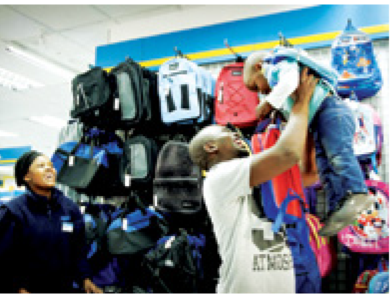
PEPKOR
Holdings Limited



Unaudited interim results
for the six months ended 31 March 2019

Highlights

7.0%

growth in revenue to **R35.3bn**

25.2%

growth in operating profit[1] to **R3.4bn**

6.9%
comparable[2]
operating profit growth

39.9%

increase in headline earnings per share to **50.7 cents**

3.4%
comparable[2]
headline earnings per share growth to **52.4 cents**

164

new stores opened during the period, totalling **5 332** stores

Internal funding of credit books commenced

[1] *Before capital items*

[2] *Comparable results exclude one-off costs. Refer to the 'Comparability of results' section for further information.*

PEPKOR Holdings Limited

Commentary

Overview

The Pepkor group reported satisfactory results during the six months ended 31 March 2019 (H1FY19) in a challenging retail market.

Consumer spending remains under pressure, having to contend with increased living costs and high levels of unemployment. Uncertainty prior to the 2019 elections, the implementation of stage four load-shedding and the shift of Easter to April further contributed to a very challenging retail environment.

Respectable earnings growth on a comparable basis was achieved, notwithstanding lower than expected sales growth. Pepkor's defensive market positioning of offering value to customers by providing everyday products at affordable prices and at customers' convenience, underpins the group's performance.

Pepkor grew its market share in the period under review, and the group's retail store footprint expanded to 5 332 stores, including 164 new store openings during the six-month period.

Pepkor grew its market share in the period under review, and the group's retail store footprint expanded to **5 332** stores.

Financial performance

The group achieved revenue growth of 7.0% to R35.3 billion and reported operating profit growth of 25.2%, before capital items, to R3.4 billion during H1FY19.

Pepkor's statutory results include one-off items that impact its comparison to the previous period. On a comparable basis, operating profit increased by 6.9% to R3.4 billion and headline earnings per share increased by 3.4% to 52.4 cents. Further information on how the comparable results were calculated is included in the 'Comparability of results' section of this results announcement.

Net finance costs increased by 33.5% to R738 million (29.8% to R718 million excluding one-off costs) as a result of the capital investment made to fund the two new credit books and as a consequence of lower cash generation.

Pepkor's effective tax rate for the period is 34.0%. South African income tax is calculated at 28% while tax in other jurisdictions is calculated at the prevailing rates. Items impacting Pepkor's effective tax rate relate mainly to irrecoverable foreign withholding taxes and non-deductible finance costs.

The internal funding of the new credit books commenced during the reporting period. The new JD Group credit book, Connect Financial Solutions, amounted to R1.0 billion (gross) and the new Capfin credit book amounted to R0.3 billion (gross) at 31 March 2019. The new credit books are funded by R2.5 billion bridging finance secured during the period. Opportunities to diversify funding sources are being explored.

Cash generation was negatively impacted by the funding of the new credit books and higher net working capital levels due to lower sales growth. Higher inventory levels reported at the end of FY18 due to lower sales activity were successfully managed through disciplined markdowns to manage stock freshness. Higher inventory levels at 31 March 2019 – compared to the prior year – were influenced by lower than expected sales and the shift of Easter to April, as well as an expanded store base.

Net debt increased to R15.7 billion from R12.6 billion at 30 September 2018. The contractual net debt-to-EBITDA ratio of the group is 2.04 times with interest cover at 5.65 times.

On a comparable basis, operating profit increased by **6.9%** to **R3.4 billion** and headline earnings per share increased by **3.4%** to **52.4 cents**.

The acquisition of FGI Holdings from Wands Investments, a subsidiary of Fulcrum, was approved by the Competition Commission and remains subject to conditions precedent, including Prudential Authority approval and a due diligence investigation. FGI provides insurance products via its subsidiaries under the Abacus brand to JD Group customers and other group companies.

Steinhoff International Holdings N.V. (Steinhoff) published its 2017 results in May 2019. These financial statements included a restatement for the reversal of the Steinhoff Share Right Scheme charges. The reversal of all costs pertaining to open share grants for Pepkor employees was adjusted to retained earnings in the current reporting period.

The group has adopted IFRS 9 Financial Instruments, resulting in additional provisions raised on credit books in terms of the new impairment model. This resulted in a net impact on opening retained earnings of R68 million in addition to a R50 million provision raised on the new JD Credit book.

As in the prior reporting period, the board resolved not to declare an interim dividend.

Operational performance

Clothing and general merchandise

The clothing and general merchandise segment reported revenue growth of **5.2%** to **R23.1 billion**, contributing **66%** of group revenue for the period under review. Operating profit increased by **6.6%** to **R3.1 billion**.

The challenging conditions within the discount and value retail sectors weighed on sales growth. By Pepkor standards, the sales growth achieved by many of its retail brands was lower than expected. However, the group increased its market share according to the Retail Liaison Committee (RLC).

Momentum in retail store footprint expansion continued. Retail brands within the segment opened 136 new stores during the period, resulting in a total of 4 310 stores and equating to retail space growth of 4.8% year-on-year. The progressive return of selling price inflation supported healthy sales growth within the core Clothing, Footwear and Home (CFH) product departments.

PEP and Ackermans

In aggregate, PEP and Ackermans reported merchandise sales growth of 5.4% and like-for-like growth of 1.6%, underscoring the challenging consumer environment. Within CFH, selling price inflation of 2.5% was recorded, along with volume growth of 3.5%. Selling price inflation is expected to continue during the remainder of FY19.

PEP

PEP maintained market share and its position as price leader despite the particularly challenging trading conditions within the discount market sector. Performance was supported by good growth in Babies and Home departments, with strong growth achieved in Fast Moving Consumer Goods (FMCG) and Financial Services.

A total of 5.3 million cellular handsets was sold during the period, which was below expectation following selling price increases in handsets. Corrective action in the form of a selling price reduction supported a recovery towards the end of the reporting period. Financial Services reported exceptional growth in profitability as PEP's strategy to expand its value-added services offering continues to resonate with customers.

PEP's retail store footprint expanded to 2 265 stores, including 47 new stores opened during the period across its traditional PEP, PEP Home and PEP Cell retail formats, equating to retail space growth of 3.8% year-on-year.

The PAXI parcel delivery service, which successfully leverages and monetises the PEP retail footprint, celebrated its first full year of operation. Good growth momentum continues, with 45 000 parcels currently being sent on a monthly basis.

The new Dealz discount variety retail concept rolled out four additional stores and continues to perform well with strong like-for-like and basket size growth. Plans are in place to open a further six stores during the remainder of FY19.

Ackermans

Ackermans' strong customer value proposition of providing value to 'women with kids in their lives' continued to drive growth and outperformed the market once again. A total of 31 new stores were opened during the period, expanding the store base to 759 stores and adding 6.3% retail space year-on-year.

The credit sales mix, facilitated by Pepkor's Tenacity Financial Services business, was maintained at 17%, with lay-bys contributing a stable 18% to total sales. Challenges in the new Hammarsdale distribution centre, commissioned towards the end of 2018, negatively affected product availability in-store for a few months.

Growth in CFH was supported by double-digit growth in the Essentials, Babies and Women's Wear product categories. The Ackermans Woman retail format continues to perform well, and an additional three stores were opened during the period, bringing the total store base to six.

PEP Africa

PEP Africa contributed 3.4% to group revenue during the period and reported like-for-like sales growth of 10.8% in constant currency terms[1]. The devaluation of Angolan and Zambian currencies resulted in a sales decline of 3.4% in reporting currency terms. The business continues to focus on enhancing processes, systems and efficiencies as it consolidates its base. Operations in Nigeria performed very well as the dynamics of the local market are better understood. Zimbabwe remains a concern and operations have been intentionally slowed down while viability is assessed and risk is managed.

Speciality

The Speciality division reported strong results with exceptional performances by some of the retail brands, reporting sales growth of 9.4% and like-for-like growth of 4.1%.

The total store footprint across five retail brands was expanded to 939 stores, with 47 store openings.

Footwear businesses Tekkie Town and Shoe City currently face challenging market conditions. Tekkie Town management has been successful in continuing to grow and expand the business while key projects are underway to enhance its supply chain and stock management ability. Dunns has maintained its positive performance trajectory, while John Craig and Refinery continue to report double-digit sales and like-for-like growth.

Furniture, appliances and electronics

JD Group increased revenue by **7.2%** to **R5.0 billion**, supported by the new JD credit book under Connect Financial Solutions.

Performance in this segment was characterised by difficult trading conditions where customer spending was more focused on essentials than durables and resulted in merchandise sales growth of 1.4% and a decline in like-for-like sales of 1.6%.

Credit sales, now funded internally, are managed conservatively and contributed 18% to sales. This includes a credit sales mix of 27% for furniture brands and 7% for consumer electronics and appliances brands.

Despite the challenging trading environment, an operating profit of R60 million was reported, reflecting the positive outcome of management's focus on efficiency gains and containing the segment's cost of doing business. This includes an additional provision of R50 million raised in terms of IFRS 9 on the new loan book.

Progress has been made in the operations and profitability of all brands. Management continues to optimise the retail store footprint of 900 stores, both in terms of locations and improved trading densities.

[1] *For further information on constant currency disclosure, refer to page 5 of this results announcement.*

Building materials

Segmental revenue increased by **1.5%** to **R4.0 billion**, while operating profit decreased by **66.9%** to **R42 million**.

The Building Company reported sales growth of 1.5% and like-for-like growth of 2.3% during the period with the building materials market currently experiencing its worst contraction in more than a decade. As a result, the business faced the dual challenge of defending its market share while margins and profitability were under pressure.

Positive sales growth was driven mainly by the wholesale division, with the general building and specialist retail divisions both reporting low sales growth.

Significant pressure on margins resulted in reduced profitability for the period and strategic development continues across the business, including initiatives to improve margins. Good cost control further continues to support profitability.

FinTech

The FinTech segment increased revenue by **32.3%** to **R3.2 billion**, while operating profit increased by **36.7%** to **R201 million**.

The FLASH business continues to report strong growth, with virtual turnover growth exceeding 20%. The number of FLASH traders increased to 156 000 from 131 000 in the comparative period.

The Capfin business performed well during the period and Pepkor commenced internal funding for the new Capfin loan book. Capfin saw healthy growth in new loan applications of 36% and credit granting continues to be managed on a conservative basis in terms of credit scorecards and affordability assessments. The introduction of new digital channels and a new marketing campaign further supported performance.

Outlook

Pepkor is a group of 49 000 employees whose purpose is to provide value that enriches customers' lives – making their lives better and easier. This focus will continue to support the group's performance during the remainder of the 2019 financial year. Management remains cautiously optimistic about the retail environment and expects improved consumer confidence following the completion of South Africa's elections. The group continues to identify opportunities for growth and expansion and expects to further expand its store footprint, achieving between 3% and 4% space growth in FY19 on a net basis.

Appreciation

Management and the board would like to thank shareholders, customers, employees and suppliers for their continued support and loyalty to Pepkor and its retail brands.

Jayendra Naidoo Chairman	Leon Lourens Chief executive officer	Riaan Hanekom Chief financial officer

27 May 2019

Pepkor group's pro forma constant currency disclosure

The Pepkor group discloses unaudited constant currency information to indicate PEP Africa's performance in terms of sales growth, excluding the effect of foreign currency fluctuations. To present this information, current period turnover for PEP Africa reported in currencies other than ZAR is converted from local currency actuals into ZAR at the prior year's actual average exchange rates. The table below sets out the percentage change in sales, based on the actual results for the period, in reported currency and constant currency, for the basket of currencies in which PEP Africa operates.

Change in sales on prior period (%)	Reported currency	Constant currency
PEP Africa	(3.4%)	15.6%

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Unaudited summarised consolidated interim financial statements

for the six months ended 31 March 2019

Summarised consolidated income statement

	Notes	Six months ended 31 March 2019 Unaudited Rm	Six months ended 31 March 2018 Unaudited Restated[1] Rm	% change	Twelve months ended 30 September 2018 Audited Restated[1] Rm
Revenue		**35 298**	32 998	7.0	64 144
Cost of sales		**(22 692)**	(21 245)	6.8	(41 913)
Gross profit		**12 606**	11 753	7.3	22 231
Operating income		**443**	594	(25.4)	938
Operating expenses		**(9 060)**	(9 084)	(0.3)	(16 107)
Operating profit before depreciation, amortisation and capital items		**3 989**	3 263	22.2	7 062
Depreciation and amortisation		**(599)**	(555)	7.9	(1 134)
Operating profit before capital items		**3 390**	2 708	25.2	5 928
Capital items	2	**2**	(1)	(300.0)	(37)
Operating profit		**3 392**	2 707	25.3	5 891
Finance costs[2]		**(846)**	(671)	26.1	(1 434)
Finance income[2]		**108**	118	(8.5)	242
Profit before taxation		**2 654**	2 154	23.2	4 699
Taxation		**(903)**	(899)	0.4	(1 804)
Profit for the period		**1 751**	1 255	39.5	2 895
Profit attributable to:					
Owners of the parent		**1 751**	1 249	40.2	2 885
Non-controlling interests		**–**	6	(100.0)	10
Profit for the period		**1 751**	1 255	39.5	2 895
Basic earnings per share (cents)	4	**50.8**	36.2	40.2	83.6
Headline earnings per share (cents)	4	**50.7**	36.2	39.9	84.5
Diluted earnings per share (cents)	4	**50.4**	36.1	39.7	83.3
Diluted headline earnings per share (cents)	4	**50.4**	36.1	39.4	84.2

[1] *Refer to note 8 for detail of restatements relating to new accounting standards effective for the current financial year as well as restatements noted in the footnote below.*

[2] *Net finance charges disclosed in the prior period have been reclassified to indicate finance costs and finance income separately.*

Summarised consolidated statement of comprehensive income

	Notes	Six months ended 31 March 2019 Unaudited Rm	Six months ended 31 March 2018 Unaudited Rm	Twelve months ended 30 September 2018 Audited Rm
Profit for the period		**1 751**	1 255	2 895
Other comprehensive loss				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations		**(167)**	169	98
Net fair value gain/(loss) on cash flow hedges		**28**	(524)	(22)
Net fair value (loss)/gain on cash flow hedges transferred to inventory		**(26)**	59	105
Deferred taxation on cash flow hedges		**28**	–	(55)
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	3	**–**	(621)	(538)
Taxation on exchange differences from translation of net investment in foreign operations		**–**	67	161
Total other comprehensive loss for the period		**(137)**	(850)	(209)
Total comprehensive income for the period		**1 614**	405	2 686
Total comprehensive income attributable to:				
Owners of the parent		**1 614**	399	2 676
Non-controlling interests		**–**	6	10
Total comprehensive income for the period		**1 614**	405	2 686

Summarised consolidated statement of changes in equity

	Notes	Six months ended 31 March 2019 Unaudited Rm	Six months ended 31 March 2018 Unaudited Rm	Twelve months ended 30 September 2018 Audited Rm
Balance at the beginning of the period		**55 711**	52 917	52 917
Share expenses capitalised		**–**	1	–
Changes in reserves				
Effect of adopting IFRS 9: Financial instruments (Refer to note 8)		**(68)**	–	–
Total comprehensive income for the period attributable to owners of the parent		**1 614**	399	2 676
Dividends paid		**(959)**	–	–
Shares bought from non-controlling interests		**(5)**	–	–
Share-based payments	6	**(167)**	41	159
Reserves acquired on acquisition of business		**–**	2	–
Transfers and other reserve movements	6	**203**	–	(19)
Changes in non-controlling interests				
Total comprehensive income for the period attributable to non-controlling interests		**–**	6	10
Non-controlling interests acquired on acquisition of business		**–**	(1)	–
Transactions with non-controlling equity holders		**5**	–	(17)
Dividends paid		**–**	–	(15)
Distributions		**(2)**	(6)	–
Balance at end of period		**56 332**	53 359	55 711
Comprising				
Ordinary stated capital		**64 690**	64 690	64 690
Common control reserve		**(11 755)**	(11 755)	(11 755)
Retained earnings		**3 677**	1 161	2 750
Share-based payment reserve	6	**72**	74	239
Hedging reserve		**300**	(222)	270
Foreign currency translation reserve		**(713)**	(691)	(546)
Other reserves		**55**	78	60
Non-controlling interests		**6**	24	3
		56 332	53 359	55 711

Summarised consolidated statement of financial position

	Notes	31 March 2019 Unaudited Rm	31 March 2018 Unaudited Restated[1] Rm	30 September 2018 Audited Rm
ASSETS				
Non-current assets				
Goodwill and intangible assets		**61 036**	60 966	61 049
Property, plant and equipment		**5 209**	4 720	5 251
Investments and loans		**203**	120	253
Deferred taxation assets		**1 305**	1 281	1 365
		67 753	67 087	67 918
Current assets				
Trade and other receivables[2]		**6 887**	5 643	5 874
Inventories		**13 664**	11 554	12 850
Current income taxation assets[2]		**377**	174	277
Loans due by related parties		**229**	201	224
Cash and cash equivalents		**3 140**	2 921	3 835
		24 297	20 493	23 060
Total assets		**92 050**	87 580	90 978
EQUITY AND LIABILITIES				
Capital and reserves				
Ordinary stated capital		**64 690**	64 690	64 690
Reserves		**(8 364)**	(11 355)	(8 982)
Total equity attributable to equity holders of the parent		**56 326**	53 335	55 708
Non-controlling interests		**6**	24	3
Total equity		**56 332**	53 359	55 711
Non-current liabilities				
Interest-bearing loans and borrowings		**17 011**	26	15 518
Loans due to related parties		**–**	11 000	–
Employee benefits		**53**	130	91
Deferred taxation liabilities		**4 112**	4 088	4 142
Provisions		**473**	594	564
Trade and other payables		**543**	580	545
		22 192	16 418	20 860
Current liabilities				
Trade and other payables[2, 3]		**9 696**	10 065	11 595
Loans due to related parties		**119**	5 112	173
Employee benefits		**861**	669	847
Provisions[3]		**778**	708	728
Current income taxation liabilities[2]		**649**	482	524
Interest-bearing loans and borrowings		**21**	34	19
Bank overdrafts and short-term facilities	5	**1 402**	733	521
		13 526	17 803	14 407
Total equity and liabilities		**92 050**	87 580	90 978
Net asset value per ordinary share (cents)		**1 632.6**	1 545.9	1 614.7

[1] Refer to note 8 for detail of restatements relating to new accounting standards effective for the current financial year as well as restatements noted in the footnotes below.

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

[3] Restatement of Business Venture Investments 1499 RF (Pty) Ltd (BVI) guarantee provision to provisions, previously disclosed as part of trade and other payables.

Summarised consolidated statement of cash flows

	Six months ended 31 March 2019 Unaudited Rm	Six months ended 31 March 2018 Unaudited Restated[1] Rm	Twelve months ended 30 September 2018 Audited Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit:	**3 392**	2 707	5 891
Adjusted for:			
Debtors' write-offs and movement in provision	**273**	150	302
Depreciation and amortisation	**599**	555	1 134
Non-cash adjustments	**397**	554	1 316
	4 661	3 966	8 643
Working capital changes			
Increase in inventories	**(1 126)**	(515)	(2 161)
Decrease/(Increase) in trade and other receivables	**32**	(822)	(834)
Increase in revolving credit and installment sale receivable movement	**(1 428)**	(131)	(289)
Decrease in trade and other payables	**(1 971)**	(1 897)	(47)
Net changes in working capital	**(4 493)**	(3 365)	(3 331)
Cash generated from operations	**168**	601	5 312
Net dividends paid	**(961)**	(6)	(15)
Finance cost paid	**(856)**	(672)	(1 425)
Finance income received	**108**	119	242
Taxation paid	**(800)**	(429)	(1 597)
Net cash (outflow)/inflow from operating activities	**(2 341)**	(387)	2 517
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment and intangible assets	**(586)**	(715)	(1 871)
Proceeds on disposal of property, plant and equipment and intangible assets	**–**	24	113
Acquisition of businesses, net of cash on hand at acquisition	**–**	(297)	(297)
Amounts paid on long-term investments and loans	**(1)**	(11)	(143)
Proceeds on disposal of business	**–**	–	4
Net cash outflow from investing activities	**(587)**	(999)	(2 194)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share issue expenses	**–**	1	1
Transactions with non-controlling interests	**–**	–	(29)
Amounts received on bank overdrafts and short-term facilities	**880**	564	351
Amounts received/(amounts paid) on long-term interest-bearing loans and borrowings	**1 498**	(43)	15 429
Debt raising fees paid	**(5)**	–	(110)
Amounts received on short-term interest-bearing loans and borrowings	**2**	–	8
Amounts received/(amounts paid) on related party payable	**–**	279	(15 870)
Net cash inflow/(outflow) from financing activities	**2 375**	801	(220)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(553)**	(585)	103
Effects of exchange rate translations on cash and cash equivalents	**(142)**	(291)	(65)
Cash and cash equivalents at beginning of the period	**3 835**	3 797	3 797
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**3 140**	2 921	3 835

[1] Refer to note 8 for details of restatements of 31 March 2018 cash flows to better reflect the nature thereof.

Notes to the summarised consolidated financial statements
for the six months ended 31 March 2019

Statement of compliance

The summarised consolidated interim financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for summarised financial statements and the requirements of the Companies Act applicable to summarised financial statements. The Listings Requirements require summarised financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated interim financial statements from which the summarised consolidated interim financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the annual consolidated financial statements for the year ended 30 September 2018, except where the group has adopted new standards and interpretations effective in the current financial year, as detailed in note 8.

Basis of preparation

The summarised consolidated interim financial statements are prepared in millions of South African rand (Rm) on the historical cost basis, except for certain assets and liabilities, which are carried at amortised cost, and derivative financial instruments, which are stated at their fair values (the classification of these assets and liabilities did not change classification subsequent to the adoption of IFRS 9: Financial Instruments). The preparation of the summarised consolidated interim financial statements for the six months ended 31 March 2019 was supervised by RG Hanekom CA(SA), the group's chief financial officer.

Restatement

On 1 October 2018, the group adopted IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers, effective for financial years ending on or after 1 January 2018, which had an effect on the prior period disclosures. The group further reclassified certain statement of comprehensive income, statement of financial position and statement of cash flows items for the period ending 31 March 2018 to be consistent with the reclassifications done for the year ended 30 September 2018. Refer to note 8 for details of these restatements.

Financial statements

These results have not been reviewed or reported on by the group's auditors. All forward-looking information is the responsibility of the board of directors and has not been reviewed or reported on by the group's auditors. The results were approved by the board of directors on 27 May 2019.

Events subsequent to the reporting period

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

	Six months ended 31 March 2019 Unaudited Rm	Six months ended 31 March 2018 Unaudited Restated[1] Rm	% change	Twelve months ended 30 September 2018 Audited Restated[1] Rm
1. SEGMENTAL ANALYSIS				
REVENUE				
Clothing and general merchandise	**23 124**	21 991	5.2	42 448
Furniture, appliances and electronics	**4 973**	4 638	7.2	8 615
Building materials	**4 035**	3 976	1.5	8 105
FinTech	**3 166**	2 393	32.3	4 976
	35 298	32 998	7.0	64 144
OPERATING PROFIT BEFORE CAPITAL ITEMS				
Clothing and general merchandise	**3 127**	2 934	6.6	6 112
Furniture, appliances and electronics	**60**	–	100.0	(137)
Building materials	**42**	127	(66.9)	214
FinTech	**201**	147	36.7	250
	3 430	3 208	6.9	6 439
RECONCILIATION BETWEEN OPERATING PROFIT				
Operating profit per segmental analysis	**3 430**	3 208	6.9	6 439
One-off items	**(40)**	(500)	92.0	(511)
Capital items (note 2.1)	**2**	(1)	300.0	(37)
Operating profit per income statement	**3 392**	2 707	25.3	5 891
Finance costs	**(846)**	(671)	(26.1)	(1 434)
Finance income	**108**	118	(8.5)	242
Profit before taxation per income statement	**2 654**	2 154	23.2	4 699
SEGMENTAL ASSETS	**88 478**	84 338	4.9	86 666
RECONCILIATION BETWEEN TOTAL ASSETS AND SEGMENTAL ASSETS				
Total assets per statement of financial position	**92 050**	87 580	5.1	90 978
Less: Cash and cash equivalents	**(3 140)**	(2 921)	(7.5)	(3 835)
Less: Long-term investments and loans	**(203)**	(120)	(69.2)	(253)
Less: Loans due by related parties	**(229)**	(201)	(13.9)	(224)
Segmental assets	**88 478**	84 338	4.9	86 666

Basis of segmental presentation

During the preparation of the 2018 annual consolidated financial statements 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). Accordingly, the 31 March 2018 financial period segmental analysis has been restated to reflect this change.

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

Identification of segments

The identification of segments is consistent with those identified in the annual consolidated financial statements for the year ended 30 September 2018.

Segmental analysis

Geographical analysis

The revenue, operating profit before capital items 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

One-off items relate to the following:

Impairment of loans associated to third party debt	**40**	60	(33.0)	60
Guarantee to RMB in relation to BVI	**–**	440	(100.0)	451
One-off items	**40**	500	(92.0)	511

[1] *Refer to note 8 for details of restatements relating to new accounting standards effective for the current financial year.*

	Six months ended 31 March 2019 Unaudited Rm	Six months ended 31 March 2018 Unaudited Rm	Twelve months ended 30 September 2018 Audited Rm
2. OPERATING PROFIT			
2.1 Capital items			
Capital items reflect and affect the resources committed in producing operating/trading performance and are not the performance itself. These items deal with the platform/capital base of the entity. Capital items are required to be reported by the Johannesburg Stock Exchange (JSE) as part of the calculation of headline earnings.			
Impairments of property, plant and equipment	**–**	–	20
(Profit)/loss on disposal of property, plant and equipment and intangible assets	**(2)**	1	15
Loss on sale and dilution of investments	**–**	–	2
	(2)	1	37

3. INVESTMENTS IN FOREIGN OPERATIONS

It has been agreed, by mutual consent between the Pepkor African subsidiaries and Pepkor Trading (Pty) Ltd, that there will be no fixed repayment terms attached to outstanding loans. The loans are now viewed to be capital in nature and no foreign exchange gains and losses relating to revaluation are recognised.

	Six months ended 31 March 2019 Unaudited Million	Six months ended 31 March 2018 Unaudited Million	Twelve months ended 30 September 2018 Audited Million
4. EARNINGS PER SHARE			
4.1 Weighted average number of ordinary shares			
Weighted average number of ordinary shares at end of the period for the purpose of basic earnings per share and headline earnings per share	**3 450**	3 450	3 450
Effect of dilution due to share right issues in terms of share scheme	**23**	11	10
Weighted average number of ordinary shares at end of the period for the purpose of diluted earnings per share and diluted headline earnings per share	**3 473**	3 461	3 460
	Rm	Rm	Rm
4.2 Earnings and headline earnings			
Profit for the period	**1 751**	1 255	2 895
Attributable to non-controlling interests	**–**	(6)	(10)
Earnings attributable to ordinary shareholders	**1 751**	1 249	2 885
Capital items (note 2.1)	**(2)**	1	37
Taxation effect of capital items	**–**	–	(5)
Headline earnings attributable to ordinary shareholders	**1 749**	1 250	2 917

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. FINANCING AND CONTINGENT LIABILITIES

The group entered into bridge facilities to the value of R2.5 billion on 20 March 2019 for a maximum period of 18 months. The facilities can be used for general corporate and banking purposes, including but not limited to working capital financing for the build-up of consumer finance credit books in Pepkor. The bridge facility is to be settled by the launch of a bond facility in an effort to reduce the group's overall funding costs and diversify its sources of funding as originally anticipated upon listing of the group in September 2017. The terms and conditions of the facilities are aligned with that of the current term loans and revolving credit facilities as disclosed in the annual consolidated financial statements for the year ended 30 September 2018. There were no further changes to the contingent liabilities as disclosed in the annual consolidated financial statements for the year ended 30 September 2018.

6. REVERSAL OF STEINHOFF SHARE RIGHTS

Steinhoff International Holdings N.V. (Steinhoff) published its 2017 results in May 2019. These financial statements included a restatement for the reversal of the Steinhoff Share Right Scheme IFRS 2 charges. The restatement did not result in any material adjustment to the Pepkor financial statements. The group has transferred the cumulative amount related to these grants from the share-based payment reserve to retained earnings in the current period.

7. RELATED PARTIES

During the period, the group entered into related party transactions in the ordinary course of business, the substance of which are similar to those disclosed in the group's annual financial statements.

8. RESTATEMENT OF PRIOR YEAR COMPARATIVES

On 1 October 2018 the group adopted the following accounting standards, effective for financial years ending on or after 1 January 2018, which had an effect on the prior period disclosures.

8.1 IFRS 9: Financial Instruments

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

Impairment of financial assets under the new impairment model

The new impairment model applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15: Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'. The assessment of credit risk and the estimation of ECL is unbiased and probability-weighted, and incorporates all available information that is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

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

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

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

	Rm
Closing retained earnings 30 September 2018 as previously reported	**2 750**
Increase in impairment allowance for trade and other receivables	**(94)**
Increase in deferred tax relating to impairment allowances	**20**
Increase in taxation payable relating to impairment allowances	**6**
Opening retained earnings on 1 October 2018	**2 682**

The application of IFRS 9 did not have a material impact on the reported earnings or financial position for the interim results under review.

8.2 IFRS 15: Revenue from Contracts with Customers

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

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

Agent vs principal assessment

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

Rebates from suppliers

The group assessed its different rebates received from suppliers. In certain instances, rebates relating to the purchase of inventory were recognised either as revenue, operating income or net of operating expenses. According to IFRS 15, rebates relating to the purchase of inventory should be accounted for net of the cost of inventory and unwinded to cost of sales as the goods are sold.

8. RESTATEMENT OF PRIOR YEAR COMPARATIVES (Continued)

8.2 IFRS 15: Revenue from Contracts with Customers (Continued)

Impact on statement of comprehensive income:

	Previously reported Six months ended 31 March 2018 Unaudited Rm	IFRS 15 adjustment Rm	Restated Six months ended 31 March 2018 Unaudited Rm	Previously reported Twelve months ended 30 September 2018 Audited Rm	IFRS 15 adjustment Rm	Restated Twelve months ended 30 September 2018 Audited Rm
Revenue	33 013	(15)	**32 998**	64 168	(24)	**64 144**
Cost of sales	(21 281)	36	**(21 245)**	(42 027)	114	**(41 913)**
Gross profit	11 732	21	**11 753**	22 141	90	**22 231**
Operating income	553	41	**594**	875	63	**938**
Operating expenses	(9 577)	(62)	**(9 639)**	(17 088)	(153)	**(17 241)**
Capital items	(1)	–	**(1)**	(37)	–	**(37)**
Operating profit	2 707	–	**2 707**	5 891	–	**5 891**
Finance costs	(671)	–	**(671)**	(1 434)	–	**(1 434)**
Finance income	118	–	**118**	242	–	**242**
Profit before taxation	2 154	–	**2 154**	4 699	–	**4 699**
Taxation	(899)	–	**(899)**	(1 804)	–	**(1 804)**
Profit for the period	1 255	–	**1 255**	2 895	–	**2 895**
Profit attributable to:						
Owners of the parent	1 249	–	**1 249**	2 885	–	**2 885**
Non-controlling interests	6	–	**6**	10	–	**10**
Profit for the period	1 255	–	**1 255**	2 895	–	**2 895**

	Previously reported Six months ended 31 March 2018 Unaudited Rm	Restatement Rm	Restated Six months ended 31 March 2018 Unaudited Rm
Reclassification of prior year comparatives:			
8.3 Statement of comprehensive income			
Certain statement of comprehensive income figures has been restated as indicated below:			
Operating profit	2 707	–	2 707
Net finance costs	(553)	553	–
Finance costs	–	(671)	(671)
Finance income	–	118	118
Profit before taxation	**2 154**	**–**	**2 154**
8.4 Statement of financial position			
Certain statement of financial position comparative figures has been restated as indicated below:			
Current liabilities			
Trade and other payables	10 987	(922)	10 065
Current income taxation liabilities	–	482	482
Provisions	268	440	708
	11 255	**–**	**11 255**
8.5 Statement of cash flows			
Certain statement of cash flow comparative figures has been restated as indicated below:			
Cash flow from operating activities			
Cash generated from operations	732	(131)	601
Increase in revolving credit and installment sale receivable movement	(131)	131	–
Net finance costs	(553)	553	–
Finance costs	–	(671)	(671)
Finance income	–	118	118
Net cash flows from operating activities	**48**	**–**	**48**
Cash flows from financing activities			
Amounts received/(amounts paid) on long-term interest-bearing loans and borrowings	236	(279)	(43)
Amounts received on related party payable	–	279	279
	236	**–**	**236**

8.6 Segmental analysis

During the preparation of the 2018 annual consolidated financial statements 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 prior period segmental analysis was thus revised to reflect this and is consistent with the segmental analysis as reported per the annual consolidated financial statements as at 30 September 2018.

Comparability of results

As reported in Pepkor's interim results for the six months ended 31 March 2018 (H1FY18) on 29 May 2018, and in trading statements published on 17 April 2019 and 10 May 2019, H1FY18 results were impacted by one-off costs pertaining to the BVI matter, which entails a provision for exposure in terms of a corporate financial guarantee of R440 million and associated loans of R60 million. One-off costs in H1FY18 therefore amounted to R500 million, impacting H1FY18 earnings per share metrics by approximately 14.5 cents. This is calculated by applying the total impact net of tax of R500 million to a weighted average number of shares of 3 450 million.

During H1FY19, accumulated finance costs of R20 million (reflected in finance costs) were incurred in terms of the corporate financial guarantee, and R40 million (reflected in operating expenses) was raised in terms of credit exposure pertaining to the associated loans. One-off costs in H1FY19 therefore amount to R60 million, impacting H1FY19 earnings per share metrics by approximately 1.7 cents. This is calculated by applying the total impact net of tax of R60 million to a weighted average number of shares of 3 450 million.

Resolution of the BVI matter continues to be evaluated in the context of a claim made by BVI for damages against Steinhoff International Holdings N.V.

The comparable results as set out in this results announcement have been prepared for illustrative purposes only, in order to provide shareholders with comparable results. The impact of these one-off costs is deemed to be non-recurring in nature, pending the resolution of the matter. Because of its nature, the historic financial information may not fairly present Pepkor's financial position, changes in equity, results of operations or cash flows. The comparable results are presented in accordance with the JSE Listings Requirements and the Guide on Pro Forma Financial Information issued by SAICA.

The comparable results are the responsibility of the board and were not reviewed or reported on by Pepkor's auditors.

The table below illustrates the effect of the above:

Results for the six months ended 31 March 2018 (H1FY18)

	Statutory results for the six months ended 31 March 2018 Rm	Provision for guarantee and loan impairment Rm	Comparable results for the six months ended 31 March 2018 Rm
Operating profit before capital items	2 708	500	3 208
Capital items	(1)	–	(1)
Operating profit	**2 707**	**500**	**3 207**
Net finance costs	(553)	–	(553)
Profit before taxation	**2 154**	**500**	**2 654**
Taxation	(899)	–	(899)
Profit for the period	**1 255**	**500**	**1 755**
Profit attributable to:			
Owners of the parent	1 249	500	1 749
Non-controlling interest	6	–	6
Basic earnings per ordinary share (cents)	**36.2**	**14.5**	**50.7**
Headline earnings per ordinary share (cents)	**36.2**	**14.5**	**50.7**
Weighted average number of ordinary shares in issue (millions)	3 450	3 450	3 450

Results for the six months ended 31 March 2019 (H1FY19)

	Statutory results for the six months ended 31 March 2019 Rm	Provision for guarantee and loan impairment Rm	Comparable results for the six months ended 31 March 2019 Rm
Operating profit before capital items	3 390	40	3 430
Capital items	2	–	2
Operating profit after capital items	**3 392**	**40**	**3 432**
Net finance costs	(738)	20	(718)
Profit before taxation	**2 654**	**60**	**2 714**
Taxation	(903)	–	(903)
Profit for the period	**1 751**	**60**	**1 811**
Profit attributable to:			
Owners of the parent	1 751	60	1 811
Non-controlling interest	–	–	–
Basic earnings per ordinary share (cents)	**50.8**	**1.7**	**52.5**
Headline earnings per ordinary share (cents)	**50.7**	**1.7**	**52.4**
Weighted average number of ordinary shares in issue (millions)	3 450	3 450	3 450

PEPKOR
Holdings Limited

Corporate information

PEPKOR HOLDINGS LIMITED

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

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

NON-EXECUTIVE DIRECTORS J Naidoo (Chairman), JB Cilliers[†], PJ Dieperink, LJ du Preez, PJ Erasmus (resigned 29 January 2019), MJ Harris[*], W Luhabe[*] (appointed 1 January 2019), SH Müller[*], F Petersen-Cook[*], DM van der Merwe, JD Wiese

[†] *Lead independent* [*] *Independent*

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COMPANY SECRETARY Pepkor Proprietary Limited | **AUDITORS** PricewaterhouseCoopers Inc. | **SPONSOR** PSG Capital Proprietary Limited

ANNOUNCEMENT DATE 29 May 2019