PEPKOR
Holdings Limited

INTEGRATED REPORT 2019

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ABOUT THIS REPORT

PEPKOR *Holdings Limited*

The Pepkor Holdings Limited (Pepkor or the group) 2019 integrated report provides an overview of the group's performance during the 2019 financial year (FY19) ended 30 September 2019, and illustrates how value is created for stakeholders.

This report is primarily aimed at the investor community, namely our shareholders and funding providers, and is supported by detailed reports aimed at specific key stakeholder groups. These reports, in aggregate, represent Pepkor's integrated reporting suite for the 2019 financial year:

Integrated report 2019

- Corporate governance report*
- Corporate social responsibility report
- Remuneration report
- Annual financial statements

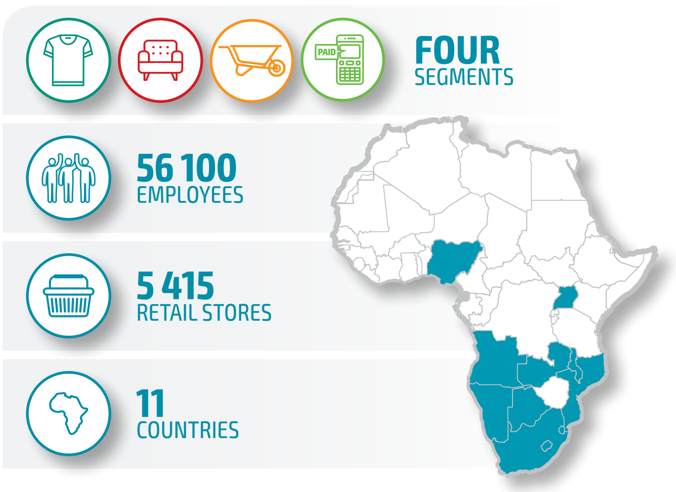
All these reports, including the notice of annual general meeting, are available for download on the group's website: **www.pepkor.co.za**.

Reporting boundaries

The integrated reporting suite covers Pepkor Holdings Limited, its subsidiaries and operating businesses that, despite being concentrated in South Africa, include operations in 11 countries. Pepkor's risk management approach is key in determining material issues, which inform the boundaries of this report.

All references to Pepkor, the group or the company refer to Pepkor Holdings Limited and its underlying subsidiaries.

There were no significant restatements from prior periods other than those described in note 34 to the annual financial statements. Financial information contained in the integrated report was extracted from the audited annual financial statements that were approved by the Pepkor board on 22 November 2019.



* *Includes the group's application of the 16 principles of King IV™.*

Reporting principles and frameworks

The following principles and frameworks were considered and applied in these reports:

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 <IR> Framework as issued by the International Integrated Reporting Council (IIRC)
FTSE4Good Index – a series of ethical investment stock market indices
United Nations Global Compact (UNGC), Organisation for Economic Co-operation and Development (OECD) and International Labour Organisation (ILO) principles

Materiality

Materiality determines the context and extent of disclosure of any material issues relating to the businesses or the group. Pepkor management and the board consider materiality from both financial and non-financial perspectives within risk tolerance levels.

Assurance

Pepkor's combined assurance model addresses all the significant risks faced by the group. It comprises management, the internal audit function, external audit services and other specialists contributing to combined assurance.

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.

Forward-looking information

This integrated report contains certain forward-looking statements that 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 auditor.

Continuous improvement

Pepkor continues to develop and enhance its application of integrated reporting principles. The process to identify relevant group-wide material issues was developed based on the group's risk management framework. This allows for adequate evaluation of risk and opportunities across the group. In addition, Pepkor's value-creation process was further evaluated in context of its dependence on the available forms of capital. These forms of capital include:

1. **Social capital:** Our relationships with our customers, communities and suppliers that have been established and nurtured over many years.
2. **Human capital:** Our employees, culture, and skills development, which enables employees not only to deliver on Pepkor's strategy, but also to grow on a personal level.
3. **Intellectual capital:** Our retail experience and disciplined way of doing business in a simplified and effective manner at the lowest possible cost, in addition to consistent innovation on how the needs of customers can be better served.
4. **Manufactured capital:** Our systems and processes, physical and virtual retail channels and supply chain capability enable customers to have easy access to our products and services.
5. **Financial capital:** Funding to sustain and grow our operations, including shareholder equity, debt and other funding. We allocate capital optimally to maximise returns.
6. **Natural capital:** The impact of our business model and operations on our communities and the environment.

Responsibility

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

Approval of the integrated report

The board acknowledges its responsibility to ensure the integrity of the integrated report. The directors confirm that 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.

On behalf of the Pepkor board

Jayendra Naidoo
Non-executive chairman
31 January 2020

Leon Lourens
Chief executive officer

This year is best characterised as a year of rebuilding.

In this annual integrated report, our second since the rebirth of Pepkor Holdings, we are pleased to report that the company has been able to devote attention primarily to operational matters.

Pepkor is more than just a company; it is a group of committed and dedicated people with a mission and passion to improve the lives of its customers and employees.

This year compares favourably with the previous year (which we had characterised as a year of struggle) in which the company was buffeted by the corporate meltdown of its major shareholder, Steinhoff International Holdings N.V., resulting in the board and management devoting much attention to numerous shareholder-related crises.

This year is best characterised as a year of rebuilding, during which the company re-established its solid platform, which served it so well in the past, to ensure improved performances in the coming years. In the process, the group's strategic intent and positioning has been reassessed, along with the strategic plans and growth potential of each of its business segments, resulting in several strategic initiatives, a number of which have already been successfully executed during the year.

The board and its committees have diligently enhanced the link between management incentives and performance and provided management with both a clear mandate as well as the space to focus on business priorities. This annual integrated report reflects the positive outcomes achieved as a result.

Pepkor and all its operating companies have focused tirelessly on serving our customers well, with a compelling value proposition of lowest prices and the lowest cost of doing business in the South African retail arena. In very challenging macroeconomic conditions in South Africa and the other territories we currently operate in, and despite having to deal with low economic growth, rising unemployment and falling incomes, our market share has risen in most product categories, and the company has improved its headline earnings ahead of its peers.

The board is encouraged by the resilient performance of PEP and Ackermans, the mainstay of the group, as well as the significantly improved profitability of the Speciality group of brands (including the management consolidation and continued expansion of Tekkie Town); the continued turnaround of the furniture, appliances and electronics segment; the improved profitability and cash generation of the PEP Africa operations; and the fast-growing FinTech segment. The Building Company has done well to protect market share in a challenging building materials market and has made good progress in restructuring and consolidation of the business.

Equally encouraging is the ability of management to continuously identify opportunities for new investment to further grow the retail footprint of these businesses, even in these challenging economic conditions, which in the past year resulted in the opening of in excess of 300 new stores, and in the process creating many additional permanent job opportunities.

The board has continued to evolve its composition positively and, as at the end of the year, has strengthened its governance by achieving a majority of independent non-executive directors with a good balance of skills, experience and diversity. The company secretarial function has also been improved, leading to much smoother operation of the board and its committees, and enhanced compliance in general.

As the report of the audit and risk committee reflects, detailed attention has been given to the entire scope of their work, enabling a highly transparent presentation of the affairs of the company with the confidence that the quality of reported earnings of the group is high; its level of cash generation has improved and is sustainable; and that risk management across the group is developing in line with expectations.

As indicated in our previous integrated report, the board remains focused on allocating capital to those areas that provide the best return on capital and reducing capital allocation to business activities that provide poor returns. Last year, the POCO chain was closed. This year, the company found it necessary to discontinue its Zimbabwean operations. Further initiatives continue to realign capital allocation towards those areas that are capable of delivering better returns to shareholders.

Achieving growth in difficult economic conditions requires constant innovation and experimentation. Many new formats are being developed across the group with a view to offer our customers a better value proposition and to generate sustainable additional profitable business. These range from developing various e-commerce initiatives in all brands to growing new retail brands; introducing new product categories into existing businesses; and exploring new territories. In all of this, Pepkor's approach is to keep out cost of doing business at the lowest level compared to our competitors, something which we have successfully maintained.

During the year under review, the cost of servicing the company debt has remained a focus area of the board. While the level of gearing remains well within reasonable limits, this will continue to receive attention in the coming year. Although the medium-term strategic target is for the net debt levels to be reduced to one times EBITDA, it is the collective desire of the board to reduce the level of gearing further in absolute terms to enhance profit growth, reduce risk for all stakeholders, and create capacity for the funding of new growth initiatives, as and when such opportunities arise in future.

The board believes that broad-based black economic empowerment (B-BBEE) is fundamental to meaningful economic transformation. We scrutinise the B-BBEE status of our suppliers and business partners, while we are well aware that the company has much work to do in achieving what we believe to be a desirable B-BBEE rating. The company was first rated in 2018, it being newly constituted. Pepkor remains deeply committed to the development of our staff and the communities that we serve, as is evident from the corporate social responsibility report.

Read more: Corporate social responsibility report

Pepkor is more than just a company; it is a group of committed and dedicated people with a mission and passion to improve the lives of our customers and employees. That ethos has allowed the company to survive a tough period and will enable it to thrive in the future, whatever the challenges that lie ahead.

Finally, I wish to thank the members of the board, and especially the executive directors, executive management, all the staff of the group and the operating companies and their families, for their tireless effort, commitment and sacrifices in delivering a fine performance over the year.

Jayendra Naidoo
Non-executive chairman

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PEPKOR Holdings Limited

Pepkor has the largest retail store footprint in southern Africa.

Pepkor is built around its purpose to make a positive difference in the lives of our customers. We do this by providing affordable products and services to our customers who, in most cases, have limited financial means. We leverage the scale of our operations, supply chain and infrastructure through our retail experience and discipline to bring the right products and services to our customers at the best possible prices, enabling them to live with dignity and pride. This consistent delivery of value to our customers has resulted in our retail brands being trusted and supported for many decades.

↑ **9.0%**
REVENUE GROWTH[1] TO **R69.6bn**

↑ **15.6%**
GROWTH IN OPERATING PROFIT[2] TO **R6.8bn**

↑ **12.0%**
GROWTH IN OPERATING PROFIT[3] TO **R7.2bn**

R7.6bn
CASH GENERATED FROM OPERATIONS[4]

338
NEW STORES OPENED

11
COUNTRIES

Angola
Malawi
Mozambique
Nigeria
Uganda
Zambia

329
STORES

Botswana
eSwatini
Lesotho
Namibia
South Africa

5 086
STORES

5 415
TOTAL STORES

2.4 million m²
TOTAL RETAIL SPACE

56 100
TOTAL EMPLOYEES

400 million
TRANSACTIONS PER ANNUM[5]

1 billion
UNITS SOLD PER ANNUM

[1] From continuing operations.
[2] From continuing operations before capital items and including the impact of Business Venture Investments 1499 RF Proprietary Limited (BVI)-related costs and the implementation of IFRS 9.
[3] From continuing operations before capital items and excluding the impact of BVI-related costs and the implementation of IFRS 9. Refer to the CFO's report on page 22 to 25.
[4] Excluding investment in new credit books.

[5] Stock keeping unit (SKU) transactions, excluding financial services transactions.

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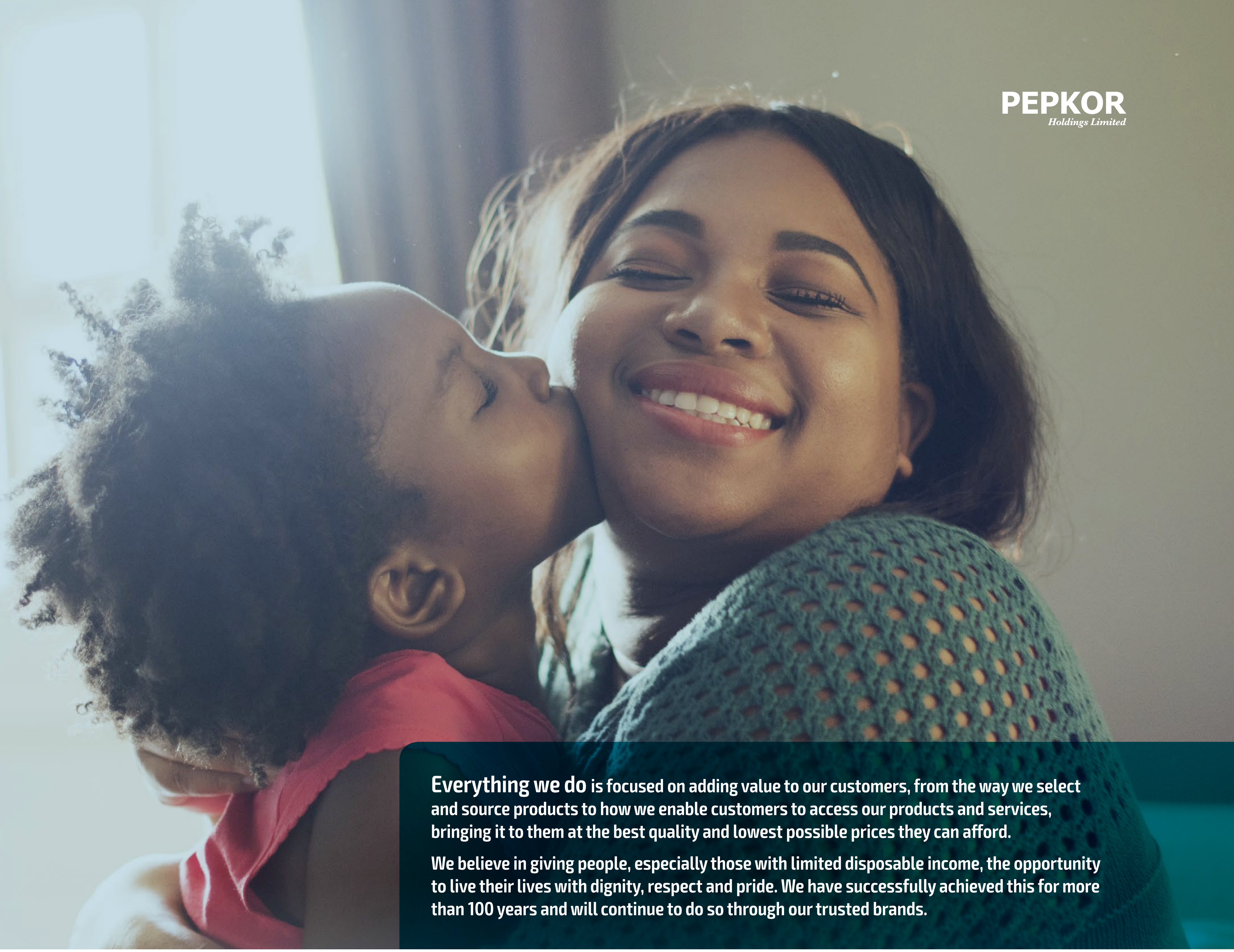
PEPKOR Holdings Limited

It is our purpose to make a positive difference in the lives of our customers.



Our mission

To make a positive difference in the lives of our customers and the communities in which we operate by providing convenient access to everyday products and services at affordable prices.

Our vision

To be a globally respected discount and value retailer – by being the best place to shop, work and invest.

Our values

SUPPORT RESPECT ENABLE TRUST GROW

Everything we do is focused on adding value to our customers, from the way we select and source products to how we enable customers to access our products and services, bringing it to them at the best quality and lowest possible prices they can afford.

We believe in giving people, especially those with limited disposable income, the opportunity to live their lives with dignity, respect and pride. We have successfully achieved this for more than 100 years and will continue to do so through our trusted brands.

Our history

1901 1911 1916 1943 1947 1950 1965 1975 1978 1980 1986 1988 1989 1995 1998 1991 1992 1993 1993 1993 1994 1996 2000 2000 2006 2010 2011 2015 2016

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We are a diversified retailer of significant size and scale operating across four segments.

All the retail brands within the segments focus on customers in the discount, value and specialist value retail market, which includes the vast majority of the southern African population. Pepkor is diversified through the different product types offered to customers, including apparel, household goods, building materials, general merchandise, cellular and financial services products. The group is biased towards providing basic products and services that customers need and want on a daily basis.

The businesses within these segments operate on a decentralised basis, each with their own senior leadership team in charge of strategic development and implementation thereof. The businesses are further supported and enabled by strategic central support services (Group Services) that include specialist skills and capabilities and focus on leveraging the scale of the group and applying best practice.

Read more: Our support functions page 10

CLOTHING AND GENERAL MERCHANDISE

This segment includes retail brands focused on offering clothing, footwear and homeware (CFH) products. While the PEP and Ackermans businesses comprise the majority of this segment, the PEP Africa and the Pepkor Speciality cluster of brands is also included. The Pepkor corporate office and Group Services also form part of this segment.

FURNITURE, APPLIANCES AND ELECTRONICS

This segment comprises the JD Group business, which includes household furniture, appliances and electronics retail brands. The business is structured into two retail divisions and includes six retail brands.

BUILDING MATERIALS

The Building Company business is included in this segment. The business operates across three divisions, which include more than 10 established and well-known brands.

FINTECH

This segment includes businesses that provide virtual products and services to customers in the informal sector through digital technology to make their lives easier. In many instances, these businesses leverage other Pepkor retail channels, including the store footprint.

CONTRIBUTION TO GROUP RESULTS[1]

Segment	Revenue	Operating profit
Clothing and general merchandise	65%	88%
Furniture, appliances and electronics	13%	2%
Building materials	12%	2%
Fintech	10%	8%

Segment	Stores / Flash traders	Employees
Clothing and general merchandise	4 395 STORES	36 900 EMPLOYEES
Furniture, appliances and electronics	900 STORES	10 600 EMPLOYEES
Building materials	120 STORES	7 000 EMPLOYEES
Fintech	169 000 FLASH TRADERS	1 600 EMPLOYEES

Read more: Operational review page 38

Read more: Operational review page 52

Read more: Operational review page 58

Read more: Operational review page 64

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[1] Pro forma results from continuing operations (excluding capital items, BVI-related costs and the implementation of IFRS 9). Refer to the CFO's report on page 22 to 25.

Pepkor Group Services supports and enables operating businesses by leveraging the scale of the group and applying best practice.

Group Services manages all the functions that support the brands and other operational businesses. Centralising many of these services and regulatory functions allows us to use our economies of scale to save costs and improve efficiencies, providing a holistic group approach to group compliance.

The Pepkor central office further supports operational businesses through finance and treasury, human resources, internal audit, investor relations, legal, marketing and tax functions.

Pepkor Data & Analytics

Pepkor has collected data since 2011 to analyse customer and shopping behaviour and to help build better customer relationships. Data is used to provide an end-to-end solution for retail brands delivering communication initiatives to their customers. Customer communication is made more relevant by considering customer segments and preferences. Data includes the information of unique known customers, with various attributes and behavioural data describing the customer base.

Value-add activities

Data collection and analysis, sector research and benchmarking, explorative and descriptive analysis, predictive customer behaviour models and access to census, location and credit bureau data.

Highlights

- 20 million known customers
- 10 million monthly communications with customers
- 38% of customers shop at more than one Pepkor brand

Pepkor Installations

Pepkor Installations was initially formalised in 2008 to service PEP. Today, it services Pepkor's CFH brands through shopfittings and refurbishments. It also assists with the design and implementation of new-look stores.

Value-add activities

Lower cost of acquisition per account, lower service cost per account.

Highlights

- 150 000 m² retail space refurbished in FY19
- 30 shopfittings completed per month
- Development of new AckXperience store

Pepkor IT

Pepkor IT reduces operational costs and strengthens productivity for Pepkor's retail businesses. With services that include IT strategy, engineering and development, Pepkor IT plays an important role in helping the group's various brands to develop effective and bespoke technology solutions to operate in a competitive environment.

Value-add activities

Innovation, infrastructure development, new technology readiness, digital transformation.

Highlights

- Centralised IT technology across 4 000 stores
- Logistics IT infrastructure directs and tracks the delivery of 24 million cartons annually
- Designed, developed and implemented the parcel delivery system for PAXI

Tenacity

Tenacity Financial Services has been part of Pepkor since 2007 and is a specialist in the management of in-store credit card programmes. It provides customer payment solutions to certain Pepkor retail brands with a value proposition that includes private label cards, lay-bys, gift cards, virtual vouchers, payment applications and payment options.

Tenacity Financial Services' credit programmes are highly regarded for their simple pricing structures, quick time to market and ongoing professional support.

Value-add activities

Client relationships and customer feedback, complaints handling, lower cost of acquisition per account, lower service cost per account, digital transformation initiatives.

Highlights

- 1.4 million loyal active account customers
- 12.6 million in- and outbound customer calls in FY19
- 1.6 million account applications received in FY19

Pepkor Logistics

Pepkor Logistics provides a product distribution service for Pepkor's CFH brands. Its cost-effective and reliable delivery network makes it easy for Pepkor brands to deliver on their value-for-money and service promises to customers.

Value-add activities

Distribution efficiencies, long-haul distribution centre (DC) connections to distribution hubs and stores.

Highlights

- 24 million km distribution network managed centrally
- 24 million cartons distributed annually
- Daily deliveries to 3 800 stores

PepClo

Pep Clothing (PepClo) is a low-cost, high-volume mass manufacturer of school clothes and basic footwear that supplies the group through six factory divisions.

Value-add activities

Textile laboratory testing, additional flip-flop production line.

Highlights

- Largest clothing manufacturing facility in South Africa under one roof, employing 2 000 people
- 11.5 million garments produced annually
- 50 years of operation

Pepkor Properties

Pepkor Properties gives Pepkor's brands the opportunity to grow through access to expert property knowledge and systems. Its comprehensive property offering includes:

- identifying new locations;
- preparing feasibility studies;
- managing the existing property portfolio;
- payment of rental to landlords; and
- the negotiation of leases and contracts.

Pepkor Properties is assisted by a financial and legal team that covers all aspects of property management.

Value-add activities

Facilities management, asset management, development management, multi-brand property analyses.

Highlights

- 5 700 property leases managed
- 1 500 leases concluded annually
- Average of 7.9% saving achieved on lease renewals in FY19

Pepkor Sourcing & Services

Pepkor Sourcing supports Pepkor's CFH retailers in building strategic sourcing and technical capabilities. Key focus areas include:

- 3D sampling;
- local and regional sourcing opportunities;
- supplier and enterprise development;
- value-added sourcing; and
- group contract negotiations.

Value-add activities

Quality control, shipment tracking, buying support, supplier and trend tours.

Highlights

- Good progress made in implementation of 3D sampling
- Increased focus on local space procurement
- Supporting the South African Retailer, Clothing, Footwear and Leather Masterplan (SA R–CTFL) for job creation

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PEPKOR Holdings Limited

Pepkor's strategy is to provide everyday products and services at affordable prices at customers' convenience.

Managing a large retail group at a low cost of doing business in the predominantly discount and value retail market requires a disciplined approach that promotes simplicity.

While the strategy of each retail business within the group is formulated on a decentralised basis, a common objective is shared in providing value to customers.

Product

The right product that serves customers' needs

We provide wanted and needed products and services for the family and home, taking trends and customer needs into consideration, resulting in **VARIETY** offered to our customers.

Price

Best possible price in product category

Our efficient supply chain, global sourcing capability and low cost of doing business enable us to provide products and services at the best possible prices, resulting in **AFFORDABILITY** for our customers.

Convenience

Accessible locations and channels

We are able to serve customers at their convenience through our expansive store footprint, variety of retail channels and numerous payment methods, with innovative technology, resulting in **ACCESSIBILITY** for customers.

... and ultimately providing customers with value for money.

Our material issues

Our group strategy is formulated to address material issues faced by the group based on its operating environment and market positioning. Material issues comprise risks and opportunities and are identified based on the group's established risk management framework.

The risk management framework is designed to ensure effective oversight, implementation and assurance of risk management and control systems. Risk management is continuously embedded in business activities and decision-making processes at all levels within the group and in the areas of finance, compliance, sustainability, health and safety, business continuity and disaster recovery. The risk management process involves both a top-down and bottom-up approach, resulting in a holistic view of risk from both a group and individual business perspective.

Executive management at each business level is accountable to the Pepkor executive committee as well as the audit and risk committee for design, implementation and monitoring of risk management systems and processes.

Read more: Corporate governance report

1 Sustainable growth

The current macro-environment, with high unemployment and pressure on disposable income, inhibits growth in the retail market, especially in durable product categories like furniture, appliances, electronics and building materials. Pepkor's product diversification and bias towards more defensive and basic product categories in the clothing and general merchandise segment supports performance during these times. Maintaining focus on our customers and their needs and concentrating on our innovative and disciplined retail competencies remain ever more critical during these times to protect our reputation and ensure that market share is not only protected, but also expanded.

Digital disruption is considered and responded to by businesses in the most appropriate and innovative ways to address their customers' needs, resulting in businesses each being at different stages of digital transformation. The use of data and technology further supports the group and its businesses in its digital transformation.

2 Maintaining an efficient and effective supply chain

Pepkor operates an extensive supply chain that is dependent on good supplier relationships, information and communication technology, as well as systems and infrastructure. The group has built relationships with suppliers over many years and has developed effective disaster recovery policies and procedures. Product responsibility begins at the point of sourcing and in many cases extends beyond the products' end-of-life cycles. The group further continues to identify additional opportunities to leverage the scale of its supply chain.

3 Maintaining a low cost of doing business

Pepkor operates at the lowest cost of doing business in the South African retail market, which provides a significant competitive advantage over other retailers. The group will maintain its low-cost culture and identify opportunities where the cost base can be further optimised through leveraging the scale of the group.

The group's disciplined approach supports this in a responsible and considered manner in areas such as currency volatility, through a stringent currency hedging policy and compliance with regulatory change and complexity.

4 Attracting and retaining talent

We believe in treating our customers with respect and this begins with ensuring that we treat our employees in the same way. Pepkor not only provides employees with an income, but also with relevant development to benefit the group and, in addition, to enhance their future employability elsewhere.

5 Allocating capital effectively and optimising gearing levels

The group continues to allocate capital effectively to maximise returns. This naturally results in trade-offs having to be made and less capital being allocated to parts of the business with suboptimal return prospects. Opportunities exist to optimise the group's gearing, diversify the sources of funding and reduce the related funding cost.

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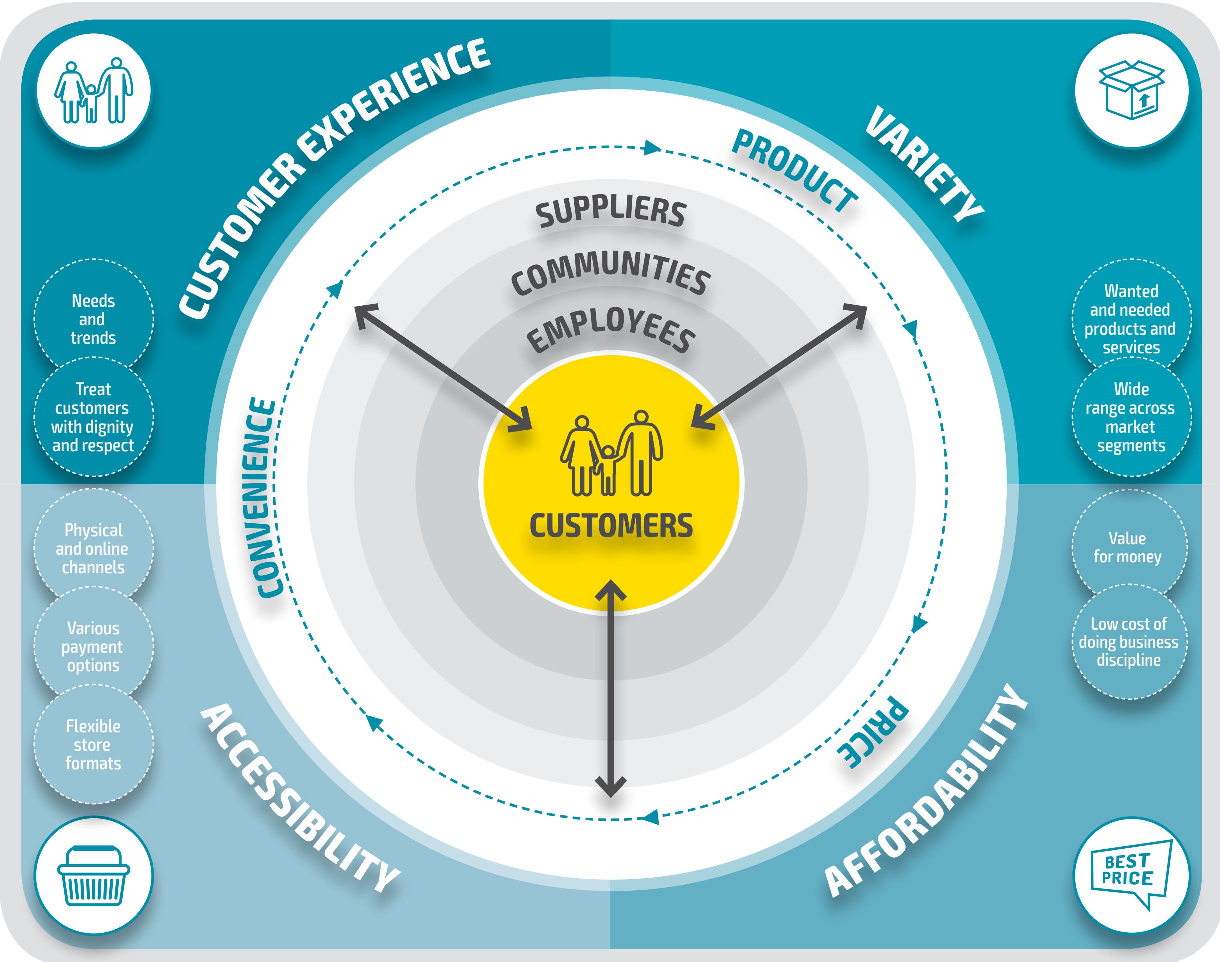
PEPKOR Holdings Limited

Our business model enables us to create value for our stakeholders. The outputs of this model are delivered through a continuous focus on our customers – ensuring that they have a positive customer experience and easy access to the variety of products and services we offer at affordable prices. We nurture our relationships with our employees and customers, and we believe that contributing to the communities they live in is key to the trusted brands we have created. We have further built long-standing relationships with our suppliers to enable us to deliver on our brands' promises.



Building better business, together

The group's sustainability strategy guides our businesses to drive social change and further enhance efficiencies in their business practices.

Read more: Corporate social responsibility report

Group Services

Pepkor's Group Services enable operating businesses to leverage the scale of the group and apply best practice.

Read more: page 10

Our investments in capitals	Our strategic outcomes	*Read more:* Case studies[1]
Social capital **Our relationships** Product and service innovation, affordability and accessibility, supplier development, local sourcing, corporate social investment	**20 million** known customers **R45 million** invested in corporate social investment initiatives Improvement in B-BBEE contributor score to **40.87 points**	Customer loyalty and awards Community investment
Human capital **Our people** Employment, opportunity to develop and grow, exposure to retail and supply chain experience, employee support and wellness	**R57 million** spent on training and development **55%** black female store managers **24 300** employees trained	Opportunities to develop and grow Employee support and wellness
Intellectual capital **How we do business** Innovation, intellectual property, retail and supply chain experience, efficient processes, best price leadership, synergies across brands and businesses, governance, brand equity	**25.9%** cost of doing business **24 million** cartons distributed annually through supply chain network **850 000** PAXI parcels distributed leveraging scale through innovation	Supply chain experience and efficiencies Innovation
Manufactured capital **Our infrastructure** Logistics and technology infrastructure, systems, scale, accessibility through expansive store footprint, mobile technology	**338** new stores opened **90 000 m²** DC commissioned in Hammarsdale **R1.7 billion** capital expenditure invested	Expansive store footprint Logistics infrastructure
Financial capital **Our funding** Good business practices, trusted corporate governance, shareholder returns, investor confidence, business growth, employee development	**107.3 cents** headline earnings per share[2] Scrip dividend with a cash alternative of **20.9 cents** declared for FY19 **R1.6 billion** finance costs incurred **R6.7 billion** total tax contribution[3]	CEO's report – page 20 CFO's report – page 22
Natural capital **Our environment** Responsible sourcing, supply chain efficiencies, waste management, recycling, awareness and behaviour	**321 660 CO_2e tonnes** **5 000 tonnes** of cartons reused	Electricity savings Waste management

[1] *Case studies are available on the group's website, www.pepkor.co.za.*
[2] *For comparable results, see the CFO's report.*
[3] *Includes taxes borne by the group as well as third-party taxes collected.*

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PEPKOR
Holdings Limited

The Pepkor board strengthened its independence during the year and includes individuals with a diverse range of relevant skills.

The Pepkor board assumes responsibility for governance, the setting of strategy and the monitoring of the implementation of strategy through the setting of short- to medium-term operational objectives for executive management. The board also assumes the responsibility for setting the ethical tone and the creation of an ethical and compliant culture.

The board and the executive management team are committed to the adoption and effective implementation of policies and practices that ensure a culture of integrity and compliance that meets high levels of transparency and disclosure.

In recognition of the importance of conducting the affairs of the group according to the highest standards of governance and in the best interests of its investors, Pepkor's commitment to good governance is formalised in its policies and operating procedures.

The principles and structures for facilitating good corporate governance are in place throughout the group's operations and are operating effectively. The board is committed to ensure that these are reviewed periodically to improve and enhance its effectiveness. The directors are satisfied that Pepkor substantially complies with the principles and spirit of King IV™.

The board is assisted by an audit and risk committee, human resources and remuneration committee (Remcom), social and ethics committee and nomination committee, as well as an ad hoc investment committee that meets as and when appropriate.

Read more: Corporate governance report

Board profile

Executive directors 2/11

Independent non-executive directors 5/9

Gender diversity:
Female representation 2/11

Race diversity:
Black representation 4/11

Board committees

The governing body should ensure that its arrangement for delegation within its own structures promotes independent judgement and assists with the balance of power and effective discharge of its duties.

- Audit and risk
- Nomination
- Human resources and remuneration
- Social and ethics

Our remuneration philosophy

The Pepkor remuneration philosophy originates from our purpose of growing our people and our business.

When our people grow, their businesses grow – and ultimately our group grows. The company remuneration philosophy seeks to serve shareholder interests by supporting sustainable growth.

We aim to position ourselves in the market to ensure we attract, motivate and retain key and critical talent. We achieve this by applying appropriate remuneration structures across all employee levels, as well as within our various group-level entities, ensuring that the correct balance between guaranteed pay, short-term incentives and long-term incentives is achieved.

Remuneration is governed by the Pepkor board with the Remcom mandated 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.

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

The Remcom is satisfied that the remuneration policy achieved its primary objectives in the 2019 financial year.

Read more: Remuneration report

R7 billion
PAID IN SALARIES

56 100
PEPKOR EMPLOYEES

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PEPKOR
Holdings Limited

Board of directors

NON-EXECUTIVE CHAIRMAN

Jayendra Naidoo (59)
BProc

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 was appointed the first executive director of NEDLAC, serving until 1998. In 2000, he co-founded the J&J Group and he is the founder of the Lancaster Group. Jayendra has served on several committees and boards, including the board of Pepkor Holdings Proprietary Limited as a non-executive director 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

LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR

Johann Cilliers (60)
BAcc (Cum laude), BAcc Hons, CA(SA)

Johann was appointed lead independent non-executive director of Pepkor on 29 May 2018, following his initial appointment to the Pepkor board on 18 August 2017. 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 from 1991 to 1998 as financial director. In 1998, Johann joined PEP SA as director of operations 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 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 2015. Johann currently manages various private investments.

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

CHIEF EXECUTIVE OFFICER

Leon Lourens (53)
HND (Human Resources), BCom (Marketing)

Leon was appointed as group 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 Pepkor Holdings at its listing on 20 September 2017. He has more than 27 years' experience in retail, primarily from store operations in the discount sector of the market. Leon serves as a director on a number of subsidiary boards in the Pepkor group.

Member of the social and ethics committee

INDEPENDENT NON-EXECUTIVE DIRECTOR

Steve Müller (58)
BAcc, BAcc (Hons), CA(SA), Sanlam EDP, IoD

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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Fagmeedah Petersen-Cook (44)
BBusSc (Act.Sc.), FIA, FASSA, PGDip (MgtPrac), IoD (Cert.Dir.)

Fagmeedah was appointed as an independent non-executive director on 16 April 2018. Fagmeedah is an actuary with 23 years' technical experience in the pensions and investments industry. Until 2016, 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 appointed 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 board of Telkom, where she chaired the investment committee while she was the acting CIO of the Eskom Pension Fund. She is an independent director of Absa Financial Services, chairs the investment committee of the Absa Pension Fund, and also serves as chairman of the Bankmed audit committee. As an actuary, Fagmeedah brings enterprise risk management skills and multi-generational planning techniques to the boardroom.

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

NON-EXECUTIVE DIRECTOR

Theodore de Klerk (49)
BCom (Hons), CTA, HDip (Tax), CFM

Theodore was appointed as a non-executive director on 28 May 2019. He completed his articles with Ernst & Young and worked as a corporate tax consultant for four years. He joined Murray & Roberts as financial director of its marine construction operation. He spent five years with Gensec Investment Bank as part of its corporate finance advisory unit, focusing on mergers and acquisitions, capital raisings and related structuring functions. In 2003, he joined Steinhoff, and in 2008 he was appointed chief executive officer of the group's southern African building materials division, a position he held until 2015. He was appointed financial director of Steinhoff International Holdings N.V. on 1 September 2019. Theodore holds various directorships within the Steinhoff group and is also a director of the IEP Group.

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CHIEF FINANCIAL OFFICER

Riaan Hanekom (50)
BAcc, BCom Hons (Acc), CA(SA)

Riaan was appointed as group chief financial officer on 18 August 2017. He completed his articles with Ernst & Young 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 administration 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 the Pepkor group in February 2016. Riaan serves as a director on a number of subsidiary boards in the Pepkor group.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mark Harris (60)

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 relevant business competencies, including strategy, mergers and acquisitions, innovation, technology and digitisation. 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. He is an independent non-executive on the African Bank board 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

INDEPENDENT NON-EXECUTIVE DIRECTOR

Wendy Luhabe (62)
BCom

Wendy was appointed as an independent non-executive director on 1 January 2019. Wendy started her career in marketing 37 years ago and worked in the cosmetics and automotive sectors, which included working in Germany and the United States of America. 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. Wendy serves as chairman of Libstar Limited.

Member of the social and ethics committee

NON-EXECUTIVE DIRECTOR

Louis du Preez (50)
BCom, LLB

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. 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 on that committee until early 2017. While practising as an attorney, he advised clients on a variety of corporate and commercial matters. Louis served on the board of KAP Industrial Holdings Limited from 1 October 2017 until 3 April 2019, 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.

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

NON-EXECUTIVE DIRECTOR

Jacob Wiese (39)
BA (Stellenbosch), MA International Economics & Management (Universita Commerciale Luigi Bocconi, Italy), LLB (UCT)

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 as an alternate or non-executive director of various publicly listed companies which include Shoprite Holdings, Invicta Holdings and Tradehold. Jacob is also extensively involved in the management of Lourensford Wine Estate.

Non-executive
Executive
Independent non-executive

Our purpose is to improve the lives of our customers.

The past few years have been especially challenging, with low economic growth and high unemployment placing South African and African consumers under tremendous pressure. We live in a country and on a continent where the vast majority of people have very little disposable income. Pepkor's strength lies in its ability to serve the needs of these customers and to be their preferred value destination – making it possible for them to live with dignity and pride. At Pepkor we see it as our responsibility to provide customers with affordable products, making their lives easier and better.

The strategy of providing the right products at the best possible price, in accessible locations continues to underpin Pepkor's performance, and has resulted in market share gains in all our retail brands, as confirmed by the Retail Liaison Committee (RLC). This strong performance underscores the quality of the group's retail brands and the relevance of their customer value propositions in the current environment.

Pepkor achieved commendable results for the financial year in a very challenging retail market. Revenue increased by 9.0% to R69.6 billion. Operating profit was up 15.6% to R6.8 billion, while headline earnings per share (HEPS) increased by 16.7% to 98.3 cents. On a comparable basis, operating profit increased by 12.0% to R7.2 billion, and HEPS increased by 8.3% to 107.3 cents.

The group continues to grow and opened 338 new stores during the year – expanding our retail footprint to 5 415 stores. We are proud to employ more than 56 100 people and continue to add to the number every year.

Pepkor is a group of well-established and trusted brands that serve more than a million customers every day, making us an integral part of local communities in the countries where we operate. Our focus remains on serving our customers well, and making their lives easier and better.

Segmental performance

Performance in the clothing and general merchandise segment was supported by retail selling price inflation of 4.8% for the year, compared to deflation in the prior year. Despite underachieving against budgets, disciplined markdown processes and the execution thereof resulted in satisfactory inventory and product freshness levels.

PEP maintained its position as price leader in the discount segment through its Best Price Leadership strategy and continued to leverage its footprint, with considerable growth in financial services transactions. The PAXI initiative utilises the group's store footprint and distribution network to send customers' parcels between stores. More than 850 000 parcels were distributed during the past year and this business has much potential going forward.

The Ackermans customer value proposition and focus on 'women with kids in their lives' continued to resonate with customers, resulting in another year of significant market share gains. Experimentation with the stand alone Ackermans Woman retail concept continued during the year, providing valuable learnings in terms of customer preferences and shopping experience. At year-end, 14 stand-alone Ackermans Woman stores were in operation. The footprint will be expanded to 30 stores in FY20.

PEP Africa is in a consolidation phase with macroeconomic factors putting trading in these countries under pressure. Unfortunately, it was decided to end operations in Zimbabwe due to the risks in the economy and the weakening of the local currency.

The Speciality division – with its central infrastructure supporting five retail brands – performed well, with much-improved profitability. In the footwear retail brands, Tekkie Town continues to expand and now has more than 400 stores, while Shoe City achieved healthy market share gains. Dunns showed great progress in its turnaround process, while the repositioning of the John Craig brand has proved to be very successful. The Refinery brand represents a true success story on how to establish a new and exciting brand.

The JD Group completed its remarkable turnaround by restoring profitability at a retail operating level in a market characterised by difficult trading conditions, with customer spending focused mainly on essentials rather than durables. Management continues to focus on operational initiatives to drive sales, improve product assortment, and maintain relevance through omnichannel and service offerings in the respective brands.

The Building Company managed to maintain sales levels in a contracting building materials market where confidence levels are at a 20-year low. The focus remains on protecting and growing market share, but in the process gross margins have been sacrificed. Profit levels reduced for the second year in a row, leading to a R1.2 billion impairment of goodwill and intangibles. The business continues to restructure and build for the future by defining its value proposition, establishing a healthy corporate culture, clarifying strategy and prioritising a central procurement strategy.

The FLASH business continued its strong growth and expanded its active trader base to 169 000 traders. The business is restructuring to support future product and geographical expansion. Capfin performed well and made good progress by appealing to a broader range of customers through its digital channels.

With 56 100 employees, Pepkor remains one of the largest employers in the South African retail sector, while our experienced management team is able to capitalise on market opportunities.

Outlook

With 56 100 employees, Pepkor remains one of the largest employers in the South African retail sector, while our experienced management team is able to capitalise on market opportunities.

Trading subsequent to year-end has remained volatile, and management is of the opinion that the difficult trading environment will persist as consumer spending continues to be constrained. However, thanks to Pepkor's proven business model, diversified product offering and strong retail leadership team, the group remains optimistic about growth during the coming year. This is reflected in the merchandise-buying plans.

In fulfilling our purpose, we will continue to employ our core competencies to execute our growth strategy. This includes a relentless customer-focus culture, the application of disciplined and innovative retail skills to serve the needs of customers and a philosophy of simplicity and low cost of doing business.

The group will continue to leverage its core assets. An expansive and flexible store footprint extends our customer reach, while our global sourcing and supply chain capability, bespoke IT infrastructure, and long-standing relationships with suppliers allow us to provide the right product at the best price at customers' convenience.

The current environment provides opportunities for market share expansion and the strong customer value proposition of Pepkor's various retail brands is expected to continue resonating with customers in the discount, value and specialist value market sectors. Organic expansion opportunities remain top of mind, including store footprint expansion, the development of new retail formats and the creation of new channels through which to serve our customers.

Pepkor's philosophy of a low cost of doing business is a core asset, while other opportunities for improved operating cost efficiencies will be explored to further leverage the group's scale.

Management will continue to allocate capital effectively by investing in areas with good return prospects, and reducing capital allocation in areas that are under pressure. The review of the portfolio of companies within the group is ongoing, with the objective of streamlining the business and optimising capital allocation.

In creating sustainable long-term shareholder value, the group's dividend policy of three times earnings cover remains in force. It should be seen in the context of the group's target to reduce gearing to one times net debt-to-EBITDA level in the medium term.

I would like to thank the management teams and all 56 100 colleagues at Pepkor for their loyalty, dedication and resilience, which has resulted in another successful year for the group's operations. Thank you to my executive team for their tireless commitment to the group and their operating companies. Pepkor is very fortunate to have retailers with such skills and ability to lead.

The board adds significant value to the group as Pepkor grows as a listed entity that features sound corporate governance and a healthy, productive environment. Thank you to the board members for their support, assistance and guidance during the year.

Leon Lourens
Chief executive officer

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The resilience of our business model was clearly illustrated during the past year.

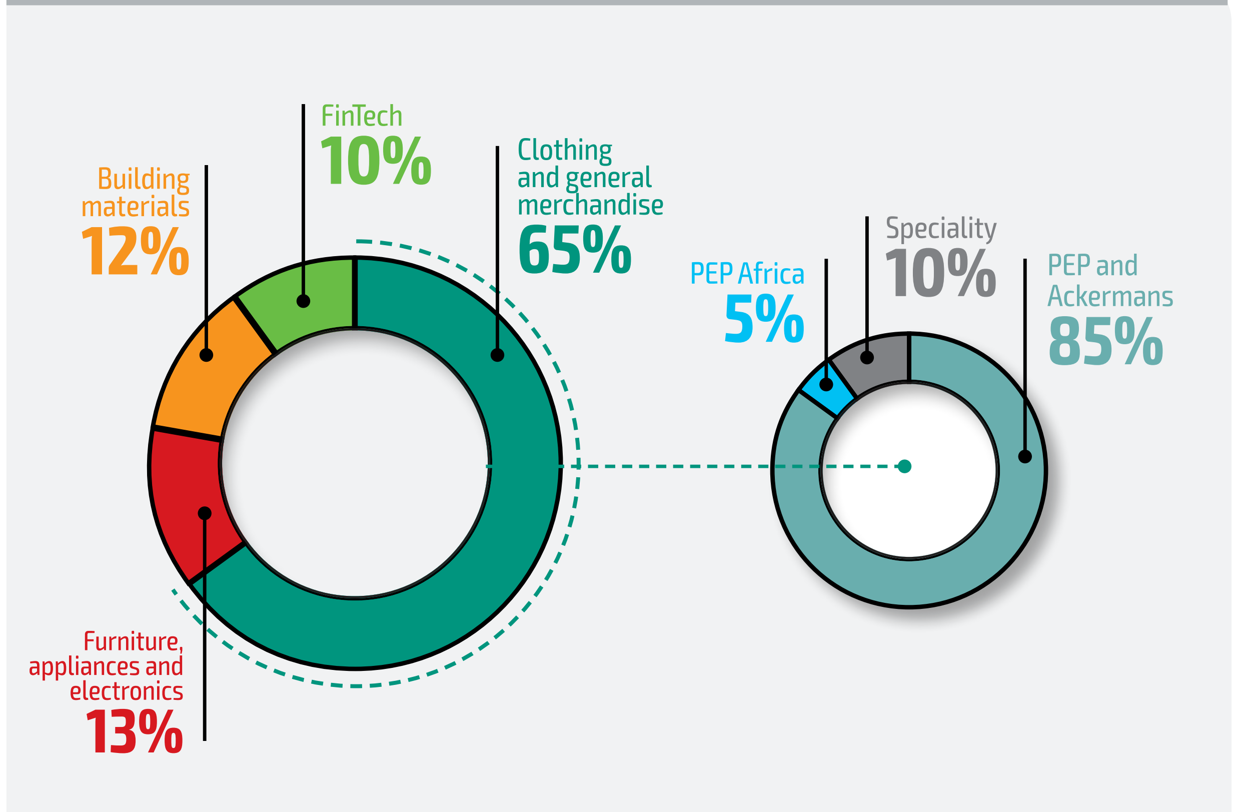
Pepkor achieved good results during the 2019 financial year in a difficult consumer environment. A particular highlight for the year was the group's continued strong cash generation. Pepkor further successfully established two new credit books and implemented IFRS 9 – Financial Instruments.

The comparability of Pepkor's statutory results is inhibited by the implementation of IFRS 9 and the impact of BVI-related costs. This report provides context to Pepkor's comparable results.

Revenue

The group achieved revenue growth from continuing operations of 9.0% to R69.6 billion during FY19. This includes 7.0% growth in sales of merchandise and related revenue to R67.1 billion, and strong growth in financial services revenue as a result of the establishment of the two new credit books, which contributed R2.5 billion for the year.

FY19 segmental composition



The clothing and general merchandise segment, which contributed 64.6% to group revenue, increased revenue by 6.5% to R45.0 billion. The furniture, appliances and electronics segment increased revenue by 8.3% to R9.3 billion, supported by growth in financial services revenue as a result of the establishment of the new Connect Financial Solutions (Connect) credit book. Segmental revenue in the building materials segment was largely maintained, increasing by 0.9% to R8.2 billion. Revenue in the FinTech segment increased by 43.9% to R7.2 billion as a result of continued strong growth in FLASH and growth in Capfin financial services revenue, resulting from the establishment of the new Capfin credit book.

From a group perspective, credit remains a relatively small enabler of sales at 8.6%, as illustrated in the table below:

Segment/business	Type of credit offered	Credit sales contribution to merchandise sales
Clothing and general merchandise		**6.7%**
PEP	–	0%
Ackermans	Revolving credit	18.6%
PEP Africa	–	0%
Speciality	Revolving credit	9.7%
Furniture, appliances and electronics – JD Group		**18.2%**
Furniture retail division	Instalment sales	26.9%
Consumer electronics and appliances division	Instalment sales	8.1%
Pepkor		**8.6%**

Note: Capfin is not a sales enabler and is therefore not included above.

Gross margins

Gross profit margins were largely maintained, decreasing 10 basis points to 34.5%. This is as a result of weaker trading conditions and increased markdown activity to manage the freshness of stock. A disciplined approach to maintaining consistent inflow margins across the majority of Pepkor businesses underpins long-term stability in the group's gross margins.

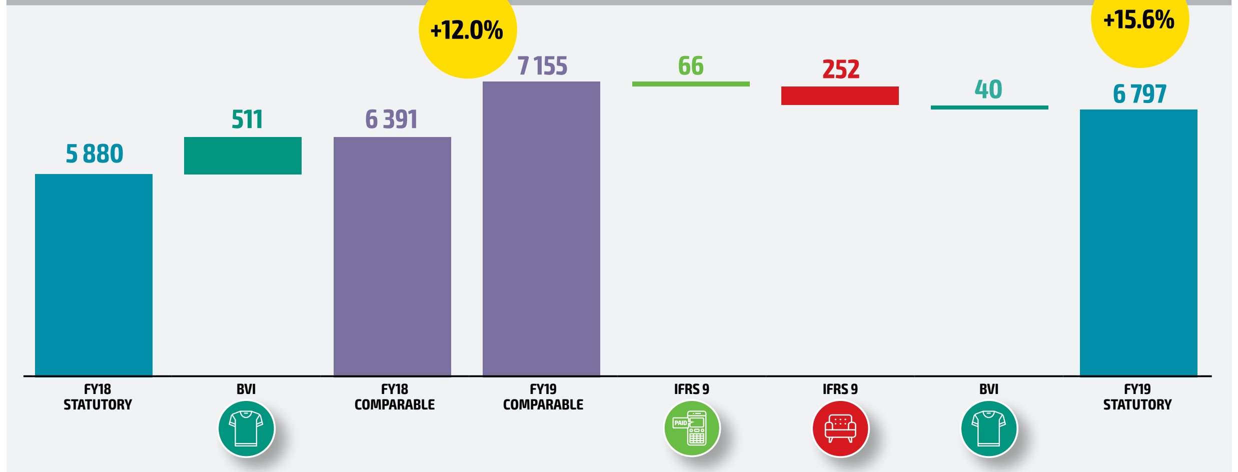
Other income

Other income increased by 2.3% to R960 million. This includes strong growth in commissions earned on services offered in-store, while external Capfin distribution fees earned were reduced, following the internal funding of Capfin loans during the year.

Operating profit and margin before capital items

Statutory operating profit before capital items increased by 15.6% to R6.8 billion, including BVI-related costs and the implementation of IFRS 9 on the new credit books. On a comparable basis, which excludes the impact of BVI-related costs and the implementation of IFRS 9, operating profit increased by 12.0% to R7.2 billion. The group operating margin improved by 30 basis points to 10.3% as a result of the turnaround of the JD Group business and improved profitability in the FinTech segment. The group continues to operate with the lowest cost of doing business in the market, at 25.9%.

Comparable operating profit*



** On a comparable basis, which excludes the impact of BVI-related costs and the implementation of IFRS 9, pro forma operating profit increased by 12.0% to R7.2 billion.*

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The clothing and general merchandise segment, which contributed 87.9% to group operating profit before capital items, increased operating profit by 3.7% to R6.3 billion. Growth was inhibited by weaker trading conditions, which reduced operating margins by 40 basis points to 14.0%.

Profitability in the retail operations of the furniture, appliances and electronics segment was restored and, in addition to income from financial services, the segment delivered R167 million operating profit for the year.

The building materials segment remains profitable, despite the pressure of challenging operating conditions. Operating profit decreased by 28.5% to R153 million, while operating margins decreased to 1.9% from 2.6% in the prior year.

The FinTech segment increased operating profit by 119.6% to R549 million on a comparable basis, supported by strong growth in FLASH and the establishment of the new Capfin credit book. The operating margin was strengthened to 7.7% from 5.0%, driven by the Capfin business.

The planned construct of the negotiated collection fee of the two externally funded credit books while the two new credit books are established internally and mature, has proved successful in maintaining profitability from financial services. The collection fees will decrease as the two new credit books mature and improve profitability.

Comparable operating profit

BVI-related costs

BVI-related costs amounted to R511 million in the prior year, comprising the amount payable for exposure in terms of a corporate financial guarantee of R451 million and associated loans of R60 million. This impacted FY18 earnings per share metrics by approximately 14.8 cents (calculated by applying the total impact tax net of R511 million to a weighted average number of shares of 3 450 million).

During FY19, accumulated finance costs of R40 million (reflected in finance costs) were incurred in terms of the corporate financial guarantee, while R40 million (reflected in operating expenses) was raised in terms of credit exposure pertaining to the associated loans.

BVI-related costs in FY19 therefore amount to R80 million, impacting FY19 earnings per share metrics by approximately 2.3 cents (calculated by applying the total impact net of tax of R80 million to a weighted average number of shares of 3 450 million).

Implementation of IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments, which requires increased provision levels based on an expected credit loss model, was implemented during the year.

The implementation of IFRS 9 on pre-existing credit books and trade receivables, which have historically been owned and funded by Pepkor, resulted in an adjustment of R114 million (pre-tax) against retained earnings, and did not impact FY19 performance. This includes an adjustment of R64 million (pre-tax) on the Tenacity credit book, which supports sales in Ackermans and Speciality brands, and amounted to R2.8 billion (gross) at year-end. Provision levels were increased from an average level of 14% to 17% of the gross book value.

In contrast to this treatment, adjustments for increased provision levels for the new Connect and Capfin credit loan books could not be made against retained earnings, as these credit books were only established during the current year. Provision levels in Connect therefore increased to 33% from historical levels of c.20%, while in Capfin the provision increased to 15% from historical levels of c.10%. Accordingly, a total adjustment of R318 million (pre-tax) was made to the FY19 operating profit, classified as one-off costs in FY19. The rationale for this is that Pepkor is not permitted to make this adjustment against retained earnings, which is the permitted practice applied by other companies on pre-existing credit books, including Pepkor's Tenacity credit book.

Capital items

Included in capital items is an impairment of goodwill and intangible assets, amounting to R1.2 billion, pertaining to The Building Company. This follows the completion of annual impairment assessments and is based on The Building Company's performance, which continues to be affected by the contraction in the building materials market.

Net finance costs and net debt

Net finance costs increased by 35.4% to R1.6 billion, mainly as a result of capital investments made in the establishment of the two new credit books.

As a result, net debt increased to R13.9 billion (FY18: R12.6 billion). Sufficient headroom remains in terms of the group's debt covenants, with a contractual net debt-to-EBITDA ratio of 1.70 times, and interest cover of 5.42 times.

The new Connect credit book amounted to R1.3 billion (gross), and the new Capfin credit book amounted to R2.2 billion (gross) at 30 September 2019.

Taxation

While the South African standard rate of taxation is calculated at 28%, Pepkor's effective tax rate for the period was 44.1%, inflated by capital items and discontinued operations, as well as irrecoverable foreign withholding taxes and non-deductible finance costs. Excluding the impairment, the effective tax rate is 35.6%.

Discontinued operations

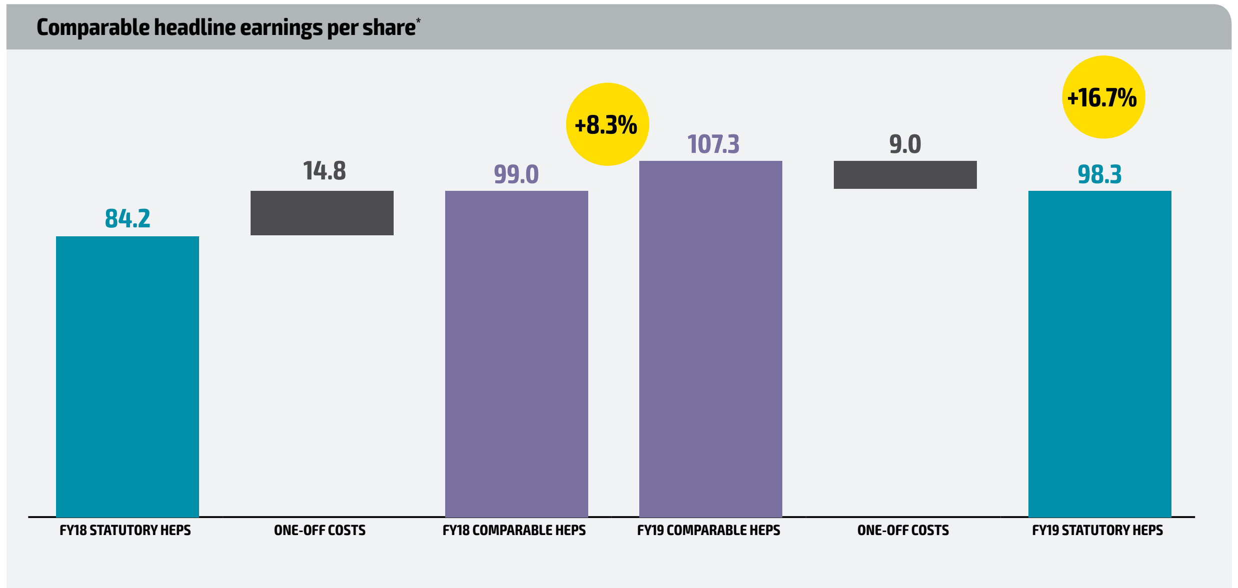
A decision was made to exit Zimbabwe as a result of the continued macroeconomic challenges in the country and devaluation of the local currency. Discontinued operations therefore include the results from PEP Africa's operations in Zimbabwe, with the total loss for the year, after tax, amounting to R70 million. An amount of approximately R230 million is included in unrealised foreign currency translation reserves at 30 September 2019, and this will be released to the income statement and reflected in discontinued operations once the transaction is finalised.

Returns

The group generated a return on net assets, excluding goodwill and intangible assets, of 24.3% in the current year on a statutory basis. This compares favourably to the 23.4% generated in the prior year.

Working capital

Net working capital improved to 3.3% of group revenue, compared to 4.8% in the prior year. This was mainly as a result of disciplined stock management and markdowns to achieve satisfactory levels of inventory freshness. The inclusion of imported cellular handsets and virtual airtime, in addition to the expanded store base, contributed to inventory levels, which increased by 7.6% in aggregate.



From continuing operations, before capital items and excluding BVI-related costs and the implementation of IFRS 9.

Cash flow

The group's operations, including discontinued operations, generated cash of R4.1 billion. Cash generation increases to R7.6 billion when excluding the significant investments of R3.5 billion made to establish two new credit books during the year, equating to a cash conversion of 94.2%, compared to 79.3% in the prior year.

Capital expenditure amounted to R1.7 billion, equating to 2.5% of revenue, while depreciation amounted to R1.3 billion or 1.9% of revenue.

Earnings – continuing operations

Basic earnings per share declined by 22.5% to 64.6 cents as a result of the impairment charge related to The Building Company. Headline earnings per share increased by 16.7% to 98.3 cents and include the impact of BVI-related costs incurred, as well as the implementation of IFRS 9 during the current year. On a comparable basis, headline earnings increased by 8.3% to 107.3 cents from 99.0 cents in the prior year.

Dividend

In line with the group's dividend policy of three times earnings cover, the Pepkor board approved a final scrip distribution of Pepkor ordinary shares to shareholders in respect of the year ended 30 September 2019. This includes a cash alternative of 20.9 cents per share.

Outlook

Performance in FY20 will be supported by the group's resilient business model of delivering value to customers.

Pepkor's priorities for the next year include the implementation of IFRS 16 – Leases. Pepkor will adopt IFRS 16 in FY20, using a modified retrospective approach by accounting for the 'right-of-use asset' since the commencement date of the lease contract, while the lease liability will be accounted for from 1 October 2019, being the initial date of application of IFRS 16. This will have a material impact on the group's statement of financial position, statement of comprehensive income and classification in the statement of cash flows.

The total effect on the statement of financial position for all leases is estimated to be between R13.1 billion and R14.1 billion for the 'right-of-use asset' and between R17.2 billion and R18.2 billion for the lease liability as at 1 October 2019.

We continue to explore opportunities to diversify the group's sources of funding continue to be explored, in line with the ambition to reduce the group's gearing to one times net debt-to-EBITDA in the medium term. Focus remains on the improvement of the group's effective tax rate, which is expected to normalise to 32% in the longer term.

Appreciation

I would like to thank the Pepkor executive team and board for their continued support.

Riaan Hanekom
Chief financial officer

Read more: Annual financial statements

Note: Refer to annexure 4 on page 73 for more information on pro forma results.

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To the Shareholders of Pepkor Holdings Limited

Opinion

The summary consolidated financial statements of Pepkor Holdings Limited, contained in the accompanying abridged report, which comprise the summary consolidated statement of financial position as at 30 September 2019, the summary consolidated income statement, 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 2019.

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 requirements of the JSE Limited Listings Requirements for abridged reports, as set out in the basis of preparation to the summary consolidated financial statements, and the requirements of the Companies Act 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 (IFRS) and the requirements of the Companies Act 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 25 November 2019. 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 Listings Requirements for abridged reports, set out in the basis of preparation to the summary consolidated financial statements, and the requirements of the Companies Act 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.

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

Summary consolidated income statement

	Notes	Year ended 30 September 2019 Audited Rm	Year ended 30 September 2018 Audited Restated[1] Rm	% change
Revenue		**69 634**	63 912	9.0
Cost of sales		**(45 639)**	(41 815)	(9.1)
Gross profit		**23 995**	22 097	8.6
Other income		**960**	938	2.3
Operating expenses		**(16 859)**	(16 021)	(5.2)
Operating profit before depreciation, amortisation and capital items		**8 096**	7 014	15.4
Depreciation and amortisation		**(1 299)**	(1 134)	(14.6)
Operating profit before capital items		**6 797**	5 880	15.6
Capital items	3	**(1 278)**	(37)	(>100)
Operating profit		**5 519**	5 843	(5.5)
Finance costs		**(1 779)**	(1 410)	(26.2)
Finance income		**198**	242	(18.2)
Profit before taxation		**3 938**	4 675	(15.8)
Taxation	4	**(1 707)**	(1 791)	4.7
Profit from continuing operations		**2 231**	2 884	(22.6)
(Loss)/profit from discontinued operations	5	**(70)**	11	(>100)
Profit for the year		**2 161**	2 895	(25.4)
Profit attributable to:				
Owners of the parent		**2 160**	2 885	(25.1)
Non-controlling interests		**1**	10	(90.0)
Profit for the year		**2 161**	2 895	(25.4)
Earnings per share (cents)				
Basic from continuing operations	6	**64.6**	83.3	(22.5)
Basic from discontinued operations	6	**(2.0)**	0.3	(>100)
Basic operations	6	**62.6**	83.6	(25.0)
Headline from continuing operations	6	**98.3**	84.2	16.7
Headline from discontinued operations	6	**(1.5)**	0.3	(>100)
Headline operations	6	**96.8**	84.5	14.5
Diluted basic from continuing operations	6	**64.2**	83.1	(22.8)
Diluted basic from discontinued operations	6	**(2.0)**	0.3	(>100)
Diluted basic from operations	6	**62.2**	83.3	(25.3)
Diluted headline from continuing operations	6	**97.7**	84.0	16.4
Diluted headline from discontinued operations	6	**(1.5)**	0.3	(>100)
Diluted headlined from operations	6	**96.2**	84.2	14.2

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

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AUDITED SUMMARY CONSOLIDATED FINANCIAL STATEMENTS
[FOR THE YEAR ENDED 30 SEPTEMBER 2019] CONTINUED

Summary consolidated statement of comprehensive income

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

[1] *The economy of Angola was assessed in accordance with IAS 29 – Financial Reporting in Hyperinflationary Economies and was found no longer to be in hyperinflation for the year ended 30 September 2019.*
[2] *It has been agreed during the current reporting period, by mutual consent between Pepkor Africa subsidiaries and Pepkor Trading Proprietary Limited, not to repay certain loans. The intergroup loans are now viewed to be capital in nature and therefore non-monetary. As a result, no foreign exchange gains and losses as previously recognised in OCI relating to the revaluation of these intergroup loans, are recognised.*

Summary consolidated statement of changes in equity

	Year ended 30 September 2019 Audited Rm	Year ended 30 September 2018 Audited Rm
Balance at beginning of the year	**55 711**	52 917
Effect of adopting IFRS 9 – Financial Instruments, net of taxation (refer to note 1.1.3)	**(82)**	–
Restated balance as at 30 September 2018	**55 629**	52 917
Changes in reserves		
Total comprehensive income for the year attributable to owners of the parent	**1 813**	2 676
Dividends paid	**(959)**	–
Shares bought from non-controlling interests	**(5)**	–
Share-based payments	**108**	159
Transfers and other reserve movements[1]	**9**	(19)
Changes in non-controlling interests		
Total comprehensive income for the year attributable to non-controlling interests	**1**	10
Transactions with non-controlling equity holders	**5**	(17)
Dividends paid	**(3)**	(15)
Balance at end of the year	**56 598**	55 711
Comprising		
Ordinary stated capital	**64 690**	64 690
Common control reserve	**(11 755)**	(11 755)
Retained earnings	**4 082**	2 750
Share-based payment reserve	**143**	239
Hedging reserve	**202**	270
Foreign currency translation reserve	**(825)**	(546)
Other reserves	**55**	60
Non-controlling interests	**6**	3
	56 598	55 711

[1] *The cumulative share-based payment reserve at 30 September 2018 of R204 million, including the settlement payable of R7 million, was transferred to retained income as the Steinhoff International Holdings N.V. share scheme was determined unlikely to vest.*

Summary consolidated statement of financial position

	Notes	30 September 2019 Audited Rm	30 September 2018 Audited Rm
ASSETS			
Non-current assets			
Goodwill and intangible assets		**59 844**	61 049
Property, plant and equipment		**5 466**	5 251
Interest in associate		**50**	–
Investments and loans		**174**	253
Loans to customers		**154**	–
Deferred taxation assets		**1 242**	1 365
		66 930	67 918
Current assets			
Inventories		**13 825**	12 850
Trade and other receivables		**6 809**	5 874
Loans to customers		**1 669**	–
Current income taxation assets		**363**	277
Loans due by related parties		**–**	224
Cash and cash equivalents		**3 925**	3 835
		26 591	23 060
Non-current assets classified as held for sale	10	**–**	–
		26 591	23 060
Total assets		**93 521**	90 978
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital		**64 690**	64 690
Reserves		**(8 098)**	(8 982)
Total equity attributable to equity holders of the parent		**56 592**	55 708
Non-controlling interests		**6**	3
Total equity		**56 598**	55 711
Non-current liabilities			
Interest-bearing loans and borrowings	7	**15 508**	15 518
Employee benefits		**89**	91
Deferred taxation liabilities		**4 037**	4 142
Provisions		**464**	564
Trade and other payables		**461**	545
		20 559	20 860
Current liabilities			
Trade and other payables		**11 792**	11 595
Loans due to related parties		**–**	173
Employee benefits		**942**	847
Provisions[1]		**173**	277
Current income taxation liabilities		**1 107**	524
Interest-bearing loans and borrowings	7	**1 510**	19
Financial guarantees[1]		**491**	451
Bank overdrafts and short-term facilities	7	**347**	521
		16 362	14 407
Liabilities associated directly with non-current assets classified as held for sale	10	**2**	–
		16 364	14 407
Total equity and liabilities		**93 521**	90 978
Net asset value per ordinary share (cents)		**1 640.4**	1 614.7

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

Fair values of financial instruments

	Fair value as at 30 September 2019 Audited Rm	Fair value as at 30 September 2018 Audited Rm
Derivative financial assets – Level 2 fair value hierarchy	**186**	318
Derivative financial liabilities – Level 2 fair value hierarchy	**(16)**	(84)
Available for sale investments – Level 3 fair value hierarchy	**–**	33
Fair value through OCI – Level 3 fair value hierarchy	**2**	–

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

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

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AUDITED SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

[FOR THE YEAR ENDED 30 SEPTEMBER 2019] CONTINUED

Summary consolidated statement of cash flows

	Year ended 30 September 2019 Audited Rm	Year ended 30 September 2018 Audited Rm
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit from continuing operations	**5 519**	5 843
Operating (loss)/profit from discontinued operations	**(74)**	48
Operating profit	**5 445**	5 891
Adjusted for:		
Debtors' write-offs and movement in provision	**1 227**	302
Amortisation and depreciation	**1 299**	1 134
Impairments	**1 281**	20
Inventories written down to net realisable value and movement in provision for inventories	**449**	489
Impairment of loans to current and previous members of key management	**40**	60
Fair value adjustment on BVI guarantee	**–**	451
Share-based payment expense	**108**	120
Non-cash adjustments	**(90)**	176
Cash generated before working capital changes	**9 759**	8 643
Working capital changes		
Increase in inventories	**(1 981)**	(2 161)
Increase in trade and other receivables	**(302)**	(834)
Increase in instalment sale receivables and credit sales through store cards	**(1 805)**	(289)
Increase in loans to customers	**(2 154)**	–
Increase/(decrease) in trade and other payables	**569**	(47)
Net changes in working capital	**(5 673)**	(3 331)
Cash generated from operations	**4 086**	5 312
Net dividends paid	**(962)**	(15)
Finance cost paid	**(1 599)**	(1 425)
Finance income received	**147**	242
Taxation paid	**(1 116)**	(1 597)
Net cash inflow from operating activities	**556**	2 517
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	**(1 717)**	(1 871)
Proceeds on disposal of property, plant and equipment and intangible assets	**57**	113
Clawback on acquisition of business/(acquisition of businesses, net of cash on hand at acquisition)	**26**	(297)
Amounts paid on long-term investments and loans	**–**	(143)
Proceeds on disposal of business	**–**	4
Decrease in related-party loan and receivables	**56**	–
Decrease in short-term investments and loans	**52**	–
Increase in investments in equity-accounted companies	**(50)**	–
Net cash outflow from investing activities	**(1 576)**	(2 194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue expenses	**–**	1
Transactions with non-controlling interests	**–**	(29)
(Amounts paid)/amounts received on bank overdrafts and short-term facilities	**(21)**	351
(Amounts paid)/amounts received on long-term interest-bearing loans and borrowings	**(173)**	15 429
Debt-raising fees paid	**–**	(110)
Amounts received on short-term interest-bearing loans and borrowings	**1 500**	8
Amounts paid on related party payable	**–**	(15 870)
Net cash inflow/(outflow) from financing activities	**1 306**	(220)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**286**	103
Effects of exchange rate translations on cash and cash equivalents	**(196)**	(65)
Cash and cash equivalents at beginning of the year	**3 835**	3 797
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**3 925**	3 835

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PEPKOR Holdings Limited

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

Basis of preparation

The summary consolidated financial statements are prepared in accordance with the JSE Listings Requirements for the abridged reports and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of the 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 – Financial Reporting.

The accounting policies applied in the preparation of the consolidated financial statements from which the summarised consolidated financial statements were derived conform with IFRS and are consistent with those accounting policies applied in the preparation of the annual consolidated financial statements for the year ended 30 September 2018. However, the impact of the adoption of the following new standards by the group on 1 October 2018 are disclosed in note 1:

- IFRS 9 – Financial Instruments; and
- IFRS 15 – Revenue from Contracts with Customers.

Other new and revised accounting standards became effective during the year, but their implementation had no significant impact on the results of either the current or the previous financial year.

The summarised consolidated 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 subsequent to the adoption of IFRS 9 – Financial Instruments). The preparation of the summary consolidated financial statements for the year ended 30 September 2019 was supervised by RG Hanekom CA(SA), the group's chief financial officer.

These summary consolidated financial statements for the year ended 30 September 2019 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 summary consolidated financial statements were derived.

Any forward-looking and forecast information presented is the responsibility of the board and has not been reviewed by Pepkor's auditor.

Restatement due to change in accounting policy

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 year's disclosures. Refer to note 1 for details of these restatements.

Significant events

Impairment of goodwill and intangible assets

During the year, an impairment charge was processed to fully impair the goodwill amounting to R672 million and the intangible assets, amounting to R547 million, thereby writing down the building materials' cash-generating unit to its recoverable amount.

Discontinued operation in Zimbabwe

During the year, the board decided to exit the group's Zimbabwe business, under the Power Sales brand. The decision was mainly driven by the increasing difficulty of trading in Zimbabwe as result of adverse macroeconomic conditions. Management is in final negotiations with the relevant parties to conclude the terms of sale. The associated assets and liabilities were consequently presented as held for sale and are presented below.

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 summary consolidated financial statements.

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

1. CHANGES IN ACCOUNTING POLICIES

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

1.1 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:

1.1.1 Classification of financial instruments

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

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

1.1.2 Impairment of financial assets under the new impairment model

The new impairment model applies to financial assets classified at amortised cost, debt instruments measured at 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.

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

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

Financial assets where a 12-month expected credit loss (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 and these 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. 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.

1.1.3 Effect of adopting IFRS 9 – Financial Instruments

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

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

1.1.4 Derivatives and hedging activities

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

1.2 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 year has been restated. The key impact of IFRS 15 for the group is set out below.

Agent vs principal assessment

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

Accounting for refunds

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

Rebates from suppliers

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

1.2.1 Effect of adopting IFRS 15 – Revenue from Contracts with Customers

Impact on statement of comprehensive income:

	Previously reported Twelve months ended 30 September 2018 Audited Rm	IFRS 15 adjustment Rm	Twelve months ended 30 September 2018 Audited Restated Rm
Revenue	64 168	(24)	64 144
Cost of sales	(42 027)	114	(41 913)
Gross profit	22 141	90	22 231
Operating income	875	63	938
Operating expenses	(15 954)	(153)	(16 107)
Operating profit before depreciation, amortisation and capital items	7 062	–	7 062
Depreciation and amortisation	(1 134)	–	(1 134)
Operating profit before capital items	5 928	–	5 928
Capital items	(37)	–	(37)
Operating profit	5 891	–	5 891
Finance costs	(1 434)	–	(1 434)
Finance income	242	–	242
Profit before taxation	4 699	–	4 699
Taxation	(1 804)	–	(1 804)
Profit for the year	2 895	–	2 895
Profit attributable to:			
Owners of the parent	2 885	–	2 885
Non-controlling interests	10	–	10
Profit for the year	2 895	–	2 895

The application of IFRS 15 did not have a material impact on the reported earnings or financial position for the results under review. The segmental analysis has been restated as indicated in note 2. The adjustment resulted in a R24 million decrease in revenue relating to the clothing and general merchandise segment.

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

PEPKOR Holdings Limited

		Year ended 30 September 2019 Audited Rm	Year ended 30 September 2018 Audited Restated[1] Rm	% change
2.	**SEGMENTAL ANALYSIS**			
	REVENUE			
	Clothing and general merchandise	**44 964**	42 216	6.5
	Furniture, appliances and electronics	**9 330**	8 615	8.3
	Building materials	**8 180**	8 105	0.9
	FinTech[2]	**7 160**	4 976	43.9
		69 634	63 912	9.0
	OPERATING PROFIT BEFORE CAPITAL ITEMS			
	Clothing and general merchandise[3]	**6 286**	6 064	3.7
	Furniture, appliances and electronics	**(85)**	(137)	38.0
	Building materials	**153**	214	(28.5)
	FinTech[3]	**483**	250	93.2
		6 837	6 391	7.0
	RECONCILIATION BETWEEN OPERATING PROFIT			
	Operating profit per segmental analysis	**6 837**	6 391	
	BVI-related costs	**(40)**	(511)	
	Capital items (note 3)	**(1 278)**	(37)	
	Operating profit per income statement	**5 519**	5 843	
	Finance costs	**(1 779)**	(1 410)	
	Finance income	**198**	242	
	Profit before taxation per income statement	**3 938**	4 675	
	BVI-related costs			
	BVI-related costs relate to the following:			%
	Impairment of loans to current and previous members of key management and employees	**40**	60	(33.3)
	Fair value adjustments on BVI guarantee	**–**	451	(100.0)
	BVI-related costs	**40**	511	(92.2)
	Segmental assets	**89 422**	86 666	
	RECONCILIATION BETWEEN TOTAL ASSETS AND SEGMENTAL ASSETS			
	Total assets per statement of financial position	**93 521**	90 978	
	Less: Cash and cash equivalents	**(3 925)**	(3 835)	
	Less: Long-term investments and loans	**(174)**	(253)	
	Less: Loans due by related parties	**–**	(224)	
	Segmental assets	**89 422**	86 666	

Basis of segmental presentation

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 chief operating decision-maker (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 and assets are all classified as one geographical region.

Major customers

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

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

[2] FinTech segment revenue is disclosed net of intergroup revenue of R441 million (2018: R10 million) earned relating to the sale of virtual vouchers and airtime to the clothing and general merchandise segment.

[3] FinTech segment operating profit is disclosed net of intersegment expenses of R90 million (2018: Rnil) paid to the clothing and general merchandise segment relating to the use of its footprint. The fee was included in other income for the full year in 2018 as Capfin did not give loans to customers under the group.

		Year ended 30 September 2019 Audited Rm	Year ended 30 September 2018 Audited Rm
3.	**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.		
	From continuing operations		
	Impairment	**1 263**	20
	Impairment of goodwill[1]	**672**	–
	Impairment of intangible assets[1]	**547**	–
	Impairment of property, plant and equipment	**44**	20
	Loss on disposal of property, plant and equipment and intangible assets	**15**	15
	Loss on sale and dilution of investments	**–**	2
		1 278	37
	From discontinued operations		
	Loss recognised due to remeasurement of disposal group to fair value	**18**	–
		18	–

[1] As a result of the general slowdown experienced in the construction sector at large and the effect of depressed activity on the building materials segment, the intangible assets and goodwill were written down to its recoverable amount.

		Year ended 30 September 2019 Audited Rm	Year ended 30 September 2018 Audited Rm
4.	**TAXATION**		
	Tax from continuing operations	**1 707**	1 791
	Tax from discontinued operations (note 5.2)	**(4)**	13
	Total taxation for the year	**1 703**	1 804
	Reconciliation of rate of taxation	**%**	%
	South African standard rate of taxation	**28.0**	28.0
	Foreign tax rate differential	**(0.1)**	(0.5)
	Withholding taxes	**2.4**	1.4
	Unrecognised tax losses	**1.5**	3.4
	Prior year adjustments	**–**	2.3
	Non-deductible finance costs	**4.3**	1.0
	Impairment of goodwill and intangibles	**6.0**	–
	Other	**2.0**	2.8
	Effective rate of taxation	**44.1**	38.4

5. DISCONTINUED OPERATIONS

5.1 During the year, the board decided to exit the group's Zimbabwe business, under the Power Sales brand. The decision was driven mainly by the increasing difficulty of trading in Zimbabwe as a result of adverse macroeconomic conditions. Management are in final negotiations with the relevant parties to conclude the terms of sale.

		Year ended 30 September 2019 Audited Rm	Year ended 30 September 2018 Audited Rm
5.2	**Income statement**		
	Revenue	**47**	232
	Cost of sales	**(20)**	(98)
	Gross profit	**27**	134
	Operating expenses	**(83)**	(86)
	Capital items (note 3)	**(18)**	–
	Operating (loss)/profit	**(74)**	48
	Finance costs	**(1)**	(24)
	Finance income	**1**	–
	(Loss)/profit before taxation	**(74)**	24
	Taxation	**4**	(13)
	(Loss)/profit for the year	**(70)**	11
5.3	**Statement of cash flows**		
	Net cash (outflow)/inflow from operating activities	**(29)**	60
	Net cash outflow from investing activities	**–**	(6)
	Net cash outflow from financing activities	**(14)**	(8)
	Net (decrease)/increase in cash and cash equivalents	**(43)**	46
	Effects of exchange rate translations on cash and cash equivalents	**(161)**	58
	Cash and cash equivalents at beginning of the year	**213**	109
	CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**9**	213

5.4 The economy of Zimbabwe was assessed in accordance with IAS 29 – Financial Reporting In Hyperinflationary Economies, and was found to be in hyperinflation for the year ended 30 September 2019. However, the hyperinflation accounting impact was found to be immaterial and it was decided that no adjustments would be made to the group results.

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	Year ended 30 Sept 2019 Audited Million	Year ended 30 Sept 2018 Audited Million
6. EARNINGS PER SHARE		
6.1 Weighted average number of ordinary shares		
Issued ordinary shares at beginning of the year	3 450	3 450
Weighted average number of ordinary shares at end of the year for the purpose of basic earnings per share and headline earnings per share	3 450	3 450
Effect of dilution due to share right issues in terms of share scheme	22	10
Weighted average number of ordinary shares at end of the year for the purpose of diluted earnings per share and diluted headline earnings per share	3 472	3 460

	Continuing Year ended 30 Sept 2019 Audited Rm	Discontinued Year ended 30 Sept 2019 Audited Rm	Total Year ended 30 Sept 2019 Audited Rm	Continuing Year ended 30 Sept 2018 Audited Rm	Discontinued Year ended 30 Sept 2018 Audited Rm	Total Year ended 30 Sept 2018 Audited Rm
6.2 Earnings and headline earnings						
Profit/(loss) for the year	2 231	(70)	2 161	2 884	11	2 895
Attributable to non-controlling interests	(1)	–	(1)	(10)	–	(10)
Earnings attributable to ordinary shareholders	2 230	(70)	2 160	2 874	11	2 885
Capital items (note 3)	1 278	18	1 296	37	–	37
Taxation effect of capital items	(115)	–	(115)	(5)	–	(5)
Headline earnings attributable to ordinary shareholders	3 393	(52)	3 341	2 906	11	2 917

6.3 Diluted earnings and diluted headline earnings per share

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

7. FINANCING

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

8. CONTINGENT LIABILITIES

Refer to the annual consolidated financial statements for contingent liabilities for the year ended 30 September 2019.

9. RELATED PARTIES

During the year, the group entered into related-party transactions in the ordinary course of business, the substance of which is similar to that disclosed in the group's annual financial statements.

	Year ended 30 September 2019 Audited Rm
10. ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS DISCONTINUED OPERATION	
10.1 Assets	
Property, plant and equipment	3
Investments and loans	2
Trade and other receivables	2
Inventories	2
Cash and cash equivalents	9
Total gross assets	18
Loss recognised due to remeasurement of disposal group at fair value	(18)
Total assets post impairment	–
10.2 Liabilities	
Trade and other payables	(2)
Total liabilities	(2)
Net assets	(2)

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Capital structure

	30 September 2019 Audited Rm	30 September 2018 Audited Rm
Interest-bearing long-term liabilities	15 508	15 518
Net loans due to related parties	–	(51)
Interest-bearing short-term liabilities	1 510	19
Bank overdrafts and short-term facilities	347	521
Cash and cash equivalents	(3 925)	(3 835)
Net interest-bearing debt	13 440	12 172
Financial guarantee	491	451
Net interest-bearing debt for covenant purposes	13 931	12 623
EBITDA	8 040	7 062
Other contractual adjustments	148	631
Adjusted EBITDA	8 188	7 693
Finance costs	(1 779)	(1 410)
Finance income	198	242
Other contractual adjustments	69	(14)
Net adjusted finance charges	(1 512)	(1 182)
EBITDA: interest cover (times)	5.42	6.51
Net debt: EBITDA (times)	1.70	1.64

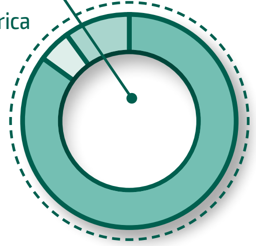
The segment's retail brands reported good results considering the challenging operating conditions.

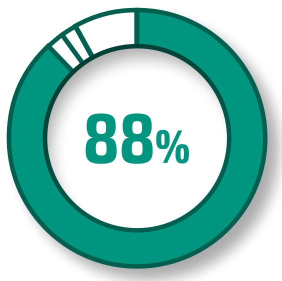
This segment – which contributed 64.6% to group revenue – increased revenue by 6.5% to R45.0 billion, delivering a 3.7% increase in operating profit to R6.3 billion (excluding BVI-related costs).

According to data from the RLC, market share was successfully defended by the group brands, and in most instances, the brands expanded their market share. This is testament to the successful value propositions of Pepkor's retail brands that continue to resonate with customers.

The store base in this segment was expanded by 289 new stores opened during the period, resulting in a total of 4 395 stores and equating to retail space growth of 5.6% year on year.

Represents 65% of Pepkor's revenue in FY19





Contributed 88% to Pepkor's operating profit[1] in FY19

6.5% increase in revenue to R45.0 billion

3.7% increase in operating profit[1] to R6.3 billion

[1] Before capital items and excluding BVI-related costs and implementation of IFRS 9.

36 900[1] employees

4 395 stores

11 countries

[1] Includes corporate office and Group Services.

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A town is not a town without a PEP.

PEP enables customers with a very small budget to make it possible for their families to live with dignity and pride. Renier van Rooyen opened the first PEP store in 1965 in De Aar, with the aim of providing dignity and respect to customers through products they need at the best possible prices. PEP has grown to be the biggest single-brand retailer in southern Africa, with 2 327 stores and 17 000 employees, known as Dynamos.

PEP is defensively positioned in the discount market segment and focuses on providing everyday products and services to predominantly low-income customers. Many of these customers are sensitive to increased living costs, which negatively impact their spending power. The high unemployment rate in South Africa, together with low growth in government grants, further affects **PEP's** customer base.

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

PEP has grown its market share substantially over many years by employing retail disciplines focused on simplicity and innovation in serving customer needs. Through best price leadership (BPL), where product margins are maintained and the pricing benefits that result from operational efficiencies are passed on to customers, **PEP** has become a brand trusted to provide the best prices. Product prices are benchmarked monthly to ensure that BPL and the brand's competitive strength are maintained.

OUR VISION
Delighted customers: our focus and pleasure.

OUR MISSION
We are the friendliest and most trusted retailer offering wanted products and services at the lowest prices.

OUR VALUES
Honesty, passion and resourcefulness.

OUR CAUSE
To make it possible for everyone to look and feel good.

PEP's growth plan focuses on the customer – maintaining the best prices, ensuring a low-cost operating structure and embedding **PEP**'s unique operating culture – **Sikhula KunYe**.

Sikhula KunYe (growing together) was introduced 20 years ago and has been instrumental in uniting all **PEP's** employees, regardless of age, gender or job function. **PEP** was again recently rated as one of the world's most inspiring business cultures.

Barrett Culture Survey, 2017

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4 retail formats

5 African countries

2 327 retail stores

NEW **117** new stores opened

17 000 employees

96.5% Best price leadership maintained

41% increase to 67 million in PEPmoney transactions

The **PEP** business has evolved over the years in line with consumer spending trends, and the brand's product and service offering has developed in response to customer needs. In addition to the core CFH product categories, **PEP** offers cellular and airtime products, Fast-Moving Consumer Goods (FMCG) and a range of value-added services, including cash-backs, **Capfin** loan applications, funeral insurance, cross-border and local money transfers, selected bill payments (such as DStv), **FLASH** tokens and the **PAXI** parcel service.

With a larger store footprint than the South African Post Office, **PEP** identified and took advantage of an opportunity to launch **PAXI**, 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.

Today the traditional **PEP** format, which features 1 576 stores,

is complemented by 497 stand-alone stores for the dedicated cellular and financial services retail brand, **PEPcell**. In addition, **PEPhome**, a dedicated homeware retail brand started 10 years ago, now has 239 stores.

The extensive store footprint and flexible store format take the brand as close as possible to the customer who, in many instances, cannot afford to pay for transport. This allows customers to save transport costs and creates opportunities for more frequent customer spend. **PEP** effectively leverages and monetises its store footprint by continuing to introduce new products and services based on customers' needs. It continues to find new and innovative ways in which customer needs can be met.

PEP
1 576 stores

PEPcell
497 stores

PEPhome
239 stores

Dealz
15 stores

PEP was voted BEST CLOTHING STORE in South Africa by customers in 2019

PAXI send | collect | return
850 000 parcels distributed during the year

Strategy and performance

Market share was successfully increased despite continued pressure on **PEP**'s target customers due to high levels of unemployment and limited spending power. **PEP** was voted South Africa's number one clothing store in the South African Customer Satisfaction Index. During the year, 117 new stores were opened, amounting to 3.8% space growth.

Good progress was made in digital transformation of the business with the roll-out of G-Suite, a tool that has transformed the way people work, operate and communicate internally.

The return of inflation was a key performance driver through basket value as consumer spending remains constrained. BPL of 96.5% was achieved, despite some pressure, with a substantial pricing gap maintained compared to competitors.

Performance in CFH was supported by **PEPhome**'s double-digit growth. After 10 years of developing and perfecting the **PEPhome** brand, the business has been successful in appealing to customers in this market segment and continues to outperform other product categories. **PEPhome** represents a strong area of future growth for the business. The Babies product category also performed well, following product reinvestment.

PEPcell's handset growth was restored following a price correction for entry-level smartphones in February.

FMCG achieved double-digit sales growth driven by in-store range expansion, a focus on branded products, the continued development of private label, and alternative merchandising display methods.

PEPmoney achieved a 41% increase in the number of transactions to more than 67 million, while **PAXI** is proving to be very successful, with more than 850 000 parcels distributed during the year and profit reported within two years of operation.

Dealz, a new brand that offers a variety of exciting products at discounted prices, continues to perform satisfactorily. Its store footprint remains on target, with 11 openings during FY19 resulting in a total of 15 stores.

The future

PEP will continue offering a product and service range that meets customers' needs. The business' market-leading position will be maintained through its BPL strategy, supported by a low cost of doing business that makes low prices possible.

Momentum in new store openings will be maintained through the various **PEP** brands, while the expansion of the FMCG in-store ranges and new brands, including **PAXI** and **Dealz**, will continue to support growth.

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Bringing value to life

The first Ackermans store opened in 1916, with the vision of creating a destination where customers could find great products at fantastic prices. This vision is still an intrinsic part of Ackermans, and the brand remains true to its original purpose of bringing value to life for all its stakeholders.

Ackermans is positioned in the value market segment and strives to be the number one retailer for women with kids in their lives. It focuses on providing value CFH products to predominantly lower- and middle-income customers.

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

Today, **Ackermans** is one of the leading clothing and footwear value retailers in southern Africa. With more than 800 stores in six countries, the **Ackermans** brand sets the standard for value with a wide range of clothing, footwear and value-added services.

Ackermans has become synonymous with children's clothing thanks to an aggressive promotional strategy that includes 'famous for' product categories that drive the sale of 9 million T-shirts, 4 million track tops and 4 million track pants annually.

The brand has also been successful in growing its market share in women's wear, and in building capacity to deliver fashion that is on-trend and relevant to consumers. Successful first-to-market campaigns, such as the 'I am Me' intimate wear campaign, along with various other marketing campaigns focusing on women with kids in their lives, continue to support growth.

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

'Famous For' category sales performance in FY19

- 9 million T-shirts
- 4 million track tops
- 4 million track pants

Strategy and performance

The value proposition of price, assortment, quality, fashion and service continues to resonate with customers and has seen **Ackermans** achieve significant market share gains in a low-growth retail environment to maintain its position as one of the best-performing retailers in southern Africa.

6 countries

1.2 million revolving credit accounts

806 retail stores

NEW **81** new stores opened

8 500 employees

16% lay-bys contribution

Ackermans continued to outperform competitors in the South African apparel industry in the year under review. The business opened 81 new stores during FY19, with the total store footprint expanded to 806, at 8.2% space growth. This includes 14 **Ackermans Woman** stores, the new retail format concept focused on women's wear.

Increased inflation during the year supported performance and resulted in normalised product volumes compared to the prior period, where deflation drove significant growth in volumes. The commissioning of the new Hammarsdale DC presented challenges, but these were successfully resolved, and management looks forward to realising the benefits the new centre will offer the business.

Healthy credit sales growth was achieved through the use of incentivised in-store canvassers. The contribution of credit sales increased to 18.6% of total sales for the year, compared to 17.5% in the prior year, and remains at a conservative level. A total of 322 000 new revolving credit accounts were opened, representing an increase of 26.0% and resulting in a total of 1.2 million accounts. Lay-by sales, where customers pay for products in instalments over an average period of three months before taking delivery, contributed 16% to sales during the year.

Strong performance was achieved in most core product categories, including Essentials, Babies, Women and Footwear, which all delivered double-digit growth.

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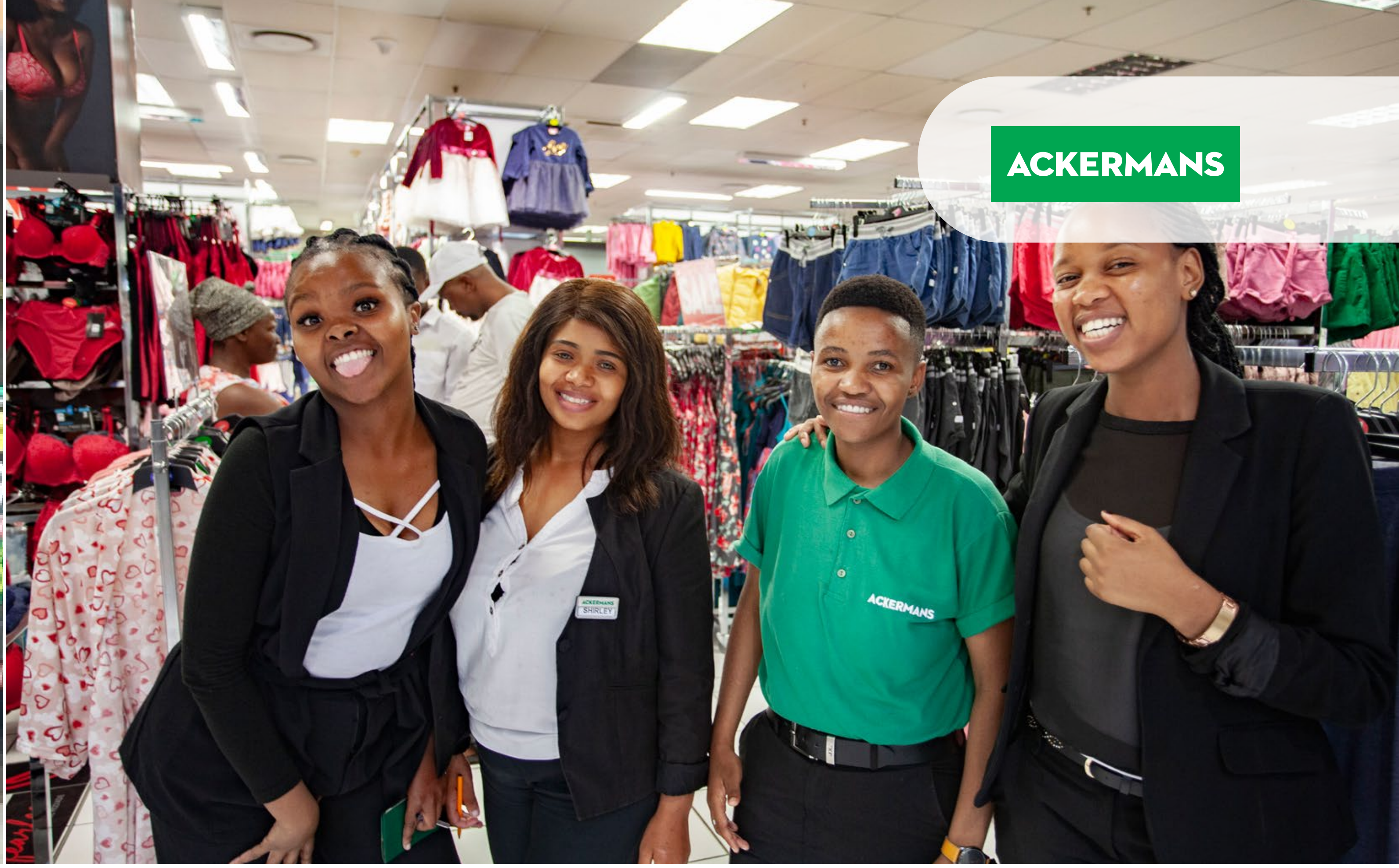

14 stand-alone Ackermans Woman stores

20% Growth in cellular

Women's wear outperformed the market but did not exceed management expectations due to increased markdowns. This has provided valuable learnings in terms of customer preferences with respect to product and shopping experience. At year-end, 14 stand-alone **Ackermans Woman** stores were in operation, and the footprint will expand to 30 stores in FY20.

Cellular delivered a strong showing, growing by close to 20%. This was supported by increased selling prices, the introduction of post-paid contracts, and a generally good performance in the realm of smartphones and tablets.

The freshest thinking from a store design, technology and service perspective was incorporated in the **AckXperience** store, which opened in Sandton in October 2019. **AckXperience** received good support from customers and after successful testing, some of its components will be rolled out to other regional mall stores, as well as new stores.

Ackermans launched **Click & Collect** in selected product categories in certain stores, with deliveries within three days. Plans are in place to offer full online shopping by 2021.

In 2019, **Ackermans** won the Ask Africa Kasi Star Brand Award as Best Retailer in Children's Wear for the fifth consecutive year. In addition, Ackermans was selected as number two in the Baby retail category by readers of *Die Burger* and was awarded platinum in the best Baby Shop and the best Clothing Outlet (Children) categories by *Daily Sun* readers. Through its dominance in character merchandise, **Ackermans** was again named Disney retailer of the year in 2019.

Winner of Best Retailer in Children's Wear in the Ask Africa Kasi Star Brand Award for the fifth consecutive year.

The future

Ackermans' value formula, which includes a strong focus on Choice for Less, remains a key factor in gaining customers, while the brand's customer value proposition has proved to be robust and relevant in the current trading environment.

The business continues to evaluate expansion opportunities in existing and new markets.

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OPERATIONAL REVIEW [PEP AFRICA]

Celebrating best prices every day

The PEP Africa business was born out of the PEP culture and way of doing business in South Africa. PEP Africa entered Zambia in 1995, its first country north of the Southern African Customs Union (SACU) territory. PEP Africa offers customers best prices on products and the services they need through a convenient shopping experience.

Currently, PEP Africa operates in six African countries outside the SACU and aspires to be the best discount retailer on the continent. The business continues to make it possible for its customers and their families to live with dignity and pride.

PEP | AFRICA

Strong cellular performance in Angola

14.3% **constant rate sales growth achieved***

Consolidation phase of the business continues
– four stores added to the network of 313 stores on a net basis*

Customers in Africa have limited spending power and economic growth is largely dependent on the performance of commodity prices. Volatility in foreign exchange rates further adds to the complexity of doing business in Africa. Over the years, **PEP Africa**'s management teams have learnt that these operating conditions dictate decisions on when to expand or consolidate the business.

Strategy and performance

PEP Africa, which contributed 3.2% to group revenue for the year, reported good merchandise sales growth of 14.3% and like-for-like sales growth of 13.5% in constant currency terms. Weakening Angolan and Zambian currencies resulted in a sales growth of 1.1% in reporting currency terms.

The business continues to consolidate where necessary, closing 14 loss-making stores and reducing the store network to 313 stores. This excludes 39 stores in Zimbabwe (of which 19 were closed during the 2019 financial year), where the decision to exit the country was confirmed as a result of prolonged weak performance and a struggling economy.

Operations in Nigeria performed very well following selective store relocations to smaller cities and towns, which proved to be successful. In Angola, the successful introduction of cellular products benefited performance, but the lower oil price resulted in a significant weakening of the currency.

3 000 employees

313 retail stores

6 African countries

13 stores in Uganda

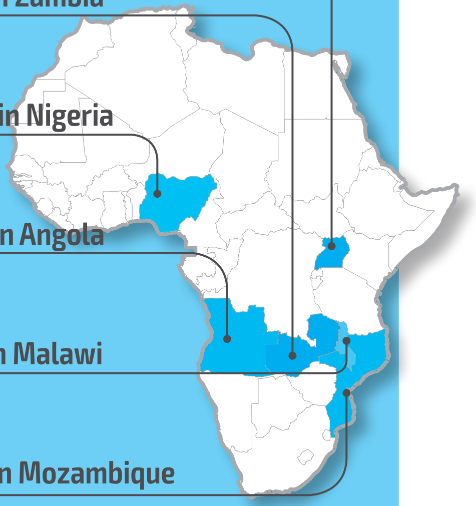
81 stores in Zambia

49 stores in Nigeria

87 stores in Angola

16 stores in Malawi

67 stores in Mozambique



*Excluding Zimbabwe

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. The well-established supply chain into African countries outside the SACU will continue to improve efficiencies in order to shorten lead times and reduce costs to ensure optimal profitability.

The store network is evaluated continually to ensure optimal profitability and generation of returns, while any expansion will be considered in countries with existing operation and in areas where the required rates of return are achieved.

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A world of value

The Speciality division includes five unique retail brands featuring different stages of maturity and performance. The brands operate in the specialist value segment, with a focus on adult clothing and footwear.

The Speciality division represents a growth incubator for the group within the adult wear market and provides a central infrastructure from which to launch new brands, nurture sub-scale brands and reposition 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 in opportunities ahead of the curve.

As a result, the central infrastructure provides costing benefits to be shared between brands, allowing brands to be tested over a shorter period of time.

Strategy and performance

The Speciality division's overarching strategic priority is to empower leadership within its retail brands in terms of their customer value proposition through the provision of retail direction, support services and capital allocation. Focus remains on strengthening support services within Speciality, including finance, human resources, logistics, IT, planning and store development. The division leverages the scale of Pepkor's Group Services, including **Pepkor Logistics**, **Pepkor IT**, **Pepkor Installations**, **Pepkor Properties**, **Tenacity**, **Pepkor Sourcing & Services**, **Marketing**, **Digital** and **Pepkor Data & Analytics**.

Speciality increased sales by 7.7% during the year under review, achieving like-for-like growth of 3.0%. This featured strong performances by the clothing retail brands, while the footwear retail brands faced challenging market conditions. Market share growth was achieved by most retail brands, according to the RLC data.

The total store footprint across the five retail brands expanded to 949 stores, with 72 store openings taking place during the year. The new Hammarsdale DC, shared with Ackermans, was commissioned, with all retail brands successfully integrated.

Tekkie Town – offering the latest sneaker styles from top brand names – was founded in 1989 and is a leading sports and lifestyle shoe chain. With more than 400 stores countrywide, it caters to the entire family with quality leisure, fashion and sports footwear. The wide range of branded footwear and accessories includes Adidas, Converse, Vans, Cat, Hi-Tec, Merrell, New Balance, Nike, Puma and Reebok.

While many challenges have been overcome since **Pepkor** took control of the business, the focus remains on implementing retail disciplines, methodologies and systems, and optimising stock levels. The management team relocated its head office in George and the DC to Hammarsdale. **Tekkie Town** continues to grow and added 38 new stores during the year.

Dunns was established in 1978 and has a strong South African heritage as the destination for unique, accessible, well-priced fashion. **Dunns** offers contemporary, on-trend, well-fitted, quality items at great prices. Ranges offered across a footprint of more than 200 stores include smart and casual wear for men and women and a competitive cellular range, including phones, tablets, airtime and accessories.

Dunns performed well during the year, with its turnaround strategy gaining traction, its customer value proposition developed, and old stock items cleared from the business. Healthy growth in credit and lay-bys are good lead indicators that customers are supportive of the new strategy. The brand's retail base has been reduced to 208 stores following the closure of 15 unprofitable outlets, and focus remains on improving sourcing, trend and design capability.

The first **Shoe City** store opened in 1986, and the brand set out to be the leading speciality footwear retailer in southern Africa by offering stylish, comfortable and durable shoes to everyone, at affordable prices. Customers drive decision-making in the business and are provided with a unique and inspiring shopping experience in more than 150 stores. **Shoe City** was recently voted Best Shoe Store and awarded golden crown status by *Die Burger* newspaper.

Shoe City achieved good results, featuring healthy market share gains during the period under review, with customers choosing to support the brand for quality and price.

John Craig was established in 1947 in Johannesburg as a family-owned men's outfitter and has grown to more than 110 stores nationwide. The **John Craig** brand is popular among South African men and has evolved with the customer and the times to offer classic styling, quality and exclusivity. **John Craig** follows trends of customers who enjoy smart casual, yet affordable, stylish clothing. Following a consolidation of brands, Polo is the iconic brand still loved by South African men with discerning taste, while the in-house Muratti brand delivers stylish and affordable designs.

John Craig achieved good results during the year, driven by strong growth in men's casual wear.

The **Refinery** brand was born three years ago, within **Pepkor**, and now has 65 stores. In a time of unprecedented media clutter and pop culture noise, **Refinery** is an authentic, honest fashion retailer that caters to today's inspired young adults. The brand believes that quality and affordability should not be mutually exclusive, and offers hand-selected accessible, inspirational pieces that speak to the needs of its customers.

Refinery represents a true success story of how to create a successful brand from scratch. It continues to achieve double-digit sales and like-for-like growth, supported by improved sourcing and in-house design capability. The brand is well established after a successful first three years and is now in a position to expand its footprint to gain economies of scale.

The future

Each brand within the Speciality division will continue to focus on its customer value proposition to ensure that its offering remains compelling and unique. The business will continue to leverage its central infrastructure to the benefit of its retail brands, while always considering potential growth opportunities.

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JD Group performed well, and for the first time in many years, profitability was restored.

JD Group's diversified retail and consumer finance businesses give value-conscious mass-market customers in southern Africa the opportunity and means to create a comfortable lifestyle. The business operates in the household furniture, electronics and appliances segment of the South African retail market. Growth in this segment has been muted, influenced by the consumer credit crisis, tightening of credit regulations in South Africa, a deterioration in employment levels, and a generally constrained macroeconomic environment.

13% Represents 13% of Pepkor's revenue in FY19

2% Contributed 2% to Pepkor's operating profit[1] in FY19

8.3% increase in revenue to R9.3 billion

R16.7 million operating profit[1] delivered

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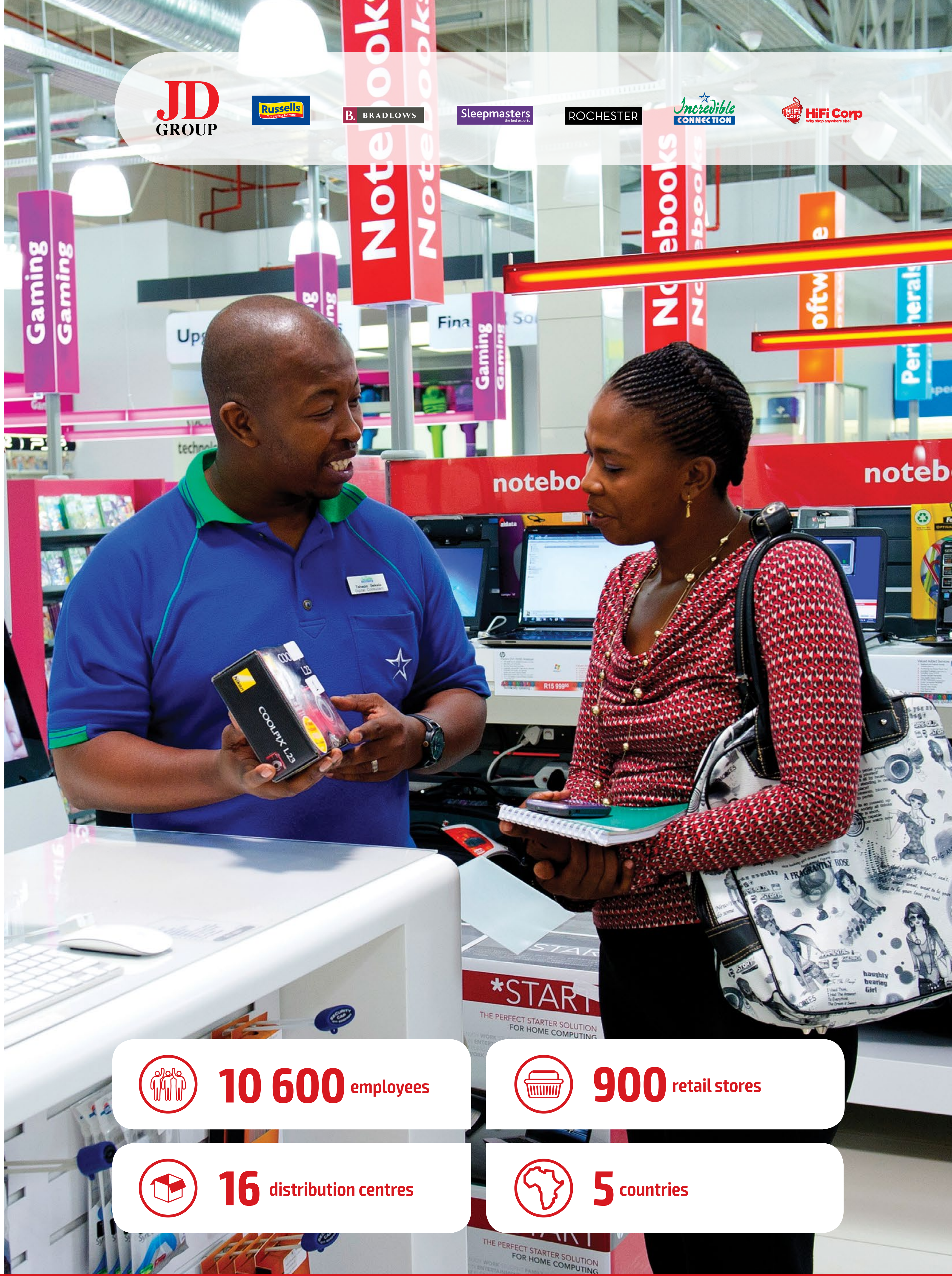
[1] Before capital items and excluding BVI-related costs and implementation of IFRS 9.

JD GROUP | Russells | BRADLOWS | Sleepmasters | ROCHESTER | Incredible CONNECTION | HiFi Corp



10 600 employees

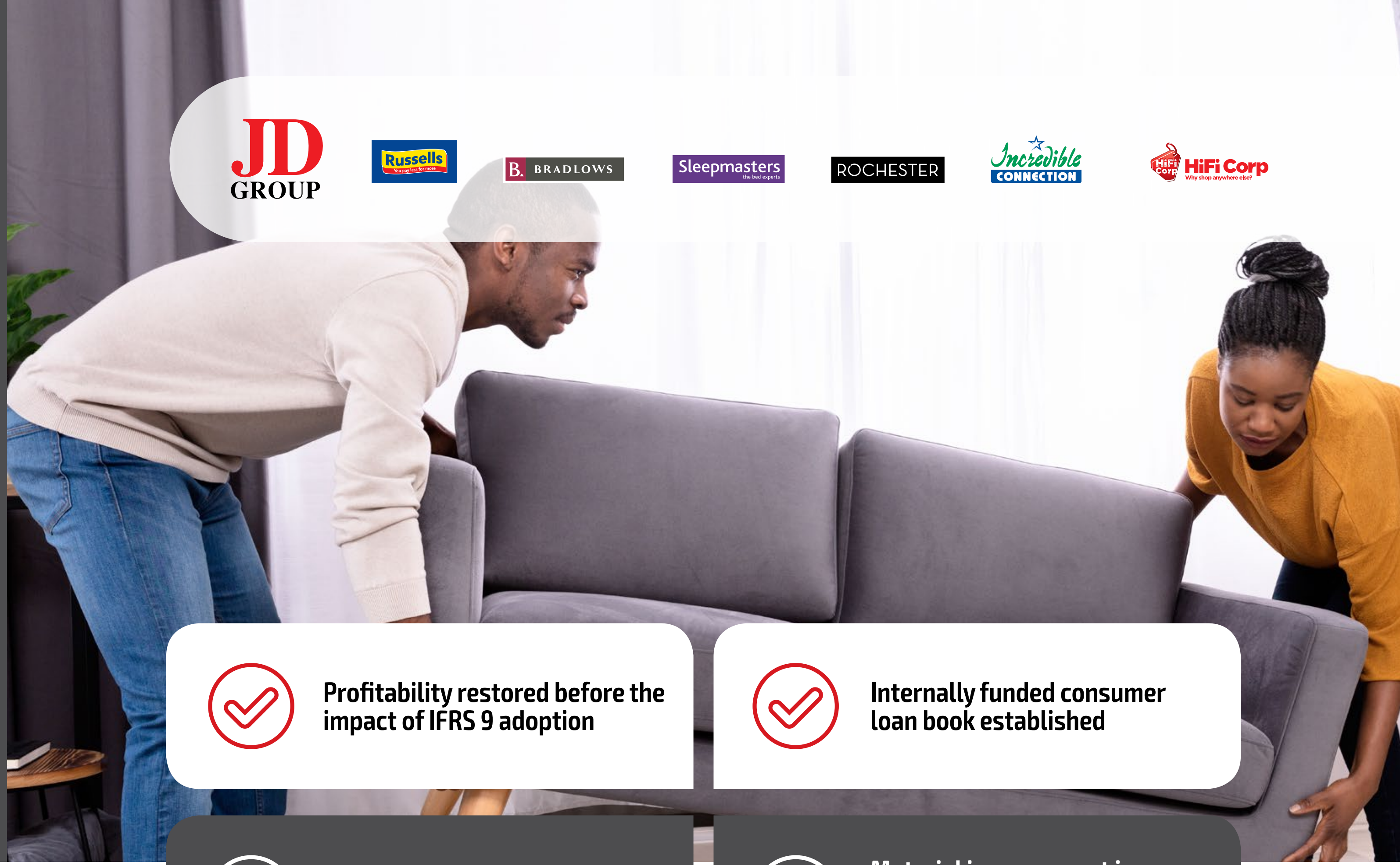
900 retail stores

16 distribution centres

5 countries

Creating a comfortable lifestyle

Consumer spending on durable product categories such as furniture, electronics and appliances is largely discretionary, with consumers deferring purchases when they are financially constrained. The comparatively higher product price points of durable products drive the use of credit to finance purchases, especially in the discount and value segments.



- **Profitability restored before the impact of IFRS 9 adoption**
- **Internally funded consumer loan book established**
- **Improved trading densities through reduced retail space**
- **Material improvement in logistics efficiencies and cost base**

The competitive environment in the appliances and electronics product categories has intensified as products have become easy to benchmark via online retail. Value-added services have thus become more important as a differentiator. With most of **JD Group**'s product sales mix comprising appliances and electronics, profit margins are inherently slim. Scale, efficiencies, and maintaining a low-cost environment are therefore important profit drivers.

Within this context, **JD Group** successfully restructured and repositioned the business over the past five years to maximise operational efficiency and productivity, while reducing reliance on consumer credit as a primary growth driver. This process included the consolidation of retail brands, product ranges, supply chain operations and store footprint, as well as growing cash and lay-by revenues through better customer value propositions.

The quality of earnings has consequently improved, with the business significantly less reliant on consumer credit. The credit mix is now at 28% in the furniture retail division – less than half of historical levels, which averaged around 65%. A credit offering does, however, remain an important revenue driver, and an internally funded loan book was established during the current financial year.

JD Group is structured into two retail divisions. The furniture retail division includes four furniture retail brands, which also sell appliances and electronic products. The consumer electronics and appliances division includes two specialist chains, focused on appliances and consumer electronics respectively. Both divisions are supported by centralised national supply chain and consumer finance operations.

Digital transformation is particularly relevant in the appliances and electronics market, where most customer journeys start online – even when shopping for furniture. The business has adopted an omnichannel retail model, which cross-leverages its existing infrastructure and operational capability to deliver a competitive online retail offering. **JD Group** continues to make positive strides in this growth channel.

Strategy and performance

JD Group strives to be the leading lifestyle retailer in southern Africa with brands that customers prefer, suppliers seek, employees are proud of, and that satisfy investor requirements. Its purpose is to enrich the lives of people from all walks of life by offering quality, value-for-money lifestyle goods through its various retail brands, stores and online shopping channels. **JD Group** supports its product offerings with various payment options, superior customer care and aftersales service.

To deliver on its strategy, **JD Group** focuses on customer centricity, product leadership and operational efficiency.

During the year under review, **JD Group**'s revenue of R9.3 billion grew by 8.3%, driven primarily by revenue streams from the new credit book. Sale of merchandise grew by 2.7% on the prior year. Like-for-like sales declined by 0.6%, demonstrating how customers prioritise spending on essentials over durable products.

The business delivered on its customer value proposition during the year and maintained market share. **Russells** was awarded the silver medal in the best furniture shop category of the *Daily Sun*'s annual readers' choice awards. **Bradlows**, **Russells** and **Rochester** were all rated in the top five of the annual *Sunday Times/Sowetan* Shopper Survey's Best Furniture Store category. **Incredible Connection** held the 2018/19 Microsoft Retailer of the Year title, as well as the HP Channel Partner of the Year.

Improving the customer experience, in-store and online, remains a focus. This includes the refurbishment of stores, improved store layouts and enhanced online shopping. The appliances and electronics stores are converting to smaller formats, while **Russells**, a discount retailer, is changing its trading format to higher merchandise intensity, allowing it to display more products.

Omnichannel development continues, with the aim of establishing an omniretail model featuring omnisolutions. Online sales transactions, predominantly in **Incredible Connection** and **HiFi Corp**, increased by 89% year on year to roughly 65 000 transactions. Total group web sessions, representing digital footfall, also increased exponentially. In the consumer electronics and appliances division, online contributes 4% of total sales.

From a systems perspective, a new point-of-sale system was rolled out across all brands, which not only enables and enhances the omnistrategy, but also improves efficiency, thanks to a single support team. In addition, an in-store biometrics capability to combat credit granting fraud is being introduced, while a new real-time credit scoring system was implemented to reduce fraud and improve credit scoring and collection strategies. The business applies a prudent approach to credit granting with a stable credit mix of 18% of total merchandise sales in the current year. This includes a credit sales mix of 26.9% in the furniture retail division, and 8.1% in the consumer electronics and appliances division. The contribution from lay-bys, as an alternative payment method, remained stable at 8.1%.

Profitability was restored during the current year with R167 million operating profit generated before the implementation of IFRS 9. IFRS 9 sees the provision for doubtful debts raised in terms of a forward-looking expected credit loss methodology. With a new credit loan book, this results in future expected credit losses being raised against current earnings without a matching revenue stream to offset the impact of the provision due to an immature book. This is in contrast to companies with mature credit books, where the bulk of the IFRS 9 change in provision increases can be applied against retained earnings. As a result, provisions impacting earnings by R252 million were raised in the current financial year to provide for future expected credit losses (as opposed to incurred credit losses) and therefore resulted in an operating loss for **JD Group** after implementation of IFRS 9 of R85 million for the current year.

JD Group's **Supply Chain Services** operate 16 national DCs with an owned fleet of roughly 200 vehicles of various configurations. The business has optimised its supply chain footprint over the past five years, from 32 DCs of various sizes to 16. It has also balanced its fleet between in and outsourcing, introduced systems to improve inventory management and store replenishment, and enhanced its home delivery service. A digital proof of delivery system was introduced during the year to further improve controls and customer service. In addition, processes to cater for quick-ship online fulfilment were also introduced. A highlight of the year was the major reduction in supply chain costs as these initiatives gained momentum.

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Furniture retail division

Russells allows value-conscious discount segment customers to create stylish, warm homes through its offering of affordable, value-for-money furniture and appliances – supported by easily accessible payment options across 283 national stores.

The focus of the brand is to:

- enhance the customer shopping experience through store refurbishments;
- improve its affordable value offering with a greater focus on flat-pack and imported products; and
- augment its ranges by offering extended aisle products from sister brands, such as **HiFi Corp**, on a web-enabled basis, in-store.

Bradlows has been providing top-quality furniture to customers at affordable prices since 1901, and services the aspirational middle to high-value segment of the market via 263 national stores. Aftersales customer care is an important part of the brand's value proposition and plays a central role in **Bradlows**' reputation as a well-established and trusted consumer brand that has won many consumer awards, including recognition over many years in the *Sunday Times/Sowetan* Shopper Survey.

As retail shopping centres have developed, the **Bradlows** customer base has migrated from the traditional 'high street' to locations such as shopping malls and strip malls. As a result, store migration to better locations is a priority.

The focus of the brand is to:

- concentrate on its existing customer base and drive repeat business;
- enhance its range to ensure a better balance between various merchandise categories; and
- grow its online capability, including online credit, to enhance and simplify the shopping journey.

Rochester provides a wide range of elegant, top-quality furniture at affordable prices. The brand was built on an offering of exclusive leather lounge suites, and now targets the discerning middle to high-end, style-conscious customer with a wider selection of collections and personalised choice. **Rochester** currently operates a small footprint of 33 stores, primarily located in Gauteng.

The focus of the brand is to:

- increase its store footprint to achieve national representation;
- enhance its merchandise range to cater for a more urban, youthful consumer looking for contemporary style at affordable prices; and
- grow its online offering, with support from the group's centralised national supply chain.

Sleepmasters is a speciality bedding retailer that provides a wide range of beds from private label and leading brands at competitive prices. A wide and relevant range across brands and comfort levels gives customers a selection of choices that enable a better night's sleep. The primary private label brand is Sleepmasters, which forms a material portion of **JD Group**'s bedding turnover. The store has a footprint of 182 stores across southern Africa, complemented by full online functionality to facilitate an omniretail offering.

The store model is scalable across retail communities, and initiatives to increase the average unit selling price have been supported by the introduction of nine premium **Sleepmasters** stores in locations that target the more affluent customer.

The focus of the brand is to:

- introduce more stores in more high-end locations with a larger offering of sophisticated products able to increase basket value;
- introduce a Sleepmasters-branded linen range in addition to pillows and mattress protectors; and
- optimise logistics channels to ensure same-day delivery to customers across the country.

761 stores

16% lay-bys contribution

26.9% credit mix

Consumer electronics and appliances division

Incredible Connection is a destination specialist retailer that offers the latest and greatest technology, expertise and service, allowing consumers to 'live connected'. The brand also offers the latest products in television, sound, consumer electronics, mobile phones and cellular repairs. Its true omnichannel approach is spearheaded by 79 outlets, underpinned by a comprehensive and rapidly growing digital commerce business. The brand targets all users of technology, including tech-savvy entrepreneurs, hardcore gamers and everyday tech users.

The focus of the brand is to:

- be the 'Home of Modern' by focusing on the latest in modern computing, catering to power users and entrepreneurs alike;
- be the primary destination for small businesses (who are heavy users of services and value-add products) by providing a one-stop solution and expert advice and aftersales service, including installation and set-up;
- be the destination for scholars and students, who are significant lifetime value customers;
- be the destination for recreational gamers – the highest growth segment in the computing industry; and
- be the preferred retailer for shoppers who want to buy technology online and in-store, by offering a full omni-experience and unique support services, such as 'walk out working'.

Incredible Connection markets across all channels, with a particular focus on growing its digital marketing presence. As part of building its brand across various market segments, **Incredible Connection** also participated as major exhibitor at Comicon and the Rage Expo, which is the biggest gaming expo in South Africa.

139 stores

4% online sales contribution

HiFi Corp is a discount retailer that supplies electronic goods, large and small appliances and related accessories to consumers in the southern African mass middle market, at the lowest prices. The brand operates 60 stores across southern Africa. Supported by strong online capability, it targets all customers looking for a great deal.

As an omniretailer with a growing digital commerce component, **HiFi Corp** continues to optimise and reduce its store sizes to improve trading densities. The introduction of extended aisle capability to showcase products not displayed in-store is a primary focus, along with driving new sales and attracting new consumers.

The focus of the brand is to:

- grow online retail – **HiFi Corp**'s core categories and national footprint mean it is uniquely placed to take advantage of its equity as a value player in the appliances and electronics segment;
- grow its offering by adding extended aisle products to augment current ranges, and by adding new categories across an enlarged section of the general merchandise and home furnishing segments, available online only for home delivery or in-store collection;
- grow its private label merchandise assortment to augment margins and drive consumer loyalty; and
- grow its cellular offering as a multi-carrier player.

HiFi Corp's marketing focuses on print and digital channels. The brand partnered with star Springbok, Tendai 'Beast' Mtawarira, as a brand ambassador during the 2019 Rugby World Cup, which proved highly successful.

8.1% credit mix

The future

JD Group remains a leading southern African furniture, appliance and electronics omniretailer. It has restructured its operations to take advantage of opportunities to defend and expand its market share and grow its profitability. It remains well positioned to achieve optimum growth.

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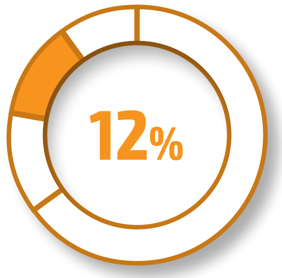
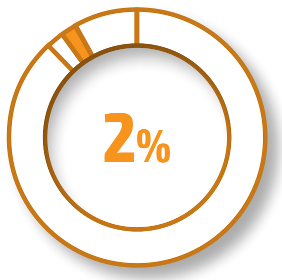
The Building Company – building lives, building homes, building communities.

The Building Company operates across three divisions, incorporating more than 10 established, well-known brands. The retail division offers a full range of locally sourced building materials, distributed throughout southern Africa. Its retail outlets consist mainly of BUCO, Timbercity and Chipbase stores. The wholesale division specialises in the wholesale of mostly imported, differentiated and value-add building materials, supplied to building material retailers. The specialised division operates in the specialist retail building materials market. The majority of its goods are differentiated, imported products offering extensive choice per range.



Represents 12% of Pepkor's revenue in FY19



Contributed 2% to Pepkor's operating profit[1] in FY19

0.9% increase in revenue to R8.2 billion

28.5% operating profit[1] decline to R153 million

[1] Before capital items and excluding BVI-related costs and implementation of IFRS 9.

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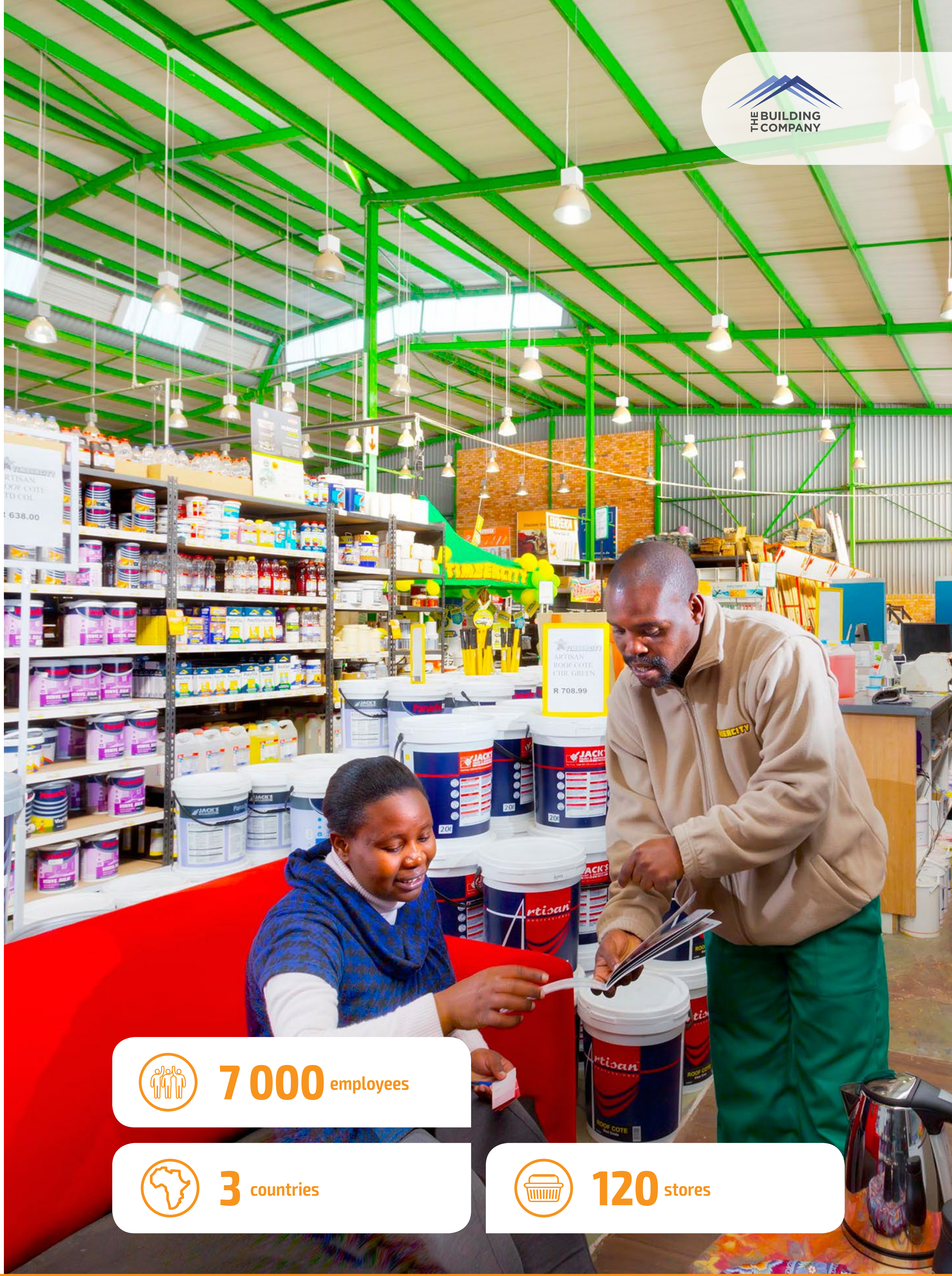

THE BUILDING COMPANY

7 000 employees

3 countries

120 stores

To be the building material provider of choice in the markets we serve

- **Market share growth** in targeted product categories and market segments
- **Careful cost control** mitigated impact on margins
- **Rationalised store footprint**
- **Organisational culture** programme launched
- **Successful e-commerce** project launched
- **Various procurement initiatives** executed to improve volume and margin

Operational structure

Retail	Wholesale	Specialised
BUCO	MACNEIL	Bachel Bildware / H&B Hardware
Timbercity	Cachet	B ONE
Chipbase	Brands 4 Africa	tiletoria
	Citiwood	floors direct

The Building Company sources, distributes, wholesales and retails general and specialised building materials. It serves the full spectrum of the construction industry, including the residential, commercial and industrial markets. Customers include professional and private developers, project managers, building contractors, builders, plumbers, electricians, joiners, cabinetmakers, tilers, roofing specialists, owner-builders and home improvers. Building industry needs are met through efficient sourcing, convenient retailing and the effective redistribution of goods into selected markets.

The business operates in the building materials market, where performance is influenced by a conducive macroeconomic environment and building confidence levels. Confidence and building activity levels are currently at multi-year lows. Renovation projects are the only source of growth in the commercial segment, while smaller projects (like flats and townhouses) are the only source of growth in the residential sector.*

The Building Company has evolved significantly over the years, including the acquisition of various owner-operated building material businesses, which are operating on a decentralised basis, and with a strong entrepreneurial culture. **The Building Company** acquired the then-listed **Iliad** in 2015, which provided an opportunity to consolidate the **Pennypinchers** and **Hardware Warehouse** brands into the **BUCO** brand. **The Building Supply Group** was acquired in 2017, effectively diversifying the business into wholesale and specialist retail areas.

The retail division contributes close to two-thirds of the business's revenue and offers a full range of locally sourced building material products, distributed throughout southern Africa. Retail brands include **BUCO**, which focuses on building contractors through to DIY enthusiasts, **Timbercity** and **Chipbase**, which specialise in board and timber-related products and services.

The wholesale division supplies differentiated and value-add building materials within the group, and to other building material retailers in southern and South Africa. It contributes about 20% of **The Building Company**'s revenue. Most of its goods are specialised and imported and offer an extensive choice per range.

The specialised division operates in the specialised retail building materials market and offers specialist flooring, ironmongery and other specialist product retail brands. It is the smallest division within the company and contributes approximately 11% of revenue.

Sources: Bureau for Economic Research – Stellenbosch University; Statistics SA

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The Building Company's approach to business

The Building Company's vision is to be the building material provider of choice in the markets it serves. Through its various brands, it provides quality building materials and services – at the customers' convenience, and with a personal touch.

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

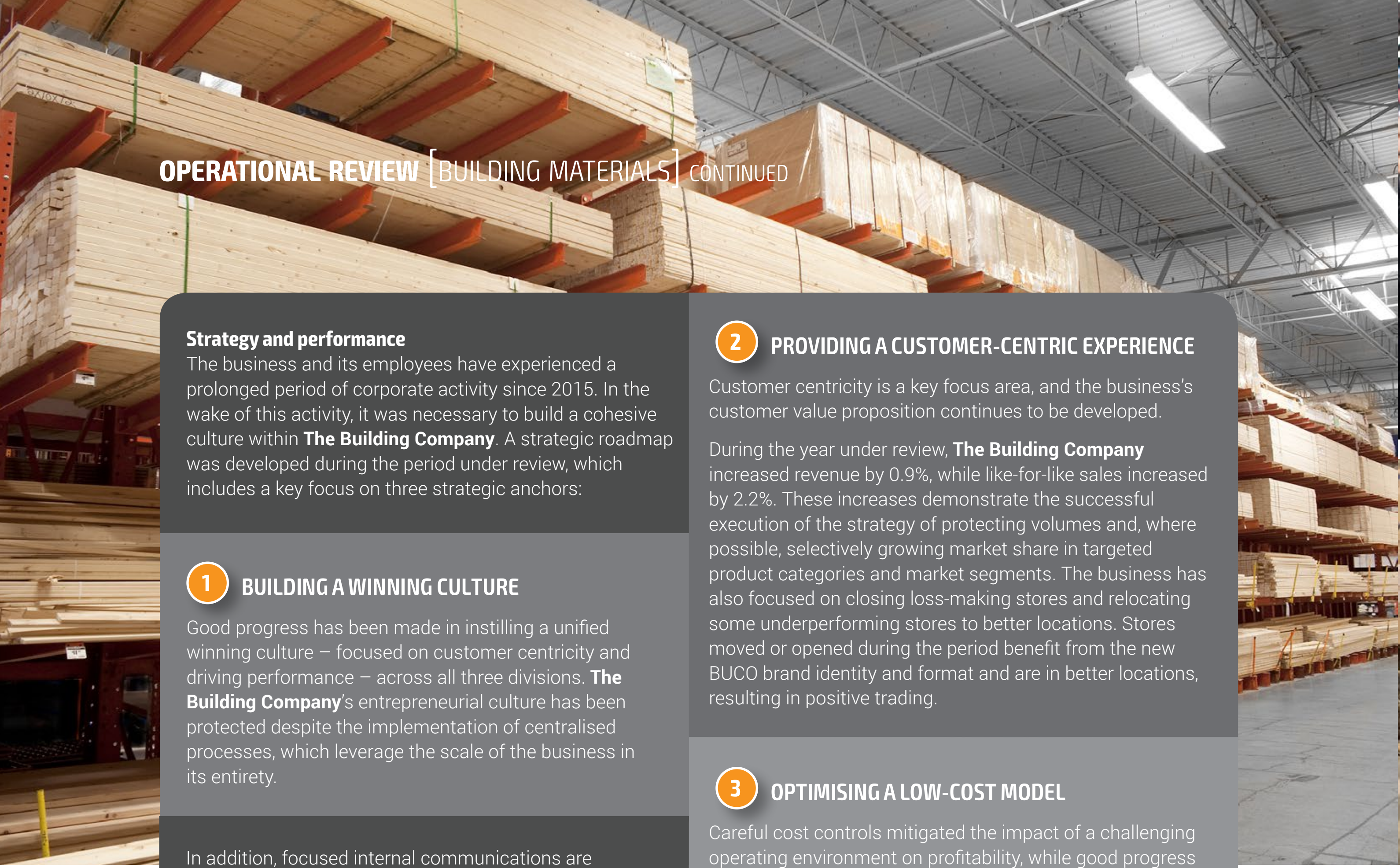
Our values

Honesty
The 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
Respect of self, customers, colleagues and suppliers. Individually and/or collectively understanding, accepting, valuing and embracing others with different backgrounds, cultures, personal preferences and personal competencies.

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

Energy
Urgency and energy in all we do is non-negotiable.



Strategy and performance
The business and its employees have experienced a prolonged period of corporate activity since 2015. In the wake of this activity, it was necessary to build a cohesive culture within **The Building Company**. A strategic roadmap was developed during the period under review, which includes a key focus on three strategic anchors:

1 BUILDING A WINNING CULTURE

Good progress has been made in instilling a unified winning culture – focused on customer centricity and driving performance – across all three divisions. **The Building Company**'s entrepreneurial culture has been protected despite the implementation of centralised processes, which leverage the scale of the business in its entirety.

In addition, focused internal communications are supported by a new internal war cry (Transforming to Win!), which plays an important role in achieving the desired organisational change.

2 PROVIDING A CUSTOMER-CENTRIC EXPERIENCE

Customer centricity is a key focus area, and the business's customer value proposition continues to be developed.

During the year under review, **The Building Company** increased revenue by 0.9%, while like-for-like sales increased by 2.2%. These increases demonstrate the successful execution of the strategy of protecting volumes and, where possible, selectively growing market share in targeted product categories and market segments. The business has also focused on closing loss-making stores and relocating some underperforming stores to better locations. Stores moved or opened during the period benefit from the new BUCO brand identity and format and are in better locations, resulting in positive trading.

3 OPTIMISING A LOW-COST MODEL

Careful cost controls mitigated the impact of a challenging operating environment on profitability, while good progress has been made in integrating recently acquired businesses and simplifying the corporate structure. **The Building Company** remains profitable, with operating profit declining by 28.5% to R153 million.

Retail division
The retail division's focus on protecting market share impacted margins. Key projects are under way to mitigate this, including centralising purchasing opportunities and consolidating the supplier base.

Good progress was made in the establishment of central customer profiles, which allow customers to make purchases on their accounts, across all stores.

An e-commerce project, which allows customers to place product orders and make payments online, was also launched. The platform allows for click and collect, as well as delivery of online purchases. Phase two will allow trade customers to make credit/account purchases online, a first in the building materials retail market. The online platform currently includes 12 000 stock keeping units (SKUs), and this will be expanded as the project develops.

BUCO offers a full range of primarily locally sourced products to partners who include major development groups, contractors and DIY enthusiasts. Stores are designed to ensure an enjoyable shopping experience for contractors through dedicated contractor counters and easy access payment and pick-up facilities. DIY customers are well catered for and enjoy the ability to navigate well-merchandised stores, along with the benefits of extensive product ranges and extended aisles. **BUCO** also includes 15 truss plants and is guided by a philosophy of genuine customer partnerships, rather than serving as a mere warehouse for building products. This philosophy is encapsulated by its motto: Let's Build Together.

Timbercity specialises in board, timber and hardware-related products, complemented by competitive prices and excellent advice. It offers customers all the essentials to complete projects on time and within budget, and offers a delivery service, direct from store to door. Backed by over 40 years' experience in providing superior products and outstanding service, **Timbercity** has become one of southern Africa's most recognised and trusted brands.

Chipbase is a chipboard merchant specialising in cutting and edging all board products within the kitchen and cupboard industry. It stocks a wide range of board products, specialising in melamine colours.

Wholesale division
Notwithstanding improved trading activity, strong competition in the wholesale division placed pressure on margins. Strategic development continues in the division, focused on target markets and how the businesses can be leveraged in support of one another and other divisions.

MacNeil is a leading wholesaler and distributor of building products and specialises in sanitaryware, brassware, plumbing fittings and timber products (including flooring, board products and doors). With a clearly defined route to market through corporate retail, building merchants and independent retailers, it aims 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.

Cachet is a leading wholesaler and distributor of plumbing, hardware and ironmongery products. Its extensive wholesale and retail distribution network allows it to service multiple markets within the building and renovation industry.

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The Building Company increased revenue by **0.9%**

Like-for-like sales increased by **2.2%**

Brands 4 Africa is the holding company of four export divisions. Each division within the company specialises in offering clients a full turnkey solution across different areas of expertise, as well as procurement, logistics and border clearing services throughout Africa.

Citiwood sources and distributes a range of chipboard, melamine board, shutterboard, hardboard, Formica, plywood, panelling and related products and accessories. Established in 1980, **Citiwood** is a trusted brand with outlets in Gauteng, KwaZulu-Natal, the Eastern Cape and Western Cape. It serves as a wholesaler and retailer, and supplies products in bulk or loose bundles. Customers include kitchen manufacturers, shopfitters, furniture manufacturers, maintenance departments and building contractors. Prominent in-store brands include PG Bison, Sonae and Masonite.

Specialist division
As with other divisions, strong competition resulted in reduced margins. Looking forward, focus will be placed on sourcing more local products and the expansion of product categories.

Tiletoria is a leading Western Cape tile retailer, with additional presence (warehouses and showrooms) in Johannesburg, Durban, Umhlanga, Port Elizabeth and Namibia.

Floors Direct is the South African leader in wood, laminate and vinyl flooring and carpets. It holds stock of over 60 000 m² across its stores, and has been trusted to install over 1 500 000 m² of flooring since inception. Some of South Africa's most exquisite homes and largest boutique outlets have chosen **Floors Direct** as their flooring partner.

Ironmongery focuses on the specialised ironmongery market and distributes its products to contractors and DIY customers through well-established retail stores.

Buchel is a well-known name in Gauteng, supplying ironmongery, hardware, tools and paints across southern Africa. The brand was established in 1950.

Bildware is a renowned brand name in KwaZulu-Natal and specialises in architectural ironmongery, general hardware and building materials. It caters for residential homes, lifestyle developments and commercial projects, including major office blocks, hotels, shopping centres and casino developments.

W&B Hardware is a specialist architectural ironmongery and general builders' hardware chain, operating in the Western Cape and Port Elizabeth.

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. It also sells prefabricated sheds that can be custom-built to specification.

The future
The Building Company has made good progress in formulating and executing a coherent strategy as various businesses and retail brands have been added to the business structure. Many opportunities still exist to consolidate processes across the various divisions and retail brands, and to leverage the scale of the business.

While trading conditions are not expected to improve in the short term, the business is making use of current opportunities to regroup and prioritise initiatives that will enable it to grow market share selectively and position it strategically for future growth.

Providing virtual products and services to customers through digital technology

This segment includes businesses that provide virtual products and services to customers through digital technology to make their lives easier. In many instances, these businesses leverage from other Pepkor retail channels, including the store footprint.

The FLASH business is a technology-driven group committed to the purpose of making people's lives easier.

The Capfin business is a multi-award-winning credit provider, offering customers responsible, accessible and affordable credit.

10% Represents 10% of Pepkor's revenue in FY19

8% Contributed 8% to Pepkor's operating profit[1] in FY19

43.9% increase in revenue to R7.2 billion

R549 million operating profit[1] delivered

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[1] Before capital items and excluding BVI-related costs and implementation of IFRS 9.

flash capfin

1 600 employees

169 000 FLASH traders

Technology to make people's lives easier

FLASH has been helping communities live better since 2000 by putting value back into their pockets every day and has since grown to become the largest informal retail network in Africa, processing more than 3 million transactions daily.

Three things are key to the success of FLASH:

PEOPLE
Real people getting things done to make a real difference.

PARTNERSHIPS
An open ecosystem that delivers mutual benefits for our partners.

TECHNOLOGY
Innovative solutions to make things faster and simpler.

169 000 active traders

700 employees

FLASH is a technology-driven company dedicated to making people's lives easier. They do this by creating new transaction economies through an open ecosystem that provides partners with multiple platform integrations, allowing products to be delivered to market efficiently.

Having partnered with key service providers, retailers and brands, **FLASH** prides itself on its relationships and ability to use technology to disrupt and create a common value exchange.

With a high-volume transaction processing capability through their proprietary integration switch, **FLASH** safely processes millions of transactions daily, providing a robust and reliable system for traders and partners.

Traders can purchase **FLASH** business machines at various **Pepkor** brand partner stores, including **PEP**, **Ackermans**, **Dunns**, **John Craig** and **JD Group** brands.

3 million daily transactions

The **FLASH** business machines enable traders to offer greater convenience to their customers by selling essential goods and services. With an ever-growing product range of devices, **FLASH** gives traders in the community a platform to thrive, with offerings that include mobile data and airtime, prepaid electricity, money transfers, account payments, Lotto and online payment vouchers.

The commission earned from transactions is shared between **FLASH** and the traders, keeping money in the communities and providing opportunities for small businesses to prosper.

FLASH aims to give underserved communities greater value. Whether it is through micropayments or access to a growing basket of products, 'making people's lives easier' is the focus of everything they do.

Winner of the Rising Star South Africa Award at the LinkedIn Talent Awards 2019

23% increase in virtual turnover

176 million electricity vouchers sold

Strategy and performance

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

The number of **FLASH** traders increased by 24 000 from 145 000 in the previous year to 169 000 at 30 September 2019.

Having formed strategic partnerships in the United Kingdom and Europe, **FLASH** has successfully rolled out virtual products into global retail, offering a comprehensive aggregation suite.

Partners

FLASH's consumer payments product, **1voucher**, has shown impressive growth in its first financial year. It offers the unbanked consumer a ticket to the world of online payments through cash deposits.

Leveraging the extensive **FLASH** network as well as formal retail distribution channels, **1voucher**'s growth is proof that there is an appetite for cash-to-online, giving rise to a previously untapped customer base.

By signing up brand and payment partners, they gain instant access to the **FLASH** network, opening up multiple categories of payments to underserved communities.

The future

FLASH will continue to grow its global retail footprint and market penetration, while enhancing service and education on its products. This engagement drive is aimed at not only creating a more knowledgeable existing base, but also better equipping new traders for future success.

Opportunities for expansion both locally and abroad will continue to be evaluated.

RETAIL PARTNERS
PEP, Pick n Pay, PEPCO, Poundland, Dealz, Shoprite, Usave, Checkers, John Craig, Dealz, Ackermans, Dunns

CONTENT PARTNERS
tripgift, Google play, Spotify, Netflix, Xbox Live, Microsoft 365

CELLULAR
Cell C, MTN, Telkom, Virgin mobile, vodacom

OTHER
1voucher, absa, City of Cape Town, Coca-Cola, DStv, Eskom, FNB, Lotto, payat

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Committed to provide customers with affordable loan products and to deliver exceptional service

Capfin was founded in 2010 with a vision to provide customers with affordable loan products and services. Since then, Capfin has continued to meet the expectations of their customers with friendly service and responsible lending. From a start-up team of three people to almost 1 000 people working together, Capfin continues to contribute positively to the lives of its customers.

The business operates in South Africa's unsecured lending market in close collaboration with its main distribution partners, **PEP** and **Ackermans**. Customers can apply for **Capfin** loans in-store, on the website, or via SMS on their mobile phones. **Capfin** assesses customer affordability and extends credit based on its credit granting methodology and proprietary scorecards. **Capfin** establishes contact with qualifying customers and deposits funds into their bank accounts via electronic funds transfer.

Research indicates that customers utilise **Capfin** loans for various reasons, including unforeseen expenses like funerals or car accidents, education, durable goods and regular household expenses in times of crisis.

Historically, **Capfin** loans were externally funded. The business transitioned to its own internally funded credit loan book during the 2019 financial year. With **Capfin** now in control of funding, the business controls all aspects of its value chain.

Strategy and performance

In late 2018, **Capfin** embarked on a brand repositioning strategy to build the Capfin brand, drive customer intake through its new digital channels and diversify its traditional target market by appealing to a broader range of customers. This included a marketing campaign, which promoted **Capfin**'s availability to potential and current customers – 'Wherever you find yourself, you can find Capfin'. The campaign provided an opportunity to educate consumers on how easy it is to apply for Capfin loans, not only through the traditional in-store channels, but also via digital channels, including the website and SMSs.

The campaign resulted in a significant increase in new loan applications compared to the prior year, with the digital channels contributing substantially to the overall customer intake. The campaign was supported by driving social media engagement with content on Facebook, Twitter and Instagram.

In September 2019, **Capfin** was awarded the *Sunday Times* Top Brand award in the microlending category for the second consecutive year.

During the year under review, the internally funded credit loan book increased to R2.2 billion (gross). This was supported by 768 947 new loan applications and a conservative acceptance rate of 19.8%. IFRS 9 was applied during the current year and resulted in an increased level of provisioning for bad debts based on an expected credit loss methodology. **Capfin**'s level of provisioning increased to 15% from the historical 10% level. The business did not need to apply IFRS 9 retrospectively on the loan book, as it was only established in the current year. As a result, additional provisions amounting to R66 million were raised in the current financial year to implement IFRS 9 and this was treated as a one-off cost. The loan book remains healthy with credit performance meeting expectations.

In terms of the regulatory environment, the National Credit Amendment Act (the Act) was promulgated in 2019 and the impact thereof was assessed. Based on current circumstances, it is expected that **Capfin** will not be impacted significantly. To ensure compliance with the Act, necessary changes to existing systems and processes will be implemented. It is anticipated that credit risk concerning over-indebted consumers will not increase as a result of the Act.

The future
Capfin will continue to scale its business, driving growth and increasing market share while maintaining a high level of credit discipline to manage risk.

Continued growth in digital application channels, now accounting for **44%** of new loan applications

Successful transition to internally funded credit loan book

Winner of the prestigious *Sunday Times* Top Brand award in the microlending category for the second consecutive year

900 employees

287 000 active customers

Our values

- We place customers at the heart of our business
- We take pride in what we do
- We help each other grow
- We make things happen

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ANNEXURE 1 [RETAIL FOOTPRINT]

	30 September 2018		Openings	Closures	Net movement		30 September 2019	
	Retail stores	Retail area '000 m²	Retail stores	Retail stores	Retail stores	Retail area '000 m²	Retail stores	Retail area '000 m²
Clothing and general merchandise	**4 181**	**1 582**	**289**	**(75)**	**214**	**89**	**4 395**	**1 671**
PEP	2 231	802	117	(21)	96	30	2 327	832
Ackermans	731	440	81	(6)	75	37	806	477
PEP Africa[1]	308	120	19	(14)	5	(0)	313	120
Speciality[2]	911	220	72	(34)	38	22	949	242
Furniture, appliances and electronics	**892**	**447**	**47**	**(39)**	**8**	**(18)**	**900**	**429**
Furniture and appliance retailers[3]	760	356	35	(34)	1	(15)	761	341
Appliance and electronics retailers[4]	132	91	12	(5)	7	(3)	139	88
Building materials[5]	**124**	**345**	**2**	**(6)**	**(4)**	**(11)**	**120**	**334**
Pepkor	**5 197**	**2 374**	**338**	**(120)**	**218**	**60**	**5 415**	**2 434**

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

ANNEXURE 2 [SHAREHOLDER ANALYSIS]

PEPKOR Holdings Limited

Shareholder spread	Number of shareholdings	%	Number of shares	%
1–1 000 shares	4 776	44.67	1 756 746	0.05
1 001–10 000 shares	4 535	42.42	14 482 506	0.42
10 001–100 000 shares	876	8.19	28 671 857	0.83
100 001–1 000 000 shares	401	3.75	128 519 425	3.73
1 000 001 shares and above	103	0.96	3 276 569 466	94.97
Total	**10 691**	**100.00**	**3 450 000 000**	**100.00**

Shareholder spread	Number of shareholdings	%	Number of shares	%
Charity	12	0.11	8 376 861	0.24
Custodians	5	0.05	1 401 019	0.04
Exchange-traded fund	3	0.03	1 711 117	0.05
Foreign government	4	0.04	1 170 596	0.03
Hedge fund	6	0.06	13 166 420	0.38
Insurance companies	31	0.29	52 185 843	1.51
Local authority	2	0.02	1 014 920	0.03
Medical aid scheme	9	0.08	1 582 170	0.05
Mutual fund	205	1.92	331 566 186	9.61
Pension funds	224	2.10	154 176 243	4.47
Private investor	59	0.55	26 467 324	0.77
Sovereign wealth	5	0.05	59 766 268	1.73
Strategic investments	2	0.02	2 752 439 024	79.78
Trading position	18	0.17	23 455 510	0.68
University	17	0.16	4 446 705	0.13
Unclassified/below threshold	10 089	94.37	17 073 794	0.49
Total	**10 691**	**100.00**	**3 450 000 000**	**100.00**

Public and 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	302 518 994	8.77
Strategic holdings (more than 10%)	1	0.01	2 450 000 000	71.01
Public shareholders	10 688	99.97	697 491 006	20.22
Total	**10 691**	**100.00**	**3 450 000 000**	**100.00**

Beneficial holders of 1% or more	Number of shares	%
Steinhoff International Holdings N.V.	2 450 000 000	71.01
Lancaster 101 Proprietary Limited	302 439 024	8.77
GIC Asset Management Private Limited	42 522 807	1.23
Government Employees Pension Fund (PIC)	37 954 351	1.10
Total	**2 832 916 182**	**82.11**

Managers of 1% or more	Number of shares	%
Coronation Asset Management Proprietary Limited	126 174 250	3.66
Allan Gray Proprietary Limited	61 094 369	1.77
Investec Asset Management	60 350 323	1.75
FIL Limited	50 471 995	1.46
Old Mutual Investment Group SA	43 722 274	1.27
GIC Asset Management Private Limited	42 522 807	1.23
STANLIB Asset Management	38 657 071	1.12
Visio Capital Management	34 730 646	1.01
Total	**457 723 735**	**13.27**

Data as at 28 September 2019

From 1 October 2019 to the latest practicable date prior to publication of this report, the only share transactions involving directors relate to 4 000 shares acquired by Ms F Petersen-Cook on 26 November 2019, as announced on SENS on 2 December 2019.

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ANNEXURE 3 [SHARE PERFORMANCE]

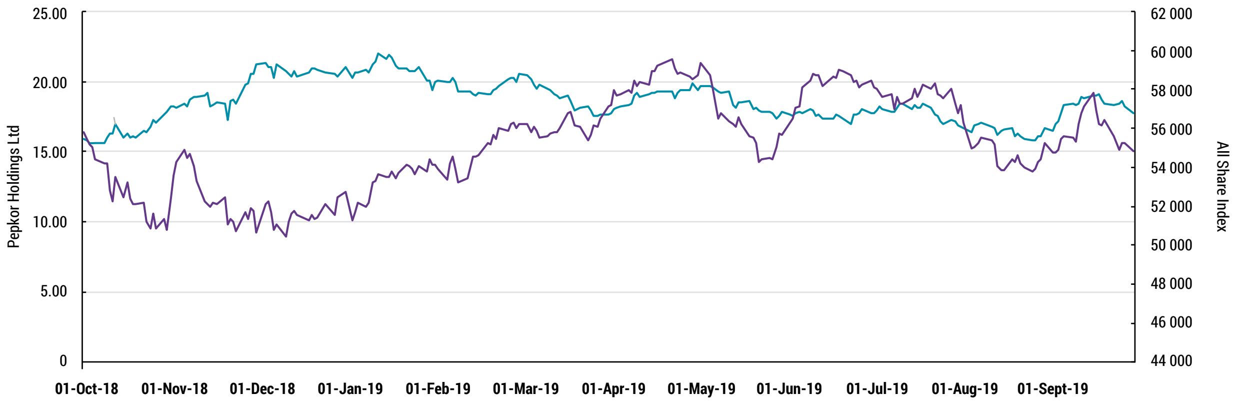
Analysis of trading

Date	High close (cents)	Low close (cents)	Volume (million)	Value (R billion)
31/10/2018	18.25	15.60	47.8	0.8
30/11/2018	21.22	17.23	66.1	1.2
31/12/2018	21.30	20.22	55.2	1.1
31/01/2019	22.00	19.40	58.5	1.2
28/02/2019	20.30	19.01	44.3	0.9
29/03/2019	20.50	17.50	38.9	0.7
30/04/2019	19.90	17.60	35.8	0.7
31/05/2019	19.90	17.32	43.0	0.8
28/06/2019	18.00	17.00	23.6	0.4
31/07/2019	18.41	16.90	25.5	0.5
30/08/2019	17.02	15.77	31.1	0.5
30/09/2019	19.10	16.51	48.9	0.9

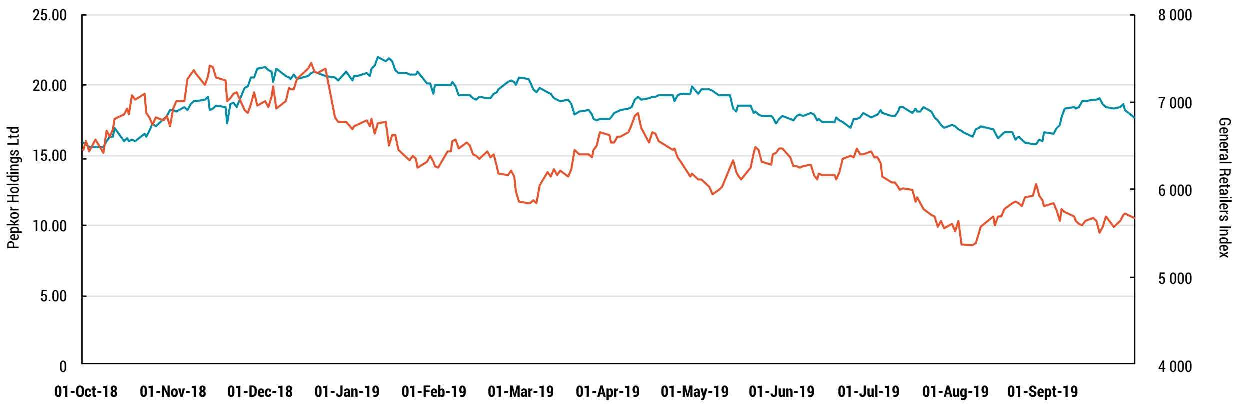
Key statistics – 12 months to September 2019

Traded price (cents per share)	Close	1 775
	High	2 232
	Low	1 515
Market capitalisation as of 30 September 2019		61.2
Value of shares traded (R billion)		9.7
Value traded as % of market capitalisation		15.9%
Volume of shares traded (million)		518.8
Volume traded as % of number in issue		15.0%
PE ratio (statutory headline earnings)		18.3
PE ratio (normalised headline earnings, excluding one-off cost)		16.5
Dividend yield (based on FY18 dividend declared)		1.6%
Earnings yield (statutory headline earnings)		5.5%
Earnings yield (normalised headline earnings, excluding one-off cost)		6.0%
Period-end market price/NAV		1.1
Shares in issue (million)		3 450
Average number of shares in issue (million)		3 450
Shares issued		0

Pepkor Holdings Ltd vs All Share Index



Pepkor Holdings Ltd vs General Retailers Index



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ANNEXURE 4 [PRO FORMA RESULTS]

Pro forma results

The pro forma financial information of Pepkor has been prepared to exclude the effect of BVI-related costs and the implementation of IFRS 9 on the earnings of Pepkor for the financial years ended 30 September 2018 and 2019.

The pro forma financial information is presented in accordance with the JSE Listings Requirements and the Guide on Pro Forma Financial Information issued by SAICA. The pro forma financial information is the responsibility of the Pepkor directors and has been presented for illustrative purposes and, due to its nature, may not fairly present the group's financial position, changes in equity, results of operations or cash flows.

The pro forma financial information, as set out below, should be read in conjunction with the limited assurance report of PwC, the independent reporting accountant, which is available for inspection at Pepkor's registered office.

FY18	Statutory results FY18[1] Rm	BVI-related costs FY18[2] Rm	Comparable results FY18 Rm
Operating profit before capital items	5 880	511	6 391
Capital items	(37)	–	(37)
Operating profit	5 843	511	6 354
Net finance costs	(1 168)	–	(1 168)
Profit before taxation	4 675	511	5 186
Taxation	(1 791)	–	(1 791)
Profit for the year from continuing operations	2 884	511	3 395
Profit attributable to:			
– Owners of the parent	2 874	511	3 385
– Non-controlling interest	10	–	10
Basic earnings per ordinary share (cents)	83.3	14.8	98.1
Headline earnings per ordinary share (cents)	84.2	14.8	99.0
Weighted average number of ordinary shares in issue (millions)	3 450	3 450	3 450

FY19	Statutory results FY19[3] Rm	BVI-related costs FY19[4] Rm	IFRS 9 implementation FY19[5] Rm	Comparable results FY19 Rm
Operating profit before capital items	6 797	40	318	7 155
Capital items	(1 278)	–	–	(1 278)
Operating profit	5 519	40	318	5 877
Net finance costs	(1 581)	40	–	(1 541)
Profit before taxation	3 938	80	318	4 336
Taxation	(1 707)	–	(89)	(1 796)
Profit for the year from continuing operations	2 231	80	229	2 540
Profit attributable to:				
– Owners of the parent	2 230	80	229	2 539
– Non-controlling interest	1	–	–	1
Basic earnings per ordinary share (cents)	64.6	2.3	6.7	73.6
Headline earnings per ordinary share (cents)	98.3	2.3	6.7	107.3
Weighted average number of ordinary shares in issue (millions)	3 450	3 450	3 450	3 450

Notes:

[1] Extracted without modification from the group's annual consolidated income statement for the year ended 30 September 2018.

[2] FY18 results are impacted by one-off costs pertaining to a provision for exposure in terms of a corporate financial guarantee of R451 million, including accumulated finance costs of R11 million and associated loans of R60 million. One-off costs in FY18 therefore amounted to R511 million, impacting FY18 earnings per share metrics by approximately 15 cents. This was calculated by applying the total impact net of tax of R511 million to a weighted average number of shares of 3 450 million.

[3] Extracted without modification from the group's annual consolidated income statement for the year ended 30 September 2019.

[4] During FY19, accumulated finance costs of R40 million (reflected in finance costs) were incurred in terms of the corporate financial guarantee, while R40 million (reflected in operating expenses) was raised in terms of credit exposure pertaining to the associated loans. BVI-related costs in FY19 therefore amounted to R80 million, impacting FY19 earnings per share metrics by approximately 2.3 cents (calculated by applying the total impact net of tax of R80 million to a weighted average number of shares of 3 450 million).

[5] IFRS 9 – Financial Instruments, which requires increased provision levels based on the expected credit loss model, was implemented during the year. Adjustments for increased provision levels for the new internally funded Connect Financial Solutions and Capfin credit loan books could not be made against retained earnings. The increased provision levels resulted in one-off cost of R318 million (pre-tax), impacting FY19 earnings per share metrics by approximately 6.7 cents (calculated by applying the total impact net of tax of R229 million to a weighted average number of shares of 3 450 million). The implementation of IFRS 9 on the pre-existing Tenacity credit book did not have a material impact on Pepkor's FY19 results.

ANNEXURE 5 [SHAREHOLDERS' DIARY]

Record date for dividend payment	24 January 2020
Dividend payment date	27 January 2020
Annual general meeting	11 March 2020
Announcement of interim results	May 2020
Financial year-end	30 September 2020
Announcement of annual results	November 2020

CORPORATE INFORMATION

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ISIN ZAE000259479

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