

PEPKOR

Holdings Limited

(PREVIOUSLY STEINHOFF AFRICA RETAIL LIMITED)

**CONSOLIDATED
AND SEPARATE
annual
financial
statements
FOR THE YEAR ENDED
30 SEPTEMBER 2018**

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Approval of the annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018

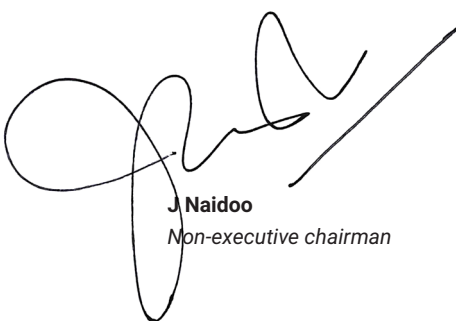
The preparation and presentation of the consolidated and separate annual financial statements, and all information included in this report are the responsibility of the directors. The consolidated and separate annual financial statements, were prepared in accordance with the provisions of the Companies Act of South Africa and comply with International Financial Reporting Standards ("IFRS"). In discharging their responsibilities, both for the integrity and fairness of these statements, the directors rely on the internal controls and risk management procedures applied by management and are satisfied that the controls and procedures are in operation.

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

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

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

These annual financial statements as at 30 September 2018, which appear on pages 3 to 119, have been prepared under the supervision of the chief financial officer, Mr RG Hanekom CA (SA). The consolidated and separate financial statements have been audited by PricewaterhouseCoopers Inc. in compliance with the Companies Act. The annual financial statements of the Company and the Group were approved by the board on 23 November 2018 and are signed on its behalf by:



J Naidoo
Non-executive chairman



LM Lourens
Chief executive officer

Approval of the annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

SECRETARY CERTIFICATION

We certify, in accordance with section 88(2)(e) of the South African Companies Act, 71 of 2008, as amended ("the Act") that the Company has lodged with the Companies and Intellectual Properties Commission all such returns as are required for a public company in terms of the Act and that all such returns are true, correct and up to date.

A handwritten signature in black ink, consisting of several fluid, overlapping strokes.

On behalf of Pepkor Proprietary Limited

Report of the directors

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Nature of business

Pepkor Holdings Limited ("Pepkor", "Pepkor Group", "the Group"), previously known as Steinhoff Africa Retail Limited ("STAR"), was established with effect from 1 July 2017. The Group was listed on the main board of the Johannesburg Stock Exchange Limited ("JSE") on 20 September 2017.

The Pepkor Group is a retailer focused on discount, value and specialised goods that retails clothing, general merchandise, household goods, furniture, appliances, consumer electronics, building materials, cellular products and services and financial services in Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Nigeria, South Africa, Swaziland, Uganda, Zambia and Zimbabwe.

During the period Pepkor revised its internal management reporting structure and consequently revised its segmental reporting to better reflect the Group's internal management review structure. Brands operate in four major segments:

Clothing and General Merchandise:

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

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

Other components included in this segment:

- Tenacity Financial Services as it supports certain CFH brands in terms of credit sales by providing revolving credit facilities to customers
- The Pepkor corporate cost centre is fully allocated to the Clothing and General Merchandise, on the basis that it represent the dominant segment in the Group, and corporate costs are not allocated to individual segments, notwithstanding that all segments enjoy support and services from the central corporate functions.

Furniture, Appliances and Electronics:

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

- Bradlows
- Russells
- Rochester
- Sleepmasters
- Incredible Connection
- HiFi Corporation

Report of the directors

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Building Materials:

This segment includes the SteinBuild business which sources, distributes, wholesales & retails general and specialised building materials. General building material retail brands include Buco and Timbercity while specialist building material brands, servicing both the retail and wholesale market include inter alia Tiletoria, Floors Direct, MacNeil and Cachet. Other brands include: B-One, Buchel, W&B Hardware, Bildware, Citiwood, Chipbase and Brands 4 Africa.

FinTech:

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

- Flash is a technology-driven company committed to adding value to the lives of traders in the informal retail market. Using smart technology, traders are able to offer greater convenience to their customers, providing access to mobile data and airtime, prepaid electricity, money transfers and Lotto.
- Southern View Finance SA (call center), and Van As (debt collector) which provides administration services to an unsecured credit provider under the Capfin brand.

Retail footprint

The Pepkor Group sells its products across a retail footprint consisting of 5 234 (2017: 4 953) stores and operates in Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Nigeria, South Africa, Swaziland, Uganda, Zambia and Zimbabwe at 30 September 2018.

Name change

The company changed its name during the current year from Steinhoff Africa Retail Limited ("STAR") to Pepkor Holdings Limited ("Pepkor"). The record date of the name change was 17 August 2018.

Financial review

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

Continuous monitoring of the events at Steinhoff International Holdings N.V. ("Steinhoff")

Following the events which occurred at Steinhoff during December 2017, Pepkor has taken various steps to protect its operations and mitigate any impact from the Steinhoff events.

The Group has ensured that the Steinhoff accounting irregularities do not impact Pepkor as follows:

- The revelations at Steinhoff had the potential to impact the Group's ability to operate as a going concern given the shareholder funding introduced within the Group by Steinhoff prior to listing. In an attempt to take control of such risk and ensure that Pepkor becomes financially independent from Steinhoff, the Group's shareholder funding was successfully refinanced with external financial institutions. This facilitated the release of Pepkor and its subsidiaries from all third party guarantees related to the financing of the Steinhoff shareholder funding.
- Throughout this process, Pepkor thoroughly considered transactions that may have had an impact on the Pepkor Group's results.
- Management tenure to ensure sustainability of operations was secured with the introduction of a long term cash retention scheme to ensure that expertise required in operations are retained to safeguard these human resource assets and continue with the success which the Group has become accustomed to.

The steps that the Group has taken to satisfy itself that the comparative financial information continues to remain relevant include:

- Identification and review of material transactions within the Pepkor Group since Steinhoff's acquisition of Pepkor in 2015.
- Review of related contracts resulting from these transactions and consideration of their accounting treatment.
- Identification of related party transactions and interrogation of the business rationale and fairness of such transactions.
- Review of predecessor accounting and related policies applied upon the formation of the Group.

The withdrawal by Steinhoff of its historic annual financial statements does not impact the historical information presented by Pepkor in its 2017 annual financial statements as:

- The financial statements have been reviewed and reassessed in terms of accounting principles applied to business combinations under common control, and separately listing the entities that today form the Pepkor Group.
- Management of operations not previously part of the historic Pepkor Group, acquired by Steinhoff in 2015, were engaged in order to obtain an understanding of the risk and extent the respective businesses may be exposed to material transactions which may have impacted published results.
- Contracts with potential related parties that have emerged since December 2017 were reviewed in consultation with Pepkor legal advisors.
- Provision was made for areas where it is believed that the Group was exposed to certain residual risk and these matters were communicated to the market accordingly. These matters were considered to be non-adjustable post-balance sheet events.
- Pepkor engaged senior council for opinions on matters relating to allegations from previous management and shareholders of Tekkie Town and have pursued legal recourse/action where deemed appropriate and necessary.

From a governance perspective, the Group has taken the following steps to enhance and strengthen its corporate governance:

- Focus and investigation of related party and potential related party transactions.
- Affected parties, where Steinhoff has potential business relationships, have been highlighted in the financial statements, refer to note 26.
- Independence of the Pepkor board from Steinhoff was strengthened with the appointment of a lead independent non-executive director and additional independent non-executive directors.
- A comprehensive process was followed to confirm independence of non-executive directors classified as independent.

Identification of related parties

As mentioned above, a rigorous review of related party transactions and balances have been performed, with additional related parties being included in note 25, and prior year comparatives have been restated accordingly. In addition, "affected parties", were defined as transactions where Steinhoff has business relationships, and disclosed on a similar basis as related parties. The transactions identified were all found to be in the ordinary course of business.

Share capital

At the annual general meeting held on 15 March 2018, shareholders:

- Resolved that 258 750 000 of the Company's authorised but unissued ordinary shares of no par value were placed under the control of the directors; and
- Resolved that the repurchase by the Company of shares issued by it, on such terms and conditions as may be determined by the board of directors of the Company, and the acquisition by any subsidiary of shares issued by the Company, on such terms and conditions as may be determined by the board of directors of any such subsidiary Company, be and is hereby authorised as a general approval in terms of the JSE Listings Requirements.

Corporate activity**Building Supply Group (BSG)**

Effective 1 October 2017, Steinhoff Doors and Building Materials, a wholly owned subsidiary, acquired 100% of Building Supply Group ("BSG"), the parent company of the MacNeil, Tiletoria and Brands for Africa brands for a purchase price including loan claims of R645.7 million, subject to the results for the 12 month period ending September 2018. BSG was consolidated from 1 October 2017. Refer to note 22 for the equity purchase price allocation.

Shoprite Transaction

All the call option agreements in terms whereof Pepkor had the right to acquire 128.2 million Shoprite ordinary shares from various parties, lapsed due to non-fulfilment of certain conditions precedent.

Report of the directors

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Refinancing of Steinhoff funding

Pepkor successfully refinanced its Steinhoff shareholder funding facilities with the following facilities from various South African banks and financial institutions:

	Value Rm	Term Years	Interest Rate
Term Loan A	2 500	3	Three month JIBAR plus 200 bps
Term Loan B	2 000	4	Three month JIBAR plus 215 bps
Term Loan C	2 500	5	Three month JIBAR plus 225 bps
Preference Shares	6 000	4	74% of Prime
Revolving Credit Facility	2 500	3	Three month JIBAR plus 200 bps
General Banking Facility	2 500	364 days	Linked to RSA Prime
	18 000		

The refinancing ensured that Pepkor is financially independent from its majority shareholder. The facilities were used to settle the Steinhoff shareholder funding which Steinhoff in turn used to settle its external obligations to which Pepkor Group companies were co-guarantors to, as disclosed in note 24.6. Pepkor Group companies have subsequently been released from all guarantees relating to the Steinhoff shareholder funding. Refer to note 16 for further details relating to borrowings.

The new funding facilities are subject to the following covenants, which are well within the recommended ranges:

	Covenant	Actual at 30 September 2018
Net debt:EBITDA cover	<2.75	1.64
Interest cover	>4	6.51

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

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

In addition, an impairment of loans associated to the third-party debt, amounting to R60 million has been provided for.

Closure of Poco brand

The two Poco stores which formed part of the Furniture, Appliances and Electronics segment were closed during the year. The results include the cost of closure, provisions for retrenchment together with asset and other related impairments. A final auction of the remaining stock is being held throughout November 2018. The Poco brand was abandoned and not disposed of through sale, therefore the assets have not been classified as held for sale in terms of IFRS 5 - *Non-Current Assets Held for Sale*. As the Poco brand does not represent a separate major line of business of the Group, it will not be classified as a discontinued operation.

Hyperinflation

Pep Africa's operations in Angola was reported in accordance with IAS 29 – *Financial Reporting in Hyperinflationary Economies* following its classification during the year as a hyperinflationary economy. Contributing less than 1% to Group revenue, this did not significantly affect Pepkor's result, increasing operating profit by R35 million.

Directors

Directors names and details are furnished in note 25.3.

The directors of the company during the reporting period were:

Executive directors

AB la Grange (chief executive officer)	Resigned 6 December 2017
LM Lourens (chief executive officer)	Appointed 6 December 2017
RG Hanekom (chief financial officer)	Appointed 18 August 2017

Non-executive directors

J Naidoo (chairperson)	Appointed 18 August 2017
JD Wiese	Appointed 18 August 2017
DM van der Merwe	Appointed 1 July 2017
MJ Jooste	Resigned 5 December 2017
AB la Grange	Appointed 6 December 2017 & Resigned 24 January 2018
LJ du Preez	Appointed 25 January 2018
PJ Dieperink	Appointed 30 July 2018
PJ Erasmus	Appointed 1 October 2018

Independent non-executive directors

SH Müller	Appointed 18 August 2017
JB Cilliers	Appointed 18 August 2017
	Appointed as lead independent director with effect from 28 May 2018
VP Khanyile	Resigned 10 January 2018
AE Swiegers	Resigned 15 February 2018
F Petersen-Cook	Appointed 14 April 2018
MJ Harris	Appointed 30 July 2018
HJ Sonn	Resigned 30 July 2018
W Luhabe	Appointed with effect from 1 January 2019

Composition of board committees

	Audit and risk committee	Human resources and remuneration committee	Nomination committee	Social and ethics committee
Non-executive directors				
J Naidoo	–	x	Chairperson	–
DM van der Merwe	–	x	x	–
PJ Erasmus (Appointed with effect from 23 November 2018)	–	x	–	–
Independent non-executive directors				
SH Müller	x	Chairperson	–	–
JB Cilliers	Chairperson	–	x	–
F Petersen-Cook	x	–	–	Chairperson
MJ Harris	–	x	–	–
Executive directors				
LM Lourens	–	–	–	x
RG Hanekom	–	–	–	x

Report of the directors

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

The Company has established its own social and ethics committee to perform functions required in terms of the Companies Act. This function was previously performed by its majority shareholder, Steinhoff.

Refer to note 25.3 for appointment dates to the committees.

Directors' shareholding

Directors' shareholding was as follows: 302 518 994 (2017: 302 439 024). From 1 October 2018 to the date of approval of the Company's consolidated financial statements, there were no dealings by directors in the Company's ordinary shares.

Details of individual direct and indirect holdings are disclosed in note 25.4.

Shareholding

On 12 April 2018, Steinhoff successfully placed 200,000,000 ordinary shares in Pepkor Holdings Limited, reducing the Steinhoff Group's interest in Pepkor from 76.81% to 71.01%.

Events after the balance sheet date

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

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

Pepkor considered its options and decided not to pursue the acquisition of the credit books owned by Cencap, but will instead build its own credit books. With regard to the existing credit books, commercial agreements were renegotiated, granting Pepkor the right to continue the collection of the Cencap-owned loan books for the run-down period of the books, up to a maximum period of 3 years and render the outsourced services at a market-related fee.

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

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

Distribution to ordinary shareholders

A final dividend of 27.8 cents per ordinary share, is payable to shareholders on Monday, 21 January 2019 (2017: nil). The Pepkor board resolved to implement a revised dividend policy. Pepkor has a relatively geared balance sheet compared to other listed retail peers. As a result of future capital commitments, strategic investments and the Group's ambition to reduce its gearing to one times net debt-to-EBITDA in the medium term, the board has approved a revised policy of three times earnings cover.

Going concern

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

Litigation report

The directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened that may have or have had in the recent past, being at least the previous twelve months, a material effect on the Group's financial results. Details of the earn-out dispute with previous Tekkie Town management is set out in note 23.5.

Corporate governance

The Group complies with the listings requirements of the JSE Limited ("JSE") and in all material respects with the Code of Corporate Practice and Conduct published in the King Report on Corporate Governance South Africa ("King IV").

Change in auditors

During 2018 Deloitte & Touche resigned as auditors of Pepkor Holdings Limited. PwC was thus subsequently appointed as the auditors of the Pepkor Group. Prior to PwC's appointment as auditors of Pepkor Holdings Limited, PwC audited the majority of the Group companies.

Restatement of previously issued financial statements

Refer to note 30 for further detail relating to restatements.

Presentation of exchange differences on loans to foreign operations

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

The correction of the error is effective for the year ended 30 September 2017 and has been applied retrospectively.

Exchange differences on translation of net investment in foreign African operations were previously included in other reserves in 2017 and have been presented separately in the Foreign currency translation reserve, with restated comparatives presented.

Restatement of statement of changes in equity

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

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

Statement of cash flows

Certain cash flow comparative figures have been restated, refer to note 30.5, but these changes have had no effect on cash generated from operating activities.

Inclusion of related party transactions not previously identified

Previously undisclosed related parties with Pepkor Group Sourcing (Legal name: Fully Sun China Limited. (HK)), KAP Industrial Holdings Limited and its subsidiaries, Shoprite Holdings Limited, the Titan Group, Lodestone Brands Proprietary Limited, Tradehold Limited and entities relating to previous members of key management have been disclosed in note 25.1. The transactions identified have all been in the ordinary course of business.

Report of the directors

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Inclusion of the additional disclosure of the nominal value of guarantees provided relating to Steinhoff borrowings and related to an investment company, Business Venture Investments 1499 RF Proprietary Limited ("BVI")

The Group was a co-guarantor on Steinhoff related borrowings in 2017, and accordingly the maximum exposure from these guarantees was restated in note 24.6. As indicated under refinancing of Steinhoff funding, the Group successfully refinanced its Steinhoff funding facilities with various South African banks and financial institutions.

Pepkor, through its subsidiaries, has been a guarantor of third-party debt provided to BVI since 2012. The investment held by BVI initially consisted of Pepkor shares, but was converted to Steinhoff shares in 2015 following Steinhoff's acquisition of Pepkor.

The Group's liquidity risk and credit risk disclosures have been restated in note 24.6 to reflect the guarantees mentioned above. The contingent liability note, 23.5 has been restated to include details of the guarantees as at 30 September 2017.

Secretary

Pepkor Proprietary Limited acts as secretary to the company and was appointed on 11 June 2018 replacing Steinhoff.

Closing

Pepkor management has been successful in dealing with various corporate matters to protect the Group and its operations and distance itself from the events at Steinhoff. During this time, operations continued to operate normally, maintaining focus on providing value to customers. The Pepkor board and management wish to thank their stakeholders for their continued support during a challenging year.

Business address

36 Stellenberg Road
Parow Industria
7493

Postal address

P O Box 6100
Parow East
7501

Audit Committee report

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Introduction

The Audit and Risk Committee (“the Audit Committee” or “the Committee”) has been established as an independent statutory committee in terms of section 94(2) of the Companies Act 71 of 2008, as amended (“the Companies Act”) and oversees audit and risk matters for Pepkor Holdings Limited and all its subsidiaries (“the Group”), as permitted by section 94(2)(a) of the Companies Act.

The Audit Committee’s operation is guided by a formal detailed Terms of Reference (“ToR”) that is in line with the Companies Act, No. 71 of 2008 of South Africa, the JSE Listings Requirements the King Report on Corporate Governance South Africa 2016 (“King IV”) and has been approved by the Company’s board. During the period under review the Committee has discharged its responsibilities as required by the Terms of Reference.

The Committee is pleased to present its report for the financial period ended 30 September 2018.

Membership

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

Director	Designation	Date appointed	Qualifications
JB Cilliers	Serving Chairman	2018 AGM	BAcc (Cum laude), BAcc Hons, CA(SA)
SH Müller	Member	2018 AGM	BAcc (Hons), CA(SA)
F Petersen-Cook	Member	14 April 2018	BBusSc (act.sc.), FIA, FASSA, PGDip (MgtPrac), IoDSA (Cert.Dir.), FPI
AE Swiegers	Former Chairman	Resigned 15 February 2018	B Comm Hons (Accounting), CA(SA)

The nomination committee and the board are satisfied that these members have the required knowledge and experience as set out in Section 94(5) of the Companies Act and Regulation 42 of the Companies Regulation, 2011. The re-appointment of committee members will be a matter for consideration by shareholders at the forthcoming annual general meeting. The company secretary is the secretary of this committee.

The chief financial officer (“CFO”), internal and external auditors, specialist members of the Group finance function, the financial directors of the main Group businesses, and specialists contributing to Combined Assurance attended the Audit Committee meetings by invitation.

Meetings of the Audit Committee

The Committee performs the duties required of it by Section 94(7) of the Companies Act by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditor. Audit Committee meetings are required to be held at least twice a year in terms of the ToR. During the period under review, until 30 September 2018 the Committee held six (6) meetings, of which three (3) were shortened specific-purpose meetings attended only by the appointed members of the Committee

Audit Committee report

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

and its secretary. Post the Group's financial year-end the Committee held a further scheduled meeting on 20 November 2018, which meeting was attended by all members of the Audit Committee. The attendance of the Committee members for the period under review is recorded below:

Meeting Date	Nature of Meeting	A Swiegers	JB Cilliers	S Muller	F Peterson-Cook
29 November 2017	Scheduled	✓	✓	✓	Pre-appointment
1 December 2017	Specific-purpose	✓	✓	✓	Pre-appointment
15 January 2018	Specific-purpose	✓	✓	✓	Pre-appointment
24 January 2018	Specific-purpose	✓	✓	✓	Pre-appointment
25 May 2018	Scheduled	Resigned	✓	✓	x
15 August 2018	Scheduled	Resigned	✓	✓	✓

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

Responsibilities of the Audit Committee

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

- Oversee Integrated Reporting, and in particular:
 - Review the annual financial statements, interim reports, preliminary or provisional results announcements, summarised integrated information and prospectuses, trading statements and similar documents.
 - Review the principles, policies and practices adopted in the preparation of the financial statements of the Group and to ensure that the financial statements of the Group and any other formal announcements relating to the financial performance comply with all statutory and regulatory requirements as may be required.
 - Review the effectiveness of the internal financial controls.
 - In co-operation with the Group Social & Ethics Committee, oversee the disclosure of sustainability issues in the integrated report to ensure that it does not conflict with the financial information.
- Ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular ensure that the combined assurance received is appropriate to address all the significant risks faced by the Group.
- Review the expertise, resources and experience of the Company's finance function, and satisfy itself annually as to the suitability of the expertise and experience of the CFO.
- Monitor and review the effectiveness of the internal audit function and in particular review and approve the annual internal audit plan, ensure that the internal audit function is subject to an independent quality review, as and when appropriate, and obtain assurance as to whether the internal audit function has adequate resources, skills and qualifications and appropriate access to information to enable it to perform its function effectively.
- Oversee risk management, and in particular:
 - Consider financial reporting risks, internal financial controls, fraud risks as they relate to financial reporting, IT risks as they relate to financial reporting and the risk of cybercrime.
 - Oversee the development and regular review of a policy and plan for risk management and, recommending the same to the Board for approval, monitoring implementation of the policy and plan by means of risk management systems and processes;
 - Review the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial or other matters and for the Committee to receive reports on the investigation of such matters and the appropriate follow up action.
 - Ensure that risk management assessments are performed on a continuous basis, that management continuously monitors risk and implements appropriate risk responses.

6. External audit review, and in particular:
- Assess the suitability of the audit firm and designated individual partner both when they are appointed for the first time and thereafter annually for every re-appointment.
 - Consider and make recommendations to the Board, to be provided to the shareholders for approval at the Annual General Meetings of the Company, in relation to the appointment, re-appointment and removal of the Company's independent external registered auditor in compliance with the provisions of the Companies Act.
 - Review and approve the terms of engagement and audit plan and approve the remuneration for the external audit.
 - Meet with the external auditors and review the findings of the audit, including but not limited to any major issues that arose during the audit, disagreements between management and the auditors, accounting and audit judgements and the level of errors identified during the audit.
 - Verify and report on the independence of the external auditor in the annual financial statements.
 - Establish and implement a policy for non-audit services provided by the external auditor and determine the level of non-audit services provided by the external auditor that will require pre-approval by the Committee.
 - Ensure that there is a process for the Committee to be informed of any Reportable Irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor.
7. To perform duties which are attributed to the Committee by its mandate from the Board, the Companies Act, the JSE and regulatory requirements, and such other oversight functions as may be determined by the Board.

Overview of activities of the Audit Committee

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

- Considering the effectiveness of internal audit, approved the one-year internal audit plan and monitored the adherence of internal audit to its annual plan.
- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes.
- Reviewed the reports of both internal and external auditors detailing their concerns arising out of their audits and requested appropriate responses from management to ensure that their concerns were being addressed.
- Considered the independence and objectivity of the external auditors and ensured that the scope of any additional services provided was not such that they could be seen to have impaired their independence.
- Held meetings with the internal and external auditors where management was not present, evaluated and discussed matters of concern which were raised, and took appropriate actions.
- Received briefings on new IFRS standards which will come into effect in the Group's 2019 and 2020 financial years, and where possible, took note of the potential future impact on adoption of the latter.
- Reviewed the status of taxation assessments and taxation queries across the Group, as well as completion and sign-off of annual financial statements of Group subsidiary companies.
- Evaluated all correspondence between the Company and the JSE related to financial reporting and disclosure requirements, assessed related recommendations by the JSE, and oversaw the required improvements in the 2018 annual financial statements.
- Reviewed and recommended for adoption by the board, such financial information that is publicly disclosed, which for the year included the interim reports and consolidated financial statements for the year ended 30 September 2018.

The disclosures about accounting irregularities at Steinhoff subsequent to 6 December 2017 has prompted the Audit Committee to re-emphasise corporate governance in as far as the committee's ToR requires it to take responsibility on behalf of the Board.

Accordingly, during the year under review, the Committee intensified its focus on several specific areas, the most important of which included:

1. Policy reviews and new policies approved:

- Reviewed the Board's Approval Framework, which forms the foundation for the delegation of authority by the Board to the Executive, and simultaneously encodes the necessary limitations on the authority of the Executive. Accordingly, the Committee recommended various amendments in strengthening the overall Corporate Governance Framework of the Group, all of which were approved by the Board. The Committee is satisfied that an appropriate balance of decision-making power between the Board and the Group Executive has been established.

Audit Committee report

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

- Reviewed the Group's foreign exchange hedging policy, as well as the application of that policy with regard to each of the business segments, and found the policy satisfactory in mitigating risk.
- Approved the Group's Non-Audit Services Policy (more background is provided in the External Audit section of this report).
- Approved the Pepkor Group's Fraud Prevention Policy which executive management was tasked with implementation across all the Group's businesses, inclusive of regular reporting to the Committee.
- Reviewed the Group's dividend policy, and made recommendations to the Board in this regard.
- Reviewed and approved the Group's Internal Audit Charter (for more information refer to the Internal Audit section of this report).

2. Completeness of matters to be routinely reported at each committee meeting, with the following additional inclusions of reportage to be submitted at each meeting of the Committee:

- Detailed Group borrowings relative to overall board approved banking facilities and changes therein, as well as guarantees issued and changes therein.
- Group foreign exchange hedging position for major operating divisions, and the effectiveness of the Group's hedging policy.
- A standard reporting requirement on all JSE communications and responses. were introduced during the review period to provide insight to the Committee at each meeting, and enable consideration of further measures, where appropriate.
- A detailed fraud report, co-ordinated by internal audit.
- Detailed taxation reporting, providing enhanced insight of taxation compliance, structural effects and impediments, and potential opportunities and risks.
- Detailed report on completion status of annual financial statements and taxation returns/assessments of all Group subsidiary companies.

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

Reporting

Matters and risk areas pertaining to the 2017 consolidated annual financial statements:

The Committee reviewed the following specific risk areas pertaining to the 2017 annual financial statements, specifically to ascertain whether Pepkor's financial statements, as issued, may be vulnerable to any potential impact from any accounting irregularities which may have occurred at Steinhoff:

- Related party transactions, with the focus on completeness and nature of amounts reported, and parties classified as related parties. In retrospect this work was made redundant via significantly increased requirements on related and affected parties received from Steinhoff – refer to next section for further explanation.
- Goodwill and intangible assets disclosure and measurement, and the variables applied in the testing of goodwill and concluded that it was appropriately disclosed.
- Accounting for the Tekkie Town acquisition, and the purchase price allocation, and concluded that it was appropriately disclosed.
- Guarantees historically issued, and not specifically disclosed, pertaining to Steinhoff's bank facilities and listed the Domestic Medium Term Note ("DMTN") program, and concluded that, even though these guarantees were duly cancelled during the re-financing of the Group's funding lines, it requires retrospective disclosure within the 2018 annual financial statements.
- A guarantee historically issued to RMB in 2012 pertaining to a funding line provided to Business Venture Investments 1499 RF Proprietary Limited ("BVI"), an investment company set up to provide equity participation, initially in Pepkor, to members of its management and which came to own a significant stake in Steinhoff – the Committee reviewed the conclusion and the decision to not recognise a liability for this guarantee at 30 September 2017 and concluded this was appropriate, but requires disclosure of the nominal amount of the guarantee that existed at 30 September 2017.
- The scope of provisions recognised and included in liabilities, and the Committee re-confirmed, based on the information provided and discussions with management, that adequate provisions were raised.
- The basis for the higher than statutory rate of taxation of the Group, taxation risk, taxation compliance, disputes and investigations, and the Committee was satisfied with management explanations received, and re-confirmed its satisfaction that adequate, and not excessive, taxation provisions were raised in the prior year.

Matters and risk areas pertaining to the 2018 consolidated annual financial statements:

With reference to the Group's results for the current financial year the Committee, amongst others, again paid specific attention to the same matters as highlighted in the previous section, with the following matters to be specifically noted:

- The exposure to the RMB funding line of BVI, referred to in the previous section, was reviewed, and the Committee concluded that it is prudent to recognise a provision for the exposure given the collapse in the Steinhoff share price and the resultant increase in probability that the guarantee would be called upon.
- The exposure on loans provided in previous years to various members of management to fund their participation in the equity of BVI was reviewed, and the Committee concluded that it is prudent to raise an adequate provision in recognition of this risk.
- Related and affected party transactions, which was substantially expanded on advice and on request by Steinhoff, requiring significantly increased disclosure in the 2018 annual financial statements, accompanied by restatement of the comparative information for 2017.
- Provisioning for slow-moving and obsolete stock, with additional emphasis on Tekkie Town due to its below-average stock turn rate compared to Pepkor's other retail chains. The Committee is satisfied that stock provisioning remains conservative, and that Tekkie Town's provisioning was re-based to conform to standard group policy.
- The scope and extent of other general and specific provisions recognised was reviewed and the Committee was satisfied, based on the information provided and discussions with management and the internal and external auditors, that known risks were recognised and adequate provisions raised.
- Restatements of the comparative figures in the 2018 annual financial statements were reviewed, as well as the background to the restatements.
- The application of Hyperinflation accounting on the results of the Group's Angolan subsidiary was assessed, and found to be appropriate, although the impact was found to be immaterial.
- Significant attention was devoted to the provision for taxation, including deferred taxation, the factors impacting on the effective rate of taxation, and remedial measures possible within the scope of taxation regulations of the countries within which the Group is doing business, which may improve the effective rate.
- The basis for segmental disclosure was recommended by management to be revised, and the Committee approved the revised segmental classification as applied in the current year's annual financial statements.

The Committee, in forming a view of the specific matters highlighted, considered the opinion of the external auditors on all of these matters, in addition to that of management. No differences of opinion were noted by the Committee.

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

Internal controls

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

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

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

Combined assurance model

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

Audit Committee report

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Evaluation of the finance function

As required by JSE Listings Requirement 3.84(h), as well as the recommended practices as per King IV, the Committee has formally assessed the competence and performance of the CFO and believes that he possesses the appropriate expertise and experience to meet his responsibilities in that position.

A written report on the manpower, roles and responsibilities, qualifications and experience of senior members of the Group finance function, including the financial directors of the main Group businesses, was also considered. Based on this assessment, the Audit Committee is satisfied with the expertise and adequacy of resources within the finance function and the experience of financial staff in this function.

The Committee believes the Group has appropriate financial reporting procedures and is satisfied these procedures are operating adequately.

Internal audit

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

The Pepkor internal audit function adopts a risk-based audit approach, and is responsible for providing assurance and consulting services on the adequacy of the internal control environment across all the operating and support divisions of the Group. The internal audit scope covers the significant financial, operational and information technology areas of each operating division and support function in the Group.

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

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

For the past financial year, internal audit covered audits of key business processes, focusing on known or anticipated areas of business risk. Internal Audit also completed a number of special projects and consulting engagements, including reviews of new computer systems, internal controls consulting on major business initiatives, and audits of contracts and expenditures. The results of the reviews performed indicated that governance and internal control systems and processes were generally adequate and reliable across the Group, subject to defined risk tolerance levels. No material instance of control breakdown has been identified.

The head of internal audit has direct access to the Audit Committee, primarily through the chairman. In addition the head of internal audit was given the opportunity to engage at each meeting with the Audit Committee members without management being present.

The Committee is satisfied with the effectiveness and performance of the internal auditors and compliance with their mandate. Notwithstanding the internal audit function has not yet been subjected to a formal independent quality review, and accordingly the Committee has resolved that such a review should be done during the 2019 financial year.

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

Risk management

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

- The Group risk analysis and major business and operational risks reported, including actions to mitigate those risks, and opportunities inherent to such risks (reported upon in more detail below);
- Insurance strategy, adequacy and cost of insurance cover, and claims experience, which the committee found satisfactory;
- Material legal claims against and by the Group, and potential exposure was considered based on advice of the Group's legal counsel, and taken in account in the assessment of provisions raised;

- Reported occurrences of fraud; and although numerous occurrences were reported, especially in the store environment, the impact and frequency was not assessed as abnormal, and no material frauds were brought to the attention of the Committee, nor is the overall amounts reported viewed as material or significant;
- Regulatory compliance (reported upon in more detail below);
- Reporting from the ethics hotline, which the Committee reviews at each meeting;
- IT governance and risk management, (reported upon in more detail below).

It is important to emphasize that some facets of risk management overall is still relatively immature and unsophisticated, and subject to various initiatives launched during the review period. Notwithstanding, satisfactory progress, and some improvement, has in general been made in most risk management components.

Below more detail is provided on selected sections of the scope of risk management.

Risk Analysis and Reporting:

The Group risk management processes and procedures allow for adequate evaluation of risk and opportunities across the Group. The expertise and experiences of management, and heads of divisions, ensure that a broad spectrum of risks is considered specifically relating to the core retail businesses and in relation to the long term sustainability of the Group. The risk management governance structures enable reporting of risks at a divisional level and allow key risks to be considered at executive level.

- Risks are considered across the strategic, operational, financial, legal and compliance, empowerment, information for decision making, and information technology categories of risk.
- Risk matrices are reported quarterly to divisional executive management and residual risks that remain within the divisional risk appetite are managed by divisional executive management.
- Risks that are not fully mitigated and/or are outside of the prescribed risk appetite for the division are subject to further remedial action and feedback ahead of the next quarterly risk meeting.

Group risk profile:

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

Key uncertainties affecting the long term sustainability of the Group has been highlighted and reviewed by the Audit Committee. In determining which matters are material risks and opportunities for the Group, matters that substantively affect, or has the potential to substantively affect, the Group's strategy, business model or the forms of capital utilised and ultimately its ability to create value over time, were considered as part of the assessment.

The assessment of the magnitude of the impact and the likelihood of the occurrence of these risks and opportunities informed the identification and prioritisation of the material matters. The matters identified were compared with those being reported on by organisations in the same or similar industries to ensure that relevant matters have not been excluded from the report.

Operational considerations include access to capital, the deteriorating economic conditions in South Africa/Africa, the dependency on IT platforms and IT infrastructure and an increase in cyber threats, currency volatility, non-compliance with local legislation and the associated cost of compliance (and non-compliance).

Regulatory Compliance:

The Group legal and compliance function is responsible for the day-to-day management of regulatory compliance, including co-ordinating the identification and management of compliance risk, identifying and assessing compliance obligations, and monitoring, including legislative updates, reporting and record-keeping. Each business segment manages its own specific regulatory compliance risk, with oversight from a central legal and compliance function as second line of defence. Reporting from the various business units on litigation and compliance takes place on at least a quarterly basis and are reported to the Audit Committee as well as the Board.

Audit Committee report

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

The Group's compliance officer provides a regular written report to the Audit Committee as substantive compliance assurance, with the main findings including the following:

- For the period under review the regulatory compliance universe for the Pepkor Group has remained stable.
- The JSE has however issued a notice of a regulatory fine and censure regarding IFRS and JSE listing requirements non-compliance, mainly relating to the non-disclosure of guarantees provided by Group companies and loans to directors.
- Other than as reported above no material fines or penalties, and no statutory or regulatory contraventions were reported or detected.
- Businesses across the Group continue to resolve consumer complaints adequately and where complaints are received from regulators and industry ombudsmen it is dealt with in a timely manner and with acceptable outcomes.
- With regards to B-BBEE compliance various divisions across the Group have agreed to specific action plans with the assistance of the consultants appointed to support the Group.
- New regulatory developments are monitored by the Group compliance function and presented for discussion and awareness at a monthly meeting with representation from all the business segments. The current service has also been extended to include regulatory developments in the non-RSA countries.

IT governance and IT risk management:

- IT governance in the Group is premised on decentralised operating companies ("OPCO's") being responsible for decisions relating to IT and digital within an agreed strategic framework, supported at Group level through enablement and support, the building of capacity where required, and facilitation of initiatives where possible.
- OPCO's strategic IT projects and change portfolios are managed through IT steering committees in each business in cooperation with each OPCO's Exco. Strategic alignment and prioritisation within each OPCO portfolio are achieved through these steering committees.
- IT risks are managed by each OPCO through continuous risk assessment and monitoring, and risk registers are updated quarterly.
- Corporate IT support is provided, amongst others, via the Group's IT resource ("Pepkor IT) which has been developed as a central IT skill and capability created to assist businesses (where requested).
- Pepkor IT currently manages the IT functions on behalf of the Clothing and General Merchandise segment of the Group only.
- IT reports, inclusive of IT risk registers are submitted to the Committee for each meeting, and informs the Audit Committee on the status quo of IT within the major OPCO's, including:
 - Nature of major IT projects;
 - IT risk analysis and management, extent to which risks are mitigated and/or OPCO's accepted the underlying risks, if not mitigated;
 - IT operating expenditure analysis;
 - IT capital expenditure and nature thereof.

The Group's IT governance framework is being re-assessed by the Executive.

External audit

Audit Fees:

The committee, in consultation with executive management, has agreed to the audit fee for the 2018 financial year. The fee is considered appropriate for the work that could reasonably have been foreseen at that time.

Non-Audit Services Policy:

During the year the Committee approved a formal policy governing approval of non-audit services provided by the appointed external auditors, including a three-tier defined approval procedure which sets the limits to approvals by each of the CFO, the Chairman of the Committee, and the Committee itself, with the latter being the ultimate decision-making power above a pre-determined level. In addition, there is a formal procedure that governs the process whereby the external auditor is considered for the provision of non-audit services, and each engagement letter for such work is reviewed in accordance with this set policy and attendant approval procedures.

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

Effectiveness and Quality of the External Audit Process:

The Audit Committee assesses the effectiveness and quality of the external audit process by considering, amongst others:

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

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

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

Independence of the External Auditor:

The committee has to satisfy itself that the auditors of Pepkor and its subsidiaries ("PwC") are independent as defined by the Companies Act. This was assessed through, inter alia, consideration of:

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

Based on the above assessment, the Audit Committee is satisfied that PwC is independent of the Group.

Recommendation on Appointment for 2019 financial year:

The Audit Committee has satisfied itself that PwC and the designated audit partner remains accredited by the JSE for 2019. The Committee is also satisfied with the last inspection findings of IRBA as presented by PwC.

The Committee has further established that no Reportable Irregularities (as identified in the Auditing Profession Act, 2005) has been identified and reported by the external auditor.

On the basis of the assessment of independence, the assessment of the effectiveness and quality of the external audit process, and the assurances obtained on qualification for appointment, the Committee recommends to the Board and shareholders that PwC be re-appointed as the independent external auditor, and Mr Anton Hugo as the designated auditor, for the 2019 financial year.

Going concern

The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by the financial function on the going concern status of the Group. The Board's statement on the going concern status of the Group, as supported by the Audit Committee, is contained in the directors' report.

Financial statements

The Audit Committee has evaluated the consolidated financial statements for the year ended 30 September 2018 and considers that they comply, in all material aspects, with the requirements of the Companies Act and International Financial Reporting Standards. The Committee has therefore recommended the financial statements for approval to the board. The board has subsequently approved the financial statements, which will be open for discussion at the forthcoming annual general meeting.

Functioning of the audit and risk committee

The Committee has performed a self-evaluation in order to assess the efficiency of its operations. Overall the Committee is satisfied that it discharged its duties efficiently and that it has functioned in accordance with its ToR for the 2018 financial year.

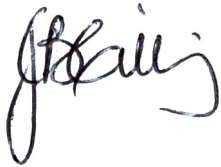
In addition, members of the Audit Committee were assessed during the year in terms of the independence requirements of King IV and the Companies Act. All members of the Audit Committee were found to meet the independence requirements.

Audit Committee report

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Recognition

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



JB Cilliers

Audit & Risk Committee Chairman

26 November 2018

Independent auditor's report

TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Pepkor Holdings Limited ("the Company") and its subsidiaries (together "the Group") as at 30 September 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Pepkor Holdings Limited's consolidated and separate financial statements set out on pages 30 to 119 comprise:

- the consolidated and separate statements of financial position as at 30 September 2018;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Independent auditor's report

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Our audit approach

Overview

Materiality	Overall group materiality
	<ul style="list-style-type: none"> Overall group materiality: R260,000,000, which represents approximately 5% of adjusted profit before tax.
Group scoping	Group audit scope
	<ul style="list-style-type: none"> The Group audit scope has been tailored based on indicators such as the contribution to consolidated revenue and consolidated profit before tax from each component. A combination of full scope audits, review procedures and specified audit procedures was performed at the various components of the Group.
Key audit	Key audit matters
	<ul style="list-style-type: none"> Goodwill and indefinite life intangible asset impairment assessments Ongoing investigation of alleged irregularities within Steinhoff International Holdings N.V. that may impact on Pepkor Holdings Limited consolidated annual financial statements Taxation – provision for taxation positions Provision for shrinkage, obsolescence and mark down of inventories

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

Materiality

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

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

Overall group materiality	R260,000,000
How we determined it	5% of adjusted profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. Profit before taxation was adjusted to exclude the non-recurring items as disclosed in note 3.6 to the financial statements. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our group audit scope

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

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

The above, together with additional procedures performed at the Group level, including testing of consolidation journals and intercompany eliminations, gave us sufficient and appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.

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

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

Key audit matters

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

We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

Independent auditor's report

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Consolidated financial statements

Key audit matter	How our audit addressed the key audit matter
<p>Goodwill and indefinite life intangible asset impairment assessments</p> <p>The Group's net assets include a significant amount of goodwill amounting to R42.5 billion and brand names amounting to R18.2 billion classified as indefinite life intangible assets allocated to groups of cash generating units ("CGUs") as disclosed in Note 8 and Note 9 respectively.</p> <p>Management performs annual impairment tests to assess the recoverability of the carrying value of goodwill and indefinite life intangible assets. The recoverable amount of the CGUs to which goodwill has been allocated is based on value in use calculations, by using discounted cash flow models.</p> <p>Based on their impairment assessment and impairment calculations, management did not recognise any impairment loss and consequently, no impairment losses were allocated to goodwill and other indefinite life intangible assets.</p> <p>We considered this area to be a matter of most significance to our current year audit due to the following:</p> <ul style="list-style-type: none"> • the magnitude of the related goodwill and intangible asset balances; and • the significant judgement and key assumptions applied by management in performing the impairment assessments which included the discount rate, perpetuity growth rate and future cash flows. 	<p>Our audit procedures included, among others, testing of the principles and integrity of the Group's discounted cash flow models. The detail of these audit procedures have been listed below.</p> <p>We utilised our valuation expertise to test the accuracy of management's calculation for each model. We challenged key inputs in the calculations which included the discount rate, perpetuity growth rate and future cash flow assumptions by comparing them to approved business plans and independent market data. We noted no material differences and found the key inputs applied by management to be reasonable.</p> <p>In assessing management's forecasts, we considered the historical accuracy of the underlying businesses' forecasts by comparing the actual results for the year with the original forecasts. We noted only insignificant variances, which we corroborated and management could provide appropriate explanations for.</p> <p>We performed independent sensitivity calculations on the impairment assessments, to determine the degree by which the key assumptions needed to change in order to trigger an impairment. The results of our sensitivity analyses were consistent with management's conclusions.</p>

Key audit matter

How our audit addressed the key audit matter

Ongoing investigation of alleged irregularities within Steinhoff International Holdings N.V. (“Steinhoff”) that may impact on Pepkor Holdings Limited consolidated annual financial statements

The Group's ultimate parent, Steinhoff, has made a number of public announcements regarding matters potentially negatively impacting the consolidated financial statements of the Steinhoff group. These include concerns over the validity and recoverability over a large value of Steinhoff assets and other alleged Steinhoff accounting irregularities which may require the financial statements of Steinhoff to be restated.

The continuous assessment by management on whether the Group's results are impacted, directly or indirectly, by the allegations being investigated at a Steinhoff level, was considered to be a matter of most significance to our current year audit due to the audit team effort that was involved in assessing management's response to matters affecting the Group.

Further to this, management have made the following disclosures and adjustments in the current year financial statements:

1. Accounting of transactions with Fulcrum Financial Services SA (“Fulcrum”) and Wands Investments Proprietary Limited (“Wands”) as described in note 26;
2. Detailed disclosure of financial guarantees in relation to Steinhoff third party debt and the release thereof in the current financial period in notes 23.5, 24.5 and 24.6;
3. Accounting for Business Ventures Investments 1449 RF Proprietary Limited (“BVI”), an investment company, as a unconsolidated structured entity and the provision for the guarantee provided to BVI in note 23.5; and
4. Assessment of the claim against the Group by the previous CEO of Tekkie Town and disclosure thereof as set out in note 23.5.

1. With respect to the transactions between Fulcrum and Wands with the Group, we performed the following procedures:
 - We utilised our technical specialists to assess the appropriateness of derecognising the trade receivables book sold to Wands on 1 January 2016. We considered the basis of management's assessment to derecognise the trade receivables, as disclosed in note 26, against the requirements of IAS39 *Financial instruments - Recognition and Measurement* and found it to be appropriate;
 - We obtained the contractual agreements between the Group and Century Capital Proprietary Limited (“Century Capital”), a wholly owned subsidiary of Wands, in order to obtain an understanding of the transactions between the Group and Century Capital;
 - We substantively tested a sample of transactions between Century Capital and the Group. We found these transactions to be in accordance with the contractual agreement; and
 - We obtained confirmations from Century Capital relating to receivable and payable balances without exception.
2. For the financial guarantees in relation to Steinhoff third party debt, we performed the following procedures:
 - We agreed the restated disclosure of the notional value of the guarantees to underlying contractual agreements without exception;
 - We utilised our actuarial expertise in assessing management's determination of the fair value of the financial guarantees. We concurred with management that the fair value of the guarantees as at 30 September 2017 is immaterial to the consolidated financial statements; and
 - We inspected the contractual agreement whereby the Group has been released from the financial guarantees relating to Steinhoff third party debt.

Independent auditor's report

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Key audit matter	How our audit addressed the key audit matter
	<p>3. In respect of the accounting for BVI, we performed the following procedures:</p> <ul style="list-style-type: none"> • We utilised our technical specialists to assess management's conclusion to not consolidate BVI as an entity controlled by the Group. We compared the basis of management's assessment, as disclosed in note 11, to the requirements of IFRS 10 <i>Consolidated financial statements</i> and found it to be appropriate; and • We agreed the financial liability recognised to contractual agreements and concurred with management's calculation in measuring this liability in accordance with the applicable accounting standards. <p>4. Pertaining to the claim against the Group, we performed the following procedures:</p> <ul style="list-style-type: none"> • We assessed the appropriateness of management's opinion by reviewing the external senior legal counsel view management obtained where they concluded that the likelihood of the claim being successful is remote; and • We evaluated management's disclosure relating to this claim in note 23.5 and found it to be adequate.

Taxation - provision for taxation positions

The Group operates across numerous jurisdictions which have differing taxation legislation.

Determining the amounts which should be recognised for taxation is subject to management's judgement including consideration of regulations by various taxation authorities. Taxation positions are provided for based on the most probable outcome method.

Determining the provision amount that should be recognised for uncertain taxation positions for the Group was considered to be a matter of most significance to our current year audit due to the significant judgement applied by management in the application of existing taxation laws in each jurisdiction and in accordance with relevant taxation regulations.

For further information, refer to note 18 and 23.5.

We made use of our taxation specialists to perform the following procedures:

- Challenging management's judgement of the most probable outcome in terms of assessing taxation risks, legislative developments, taxation regulations, contingencies and the provision thereof; and
- Performing sensitivity analyses around the key assumptions used in assessing the most probable outcome and the calculation of the taxation provision.

We found the Group's overall taxation provision to be within an acceptable range taking into account the significant judgement applied by management in determining these provisions.

Key audit matter	How our audit addressed the key audit matter
<p>Provision for shrinkage, obsolescence and mark down of inventories</p> <p>As at the financial year-end, the Group held R12.9 billion of inventories that is net of a provision for inventory that will be sold below cost price. Refer to the accounting policies and note 14 in the consolidated financial statements.</p> <p>Management recognise inventories at the lower of cost and net realisable value.</p> <p>The inventory provision considers management's expectations of inventory on hand that will be sold below cost or not sold at all.</p> <p>We considered the provisions for shrinkage, obsolescence and mark down of inventories to be a matter of most significance to the current year audit due to the significant judgement applied by management in determining the assumptions and estimates supporting these provisions.</p>	<p>Our procedures included, amongst others, the following:</p> <ul style="list-style-type: none"> • We considered the relevance of historic data with respect to prior year inventory sold below cost, inventory aging profiles, outcomes of inventory counts as well as different market factors impacting the sale of specific product lines; • We evaluated the provision for obsolete and slow moving inventory by comparing these to historical data trends of inventory sold below cost price and noted no material variances; • We tested the historical information of sales below cost applied against the current balances to calculate the provision and found this to be accurate; and • We independently recalculated the inventory provision to assess the mathematical accuracy and found no material differences. <p>We concurred with management's level of provisioning in relation to shrinkage, obsolescence and mark down of inventories.</p>

Other information

The directors are responsible for the other information. The other information comprises the information included in the *Pepkor Holdings Limited Consolidated and Separate Annual Financial Statements for the year ended 30 September 2018*, which includes the Report of the Directors, the Audit Committee Report and the Secretary's Certification as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the *Pepkor 2018 Integrated Report*, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

Independent auditor's report

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

P
PricewaterhouseCoopers Inc.

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

Consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Consolidated income statement

	Notes	Twelve months ended 30 September 2018 Rm	Twelve months ended 30 September 2017 Rm
Revenue	2	64 168	57 850
Cost of sales		(42 027)	(37 412)
Gross profit		22 141	20 438
Operating income	3.7	875	701
Operating expenses	3	(17 088)	(15 324)
Capital items	4	(37)	(29)
Operating profit	3	5 891	5 786
Finance costs	5	(1 434)	(932)
Finance income	5	242	312
Profit before taxation		4 699	5 166
Taxation	6	(1 804)	(1 599)
Profit for the period		2 895	3 567
Profit attributable to:			
Owners of the parent		2 885	3 550
Non-controlling interests		10	17
Profit for the period		2 895	3 567
Earnings per share (cents)			
Basic	7	83.6	132.6
Diluted basic	7	83.3	132.6

Consolidated statement of comprehensive income

	Twelve months ended 30 September 2018 Rm	Restated Twelve months ended 30 September 2017 Rm
Profit for the year	2 895	3 567
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	98	(84)
Net fair value (loss)/gain on cash flow hedges (note 24.3)**	(22)	186
Net fair value gain on cash flow hedges transferred to inventory (note 24.3)**	105	583
Deferred taxation on cash flow hedges	(55)	(74)
Foreign currency translation differences relating to hyperinflation	69	–
Deferred taxation on foreign currency differences relating to hyperinflation	(27)	–
Exchange differences from translation of net investment in foreign operations*	(538)	795
Taxation on exchange differences from translation of net investment in foreign operations*	161	(104)
Total other comprehensive (loss)/income for the year	(209)	1 302
Total comprehensive income for the year	2 686	4 868
Total comprehensive income attributable to:		
Owners of the parent	2 676	4 851
Non-controlling interests	10	17
Total comprehensive income for the year	2 686	4 868

* Restatement of presentation of exchange differences on translation of net investments in foreign African operations in other comprehensive income in 2017. See note 30.

** Restatement of presentation of the cash flow hedges to separately reflect the transfer of the cash flow hedge to inventory. See note 30.

Consolidated statement of financial position

	Notes	30 September 2018 Rm	Restated 30 September 2017 Rm
ASSETS			
Non-current assets			
Goodwill	8	42 537	42 458
Intangible assets	9	18 512	18 368
Property, plant and equipment	10	5 251	4 613
Investments and loans	11	253	170
Deferred taxation assets	12	1 365	1 586
		67 918	67 195
Current assets			
Trade and other receivables	13	5 874	4 764
Inventories	14	12 850	10 954
Current income taxation assets*		277	167
Loans due by related parties	25	224	236
Cash and cash equivalents		3 835	3 797
		23 060	19 918
Total assets		90 978	87 113
EQUITY AND LIABILITIES			
Total equity attributable to equity holders of the parent		55 708	52 892
Non-controlling interests		3	25
Total equity		55 711	52 917
Non-current liabilities			
Interest-bearing loans and borrowings	16	15 518	16
Loans due to related parties	16	-	11 000
Employee benefits	17	91	112
Deferred taxation liabilities	12	4 142	4 050
Provisions	18	564	727
Trade and other payables	19	545	533
		20 860	16 438
Current liabilities			
Trade and other payables	19	11 595	11 165
Loans due to related parties	16	173	4 868
Employee benefits	17	847	737
Current income taxation liabilities*		524	557
Provisions	18	728	331
Interest-bearing loans and borrowings	16	19	11
Bank overdrafts and short-term facilities		521	89
		14 407	17 758
Total equity and liabilities		90 978	87 113

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

Consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Consolidated statement of changes in equity

Notes	Stated capital Rm	Retained earnings Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Changes in non-controlling interests Rm	Common control reserve ⁽⁴⁾ Rm	Hedging reserve Rm	Other reserves Rm	Total equity attributable to owners of the parent Rm	Non-controlling interests Rm	Total Rm
Balance at 30 September 2016	10 471	(1 611)	301	21	8	45 071	-	(1 595)	52 666	29	52 695
Restatement of aggregated common control presentation ⁽¹⁾	(10 471)	1 611	-	-	-	(45 071)	-	53 931	-	-	-
Restatement of other reserves in respective reserve classifications ⁽²⁾	-	-	(1 217)	-	-	-	(452)	1 669	-	-	-
Restated balance at 30 September 2016	-	-	(916)	21	8	-	(452)	54 005	52 666	29	52 695
Profit and other equity movements attributable to Group pre-internal restructure ⁽³⁾	-	-	-	-	-	-	-	5 756	5 756	10	5 766
Total equity at 1 July 2017 (Date of internal restructure)	-	-	(916)	21	8	-	(452)	59 761	58 422	39	58 461
Transactions relating to the internal restructure impacting equity	70 177	1 269	-	-	-	(11 755)	-	(59 691)	-	-	-
Issue of shares and net assets acquired in common control transaction ⁽⁴⁾	70 177	-	-	-	-	(11 755)	-	(58 422)	-	-	-
Transfers and other reserve movements ⁽⁵⁾	-	1 269	-	-	-	-	-	(1 269)	-	-	-
Shares issued upon listing, net of expenses	15 145	-	-	-	-	-	-	-	15 145	-	15 145
Capital distribution ⁽⁶⁾	(20 632)	-	-	-	-	-	-	-	(20 632)	-	(20 632)
Total comprehensive income	-	670	607	-	-	-	694	-	1 971	7	1 978
Profit for the period	-	670	-	-	-	-	-	-	670	7	677
Recognised in other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange movement from translation of net investment in foreign operations	-	-	795	-	-	-	-	-	795	-	795
Taxation effect of foreign exchange differences relating to net investment	-	-	(104)	-	-	-	-	-	(104)	-	(104)
Foreign exchange differences on translation of foreign operations	-	-	(84)	-	-	-	-	-	(84)	-	(84)
Net fair value gain on cash flow hedge	24.3	-	-	-	-	-	185	-	185	-	185
Net fair value gain on cash flow hedges transferred to inventory	24.3	-	-	-	-	-	583	-	583	-	583
Taxation effect on gain in cash flow hedges	-	-	-	-	-	-	(74)	-	(74)	-	(74)
Dividends paid	-	(2 013)	-	-	-	-	-	-	(2 013)	-	(2 013)
Shares bought from non-controlling interests	-	-	-	-	(5)	-	-	-	(5)	(21)	(26)
Share-based payment expense	-	-	-	100	-	-	-	-	100	-	100
Transfer to Share scheme settlement payable	20.1	-	-	(102)	-	-	-	-	(102)	-	(102)
Transfers and other reserve movements	-	(14)	-	14	-	-	-	6	6	-	6
Balance at 30 September 2017	64 690	(88)	(309)	33	3	(11 755)	242	76	52 892	25	52 917
Total comprehensive income/(loss) for the year	-	2 885	(237)	-	-	-	28	-	2 676	10	2 686
Profit for the year	-	2 885	-	-	-	-	-	-	2 885	10	2 895
Recognised in other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange movement from translation of net investment in foreign operations	-	-	(538)	-	-	-	-	-	(538)	-	(538)
Taxation effect of foreign exchange differences relating to net investment	-	-	161	-	-	-	-	-	161	-	161
Foreign exchange differences on translation of foreign operations	-	-	98	-	-	-	-	-	98	-	98
Foreign exchange differences relating to hyperinflation	-	-	69	-	-	-	-	-	69	-	69
Income tax effect of foreign exchange differences relating to hyperinflation	-	-	(27)	-	-	-	-	-	(27)	-	(27)
Net fair value gain on cash flow hedges	-	-	-	-	-	-	(22)	-	(22)	-	(22)
Net fair value gain on cash flow hedges transferred to inventory	24.3	-	-	-	-	-	105	-	105	-	105
Taxation effect on gain in cash flow hedges	-	-	-	-	-	-	(55)	-	(55)	-	(55)
Dividends paid	-	-	-	-	-	-	-	-	-	(15)	(15)
Shares bought from non-controlling interests	-	-	-	-	-	-	-	-	-	(1)	(1)
Share-based payment expense	-	-	-	120	-	-	-	-	120	-	120
Transfer to Share scheme settlement payable	20.1	(47)	-	86	-	-	-	-	39	-	39
Transactions with non-controlling interests	-	-	-	-	(19)	-	-	-	(19)	(16)	(35)
Balance at 30 September 2018	64 690	2 750	(546)	239	(16)	(11 755)	270	76	55 708	3	55 711

⁽¹⁾ The 30 September 2016 opening balances were restated to reflect the position of the Group as if it had existed prior to the common control transaction as described in point (4). The restatement was considered necessary to present the common control reserve more clearly and to remove unnecessary confusion created due to the previous disclosure. Refer to note 30.2 for further detail.

⁽²⁾ Hedging reserve and Foreign currency translation reserve previously included in Other reserves have been separated into their respective reserves.

⁽³⁾ Pre-internal restructure profit of R2.88 billion relating to the Group for the period has been recognised in other reserves. In addition, the Tekkie Town acquisition (note 22) of R3.35 billion has been recognised on 1 February 2017, utilisation of a deferred taxation asset of R270 million (note 12.1) and other reserve movements are included as these contribute to the at acquisition carrying amount of the Group explained in point (4).

⁽⁴⁾ In order to calculate the "common control" reserve, the difference between the value of the shares issued by Pepkor to Steinhoff of R70.1 billion on 1 July 2017 (the date of establishing the Pepkor Group in terms of an initial restructuring) and the predecessor carrying amounts of the net assets of R58.4 billion acquired at the date of the transaction was recognised as a common control reserve within equity.

⁽⁵⁾ The retained earnings of the Group has been separated from other reserves into its own reserve post the combination as the predecessor method for accounting for common control transactions has been presented retrospectively.

⁽⁶⁾ A capital distribution amounting to R20.6 billion was declared in total during 2017. R15.1 billion was raised through the private placement process post listing and was settled in cash, and the remainder of an amount of R5.5 billion was settled in the current year. The distribution is a return of capital, and has therefore been recognised as a reduction of share capital.

Consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Consolidated statement of cash flows

	Notes	Twelve months ended 30 September 2018 Rm	Restated Twelve months ended 30 September 2017 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations*	21	5 312	6 276
Dividends paid		(15)	(1 963)
Finance cost paid*		(1 425)	(856)
Finance income received*		242	186
Taxation paid		(1 597)	(1 396)
Net cash inflow from operating activities		2 517	2 247
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(1 799)	(1 749)
Additions to intangible assets		(72)	(64)
Proceeds on disposal of property, plant and equipment and intangible assets		113	146
Acquisition of businesses, net of cash on hand at acquisition	22	(297)	(429)
Proceeds on disposal of business		4	–
Amounts received on related party loans and receivables*		–	7 527
(Amounts paid)/amounts received on long-term investments and loans		(143)	780
Net cash (outflow)/inflow from investing activities		(2 194)	6 211
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of ordinary shares issued		–	15 375
Capital distribution paid		–	(15 132)
Share issue expenses		1	(123)
Transactions with non-controlling interests		(29)	(26)
Amounts received/(amounts paid) on bank overdrafts and short-term facilities		351	(69)
Amounts received/(amounts paid) on long-term interest-bearing loans and borrowings		15 429	(15)
Debt raising fees paid		(110)	–
Amounts received/(amounts paid) on short-term interest-bearing loans and borrowings		8	(88)
Amounts paid on related party payables*		(15 870)	(7 234)
Net cash outflow from financing activities		(220)	(7 312)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Effects of exchange rate translations on cash and cash equivalents		(65)	(120)
Cash and cash equivalents at the beginning of the period		3 797	2 771
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		3 835	3 797

* Refer to note 30.5 for restatements relating to the statement of cash flows.

Summary of accounting policies

Statement of Compliance

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

Basis of preparation

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

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

The financial statements are prepared under the historical cost convention adjusted for the effects of inflation where entities operate in hyperinflationary economies and for the revaluation of certain financial instruments to fair value. The Angolan economy has been considered to be hyperinflationary. Accordingly, the results, cash flows and financial position of the Group's subsidiary in Angola has been expressed in terms of the measuring unit current at the reporting date.

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

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

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

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

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

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

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

Summary of accounting policies

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Basis of preparation - common control transactions

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

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

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

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

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

Earnings per share, diluted earnings per share and headline earnings per share

The calculation of the weighted average number of shares, weighed the shares issued in terms of the private placement from the date of issue, being 20 September 2017 as well as the issue of the shares relating to the purchase of Tekkie Town from the date of acquisition, 1 February 2017.

Basis of consolidation

Subsidiaries

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

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

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

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

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

Contingent consideration

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

Premiums and discounts arising on subsequent purchases from, or sales to non-controlling interests in subsidiaries

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

Goodwill

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

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

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

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

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

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

Intangible assets

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

Computer Software

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

Research and Development

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

Subsequent expenditure

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

Amortisation

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

Trade and brand names	10 – 20 years
Software and ERP systems	1 – 8 years

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

Summary of accounting policies

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Property, plant and equipment

Owned assets

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

Leased assets

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

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

Subsequent costs

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

Hyperinflation effect

As the functional currency of the Group's subsidiary in Angola is a currency of a hyperinflationary economy. Property, plant and equipment relating to the subsidiary is restated by applying the change in the general price indices from the date of acquisition to the current reporting date.

Depreciation

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

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

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

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

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

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

Taxation

Current taxation

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

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

Deferred taxation

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

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

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

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

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

Inventories

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

The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

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

As the functional currency of the Group's subsidiary in Angola is the currency of a hyperinflationary economy, inventories relating to the subsidiary is measured at the lower of the restated cost and net realisable value.

Share-based payment transactions

Equity-settled

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

Summary of accounting policies

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Group share-based payment transactions

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

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

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

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

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

Provisions

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

The Group has discounted the expected future cash flows that reflect current market assessments of provisions to their present value where the effect of the time value of money is material. The notional interest charge representing the unwinding of the provision discounting is included in the statement of comprehensive income.

Contingent liabilities raised on business combinations

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

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

Warranties

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

Financial Guarantees

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified party fails to make a payment when it becomes due, in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially at fair value. Subsequently, the contract is measured at the higher of the amount determined in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognised, less cumulative amortisation recognised. Financial guarantee contracts provided by the Company to subsidiaries are provided at no cost to subsidiaries. Subsequently, these contracts are measured at the higher of fair value less amortisation or in accordance with IAS 37. Financial guarantees are derecognised when the obligation is extinguished, expires or transferred. Intra-group financial guarantees are eliminated on consolidation.

Restructuring

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

Dilapidation and onerous contracts

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

Foreign currency**Foreign currency transactions**

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

Financial statements of foreign operations

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

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

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

Hyperinflation

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

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

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

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

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

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

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

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

Summary of accounting policies

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Net investment in foreign operations

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

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

Financial instruments

Initial recognition

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

Initial measurement

All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the Group and directly attributable to the acquisition or issue of the financial asset or financial liability, except for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

Subsequent measurement

All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

Loans and receivables and held to maturity investments are carried at amortised cost, with interest recognised in profit or loss for the period, using the effective-interest method.

Available-for-sale financial assets are measured at fair value, with any gains and losses recognised directly in equity along with the associated deferred taxation.

Prepayments and trade and other receivables are stated at their nominal values. As the functional currency of the Group's subsidiary in Angola is a currency of a hyperinflationary economy, prepayments relating to these subsidiaries are restated by applying the change in the general price indices from the date of payment to the current reporting date.

Embedded derivatives

Certain derivatives embedded in financial host contracts are treated as separate derivatives and recognised on a standalone basis when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains and losses reported in profit or loss.

Derecognition

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

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

Impairment of financial assets

An impairment loss for loans and receivables is recognised in profit or loss when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of

trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

Cash and Cash Equivalents

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

Effective-interest method

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

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges in foreign exchange risk on firm commitments are accounted for as cash flow hedges.

Fair value hedges

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

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in other comprehensive income are recycled to profit or loss in the periods when the hedged item is recognised in profit or loss, and it is included in the same line of the income statement as the recognised hedged item.

Revenue recognition

• **Sale of goods and related revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of merchandise from ordinary Group-operating activities, net of value added taxation, rebates and discounts and after eliminating sales within the Group. Sales are recognised upon delivery of products and customer acceptance. Payment is usually received via cash, debit card or credit card. Related card transaction costs are recognised in the statement of comprehensive income as other expenses.

Where the Group acts as agent and is remunerated on a commission basis, only the commission income, and not the value of the business transaction, is included in revenue. Ongoing revenue on telecommunication products is recognised on the accrual basis.

• **Financial services revenue earned**

Finance charges are recognised by reference to daily principle outstanding and the effective interest rate implicit in the agreement.

• **Other operating income**

Other operating income is recognised as follows:

• **Dividend income**

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

Summary of accounting policies

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

- **Operating lease income**

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

- **Commission received**

The Group acts as an agent for the services and products provided by a variety of third parties to the Group's customers through its retail footprint. The agent's commissions received by the Group from the third parties for the services are recognised as other income. Commissions relating to third-party products, money transfers and bill payments are recognised when the underlying third-party payments take place.

- **Other income**

Other income earned by the Group is recognised on the accrual basis.

Finance income

Interest is recognised using the effective interest rate method.

Segmental reporting

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

The Group has the following four operating and reportable segments:

- Clothing and General Merchandise
- Furniture, Appliances and Electronics
- Building Materials
- FinTech

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

Adoption of new or revised standards

Standards, interpretations and amendments that are not yet effective at 30 September 2018

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

		Effective for year ending
Amendments to IFRS 2	Share-Based Payments	2019
Amendments to IFRS 4	Insurance Contracts	2019
IFRS 9	Financial Instruments	2019
Amendment to IFRS 9	Financial Instruments	2020
IFRS 15	Revenue from Contracts with Customers	2019
IFRS 16	Leases	2020
IFRS 17	Insurance Contracts	2022
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2019
IFRIC 23	Uncertainty Over Income Tax Treatments	2020

The Group has not early adopted any of the above. The application thereof in future financial periods is not expected to have a significant impact on the Group's reported results, financial performance, financial position and cash flows, except for the standards set out hereafter.

Title of standard	IFRS 9: Financial Instruments
Nature of change	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
Impact	<p>Management assessed the effects of applying the new standard on the Group's financial statements: Financial assets held by the Group include debt instruments currently classified as held-to-maturity and loans and receivables measured at amortised cost which appear to meet the conditions for classification at amortised cost under IFRS 9. Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.</p> <p>There will be no significant impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and, other than forward foreign exchange rate contracts designated at fair value through profit or loss which are insignificant, the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.</p> <p>The new hedge accounting rules will be applied by the Group and will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.</p> <p>The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income ("FVOCI"), contract assets under IFRS 15: Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit impaired are in 'stage 3'. The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which 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 should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.</p> <p>On revolving credit facilities where objective evidence of impairment exists, the standard requires interest income to be calculated on the carrying value of the debtors, after allowance for expected credit losses. As a result, the Group estimates a decrease in interest revenue and a corresponding decrease in the provision for doubtful debts of R33 million.</p> <p>The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the disclosures about its financial instruments particularly in the year of the adoption of the new standard.</p> <p>IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will therefore adopt IFRS 9 for its 2019 financial year, and will not be restating comparatives.</p>
Mandatory application date/ Date of adoption by the Group	

Summary of accounting policies

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Title of standard	IFRS 15: Revenue from Contracts with Customers
Nature of change	<p>The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.</p> <p>The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.</p> <p>The standard permits either a full retrospective or a modified retrospective approach for the adoption.</p>
Impact	<p>Management assessed the effects of applying the new standard on the Group's financial statements and identified the following areas that are likely to be affected:</p> <ul style="list-style-type: none"> • Agent vs principal accounting: Certain transactions which are currently recorded on a gross basis in terms of principal accounting will be recorded on a net basis in terms of agent accounting under the new guidance provided by IFRS 15. • Right of return: IFRS 15 requires separate presentation on the statement of financial position of the right to recover the goods from the customer and the refund obligation. <p>The adoption of IFRS 15 is expected to result in changes in classification on the statement of comprehensive income. The resulting effect is not expected to be material.</p>
Mandatory application date/ Date of adoption by the Group	IFRS 15 must be applied for financial years commencing on or after 1 January 2018. The Group will therefore adopt IFRS 15 for its 2019 financial year.

Title of standard	IFRS 16: Leases
Nature of change	<p>IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, a right-of-use asset (the right to use the leased item) and a financial liability to pay rentals (lease liability) are recognised. The only exceptions are short-term and low-value leases.</p> <p>The accounting for lessors will not significantly change.</p>
Impact	<p>The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments as disclosed in note 23.4. The Group is in the process to determine the extent to which these commitments will result in the recognition of a right-of-use asset and a lease liability for future payments and how this will affect the Group's profit and classification of cash flows. The nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and an interest expense on lease liabilities. Where lease liabilities subject the Group to foreign currency exposure, it will result in foreign exchange rate differences.</p>
Mandatory application date/ Date of adoption by the Group	IFRS 16 must be applied for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

Standards, interpretations and amendments effective for the year ended 30 September 2018

The following amendments to existing standards are effective for the year ended 30 September 2018 and had no significant effect on the Group's operations:

Number	Title
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Taxation Assets

The amendments to IAS 7: Statement of Cash Flows had no significant effect on the Group's operations, but required additional disclosure to enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Significant judgements and estimates

FOR THE YEAR ENDED 30 SEPTEMBER 2018

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

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

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

Intangible assets

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

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

The estimated useful lives and residual values are reviewed annually, taking cognisance of the forecasted commercial and economic realities and through benchmarking of accounting treatments in the specific industries where these assets are used. Refer to note 9 where this significant estimate is discussed.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life or not yet ready for use, are assessed annually for impairment. Whereas investments, property, plant and equipment and finite intangibles are only tested if an impairment indicator is identified. Refer to note 8, 9, 10 and 11 for detail of impairment of these assets where applicable. The impairment review requires judgement. The Group evaluates amongst other things, losses incurred, duration and extent of losses, near-term business outlook.

Allocation of goodwill to CGU's

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

Fair values in business combinations

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

Although a comprehensive valuation exercise is performed for each business combination, the Group applies initial accounting for its business combinations that will allow the Group a period of one year after the acquisition date to adjust the provisional amounts recognised for a business combination. Refer to note 22 for business combinations concluded during the year.

Significant judgements and estimates

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

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

Deferred taxation assets recoverability

Deferred taxation assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable profits are estimated based on business plans that include estimate and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces. Refer to note 12.

Income taxation provision

The Group is subject to income taxation in more than one jurisdiction. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate taxation determination is uncertain during the ordinary course of business.

Contingent liabilities

Management applies its judgement to the fact patterns and advice it receives from its attorneys, advocates and other advisors in assessing whether an obligation is probable, more likely than not, or remote. This judgement application is used to determine whether the obligation is recognised as a liability or disclosed as a contingent liability. Refer to note 23.5.

Provision for inventory shrinkage, obsolescence and markdowns

The provision for inventory obsolescence and mark downs represents management's estimate of the extent to which merchandise on hand at the reporting date will be sold below cost. This estimate takes into consideration past trends, evidence of impairment at year end and an assessment of future saleability. Refer to note 14.

Provision for bad debts

The provision for bad debts was based on a combination of specifically identified doubtful debtors and providing for older debtors.

A provision for bad debts held against revolving credit loans and installment sales receivables is raised when there is objective evidence that the assets are impaired based on the Group's judgement. Factors taken into account to determine impairment of an asset are the level of arrears, part payment of installments or missed installments. Estimated future cash flows, that are discounted at the effective interest rate, are determined utilising past payment history and probability of default. Refer to note 24.

Hyperinflation

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

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

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

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

The economy of Angola was assessed to be hyperinflationary effective 1 October 2017 and hyperinflation accounting was applied for the year ended 30 September 2018. Accordingly, the results and financial positions of the Group's Angolan subsidiary has been expressed in terms of the measuring units current at the reporting date.

The hyperinflation impact reduced the Group's sale of merchandise with R125.7 million, while prior period gains of R42.1 million which arose from the net monetary position, were recognised in other comprehensive income. Operating profit increased by R35 million in the current year.

The general price indices, as published by the National Institute of Statistics of Angola, were used in adjusting the historic cost local currency results and financial positions of the Group's Angolan subsidiary. At the time of approval of the financial statements, the general price index for September 2018 was not yet published. Therefore, the published inflation rate of 18.56% was used to

estimate a general price index of 221.53% at the end of the reporting period. An average adjustment factor for the current reporting period of 1.19 was applied to restate the results of the Angolan subsidiary of the Group. As at 30 September 2018, the cumulative three-year inflation rate was 105.10%.

Segmental reporting

Management identified operating segments inline with internal reporting structures in accordance with IFRS 8. Refer to note 1.

Share scheme

Various assumptions are applied in determining the valuations of share-based payment reserves and the number of share rights expected to vest at the end of the vesting period. Refer to note 20.

Use of adjusted measures

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

Capital items on the face of the statement of comprehensive income, being all re-measurements excluded from the calculation of headline earnings per share in accordance with the guidance contained in SAICA Circular 4/2018: Headline Earnings ("HEPS"). The principal items that will be included under this measure are: Gains and losses on disposal and scrapping of property, plant and equipment, intangible assets and assets held for sale, impairments or reversal of impairments; any non-trading items such as gains and losses on disposal of investments, operations and subsidiaries. Refer to note 7.

Assessment of risk and rewards

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

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Twelve months ended 30 September 2018 Rm	Restated Twelve months ended 30 September 2017 Rm
1. SEGMENTAL ANALYSIS		
REVENUE		
Clothing and General Merchandise	42 472	39 630
Furniture Appliances and Electronics	8 615	7 790
Building Materials	8 105	6 759
FinTech	4 976	3 671
	64 168	57 850
OPERATING PROFIT BEFORE CAPITAL ITEMS AND ONE-OFF COSTS		
Clothing and General Merchandise	6 112	5 656
Furniture Appliances and Electronics	(137)	(310)
Building Materials	214	243
FinTech	250	226
	6 439	5 815
SEGMENTAL ASSETS	86 666	82 910
RECONCILIATION BETWEEN OPERATING PROFIT		
Operating profit per segmental analysis	6 439	5 815
One-off costs (note 3.6)	(511)	–
Capital items (note 4)	(37)	(29)
Operating profit per income statement	5 891	5 786
Finance costs (note 5)	(1 434)	(932)
Finance income (note 5)	242	312
Profit before taxation per income statement	4 699	5 166
RECONCILIATION BETWEEN TOTAL ASSETS AND SEGMENTAL ASSETS		
Total assets per statement of financial position	90 978	87 113
Less: Cash and cash equivalents	(3 835)	(3 797)
Less: Long-term investments and loans (note 11)	(253)	(170)
Less: Loans due by Steinhoff and its subsidiaries (note 25)	(224)	(236)
Segmental assets	86 666	82 910

Basis of segmental presentation

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

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

Identification of segments

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

- Clothing and General Merchandise retail business units includes Pep, Ackermans, Pep Africa, Powersales, Dunns, Refinery, Shoe City, John Craig, Tekkie Town, Tenacity and the corporate office.
- Furniture, Appliances and Electronics merchandise retail business units includes Rochester, Russells, Bradlows, Incredible Connection, HiFi Corporation, Sleepmasters and Poco (closed in 2018).
- Building Materials retail brands include Buco and Timbercity while specialist building material brands, servicing both the retail and wholesale market include inter alia Tiletoria, Floors Direct, MacNeil and Cachet. Other brands include: B-One, Buchel, W&B Hardware, Bildware, Citiwood, Chipbase and Brands 4 Africa.
- Auxiliary business units leveraging and utilising the Group's retail store footprint in terms of interactive with their respective consumer markets including Flash, Southern View Finance SA (call center) and Van As (debt collector).

The board of directors evaluates segmental on overall performance based on revenue and operating profit before capital items and one-off costs items. Finance cost and taxation are monitored on a Group basis and are not allocated to operating segments. Segment revenue excludes value added taxation. Segment operating profit before capital items represents segment revenue, segmental other income, less segment expenses, excluding capital items included in note 4 and one-off costs items in note 3.6. Segment expenses include distribution expenses and other operating expenses.

The segmental assets and liabilities and not reviewed separately by the CODM and therefore has not been presented.

Geographical analysis

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

Major customers

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

One-off costs items

Refer to note 3.6 for the details relating to one-off costs items.

Effect of Hyperinflation on segmental results

Operating profit before capital items and one-off costs items include the effect of Hyperinflation accounting applied in Angola, amounting to R35 million, included under the Clothing and General Merchandise segment.

	Twelve months ended 30 September 2018 Rm	Twelve months ended 30 September 2017 Rm
2. REVENUE		
Sale of goods and related revenue	62 985	56 862
Financial services revenue	663	547
Other revenue	520	441
	64 168	57 850

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	Twelve months ended 30 September 2018 Rm	Twelve months ended 30 September 2017 Rm
3. OPERATING PROFIT		
Operating profit includes the following items:		
3.1 Amortisation and depreciation		
Amortisation (note 9)	85	84
Depreciation (note 10)	1 049	876
	1 134	960
3.2 Personnel expenses		
Post employment benefit contributions to defined benefit and contribution plans	164	149
Salaries and wages	7 749	6 385
Share-based payments – equity-settled (note 21)	120	100
	8 033	6 634
3.3 Net foreign exchange losses/(gains)	162	(430)
3.4 Operating lease charges – properties		
Rental of properties	3 538	3 000
Leases of property, plant, equipment, vehicles and other	37	27
	3 575	3 027
3.5 Property related		
Electricity and water	570	558
Security	235	200
Cleaning services	48	40
	853	798
3.6 One-off costs		
Guarantee to RMB in relation to BVI (note 18)	451	–
Impairment against loans to key management and employees (note 11)	60	–
	511	–
3.7 Other income		
Commission received	434	352
Affected party commission received (note 26)	147	123
Advertising and marketing income	67	74
Dividend income	46	–
Employee tax incentives	46	29
Other income	135	123
	875	701
3.8 Hyperinflation		
Gain from Hyperinflation accounting	35	–
	35	–

	Twelve months ended 30 September 2018		Twelve months ended 30 September 2017	
	Gross of taxation and non-controlling interests Rm	Net of taxation and non-controlling interests Rm	Gross of taxation and non-controlling interests Rm	Net of taxation and non-controlling interests Rm
4. CAPITAL ITEMS				
Capital items reflect the items which are allowed to be adjusted for HEPS purpose as described within significant judgements and estimates.				
Expenses/(income) of a capital nature are included in the 'capital items' line in the income statement. These expenses/(income) items are:				
4.1 Impairment	20	20	7	7
Intangible assets	-	-	4	4
Property, plant and equipment	20	20	3	3
4.2 Loss on disposal of property, plant and equipment and intangible assets	15	12	27	23
4.3 Loss/(profit) on sale and dilution of investments	2	-	(5)	(4)
	37	32	29	26

	Expense Rm	Income Rm	Net expense/(income) Rm
5. FINANCE COSTS AND FINANCE INCOME			
Year ended 30 September 2018			
Interest			
Banks	130	(200)	(70)
Loans	494	(15)	479
Related party interest (note 25)	639	-	639
Other	171	(27)	144
	1 434	(242)	1 192
Year ended 30 September 2017			
Dividends received	-	(50)	(50)
Interest			
Banks	35	(141)	(106)
Loans	117	-	117
Related party interest (note 25)	685	(52)	633
Other	95	(69)	26
	932	(312)	620

During the financial year loans from Steinhoff and its subsidiaries were repaid and replaced with external borrowings. The details relating to the interest rates on these loans are disclosed in note 16.

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	Twelve months ended 30 September 2018 Rm	Twelve months ended 30 September 2017 Rm
6. TAXATION		
6.1 Taxation charge		
Normal taxation		
South African normal taxation – current year	1 074	420
South African normal taxation – prior year adjustment	3	23
South African normal taxation – capital gains taxation	–	2
Foreign normal taxation – current year	168	126
Foreign normal taxation – prior year adjustment	34	94
Withholding taxation – South African	137	77
Withholding taxation – Foreign	17	28
	1 433	770
Deferred taxation		
South African deferred taxation – current year	350	771
South African deferred taxation – prior year adjustment	53	8
Foreign deferred taxation – current year	(49)	45
Foreign deferred taxation – prior year adjustment	17	5
	371	829
	1 804	1 599

For detail on deferred taxation assets/(liabilities) refer to note 12.

	%	%
6.2 Reconciliation of the rate of taxation		
South African standard rate of taxation	28.0	28.0
Effect of different statutory taxation rates of subsidiaries in other jurisdictions	(0.5)	(0.3)
Effect of utilisation of foreign taxation credits	(1.9)	(0.2)
Taxation losses generated unrecognised/(utilisation of unrecognised taxation losses)	3.4	(0.6)
Prior year adjustments	2.3	2.5
Withholding taxes	3.3	2.0
Tax-exempt income	(4.3)	(3.1)
Non-deductible expenses	4.8	1.9
Non deductible one-off costs	3.0	–
Other	0.3	0.7
Effective rate of taxation	38.4	30.9

		Twelve months ended 30 September 2018	Twelve months ended 30 September 2017
7.	EARNINGS AND HEADLINE EARNINGS PER SHARE		
	Earnings and headline earnings per share are calculated in note 7.1 to 7.5 below:		
	Earnings per share (cents)	Cents	Cents
	Basic (note 7.4)	83.6	132.6
	Headline (note 7.5)	84.5	133.6
	Diluted basic (note 7.4)	83.3	132.6
	Diluted headline (note 7.5)	84.2	133.6
7.1.	Earnings and headline earnings attributable to owners of the parent	Rm	Rm
	Profit for the year	2 895	3 567
	Attributable to non-controlling interests	(10)	(17)
	Earnings attributable to ordinary shareholders	2 885	3 550
	Capital items (note 4)	37	29
	Taxation effect on capital items (note 4)	(5)	(3)
	Headline earnings	2 917	3 576
7.2.	Diluted earnings and diluted headline earnings attributable to the owners of the parent		
	Share rights issued to employees have been taken into account for dilutive earnings and dilutive headline earnings per share purposes.		
		30 September 2018 Million	30 September 2017 Million
7.3.	Weighted average number of ordinary shares		
	Issued ordinary shares at beginning of the year	3 450	2 568
	Effect of shares issued during the year in terms of acquisitions	-	87
	Effect of shares issued in terms of private placement	-	23
	Effect of dilution due to share right issues in terms of share scheme (note 20.2)	10	-
	Weighted average number of ordinary shares at end of the year for the purpose of basic and diluted earnings per share and headline earnings and diluted headline earnings per share	3 460	2 678
		Cents	Cents
7.4.	Earnings per share		
	The calculation of per share numbers uses the exact unrounded numbers, which may result in differences when compared to calculating the numbers using the rounded number of shares and earnings as disclosed below.		
	Basic earnings per share		
	Basic earnings per share is calculated by dividing the net earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.		
	Basic earnings per share	83.6	132.6
	Diluted earnings per share		
	Diluted earnings per share is calculated by dividing the diluted earnings attributable to ordinary shareholders by the dilutive weighted average number of ordinary shares in issue during the year.		
	Diluted earnings per share	83.3	132.6

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

		Twelve months ended 30 September 2018 Cents	Twelve months ended 30 September 2017 Cents
7. EARNINGS AND HEADLINE EARNINGS PER SHARE (continued)			
7.5. Headline earnings per share			
Headline earnings is an additional earnings number that is permitted by IAS 33: <i>Earnings per Share</i> ("IAS 33"). The starting point is earnings as determined in IAS 33, excluding separately identifiable remeasurements, net of related taxation (both current and deferred) and related non-controlling interests other than remeasurements specifically included in headline earnings. This number is required to be reported by the JSE and is defined by Circular 4/2018 Headline Earnings.			
		Rm	Rm
Profit attributable to ordinary equity holders of the parent entity (note 7.1)		2 885	3 550
IAS 33 earnings		2 885	3 550
Net loss on disposal of property, plant and equipment and intangible assets	Note 4	12	23
Impairment	Note 4	20	7
Loss on sale and dilution of investments	Note 4	-	(4)
Headline earnings		2 917	3 576
		Cents	Cents
Headline earnings per share is calculated by dividing the headline earnings by the weighted average number of ordinary shares in issue during the year. (note 7.3)			
Headline earnings per share		84.5	133.6
Diluted headline earnings per share			
Diluted headline earnings per share is calculated by dividing the diluted headline earnings by the dilutive weighted average number of shares in issue during the year. (note 7.3)			
Diluted headline earnings per share		84.2	133.6
Net asset value per share			
Net asset value per ordinary share is calculated by dividing the ordinary shareholders' equity by the number of ordinary shares in issue at year-end.			
Net asset value per share		1 614.7	1 533.1
		2018 Rm	2017 Rm
8. GOODWILL			
Carrying amount at beginning of the year		42 458	39 857
Arising on business combinations (note 22)		79	2 533
Additional goodwill raised and transferred on completion of IFRS 3 valuation		-	60
Other		-	8
Carrying amount at end of the year		42 537	42 458
Cost		43 391	43 312
Accumulated impairment		(854)	(854)
Carrying amount at end of the year		42 537	42 458

8. GOODWILL (continued)

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

Review of impairment

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

An impairment charge is required for both goodwill and other indefinite life intangible assets when the carrying amount exceeds the recoverable amount. No impairment charge was recorded during the year under review. (2017: nil)

Impairment tests for CGUs containing goodwill

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

	2018 Rm	Restated* 2017 Rm
Clothing and General Merchandise		
Ackermans, Dunns, John Craig, Pep, Pep Africa, Refinery, Shoe City, Tenacity	39 320	39 320
Tekkie Town	2 251	2 251
Furniture, Appliances and Electronics		
Bradlows, Russells, Rochester, Sleepmasters, Incredible Connection, Hifi Corporation	12	12
Building Materials		
Buco, Timbercity, Hardware warehouse	593	593
Building Supply Group	79	–
FinTech		
Call center and debt collector	282	282
	42 537	42 458

* An amount of R41 million, reflected as unallocated goodwill during the prior year, has been reallocated to the respective operating segments.

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

8. GOODWILL (continued)

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

	Clothing and General Merchandise	Tekkie Town	Furniture, Appliances and Electronics	Building Materials	FinTech
2018					
Pre-tax discount rate (%)	16.4%	16.7%	16.9%	16.9%	16.4%
Revenue (% annual growth rate)	11.9%	11.1%	7.4%	5.4%	5.6%
Long term growth rate (%)	6.0%	6.0%	6.0%	5.0%	6.0%
Forecasted cash flows	5 years	5 years	5 years	5 years	5 years
2017					
Pre-tax discount rate (%)	14.6%	14.4%	13.8%	16.8%	13.4%
Revenue (% annual growth rate)	9.9%	9.7%	6.6%	5.0%	7.2%
Long term growth rate (%)	5.0%	6.0%	5.0%	5.0%	5.0%
Forecasted cash flows	10 years	10 years	10 years	10 years	10 years

Discount rates for 2017 have been restated to pre-tax discount rates.

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

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

Sensitivity analysis

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

The recoverable amount substantially exceeds the carrying amount of the following group of CGUs: Clothing and General Merchandise, Furniture, Appliances and Electronics, Building Materials and FinTech. No sensitivity analysis is therefore presented in relation to changes in assumptions underpinning the impairment tests performed.

The recoverable amount of the Tekkie Town CGU is estimated to exceed the carrying amount of the CGU as at 30 September 2018 by R283 million.

The recoverable amount of this CGU in 2018 would be equal to its carrying amount if the key assumptions were to change as follows:

	From	To
Pre-tax discount rate (%)	16.7%	17.5%
Long term growth rate (%)	6.0%	5.0%

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

	Trade and brand names* Rm	Software and ERP systems Rm	Customer lists Rm	Total Rm
9. INTANGIBLE ASSETS				
Balance at 1 October 2016	17 356	128	–	17 484
Additions	–	64	–	64
Acquired on acquisition of businesses (note 22)	774	31	–	805
Amortisation	(3)	(81)	–	(84)
Disposals	–	(1)	–	(1)
Impairment	–	(4)	–	(4)
Transfer from property, plant and equipment (note 10)	–	104	–	104
Balance at 30 September 2017	18 127	241	–	18 368
Additions	–	72	–	72
Acquired on acquisition of businesses (note 22)	72	5	19	96
Amortisation	–	(81)	(4)	(85)
Transfer from property, plant and equipment (note 10)	–	61	–	61
Balance at 30 September 2018	18 199	298	15	18 512
Cost	18 768	1 163	17	19 948
Amortisation and impairment	(641)	(922)	(17)	(1 580)
Net book value at 30 September 2017	18 127	241	–	18 368
Cost	18 840	1 301	36	20 177
Amortisation and impairment	(641)	(1 003)	(21)	(1 665)
Net book value at 30 September 2018	18 199	298	15	18 512

* Patents and trademarks have been aggregated with trade and brand names

Classification of intangible assets

2018

Indefinite useful life assets	18 199	–	–	18 199
Definite life assets	–	298	15	313
	18 199	298	15	18 512

2017

Indefinite useful life assets	18 127	–	–	18 127
Definite life assets	–	241	–	241
	18 127	241	–	18 368

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

9. INTANGIBLE ASSETS (continued)

Trade and brand names

The carrying value of the trademarks below are included in the following group of CGUs: (Refer to note 1)

	2018 Rm	2017 Rm
Clothing and General Merchandise		
Pep, Ackermans, Pep Africa, Dunns, Shoe City, John Craig, Refinery, Tenacity	15 977	15 977
Tekkie Town	766	766
Furniture, Appliances and Electronics		
Bradlows, Russells, Rochester, Sleepmasters, Incredible Connection, Hifi Corporation	908	908
Building Materials		
Buco, Tiletoria, Timbercity, Building Supply Group	548	474
	18 199	18 127

Refer to note 8 for the assumptions relating to the impairment tests for the Group of CGUs containing intangible assets other than software and ERP systems.

Impairment

Indefinite useful life intangible assets were tested for impairment during the year and no impairment was recognised. An impairment of Rnil relating to software was recognised in the current year (30 September 2017: R4 million impairment of software). There are no indications based on a reasonable fluctuation in the key assumptions that the remaining balance of the intangible assets and software and ERP systems are impaired.

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

Useful lives

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

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

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

Review of impairment

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

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

The key assumptions for those groups of CGUs that have significant intangible assets allocated to them are presented in note 8.

	Land and buildings Rm	Furniture and fittings Rm	Leasehold improvements Rm	Other assets Rm	Total Rm
10. PROPERTY, PLANT AND EQUIPMENT					
Balance at 30 September 2016	689	2 182	366	477	3 714
Additions	217	149	215	1 168	1 749
Depreciation	(14)	(437)	(124)	(301)	(876)
Disposals	(37)	(32)	(20)	(43)	(132)
Impairment	–	–	(1)	(2)	(3)
Acquisition of businesses (note 22)	104	–	45	44	193
Transfer to intangible assets (note 9)	–	(2)	–	(102)	(104)
Exchange differences on consolidation of foreign subsidiaries	(16)	212	(36)	(88)	72
Balance at 30 September 2017	943	2 072	445	1 153	4 613
Additions	108	830	190	671	1 799
Depreciation	(24)	(552)	(141)	(332)	(1 049)
Disposals	–	(20)	(16)	(10)	(46)
Disposals to related party (note 25.1)	(83)	–	–	–	(83)
Impairment (note 4)	–	(11)	(3)	(6)	(20)
Acquisition of businesses (note 22)	30	6	1	52	89
Reclassification	(13)	5	40	(32)	–
Transfer to intangible assets (note 9)	–	–	–	(61)	(61)
Exchange differences on consolidation of foreign subsidiaries	(33)	43	1	(2)	9
Balance at 30 September 2018	928	2 373	517	1 433	5 251
Cost	1 034	4 552	967	2 684	9 237
Accumulated depreciation and impairment	(91)	(2 480)	(522)	(1 531)	(4 624)
Net book value at 30 September 2017	943	2 072	445	1 153	4 613
Cost	1 023	5 121	1 105	3 194	10 443
Accumulated depreciation and impairment	(95)	(2 748)	(588)	(1 761)	(5 192)
Net book value at 30 September 2018	928	2 373	517	1 433	5 251

Land and buildings

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

Other assets

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

Encumbered assets

Assets with a book value of R38 million (2017: R21 million) are encumbered. The encumbered assets relate to the finance leases disclosed under note 16.

Insurance

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

Impairment losses

Refer to 'Capital items' included in note 4.

Useful lives

The estimated useful lives are reflected in the accounting policies.

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	2018 Rm	2017 Rm
11. INVESTMENTS AND LOANS		
Long-term investments and loans		
Held-to-maturity		
Unlisted investments		
Angola Government bonds	128	–
Available for sale		
Unlisted investments		
Other	33	25
Loans and receivables at amortised cost		
Gross loans to employees and key management	152	145
Impairment against loans (note 3.6)	(60)	–
Net loans to employees and key management	92	145
	253	170

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

Loans to current and previous employees and members of key management

Loans were advanced in the prior years to current and previous employees and members of key management to enable them to purchase shares in an investment company ("BVI"). Refer to note 25 for the details relating to the loan balances with key management members. Refer to note 23 for more information on the guarantee exposure which has been provided by Pepkor to a third party, for loans due by BVI.

The loans and receivables at amortised cost consist of various loans which are repayable no earlier than October 2021, bearing interest at market-related interest rates.

Loans are shown net of a provision for doubtful debts of R60 million (2017: Rnil). Except for the identified loans no further indications have been identified that any other counterparties will not meet their repayment obligations.

The Group holds the employee shares in BVI as security for the loans provided to employees and key management.

The fair value of loans are disclosed in note 24.

Angola Government bonds

Angola Government bonds are issued by the ministry of finance in Angola. The bonds are denominated in Angola Kwanza, earn interest at rates stated below.

	Issue date	Coupon rate	Maturity date
Ministry of Finance bond	23/08/2018	12.00%	23/08/2020
Ministry of Finance bond	23/08/2018	12.25%	23/08/2021

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

The Moody's credit rating classifies the credit risk relating to Angola bonds as B3. Refer to note 24.5 for the Moody's rating scale.

Unconsolidated structured entities

BVI is an investment company in which the Group does not hold an equity interest. Current and previous employees and members of key management, are shareholders of BVI. The Group has extended loans (as described above) and has guaranteed the debt of BVI to RMB (refer to note 18 and 24.6). BVI's only asset consists of an investment in Steinhoff shares.

	2018 Rm	2017 Rm
12. DEFERRED TAXATION (LIABILITIES)/ASSETS		
12.1 Deferred taxation movement (liabilities)/assets		
Balance at beginning of the period	(2 464)	(1 171)
Utilisation of tax losses division excluded from internal restructure*	–	(270)
Deferred taxation of businesses acquired (refer to note 22)	23	(127)
Amounts charged directly to other comprehensive income and equity		
Cash flow hedging reserve and share based payment reserve	(100)	(77)
Exchange differences from translation of net investment in foreign operations	161	–
Hyperinflation	(27)	–
Current year charge (note 6)	(371)	(829)
Exchange differences on consolidation of foreign subsidiaries	1	10
Balance at end of the year	(2 777)	(2 464)
* Prior to the internal restructure and to listing, in the prior year, the Unitrans Automotive division was part of a legal entity included within the Group. The utilisation of the taxation loss during the prior year is therefore included as a deferred taxation movement as it relates to statutory taxation losses utilised within the Group prior to restructure.		
12.2 Deferred taxation balances		
The corporate taxation rate in South Africa is 28% (2017: 28%) and the capital gains taxation rate 22.4% (2017: 22.4%). Deferred taxation for non-South African subsidiaries are calculated based on taxation rates that have been enacted or substantively enacted by the reporting date.		
Total deferred taxation liabilities	(4 142)	(4 050)
Total deferred taxation assets	1 365	1 586
Realisation of the deferred taxation assets are expected out of future taxable income, which was assessed and deemed to be reasonable based on the budgets of the various statutory entities.		
Deferred taxation balance comprises:		
Intangible assets	(4 070)	(4 045)
Prepayments and provisions	482	472
Taxation losses	298	483
Operating leases	176	160
Doubtful debts	101	88
Property, plant and equipment	94	125
Share-based payments	23	27
Unrealised foreign exchange gain	9	99
Other	110	127
	(2 777)	(2 464)
12.3 Unrecognised deferred taxation assets		
Deferred taxation assets have not been recognised in respect of the following items:		
Taxation losses	2 009	1 336
The taxation losses and deductible temporary differences do not expire under current taxation legislation. Deferred taxation assets have not been recognised in respect of these items because it is not yet certain that future taxable profits will be available against which the Group can realise the benefits therefrom. Deferred taxation assets are assessed at each statutory entity individually. The utilisation of the deferred taxation asset recognised is dependent on future taxable profits which is in line with budgets.		
12.4 Taxation losses		
Estimated taxation losses available for offset against future taxable income	3 081	3 106

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FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	2018 Rm	Restated 2017 Rm
13. TRADE AND OTHER RECEIVABLES		
Current trade and other receivables		
Trade receivables	2 066	1 293
Related party receivables (note 25)	69	75
Revolving credit loans and installment sale receivables	2 537	2 190
Total gross trade receivables, revolving credit loans and installment sale receivables	4 672	3 558
Less: Provision for bad debts relating to trade receivables (note 24.5)*	(155)	(186)
Less: Provision for bad debts relating to revolving credit loans and installment sale receivables (note 24.5)*	(375)	(318)
Total trade receivables, revolving credit loans and installment sale receivables	4 142	3 054
Other amounts due*	1 111	1 043
Derivative financial assets (note 24)	318	202
Current trade and other receivables (financial assets)	5 571	4 299
Prepayments	173	243
Value added taxation receivable	130	222
	5 874	4 764
Increase in related-party receivables/decrease in other amounts due	-	17

* Restatement between other amounts due and related party receivables in the prior year based on additional related parties identified as set out in note 25 and 30.

* Provisions for bad debt for the prior year has been split between trade receivables and revolving credit loans and installment sale receivables.

The Group provides revolving credit to its customers through Tenacity Financial Services.

The credit period on sales of goods is between 30 and 90 days. Where relevant, interest is charged at market-related rates on outstanding balances.

Before accepting any new customers, credit risk management uses various credit bureau and performs credit assessments to assess the potential customer's credit potential and credit limit. The credit limits are reviewed on a regular basis.

In determining the recoverability of a customer, the Group considers any change in the credit quality of the customer from the date credit was initially granted up to the reporting date.

Given the diverse nature of the Group's operations, it does not have significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers. Accordingly, the directors believe that no further credit provision is required in excess of the provision for bad debts.

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

The Group's exposure to credit risk related to trade and other receivables is disclosed in note 24.5.

The trade and other receivables, other than derivative financial assets, are denominated in functional currency of the various subsidiaries. The total exposure to credit risk is therefore limited to the carrying value of the receivables. Refer to note 24.3 for the foreign currency risk relating to derivative financial assets.

	2018 Rm	2017 Rm
14. INVENTORIES		
14.1 Inventories at cost less provisions		
Finished goods and merchandise	11 755	9 953
Goods in transit	1 030	945
Raw materials and other inventories	65	56
	12 850	10 954
14.2 Amount of write-down to net realisable value recognised as an expense during the year	489	422
14.3 Movement in the provisions for inventory shrinkage, obsolescence and markdowns were as follows:		
Balance at the beginning of the year	(778)	(619)
Acquired on acquisition of businesses	(36)	(115)
Charge for the year	(210)	(228)
Amounts used during the year	255	166
Unused amounts reversed	110	39
Foreign currency translation	16	(21)
Balance at the end of the year	(643)	(778)

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	2018	2017
15. SHARE CAPITAL		
15.1 Authorised – ordinary		
Ordinary shares of no par value (number)	20 000 000 000	20 000 000 000
15.2 Issued – ordinary		
Balance at the beginning of the year	3 450 000 000	–
Incorporation shares issued	–	1
Shares issued in terms of internal restructure	–	2 699 999 999
Shares issued in terms of private placement	–	750 000 000
Total issued ordinary stated share capital (number)	3 450 000 000	3 450 000 000
	Rm	Rm
15.3 Issued - ordinary		
Balance at the beginning of the year	64 690	–
Shares issued in terms of internal restructure	–	70 177
Shares issued in terms of private placement	–	15 375
Capital distribution	–	(20 632)
Share issue expenses	–	(230)
Total issued ordinary stated share capital	64 690	64 690
	Number of shares	Number of shares
15.4 Unissued shares		
Shares reserved for future participation in share schemes	500 000 000	500 000 000
Shares reserved for Shoprite transaction	–	1 748 241 188
Shares under the control of the directors	258 750 000	258 750 000
Unissued shares	15 791 250 000	14 043 008 812
Total unissued shares	16 550 000 000	16 550 000 000
By way of general authority, shareholder approval was granted to the board to issue up to 258 750 000 shares for cash, subject to the provisions of the Memorandum of Incorporation and the JSE Listings Requirements, which authority shall endure until the next Annual General Meeting of the Company.		
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.		
15.5 Authorised – preference share capital		
Non-redeemable, non-cumulative, non-participating preference shares of no par value	5 000 000	5 000 000
Non-redeemable, cumulative, non-participating preference shares of no par value	2 500 000	2 500 000
Redeemable, non-cumulative, non-participating preference shares of no par value	2 500 000	2 500 000
Redeemable, cumulative, non-participating preference shares of no par value in the following classes:		
Class A1 redeemable, cumulative, non-participating preference shares of no par value;	10 000 000	10 000 000
Class A2 redeemable, cumulative, non-participating preference shares of no par value;	10 000 000	10 000 000
Class A3 redeemable, cumulative, non-participating preference shares of no par value;	10 000 000	10 000 000
Class A4 redeemable, cumulative, non-participating preference shares of no par value;	10 000 000	10 000 000
Class A5 redeemable, cumulative, non-participating preference shares of no par value.	10 000 000	10 000 000
Total authorised preference share capital	60 000 000	60 000 000

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

	2018 Rm	2017 Rm
16. INTEREST-BEARING LOANS AND BORROWINGS		
16.1 Analysis of closing balance – external interest-bearing loans and borrowings		
Secured financing		
Term loans	7 000	–
Preference debt*	6 000	–
Revolving credit facilities	2 500	–
General banking facility	–	–
Capitalised finance lease and installment sale agreements	37	27
	15 537	27
Total interest-bearing loans and borrowings	15 537	27
Portion payable within 12 months included in current liabilities	(19)	(11)
Total non-current interest-bearing loans and borrowings	15 518	16
16.2 Analysis of closing balance – Loans due to related parties		
Total loans to related parties (note 25.1)	173	15 868
Portion payable within 12 months included in current liabilities	(173)	(4 868)
Total non-current loans due	–	11 000
16.3 Analysis of repayment – External loans		
Repayable within the next year and thereafter – current and non current split		
Next year	19	11
Within two years	10	9
Within three years	5 005	5
Within four years	8 003	1
Within five years	2 500	1
Total interest-bearing loans and borrowings	15 537	27
16.4 Analysis of repayment – Loans due to related parties		
Repayable within the next year and thereafter		
Next year	173	4 868
Within three years	–	7 500
Within five years	–	3 500
Total loans due to related parties	173	15 868

Pepkor successfully refinanced its Steinhoff shareholder funding facilities with the following facilities from various South African banks and financial institutions. The refinancing ensured that Pepkor is financially independent from its majority shareholder. The facilities were used to settle the Steinhoff shareholder funding which Steinhoff in turn used to settle its external obligations to which Pepkor Group companies were co-guarantors to, as disclosed in note 24.6. Pepkor Group companies have subsequently been released from all guarantees relating to the Steinhoff shareholder funding.

Assets with a book value of R38 million (2017: R21 million) are encumbered as disclosed in note 10. No other financial assets have been pledged as collateral for either periods presented.

The undiscounted cash flows of the remaining contractual maturity as well as the fair values of interest-bearing loans and borrowings are disclosed in note 24.6.

* As part of the refinancing which was done during the year to replace related party funding with external funding, 6 000 preference shares were issued for the consideration of R6 billion. This issue is subject to repayment terms and qualifies as a financial liability in accordance with IAS 32.

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	Facility Rm	Maturity date	Interest rate	2018 Rm	2017 Rm
16. INTEREST-BEARING LOANS AND BORROWINGS (continued)					
16.5 Loan details					
<i>Unsecured</i>					
Capitalised finance lease and installment sale agreements	–	–	Various	37	27
Secured hire purchase and lease agreements repayable in monthly or annual installments over periods of one to five years. These leases are with various counterparties.					
Loans due:					
Term Loan A	2 500	18 May 2021	Three month JIBAR plus 200 bps	2 500	–
Term Loan B	2 000	18 May 2022	Three month JIBAR plus 215 bps	2 000	–
Term Loan C	2 500	18 May 2023	Three month JIBAR plus 225 bps	2 500	–
Class A Cumulative redeemable preference shares	6 000	23 May 2022	74% of Prime	6 000	–
Revolving credit facility ("RCF")	2 500	24 May 2021	Three month JIBAR plus 200 bps	2 500	–
General banking facility ("GBF")	2 500	364 days	Linked to RSA Prime	–	–
Loans due to related parties					
Term loan A	3 500	15 October 2022	Three month JIBAR plus 225 bps	–	3 500
Term loan B	7 500	15 October 2020	JIBAR plus 200 bps	–	7 500
Term loan C	5 000	On demand	Standard Bank prime	–	4 868
On demand loan	N/A	On demand	JIBAR plus 200 bps	–	–
				15 537	15 895

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

Refer to note 24.6 for the financial covenants and the guarantees provided in relation to the interest bearing borrowings and loans.

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

	2018 Rm	2017 Rm
17. EMPLOYEE BENEFITS		
Post-retirement medical benefits	78	83
Performance-based bonus accrual (note 17.3)	526	467
Leave pay accrual (note 17.3)	265	249
Other	69	50
Total employee benefits	938	849
Transferred to short-term employee benefits	(847)	(737)
Long-term employee benefits	91	112

17.1 Defined contribution plans

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

17.2 Defined benefit plans

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

	Performance-based bonus Rm	Leave pay Rm	Total Rm
17.3 Performance-based bonus and leave pay accruals			
Balance at 30 September 2016	237	228	465
Accrual raised	285	30	315
Amounts unused reversed	(10)	–	(10)
Amounts utilised	(63)	(28)	(91)
Acquisition of subsidiaries and businesses (note 22)	2	17	19
Reclassification from accruals	16	–	16
Exchange differences on consolidation of foreign subsidiaries	–	2	2
Balance at 30 September 2017	467	249	716
Accrual raised	281	54	335
Amounts unused reversed	(36)	(12)	(48)
Amounts utilised	(193)	(31)	(224)
Acquisition of subsidiaries and businesses (note 22)	7	6	13
Exchange differences on consolidation of foreign subsidiaries	–	(1)	(1)
Balance at 30 September 2018	526	265	791

Performance-based bonus accrual

The bonus payable is calculated by applying a specific formula based on the achievement of performance targets.

Leave pay accrual

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

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	Dilapidation, onerous lease and onerous contract provisions Rm	Severance provision Rm	Contingent liabilities raised on business combinations Rm	Financial guarantee regarding BVI Rm	Other Rm	Total Rm
18. PROVISIONS						
Balance at 30 September 2016	170	–	922	–	510	1 602
Provision raised	76	–	–	–	426	502
Amounts unused reversed	(10)	–	–	–	(3)	(13)
Amounts utilised	(115)	–	(209)	–	(695)	(1 019)
Acquisition of subsidiaries and businesses (note 22)	15	–	–	–	–	15
Balance at 30 September 2017	136	–	713	–	209	1 058
Reclassification from other provisions	–	54	–	–	(54)	–
Provision raised	59	13	–	451	118	641
Amounts unused reversed	(4)	(26)	–	–	1	(29)
Amounts utilised	(72)	(3)	(240)	–	(62)	(377)
Reclassification between categories	17	–	–	–	(17)	–
Balance at 30 September 2018	134	38	473	451	195	1 292
					2018 Rm	2017 Rm
Long-term provisions					564	727
Short-term provisions					728	331
					1 292	1 058

Dilapidation, onerous lease and onerous contract provisions

Provision for dilapidation of buildings occupied by the Group and provision for long-term leases containing onerous provisions or terms in comparison with average terms and conditions of leases.

Provision for unfavourable legally binding contracts where the terms of the contract are unfavourable, based on market-related rates.

Contingent liabilities raised on business combinations

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

Financial guarantee provision regarding BVI

Pepkor through its subsidiaries, has been a guarantor of third-party debt related to an investment company since 2012. The investment initially consisted of Pepkor shares, but was exchanged for Steinhoff shares in 2015 following Steinhoff's acquisition of Pepkor. Following the decline in the Steinhoff share price post the publication of Pepkor's results in 2017, the risk of liability in this regard could no longer be considered to be remote and such management has provided an amount of R451 million, which amount includes accrued/unpaid finance costs. Refer to note 23.5.

Other provisions

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

Included in other provisions are estimated costs related to product warranties and other transaction-related or taxation, legal and regulatory matters.

	2018 Rm	Restated 2017 Rm
19. TRADE AND OTHER PAYABLES		
Non-current trade and other payables		
Equalisation of operating lease payments	545	533
	545	533
Current trade and other payables		
Trade payables*	7 544	7 157
Related-party payables (note 25)*	221	317
Accruals	1 108	875
Overhead accruals, payroll related creditors and other payables	2 427	2 492
Derivative financial liabilities (note 24)	84	27
Trade and other payables (financial liabilities)	11 384	10 868
Equalisation of operating lease payments	86	58
Value added taxation payable	118	115
Share scheme settlement payable (note 20)	7	124
	11 595	11 165
<i>* Restatement between trade payables and related party payables in the prior year based on additional related parties and affected parties identified as set out in note 30.</i>		
Increase in related-party payables/decrease in trade payables	-	136

20. SHARE SCHEME

20.1. Steinhoff Scheme

Terms of the scheme

Subsequent to the listing of the Company in the prior year, the obligations of Steinhoff and respective employer entities will remain for open grants granted prior to the listing of Pepkor. Pepkor will grant future share rights under the Pepkor Share Rights Scheme, see note 20.2.

Executive Steinhoff Share Right Scheme

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

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

	30 September 2018 Number of rights	30 September 2017 Number of rights
The number of Steinhoff share rights outstanding is:		
At the beginning of the year	5 774 774	2 671 636
Exercised during the year	-	(355 102)
Forfeited during the year ⁽¹⁾	(1 344 547)	(104 053)
Granted during the year	-	3 562 294
Outstanding at end of the year	4 430 227	5 774 774

⁽¹⁾ Certain individuals have left the Group and therefore forfeited their share rights relating to the initial grants made. The 2014 grant did not vest, and has been reversed for accounting purposes.

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

20. SHARE SCHEME (continued)

Assumptions

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

	2017 grant	2016 grant	2014 grant
Fair value of Steinhoff share rights and assumptions:			
Fair value at grant date	€4.70	€4.55	R 53.76
Share price at grant date	€4.98	€4.92	R 58.00
Strike price	€0.00	€0.00	R0.00
Expected volatility	34.78%	26.05%	24.39%
Dividend yield	2.05%	2.57%	2.57%
Risk-free interest rate	7.36%	8.16%	6.45%
Option life	3 years	3 years	3 years 3 months

Share scheme settlement arrangement

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

	30 September 2018 Rm	30 September 2017 Rm
Fair value of share scheme settlement payable		
At the beginning of the period	124	34
(Decrease)/increase in fair value	(117)	115
Reduction due to vesting	-	(25)
Balance at the end of the year	7	124

The fair value of the share scheme settlement payable under the Steinhoff Executive Share Rights Scheme is determined based on the Monte Carlo simulation model. The fair value of the payable is remeasured at each reporting date and at the settlement date. The model inputs at 30 September 2018 were as follows:

	2017 grant	2016 grant
Share price at 30 September 2018	€0.14	€0.14
Fair value at 30 September 2018	€0.14	€0.14
Term	17 months	5 months
Volatility	138.0%	138.0%
Risk-free interest rate	7.3%	7.0%

	2017 grant	2016 grant	2014 grant
Share price at 30 September 2017	€3.77	€3.77	€3.77
Fair value at 30 September 2017	€3.52	€3.64	€3.76
Term	29 months	17 months	5 months
Volatility	31.0%	31.0%	31.0%
Dividend yield	2.8%	2.3%	-
Risk-free interest rate	6.8%	6.8%	6.9%

20.2. Pepkor Scheme

Terms of the scheme

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

Pepkor Executive Share Right Scheme

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

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

	30 September 2018 Number of rights
The number Pepkor share rights outstanding is:	
Granted during the year	11 262 942
Forfeited during the year ⁽¹⁾	(1 536 588)
Outstanding at end of the year	9 726 354

⁽¹⁾ Certain individuals have left the Group and therefore forfeited their share rights relating to the initial grants made.

Assumptions

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

	2018 grant
Fair value of Pepkor share rights and assumptions:	
Fair value at grant date	R18.86
Share price at grant date	R20.41
Strike price	R0.00
Expected volatility	37.03%
Dividend yield	2.70%
Risk-free interest rate	6.92%
Option life	3 years

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

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	Twelve months ended 30 September 2018 Rm	Restated Twelve months ended 30 September 2017 Rm
21. CASH GENERATED FROM OPERATIONS		
Operating profit	5 891	5 786
Adjusted for:		
Debtors' write offs and movement in provision	302	284
Amortisation and depreciation (note 9 and 10)	1 134	960
Impairments	80	7
Inventories written down to net realisable value and movement in provision for inventories (note 14.2)	489	422
Net loss on disposal of property, plant and equipment and intangible assets	16	27
Profit on disposal and dilution of investments	-	(5)
Share-based payment expense (note 3.2)	120	100
Fair value adjustment on BVI guarantee (note 23.5)	451	-
Non working capital provisions releases and other non-cash adjustments	160	(312)
Cash generated before working capital changes	8 643	7 269
Working capital changes		
Increase in inventories	(2 161)	(1 910)
(Increase)/decrease in trade and other receivables	(834)	180
Increase in derivative financial liabilities/assets	(137)	(149)
Decrease in non-current and current provisions	(204)	(342)
Increase in non-current and current employee benefits	121	263
Increase in trade and other payables	173	1 153
Increase in revolving credit and installment sale receivable movement	(289)	(188)
Net changes in working capital	(3 331)	(993)
Cash generated from operations	5 312	6 276

22. NET CASH FLOW ON ACQUISITION OF BUSINESSES

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

	Total 2018 Rm	Total 2017 Rm
	BSG	Tekkie Town, call center and debt collector
22.1. The fair value of assets and liabilities recognised at date of acquisition		
Assets		
Intangible assets	96	805
Property, plant and equipment	89	193
Deferred taxation assets	23	25
Cash on hand	–	42
Inventories	396	631
Trade and other receivables	84	59
Liabilities	–	–
Interest-bearing loans and borrowings	(73)	(3)
Deferred taxation liabilities	–	(152)
Trade and other payables	(302)	(143)
Employee benefits	(13)	(19)
Current income taxation liabilities	–	(52)
Provisions	–	(16)
Current interest-bearing loans and borrowings	–	(3)
Bank overdraft and short-term facilities	(83)	(79)
Existing non-controlling interests	1	–
Total assets and liabilities acquired	218	1 288
Goodwill attributable to acquisition	79	2 533
Total consideration	297	3 821
Cash on hand at date of acquisition	–	(42)
Paid through issue of shares	–	(3 350)
Net cash outflow on acquisition of subsidiaries	297	429

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

Tekkie Town was acquired in the prior year to strengthen and compliment the Clothing and General Merchandise segment within the Group by establishing a footwear division of substance, an area where the Group lacked scale. Tekkie Town's historic performance and forecasted growth rates were considered to be value accretive and is expected to continue to contribute significant value to the shareholders. The store footprint further enhanced the Group's footprint with stores in South Africa, Namibia and Lesotho.

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

In the current year, BSG, continued to purchase from Invicta Holdings Limited, these transactions were in the ordinary course of business.

Contingent liabilities currently recognised on business combination amount to Rnil (2017: Rnil).

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	Total 2018 Rm	Total 2017 Rm
22. NET CASH FLOW ON ACQUISITION OF BUSINESSES (continued)		
22.2. The carrying value of identifiable assets and liabilities immediately prior to the acquisition		
Assets		
Goodwill	63	20
Intangible assets	8	39
Property, plant and equipment	89	211
Deferred taxation assets	17	25
Short-term investments and loans	1	–
Inventories	452	680
Trade and other receivables	368	40
Current income taxation assets	3	–
Cash on hand	38	42
Liabilities		
Interest-bearing loans and borrowings	(97)	(3)
Deferred taxation liabilities	(1)	(4)
Current interest-bearing loans and borrowings	(228)	(3)
Trade and other payables	(314)	(136)
Employee benefits	(13)	(11)
Current income taxation liabilities	(1)	(48)
Bank overdraft and short-term facilities	(215)	(79)
Non-controlling interests	1	–
Total assets and liabilities acquired	171	773
22.3 The revenue and operating profit earned from the divisions for the period consolidated were:		
Revenue	1 554	1 319
Operating profit	49	217
Results from the divisions if the entities were consolidated from the start of the financial year:		
Revenue	1 554	2 051
Operating profit	49	408
22.4. Subsequent to year end, Pepkor further agreed to purchase 100% of the issued shares in FGI Holdings Proprietary Limited (“FGI”) from Wands for a purchase price of approximately R150 million. FGI provides insurance products via its subsidiaries under the Abacus brand to Pepkor customers and contains highly regulated, liquid assets. The acquisition is subject to due diligence and other conditions precedent, normal for transactions of this nature.		

		2018 Rm	2017 Rm
23.	CONTINGENCIES AND COMMITMENTS		
23.1	Capital expenditure		
	Contracts for capital expenditure	275	372
	Capital expenditure authorised but not yet contracted for	176	29
	Capital expenditure will be financed from cash and existing loan facilities.		
23.2	Borrowing facilities		
	In terms of the memorandum of incorporation, the borrowing powers of the Company are unlimited.		
23.3	Unutilised borrowing facilities at year-end		
	Short term cash facilities	3 532	1 277
	Other*	1 248	–
	Loans due to Steinhoff and its subsidiaries	–	132
		4 780	1 409
	<i>* Other includes letters of credit, foreign exchange facilities and asset based finance facilities</i>		
23.4	Operating leases		
	Minimum payments under non-cancellable operating lease agreements for payable within the next year and thereafter:		
	Next year	3 381	3 369
	Within two to five years	6 052	6 467
	Thereafter	907	419
	Total	10 340	10 255

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

Contingent rent payable is calculated based on turnover level.

23.5 Contingent liabilities

Sellers of the Tekkie Town business allege that Pepkor is responsible for the payment of an earn-out to the sellers, based on the performance of Pepkor Speciality Proprietary Limited (the legal entity in which the Tekkie Town business operates) for the period from 1 October 2017 to 30 September 2020. Pepkor disputes the existence of such an obligation. The quantum of the alleged earnout is unknown at this stage, as it is based on performance over the period. Based on a letter of demand, the sellers are of the opinion that the earnout will be in the region of R455 million to R890 million. Based on advice from senior counsel, the directors are confident that outflow or potential success against Pepkor is remote.

Guarantee of third party debt related to an investment company exists. The investment by BVI initially consisted of Pepkor shares, but was converted to Steinhoff shares in 2015 following Steinhoff's acquisition of Pepkor. Due to the decline of Steinhoff share price, the risk of liability to the guarantee given by Pepkor for third party debt of BVI can no longer be considered remote and we have therefore fully provided for the Group's exposure of R451 million, in the current year.

In the prior year the Group was exposed to various guarantees relating to Steinhoff borrowings. Refer to note 24.6 for the notional value of exposure relating to those guarantees. Subsequent to the refinance, where Steinhoff borrowings were replaced with external borrowings, the Group was released from the guarantees held relating to Steinhoff debt and the guarantees were replaced with guarantees for external borrowings detailed in note 16. Refer to note 24.6 for the notional value relating to the exposure relating to guarantees on external borrowings.

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

The directors are confident that no material liability will arise from any other guarantee. The maximum exposure relating to guarantees are disclosed in note 24.6.

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

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24. FINANCIAL INSTRUMENTS

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

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

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

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

	Held-to-maturity Rm	Available for sale Rm	At fair value through profit or loss ¹ Rm	Loans and receivables and other financial liabilities at amortised cost Rm	Total carrying values Rm
24.1 Total financial assets and liabilities					
30 September 2018					
Investments and loans (note 11)	128	33	–	92	253
Non-current financial assets	128	33	–	92	253
Trade and other receivables (financial assets) (note 13)	–	–	318	5 184	5 502
Related party loan receivables (note 25)	–	–	–	69	69
Loans due by Steinhoff and its subsidiaries (note 25)	–	–	–	224	224
Cash and cash equivalents	–	–	–	3 835	3 835
Current financial assets	–	–	318	9 312	9 630
Long-term interest-bearing loans and borrowings (note 16)	–	–	–	(15 518)	(15 518)
Loans due to Steinhoff and its subsidiaries (note 25)	–	–	–	(173)	(173)
Non-current financial liabilities	–	–	–	(15 691)	(15 691)
Short-term interest-bearing loans and borrowings (note 16)	–	–	–	(19)	(19)
Bank overdrafts and short-term facilities	–	–	–	(521)	(521)
Trade and other payables (financial liabilities) (note 19)	–	–	(84)	(11 079)	(11 163)
Related party loan payables (note 25)	–	–	–	(221)	(221)
Current financial liabilities	–	–	(84)	(11 840)	(11 924)
	128	33	234	(18 127)	(17 732)
Net losses recognised in profit or loss	–	–	162	–	162
Net losses recognised in other comprehensive income	–	–	22	–	22
	–	–	184	–	184
Total interest income (note 5)	–	–	–	–	(242)
Total interest expense (note 5)	–	–	–	–	1 434
	–	–	–	–	1 192

¹ This category includes derivative financial instruments.

	Held-to-maturity Rm	Available for sale Rm	At fair value through profit or loss ¹ Rm	Loans and receivables and other financial liabilities at amortised cost Rm	Total carrying values Rm
24.1 Total financial assets and liabilities (continued)					
30 September 2017					
Investments and loans (note 11)	-	25	-	145	170
Non-current financial assets	-	25	-	145	170
Trade and other receivables (financial assets) (note 13)	-	-	202	4 097	4 299
Related party loan receivables (note 25)	-	-	-	236	236
Cash and cash equivalents	-	-	-	3 797	3 797
Current financial assets	-	-	202	8 130	8 332
Long-term interest-bearing loans and borrowings (note 16)	-	-	-	(16)	(16)
Loans due to Steinhoff and its subsidiaries (note 25)	-	-	-	(11 000)	(11 000)
Non-current financial liabilities	-	-	-	(11 016)	(11 016)
Short-term interest-bearing loans and borrowings (note 16)	-	-	-	(11)	(11)
Bank overdrafts and short-term facilities	-	-	-	(89)	(89)
Trade and other payables (financial liabilities) (note 19)	-	-	(27)	(10 841)	(10 868)
Related party loan payables (note 25)	-	-	-	(4 868)	(4 868)
Current financial liabilities	-	-	(27)	(15 809)	(15 836)
	-	25	175	(18 550)	(18 350)
Net gains recognised in profit or loss	-	-	(430)	-	(430)
Net gains recognised in other comprehensive income	-	-	(768)	-	(768)
	-	-	(1 198)	-	(1 198)
Total interest income (note 5)	-	-	-	-	(262)
Total interest expense (note 5)	-	-	-	-	932
	-	-	-	-	670

¹ This category includes derivative financial instruments.

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

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FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

		Fair value hierarchy	Valuation techniques and key inputs	Fair values 2018 Rm	2017 Rm
24.	FINANCIAL INSTRUMENTS (continued)				
24.2	Fair values				
	Foreign currency forward contracts – assets	Level 2	The fair values of forward exchange contracts are based on their listed market price, if available. If a listed market price is not available, then the fair value is estimated by discounting the difference between the contractual forward price and current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). (note 13 and 19)	318	202
	Foreign currency forward contracts – liabilities	Level 2		(84)	(27)
	Available for sale investments	Level 3		33	25

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 is 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 2018 and 30 September 2017. There were no transfers between levels during the year.

24.3 Foreign currency risk

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

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

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

Exposure to currency risk

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

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

Foreign currency sensitivity analysis

The Group is mainly exposed to fluctuations in Botswana Pula, Angola Kwanza, Zambian Kwacha, United States Dollar and Chinese Yuan.

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

	Reporting date spot rate 2018 R	Reporting date spot rate 2017 R
<i>South African Rand</i>		
US Dollar	14.196	13.578
Chinese Yuan	2.063	2.041
Botswana Pula	1.345	1.311
Zambian Kwacha	1.155	1.393
Angola Kwanza	0.048	0.079
Mozambique Metical	0.232	0.219
Malawi Kwacha	0.019	0.018
Nigeria Naira	0.039	0.037
Uganda Shilling	0.004	0.004

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

Forward exchange contracts

It is the policy of the Group to enter into forward exchange contracts to cover specific foreign currency payments based on a predefined profile that takes into account the future expected date of payment.

The Group uses forward exchange contracts to hedge its foreign currency risk against the functional currency of its various global operations. The forward exchange contracts have maturities of less than one year after reporting date. As a matter of policy, the Group does not enter into derivative contracts for speculative purposes. The fair values of such contracts at year-end, by currency, were:

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	Rm	Rm
24. FINANCIAL INSTRUMENTS (continued)		
24.3 Foreign currency risk (continued)		
Short-term derivatives		
Assets		
Fair value of foreign exchange contracts (note 13)		
US Dollar	192	66
Chinese Yuan	126	135
Other	-	1
	318	202
Liabilities		
Fair value of foreign exchange contracts (note 19)		
US Dollar	(39)	(22)
Chinese Yuan	(45)	(5)
Other	-	-
	(84)	(27)
Net short-term derivative assets	234	175
	2018	2017
	Rm	Rm
Cash flow hedges		
The Group classifies certain of its forward exchange contracts that hedge forecast transactions as cash flow hedges. The fair value of such contracts recognised as derivative assets and liabilities and adjusted against the hedging reserve at year-end was:		
The gains/(losses) on financial instruments recognised within other comprehensive income comprises of:		
Forward exchange contracts	22	(186)
Transferred to inventory	(105)	(583)
Fair value adjustment on cash flow hedges	(83)	(769)
Changes in the fair value of forward exchange contracts of economically hedged monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied, are recognised in profit or loss.		

24.4 Interest rate risk

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

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

The interest and related terms of the Group's interest-bearing loans are disclosed in note 16.

At the reporting date the interest rate profile of the Group's financial instruments were:

	Subject to interest rate movement					Total Rm
	Variable SA prime Rm	Variable JIBAR Rm	Other variable rates Rm	Fixed rate Rm	Non-interest- bearing Rm	
2018						
Non-current financial assets	-	-	-	128	125	253
Current financial assets	4 254	-	1 014	-	4 362	9 630
Non-current financial liabilities	(6 018)	(9 500)	-	-	(173)	(15 691)
Current financial liabilities	(490)	-	(50)	-	(11 384)	(11 924)
	(2 254)	(9 500)	964	128	(7 070)	(17 732)
2017						
Non-current financial assets	145	-	-	-	25	170
Current financial assets	4 626	434	-	111	3 161	8 332
Non-current financial liabilities	(11 016)	-	-	-	-	(11 016)
Current financial liabilities	(125)	(34)	-	(4 868)	(10 809)	(15 836)
	(6 370)	400	-	(4 757)	(7 623)	(18 350)

Sensitivity analysis

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

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

	2018 Rm	2017 Rm
Through (profit)/loss		
SA Prime – 100 basis point increase	23	(64)
JIBAR – 100 basis point increase	95	4

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

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

24. FINANCIAL INSTRUMENTS (continued)

24.5 Credit risk

Potential concentration of credit risk consists principally of short-term cash and cash equivalent investments, trade and other receivables, revolving credit loans and installment sale receivables as well as related party receivables and financial guarantees. The Group deposits short-term cash surpluses with major banks of quality credit standing. Revolving credit loans and installment sale receivables comprise a large and widespread customer base and Group companies perform ongoing credit evaluations on the financial condition of their customers. As at year end R557 million (2017: R360 million) of receivables were insured. At 30 September 2018, the Group did not consider there to be any significant concentration of credit risk which had not been adequately provided for. The amounts presented in the statement of financial position are net of provisions for bad debts, estimated by the Group Companies' management based on prior experience and the current economic environment.

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

	2018 Rm	Restated 2017 Rm
The maximum exposure to credit risk at the reporting date without taking account of the value of any collateral obtained was:		
Investments and loans (note 11)	253	170
Cash and cash equivalents ⁽¹⁾ (note 24.5.4)	3 835	3 797
Net revolving credit loans and installment sale agreements ⁽²⁾ (note 24.5.2)	2 162	2 190
Trade and other receivables (note 24.5.1)	3 731	2 329
	9 981	8 486
Financial guarantees (note 24.6)	2 376	20 806
	12 357	29 292

⁽¹⁾ Cash and cash equivalents for 2017 have been split out from total non current assets and further information has been reflected below relating to the credit risk relating to cash. The below credit analysis therefore represents the aging of financial assets excluding revolving credit loans and installment sale receivables and cash.

⁽²⁾ Includes Tenacity's revolving credit loans and installment sale and loan receivables relating to BLNS operations within the Furniture, Appliances and Electronics segment. These have been analysed separately, due to the different credit risk relating to these books.

	2018 Rm	2018 %	Restated 2017 Rm	Restated 2017 %
24.5.1 Trade receivables				
Ageing of financial assets, excluding revolving credit loans and installment sales and loan receivables				
Not past due or impaired	3 192	85.6	1 914	82.2
Past due 1 to 30 days but not impaired	303	8.1	219	9.4
Past due 31 to 60 days but not impaired	140	3.8	45	1.9
Past due more than 60 days but not impaired	40	1.1	49	2.1
Past due but not impaired in full	56	1.5	102	4.4
	3 731	100.0	2 329	100.0

	Secured Rm	Unsecured Rm	Total Rm
24.5 Credit risk (continued)			
24.5.2 Revolving credit loans and installment sale agreements			
2018			
Up to date	90	1 867	1 957
Performing	48	301	349
Non-performing	49	182	231
	187	2 350	2 537
2017			
Up to date	27	1 609	1 636
Performing	81	280	361
Non-performing	32	161	193
	140	2 050	2 190

The 'classes' have been determined on the basis of the market segment in which the individual trading brand operates:

Secured	Secured against retail product sold
Unsecured	Unsecured in nature includes revolving credit customer loans

The debtors book has been analysed into the following types of accounts, reflecting the accounts in the following categories:

Up to date	These accounts have no arrears, are therefore up to date and are neither past due nor impaired.
Performing	These accounts are in arrears by a maximum of three contractual installments and are considered to be past due. Arrears are defined as payment of less than 95% of a contractual installment. An unidentified impairment is raised for these accounts.
Non-performing	These accounts are in arrears by four or more contractual installments. Arrears are defined as payment of less than 95% of a contractual installment. An impairment provision is raised against accounts that are more than three installments in arrears.

The impairment (or loss allowance) for the sale and loans receivable is calculated on a portfolio basis.

	2018 Rm	2017 Rm
24.5.3 Provision on trade and other receivables and revolving credit loans and installment sale receivables		
Movement in provision for bad debts		
Balance at beginning of the period	(504)	(470)
Provision raised	(86)	(432)
Amounts unused reversed	1	82
Amounts used during the year	60	333
Acquired on acquisition of subsidiaries and businesses	-	(16)
Exchange differences on consolidation of foreign subsidiaries	(1)	(1)
Balance at end of the period	(530)	(504)

The Group has liens over items sold until full payment has been received from customers.

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

24. FINANCIAL INSTRUMENTS (continued)

24.5 Credit risk (continued)

24.5.4 Cash and cash equivalents

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

	2018 Rm	2017 Rm
Rating		
Bank balances: A1	84	–
Bank balances: Aa3	429	33
Bank balances: Baa2	2 958	3 298
Fixed deposits – African Banks	130	76
Bank balances: No rating available	85	149
Cash on hand	149	241
	3 835	3 797

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

Global Long-Term Rating Scale:

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

24.6 Liquidity risk

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

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

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

	0 to 3 months Rm	4 to 12 months Rm	Year 2 Rm	Years 3 to 5 Rm	After 5 years Rm	Total Rm
2018						
Interest-bearing loans and borrowings	(8)	(1 355)	(1 350)	(17 473)	-	(20 186)
Bank overdrafts and short-term facilities	(521)	-	-	-	-	(521)
Trade and other payables (financial liabilities)	(11 168)	(4)	-	-	-	(11 172)
Related-party payables	-	(394)	-	-	-	(394)
Financial guarantees	(2 376)	-	-	-	-	(2 376)
	(14 073)	(1 753)	(1 350)	(17 473)	-	(34 649)
2017						
Interest-bearing loans and borrowings	(25)	(4 883)	(9)	(11 007)	(2)	(15 926)
Bank overdrafts and short-term facilities	(89)	-	-	-	-	(89)
Trade and other payables (financial liabilities)	(10 663)	(13)	-	-	(2)	(10 678)
Related-party payables	23	-	-	-	(212)	(189)
Financial guarantees	(20 806)	-	-	-	-	(20 806)
	(31 560)	(4 896)	(9)	(11 007)	(216)	(47 688)

Financial guarantees

The financial guarantees are included in the maturity analysis under the nil to three months bracket based on the maximum amount that can be called for under the financial guarantee contract. In 2018 the BVI financial guarantee has been provided for in full (2017: Rnil). The nil to three month bracket for 2017 has been restated to include the notional value of the guarantees even though there was no expected exposure for the year ending 30 September 2017 due to the low probability of these being called upon. All Steinhoff related guarantees were cancelled during 2018.

	2018 Rm	Restated 2017* Rm
Financial institutions - loans (note 30)	-	(19 661)
Financial institutions - bank accounts	(1 194)	-
Business Venture Investments 1499 RF Proprietary Limited (note 30)	(451)	(414)
Guarantees to South African Revenue Authorities and municipalities	(731)	(731)
	(2 376)	(20 806)

The new funding facilities, as disclosed in note 16 is subject to the following debt covenants:

	Covenant	As at 30 September 2018 Actual
Net debt:EBITDA cover	<2.75	1.64
Interest cover	>4	6.51

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

24. FINANCIAL INSTRUMENTS (continued)

24.7 Treasury risk

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

24.8 Capital risk

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 16, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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

25. RELATED-PARTY TRANSACTIONS

Related-party relationships exist between shareholders, subsidiaries, joint-venture companies and associate companies within the Group and its Company directors and Group key management personnel.

At the date of this report the direct holding company of the Group is Ainsley Holdings Proprietary Limited. The ultimate holding company of the Group is Steinhoff.

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

25.1 Trading transactions

Key management and directors did not have any material transaction with the Group, other than those transactions disclosed below. Refer to directors interest in contracts for directors interest in transactions with the Group.

The following is a summary of material transactions with fellow subsidiaries, associate companies and joint-venture companies during the period and related receivables and payables balances at period-end:

The following agreements between Steinhoff and its subsidiaries and Pepkor were cancelled during the year:

- Management service level agreement, with Steinhoff at Work Proprietary Limited
- Steinhoff loan agreement, with Steinhoff Africa Holdings Proprietary Limited, Steinhoff Services Proprietary Limited and Steinhoff at Work Proprietary Limited. Refer to note 16 for further details relating to the refinancing of borrowings.

The Steinhoff share right grants previously granted to Pepkor employees (prior to listing of Pepkor), remains in place at 30 September 2018:

- Steinhoff share scheme and will remain as long as the Steinhoff share scheme referred to in note 20 is in force at Steinhoff.

Transactions with related parties are incurred in the ordinary course of business, and are briefly outlined below.

- KAP Industrial Holdings Limited and its subsidiaries (an associated company of Steinhoff): Mainly relates to purchases from PG Bison by the Building Materials segment and purchases from Restonic by the Furniture, Appliances and Electronics segment.
- Pepkor Group Sourcing (a wholly owned subsidiary of Steinhoff): The Clothing and General Merchandise segment sources certain of its products from the entity and pays a sourcing commission.
- Unitrans Automotive Proprietary Limited (a wholly owned subsidiary of Steinhoff): Consists of car rentals from Hertz, purchases of vehicles and related vehicle expenses.
- Lodestone Brands Proprietary Limited (controlled by a previous member of key management of Steinhoff): Relates to products purchased for sale in the Clothing and General Merchandise segment.
- Steinhoff Risk Solutions Proprietary Limited (a wholly owned subsidiary of Steinhoff): Fees paid relating to insurance services provided to Pepkor.
- Steinhoff Properties Proprietary Limited & JD Group Property Holding Proprietary Limited and its subsidiaries (wholly owned subsidiaries of Steinhoff): Relates to rental of properties owned by Steinhoff. These mainly relate to warehouses used by the Furniture, Appliances and Electronics segment as well as distribution centers used by the Clothing and General Merchandise segment.
- Companies associated with previous key management: Relates to rental of premises and related warehouse used by Tekkie Town
- Retail Holdings S.à r.l. (a wholly owned subsidiary of Steinhoff): Net amount receivable due to historic restructuring of the Pepkor Group.
- Shoprite Holdings Limited (a company controlled by the previous chairman of Steinhoff): Rental of stores from Shoprite, and sale of products to Shoprite by Flash and the Building Materials segment.
- Tradehold Limited (a company controlled by the previous chairman of Steinhoff): Rental of properties from the Collins Group.

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FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

		Twelve months ended 30 September 2018 Rm	Restated Twelve months ended 30 September 2017 Rm
25.	RELATED-PARTY TRANSACTIONS (continued)		
25.1	Trading transactions (continued)		
	Receivables		
	Steinhoff at Work Proprietary Limited	-	5
	Unitrans Automotive Proprietary Limited	-	41
	Unitrans Insurance Limited	-	12
	Shoprite Holdings Limited*	69	17
		69	75
	Payables		
	Steinhoff at Work Proprietary Limited	(2)	(41)
	Steinhoff Africa Holdings Proprietary Limited	-	(17)
	Steinhoff Africa Property Services Proprietary Limited	-	(1)
	Retail Holdings S.à r.l.	-	(94)
	Steinhoff International Holdings N.V.	(23)	(25)
	KAP Industrial Holdings Limited and its subsidiaries*	(168)	(123)
	Pepkor Group Sourcing (Fully Sun China Limited. (HK))*	(13)	(6)
	Unitrans Automotive Proprietary Limited	(9)	(2)
	Lodestone Brands Proprietary Limited	(6)	(8)
		(221)	(317)
	Share scheme settlement payable		
	Steinhoff International Holdings N.V. (Note 19 and note 20)	(7)	(124)
		(7)	(124)
	Loans receivable		
	Retail Holdings S.à r.l.	224	233
	Other related parties	-	3
		224	236
	Loans payable		
	Retail Holdings S.à r.l.	(173)	-
	Steinhoff at Work Proprietary Limited	-	(183)
	Steinhoff Africa Holdings Proprietary Limited	-	(11 915)
	Steinhoff Services Proprietary Limited	-	(3 770)
		(173)	(15 868)
	Subsequent the refinancing all loans due to Steinhoff were repaid and replaced with external borrowings, refer to note 16.		
	Dividends paid to:		
	Steinhoff Africa Holdings Proprietary Limited	-	(692)
	Newshef 1093 Proprietary Limited	-	(305)
	Ainsley Holdings Proprietary Limited	-	(858)
	Steinhoff International Holdings N.V.	-	(158)
		-	(2 013)

		Twelve months ended 30 September 2018 Rm	Restated Twelve months ended 30 September 2017 Rm
25.	RELATED-PARTY TRANSACTIONS (continued)		
25.1	Trading transactions (continued)		
	Revenue from:		
	Shoprite Holdings Limited*	13	–
	Other related parties	1	4
		14	4
	Purchases from:		
	KAP Industrial Holdings Limited and its subsidiaries*	(687)	(739)
	Steinhoff Africa Property Services Proprietary Limited and its subsidiaries	–	(1)
	Unitrans Automotive Proprietary Limited	(30)	(1)
	Unitrans Insurance Limited	(21)	–
	Lodestone Brands Proprietary Limited*	(39)	(32)
	Other related parties	–	(4)
		(777)	(777)
	Net operating fees (including administration and management fees (paid to)/ received from:		
	Steinhoff at Work Proprietary Limited	(12)	62
	Steinhoff Africa Holdings Proprietary Limited	–	(16)
	Pepkor Group Sourcing (Fully Sun China Limited. (HK))*	(80)	(56)
	Steinhoff Risk Solutions Proprietary Limited (formally CorpSure)	(10)	–
	KAP Industrial Holdings Limited and its subsidiaries*	–	(1)
	Other related parties	1	3
		(101)	(8)
	Net rebates received from:		
	KAP Industrial Holdings Limited and its subsidiaries	47	52
		47	52
	Rent paid to:		
	Steinhoff Properties Proprietary Limited	(62)	(27)
	JD Group Property Holding Proprietary Limited and its subsidiaries	(33)	(2)
	Shoprite Holdings Limited*	(137)	(109)
	Tradehold Limited*	(9)	(50)
	Other related parties	(2)	–
		(243)	(138)
	Rent received from:		
	Titan Financial Services Proprietary Limited*	4	3
	Mettle Solar Investments Proprietary Limited*	1	1
		5	4
	Rent paid and related operating expenses to entities controlled by previous members of key management of the Group:		
	Entities controlled by previous key management*	(9)	(10)
		(9)	(10)
	Finance costs paid to:		
	Steinhoff Services Proprietary Limited	(212)	(394)
	Steinhoff Africa Holdings Proprietary Limited	(416)	(193)
	Unitrans Automotive Proprietary Limited	–	(92)
	Steinhoff at Work Proprietary Limited	(11)	(4)
	KAP Industrial Holdings Limited and its subsidiaries*	–	(1)
	Steinhoff Finance Investments Proprietary Limited	–	(1)
		(639)	(685)
	Finance income received from:		
	Unitrans Automotive Proprietary Limited	–	41
	Steinhoff Africa Holdings Proprietary Limited	–	11
		–	52
	Fees paid to:		
	Lancaster Electricity Solutions Proprietary Limited	(6)	(6)
		(6)	(6)

* Related party transactions and balances that have been restated as reflected in the reconciliation below and explained in further detail in note 30.

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	Twelve months ended 30 September 2018 Rm	Restated Twelve months ended 30 September 2017 Rm
25. RELATED-PARTY TRANSACTIONS (continued)		
25.1 Trading transactions (continued)		
Capex purchases		
Unitrans Automotive Proprietary Limited	(8)	–
	(8)	–
Property sold		
Steinhoff Properties Proprietary Limited [#]	83	–
	83	–

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

Reconciliation of previous reported related parties and new reported related parties for the prior year:

	2017 Restated Rm	2017 Rm
Related-party payables	(317)	(181)
Sales to:	4	4
Purchases from:	(777)	(8)
Net operating fees (including administration and management fees (paid to)/received from):	(8)	49
Net rebates paid to:	52	–
Rent and related operating expenses paid to companies related to previous members of key management of the Group:	(10)	–

	Country of incorporation	30 September 2018 Ownership %	30 September 2017 Ownership %
25.2 Significant subsidiaries			
Pepkor HoldCo Proprietary Limited	South Africa	100	100
Pepkor Trading Proprietary Limited	South Africa	100	100
Pepkorfin Proprietary Limited	South Africa	100	100
Pepkor Capital (RF) Proprietary Limited	South Africa	100	–
Pepkor Speciality Proprietary Limited	South Africa	100	100
Pepkor Proprietary Limited	South Africa	100	100
Iliad Africa Trading Proprietary Limited	South Africa	100	100

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

25.3 Directorate

The directors of the company are as follows:

Executive directors

AB la Grange (chief executive officer)	Resigned 6 December 2017
LM Lourens (chief executive officer)	Appointed 6 December 2017
RG Hanekom (chief financial officer)	Appointed 18 August 2017

Non-executive directors

J Naidoo (chairperson)	Appointed 18 August 2017
JD Wiese	Appointed 18 August 2017
DM van der Merwe	Appointed 1 July 2017
MJ Jooste	Resigned 5 December 2017
AB la Grange	Appointed 6 December 2017 & Resigned 24 January 2018
LJ du Preez	Appointed 25 January 2018
PJ Dieperink	Appointed 30 July 2018
PJ Erasmus	Appointed 1 October 2018

Independent non-executive directors

SH Müller	Appointed 18 August 2017
JB Cilliers	Appointed 18 August 2017
	Appointed as lead independent director with effect from 28 May 2018
VP Khanyile	Resigned 10 January 2018
AE Swiegers	Resigned 15 February 2018
F Petersen-Cook	Appointed 14 April 2018
MJ Harris	Appointed 30 July 2018
HJ Sonn	Resigned 30 July 2018
W Luhabe	Appointed with effect from 1 January 2019

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

25. RELATED-PARTY TRANSACTIONS (continued)

Composition of board committees:

	Audit and risk committee	Human resources and remuneration committee	Nomination committee	Social and ethics committee
Non-executive directors				
J Naidoo	–	x	Chairperson	–
DM van der Merwe ⁽¹⁾	–	x	x	–
PJ Erasmus (Appointed with effect from 23 November 2018)	–	x	–	–
Independent non-executive directors				
SH Müller	x	Chairperson	–	–
JB Cilliers ⁽²⁾	Chairperson	–	x	–
F Petersen-Cook ⁽³⁾	x	–	–	Chairperson
MJ Harris ⁽⁴⁾	–	x	–	–
Executive directors				
LM Lourens ⁽⁵⁾	–	–	–	x
RG Hanekom ⁽⁶⁾	–	–	–	x

⁽¹⁾ DM van der Merwe was appointed as member of the Human Resources and Remuneration Committee with effect from 10 January 2018.

⁽²⁾ JB Cilliers was appointed as Chairperson of the Audit & Risk Committee with effect from 14 February 2018 and as member of the Nomination Committee with effect from 10 January 2018.

⁽³⁾ F Petersen-Cook was appointed as member of the Audit & Risk Committee with effect from 14 April 2018 and as Chairperson of the Social & Ethics Committee with effect from 30 July 2018.

⁽⁴⁾ MJ Harris was appointed as member of the Human Resources and Remuneration Committee with effect from 30 July 2018.

⁽⁵⁾ LM Lourens was appointed as member of the Social & Ethics Committee with effect from 30 July 2018.

⁽⁶⁾ RG Hanekom was appointed as member of the Social & Ethics Committee with effect from 10 September 2018.

25.4 Director's shareholding

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

	2018		2017	
	Direct/indirect	Number of shares	Direct/indirect	Number of shares
J Naidoo through Lancaster 101 Proprietary Limited	Indirect	302 439 024	Indirect	302 439 024
LM Lourens through Leon Lourens Beleggings Proprietary Limited	Indirect	69 970	N/A	–
LJ du Preez who declares his interest in Taurus Trust of which he is a trustee (not beneficiary)	Indirect	10 000	N/A	–
		302 518 994		302 439 024

From 1 October 2018 to the date of approval of the Group's consolidated financial statements, there were no dealings by directors in the Company's ordinary shares.

25.5 Compensation of key management personnel

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

Remuneration paid to the executive and non-executive directors were paid by Steinhoff and Pepkor during the year. Share-based payments are linked to the Steinhoff scheme as defined under note 20. Details relating to directors' emoluments are disclosed in note 27.

	Twelve months ended 30 September 2018 Rm	Restated Twelve months ended 30 September 2017 Rm
Compensation paid to key management and directors	143	283
Share-based payments – Steinhoff scheme – pre-2018 (includes reversal of 2014 scheme)	(81)	37
Share-based payments – Pepkor scheme – post-2018	8	–
	70	320

25.6 Loans to related parties

The loans to employees and key management, which terms are disclosed in note 11, includes the following loans to key management members.

LM Lourens	–	1
RG Hanekom	–	1
JL Hamman	7	6
CA Cronje	1	1
C Klem	6	–
	14	9

The loans and receivables at amortised cost consist of various loans with no fixed repayment terms, bearing interest at market-related interest rates. C Klem was classified as a member of key management during the current year, and as such the related loan was not reflected in the results reported at 30 September 2017.

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

25.7 Directors interest in contracts

All the call option agreements for the acquisition of Shoprite shares lapsed due to non-fulfilment of certain conditions precedent.

JD Wiese through Titan Premier Investments Proprietary Limited and J Naidoo through Lancaster 101 Proprietary Limited had an indirect interest in the Shoprite transaction.

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

At the time of the conclusion of the BSG deal, JD Wiese had an interest in the contract, as a director of both the seller, Invicta Holdings Limited, and the purchaser, Pepkor.

26. AFFECTED-PARTY TRANSACTIONS

The Group has been made aware of transactions where Steinhoff has business relationships ("Affected entities"), and given these relationships, has elected to disclose these transactions and balances.

Trade receivables derecognised

On 1 January 2016 the Company sold shares in the following entities to Wands Investments Proprietary Limited, for a consideration of R3.1 billion of which R2.5 billion related to the lending book:

- JD Consumer Finance Proprietary Limited - thereafter renamed to Century Capital Proprietary Limited, holding the majority of the JD Group lending book; and,
- JDG Investment Holdings Proprietary Limited - thereafter renamed to FGI Holdings Proprietary Limited, holding the investments in the two JD Group insurance businesses (Abacus Insurance Limited and Abacus Life Limited).

As part of this transaction, the Company entered into outsource and commercial agreements whereby its JD Group division would administer and service, on an outsource basis, the JD Group lending book on behalf of Century Capital Proprietary Limited. The Company receives a management fee to cover the cost of the services rendered, and is required to make a cost contribution which reduces on an annual basis over a three year period. Under these agreements, the Company is not liable for bad debts or late payment risk from the lending book and is entitled to a commission based on the profitability of the lending book and insurance business.

Since the Company remains exposed to risks and rewards from the lending book, to a certain extent, through the commission structure, IFRS requires the book to be recognised to the extent that the initial consideration received upon sale could be returned. However, as the Company does not have any obligation to return any portion of the original sale proceeds under the agreement, the carrying amount of the trade receivables amounting to R2.5 billion, net after allowance for bad debts, was derecognised in its entirety upon sale. Apart from the initial cost contribution liability of R308 million, no additional liability was recognised upon the sale of these investments.

Refer to subsequent events note 29.

	Twelve months ended 30 September 2018 Rm	Twelve months ended 30 September 2017 Rm
26.1 Trading transactions		
Receivables		
Abacus Life Limited	3	8
Century Capital Proprietary Limited	527	20
Abacus Insurance Limited	6	17
	536	45
Payables		
Abacus Life Limited	(9)	(12)
Century Capital Proprietary Limited	(148)	(275)
Abacus Insurance Limited	(15)	(12)
	(172)	(299)
Revenue from:		
Fundco Proprietary Limited	2	–
Abacus Insurance Limited	51	49
Abacus Life Limited	25	35
Century Capital Proprietary Limited	442	357
	520	441
Operating fees received from:		
Abacus Insurance Limited	4	13
Abacus Life Limited	4	9
Southern View Finance Mauritius	7	5
Century Capital Proprietary Limited	573	406
	588	433

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FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

		Twelve months ended 30 September 2018 Rm	Twelve months ended 30 September 2017 Rm
26.	AFFECTED-PARTY TRANSACTIONS (continued)		
26.1	Trading transactions (continued)		
	Interest received from:		
	Century Capital Proprietary Limited	6	21
		6	21
	Finance costs paid to:		
	Century Capital Proprietary Limited	(11)	(36)
	Wands Investments Proprietary Limited	-	(38)
		(11)	(74)
	Distribution fee income received by Pepkor Trading Proprietary Limited, Pep and Ackermans Divisions, unrelated to the JD Group lending-book:		
	Century Capital Proprietary Limited	147	123
		147	123
	Expenses recovered/(oncharged) in terms of outsource agreement		
	Century Capital Proprietary Limited - expenses oncharged in terms of outsource agreement	(185)	(188)
	Century Capital Proprietary Limited - expenses recovered in terms of outsource agreement	185	188
		-	-

In the prior year Southern View Finance SA (call center) and Van As (debt collector) were purchased from Southern View Finance Holdings SA Proprietary Limited, currently an affected party. Refer to note 22.

	Basic remuneration 'R000	Company and pension fund contributions 'R000	Company directors' fees 'R000	Annual bonus 'R000	Deferred cash short term/ Strategic bonus 'R000	Retention Bonus/ Deferred bonus 'R000	Total remuneration and fees 'R000
27. REMUNERATION REPORT							
27.1 Remuneration of the executive directors							
2018							
LM Lourens	5 802	899	–	2 100	1 071	3 901	13 773
RG Hanekom	3 598	602	–	1 260	1 071	3 724	10 255
Paid by Pepkor	9 400	1 501	–	3 360	2 142	7 625	24 028
AB la Grange ⁽¹⁾	3 400	88	–	–	–	15 500	18 988
Paid by Steinhoff	3 400	88	–	–	–	15 500	18 988
Total	12 800	1 589	–	3 360	2 142	23 125	43 016
2017							
RG Hanekom	2 154	390	–	2 035	2 627	–	7 206
Paid by Pepkor	2 154	390	–	2 035	2 627	–	7 206
AB la Grange ⁽¹⁾	14 440	351	–	13 701	8 333	13 333	50 158
Paid by Steinhoff	14 440	351	–	13 701	8 333	13 333	50 158
Total	16 594	741	–	15 736	10 960	13 333	57 364
⁽¹⁾ Payments made to AB la Grange relates to payments made for director of Steinhoff. AB la Grange resigned as executive director of Pepkor on 6 December 2017. The salary reflected, represents AB la Grange's full salary and deferred bonus until the end of December 2017.							
27.2 Remuneration of the other executive committee members							
2018							
Total other executive committee members	25 548	3 335	–	4 879	3 388	12 169	49 319
2017							
Total other executive committee members	23 661	4 056	–	14 634	9 360	–	51 711

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	Basic remuneration 'R000	Company and pension fund contributions 'R000	Company directors' fees 'R000	Annual bonus 'R000	Deferred cash short term/ Strategic bonus 'R000	Retention Bonus/ Deferred bonus 'R000	Total remuneration and fees 'R000
27. REMUNERATION REPORT (continued)							
27.3 Remuneration of the non-executive directors							
2018							
J Naidoo	-	-	1 948	-	-	-	1 948
JD Wiese	-	-	623	-	-	-	623
VP Khanyile	-	-	-	-	-	-	-
SH Müller	-	-	1 247	-	-	-	1 247
AE Swiegers	-	-	389	-	-	-	389
JB Cilliers	-	-	1 170	-	-	-	1 170
HJ Sonn	-	-	529	-	-	-	529
F Petersen-Cook	-	-	437	-	-	-	437
MJ Harris	-	-	132	-	-	-	132
Paid by Pepkor	-	-	6 475	-	-	-	6 475
MJ Jooste	5 011	62	-	-	-	-	5 073
DM van der Merwe ⁽²⁾	15 432	557	-	-	-	8 333	24 322
PJ Dieperink ⁽²⁾	3 887	-	-	-	-	-	3 887
LJ du Preez ⁽²⁾	10 058	559	-	-	-	-	10 617
Paid by Steinhoff	34 388	1 178	-	-	-	8 333	43 899
Total	34 388	1 178	6 475	-	-	8 333	50 374
2017							
VP Khanyile	-	-	51	-	-	-	51
SH Müller	-	-	92	-	-	-	92
AE Swiegers	-	-	88	-	-	-	88
JB Cilliers	-	-	71	-	-	-	71
J Naidoo ⁽¹⁾	-	-	146	-	-	-	146
JD Wiese ⁽¹⁾	-	-	42	-	-	-	42
HJ Sonn ⁽¹⁾	-	-	44	-	-	-	44
Paid by Pepkor	-	-	534	-	-	-	534
J Naidoo ⁽¹⁾	-	-	801	-	-	-	801
JD Wiese ⁽¹⁾	-	-	1 479	-	-	-	1 479
HJ Sonn ⁽¹⁾	-	-	1 479	-	-	-	1 479
MJ Jooste	36 524	356	-	39 935	8 333	36 667	121 815
DM van der Merwe	18 132	356	-	16 270	8 333	5 000	48 091
Paid by Steinhoff	54 656	712	3 759	56 205	16 666	41 667	173 665
Total	54 656	712	4 293	56 205	16 666	41 667	174 199

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

⁽²⁾ Relates to remuneration received for services provided to Steinhoff. The fees to directors include fees paid as directors of ultimate holding company Steinhoff where directors serve on the board of the Group and Holding Company. An amount of R1.27 million was paid to Steinhoff during the year for members of its board serving as non-executive directors of Pepkor.

	2018 R'000	2017 R'000
27.4 Directors' fees and remuneration		
Remuneration paid by:		
- Steinhoff and its subsidiary companies	62 887	223 823
- Pepkor and its subsidiary companies	30 503	7 740
	93 390	231 563

	Offer date	Vesting date	Number of rights as at 30 September 2017	Number of rights forfeited during the year ¹	Number of rights as at 30 September 2018	Value of rights exercised during the year R	Value of rights awarded during the year R
27.5 Share rights – Steinhoff scheme							
Directors paid for services at Pepkor level							
RG Hanekom	March 2016	March 2019	89 550	-	89 550	-	-
	March 2017	March 2020	111 251	-	111 251	-	-
			200 801	-	200 801	-	-
LM Lourens	March 2016	March 2019	89 550	-	89 550	-	-
	March 2017	March 2020	121 365	-	121 365	-	-
			210 915	-	210 915	-	-
Total executive directors paid by Pepkor			411 716	-	411 716	-	-
Directors paid for services at Steinhoff level only							
AB la Grange	December 2013	March 2017	-	-	-	-	-
Resigned effective 24 January 2018	December 2014	March 2018	233 499	(233 499)	-	-	-
	March 2016	March 2019	259 257	(259 257)	-	-	-
	March 2017	March 2020	392 387	(392 387)	-	-	-
Total executive directors paid by Steinhoff			885 143	(885 143)	-	-	-
MJ Jooste	December 2013	March 2017	-	-	-	-	-
Resigned effective 5 December 2018	December 2014	March 2018	869 301	(869 301)	-	-	-
	March 2016	March 2019	671 017	(671 017)	-	-	-
	March 2017	March 2020	980 968	(980 968)	-	-	-
			2 521 286	(2 521 286)	-	-	-
DM van der Merwe	December 2013	March 2017	-	-	-	-	-
	December 2014	March 2018	439 041	(439 041)	-	-	-
	March 2016	March 2019	335 509	-	335 509	-	-
	March 2017	March 2020	490 484	-	490 484	-	-
			1 265 034	(439 041)	825 993	-	-
PJ Dieperink	December 2014	March 2018	150 507	(150 507)	-	-	-
	March 2016	March 2019	122 923	-	122 923	-	-
	March 2017	March 2020	140 462	-	140 462	-	-
			413 892	(150 507)	263 385	-	-
LJ Du Preez	No shares granted				-		
Total non executive directors paid by Steinhoff			4 200 212	(3 110 834)	1 089 378	-	-
Total directors paid at Steinhoff level			5 497 071	(3 995 977)	1 501 094	-	-

The rights relating to the 2014 grant, were forfeited as the non market performance conditions were not met.

¹ The rights relating to AB la Grange, MJ Jooste, DM van der Merwe, P Dieperink are for services rendered relating to Steinhoff.

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	Offer date	Conditional vesting date	Number of rights as at 30 September 2017	Number of rights (exercised)/ awarded during the year	Number of rights as at 30 September 2018	Value of rights exercised during the year R'000	Value of rights awarded during the year* R'000
27. REMUNERATION REPORT (continued)							
27.6 Share rights – Pepkor scheme							
Directors paid for services at Pepkor level							
Fair value per share at date of exercise/vesting and/or grant						N/A	R18.86
RG Hanekom							
	March 2018	March 2021	–	390 244	390 244	–	7 360
			–	390 244	390 244	–	7 360
LM Lourens							
	March 2018	March 2021	–	570 244	570 244	–	10 755
			–	570 244	570 244	–	10 755
Total executive directors			–	960 488	960 488	–	18 115

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

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

28. GOING CONCERN

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

29. EVENTS AFTER BALANCE SHEET DATE

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

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

Subsequent to year-end, Pepkor considered its options and decided not to pursue the acquisition of the credit books owned by Cencap, but instead will build its own credit books. With regard to the existing credit books, commercial agreements were renegotiated, granting Pepkor the right to continue collection of the Cencap-owned loan books for the run-down period of the books, up to a maximum period of 3 years and render the Outsourced services at a market-related fee.

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

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

30. RESTATEMENTS

Restatements did not have any impact on the statement of financial position and statement of cash flows, except for note 30.5 below, nor basic earnings per share, diluted earnings per share, headline earnings per share or diluted headline earnings per share.

30.1. Presentation of exchange differences on loans to foreign operations

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

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

The correction of error to other comprehensive income is effective for the year ended 30 September 2017 and has been applied retrospectively. The aggregate effect of the restatement for the current year and prior year are as follows:

	Previously reported Rm	Adjustment Rm	Restated Rm
Impact on Statement of comprehensive Income			
Exchange differences from translation of net investment in foreign operations	–	795	795
Taxation on exchange differences from translation of net investment in foreign operations	–	(104)	(104)
Effect of Restatement	–	691	691

Notes to the consolidated annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

30.2 Restatement of statement of changes in equity

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

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

30.3 Inclusion of related party transactions not previously identified

Previously undisclosed related parties with Pepkor Group Sourcing (Legal name: Fully Sun China Limited. (HK)), KAP Industrial Holdings Limited and its subsidiaries, Shoprite Holdings Limited, the Titan Group, Lodestone Brands Proprietary Limited, Tradehold Limited and entities relating to previous members of key management have been disclosed in note 25.1. The transactions identified have all been in the ordinary course of business.

30.4 Inclusion of the additional disclosure relating to exposure to guarantees provided relating to Steinhoff borrowings and value of an investment company, Business Venture Investments 1499 RF Proprietary Limited ("BVI")

The Group was a co-guarantor on Steinhoff related borrowings in 2017, the maximum exposure from these guarantees were restated in note 24.6. As indicated under refinancing of Steinhoff funding, the Group successfully refinanced its Steinhoff funding facilities with various South African banks and financial institutions.

Pepkor through its subsidiaries, has been a guarantor of third-party debt provided to BVI since 2012. The investment held by BVI initially consisted of Pepkor shares, but was converted to Steinhoff shares in 2015 following Steinhoff's acquisition of Pepkor.

The Group's liquidity risk and credit risk disclosures have been restated to reflect the guarantees mentioned above, refer to note 24.6. The contingent liability note 23.5 has been restated to include details of the guarantees as at 30 September 2017.

30.5 Statement of cash flows

Certain cash flow comparative figures have been restated as indicated below:

	Previously reported Rm	Adjustment Rm	Restated Rm
Cash flow from operating activities			
Cash generated from operations	6 464	(188)	6 276
Increase in revolving credit and installment sale receivable movement	(188)	188	-
Net finance costs	(670)	670	-
Finance costs	-	(856)	(856)
Finance income	-	186	186
Net cash inflows from operating activities	5 606	-	5 606
Cash flow from investing activities			
Amounts received from related party loans and receivables	-	7 527	7 527
Net cash inflows from investing activities	-	7 527	7 527
Cash flow from financing activities			
Amounts paid on related party payables	293	(7 527)	(7 234)
Net cash outflows from financing activities	293	(7 527)	(7 234)

Company annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Company income statement

	Notes	30 September 2018 Rm	Restated* 30 September 2017 Rm
Revenue	1	43	1 561
Operating expenses		(81)	(178)
Operating (loss)/profit	2	(38)	1 383
Finance costs	3	(26)	(9)
(Loss)/profit for the period		(64)	1 374
Taxation	4	7	-
(Loss)/profit for the period		(57)	1 374

Company statement of comprehensive income

	30 September 2018 Rm	Restated* 30 September 2017 Rm
(Loss)/profit for the year	(57)	1 374
Other comprehensive income/(loss)	-	-
Total comprehensive (loss)/profit for the period, net of taxation	(57)	1 374

* Income from investments has now been reported as revenue.

Company annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Company statement of financial position

	Notes	30 September 2018 Rm	30 September 2017 Rm
ASSETS			
Non-current assets			
Investment in subsidiary companies	5	70 213	70 177
Deferred taxation assets	6	7	–
		70 220	70 177
Current assets			
Related party loans receivable and receivables	12	27	111
Cash and cash equivalents		–	–
		27	111
Total assets		70 247	70 288
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated share capital	8	64 690	64 690
Reserves		(195)	(174)
		64 495	64 516
Non-current liabilities			
Related party loans payable	12	–	5 661
		–	5 661
Current liabilities			
Other payables and accruals	9	1	106
Related party loans payable	12	5 751	5
		5 752	111
Total equity and liabilities		70 247	70 288

Company statement of changes in equity

	Ordinary stated share capital Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at 22 May 2017	–	–	–	–
Shares issued in terms of internal restructure	70 177	–	–	70 177
Shares issued upon listing, net of expenses	15 145	–	–	15 145
Capital distribution #	(20 632)	–	–	(20 632)
Total comprehensive profit for the period	–	1 374	–	1 374
Dividends paid	–	(1 548)	–	(1 548)
Balance at 30 September 2017	64 690	(174)	–	64 516
Total comprehensive profit for the period	–	(57)	–	(57)
Share-based payments	–	–	36	36
Balance at 30 September 2018	64 690	(231)	36	64 495

A capital distribution amounting to R20.6 billion was declared in total during 2017. R15.1 billion was raised through the private placement process post listing and was settled in cash, and the remainder of an amount of R5.5 billion was settled in the current year. The distribution is a return of capital, and has therefore been recognised as a reduction of share capital.

Company annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

Company statement of cash flows

	Notes	30 September 2018 Rm	30 September 2017* Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised in operations	11	(162)	(7)
Interest paid		(26)	(1)
Net cash outflow from operating activities		(188)	(8)
CASH FLOWS FROM INVESTING ACTIVITIES			
Amounts paid to related party loans receivable		(8)	-
Proceeds from related party loans receivable		111	-
Net cash inflow from investing activities		103	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Share issue expenses		-	(123)
Proceeds of ordinary shares issued		-	15 375
Capital distribution		-	(15 132)
Proceeds from/(repayments of) related party loans payable		5 751	(111)
Related party loans repaid		(5 666)	(1)
Net cash inflow from financing activities		85	8
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the period		-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
		-	-

* The comparative period is only for a duration of approximately 4 months as the company was incorporated on 22 May 2017.

Notes to the company annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	30 September 2018 Rm	30 September 2017* Rm
1. REVENUE		
1.1. Management fees received		
Group companies (note 12.3)	27	–
1.2. Income from investments		
Dividends received		
Related parties (note 12.3)	–	1 549
Interest received		
Related parties (note 12.3)	16	12
Total Revenue	43	1 561
2. OPERATING LOSS		
Operating loss is stated after taking account of the following items:		
2.1. Impairment of loan	8	176
2.2. Management fees paid		
Related parties (note 12.3)	42	–
All directors' fees and remuneration was paid by subsidiary companies and the Ultimate Holding Company. Refer to note 12.		
3. FINANCE COSTS		
Interest paid		
Steinhoff group companies	(26)	(8)
Banks	–	(1)
	(26)	(9)
4. TAXATION		
4.1 Taxation charge		
Deferred taxation		
South African deferred taxation - current period	7	–
	7	–
	%	%
4.2 Reconciliation of the rate of taxation		
Standard rate of taxation	(28.0)	(28.0)
Creation of unrecognised tax losses	–	22.5
Non-deductible expenditure	17.1	5.5
Effective rate of taxation	(10.9)	–

* The comparative period is only for a duration of approximately 4 months as the company was incorporated on 22 May 2017.

Notes to the company annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	30 September 2018 Rm	30 September 2017 Rm
5. INVESTMENT IN SUBSIDIARY COMPANIES		
Shares at cost	70 177	70 177
Share-based payments	36	-
	70 213	70 177

	Country of incorporation	Issued share capital Rm	Shareholding %	Total Rm
30 September 2018				
Pepkor Holdco Proprietary Limited	South Africa	41 157	100	64 433
JD Group Proprietary Limited ¹	South Africa	3 046	100	2 321
Tekkie Town Proprietary Limited ¹	South Africa	636	100	3 423
SA Poco Retail Proprietary Limited ^{1,2}	South Africa	3 582	100	-
				70 177
30 September 2017				
Pepkor Holdings Proprietary Limited ^{1,3}	South Africa	41 157	100	64 433
JD Group Proprietary Limited ¹	South Africa	3 046	100	2 321
Tekkie Town Proprietary Limited ¹	South Africa	636	100	3 423
SA Poco Retail Proprietary Limited ^{1,2}	South Africa	3 582	100	-
				70 177

¹ Acquired entire issued share capital via Internal Restructure on 1 July 2017² Investment in subsidiary is less than R500 000³ Name change in current year to Pepkor Holdco Proprietary Limited

	30 September 2018 Rm	30 September 2017 Rm
6. DEFERRED TAXATION ASSETS		
6.1 Deferred taxation movement		
Assets/(liabilities)		
Balance at beginning of the year	-	-
Current year charge	7	-
Balance at end of the year	7	-
6.2 Deferred taxation balances		
The corporate taxation rate in South Africa is 28% (2017: 28%) and the capital gains taxation rate 22.4% (2017: 22.4%). Deferred taxes for non-South African subsidiaries are calculated based on tax rates that have been enacted or substantively enacted by the reporting date.		
Total deferred taxation liabilities	-	-
Total deferred taxation assets	7	-
Deferred taxation balance comprises:		
Taxation losses	7	-
	7	-

7. PEPKOR GROUP SCHEME

Terms of the scheme

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

Pepkor Executive Share Right Scheme

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

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

Assumptions

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

	2018 grant
Fair value of Pepkor share rights and assumptions:	
Fair value at grant date	R18.86
Share price at grant date	R20.41
Strike price	R0.00
Expected volatility	37.03%
Dividend yield	2.70%
Risk-free interest rate	6.92%
Option life	3 years

Share scheme settlement provision affecting equity

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

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

Notes to the company annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	30 September 2018 Number of shares	30 September 2017 Number of shares
8. SHARE CAPITAL		
8.1 Authorised – ordinary		
Ordinary shares of no par value	20 000 000 000	20 000 000 000
8.2 Issued – ordinary		
Balance at the beginning of the year	3 450 000 000	–
Incorporation shares issued	–	1
Shares issued in terms of internal restructure	–	2 699 999 999
Shares issued in terms of private placement	–	750 000 000
Total issued ordinary stated share capital	3 450 000 000	3 450 000 000
	Rm	Rm
8.3 Issued – ordinary		
Balance at the beginning of the year	64 690	–
Incorporation shares issued	–	–
Shares issued in terms of internal restructure	–	70 177
Shares issued in terms of private placement	–	15 375
Capital distribution	–	(20 632)
Share issue expenses	–	(230)
Total issued ordinary stated share capital	64 690	64 690
	Number of shares	Number of shares
8.4 Unissued shares		
Shares reserved for future participation in share schemes	500 000 000	500 000 000
Shares under the control of the directors	258 750 000	258 750 000
Shares reserved for Shoprite transaction	–	1 748 241 188
Unissued shares	15 791 250 000	14 043 008 812
Total unissued shares	16 550 000 000	16 550 000 000
By way of general authority, shareholder approval was granted to the board to issue up to 258 750 000 shares for cash, subject to the provisions of the Memorandum of Incorporation and the JSE Listings Requirements, which authority shall endure until the next Annual General Meeting of the Company.		
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.		
8.5 Authorised – preference		
Non-redeemable, non-cumulative, non-participating preference shares of no par value	5 000 000	5 000 000
Non-redeemable, cumulative, non-participating preference shares of no par value	2 500 000	2 500 000
Redeemable, non-cumulative, non-participating preference shares of no par value	2 500 000	2 500 000
Redeemable, cumulative, non-participating preference shares of no par value in the following classes:		
Class A1 redeemable, cumulative, non-participating preference shares of no par value;	10 000 000	10 000 000
Class A2 redeemable, cumulative, non-participating preference shares of no par value;	10 000 000	10 000 000
Class A3 redeemable, cumulative, non-participating preference shares of no par value;	10 000 000	10 000 000
Class A4 redeemable, cumulative, non-participating preference shares of no par value;	10 000 000	10 000 000
Class A5 redeemable, cumulative, non-participating preference shares of no par value;	10 000 000	10 000 000
Total authorised preference share capital	60 000 000	60 000 000

	30 September 2018 Rm	30 September 2017 Rm
9. OTHER PAYABLES AND ACCRUALS		
Other payables and amounts due – external	1	106
Total other payables and accruals	1	106

The fair values of accounts payable are disclosed in note 13.

10. CONTINGENCIES

Sellers of the Tekkie Town business allege that Pepkor is responsible for the payment of an earn-out to the sellers, based on the performance of Pepkor Speciality Proprietary Limited (the legal entity in which the Tekkie Town business operates) for the period from 1 October 2017 to 30 September 2020. Pepkor disputes the existence of such an obligation. The quantum of the alleged earn-out is unknown at this stage, as it is based on performance over the period. Based on a letter of demand, the sellers are of the opinion that the earn-out will be in the region of R455 million to R890 million. Based on advice from senior counsel, the directors are confident that outflow or potential success against Pepkor is remote.

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

The directors are confident that no material liability will arise from any other guarantee. The maximum exposure relating to guarantees are disclosed in note 14.

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

	30 September 2018 Rm	Restated 30 September 2017 Rm
11. CASH UTILISED IN OPERATIONS		
Operating (loss)/profit*	(38)	1 383
Adjusted for:		
Non-cash adjustments:		
Non-cash dividend received*	–	(1 549)
Non-cash interest received*	–	(12)
Impairment of loans due from subsidiary company	(19)	176
Cash utilised in operations before working capital changes	(57)	(2)
Working capital changes		
Movement in receivables	–	(1)
Movement in other payables and accruals	(105)	–
Movement in related party payables	–	(4)
Net changes in working capital	(105)	(5)
Cash utilised in from operations	(162)	(7)

* Amounts have been restated due to changes as set out in note 16.1. These did not impact cash utilised in operations.

Notes to the company annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

	30 September 2018 Rm	30 September 2017 Rm
12. RELATED PARTY TRANSACTIONS		
Related-party relationships exist between shareholders and its subsidiaries within the Group and its Company directors and key management personnel.		
These transactions are concluded in the normal course of business.		
12.1 Subsidiaries		
Details of investments in direct subsidiaries are disclosed in note 5.		
12.2 Financial guarantee contracts		
Details of financial guarantee contracts are disclosed in note 14 of the Company financial statements.		
12.3 Trading transactions		
The following is a summary of transactions with related parties during the period and balances at year-end:		
Loans receivable from:		
Tekkie Town Proprietary Limited	-	111
SA Poco Retail Proprietary Limited	184	176
Impairment provision	(184)	(176)
	-	111
The loan to Tekkie Town bears interest at 1 month JIBAR and has no fixed terms of repayment.		
Loan payable to:		
Pepkorfin Proprietary Limited	(378)	-
Pepkor Capital Proprietary Limited	(5 373)	-
Steinhoff Africa Holdings Proprietary Limited	-	(5 483)
Steinhoff at Work Proprietary Limited	-	(183)
Total loans due to related parties	(5 751)	(5 666)
Portion payable within 12 months included in current liabilities	-	(5)
Total non-current loans due to related parties	(5 751)	(5 661)

These loans bear no interest and is repayable on demand. The intention of the parties is to settle amounts when the underlying external debt in Pepkor Capital Proprietary Limited and Pepkorfin Proprietary Limited falls due, on 23 May 2022.

The prior year loans bear interest from time to time. In the prior year, an undertaking has been given to Pepkor by Steinhoff Africa Holdings Proprietary Limited and Steinhoff at Work Proprietary Limited not to recall R5.483 million and R178 million.

	30 September 2018 Rm	30 September 2017 Rm
12.3 Trading transactions (continued)		
Accounts receivable from:		
Steinhoff Doors & Building Materials Proprietary Limited	3	-
Pepkor Speciality Proprietary Limited	2	-
Flash Mobile Vending Proprietary Limited	2	-
Pepkor Trading Proprietary Limited	20	-
	27	-
Dividends received:		
Pepkor Holdings Proprietary Limited ⁽¹⁾	-	(997)
JD Group Proprietary Limited	-	(552)
	-	(1 549)
Dividends paid:		
Steinhoff Africa Holdings Proprietary Limited	-	1 062
Newshelf 1093 Proprietary Limited	-	435
Ainsley Holdings Proprietary Limited	-	51
	-	1 548
Management fees received:		
Steinhoff Doors & Building Materials Proprietary Limited	3	-
Pepkor Speciality Proprietary Limited	2	-
Flash Mobile Vending Proprietary Limited	2	-
Pepkor Trading Proprietary Limited	20	-
	27	-
Management fees paid:		
Steinhoff at Work Proprietary Limited	12	-
Pepkor Trading Proprietary Limited	30	-
	42	-
Finance costs:		
Steinhoff Africa Holdings Proprietary Limited	15	4
Steinhoff at Work Proprietary Limited	11	4
	26	8
Interest received:		
Pepkor Speciality Proprietary Limited	(16)	-
Steinhoff Africa Holdings Proprietary Limited	-	(8)
Tekkie Town Proprietary Limited	-	(4)
	(16)	(12)

⁽¹⁾ Name change in current year to Pepkor Holdco Proprietary Limited

12.4 Compensation of key management personnel

Refer to note 27 of the consolidated financial statements.

Notes to the company annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

13. FINANCIAL INSTRUMENTS

The management board and executive team is responsible for implementing the risk management strategy to ensure that an appropriate risk management framework is operating effectively within the Company, embedding a risk management culture. The board and the Audit and Risk Committee are provided with a view of the risk profile of the Company and any major exposures and relevant mitigating actions are identified.

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

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

		Loans and receivables and other financial liabilities at carrying value	
		30 September 2018 Rm	30 September 2017 Rm
13.1	Total financial assets and liabilities		
	Related party loans receivable	27	111
	Related party receivables	-	-
	Share scheme settlement receivable	-	-
	Current financial assets	27	111
	Related party long-term loans payable	-	(5 661)
	Non-current financial liabilities	-	(5 661)
	Other payables and accruals	(1)	(106)
	Related party short-term loans payable	(5 751)	(5)
	Current financial liabilities	(5 752)	(111)
		(5 725)	(5 661)

No items were classified as 'available-for-sale', 'held to maturity', 'at fair value through profit or loss' or 'designated as at fair value through profit or loss' during the period.

The fair value calculation of the financial assets and liabilities was performed at the reporting date. 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 Company could realise in the normal course of business subsequent to the reporting date.

The carrying amount of financial assets and liabilities approximates its fair value.

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

13.2 Foreign currency risk

All the financial assets and liabilities of the Company are denominated in the Company's functional currency of South African Rand.

13.3 Interest rate risk

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

At the reporting date the interest rate profile of the Company's financial instruments were:

	Subject to interest rate movement			Total Rm
	Variable South African prime Rm	Variable JIBAR Rm	Non-interest-bearing Rm	
30 September 2018				
Current financial assets	-	27	-	27
Non-current financial liabilities	-	-	-	-
Current financial liabilities	-	-	(5 752)	(5 752)
	-	27	(5 752)	(5 725)
30 September 2017				
Current financial assets	-	110	1	111
Non-current financial liabilities	(175)	-	(5 486)	(5 661)
Current financial liabilities	-	(110)	(1)	(111)
	(175)	-	(5 486)	(5 661)

Sensitivity analysis

The Company is sensitive to movements in the South African prime rate and JIBAR.

The sensitivities calculated below are based on an increase of 100 basis points for each interest category. These rates are also used when reporting sensitivities internally to key management personnel. The sensitivity calculated would result in a Rnil million (2017: R1.75 million) loss. A 100 basis point decrease in the above rates would have had an equal, but opposite, effect on profit or loss.

13.4 Credit risk

Potential concentration of credit risk consists principally of related party loans receivable. At 30 September 2018, the Company did not consider there to be any significant concentration of credit risk which had not been adequately provided.

The carrying amounts of financial assets represent the maximum credit exposure.

The maximum exposure to credit risk at the reporting date, without taking account of the value of any collateral and financial guarantees are as follows:

	30 September 2018 Rm	30 September 2017 Rm
Current financial assets	27	111
Maximum exposure to financial guarantees (note 14)	18 397	-
	18 424	111

Credit risk is concentrated within Southern Africa.

The Poco loan was impaired during the prior year.

Financial guarantees are for Group borrowings and facilities as set out in note 16 and 23 of the Group financial statements.

Notes to the company annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2018 *continued*

13. FINANCIAL INSTRUMENTS (continued)

13.5 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected. The company manages liquidity risk by monitoring forecast cash flows and by ensuring that adequate borrowing facilities are available.

The following are the contractual maturities of financial liabilities:

	Carrying amount Rm	0 to 3 months Rm	4 to 12 months Rm	More than 1 year Rm
2018				
Non-current financial liabilities	–	–	–	–
Current financial liabilities	5 752	5 752	–	–
Financial guarantee contracts	18 397	18 397	–	–
	24 149	24 149	–	–
2017				
Non-current financial liabilities	5 661	–	–	5 661
Current financial liabilities	111	111	–	–
	5 772	111	–	5 661

Further details of financial guarantee contracts are provided in note 14.

13.6 Treasury risk

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

13.7 Capital risk

The Company's board manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of equity, comprising issued capital, distributable reserves and retained earnings as disclosed in the statement of changes in equity.

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

14. FINANCIAL GUARANTEE CONTRACTS

The Company along with other subsidiaries has guaranteed the term loans, revolving credit facilities and general banking facilities of Pepkorfin Proprietary Limited and the preference share funding of Pepkor Capital RF Proprietary Limited under the terms of the guarantee. The Company will make payments to reimburse the lenders upon failure of the guarantee entity to make payments when due. The company has secured a letter of support from Pepkor Holdco Proprietary Limited, a wholly owned subsidiary, in the event that the company is called upon to perform on such commitment.

	Face Value 2018 Rm	Drawn down balance 2018 Rm
Term loans	7 000	7 000
Preference share funding	6 000	6 000
Revolving credit facilities	2 500	2 500
General banking facilities	6 608	1 715
Guarantee facilities	1 069	1 182
	23 177	18 397

15. EVENTS AFTER THE BALANCE SHEET DATE

A final dividend of 27.8 cents per ordinary share, is payable to shareholders on Monday, 21 January 2019 (2017: nil). The Pepkor board resolved to implement a dividend policy of three times earnings cover. This is as a result of the additional capital requirements in funding new loan books and the Company's ambition to reduce its gearing levels to a level which reflects one times net debt-to-EBITDA.

16. RESTATEMENTS

Dividend income classified under finance income in the prior year, was restated to revenue as it represents the primary business

16.1. activity of the Company:

	Previously reported Rm	Adjustment Rm	Restated Rm
Income Statement			
Revenue	–	1 561	1 561
Finance income	1 561	(1 561)	–
	1 561	–	1 561
16.2. Cash utilised in operations			
Operating (loss)/profit	(178)	1 561	1 383
Non-cash dividend received	–	(1 549)	(1 549)
Non-cash interest received	–	(12)	(12)
	(178)	–	(178)

17. GOING CONCERN

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