:

MacNeil was established in 1993 and has become a leading wholesaler and distributor of building products, specialising in sanitaryware, brassware, plumbing fittings and timber products, i.e. flooring, board products and doors.

Cachet is an established wholesaler and distributes plumbing, hardware and ironmongery products. With an extensive wholesale and retail distribution network, they service different markets within the building and renovation industry.

Brands 4 Africa's core business for the past 25 years has been the export of commodities into Africa, trading in Angola, Botswana, the DRC, Malawi, Mozambique, Namibia, Zambia and Zimbabwe, with a number of smaller trades in other countries. We specialise in the provision of procurement, full supply chain and distribution, consolidation and delivery to final destination.

Citiwood sources and distributes a range of chipboard, melamine board, shutterboard, hardboard, formica, plywood, panelling and related products and accessories. Well-known brands, which can be found in-store, include PG Bison, Sonae and Masonite. Established in 1980, Citiwood is a trusted brand with outlets in Gauteng, KwaZulu-Natal and the Eastern and Western Cape. Citiwood is both a wholesaler and retailer, supplying products in bulk or loose bundles. Customers include kitchen manufacturers, shopfitters, furniture manufacturers, maintenance departments and building contractors.

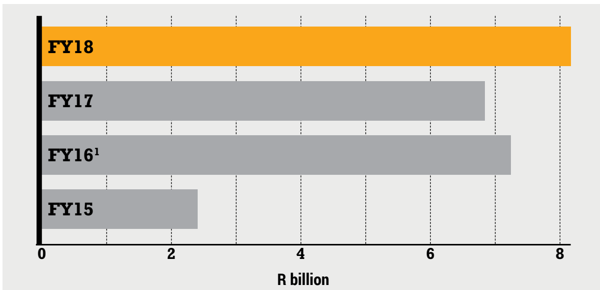
SBMR

This division specialises in the differentiated or value-adding retail building materials market.

The ironmongery cluster focuses mainly on the specialised ironmongery market and distributes through well-established retail stores, from where products are provided mainly to contract-based projects and DIY customers. The three brands in this cluster are **Buchel** (since 1950), **Bildware** and **W&B Hardware** (since 1911).

B-one specialises in the hiring of accommodation, sanitation and storage facilities that cater for most of the construction and civil engineering sites in Gauteng and surrounding areas. Prefabricated sheds that can be custom-built to specification are also provided.

Tiletoria is one of the biggest tile retailers in the Western Cape, with warehouses and showrooms in Johannesburg, Durban, Umhlanga, Port Elizabeth and Namibia. **Floors Direct** is a lifestyle solutions company that is the South African leader in wood, laminate, vinyl flooring and carpets.

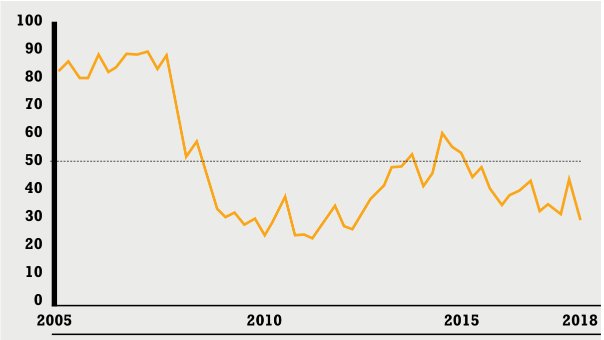


REVENUE

[1] 15-month period

Performance trends

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



BUILDING CONFIDENCE INDEX

Revenue increased by 19.9% to R8.1 billion, while operating profit decreased by 11.9% to R214 million. This includes the contribution of the BSG business (Tiletoria, Floors Direct, Macneil and Brands 4 Africa), which was acquired on 1 October 2017. Excluding BSG, the business reported a decline in merchandise sales of 3.1% and a like-for-like sales decline of 1.6%.

Discounting of sales prices was required to compete in the marketplace, which placed pressure on profitability. The two acquisitions over the last three years (Iliad and BSG) have caused some distraction in the business. To this end, a customer centricity and values programme was launched during the year to renew focus on driving sales.

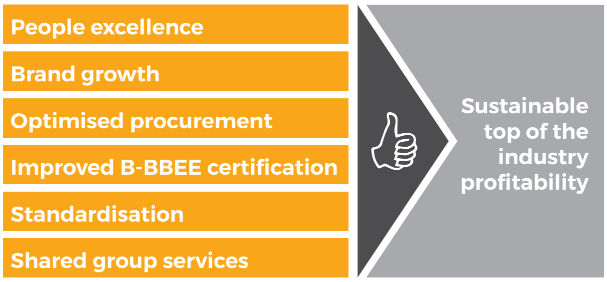
Good cost control was maintained across the business, which supported profitability.

KEY STRATEGIC PROJECTS COMPLETED:

- Brand consolidation within the GBM division (Hardware Warehouse and Pennypinchers)
- ERP integration across all GBM and SBMR outlets
- Customer centricity and values-aligned programme successfully launched

Corporate social investment

The Building Company intends to align the company's CSI strategy with its core business. In order to provide real business benefit, there needs to be a strategic link to the company overall. The strategy seeks to enhance business culture and attempts to increase employee satisfaction, deepen relationships with partners, increase visibility in the community and enable the company to enter new markets. Two programmes are currently in place, namely BUCO Building Blocks and Timbercity Wood for Good. These programmes focus on the development of school facilities and assisting learners with sports activities.



Strategic themes and detail planning

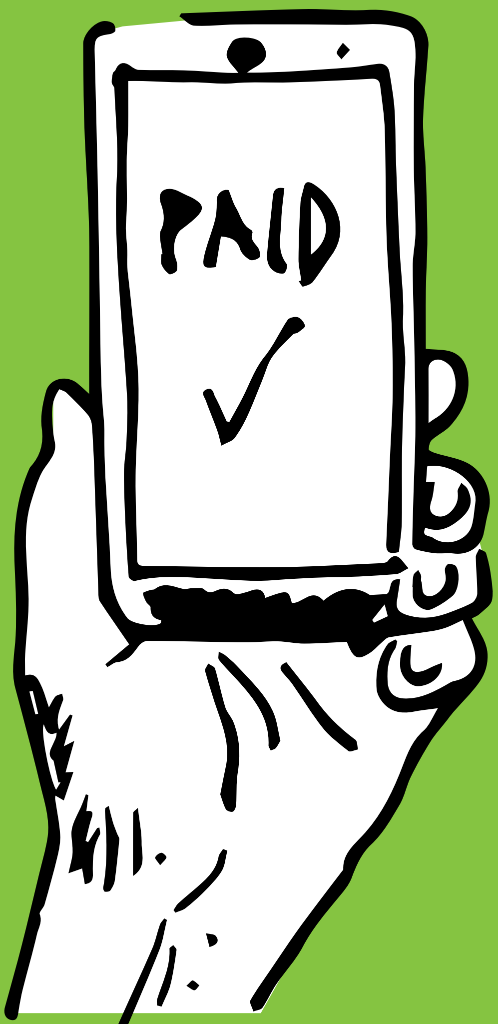
Future prospects

Muted revenue trends are expected to continue into 2019, amplified by anticipated loss of trading days due to the political and economic climate. It is imperative for management to focus on driving sales performance and the integration of the newly acquired BSG business. An inherent challenge faced by the business is the integration of stores or businesses acquired and standardisation of operations within a highly entrepreneurial environment. Opportunities exist where the combined scale of the business can be leveraged to drive operational efficiencies. With a clearly defined route to market through corporate retail, building merchants and independent retailers, the aim is to be a long-term strategic partner to both customers and suppliers and to add value to a diverse range of quality building products and brands.

FinTech

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

The FLASH business, which represents more than **90%** of this segment's revenue, reported aggressive growth.



Represents
8%
of Pepkor's revenue in the 2018 financial year

Contributed
4%
to Pepkor's operating profit[1] in the 2018 financial year

145 000
FLASH traders

960
call centre and debt collection employees

[1] *Before capital items*

FLASH

Making life easier

Using smart technology, traders can offer greater convenience to their customers by selling services such as mobile data and airtime, prepaid electricity, money transfers, and accepting account payments.

The commission earned from partners on these services is shared between **FLASH** and traders, keeping money in communities and providing opportunities for small business owners to prosper.

FLASH is a technology-driven company committed to adding value to the lives of traders in the informal retail market.

FLASH provides virtual solutions in the informal market and has the largest informal retail network in Africa.

Traders can purchase FLASH business devices at our various partner stores, including Pepkor brands such as PEP Stores, Ackermans, Dunns, John Craig and JD Group brands.

FLASH has formed strategic partnerships with businesses to create opportunities for both traders and partners:

CELLULAR	RETAIL	OTHER
Cell C, MTN, Telkom, Virgin mobile, vodacom	ACKERMANS, Checkers, Dealz!, DUNNS, JOHN CRAIG, JD GROUP, PEP, Pick n Pay, SHOPRITE, Usave	1voucher, absa, City of Cape Town, DStv, Eskom, FNB, Phanda Pusha Play, National Lottery, pay@

2.8 million
daily transactions

500
employees

20%
increase in virtual turnover

THE FLASH VISION IS FOR EVERYONE TO GET THE THINGS THEY NEED IN THEIR COMMUNITY. THIS IS ACHIEVED BY:

- using **technology** to provide opportunity and convenience to the community;
- offering **innovative products** that are beneficial to all stakeholders;
- providing a **trusted and effective distribution system** for utility partners; and
- making the flow of money **easy and safe**.

At FLASH, the internal culture forms part of everything we do. As an organisation, FLASH is dedicated to empowering employees, so that they can strive for the company's purpose of 'making people's lives easier' in the informal retail market.

Performance

FLASH reported substantial growth during the year, increasing virtual turnover by more than 20%.

The number of FLASH traders increased to 145 000 at 30 September 2018 from 121 000 a year ago.

The future

FLASH will continue to grow the number of traders in addition to improving the quality of traders. Opportunities for expansion continue to be evaluated both locally and abroad.

We are constantly adding in-demand products to our offering, working with national retail partners and brands to make our products and services as accessible as possible.

capfin

Customer service is key

Southern View Finance SA[1] (call centre and credit operations) and Van As and Associates (debt collection operations) provide origination, collection, accounting, regulatory and compliance services to Century Capital (CenCap) via a commercial relationship.

CenCap is an unsecured third-party credit provider that, under the Capfin brand, offers personal loans to customers. Capfin loans are provided to customers in more than 3 000 PEP and Ackermans stores in South Africa, as well as through secure online and mobile channels.

Capfin loans are typically utilised for a wide variety of purposes, including education, unforeseen expenses, such as funerals or car accidents, durable products, and regular household expenses in times of crisis.

Pepkor has therefore been responsible for managing all operational aspects of services provided to customers, including the customer experience and interaction, except for the funding thereof, which has been provided by CenCap.

Performance and the future

The Southern View Finance SA and Van As and Associates operations performed below expectation during the current financial year, due to additional costs incurred.

As announced on SENS on 23 November 2018, the business will start a transition phase between collection of the pre-existing loan book owned by CenCap, for a collection fee, while starting to build its own internally funded loan book.

[1] Subsequent to year-end, the company changed its name to Capfin SA.

960
employees

Corporate governance report

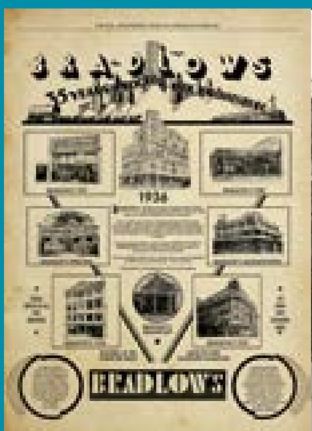
Good corporate governance is central to the Pepkor group's approach to enhance the creation of value in the short, medium and long term for the benefit of all stakeholders. The Pepkor group board (the board) and management are committed to policies and practices that meet high levels of compliance and transparency in disclosure.

Pepkor has a rich and proud history of success and achievements – created by thousands of committed people over many years. We manage the group with honesty and integrity and keep finding new and better ways to support our operating businesses. Ultimately, all of us keep our focus on our remarkable customers, satisfying their needs and helping to make their lives better and easier.

The values and history created over many years by employees, suppliers, customers and other stakeholders demand an ethos of integrity, transparency, determination and authentic leadership.

Pepkor's values and culture are centred on the unwavering goal to improve the lives of our customers, who often find themselves in very challenging circumstances.

These values have enabled us to stay the course through difficult periods over the years. More recently, they have shown that they will sustain Pepkor despite setbacks that might come our way.



1901 Bradlows opens in Johannesburg Central, during the gold rush

1916 First Ackermans store opens in Wynberg, Cape Town

1965 First PEP store opens in De Aar

1969 Start manufacturing Student Prince school clothes – manufactured by PepClo

- 1901 BRADLOWS
- 1911 W&B HARDWARE
- 1916 ACKERMANS
- 1943 Russells
- 1947 JOHN CRAIG
- 1950 Buchel
- 1965 PEP
- 1969 PEPCLO
- 1972 DUNNS
- 1975 TIMBERCITY Your Project Partner
- 1980 PEP AFRICA
- 1980 Citiwood
- 1986 ShoeCity
- 1988 B ONE
- 1989 Tekkie Town
- 1989 Bildware
- 1991 Incredible CONNECTION
- 1992 Chipbase CUT · EDGE · DRILL · DELIVER
- 1993 Brands4Africa
- 1993 MACNEIL
- 1993 HiFi Corp Why shop anywhere else?
- 1994 ROCHESTER
- 1996 tiletoria sanware · tiles · vinyl · laminate
- 2000 CACHET VALUE QUALITY RELIABILIT
- 2000 FLASH
- 2006 floors direct laminate · vinyl · carpet
- 2007 TENACITY
- 2011 BUCO HARDWARE · BUILDWARE
- 2015 Sleepmasters the bed experts
- 2016 REFINERY
- 2017 Listed on the JSE as STAR
- 2018 Change of name on JSE from STAR to Pepkor

Trust is the golden thread that runs through everything we do,

and we have a responsibility to look after the relationships we have with all our stakeholders. The board and the chief executive officer (CEO), with his executive leadership team, are responsible for upholding good corporate governance. Through their example, they instil a culture of upholding the group's code of ethics. The group will do what is required to uphold its reputation, without exception.

During 2018, after the unfortunate events at Steinhoff International Holdings N.V. with which we have been associated by default, we revisited our own internal processes. We have implemented even more stringent processes and procedures to further ensure the authenticity and transparency of information.

The group and operational businesses make use of internal and external assurance providers, client and culture surveys, and supplier score cards (where applicable and material) to determine and manage behaviour and processes. Policies inform development and implementation of operational processes.

Pepkor has complied with the Companies Act, No. 71 of 2008, as amended, (Companies Act), the additional governance requirements of the JSE Limited and King IV in all material respects, except to the extent as set out and explained in this report. The group is committed, as recommended by King IV, to continue the process of integrating our reporting to stakeholders in a more meaningful and transparent manner.

Due to the diverse nature of the business, which spans across Africa, the group has adopted a decentralised management approach with unique customer value propositions and product offerings in each of the businesses. For efficiency, certain functions are centralised, e.g. properties, logistics, etc. This approach has ensured that the businesses are agile in their ability to provide products at the lowest possible prices at customers' convenience. This is furthermore supported by business practices that result in variety, affordability and accessibility to customers.

The day-to-day responsibility for ensuring that the group's businesses are managed appropriately rests with the management of each of the businesses. All of this takes place within the framework of internal controls to ensure agile decision-making within the businesses. Through this, customer needs are met via authentic and honest business practices.

The group has a constituted board of directors that is supported by various committees to assist it in delivering on its mandate and responsibilities. The executive committee includes heads of each of the operating businesses and, in turn, each of the businesses has their own leadership team.

PEPKOR BOARD
PEPKOR EXECUTIVE COMMITTEE
OPERATING BUSINESSES

For reporting purposes, this translates into four reporting segments that were introduced during 2018, inter alia, to enhance transparency and give investors a better sense of the business:

CLOTHING AND GENERAL MERCHANDISE
FURNITURE, APPLIANCES AND ELECTRONICS
BUILDING MATERIALS
FINTECH

The audit and risk committee has developed an approval framework (board approval framework), which is essentially a delegation of authority framework, to contribute to role clarity and the effective exercise of authority and responsibilities by management. This approval framework has been approved by the board and strengthens the overall corporate governance framework of the group, establishing an appropriate balance of decision-making power between the board and the group executive. Businesses further developed their own approval frameworks based on the board approval framework to ensure that the businesses' approach to corporate governance remains in line with group policies. Where required, boards and committees have been established to support this approach. However, the ultimate responsibility for ensuring full and effective control of the group's businesses rests with the board.

Decisions on group strategy and other material matters are reserved for the board, including but not limited to decisions on the allocation of capital resources to ensure an optimal return on shareholders' funds, and the authorisation of procurement capital expenditure, property transactions, borrowings and investments, save where pre-approved materiality levels apply.

Application of King IV

The King IV Report on Corporate Governance for South Africa, 2016 (King IV) has, since 1 April 2017, replaced, in its entirety, the previous King Report on Governance for South Africa, 2009 (King III) and was applicable for the 2018 financial year.

The Pepkor group's structures and policies are aligned with King IV, and a register summarising the application and implementation of the King IV principles by the company and the group is available on the company's website at www.pepkor.co.za. This corporate governance report contains additional details of the approach adopted by the company in its application and implementation of the King IV principles.

The board of directors

The board charter

The board is responsible for governance and its duties include the appointment and dismissal of the CEO. The board's primary responsibility is to provide effective strategic guidance and direction over the group's affairs for the benefit of its shareholders, creating sustainable stakeholder value by balancing the interests of all constituencies, including customers, employees, shareholders, suppliers and local communities. In this regard, the board amended its dividend policy from a dividend cover of two times headline earnings cover to three times.

The board is guided by a formal charter that sets out duties and responsibilities. The detailed responsibilities of the board as set out in the aforementioned charter will be reviewed on a regular basis. The charter, which is aligned to King IV, the JSE Listings Requirements and the Companies Act, is available on the company's website. The charter sets out the powers of the board and provides a clear separation of responsibilities and the accountability of board members and management.

The responsibilities of the board include:

- approving the strategic direction of the group;
- approving the budgets necessary for the implementation of the group's strategic direction;
- defining levels of materiality, reserving specific powers to itself;
- providing effective leadership based on an ethical foundation, including the assumption of responsibility for the governance of ethics;
- setting the tone for ethical leadership, based on an ethical foundation;

• ensuring that a code of ethics is adopted and implemented across the group;
• ensuring that the business of the group is conducted in accordance with the principles of fairness, accountability, transparency, responsibility, competence and integrity;
• serving as the focal point and custodian of corporate governance for the group and ensuring that an appropriate corporate governance framework is adopted and applied across the group;
• ensuring that the company and the group are seen to be responsible corporate citizens;
• ensuring the adequacy and efficacy of the group's internal control systems and procedures and reporting thereon;
• governing risk in a way that supports the company in setting and achieving its corporate goals;
• ensuring that there is an appropriate, objective and effective risk-based internal audit approach;
• approving Pepkor's annual financial statements and interim reports and ensuring the integrity of the integrated report;
• considering and, if appropriate, declaring distributions in accordance with the provisions of the Companies Act;
• ensuring appropriate governance of the group's information communication technology (ICT) systems;
• ensuring that the group remunerates fairly, responsibly and transparently;
• communicating with internal and external stakeholders in a transparent and timely manner;
• approving shareholder meeting notices, circulars to shareholders and dissemination of group announcements through the Issuer Services division of the JSE Limited; and
• ensuring the overall profitability and sustainability of the group.

In carrying out its responsibilities, the board strives to ensure that:

• there is a balance of power and authority at board level and that no single director has unfettered powers;
• an appropriate balance between strategy, risk, performance and sustainability is maintained;
• an adequate and effective process of corporate governance, including the process of risk and audit management, is established and maintained;
• the consequences of the group's activities do not adversely affect its status as a responsible corporate citizen in the areas of the workplace, the economies in the geographical areas within which it operates, society, and the environment;
• reasonable procedures to ensure compliance by the group with all legislation and regulations that may be material to its businesses and affairs are adopted; and
• an effective and sustainable succession plan is in place for the group's leadership.

Composition

Details of the board of directors, including a brief curriculum vitae for each director, are included on pages 66 to 71 of the integrated report.

As at 30 September 2018, the board comprised of 11 directors, with two executive directors and nine non-executive directors, of whom four were independent non-executive directors. The composition of the board was accordingly no longer in line with King IV to the extent that the majority of non-executive directors were not independent.

This was the result of a number of changes to the board during the period up to 30 September 2018, caused by resignations and a classification process of non-executive directors conducted by the board with the assistance of a third-party consultant. A lead independent non-executive director was designated following the classification of the chairman as non-independent.

Although a majority of independent non-executive directors could not be obtained in the short term, the board operates effectively and independently to the benefit of Pepkor's stakeholders. The process to find appropriate independent non-executive candidates is ongoing and the focus is to make appointments that will benefit the company in the longer term.

As at 30 September 2018, the directors of the company were as follows:	**APPOINTED**
J Naidoo (non-executive chairman)	
JB Cilliers (lead independent)	
PJ Dieperink (non-executive)	
LJ du Preez (non-executive)	24 January 2018
RG Hanekom (executive)	
MJ Harris (independent non-executive)	30 July 2018
LM Lourens (executive)	6 December 2017
SH Müller (independent non-executive)	
F Petersen-Cook (independent non-executive)	16 April 2018
DM van der Merwe (non-executive)	
JD Wiese (non-executive)	

Resignations from the board during the period from 1 October 2017 to 30 September 2018 were as follows:	**RESIGNED**
MJ Jooste	5 December 2017
VP Khanyile	10 January 2018
AB la Grange	24 January 2018
HJ Sonn	30 July 2018
AE Swiegers	14 February 2018

Subsequent changes to the board

On 1 October 2018, Mr PJ Erasmus was appointed as a non-executive director. He resigned on 29 January 2019. The board has also appointed Ms W Luhabe as independent non-executive director with effect from 1 January 2019. Shareholders will be required to ratify the appointments of Ms F Petersen-Cook, Mr PJ Dieperink, Mr MJ Harris and Ms W Luhabe at the upcoming annual general meeting.

The directors, individually and collectively, assist the group to realise its strategic objectives, to manage the risks that could threaten the group's ability to provide sustainable long-term growth to stakeholders, to maintain and enhance efficiencies within the group's businesses and to support the people who rely on its businesses.

The Pepkor board charter allows for the chairman and each of the directors, in their individual roles, to bring significant influence to bear on board and, where appropriate, committee deliberations on the strategic direction of the group. The board is satisfied that the composition of the board reflects the appropriate mix of knowledge, skills, experience, diversity and independence. The non-executive directors further have the necessary skills and varied experience to bring independent and balanced judgement to the group's business.

There is a clear separation of responsibilities at board level to ensure an appropriate balance of power and authority and no individual director has unfettered powers of decision-making. While professional advisors, officers or members of staff whose input may be required from time to time to provide insight on key aspects may be invited to attend a specific board meeting or part thereof, there nevertheless remains a clear separation between the responsibilities of the board and of management and/or advisors.

Chairman

Mr J Naidoo is the non-executive chairman of the board. The roles of the chairman and the CEO have been formally defined and are separate. The chairman is responsible for leadership of the board, for ensuring that the board plays an effective role, and for facilitating communication with shareholders and constructive relations between the executive and non-executive directors. The chairman is appointed by the board. The chairman's appointment is reviewed every three years to ensure continuity, subject to re-election at the annual general meeting of shareholders in accordance with the rotation requirements of the directors of the company.

Chief executive officer

Mr LM Lourens replaced Mr AB la Grange as CEO with effect from 6 December 2017. The CEO provides leadership to the executive team in managing the group's businesses. The CEO is appointed by the board. A succession planning process is in place for the group's executive roles.

Lead independent

The board has appointed an independent non-executive director, Mr JB Cilliers, as lead independent with effect from 28 May 2018. This followed an external review of the independence of the non-executive directors and, as a result, strengthens independence of the board.

The duties and responsibilities of the lead independent are as follows, as set out in the board charter:

- to lead in the absence of the chairman;
- to serve as a sounding board for the chairman;
- to act as an intermediary between the chairman and other members of the board, if necessary;
- to deal with shareholders' concerns where contact through the normal channels has failed to resolve concerns, or where such contact is inappropriate;
- to strengthen independence on the governing body;
- to chair discussions and decision-making by the board on matters where the chairman has recused himself; and
- to lead the performance appraisal of the chairman.

Appointment requirements

Appointments to the board are based on levels of skill, acumen, experience and actual or potential contributions to the group, having due regard to race and gender diversity requirements.

The board has adopted a gender diversity policy and, in identifying suitable candidates for appointment as directors and in order to attain and maintain a level of gender diversity, will consider appropriate female candidates, having due regard to merit considerations, including experience in the retail industries in which Pepkor operates and the requirements of the board.

During the period under review, one female director has resigned (Ms HJ Sonn) and one female director was appointed (Ms F Petersen-Cook). On 30 September 2018, the board comprised 9% women. An additional female director, Ms W Luhabe, has been appointed effective from 1 January 2019.

The board has further adopted a race diversity policy and in identifying suitable candidates as directors, consideration will be given to attain and maintain a level of racial diversity within the board that is considered appropriate at the time, having due regard to the skills, expertise, experience and background required to fill any such board position(s), the availability of suitable candidates, the development of potential candidates, and to any additional requirements that may be necessary to ensure a mix of skills, and experience on the board and its committees that will best serve the interests of the company and its stakeholders. During the period under review, two black (as defined in the B-BBEE Act, No. 53 of 2003) directors have resigned (Ms HJ Sonn and Mr VP Khanyile) and two black directors were appointed (Ms F Petersen-Cook and Mr MJ Harris). On 30 September 2018, the board comprised 27% black persons. An additional black director, Ms W Luhabe, was appointed on 1 January 2019.

Non-executive directors are required to dedicate sufficient time to Pepkor board matters and they may serve on other boards, provided that such other appointments do not create a conflict of interest or interfere with their duties to the Pepkor board, but rather afford the ability to add value by bringing a broader perspective to board deliberations.

Appointment process

Appointments to the board are formal and transparent. Proposals for election/re-election to the board are, after review, recommended by the nomination committee and are considered by the board as a whole, subject to the approval/ratification of shareholders.

The memorandum of incorporation (MOI) of the company provides that, at every annual general meeting (AGM) of the company, one-third of the non-executive directors shall retire from the board by rotation. If eligible, such directors may offer themselves for re-election. If a director is appointed as an executive director or as an employee of the company in any other capacity, he or she shall not, while he or she continues to hold that position or office, be subject to retirement by rotation.

At the upcoming AGM of shareholders, the following non-executive directors will be retiring in accordance with the provisions of the company's MOI, but are eligible and available for re-appointment:

Mr JB Cilliers (lead independent)
Mr LJ du Preez
Mr JD Wiese

The nomination committee has recommended that the retiring non-executive directors referred to above are eligible for re-election.

Classification of non-executive directors

Ms F Petersen-Cook and Messrs JB Cilliers, MJ Harris and SM Müller have been classified as independent non-executive directors in accordance with the classification guidelines detailed in King IV. The board consulted with a third-party consultant during the period to assist it with the classification of non-executive directors. This classification was undertaken on a substance over form basis, adopting a holistic approach. The board is satisfied that the independent non-executive directors display independence of mind in their decision-making, that they are independent in character and judgement and that there are no relationships or circumstances that could affect, or could appear to affect, their independence.
Ms W Luhabe, whose appointment as director to the board is effective from 1 January 2019, is also classified as an independent non-executive director.

As at the date of this report, the majority of the directors of the company are non-executive, but as explained above, the majority of the non-executive directors are, however, not independent. There is an equal amount of independent non-executive directors and non-executive directors.

Notwithstanding this, the board believes that it is independent in its decision-making and does not allow any particular party, whether shareholder, management, or other to unduly influence it. The board fiercely guards its independence, as this enables robust debate, well-considered capital allocation, more resilient and critical business analysis, and ultimately enhances value creation for all stakeholders.

Board meetings and attendance

During the period from 1 October 2017 to 30 September 2018, the board met 18 times, four of which were scheduled and the remaining being special meetings, some of which being scheduled at short notice. The attendance at such meetings is set out in Annexure 6 of the integrated report.

Should circumstances so require, directors may meet without the executive directors being present.

Directors declare their interests in contracts and other appointments at all board meetings. Meetings are conducted according to a formal agenda, ensuring that the board properly addresses and follows up on all substantive matters.

Director induction and development

Directors are provided with an induction manual and guidelines on their duties as a director in terms of the Companies Act, read with King IV and the JSE Listings Requirements. If required, meetings are arranged with the chairman, other directors and/or senior group executives to enable directors to familiarise themselves with the group's businesses. Ongoing development will include management forums, access to internally and externally run seminars and the circulation of relevant industry, regulatory and economic news and analyses.

Directors' access to management information

All directors are afforded unrestricted access to management, including the company secretariat. Independent professional advice is available in appropriate circumstances and at the company's expense.

Directors' remuneration

Details of the remuneration for executive directors and fees payable to the non-executive directors for the year ended 30 September 2018 are contained in note 27 to the financial statements, and in the remuneration report on pages 72 to 78 of the integrated report.

Non-executive directors receive fees for their board and committee participation. All reasonable travelling and accommodation expenses to attend board and committee meetings are paid by the company. The proposed fees recommended by the human resources and remuneration committee and the board for the forthcoming period are set out in the remuneration report and will be submitted to shareholders for consideration at the upcoming AGM.

Non-executive directors do not have service contracts and are not members of any of the group's retirement funding schemes. No shares in Pepkor or options over shares in Pepkor are held by the non-executive directors under any of the group's share incentive schemes. The number of share rights granted under the Pepkor Performance Share Plan to management, which includes executive directors, are 11 262 942 – refer to note 20 to the financial statements, and the remuneration report on pages 72 to 78 of the integrated report.

Chief financial officer

Mr RG Hanekom is the chief financial officer of the company. The audit and risk committee is satisfied that Mr Hanekom possesses the appropriate experience and qualifications for this position. A review of the function of the CFO and finance function has been undertaken by the audit and risk committee, as detailed in the report of the audit and risk committee in the financial statements.

Executive committee

An executive committee has been established with the primary responsibility of assisting and advising the CEO in implementing the strategies and policies determined by the board, managing the business and affairs of the company, prioritising the allocation of capital, technical and human resources, and ensuring best management practices. The CEO has the authority to vary the composition of the executive committee from time to time to ensure that he receives the appropriate assistance and advice.

The committee is comprised of the following persons, appointed from time to time: the CFO and business heads, under the chairmanship of the CEO.
The committee meets regularly, usually on a monthly basis. The chairman of the board and other group executives may attend committee meetings by invitation.

Board committees

Board standing committees

In keeping with the requirements of King IV, the board has established four standing committees through which it executes some of its duties, namely an audit and risk committee, human resources and remuneration committee, social and ethics committee, and nomination committee. The board may establish ad hoc committees for specific projects/purposes should the need arise.

Each committee acts in accordance with its own terms of reference, under which certain functions of the board are delegated for clearly defined purposes. The board, however, recognises that delegating various functions and authorities to committees does not absolve it of its duties and responsibilities. The board evaluates the performance and effectiveness of each of the committees in accordance with the requirements of King IV. Details of the committees are presented in this report.

Audit and risk committee

The audit and risk committee is an independent statutory committee appointed by the board, which operates under terms of reference that are aligned with the requirements of the Companies Act (specifically section 94(7)(f)), the JSE Listings Requirements and King IV.

The committee has conducted its affairs in compliance with its terms of reference and has discharged its associated responsibilities and has complied with the requirements of King IV with regard to audit committees. These terms of reference and policies are reviewed regularly.

The full report of the audit and risk committee for the period under review is available on page 11 of the company's annual financial statements, available on the company's website at www.pepkor.co.za.

The committee remains independent. The members of the audit and risk committee are:

Mr JB Cilliers (chairman)*#
Ms F Petersen-Cook*##
Mr SH Müller*

** Independent non-executive director*
 # Appointed as chairman with effect 14 February 2018
Appointed on 16 April 2018

During the period under review, Mr AE Swiegers resigned as member of the audit and risk committee on 14 February 2018.

The re-election of these committee members, which has received the support of the nomination committee and the board, is subject to the approval of shareholders at the upcoming AGM. The chairman of the committee is appointed by the board. The CFO, the CFOs of the respective businesses, the relevant internal audit representatives, the tax manager and the external auditor regularly attend committee meetings by invitation. All invitees have unlimited access to the audit and risk committee chairman.

During the period from 1 October 2017 to 30 September 2018, the audit and risk committee met five times, three of which were scheduled and two of which were special meetings. The attendance at such meetings is set out in Annexure 6 to the integrated report.

The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference and, in particular, has satisfied itself as to:

- the appropriateness of the financial reporting procedures, that those procedures are operating and that the financial statements and accounting practices are in compliance with IFRS;
- the appropriateness and adequacy of the group's internal financial controls and risk management systems;
- its oversight role on financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and IT risks as it relates to financial reporting. In this regard, a fraud prevention policy was developed for the group by the committee during the period under review, approved by the board, and management was tasked to implement the policy across the group's businesses. The board also approved an anti-bribery and corruption policy. Reporting to the committee on fraud, bribery and corruption is in place and, during the period under review, no incidents involving senior management and/or executives were reported to the committee;
- the quality of the external audit. The external audit plans have been approved by the committee. Progress against these plans is monitored by the committee and there are direct lines of communication between the external auditors, the committee chairman, the committee and the board. The reports of the external auditor are reviewed and discussed in detail at committee meetings;
- the arrangements in place for and the effectiveness of combined assurance. The committee receives regular reports from the external and internal auditors;
- the independence of the external auditor, as set out in section 94(8) of the Companies Act, and suitability for re-appointment by considering, inter alia, the information stated in paragraph 22.15(h) of the JSE Listings Requirements;
- in terms of the JSE Listing Requirements, that the group CFO as well as the group finance function, has the appropriate expertise and experience.

Human resources and remuneration committee

The committee operates under terms of reference that are aligned with King IV, which terms of reference are reviewed on a regular basis.

Details of the group's remuneration policy are contained in the remuneration report on pages 72 to 78 of the integrated report.

The human resources and remuneration committee is responsible for determining and approving the group's general remuneration policy, which is presented at each AGM for a non-binding advisory vote by shareholders. The committee is responsible for making recommendations to the board on the company's framework of executive remuneration, including the remuneration packages of certain senior managers and the packages for each of the executive directors; and for ensuring that incentives are appropriately structured and awarded, so as to drive the group's performance and assist the group in reaching its strategic goals in the short, medium and long term. Meetings of the committee are attended by, as invitees, the CEO, the CFO and the group HR executive.

Every operating business has its own human resources and remuneration committee. The group CEO attends the meetings of these business committees and reports back to the human resources and remuneration committee on relevant issues.

As at 30 September 2018, the members of the committee were as follows:

Mr SH Müller (chairman)*
Mr J Naidoo**
Mr DM van der Merwe**
Mr MJ Harris*

** Independent non-executive directors. Mr MJ Harris was appointed as member of the committee effective 30 July 2018.*
*** Non-executive directors. Mr DM van der Merwe was appointed as member of the committee effective 10 January 2018 and replaced Mr MJ Jooste, who resigned on 5 December 2017.*

Mr PJ Erasmus was appointed as member of the committee effective 23 November 2018, and his membership terminated on 29 January 2019, when he resigned from the board.

On 30 September 2018, the composition of the committee, which has been reviewed and approved by the nomination committee, comprised an equal number of independent non-executive directors and non-executive directors. From 23 November 2018 until 29 January 2019, it comprised a majority of non-executive directors. Although the King IV recommendation of a majority of independent non-executive directors for this committee could not be obtained in the short term, members of the committee exercise independent judgement in the discharge of their duties. The composition will be reviewed regularly to ensure ultimate compliance with the King IV recommendations.

Going forward, key focus areas of the committee will be employment equity at executive levels, remuneration benchmarking and succession planning.

During the period from 1 October 2017 to 30 September 2018, the committee met five times, three of which were scheduled and two of which were special meetings. The attendance at such meetings is set out in Annexure 6 to the integrated report.

Social and ethics committee

The board recognises that addressing social and transformation issues is crucial for the sustainability of the group, and that continued investment in its employees and the communities within which it operates is key to the ongoing viability of the group's businesses. King IV requires the board to govern the ethics of the company and the group in a way that supports the establishment of an ethical culture.

Historically, the requirement for the company to appoint a social and ethics committee was fulfilled by the governance and sustainability committee of the Steinhoff group. Ms HJ Sonn was the company's appointed representative on this committee.

During the period under review, the board established its own social and ethics committee, which operates under terms of reference that are aligned with the requirements of the Companies Act and King IV. It is envisaged that the terms of reference and policy will be reviewed regularly.

The social and ethics committee is responsible for various statutory duties, having regard to relevant legislation, other legal requirements and prevailing codes of best practice, relating to:

- social and economic development, including employment equity and broad-based black economic empowerment;
- good corporate citizenship;
- the environment, health and public safety;
- consumer relationships; and
- labour and employment, including fair, responsible and transparent remuneration.

In addition to the statutory duties, the committee also has the following duties, delegated to it by the board:

- monitoring the group's progress and initiatives with regard to corporate social investment;
- ensuring the group's ethics programme is managed effectively;
- managing whistle-blowing, to ensure that all credible allegations are thoroughly investigated, while protecting the identities of all parties involved; and
- monitoring that the group endeavours to engage constructively with regulators and ombudsmen in the industries in which the group operates.

As at 30 September 2018, the members of the committee were as follows:

Ms F Petersen-Cook (chairman)*
Mr LM Lourens**
Mr RG Hanekom**

** Independent non-executive director. Ms F Petersen-Cook was appointed as member and chairman of the committee effective 30 July 2018.*
*** Executive directors. Mr LM Lourens was appointed as member effective 30 July 2018, and Mr RG Hanekom was appointed as member effective 10 September 2018.*

Ms W Luhabe replaced Mr RG Hanekom as member of this committee with effect from 1 January 2019. Subsequent to her appointment, the committee meets the recommendations of King IV, namely executive and non-executive directors, with a majority being non-executive members.

During the period under review, the committee met on 17 September 2018, which inaugural meeting was attended by all the members.

Nomination committee

The committee's terms of reference have been aligned with King IV and the committee has the responsibility, inter alia, of reviewing:

- the composition and performance of the board;
- the recommendation of appointment of directors to the board;
- the classification of the non-executive directors;
- the continuance in office of directors who have served on the board for longer than nine years;
- the rotation of directors;
- the composition of the board committees;
- succession planning in respect of the directors; and
- the training and development needs of the directors.

The members of the committee are:

Mr J Naidoo (chairman)*
Mr JB Cilliers (lead independent)**
Mr DM van der Merwe*

** Non-executive directors.*
*** Independent non-executive director. Mr VP Khanyile resigned from the board and from the committee on 10 January 2018 and was replaced on the committee by Mr JB Cilliers effective 10 January 2018.*

The committee comprises non-executive directors. Although the King IV recommendation of a majority of independent non-executive directors could not be obtained in the short term, members of the committee exercised independent judgement in the discharge of their duties. The composition will be reviewed regularly to ensure ultimate compliance with the King IV recommendations.

During the period from 1 October 2017 to 30 September 2018, the nomination committee met five times. The attendance at such meetings is set out in Annexure 6 of the integrated report.

As stated above, the board and board committee composition will be regularly reviewed by the committee to confirm that the board and its committees are of an appropriate size, composition and balance, taking into account specific board and committee requirements; the diversity of the group; the gender and race diversity policies at board level as detailed above under 'Appointment requirements'; and the qualifications, skills and experience of the board and committee members.

Board and committee evaluations

Formal self-evaluations commenced after the financial year-end for the board, the audit and risk committee, the human resources and remuneration committee, and the nomination committee. As the social and ethics committee was established during the financial year and only had its first meeting on 17 September 2018, it was decided that an evaluation for this committee will be done during the next cycle.

These internal assessments cover the spectrum of the respective responsibilities and activities of the aforementioned forums, with a specific focus on the recommendations and practices of King IV. The board is satisfied that the evaluation process is a worthwhile exercise and that it serves to focus the attention of the directors on their contributions and opportunities for improving their performance.

Accountability

The CEO is responsible for and accountable to the board for all group operations. As the group operates on a decentralised basis, business heads have been appointed to the executive committee to assist the CEO in fulfilling his responsibilities.

Although the board has delegated certain powers and authorities to executive management and to board committees, the ultimate responsibility for retaining full and effective control of the group rests with the board.

Company secretary

Steinhoff Secretarial Services Proprietary Limited resigned as company secretary effective 11 June 2018, and Pepkor Proprietary Limited was appointed as company secretary on the same date.

The company secretary is responsible for ensuring the availability of all information needed by the directors for the performance of their duties. This includes papers and documents needed for board meetings, as well as public announcements or shareholder communications having a bearing on Pepkor and its operations. The company secretary is available to the directors at all times, to provide assistance, guidance and advice in line with the Companies Act, King IV and the JSE Listings Requirements.

Although the company secretary representative attends board meetings in an advisory capacity, he is not a member of the board of directors, which ensures independence and an arm's length relationship with the board. The following factors were considered in coming to this conclusion:

- No restriction is placed on the company secretary in its interactions with board members or on the usual functions of a company secretary.
- The board has empowered the company secretary to influence the board of directors in such a way to act as the gatekeeper of good corporate governance.
- There are no special ties between the company secretary and any of the directors, e.g. family, marriage or business relationship.
- The company secretary is not a material shareholder of the company or any subsidiary.
- The company secretary is not a party to a major contractual relationship that could affect its independence.
- There are no other matters affecting the company secretary's abilities to adequately and effectively perform the company secretarial duties.

The company secretary is responsible for ensuring that the board and company proceedings and affairs are carried out in compliance with current legal and regulatory requirements. The board is confident that the company secretary has the necessary skills, qualifications and experience to perform its duties proficiently.

Reporting

Management reporting

Business management reporting disciplines include defined parameters for the reporting of litigation matters, compliance with legislation, any penalties incurred and risk analyses together with the preparation of annual budgets, which are approved by the board on a consolidated basis. Operational and financial performance against the approved budgets is reported on a monthly basis by the businesses to corporate office. Profit and balance sheet forecasts are reviewed regularly and capital and borrowing levels are monitored on an ongoing basis.

Business management is additionally charged with the responsibility of reporting on risks and opportunities and on social, ethical and environmental concerns. Risk reports are reviewed by the respective boards and executive committees and major risks identified are brought to the attention of the audit and risk committee and the board.

Financial control and reporting

The board is responsible for ensuring that the group companies maintain adequate records, and for reasonable, accurate, timeous and reliable reporting on the financial position of the group and on the results of its activities. To assist the board in effectively discharging this duty, financial reporting procedures and disciplines have been put in place at all levels across the group.

The board is responsible for ensuring that reports issued by the company enable stakeholders to make informed assessments of the group's performance and prospects. No accounting irregularities were reported by either internal or external auditors during the period under review.

Risk management

While the board is accountable for the governance of risk management within the group and for ensuring compliance with all applicable legislative and regulatory requirements, business management is responsible for implementing the necessary controls and for managing risk at the business level. Management considers risks across the strategic, operational, financial, legal and compliance, empowerment, information for decision-making and information technology categories.

The board determines the group's risk appetite; monitors the adequacy and effectiveness of the group's risk management procedures; reviews any significant risks identified; and considers the necessity for further investigation of opportunities revealed.

The audit and risk committee oversees group risk management. Existing group risk management processes and procedures allow for adequate evaluation of risk and opportunities across the group. Risk management maturity is not yet defined; however, an initial review suggests that risk management practices are positioned at an informal to basic level of maturity. Once the standard risk management methodology has been adopted across the businesses, additional analysis will be possible to determine prevalent risk trends across each category of risk. The expertise and experience of management and business heads ensure that a broad spectrum of risks is considered, specifically relating to the core retail businesses and in relation to the long-term sustainability of the group. The risk management governance structures enable identification and reporting of risks and opportunities at a business level and allow key risks and opportunities to be considered at a group executive level.

Risk matrixes are reported quarterly to business executive management, and residual risks that remain within the business' risk appetite are managed by business executive management. Risks that are not fully mitigated and/or are outside the prescribed risk appetite for the business are subject to further remedial action and feedback ahead of the next quarterly risk meeting.

The group risk profile is predominantly focused on financial risks, with operational risks in the form of supply chain and supplier contracts considered as significant. Operational risks are effectively mitigated by management through the implementation of specified control and response mechanisms. The latter ensures that the risks are generally well within the group risk appetite and any outliers are monitored and reported to senior management for consideration. A standard risk management methodology is currently being adopted by various businesses in the group, which will result in homogeneous reporting and set a baseline for risk evaluation going forward.

Internal audit examines, evaluates and reports on and makes recommendations to the audit and risk committee and the board regarding the adequacy and effectiveness of the group's risk management processes. The audit and risk committee's feedback on risk management for the period under review is contained in its report as included in the company's annual financial statements.

Financial risk, such as exchange rate risk, is managed via a central exchange hedging policy. During the period under review, the audit and risk committee reviewed this policy, as well as the application of the policy with regard to each of the business segments, and found the policy satisfactory in mitigating risk.

Internal control

The group's systems of internal controls, which are embedded in all key operations, provide reasonable assurance that the company's business objectives will be achieved, subject to defined risk tolerance levels. The board has delegated implementation of the group's systems of risk management and internal financial control to executive management. The responsibility for ensuring the effectiveness of the internal control systems across the group rests with the board.

The group undergoes a comprehensive annual planning and budgeting system, and an annual budget is approved by the board. There is a financial reporting system that compares actual results achieved with monthly budgets, in order to identify any deviations from approved plans and to allow for timely corrective action to be taken. The review of monthly financial performance is a standing item on the executive committee agenda.

Where practicable, taking into account the diversity and geographical spread of the group's operations, a unified approach to the group's control systems has been adopted. Nothing has come to the attention of the audit and risk 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.

Internal audit

Internal audit provides an independent, objective assurance and consulting service to the group, designed to add value and improve operations. It assists the group to accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, internal control and governance processes, in compliance with corporate governance standards required by the board and the audit and risk committee.

Internal audit reports administratively to the CFO and functionally to the chairman of the audit and risk committee. The internal audit function assists executive management and the audit and risk committee in the effective discharge of their responsibilities by means of independent reviews of financial, operational and ICT internal controls and operational systems. Compliance with applicable legislation is an item on all audit and risk committee and board agendas and is evaluated and formally reported on by internal audit as part of their audit programme.

Should it be required, specialised internal audit services, for example relating to the field of ICT, may be co-sourced to outside service providers with the required specific expertise.

The appointed head of internal audit has provided the audit and risk committee with written assurance that the internal audit programme conducted during the period under review was completed in line with the internal audit charter and recognised internal audit methodology. The internal audit charter was reviewed by the audit and risk committee during the period.

The internal audit activity is governed by adherence to the Institute of Internal Auditors' mandatory guidance, including the definition of internal auditing and core principles of the International Standards for the Professional Practice of Internal Auditing. Internal audit is required to:

- demonstrate integrity;
- demonstrate competence and due professional care;
- be objective and free from undue influence (i.e. be independent);
- align with the strategies, objectives and risks of the organisation;
- be appropriately positioned and adequately resourced;
- demonstrate quality and continuous improvement;
- provide risk-based assurance;
- be insightful, proactive and future-focused; and
- promote organisational improvement.

The Institute of Internal Auditors' practice advisories, practice guides and position papers are also adhered to, as applicable, and guide the provision by internal audit of its services.

Should the appointed head of internal audit wish to discuss any findings, he has unrestricted access to the chairman of the audit and risk committee and is afforded the opportunity to meet with the committee without any executives or management representatives present.

Internal audit is viewed across the group as a value-add service and the internal auditors liaise with management in order to develop or improve control systems. The co-operation between management and internal audit facilitates ongoing control system improvements.

No material breakdowns in internal controls across the group were highlighted by internal audit during the period under review. The audit and risk committee was satisfied with the effectiveness and performance of the internal auditors and compliance with their mandate during the period under review. The internal audit function has not yet been subjected to a formal independent quality review and, accordingly, the audit and risk committee has resolved that such a review should be done during the 2019 financial year.

External audit

The report of the external auditors for the period under review, which details the key audit matters, is available in the financial statements.

The external auditors report on their audit findings to the audit and risk committee. Should the external auditors wish to discuss any findings, they have unrestricted access to the chairman of the audit and risk committee and are afforded the opportunity to meet with committee members without any executives or management representatives present.

The external auditors have confirmed in writing their independence in undertaking the audit for the period under review, including the provision of non-audit services, and the audit and risk committee concurs with this confirmation. A policy for the use of the external auditor for non-audit services is in place and will be reviewed on a regular basis. During the period under review, fees earned by the external auditors for non-audit services, including assurance-related services, amounted to R6.2 million, which constituted approximately 20% of fees in respect of audit services.

Following the reappointment of Deloitte & Touche as the company's auditor at the AGM in March 2018, PricewaterhouseCoopers was appointed on 23 May 2018 as the company's external auditor, replacing Deloitte & Touche. This came after engagement with the company's management and audit and risk committee regarding restructuring the audit of the company and its subsidiaries to reduce the duplication of effort among the different audit firms to continue to comply with professional standards. A significant component of the Pepkor group was audited by PricewaterhouseCoopers at that time and this scenario necessarily caused an inefficient duplication of effort in order for Deloitte & Touche to comply with professional auditing standards.

The reappointment of PricewaterhouseCoopers as the company's auditor, with Mr A Hugo, a registered auditor and designated audit partner of PricewaterhouseCoopers as the individual who will undertake the audit for the financial year ending 30 September 2019, has been recommended by the audit and risk committee and will be a matter for consideration by shareholders at the next AGM.

Additional information on the external auditors is contained in the report of the audit and risk committee in the annual financial statements.

Combined assurance

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

- the receipt by the audit and risk committee of reports in respect of any material contraventions of applicable legislation, regulations, penalties or fines;
- the receipt by the audit and risk committee, as part of the group compliance report, of Safety, Health and Environmental (SHE) reports detailing any incidents, issues, injuries or fatalities during the preceding quarter;
- the receipt by the board and the audit and risk committee of internal audit reports, detailing any audit findings made during the preceding quarter;
- the receipt by the board and audit and risk committee of year-end external audit reports, detailing any audit findings made during the external audit; and
- ad hoc audits/investigations undertaken by external consultants where specific expertise is required (examples include network security auditing and environmental auditing).

Information technology (IT) governance and IT risk management

IT governance in the group is premised on decentralised business management being responsible for decisions relating to IT and digital 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.

Business management strategic IT projects and change portfolios are managed through IT steering committees in each business. Strategic alignment and prioritisation within each business portfolio are achieved through these steering committees.

IT risks are managed by each business through continuous risk assessment and monitoring, and risk registers are updated quarterly.

Corporate IT support is provided, among others, via a group IT resource (Pepkor IT), which has been developed as a central IT skill and capability to assist businesses (where requested). Pepkor IT currently manages the IT functions on behalf of the clothing and general merchandise segment of the group only.

IT reports, inclusive of IT risk registers, are submitted to the audit and risk committee for each meeting, and inform the committee of the status quo of IT within the major businesses, including:

- nature of major IT projects;
- IT risk analysis and management, the extent to which risks are mitigated and/or businesses accepted the underlying risks, if not mitigated;
- IT operating expenditure analysis; and
- IT capital expenditure and the nature thereof.

The group's IT governance framework is in the process of being reassessed by the executive team.

Ethics

In a constantly changing corporate governance environment, and due to the unfortunate events at Steinhoff International Holdings N.V., it is imperative to embed ethics and good governance within the business. The Pepkor values underpin our actions and decision-making processes across the group.

Since its listing, the group has reviewed existing governance policies and, where necessary, implemented policies that will support governance in the group, including conflicts of interest, gifts, entertainment, insider trading and price-sensitive information. A zero-tolerance approach is also applied with regard to fraud, theft, bribery, corruption, and any illegal behaviour. Business induction training includes highlighting the stance of the group regarding policies that reinforce good corporate governance.

The board, with the support of the social and ethics committee, collectively accepts responsibility for how ethics and ethical behaviour should be effected across all businesses in the group. The board-approved code of ethics commits the group and its employees to the highest ethical standards of conduct and to compliance with all legal and regulatory requirements.

The code, inter alia, governs conduct relating to:

- conflicts of interest;
- the acceptance of gifts;
- bribes and political contributions;
- record-keeping;
- financial transactions;
- the promotion of competition;
- compliance with laws;
- intellectual property;
- confidentiality; and
- non-discrimination.

The responsibility for the execution of the code of ethics is delegated to business management with ongoing board oversight thereof.

The board has approved a whistle-blower policy and the group has established various confidential whistle-blowing channels, using dedicated hotlines for the reporting of suspected fraud or irregularities. All reports received are investigated on a confidential basis within the applicable business area. As whistle-blowing channels have proven their worth in identifying fraud and incidents of unethical behaviour, employees will be reminded thereof regularly and are urged to report all events where they have reason to suspect fraudulent or unethical activity.

There were no material incidents of fines or prosecutions for non-compliance with regulations or legislation during the period under review, other than a public censure and fine imposed by the JSE as published on the Securities Exchange News Service (SENS) on 26 November 2018.

Legislative and regulatory compliance

The group is committed to compliance with all applicable laws and regulations. A regulatory compliance universe, as applicable to Pepkor, has been defined and rated in terms of importance.

Business heads across the group are responsible for ensuring that operations are compliant with all applicable laws and regulations. The compliance function provides the audit and risk committee, as well as the social and ethics committee, with reports on the compliance status of the group, with inputs from responsible management in the businesses. Based on the committee reports, the board monitors compliance, which will include material information regarding interaction with regulators, as well as where any significant possible compliance breaches have been identified.

The group's compliance function reports to the company secretary and, with the support of an external service provider, monitors and assesses the impact of existing and new legislation that may impact the business.

Stakeholder communications and investor relations

Pepkor values its relationships with both institutional and private investors. A proactive approach has been adopted to ensure that communications relating to the group's operations, structure and strategies are handled appropriately.

Regular and open dialogue with internal and external stakeholders not only informs stakeholders of the group's strategies and goals, but also provides the group with input from stakeholders and informs the group's decision-making, facilitating the building and retention of sustainable, stable and mutually beneficial relationships.

During the period, Pepkor engaged extensively with investors in a proactive and transparent manner. Feedback received from investors supported the decision to improve financial disclosure in terms of reporting segments, allowing the investment community to better understand and analyse the group's performance.

Communications with journalists and analysts are governed to ensure maintenance of the confidentiality of price-sensitive information on the company.

Insider trading

Pepkor has an insider trading policy that prohibits designated persons, as defined in the policy, from dealing in the company's shares, either directly or indirectly, while in the possession of unpublished price-sensitive information concerning the business and affairs of the group and its subsidiaries. The policy prohibits the dissemination of price-sensitive information pertaining to the company by employees.

No designated person who is privy to such information may trade in the company's shares during embargo periods determined by the board, or during closed periods, and all dealings by such persons in the company's shares must receive the prior approval of the CEO. Dealings in the company's shares by the CEO must receive the prior approval of the chairman and dealings in the company's shares by the chairman must receive the prior approval of the CEO.

A report of any dealings in the company's shares by directors is tabled at each board meeting. The JSE Limited is notified of all share dealings by the directors of the company, directors of any major subsidiaries and the company secretary for publication on SENS.

Interest in contracts

All employees must disclose, as and when appropriate, any interest in contracts to allow for the assessment of any conflict of interest. This policy extends to directors and prescribed officers, and declarations of interest are tabled at the commencement of board meetings. The fiduciary duties of the directors to act in the best interests of the company on whose board they serve are understood by the directors and, in compliance with the provisions of section 75 of the Companies Act, is strictly enforced.

Going concern statement

The group financial statements have been prepared on the going concern basis as the directors, after having made enquiries, have a reasonable expectation that the group has adequate resources to continue in operation for the foreseeable future.

Board of directors

as at 31 January 2019

Jayendra Naidoo (58)
BProc

NON-EXECUTIVE CHAIRMAN

Johann Bernard Cilliers (59)
BAcc (Cum laude), BAcc Hons, CA(SA)

LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR

Jayendra was appointed as chairman on 18 August 2017. As a full-time trade unionist in his youth, he played a significant role in the negotiation of the National Peace Accord in 1991, as well as in the establishment of a network of peace committees throughout South Africa. In 1995, he became the first executive director of NEDLAC, serving until 1998. In 2000, he co-founded the J&J Group and is the founder of the Lancaster Group. Jayendra has served on several committees and boards, including the board of Pepkor Holdings Proprietary Limited between 2003 and 2011. In 1997, Jayendra was nominated by the World Economic Forum as a Global Leader of Tomorrow.

Chairman of the nomination committee
Member of the human resources and remuneration committee

Johann was appointed as an independent non-executive director and as a member of the audit and risk committee on 18 August 2017. He was subsequently appointed to the nomination committee on 10 January 2018. Johann completed his articles at PwC in 1988, following which he was appointed as financial director of Hicor Limited. In 1990, he joined Langeberg Foods Limited as group financial manager, serving on the board of that company from 1991 to 1998 as financial director. In 1998, Johann joined the Pepkor group as operations director of PEP SA and as an executive director. In 2004, he was appointed as an executive director of Pepkor Retail Limited and, until 2011, served on the group executive committee of Pepkor Retail Limited in various capacities. In 2011, he relinquished his executive role within the Pepkor group and was appointed as a non-executive director of Pepkor Holdings Proprietary Limited, which non-executive position he held until the acquisition of the Pepkor group by Steinhoff in 2015. Johann currently manages various private investments.

Chairman of the audit and risk committee
Member of the nomination committee

Leon Marius Lourens (52)
BCom (Marketing)

CHIEF EXECUTIVE OFFICER

Leon was appointed as chief executive officer on 6 December 2017. He completed a Higher National Diploma in Human Resources in 1987 before attaining a BCom degree in Marketing (Unisa) in 1994. He joined PEP in 1990. In 2000, he joined the supermarket group Panda in the Middle East as head of operations before returning to PEP in 2002. He was appointed as operations director in 2004 and became managing director of PEP SA in 2011. In 2016, Leon was appointed as Group MD: Pepkor Africa and he became chief operating officer of STAR at its listing on 20 September 2017. He has more than 27 years' experience in retail with most of it stemming from store operations in the discount sector of the market.

Member of the social and ethics committee

Riaan Gustav Hanekom (49)
BAcc, BCom Hons (Acc), CA(SA)

CHIEF FINANCIAL OFFICER

Riaan was appointed as group chief financial officer on 18 August 2017. He completed his articles with Ernst & Young Inc. in 1995, whereafter he spent six years with Shoprite as a financial manager. He joined Woolworths in 2001, and was the Woolworths Retail Operations Group head of finance and admin when he joined the Pepkor group in 2006, as commercial director of Shoe City. He became the commercial director of Ackermans in 2008, and financial director of Ackermans in 2009. He was appointed as the group financial director of Pepkor Holdings in February 2016. Riaan also serves as a director on a number of subsidiary boards in the Pepkor group.

Board of directors

Mark Joseph Harris (59)
BSc

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mark was appointed as an independent non-executive director on 30 July 2018. Mark has led and transformed organisations of varying sizes through his leadership. The strategic competencies Mark offers are invaluable to any organisation aiming to achieve objectives of growth and innovation in an increasingly competitive environment. Mark brings a broad range of business competencies, including strategy, mergers and acquisitions, innovation, technology and digitisation, which are crucial in the modern digital revolution. His experience spans over 35 years and across a large number of industries and geographies, including Africa, North America, Europe and the Middle East as an IBM Vice President. Mark has served on a number of boards in South Africa and internationally and was the president of the American Chamber of Commerce and chairman of a number of NGOs.

Member of the human resources and remuneration committee

Wendy Luhabe (61)
BCom

INDEPENDENT NON-EXECUTIVE DIRECTOR

Wendy Luhabe started her career in marketing 37 years ago and worked in the cosmetics and automotive sectors, including in Germany and the US. She graduated with a BCom in 1981 and currently has a portfolio of interests that includes investments in education and infrastructure development. Wendy has been a pioneer in social entrepreneurship over the past 25 years and has been involved in human capital development, the economic empowerment of women, and mentorship of younger generations. She pioneered the founding of WIPHOLD, WPEF and more recently, WINDE. Wendy is passionate about education, leadership, economic justice and mentorship. She has served as a non-executive director/chairman of companies across diverse industries since 1992. She is a recipient of four Honorary Doctorates for her contribution to the empowerment of women in various sectors of the economy. Wendy was the founding Chancellor of the University of Johannesburg.

Member of the social and ethics committee

Stephanus (Steve) Hilgard Müller (57)
BAcc (Hons), CA(SA), Sanlam EDP

INDEPENDENT NON-EXECUTIVE DIRECTOR

Steve was appointed as an independent non-executive director on 18 August 2017. Steve worked at KPMG until 1992, after which he worked as a senior manager at Rand Merchant Bank Limited until 1994. In 1995, he joined Genbel Investments Limited, inter alia as an executive director of Gensec Bank Limited, heading the Investment Banking division from 1999 to 2004. From 2004 to 2008, he managed various structured equity funds for Sanlam Capital Markets. He has been appointed as a non-executive director on the boards of several companies. Steve was appointed as an independent non-executive director of KAP Industrial Holdings Limited in 2012. He has chaired or served on the audit and risk committees and the human resources and remuneration committees of several companies over the last 22 years.

Chairman of the human resources and remuneration committee
Member of the audit and risk committee

Fagmeedah Petersen-Cook (43)
BBusSc (act.sc.), FIA, FASSA, PGDip (MgtPrac), IoDSA (Cert.Dir.), FPI

INDEPENDENT NON-EXECUTIVE DIRECTOR

Fagmeedah was appointed as an independent non-executive director on 16 April 2018. Fagmeedah is an actuary with 21 years of technical experience in the pensions and investments industry. Until 2015, she was the chief investment officer at the Eskom Pension and Provident Fund, where she was responsible for the investment of R120 billion. Fagmeedah was first appointed by former finance minister, Trevor Manuel, to the board of the Government Employees Pension Fund (GEPF), to bring her expertise to the oversight of the investment activity of the PIC. In 2012, she was appointed as member of the clean-up board of Telkom, where she chaired the investment committee while she was the acting CIO of Eskom Pension Fund. She is also an independent director of Absa Financial Services and Medical Specialist Holdings, as well as chairman of the Bankmed audit committee, among others. As an actuary, she brings enterprise risk management skills and multi-generational planning techniques to the boardroom. Fagmeedah, an avid cricket enthusiast, is the lead independent director of the Western Province Cricket Association.

Chairman of the social and ethics committee
Member of the audit and risk committee

Board of directors

Philip Jean Dieperink (62)
BCom (Hons), CTA, CA(SA), HDip Tax

NON-EXECUTIVE DIRECTOR

Philip earned his honours degree in accountancy at the University of Pretoria. He joined Deloitte & Touche in 1980, where he qualified as a chartered accountant in 1981. He transferred to the tax division, specialising in corporate and international tax planning, and became a tax partner in 1987. After leaving Deloitte, he joined Unitrans Limited as chief financial officer and helped to develop the strategic direction and growth of the Unitrans group over 10 years, until 2007, when Unitrans was purchased by the Steinhoff group. In September 2007, he relocated to the United Kingdom to assume the position of chief financial officer of Steinhoff UK Holdings Limited. He holds several other appointments within the Steinhoff group of companies and currently serves on the board of directors of Steinhoff Asia Pacific Limited and Cofel. Philip was appointed as chief financial officer and member of the management board of Steinhoff International Holdings N.V. on 20 April 2018.

Louis Jacobus du Preez (49)
BCom, LLB

NON-EXECUTIVE DIRECTOR

Louis was appointed as a non-executive director on 24 January 2018. He qualified as an attorney of the High Court of South Africa in 1997, after completing his articles. Louis joined Jan S de Villiers and was appointed a partner of the firm in 1998. With the merger of Werksmans Attorneys in 2009, he became a member of the national executive committee of the combined firm and served as such until early 2017. While practising as an attorney, he advised clients on a variety of corporate and commercial matters. Louis was appointed to the board of KAP Industrial Holdings Limited on 1 October 2017, as a non-executive director. He joined the Steinhoff group as general counsel in mid-2017, was appointed as the commercial director of Steinhoff International Holdings N.V. on 19 December 2017 and as chief executive officer of Steinhoff International Holdings N.V. with effect from 1 January 2019.

Daniël Maree (Danie) van der Merwe (60)
BCom, LLB

NON-EXECUTIVE DIRECTOR

Danie was appointed as a non-executive director on 1 July 2017. He was admitted as an attorney of the High Court of South Africa in 1986, and practised as an attorney specialising in the commercial and labour law fields. In 1990, Danie joined the Roadway Transport Group and was instrumental in developing the strategic direction and growth of this group. In early 1998, following the merger of Roadway Transport Group with Steinhoff Africa, he joined the Steinhoff group and, in 1999, was appointed as a director of Steinhoff International Holdings Limited. He previously acted as chief executive officer for Steinhoff's Southern Hemisphere operations and was appointed as group chief operating officer in 2013. Danie holds several other appointments within the Steinhoff group of companies. He was appointed as acting CEO of Steinhoff International Holdings N.V. in December 2017, which position he held until he stepped down in December 2018.

Member of the nomination committee
Member of the human resources and remuneration committee

Jacob Daniel Wiese (38)
BA (Stellenbosch),
MA International Economics & Management
(Universita Commerciale Luigi Bocconi, Italy),
LLB (UCT)

NON-EXECUTIVE DIRECTOR

Jacob was appointed as a non-executive director on 18 August 2017. After completing his LLB at UCT in 2008 and his pupillage at the Cape Bar, Jacob was admitted as an advocate of the High Court of South Africa in 2009. He joined the investment committee of the Titan Group in 2010. Jacob is an independent non-executive director of Fairvest Property Holdings Limited and serves on the boards of various publicly listed companies and is also an alternate and/or non-executive director of Shoprite Holdings, Invicta Holdings and Tradehold. Jacob is also extensively involved in the management of Lourensford Wine Estate.

Remuneration report

Pepkor's remuneration report is presented in three parts:

PART 1: Background

PART 2: Overview of remuneration policy

PART 3: Implementation of remuneration policy

PART 1

Background

This report is presented in compliance with the Companies Act, No. 71 of 2008, as amended (Companies Act), the JSE Listings Requirements and the recommendations of the King IV Report on Corporate Governance for South Africa, 2016 (King IV).

The mandate and focus of the committee

The mandate and the activities of the human resources and remuneration committee (the committee or Remcom) are reported on in this section of this report summarising corporate governance.

The committee is mandated by the board to oversee that the organisation remunerates employees fairly, responsibly and transparently, and in a manner that promotes the achievement of strategic objectives and positive outcomes in the short, medium and long term.

The group remuneration philosophy is designed to do this, and its effectiveness is reviewed annually by the committee.

A key aspect of this corporate governance function is the practice that every business should have its own remuneration committee. The group CEO attends the meetings of these committees and reports back on relevant issues.

Important issues pertaining to the remuneration policy

1. **Cash retention agreements**
   Following the decline in the Steinhoff International Holdings N.V. (Steinhoff) share price in December 2017, the value of the share rights held by employees in the Steinhoff long-term incentive scheme declined to an insignificant fraction of its former value. This presented a high risk with regard to retention of senior executive employees of the group. Accordingly, the board decided, effective from March 2018, to enter into a cash retention agreement with the affected employees and award cash retention payments payable over three years, conditional upon continued employment during this period. The retention arrangements expire with the last of the retention payments payable by 31 March 2020.
2. **Discontinuation of deferred cash bonus plan**
   A review was completed of the long-term incentive plans for executive management. A deferred bonus scheme funded annually by excess profits, which has been treated as a long-term incentive in the past, will be discontinued for senior business executives and senior corporate/group executives with effect from the end of the 2018 financial year. Accumulated bonuses deferred in the hands of eligible senior executives (including the executive directors) thereunder will be paid out in the years from 2019 to 2021.
3. **The form and scale of long-term incentives**
   For employees (other than executive directors) who qualify, the philosophy recorded under the form and scale of long-term incentives in this report will be put into effect. This means that employees will receive long-term incentives based on performance more closely related to the business where they make the biggest contribution. The changes in philosophy enable Pepkor to award long-term incentives at group and/or business level as well.

Advisory services utilised

The committee utilised the services of PE Corporate Services for the executive remuneration benchmarking conducted during the year and the review of the remuneration policy undertaken at the end of the financial year. In addition, during the course of FY18, Pepkor also subscribed to REMchannel and REMeasure provided by PWC Research Services Proprietary Limited.

Shareholder engagement

The remuneration policy and implementation report were presented to shareholders for a non-binding vote at the AGM held on 15 March 2018. Of the votes cast, 91.8% were in favour of the remuneration policy and 90.7% were in favour of the implementation report. In the group's engagement with shareholders on the topic of remuneration, the following matters were discussed:

- **Disclosure of performance targets and link between performance and remuneration**
  Improvements have been made in the disclosure of performance targets where feasible, bearing in mind that these are commercially sensitive and confidential. Refer to the implementation report for further information.
- **Number of shares made available for the Pepkor long-term share incentive scheme**
  The Pepkor long-term share incentive scheme rules, as approved by the JSE and shareholders, provide that a maximum of 500 million unissued ordinary shares of no-par value in the company may be used for the implementation of the scheme. The Remcom resolved that this be reduced to 172.5 million unissued ordinary shares of no-par value in the company, representing 5% of the company's current number of issued shares. This provides sufficient longevity to the scheme based on the level of allocations considered.
- **Clawback provisions**
  A clawback provision was introduced in the long-term share incentive grant made in March 2018, and will also be included in future share grants.

In line with King IV, the remuneration policy and implementation report that follow in this report will be tabled for separate non-binding advisory votes by shareholders at the upcoming AGM. In the event that either the remuneration policy or the implementation report, or both, are voted against by shareholders exercising 25% or more of the voting rights exercised, in order to address legitimate and reasonable concerns, the committee will issue an invitation to dissenting shareholders to engage with them and provide for the manner and timing of such an event.

The board will continue to encourage regular dialogue with shareholders to create and maintain a mutual understanding of the performance that is expected.

Conclusion

The committee is satisfied that remuneration policies that are summarised in this report achieved their primary objectives in the financial year under review and are expected to do so again in the current financial year.

Steve Müller
Chairman of the human resources and remuneration committee

PART 2

Overview of remuneration policy

This section describes how remuneration is governed and will be governed in FY19 within the group.

The development of the remuneration policy

The remuneration policies that collectively make up the remuneration policy of the group have been developed systematically over a number of years. In some cases, they have been developed by the businesses prior to incorporation in the group. In all cases, policies have been adapted to support the performance-focused culture of the group.

The policies in place apply to dynamic businesses, which each needs to employ and retain specialist skills. Each business also needs to develop a recruitment strategy, independently of the others, that is robust in relation to competitors in its sector, in some instances across several different countries. The group's competitive advantage in these areas flows from an intricate and in-depth knowledge of supply chains and the nurturing of key supplier relationships, as well as goal-orientated marketing strategies and customer communications – offering what the market wants, at the right time and at the right price. These relationships and capabilities are all people-driven at a high level and depend on good systems, practices and policies.

To be successful, each business needs its own driving specialist management team, a support team to deliver on time, and systems that are robust and sustainable.

The framework of the remuneration system affecting all employees

While different policies may develop in different businesses, as has been explained, these policies are required to conform to and fit within a sound remuneration policy framework at all levels and across the whole organisation, differentiated by grade and level of responsibility.

Positions are graded according to the Paterson system, facilitating the business of the workforce into the following natural groups based on level of responsibility:

- Executive directors (shouldering the responsibility for group strategy, graded at F band)
- Executive management (the members of the group and business executive committees (Graded E and F (in some cases))
- Line managers (the heads of department graded D2 to D5)
- Administrative staff (graded D1 and below)
- Operational and logistics staff (graded D1 and below)

The following remuneration policies apply across the group:

Responsibility level	Guaranteed pay	Short-term incentives	Longer-term incentives
Operational and logistics staff	Salaries are reviewed annually based on an assessment of the competence of the employee or via a collective bargaining process.	A commission or gainsharing or outcome-based bonus may be awarded as an add-on to guaranteed pay. In some instances, a guaranteed thirteenth cheque also applies.	Skills development is encouraged and subsidised, facilitating career advancement. Employment benefits include retirement; medical, death and disability cover; and study funding. In addition, we provide bursaries to employees' children.
Administrative staff			
Line managers	Guaranteed packages are reviewed annually based on an assessment of the competence of the employee.	A performance bonus may be earned based on the performance of the department or business.	The incentives as outlined above apply in effect to this group of employees as well. In addition, some employees identified by the CEO and his executive team through succession planning processes as having high potential or key for retention, may be awarded long-term incentives as well.
Business senior executives		A performance bonus may be earned based on the performance of the business.	Employees participate in the long-term incentive schemes (group and business).
Corporate/group senior executives		A performance bonus (as above) may be earned, but is computed based on group profits.	

The rules of governance affecting executive management

Policies are in place to govern and control the remuneration of executive management.

Policy governing terms of employment

Employment contracts are terminable on one month's notice.

Remuneration packages, including the entitlement to long-term incentives, are renegotiated annually with effect from the beginning of each financial year – aligning commitment with accountability to shareholders.

No fixed-term employment contracts have been entered into with any senior executive and no special severance arrangements currently apply to any senior executive.

The remuneration package

Remuneration is defined as a package containing three elements:

- The total guaranteed package (GP), which includes the costs of employment benefits, such as travel allowances and retirement and medical fund contributions. GP is reviewed annually.
- A short-term incentive scheme is agreed in the form of an annual bonus or a profit pool-funded bonus.

- A long-term share-based incentive or achievement bonus is awarded.

The market positioning of guaranteed pay

The remuneration packages of executive management are benchmarked annually by the committee on the basis of a reputable salary survey.

The following approach is observed in this annual review exercise:

- The total guaranteed pay of each member of the executive management team is indexed relative to the median of the survey. The group CEO will make recommendations to the committee in relation to the pay level of each employee based on the index reading, taking into account the competence of the individual, and on the criticality of his or her contribution to the group. The level of the index applying to the remuneration of the group CEO will be reviewed by the committee.
- An annual increase will be determined by the committee based on expected inflation and gross domestic product forecasts, also taking into account what increase is to be applied to other employees.
- The succession risks in relation to top management positions are also considered by the committee.

Package structures

Guaranteed pay will continue to be negotiated on the basis that senior executives will be required to put more of their remuneration value at risk than support staff. They will be compensated for this by an entitlement to a short-term incentive on a greater scale, which will top-up their remuneration to the market-related level at target. To illustrate this, the following package structuring policy has accordingly been developed and will typically apply in FY19 to executive directors, business senior executives and line managers.

Element of package (Percentages are of total cost of employment (TCE) at target)	**Executive directors**	**Business senior executives**	**Line managers**
Guaranteed pay	**68%**	**77%**	**81%**
Short-term incentive at target	**32%**	**23%**	**19%**
TCE	**100%**	**100%**	**100%**
Maximum bonus (% of GP)	*90%*	*80%*	*45%*

The form and scale of the short-term performance bonuses

Each senior executive serving on an executive committee will be entitled to a short-term incentive bonus at the end of each financial year based on targeted pay at risk as reflected on the table above. Bonuses will be measured and determined accordingly as follows:

- The executive concerned will have a performance scorecard reflecting both financial and non-financial performance criteria. The criteria will be weighted between 70% to 90% based on financial criteria and between 10% to 30% based on non-financial criteria.
- The financial criteria for senior business managers will be tied to the financial performance of the business, where the target is equal to the approved budget for the business or a percentage of operating profit growth for the business. The non-financial criteria will be job-related according to the function and role of the manager concerned, where the criteria will be reset by the business managing director annually and will include project completion and organisational development objectives. Non-financial performance criteria achievement will be rated by the managing director of each business at the end of each year, while his or her own non-financially defined criteria will be evaluated and scored by the group CEO.
- In the case of the group CEO, the financial target will be based on the growth in earnings for the year coupled with strategic and other non-financial targets agreed annually in advance with the board.
- In the case of the CFO and other corporate head office functional heads, the financial target will be the same as for the CEO. The non-financial criteria will relate to the functional objectives defined at board meetings and will be evaluated by the CEO.
- The bonus will be provided and accounted for in the year to which it relates and paid out in the following year after it has been approved.

The form and scale of long-term incentives

Long-term incentives may take the form either of rights to full value shares subject to performance vesting conditions, or of rights to achievement bonuses for negotiated target achievement. The rights are granted annually with effect from the beginning of the year following the publication of the results of the previous year after the closed period for trading in shares has expired.

Senior executives and other key employees will be awarded long-term incentives consisting of organisational only or organisational and business share or bonus rights in terms of the company's long-term incentive plans on the basis of the following guidelines:

- Each employee will receive an allocated amount that is based on a targeted percentage range of market medium of GP for that job level. Such amount will be used to determine the value of incentive rights that are awarded to an employee.
- More rights can be awarded to an employee if this is approved by the committee upon the recommendation of the CEO, on the grounds of the criticality of his or her skills, knowledge, or in relation to the operations or needs of the group.
- In the case of the awarding of Pepkor share rights, the performance vesting conditions are set with a degree of difficulty which, together with the requirement of continuous employment, evaluates them as being worth approximately 50% of their face value on the date of the grant in the judgement of the Remcom. In the case of business share rights or achievement bonus contracts, the probability factor is variable and will depend on the target or project concerned.

The level of senior executive remuneration in relation to that of other employees

The committee considers that the remuneration system in place, being based on a grading system that recognises the responsibility level of every position and on regular and systematic benchmarking, will ensure that remuneration is continuously market-related.

As far as the overall scale of the income gap between high and low-income earners is concerned, the committee proposes to annually review the ratio across the group as between the median of the remuneration of executive management (employees graded E and F) and other employees (employees graded A to D) in future.

PART 3

Implementation of remuneration policy

This section discloses the details of the remuneration of the executive directors of the company and rights awarded to and received by them in terms of the policies set out in the remuneration policy section of this report that are required to be disclosed in terms of the Companies Act, the JSE Listings Requirements and King IV.

Note: The details of the remuneration of other senior executives are not disclosed since, while a number of them are engaged in strategic decision-making concerning their own business, only the board is ultimately responsible for the strategic decisions affecting the group as such. The executive directors are the prescribed officers of the company in terms of section 30 of the Companies Act.

Guaranteed pay benchmarking/increases in FY19

The benchmarking in the current year was undertaken on the basis of the PE Corporate Services SA Proprietary Limited Top Executive Salary Survey (April 2018). This found that the guaranteed pay of executive management across the group (excluding executive directors) was positioned at a comparative ratio of approximately 80% compared to companies of the same size in South Africa. This is close to the expectation based on the pay structuring target explained in the policy section above, on the basis that there is a skew towards variable pay in the pay structure of senior executives.

Increases of 6.7% were approved for the guaranteed packages of the CEO and CFO, compared to the general increase approved for operational, logistics and administrative support staff ranging between 6% and 8%.

Short-term incentive outcomes in FY18

The following bonuses were awarded to executive directors with respect to the financial performance of the group for the 2018 financial year:

Executive director	Bonus awarded 2018 R'000	Bonus awarded 2018 % of GP	Bonus awarded 2017 R'000	Bonus awarded 2017 % of GP
Leon Lourens[1]	**2 100**	**31%**	**4 070**	**80%**
Riaan Hanekom	**1 260**	**30%**	**2 035**	**80%**

[1] *Appointed as executive director on 6 December 2017, serving as chief operating officer prior to that.*

The Remcom concluded that Pepkor performed well operationally in FY18, reporting good growth relative to peers notwithstanding a challenging consumer and deflationary pricing environment. Double-digit revenue and operating profit (before capital and one-off costs) growth was achieved. Various corporate matters following the events at Steinhoff were successfully dealt with, most importantly the refinancing of shareholder funding and cancellation of guarantees.

Incentives were awarded in FY18 based on normalised EBIT (before taking into account non-recurring and non-trading transactions). The growth in normalised EBIT for FY18 on the basis of this definition was 10.7%, which entitled the executive directors to a bonus of circa 30% of their guaranteed pay.

Short-term incentive scheme targets for FY19

The board believes earnings, instead of EBIT, is a better measure and this will apply in FY19.

The incentive scheme for FY19 is set in the context of CPI of 6%. In this context, the entry-level bonus is CPI plus 4%. The entry-level bonus is calculated based on an earnings growth of 10%, which will give executive directors an entitlement to 30% of GP to a maximum of 40% earnings growth, which will give an entitlement of 80% of GP.

In FY19, non-financial performance will be added, which will, for FY19, yield a maximum of 10% short-term bonus. A higher percentage bonus will be considered for FY20. The target for FY19 is based on B-BBEE. It will be assessed based on the policy set out under 'The form and scale of short-term incentives' recorded above.

Long-term incentive scheme accruals and grants in FY18

No share rights vested in FY18. However, cash retention payments were awarded and paid as explained in the 'Background' section of this report. The retention payments accruing to the executive directors in FY18 reflect on the total remuneration schedule below.

The following grants of share rights were made to the executive directors in terms of the Pepkor Share Rights Scheme during FY18 and were outstanding and unvested as at the financial year-end:

Executive director	Rights held at beginning of the year	Rights granted during the year	Rights vesting or forfeited during the year	Rights held at end of the year
Leon Lourens	–	**570 244**	–	**570 244**
Riaan Hanekom	–	**390 244**	–	**390 244**

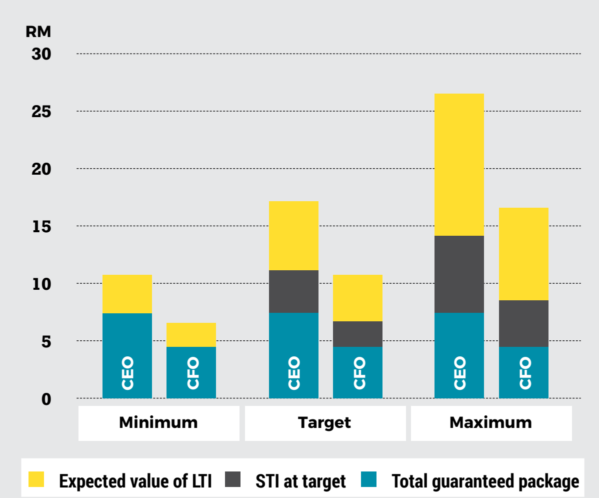
The agreed criteria for vesting, which may occur in March 2021 after approval by the board and based on the average of three financial years commencing 1 October 2017, are as follows:

	KPI	Weighting
Growth	Growth in headline earnings	**30%**
Cash generation	Cash conversion (cash generated by operations/EBITDA)	**30%**
Returns	Return on equity	**30%**
Sustainability	This includes broad-based black economic empowerment, employment equity and agreed sustainability projects	**10%**

Share rights existing in the Steinhoff scheme with respect of the executive directors of Pepkor	Offer date	Vesting date	Number of rights as at 30 Sept 2017	Number of rights forfeited during the year	Number of rights as at 30 Sept 2018	Value of rights exercised during the year R	Value of rights awarded during the year R
Share rights – Steinhoff scheme							
RG Hanekom	March 2016	March 2019	**89 550**	–	**89 550**	–	–
	March 2017	March 2020	**111 251**	–	**111 251**	–	–
			200 801	–	**200 801**	–	–
LM Lourens	March 2016	March 2019	**89 550**	–	**89 550**	–	–
	March 2017	March 2020	**121 365**	–	**121 365**	–	–
			210 915	–	**210 915**	–	–
Total executive directors			**411 716**	–	**411 716**	–	–

Long-term incentive scheme grants in FY19

Share rights will be granted to executive directors and other senior executives in terms of the policy defining 'Allocation amounts', which is set out in the remuneration policy section. The grants will be made following the expiry of the share trading closed period after the publication of this report and before the AGM. Performance vesting conditions in line with the policy as set out in the policy section will be confirmed at the meeting of the committee at which the grants are approved.



PROJECTED OVERALL IMPACT OF REMUNERATION POLICY

Total remuneration in FY18

The following is a breakdown of the total single figure of remuneration earned by the executive directors during the 2018 financial year, reflected on the basis of the cost to the company in terms of its accounting policies that observe IFRS rules:

	Remuneration of the executive directors	Basic remuneration R'000	Company and pension fund contributions R'000	Annual bonus R'000	Deferred cash short-term /strategic bonus R'000	Retention bonus/ deferred bonus R'000	Total remuneration and fees R'000
2018	LM Lourens	**5 802**	**899**	**2 100**	**1 071**	**3 901**	**13 773**
	RG Hanekom	**3 598**	**602**	**1 260**	**1 071**	**3 724**	**10 255**
	Paid by Pepkor	**9 400**	**1 501**	**3 360**	**2 142**	**7 625**	**24 028**
	AB la Grange[1]	**3 400**	**88**	**–**	**–**	**15 500**	**18 988**
	Paid by Steinhoff	**3 400**	**88**	**–**	**–**	**15 500**	**18 988**
	Total	**12 800**	**1 589**	**3 360**	**2 142**	**23 125**	**43 016**
2017	RG Hanekom	2 154	390	2 035	2 627	–	7 206
	Paid by Pepkor	2 154	390	2 035	2 627	–	7 206
	AB la Grange[1]	14 440	351	13 701	8 333	13 333	50 158
	Paid by Steinhoff	14 440	351	13 701	8 333	13 333	50 158
	Total	16 594	741	15 736	10 960	13 333	57 364

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

The following is a summary of fees paid to non-executive directors for their services as directors:

	Remuneration of the non-executive directors	Basic remuneration R'000	Company and pension fund contributions R'000	Company directors' fees R'000	Annual bonus R'000	Deferred cash Short-term/ strategic bonus R'000	Retention bonus/ deferred bonus R'000	Total remuneration and fees R'000
2018	J Naidoo	–	–	1 948	–	–	–	1 948
	JD Wiese	–	–	623	–	–	–	623
	VP Khanyile	–	–	–	–	–	–	–
	SH Müller	–	–	1 247	–	–	–	1 247
	AE Swiegers	–	–	389	–	–	–	389
	JB Cilliers	–	–	1 170	–	–	–	1 170
	HJ Sonn	–	–	529	–	–	–	529
	F Petersen-Cook	–	–	437	–	–	–	437
	MJ Harris	–	–	132	–	–	–	132
	Paid by Pepkor	**–**	**–**	**6 475**	**–**	**–**	**–**	**6 475**
	MJ Jooste	5 011	62	–	–	–	–	5 073
	DM van der Merwe[2]	15 432	557	–	–	–	8 333	24 322
	PJ Dieperink[2]	3 887	–	–	–	–	–	3 887
	LJ du Preez[2]	10 058	559	–	–	–	–	10 617
	Paid by Steinhoff	**34 388**	**1 178**	**–**	**–**	**–**	**8 333**	**43 899**
	Total	**34 388**	**1 178**	**6 475**	**–**	**–**	**8 333**	**50 374**
2017	VP Khanyile	–	–	51	–	–	–	51
	SH Müller	–	–	92	–	–	–	92
	AE Swiegers	–	–	88	–	–	–	88
	JB Cilliers	–	–	71	–	–	–	71
	J Naidoo[1]	–	–	146	–	–	–	146
	JD Wiese[1]	–	–	42	–	–	–	42
	HJ Sonn[1]	–	–	44	–	–	–	44
	Paid by Pepkor	–	–	534	–	–	–	534
	J Naidoo[1]	–	–	801	–	–	–	801
	JD Wiese[1]	–	–	1 479	–	–	–	1 479
	HJ Sonn[1]	–	–	1 479	–	–	–	1 479
	MJ Jooste	36 524	356	–	39 935	8 333	36 667	121 815
	DM van der Merwe	18 132	356	–	16 270	8 333	5 000	48 091
	Paid by Steinhoff	**54 656**	**712**	**3 759**	**56 205**	**16 666**	**41 667**	**173 665**
	Total	**54 656**	**712**	**4 293**	**56 205**	**16 666**	**41 667**	**174 199**

1 Relates to remuneration received for services provided to Steinhoff. Remuneration paid to non-executives relate mainly to fees paid by Steinhoff.

2 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 group and holding company. An amount of R1.27 million was paid to Steinhoff during the year for members of its board serving as non-executive directors of Pepkor.

Retail footprint

	30 September 2017		Openings	Closures	Net movement		30 September 2018	
	Retail stores	Retail area m² ('000)	Retail stores	Retail stores	Retail stores	Retail area m² (%)	Retail stores	Retail area m² ('000)
Clothing and general merchandise								
PEP	2 113	770	137	(19)	118	4.1	2 231	802
Ackermans	655	413	80	(4)	76	6.7	731	440
PEP Africa	322	128	36	(11)	25	5.6	347	135
Speciality[1]	876	218	82	(47)	35	1.0	911	220
TOTAL	3 966	1 529	335	(81)	254	4.5	4 220	1 597
Furniture, appliances and electronics								
Furniture and appliance retailers[2]	589	329	29	(36)	(7)	0.0	582	329
Bedding specialist retailer – Sleepmasters	163	24	28	(13)	15	13.3	178	27
Appliance and electronics retailers[3]	114	85	24	(6)	18	7.5	132	91
TOTAL	866	438	81	(55)	26	2.1	892	447
Building materials								
Building materials brands[4]	121	340	12	(9)	3	1.6	124	345
Pepkor	4 953	2 307	428	(145)	283	3.6	5 236	2 389

[1] Includes: Dunns, John Craig, Refinery, Shoe City and Tekkie Town brands
[2] Includes: Russells, POCO, Bradlows and Rochester brands
[3] Includes: Incredible Connection and HiFi Corp brands
[4] Includes (retail and wholesale): BUCO, Timbercity, Tiletoria, Floors Direct, MacNeil, Cachet, B-One, Buchel, W&B Hardware, Bildware, Citiwood and Brands 4 Africa

Shareholder analysis

Shareholder spread	Number of shareholdings	%	Number of shares	%
1 – 1 000 shares	5 032	43.98	1 853 736	0.05
1 001 – 10 000 shares	4 959	43.35	16 390 212	0.48
10 001 – 100 000 shares	988	8.64	31 476 306	0.91
100 001 – 1 000 000 shares	358	3.13	113 406 559	3.29
1 000 001 shares and over	103	0.90	3 286 873 187	95.27
Totals	**11 440**	**100.00**	**3 450 000 000**	**100.00**

Distribution of shareholders	Number of shareholdings	%	Number of shares	%
Banks/brokers	79	0.69	181 116 381	5.25
Close corporations	90	0.79	339 822	0.01
Endowment funds	60	0.52	4 088 317	0.12
Government	3	0.03	554 095	0.02
Individuals	8 940	78.15	23 281 908	0.67
Insurance companies	130	1.14	50 262 453	1.46
Investment companies	7	0.06	308 281 708	8.94
Medical schemes	17	0.15	2 082 088	0.06
Mutual funds	283	2.47	254 198 235	7.37
Other corporations	27	0.24	79 406	0.00
Private companies	278	2.43	12 767 707	0.37
Public companies	4	0.03	153 900	0.00
Retirement funds	330	2.88	141 653 459	4.11
Sovereign wealth fund	3	0.03	9 777 191	0.28
Strategic investor	1	0.01	2 450 000 000	71.01
Trusts	1 188	10.38	11 363 330	0.33
Totals	**11 440**	**100.00**	**3 450 000 000**	**100.00**

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	3	0.03	2 752 508 994	79.78
Directors and associates	2	0.02	302 508 994	8.77
Strategic holdings (more than 10%)	1	0.01	2 450 000 000	71.01
Public shareholders	11 437	99.97	697 491 006	20.22
Totals	**11 440**	**100.00**	**3 450 000 000**	**100.00**

Beneficial shareholders holding 1% or more	Number of shares	%
Steinhoff International Holdings Ltd	2 450 000 000	71.01
Lancaster 101 (Pty) Ltd	302 439 024	8.77
Fidelity	60 183 226	1.74
Coronation Fund Managers	53 311 001	1.55
Government Employees Pension Fund	47 494 435	1.38
Old Mutual	45 530 909	1.32
GIC Private Limited	38 912 530	1.13
Stonehill Capital Management	34 610 590	1.00
Totals	**3 032 481 715**	**87.90**

Share performance

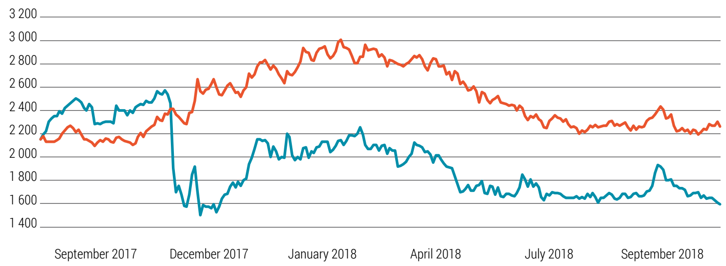
Analysis of trading

Year	Month	High sale (cents)	Low sale (cents)	Volume (million)	Value (R billion)
2017	October	**2 549**	**2 196**	**84.2**	**2.0**
2017	November	**2 597**	**2 273**	**43.6**	**1.1**
2017	December	**2 740**	**1 434**	**402.2**	**6.9**
2018	January	**2 182**	**1 510**	**143.3**	**2.7**
2018	February	**2 264**	**1 863**	**118.7**	**2.5**
2018	March	**2 328**	**1 902**	**92.4**	**2.0**
2018	April	**2 149**	**1 840**	**396.5**	**7.6**
2018	May	**2 047**	**1 511**	**189.6**	**3 .3**
2018	June	**1 850**	**1 592**	**100.5**	**1.7**
2018	July	**1 739**	**1 590**	**54.3**	**0.9**
2018	August	**1 929**	**1 621**	**69.3**	**1.2**
2018	September	**1 858**	**1 567**	**54.7**	**0.9**

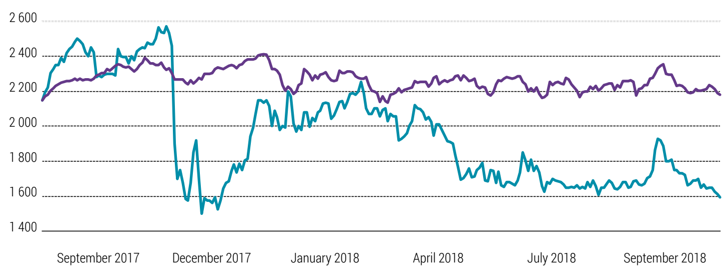
Key statistics – 12 months to 30 September 2018

Traded price (cents per share)	Close	**1 592**
	High	**2 740**
	Low	**1 434**
Market capitalisation at 30 September 2018 (R billion)		**54.9**
Value of shares traded (R billion)		**32.9**
Value traded as % of market capitalisation		**60.0%**
Volume of shares traded (million)		**1 749.2**
Volume traded as % of number in issue		**50.7%**
PE ratio (statutory headline earnings)		**18.8**
PE ratio (normalised headline earn-ings, excluding one-off costs)		**16.0**
Dividend yield (based on FY18 dividend declared)		**1.7%**
Earnings yield (statutory headline earnings)		**5.3%**
Earnings yield (normalised headline earnings, excluding one-off costs)		**6.2%**
Period-end market price/NAV		**0.99**
Shares in issue (million)		**3 450**
Average no of shares in issue (million)		**3 450**
Shares issued/(repurchased)		**0**
Number of shareholders		**11 440**

Pepkor Holdings Ltd vs General Retailers Index

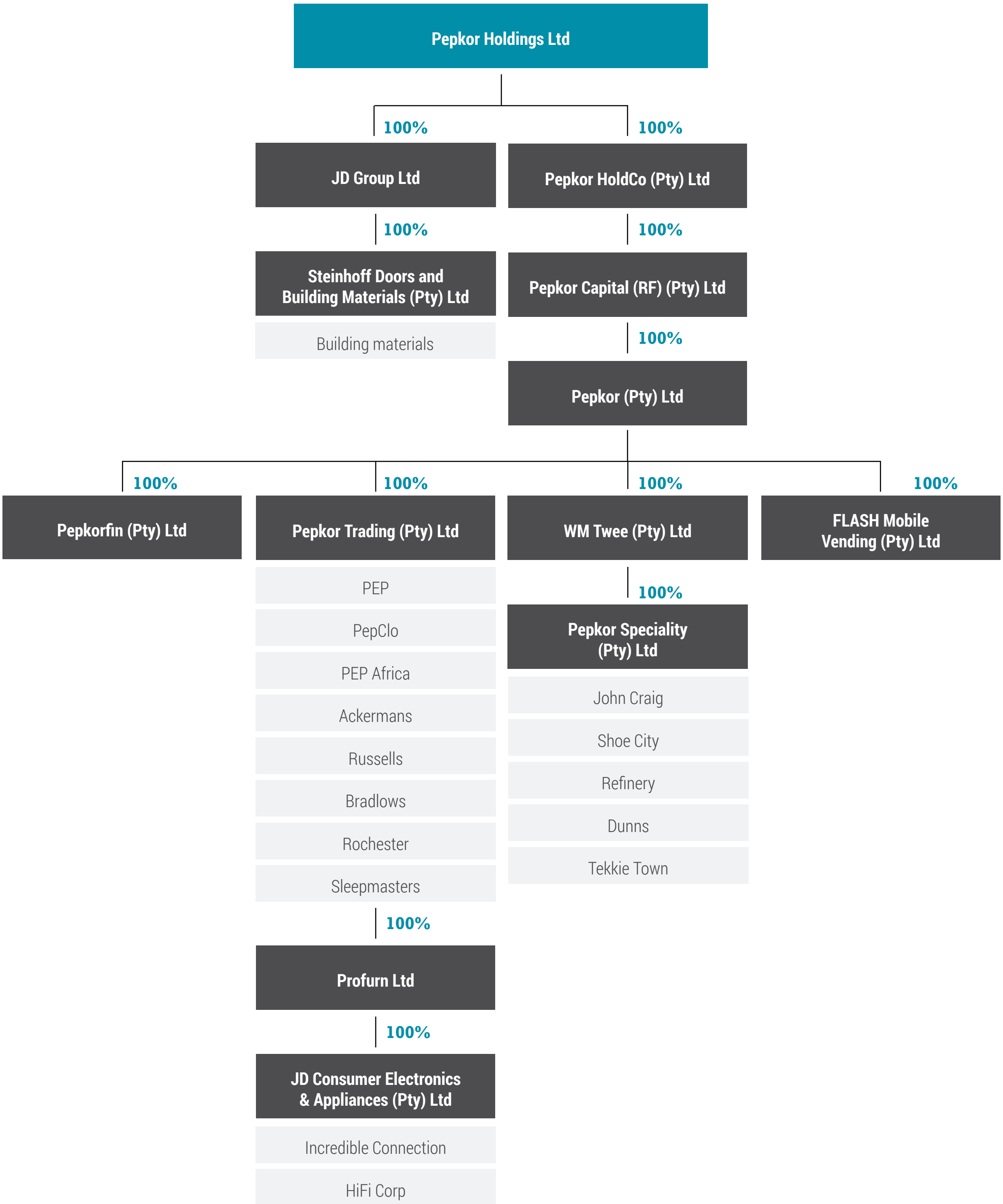


Pepkor Holdings Ltd vs All Share Index



Source: Bloomberg

Summarised group structure



Shareholders' diary

Record date for dividend payment	**18 January 2019**
Dividend payment date	**21 January 2019**
Annual general meeting	**11 March 2019**
Announcement of interim results	**29 May 2019**
Announcement of annual results	**25 November 2019**

Board meeting attendance

Board meeting attendance

	2017								2018										
	# 30/11	07/12	10/12	12/12	13/12	14/12	15/12	20/12	10/01	24/01	14/02	# 19/02	16/04	17/05	# 28/05	28/06	# 20/08	28/09	Total attendance
J Naidoo (Chairman)																			18/18
JB Cilliers																			18/18
PJ Dieperink *(Appointed 30 July 2018)*																			2/2
LJ du Preez *(Appointed 24 January 2018)*																			6/8
RG Hanekom																			18/18
MJ Harris *(Appointed 30 July 2018)*																			2/2
MJ Jooste* *(Resigned 5 December 2017)*																			1/1
VP Khanyile *(Resigned 10 January 2018)*																			3/8
AB la Grange *(Resigned 24 January 2018)*																			7/9
LM Lourens *(Appointed 6 December 2017)*																			17/17
SH Müller																			17/18
F Petersen-Cook *(Appointed 14 April 2018)*																			5/5
HJ Sonn *(Resigned 30 July 2018)*																			14/16
AE Swiegers *(Resigned 13 February 2018)*																			10/10
DM van der Merwe																			13/18
JD Wiese																			15/18

Audit and risk committee

	2017		2018			
	# 29/11	01/12	15/01	# 25/05	# 15/08	Total attendance
JB Cilliers (Chairman)▲						5/5
SH Müller						5/5
F Petersen-Cook •						1/2
AE Swiegers▪						3/3

▲Appointed 14 February 2018, •Appointed 14 April 2018, ▪Resigned 13 February 2018

Human resources and remuneration committee

	2018					
	# 02/02	19/02	23/02	# 19/06	# 28/09	Total attendance
SH Müller (Chairman)						5/5
J Naidoo						5/5
DM van der Merwe						5/5
MJ Harris▲						1/1

▲Appointed 30 July 2018

Nomination committee

	2018					
	02/02	13/03	10/04	25/05	03/07	Total attendance
J Naidoo (Chairman)						5/5
VP Khanyile▪						0/0
JB Cilliers						5/5
DM van der Merwe						5/5

▪Resigned 10 January 2018

Social and ethics committee

	2018	
	17/09	Total attendance
F Petersen-Cook (Chairman) •		1/1
LM Lourens		1/1
RG Hanekom		1/1

•Appointed as chairman 30 July 2018

Pre-appointment | Attended | Apology | Post-resignation | # Scheduled meeting

Corporate information

Registration number 2017/221869/06

Share code PPH

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