PEPKOR
Holdings Limited

2020 ANNUAL FINANCIAL STATEMENTS

CONTENTS

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

The preparation and presentation of the consolidated and separate annual financial statements, and all information included in this report, is the responsibility of the directors. The consolidated and separate annual financial statements were prepared in accordance with the provisions of the South African Companies Act, No. 71 of 2008, as amended (Companies Act) and comply with International Financial Reporting Standards (IFRS). In discharging their responsibilities, the directors rely on the internal controls and risk management procedures applied by management for both the integrity and fairness of these statements, and are satisfied that the controls and procedures are in operation.

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 and the financial position of the company and the group.

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

These annual financial statements as at 30 September 2020, which appear on pages 03 to 130, have been prepared under the supervision of the chief financial officer, Mr RG Hanekom CA(SA). The consolidated and separate financial statements have been audited by PricewaterhouseCoopers Inc. in compliance with the Companies Act. The annual financial statements of the company and the group were approved by the board on 15 December 2020, and are signed on its behalf by:

LM LOURENS
Chief executive officer

RG HANEKOM
Chief financial officer

SECRETARY CERTIFICATION

FOR THE YEAR ENDED 30 SEPTEMBER 2020

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

J. W M Loddle.

Company secretary
15 December 2020
On behalf of Pepkor Proprietary Limited

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

Nature of business

The group is a diversified retailer of significant size and scale operating across four segments. All the retail brands within the segments focus on discount, value and specialised goods and retail clothing, general merchandise, household goods, furniture, appliances, consumer electronics, building materials, cellular products and services and financial services in Angola, Botswana, eSwatini, Lesotho, Malawi, Mozambique, Namibia, Nigeria, South Africa and Zambia.

The four operating segments include the following brands:

Clothing and general merchandise

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

- PEP
- PEP Africa
- Ackermans
- Pepkor Speciality, which includes Rapitrade 141 Proprietary Limited (CODE), Dunns, John Craig (reflected as an asset classified as held for sale), Refinery, Shoe City, Sergeant Pepper Clothing Company Proprietary Limited (S.P.C.C) and Tekkie Town
- Dealz

Other components included in this segment:

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

Furniture, appliances and electronics

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

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

Other components included in this segment:

- Connect Financial Solutions provides credit through instalment sale receivables to the furniture, appliances and electronics brands.
- Abacus provides insurance products via its subsidiaries to customers of the JD Group and other group businesses. It was acquired effective 1 December 2019.

Building materials – discontinued operations

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

- BUCO
- Timbercity
- Chipbase

The wholesale division comprises:

- MacNeil
- Cachet
- Brands 4 Africa
- Citiwood

Specialist building material brands, servicing both the retail and wholesale market, include Buchel, W&B Hardware,

REPORT OF THE DIRECTORS continued

for the year ended **30 September 2020**

Bildware, B-One, Tiletoria and Floors Direct. The Building Company, which comprises this entire segment, has been classified as a discontinued operation. Refer to note 7 for further detail.

FinTech

This segment includes unique businesses that do not support the Pepkor retail brands' performance. Rather, these businesses utilise certain parts of the Pepkor retail store footprint to varying degrees in terms of interaction with their respective consumer markets.

- Flash is a technology-driven company committed to adding value to the lives of traders in the informal retail market. Using smart technology, traders are able to offer their customers greater convenience, providing access to mobile data and airtime, prepaid electricity, money transfers and Lotto.
- Capfin SA provides unsecured credit to customers under the Capfin brand. Pepkor commenced funding of the loan book in the prior year on 20 March 2019.

Retail footprint

The group sold its products across a retail footprint consisting of 5 480 (2019: 5 435) stores at 30 September 2020. When discontinued operations and assets classified as held for sale are excluded, the retail footprint equates to 5 254 (2019: 5 182) stores.

Financial review

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

Effect of the COVID-19 pandemic

The Pepkor group achieved a pleasing performance during a challenging year as COVID-19 and the resultant lockdown protocols exacerbated an already weak consumer retail market.

The effect of the COVID-19 pandemic had a significant impact on the group's trading performance, as most of our retails stores were not able to trade during the lockdown. This resulted in partial impairment of goodwill and the impairment of indefinite useful life intangible assets. Refer to notes 9 and 10 respectively.

The effect of COVID-19 was further noted in the increase in expected credit losses (ECLs) due to additional risk factors. Provision levels on the Tenacity credit book, which facilitates credit sales in Ackermans and Pepkor Speciality in the clothing and general merchandise segment, were increased to 22% (FY19: 17%), while provision levels on the Connect credit book, which facilitates sales for the furniture, appliances and electronics segment, and the Abacus book increased to 43% (FY19: 33%). Provision levels on the Capfin unsecured lending credit book, which forms part of the FinTech segment, were increased to 26% (FY19: 15%). Refer to note 31 for further detail.

Impairment of goodwill and intangible assets

Following the completion of the impairment assessments, an impairment of R4.8 billion was recognised during the year. The impairment is a result of constrained future growth expectations in PEP Africa, Shoe City, Tekkie Town and Incredible Connection, in addition to an increased weighted average cost of capital. The impairment is allocated to the respective cash-generating units (CGUs) as follows:

- R3.0 billion relates to the Ackermans, Dunns, John Craig, PEP, PEP Africa, Refinery, Shoe City and Tenacity group of CGUs included in the clothing and general merchandise segment;
- R1.6 billion relates to the Tekkie Town CGU, included in the clothing and general merchandise segment;
- R103 million relates to the Incredible Connection CGU included in the furniture, appliances and electronics segment; and
- R35 million relates to the newly acquired CGU, Eezi, included in the FinTech segment.

Refer to notes 9 and 10 for further detail. The effect of the impairments should be excluded from earnings when determining headline earnings per share.

Share capital

The authorised and issued share capital of the company as at 30 September 2020 is set out in note 21 of the annual financial statements.

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

- The group issued 37.9 million ordinary shares on 27 January 2020, as scrip dividend, as an alternative to receiving a cash dividend.
- On 11 March 2020, shareholders resolved that 172.5 million of the company's authorised but unissued shares of no par value be placed under the control of the directors with a general authority to allot and issue shares for cash, subject to certain conditions outlined in the resolution. At the time of the issue of the notice of the annual general meeting of shareholders, 172.5 million shares constituted 5% of the issued share capital but, as a consequence of the scrip dividend issue, at the time of the issue of the shares, it constituted approximately 4.95% of the then issued share capital.

REPORT OF THE DIRECTORS continued

for the year ended **30 September 2020**

Share rights

During the course of the year, 15.9 million shares rights (2019: 13.2 million) were granted in terms of the Pepkor Executive Share Rights Scheme (Pepkor Scheme). Refer to note 27.

Corporate activity

Discontinued operations – Zimbabwe

During the latter part of the 2019 financial year, the board decided to exit the group's Zimbabwe business, under the Power Sales brand. The decision was mainly driven by the increasing difficulty of trading in Zimbabwe as a result of adverse macroeconomic conditions. The sale was concluded and all conditions precedent were met on 30 September 2020. Refer to note 7 for further detail.

Discontinued operations – The Building Company

The group entered into a sale and purchase agreement with Cashbuild Limited for the disposal of the entire issued share capital of The Building Company for a total purchase price, including permitted leakages, of R1.2 billion. The transaction will enable the group to streamline its portfolio of businesses and focus on its core business of discount and value retail. Refer to note 7 for further detail.

Assets held for sale

The group decided to dispose of the John Craig business. The business mainly operates in the smart/formalwear sector of the men's wear market. This sector does not represent a strategic fit with the group's main business proposition of supplying discounted value-added products to our customers. An active sales plan has been put in place to dispose of these assets and liabilities. Refer to note 20 for further detail.

Bond programme

Subsequent to the approval of the group's R10 billion domestic medium-term note programme by the JSE Limited on 2 March 2020, senior unsecured floating rate notes amounting to R1 billion were issued on 10 March 2020. The bonds issued consist of R800 million three-year floating rate notes with a coupon rate of three-month JIBAR plus 159 bps and R206 million five-year floating rate notes with a coupon rate of three-month JIBAR plus 174 bps. Refer to note 22.

Interest-bearing loans and borrowings

The group benefited from proactive expense management, conservative credit granting, better-than-expected credit book collections, the successful completion of an accelerated book-build and the issue of a bond programme. Refer to note 22 for further detail. The increased cash allowed the following:

- early settlement of the R1.5 billion bridge loan facility that was due for repayment in August 2020; and
- early settlement of R4.0 billion of the total R6.0 billion preference share funding due to mature in May 2022.

The process of refinancing debt due for repayment in 2021, was successfully concluded and implemented on 30 September 2020. This included the refinancing of:

- R5.0 billion in debt due for repayment in May 2021, now repayable in September 2023; and
- R1.0 billion bridge revolving credit facility due to expire in November 2021, now repayable in September 2023.

As part of the same process, debt covenants were amended to create sufficient headroom and enhanced flexibility going forward. Refer to note 31.6 for further detail.

Guarantee to Rand Merchant Bank (RMB) in relation to an investment company

During the year, Pepkor advanced a bridge loan facility amounting to R519 million to an investment company, Business Venture Investments 1499 (RF) Proprietary Limited (BVI), to settle the external funding, including guarantee, with RMB, where Pepkor was a guarantor. The group is in the process of negotiating the issuance of an alternative instrument by BVI to Pepkor to replace the bridge loan facility advanced during the year. This enabled BVI to settle its debt with RMB. The group provided for the full exposure relating to the guarantee during the 2018 financial year. Refer to note 31.6 for further detail.

Acquisition of businesses

The group acquired the following businesses during the financial year. Refer to note 29 for further detail:

- Effective 1 December 2019, 100% of the issued share capital of Abacus Holdco Proprietary Limited and its subsidiaries (Abacus) for a purchase price of R183 million. The acquisition has been approved by the relevant regulatory authorities. The Abacus product offering includes life and short-term insurance. Abacus provides insurance products via its subsidiaries to customers of the JD Group and other group businesses.
- Effective 1 March 2020, 100% of the issued share capital of Eezi Global Limited (Eezi) for a purchase price of GBP1. Eezi offers similar products and services to Flash in the European market and is included in the FinTech segment as part of the Flash business.
- Effective 1 June 2020 and 1 September 2020 respectively, the group acquired S.P.C.C. and CODE for a combined purchase price of R46 million. Both entities are retailers of clothing and general merchandise.

The board is of the opinion that these acquisitions present attractive investment opportunities that are aligned with the group's strategy to grow through value-accretive acquisitions.

REPORT OF THE DIRECTORS continued

for the year ended **30 September 2020**

Directors

The following changes in the directorate occurred during the year:

MJ Harris, an independent non-executive director, resigned on 19 February 2020.

Subsequent to year-end, J Naidoo's term as chairman of the board of directors came to an end, effective 30 November 2020 and he elected to not continue for another term. The board has appointed WYN Luhabe as the new chairman, effective 1 December 2020.

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

Directors' shareholding

The directors' shareholding was 306 226 659 (2019: 302 518 994) shares. From 1 October 2020 to the date of approval of the company's consolidated financial statements, there were no dealings by directors in the company's ordinary shares.

Details of individual direct and indirect holdings are disclosed in note 32.4.

Events subsequent to the reporting date

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

Distribution to ordinary shareholders

No dividends have been declared for the year ended 30 September 2020, in order to preserve cash in the current uncertain economic environment.

Going concern

The board of directors evaluated the going concern assumption as at 30 September 2020, taking into account the current financial position and their best estimate of the cash flow forecasts in terms of their current knowledge and expectations of ongoing developments of the COVID-19 pandemic. They considered it to be appropriate in the presentation of these financial statements.

The cash flows and liquidity projections of the group have been prepared for a period exceeding 12 months from the reporting date and included performing sensitivity analyses based on various scenarios. The group has made substantial progress in reducing net debt, strengthening its financial position. Refer to note 22. Covenants were renegotiated to create further flexibility into the future. Refer to note 31.6 for further detail.

Litigation report

The directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or had in the recent past, being at least the previous 12 months, a material effect on the group's financial results. Details of the earn-out dispute with the previous Tekkie Town management is set out in note 30.5.

Corporate governance

The group complies with the Listings Requirements of the JSE and, in all material respects, with the Code of Corporate Practice and Conduct published in the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™)*.

Auditor

The group's auditor, PricewaterhouseCoopers Inc., will continue in office in accordance with section 90(6) of the Companies Act.

Secretary

The company secretary's responsibilities are fulfilled by Pepkor Proprietary Limited. The board is satisfied that the company secretarial role is carried out by persons who have the necessary competence, qualifications and experience, and that there is an arm's-length relationship between the company secretarial function and the board members as required by JSE Listings Requirement 3.84(h).

Closing

The group achieved exceptional results for the 2020 financial year in a challenging and volatile trading environment. The group's defensive discount and value market positioning, disciplined focus on customer needs and low cost of doing business proved resilient in tough operating conditions as evidenced through continued market share gains in most of the retail brands. Pepkor's strong corporate culture and execution ability ensured a swift response to the COVID-19 crises with stores and supply chain reacting very quickly to the challenge. The positive trading performance since the reopening of stores has resulted in unprecedented levels of cash generation. This contributed significantly to the reduction of net debt levels. The Pepkor board and management wish to thank our stakeholders for their continued support.

Business address	**Postal address**
36 Stellenberg Road	PO Box 6100
Parow Industria	Parow East
7493	7501

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2020

Introduction

The audit and risk committee (the audit committee or the committee) is established as a statutory committee in terms of section 94(2) of the Companies Act, No. 71 of 2008, as amended (the Companies Act) 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 operation of the audit committee is guided by a formal detailed Terms of Reference (ToR) that is in line with the Companies Act, the JSE Listings Requirements, the King Report on Corporate Governance™ for South Africa, 2016 (King IV™) which has been approved by the company's board. During the period under review, the committee has discharged its responsibilities as required by the ToR.

The committee is pleased to present its report for the financial period ended 30 September 2020.

Membership

The audit committee consists of three (3) members, who all are independent non-executive directors of the company and are as follows:

Director	Designation	Date appointed	Qualifications
JB Cilliers	Chairman	2018 AGM	BAcc (Cum laude), BAcc Hons, CA(SA)
SH Müller	Member	2018 AGM	BAcc, BAcc (Hons), CA(SA), Sanlam EDP, IoD
F Petersen-Cook	Member	16 April 2018	BBusSc (Act.Sc.), FIFoA, FASSA, PGDip (MgtPrac), CD(SA), IoDSA (Cert.Dir.)

The nomination committee and the board are satisfied that these members have the required knowledge and experience as set out in section 94(5) of the Companies Act and regulation 42 of the Companies Regulations, 2011. The appointment of committee members will be a matter for consideration by shareholders at the forthcoming annual general meeting (AGM).

The chief executive officer (CEO), chief financial officer (CFO), internal and external auditors, specialist members of the group finance function, the financial directors of the main group businesses, and specialists contributing to combined assurance attended the audit committee meetings by invitation. In addition, the CFO of the controlling shareholder also attended the meetings by invitation. The company secretary of the group acted as the secretary to this committee.

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 2020, the committee held four (4) scheduled meetings. This was augmented by several ad hoc interim meetings with limited agendas to consider specific matters. After financial year-end, the committee held a further scheduled meeting on 17 November 2020, which was attended by all members of the committee. The attendance of the committee members for the period under review is recorded below:

Meeting date	Nature of meeting	JB Cilliers	S Müller	F Peterson-Cook
19 November 2019	Scheduled	√	√	√
14 February 2020	Scheduled	√	√	√
21 May 2020	Scheduled	√	√	√
17 September 2020	Scheduled	√	√	√

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

AUDIT COMMITTEE REPORT continued

for the year ended **30 September 2020**

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™:

1. **Oversee integrated reporting** and, in particular:
   - have regard to all known factors and risks that may impact on the integrity of the integrated report;
   - review the annual financial statements, interim reports, preliminary or provisional results announcements, summarised integrated information and prospectuses, trading statements and similar documents;
   - review the principles, policies and practices adopted in the preparation of the financial statements of the group and ensure that the financial statements of the group and any other formal announcements relating to the financial performance comply with all statutory and regulatory requirements as may be required;
   - review the effectiveness of the internal financial controls; and
   - in co-operation with the group social and ethics committee, oversee the disclosure of sustainability issues in the integrated report to ensure that it does not conflict with the financial information.
2. Ensure that a combined **assurance 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 facing the group. The committee shall also monitor the relationship between the external assurance providers and the group.
3. Review the expertise, resources and experience of the company's **finance function**, and satisfy itself annually as to the suitability of the expertise and experience of the **CFO**.
4. Monitor and review the effectiveness of the **internal audit function** and, in particular, review and approve the annual internal audit plan, ensure that the internal audit function is subject to an independent quality review, as and when appropriate, and obtain assurance as to whether the internal audit function has adequate resources, skills and qualifications and appropriate access to information to enable it to perform its function effectively.
5. **Oversee risk management** and, in particular :
   - consider financial reporting risks, internal financial controls, fraud risks as they relate to financial reporting, IT risks as they relate to financial reporting and the risk of cybercrime;
   - oversee the development and regular review of a policy and plan for risk management and, recommending the same to the board for approval, monitor implementation of the policy and plan by means of risk management systems and processes;
   - review the group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial or other matters and receive reports on the investigation of such matters and the appropriate follow-up action; and
   - ensure that risk management assessments are performed on a continuous basis, that management continuously monitors risk and implements appropriate risk responses.
6. **External audit review** and, in particular:
   - assess the suitability of the audit firm and designated individual partner both when they are appointed for the first time and thereafter annually for every re-appointment;
   - consider and make recommendations to the board, to be put to the shareholders for approval at the AGMs 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; and
   - ensure that there is a process for the committee to be informed of any reportable irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor.
7. To perform duties which are attributed to it by its mandate from the board, the Companies Act, the JSE Limited and regulatory requirements, and such other oversight functions as may be determined by the board.

AUDIT COMMITTEE REPORT continued

for the year ended **30 September 2020**

Overview of activities of the audit committee

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

- received and reviewed a quarterly business performance review report presented by the CFO, assessing group and divisional operating performances, key financial indicators pertaining to underlying drivers and considered indications of unmitigated business risk;
- monitored compliance with the group's foreign exchange forward cover policy, and monitored the board approved borrowings limits, and external debt covenants;
- monitored the status quo of completion of tax returns and assessments for the group and its subsidiaries;
- monitored the progress on the introduction of a more simplified group structure through the deregistration of dormant subsidiaries and reduction of intermediate holding companies. This will, inter alia, assist in the reduction of legacy intercompany loans that causes tax inefficiencies;
- considered the effectiveness of internal audit, approved the three-year internal audit plan and monitored the adherence of internal audit to its annual plan;
- received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes;
- reviewed the reports of both internal and external auditors detailing their concerns arising out of their audits and requested appropriate responses from management to ensure that their concerns were being addressed;
- considered the independence and objectivity of the external auditors and ensured that the scope of any additional services provided was not such that they could be seen to have impaired their independence;
- reviewed the governance over group information and communication technology, including IT risk assessments;
- reviewed the governance and ongoing development of the group risk management function, including review of material risks the group is exposed to;
- reviewed the group's dividend policy, and made recommendations to the board in this regard; and
- 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 2020.

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

Reporting

Matters and risk areas pertaining to the 2020 consolidated annual financial statements:

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

- The COVID-19 pandemic, which has created economic uncertainty and weak projected macroeconomic activity. Careful consideration was given to management's budgets and forecasts, given the uncertainty. These forecasts directly impacted the goodwill and intangible asset impairment assessments, IFRS 9 impairment assessments, as well as the impairment of the right-of-use assets. These matters are discussed in further detail below.
- Goodwill and indefinite life intangible asset impairment assessments of all operating segments resulted in impairment of the goodwill and other intangible assets within the clothing and general merchandise segment as result of constrained future growth expectations within the PEP Africa, Speciality and Tekkie Town divisions, as well as the furniture, appliances and electronics segment. The value of the impairment as disclosed in the annual financial statements amounts to R4.8 billion.
- The IFRS 9-based expected credit loss models and the resultant provisioning on instalment sales, credit sales through store cards and loans to customer books, as disclosed in the annual financial statements. The effect of COVID-19 was further noted in the increase in expected credit losses (ECLs) due to uncertainty created by the pandemic.
- The adoption of IFRS 16: *Leases*, in the current financial year, which is disclosed in the accompanying annual financial statements. The group adopted the modified retrospective approach with no restatement of prior year results.
- The impairment assessment relating to the right-of-use assets which are tested for impairment as part of the cash-generating unit (CGU) it relates to (i.e. retail store), when indicators of impairment are identified.
- Provision for taxation, including deferred taxation, the factors impacting the effective rate of taxation, and remedial measures possible within the scope of taxation regulations of the countries within which the group is doing business, which may improve the effective rate. The tax provisions were evaluated based on IFRIC 23: *Uncertainty over Income Tax Treatments*.
- Provision for slow-moving and obsolete stock, as well as ongoing levels of shrinkage.
- Impairment of the asset held for sale to its fair value less cost to sell and other closure cost provisions.
- The scope and extent of other general and specific provisions recognised.
- Considered transactions for related-party disclosure, and the adequacy of the disclosure.

AUDIT COMMITTEE REPORT continued

for the year ended **30 September 2020**

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.

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.

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, were also considered. Based on this assessment, the audit committee is satisfied with the expertise and adequacy of resources within the finance function and the experience of financial staff in this function.

The committee believes the group has appropriate financial reporting procedures and is satisfied that these procedures are operating adequately.

Internal audit

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

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

The internal audit function maintains general conformance to the Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards) and Code of Ethics. An audit quality assessment review (QAR) programme is in place and is maintained by the head of internal audit.

The group internal audit function adopts a risk-based audit approach and is responsible for providing assurance and consulting services on the adequacy of the internal control environment across all the operating and support divisions of the group. The internal audit scope covers the significant financial, regulatory, operational and IT areas of each operating division, and group support function. The internal audit plan has been informed by the group strategies, risk registers, comprehensive risk assessment, compliance requirements and input from management, the audit committee and external audit.

The efforts of internal audit are aligned with those of the external auditor in order to integrate assurance activities for the group. Internal audit regularly interacts with the external auditor on matters such as sharing audit plans, working papers and reports. The external auditor, as permitted, places reliance on internal audit work performed.

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

Financial year overview

During the past financial year, the internal audit function was impacted by the COVID-19 pandemic and resultant lockdown, in line with the rest of the business. Some items on the internal audit plan were reprioritised or cancelled and replaced with new items, to respond to new risks brought on by the pandemic and work-from-home arrangements. The digital

AUDIT COMMITTEE REPORT continued

for the year ended **30 September 2020**

transformation the internal audit function underwent in preceding years enabled internal audit to function remotely during the lockdown, with a relatively minimal impact on coverage and levels of assurance provided.

Internal audit covered key business processes, focusing on known or anticipated areas of business risk. In addition, internal audit completed a number of special projects and consulting engagements relating to key strategic initiatives, emerging risks, new regulation and the impact of the COVID-19 pandemic on ways of working and business risks. This included reviews of Occupational Health and Safety, cybersecurity (penetration tests and work-from-home network security assessments), IFRS 16 property lease audits, an assessment of the impact of the Protection of Personal Information Act (POPIA), corporate governance (King IV™), ethics and fraud prevention, and project governance on the new SAP system implementation.

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 was identified.

Digital transformation and advanced integrated analytics initiative

The internal audit function started with digital transformation more than two years ago, with the implementation of cloud-based internal audit management software. This software platform, coupled with established analytic tools, has enabled the function to be fully digitally enabled since then. New tools and technologies have since been implemented to facilitate planning, communication and collaboration internally and externally. As a result, the function successfully transitioned its workforce to work remotely during the COVID-19 pandemic.

A digital strategy is in place and is continuously refined and improved. In contemplating next-generation internal auditing, principles such as agility, dynamic and real-time assessment of risks and controls, and the effective leveraging of data have been adopted. Advantages of this mindset have been magnified during the novel coronavirus crisis. Annual risk assessments, for instance, have become almost redundant. The process has been structured to be more dynamic and even real-time to respond to risks as quickly as they change, and to provide the assurance needed from internal audit.

The internal audit function has embraced enabling technology, which includes robotic process automation (RPA), integration with geographic information system (GIS) data, and advanced integrated analytics. This drives the delivery of more efficient audits, deeper insights and increased risk assurance. For example, the property lease audit conducted this year incorporated advanced data extraction and RPA technology. The new approach substantially reduced the time to verify property lease information. Through advanced analytics, internal audit identified numerous opportunities in business units to reclaim unrecovered revenue, and through integrated robotics, the function saved more than 80 man-days per annum capturing manual data.

Through the digital transformation initiative, audit teams are moving towards advanced analytics to leverage data-driven insights to deliver more proactive, effective and efficient assurance. Continuous monitoring capabilities are being developed and will be launched within the function as well as the business during 2021.

Performance and independence

The committee is satisfied with the effectiveness and performance of the internal auditors and compliance with their mandate.

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

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

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

The committee is responsible for overseeing risk management in the group. This function includes regular review of:

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

Risk management

The focus of risk management is centred on establishing a common risk management framework based on ISO 31000.

AUDIT COMMITTEE REPORT continued

for the year ended **30 September 2020**

The board, through the audit and risk committee, has prioritised risk management at an operational level to ensure that risk management and control activities are effectively implemented, monitored and reported to the appropriate governance structures.

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

During the past year, the focus remained on refining risk appetite and tolerance thresholds, completing operational risk assessments, developing a robust risk management methodology and nomenclature, evaluating material risks across each risk category, and enhancing risk management assurance.

Risk management oversight, implementation and assurance

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

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

This approach ensures that risk management is continuously being embedded in business activities and decision-making processes at all levels of the group. The Pepkor risk appetite and tolerance thresholds provide a common risk nomenclature and set impact guidelines for each category of risk (Strategic, Operational, Financial, Compliance, Sustainability, Health and Safety, Business Continuity and Disaster Recovery). Executive management are held accountable by the group audit and risk committee for designing, implementing and monitoring the systems and processes underpinning risk management.

Risk management approach

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

Risk retention and transfer strategy

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

Significant events, resilience and future considerations

The COVID-19 pandemic and lockdown initiated by governments across the world caused significant disruption to the supply chain and forced the digitisation of business activities, as well as stakeholder engagement practices across the group. The underlying operations proved to be resilient and resumed operations by adopting new ways of working. We continue to monitor emerging risks and the long-term impact of the pandemic on an industry and country-wide basis.

The consolidation of risk management information across a decentralised group provides valuable insights into the risk management and control activities. Material risks are consolidated and assessed to identify interconnected risks. Risk management is a key agenda point at the divisional executive committee meetings and the increased awareness is translating into more focus around business continuity initiatives. The COVID-19 crisis has further highlighted the importance of good risk management as part of good strategic and business management.

Risk management assurance

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

AUDIT COMMITTEE REPORT continued
for the year ended **30 September 2020**

Regulatory compliance

The group legal and compliance function is responsible for the day-to-day management of regulatory compliance, including coordinating the identification and management of compliance risk and identifying and assessing compliance obligations, including legislative updates and reporting. Each business manages its own specific regulatory compliance risk, with oversight and support from group legal and compliance. Reporting from the various business units on litigation and compliance takes place on at least a quarterly basis and is reported to the audit committee.

The group's compliance officer provides a regular written report to the audit committee as substantive compliance assurance. For the period under review, the regulatory compliance universe for the Pepkor group has remained stable. There have been no material fines or penalties as a result of statutory or regulatory contraventions. Businesses across the group continue to resolve consumer complaints adequately and, where complaints are received from regulators and industry ombudsmen, it is dealt with in a timely manner and with acceptable outcomes.

New regulatory developments are monitored by the group compliance function and presented for discussion and awareness at regular meetings with representation from all the businesses. This includes regulatory developments in countries besides South Africa.

IT governance and risk management

IT governance in the group is premised on decentralised operating divisions being responsible for decisions relating to IT within an agreed strategic framework, supported at group level through enablement and support, the building of capacity where required, and facilitation of initiatives where possible.

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

Pepkor IT, a business unit within the Central Services division, is an enabler of business, providing IT services through a shared services model. Pepkor IT currently manages the IT functions on behalf of the clothing and general merchandise segment of the group only. The furniture, appliances and electronics, building materials, and FinTech segments have their own integrated IT functions serving their respective businesses.

Progress made during the year included the following:

- The group chose COBIT 5 as an overarching framework for IT governance and process maturity, which is at varying levels of implementation within each division.
- IT governance maturity for each division is measured through self-assessments against those COBIT objectives selected for initial focus, combined with a gap analysis to identify the necessary improvements to move to the next level of maturity, and/or increase maturity levels towards the ideal target state. The maturity assessments are reported to the committee for consideration.
- Cybersecurity risk in particular has been reduced through enhanced systems, and no weaknesses have been identified during the latest external penetration tests performed in each division. Further key initiatives are underway across the group to further reduce the risk.
- The process maturity for disaster recovery (DR) processes across the group has shown significant improvement from last year, due to a concerted effort during the year to implement more robust DR processes and systems.

External audit

Audit fees

The committee, in consultation with executive management, has agreed to the audit fee for the 2020 financial year. The fee is considered appropriate for the work that could reasonably have been foreseen at that time. A breakdown of the audit, audit-related and non-audit fees for the financial year is summarised as follows:

Description of service	
Audit services and other assurance-related services (Rm)	**35.3**
Non-audit services (R'000)	**3.9**
Total audit and non-audit services (R'000)	**39.2**

Non-audit services policy

There is a formal policy governing approval of non-audit services provided by the appointed external auditors. The policy outlines the procedure that governs the process whereby the external auditor is considered for the provision of non-audit services, and each engagement for such work is reviewed in accordance with this policy and approval procedures.

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

The committee is satisfied that the non-audit services provided by the external auditors are at a level that has not compromised their independence.

Effectiveness and quality of the external audit process

The committee assesses the effectiveness and quality of the external audit process by considering, among others:

AUDIT COMMITTEE REPORT continued

for the year ended **30 September 2020**

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

The external auditor was given the opportunity to engage at each meeting with the audit committee members without management being present, if deemed necessary. In addition, the committee chairman privately meets with the auditors prior to the final meeting of the committee after year-end to facilitate confidential inputs on audit progress and matters of sensitivity.

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

Independence of the external auditor

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

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

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

Recommendation on appointment for 2020 financial year

The audit committee has satisfied itself that PwC and the designated audit partner remain accredited by the JSE for 2021. The committee is also satisfied with the last inspection findings of the IRBA as presented by PwC.

The committee has further established that no reportable irregularities (as identified in the Auditing Profession Act, 2005) have been identified and reported by the external auditor.

On the basis of the assessment of independence, the assessment of the effectiveness and quality of the external audit process, and the assurances obtained on qualification for appointment, the committee recommends to the board and shareholders that PwC be re-appointed as the independent external auditor, and that, in terms of the regulations and policies governing rotation of designated auditors, Mr Dawid de Jager be appointed as the designated auditor for the 2021 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 report of the directors.

Financial statements

The audit committee has evaluated the consolidated financial statements for the year ended 30 September 2020, 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 AGM.

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 has discharged its duties efficiently and that it has functioned in accordance with its ToR for the 2020 financial year.

All members of the audit committee meet the independence requirements.

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 and risk committee chairman
15 December 2020

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED

FOR THE YEAR ENDED 30 SEPTEMBER 2020

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 2020, 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 23 to 130 comprise:

- the consolidated statement of financial position and separate statement of financial position as at 30 September 2020;
- the consolidated income statement and separate income statement for the year then ended;
- the consolidated statement of comprehensive income and separate statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity and separate statement of changes in equity for the year then ended;
- the consolidated statement of cash flows and separate statement 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

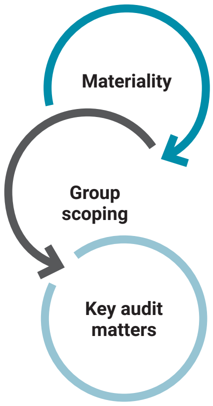
We are independent of the group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED continued

for the year ended **30 September 2020**

Our audit approach

Overview



Overall group materiality

- Overall group materiality: R179 million, which represents 5% of consolidated profit before taxation from continuing operations adjusted for significant one-off impairment charges.

Group audit scope

- Full scope audits were performed for all individually significant components;
- Audits or specified procedures were performed for components that are financially significant in aggregate with other components; and
- Analytical procedures were performed over the remaining non-significant components.

Key audit matters

- Impairment assessments in respect of goodwill, indefinite life intangible assets and investments in subsidiary companies
- Tax liability for uncertain tax obligations
- Right-of-use asset impairment assessments

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	R179 million
How we determined it	5% of consolidated profit before taxation from continuing operations adjusted for significant one-off impairment charges.
Rationale for the materiality benchmark applied	We chose consolidated profit before taxation from continuing operations as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users and is a generally accepted benchmark. Consolidated profit before taxation from continuing operations was adjusted to exclude the impact of one-off impairment charges as disclosed in note 4.1 (Capital items, From continuing operations, Impairment) to the consolidated financial statements. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED continued

for the year ended **30 September 2020**

How we tailored our group audit scope

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

Our scoping assessment included consideration of the financial significance of the group's components as well as the sufficiency of work planned to be performed over material consolidated financial statement line items. We identified two 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 several other components in the scope of our group audit. For these components, we performed a combination of full scope audits, audit of balances and/or classes of transactions, analytical review procedures and specified audit procedures. The remainder of the components were insignificant to the group, individually and in aggregate.

The above, together with additional procedures performed at the group level, including substantive procedures over the consolidation process, gave us sufficient and appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.

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

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

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED continued

for the year ended **30 September 2020**

Key audit matter	How our audit addressed the key audit matter
Impairment assessments in respect of goodwill, indefinite life intangible assets and investments in subsidiary companies *This key audit matter relates to both the consolidated and separate financial statements.* The group's net assets include a significant amount of goodwill amounting to R37.3 billion, and trade and brand names amounting to R17.6 billion classified as indefinite life intangible assets, allocated to groups of cash-generating units (CGUs). Please refer to note 9 (Goodwill) and note 10 (Intangible assets) to the consolidated financial statements. The company holds investments in subsidiary companies amounting to R59.6 billion (refer to note 5 to the separate financial statements). Management performs annual impairment tests to assess the recoverability of the carrying value of goodwill and indefinite life intangible assets. The recoverable amount of the CGUs to which goodwill has been allocated is based on fair value less cost of disposal calculations, determined using discounted cash flow models. Based on their impairment assessments and calculations, management recognised impairment losses of R4.7 billion against goodwill relating to the *clothing and general merchandise* and R103 million against indefinite life intangible assets relating to the *furniture, appliances and electronics* groups of CGUs. Management recognised an impairment of R8.6 billion in the separate financial statements pertaining to investment in subsidiary companies. No further impairment losses were recognised to goodwill and indefinite life intangible assets in relation to the other groups of CGUs. We considered this area to be a matter of most significance to our current year audit due to the following: ▶ the significant judgement and key assumptions applied by management in performing the impairment assessments, which included the discount rate, long-term growth rate, medium-term revenue growth rate and future cash flows; and ▶ the magnitude of the related goodwill and indefinite life intangible asset balances.	Our audit procedures included testing of the principles, integrity and mathematical accuracy of the group's discounted cash flow models. The details of these audit procedures are listed below: ▶ Through inspection of relevant documentation and discussions, we assessed management's judgements relating to the allocation of goodwill and indefinite life intangible assets to the lowest level at which it is being monitored. ▶ We utilised our internal valuations expertise to test the principles of management's calculation for each model. We challenged key inputs in the calculations which included the discount rate, long-term growth rate and short- to medium-term revenue growth rate by comparing them to approved business plans and independent market and economic data. We noted no material differences and, based on our work performed, accepted the key inputs used by management. ▶ In assessing management's forecasts, we evaluated sales and margin forecasts by comparing it to the past performance of each of the groups of CGUs. We considered the extent and appropriateness of the impact of the COVID-19 pandemic and lockdown restrictions on the market-related assumptions through discussions with management and our valuation specialists. We further assessed management's forecasts by testing the most sensitive assumptions (assumptions to which the outcome of the impairment test could have the most significant effect on the determination of the recoverable amount) and found it to be within acceptable ranges. ▶ We performed independent sensitivity calculations on the impairment assessments where no impairments were recognised, to assess the degree by which the key assumptions needed to change in order to trigger an impairment. The results of our sensitivity analyses were consistent with management's conclusions. Investments in subsidiary companies: In addition to the work described above, we compared the carrying values of the investments in the subsidiary companies to the respective recoverable amounts of the underlying subsidiaries, as tested by us as part of the impairment assessment of the relevant groups of CGUs.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED continued

for the year ended **30 September 2020**

Key audit matter	How our audit addressed the key audit matter
Tax liability for uncertain tax obligations *This key audit matter relates to the consolidated financial statements only.* The group operates across numerous jurisdictions which have differing tax legislation. Determination of the amounts which should be recognised for uncertain tax liabilities is subject to management's judgement, including consideration of regulations by various tax authorities. Taxation positions are provided for based on either the most probable outcome method or the expected value of the taxation position for each type of taxation exposure. Determining the tax liability amount that should be recognised for uncertain tax positions for the group was considered to be a matter of most significance to our current year audit due to the significant judgement applied by management in the application of existing tax laws in each jurisdiction and in accordance with relevant tax regulations. Tax liabilities for uncertain tax obligations are provided for in current income tax liabilities as disclosed in the consolidated statement of financial position. Refer to 'Income taxation provisions' accounting policy, included in the significant judgements and estimates note to the consolidated financial statements.	Making use of our tax expertise, we performed the following procedures: ▶ We challenged management's judgement of the most probable outcome by considering alternative views and probability factors in terms of assessing tax risks, legislative developments, tax regulations, contingencies and the recognition thereof. ▶ We performed sensitivity analyses around the key assumptions, such as probability, used in management's assessments and the calculation of the tax liability. ▶ Making use of the information obtained as referred to above, we independently calculated an expected range in respect of the group's tax liability. Based on the results of our evaluation, we accepted management's estimation, taking into account the significant judgement involved in management's assessment.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED continued

for the year ended **30 September 2020**

Key audit matter	How our audit addressed the key audit matter
Right-of-use asset impairment assessments *This key audit matter relates to the consolidated financial statements only.* The group adopted IFRS 16: *Leases* during the current reporting period commencing 1 October 2019, using a modified retrospective approach with no restatement of prior period reported results. The effect of adopting IFRS 16 resulted in recognition of right-of-use assets of R12.7 billion on date of transition, and R10.8 billion as at 30 September 2020. Right-of-use assets are tested for impairment as part of the CGU it relates to (i.e. retail store) when indicators of impairment are identified and periodically reduced by the impairment losses, if required. The recoverable amount of the CGU is determined by way of a value-in-use calculation, determined using discounted cash flow models. Based on their impairment assessments and calculations, management recognised impairment losses of R235 million from continuing operations against right-of-use assets. Refer to the accounting policies note, note 4.1 (Capital items, From continuing operations, Impairment) and note 12 (Right-of-use assets) to the consolidated financial statements. We considered this area to be a matter of most significance to our current year audit due to the following: ▶ the significant judgement and key assumptions applied by management in performing the impairment assessments, which included consideration of impairment trigger, discount rate and medium-term growth rates; and ▶ the magnitude of the related right-of-use asset balances.	Our audit procedures included testing of the principles, integrity and mathematical accuracy of the group's discounted cash flow models. The details of these audit procedures are listed below: ▶ We assessed the group's policy, which sets out the conditions considered by management as impairment indicators, against the requirements of International Accounting Standard (IAS) 36: *Impairment of Assets*. The purpose of this assessment was to evaluate the impairment indicators for the CGUs (e.g. loss-making retail store) to be tested for impairment and the application of the group's policy on the portfolio of retail stores. ▶ We challenged key inputs in the calculations which included the discount rate and short- to medium-term growth rate over the period of the lease by comparing them to approved business plans and independent market data. We noted no material differences. ▶ We utilised our internal valuations expertise to assess the reasonability of the discount rate by comparing this to independent market data and inspection of the valuation methodologies used by management. Based on our work performed, we noted that the discount rate fell within an acceptable range and accepted the valuation methodology applied. ▶ We assessed the completeness and accuracy of disclosures with reference to the requirements of IFRS 16. No material differences were noted.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled '*Pepkor Holdings Limited consolidated and separate annual financial statements for the year ended 30 September 2020*', which includes the report of the directors, the audit committee report and the secretary certification as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled '*Pepkor Holdings Limited integrated report 2020*', which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not 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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED continued

for the year ended **30 September 2020**

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.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEPKOR HOLDINGS LIMITED continued

for the year ended **30 September 2020**

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 three years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: D de Jager
Registered auditor
Stellenbosch
15 December 2020

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended **30 September 2020**

Consolidated income statement

	Notes	Year ended 30 September 2020 Rm	Year ended 30 September 2019[1] Restated[2] Rm
Revenue	2	**63 679**	**61 454**
Cost of sales		**(41 237)**	**(39 055)**
Gross profit		**22 442**	**22 399**
Operating income	3.9	**703**	**887**
Operating expenses[2]	3	**(11 323)**	**(14 421)**
Debtors' costs	3.7	**(1 670)**	**(1 126)**
Operating profit before depreciation, amortisation and capital items		**10 152**	**7 739**
Depreciation and amortisation		**(3 628)**	**(1 195)**
Operating profit before capital items		**6 524**	**6 544**
Capital items	4	**(5 140)**	**(60)**
Operating profit		**1 384**	**6 484**
Finance costs	5	**(3 138)**	**(1 704)**
Finance income	5	**219**	**129**
(Loss)/profit before associated income		**(1 535)**	**4 909**
Share of net profit of associate	13	**2**	**–**
(Loss)/profit before taxation		**(1 533)**	**4 909**
Taxation[2]	6	**(1 293)**	**(1 674)**
(Loss)/profit from continuing operations		**(2 826)**	**3 235**
Loss from discontinued operations	7	**(208)**	**(1 074)**
(Loss)/profit for the year		**(3 034)**	**2 161**
(Loss)/profit attributable to:			
Owners of the parent		**(3 034)**	**2 160**
Non-controlling interests		**–**	**1**
(Loss)/profit for the year		**(3 034)**	**2 161**
Earnings per share (cents)			
Total basic earnings per share from continuing operations	8	**(80.3)**	**93.8**
Total basic earnings per share from discontinued operations	8	**(5.9)**	**(31.1)**
Total basic earnings per share	8	**(86.2)**	**62.6**
Total diluted earnings per share from continuing operations	8	**(79.4)**	**93.2**
Total diluted earnings per share from discontinued operations	8	**(5.9)**	**(30.9)**
Total diluted earnings per share from operations	8	**(85.3)**	**62.2**

[1] *Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.*

[2] *Prior year comparatives have been restated due to the adoption of IFRIC 23. Refer to adoption of new or revised standards for further detail.*

CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

Consolidated statement of comprehensive income

	Notes	Year ended 30 September 2020 Rm	Year ended 30 September 2019[1] Rm
(Loss)/profit from continuing operations		(2 826)	3 235
Loss from discontinued operations		(208)	(1 074)
(Loss)/profit for the year		(3 034)	2 161
Other comprehensive (OCI) income/(loss) from continuing operations			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(112)	(69)
Net fair value gain on cash flow hedges	31.3	1 231	427
Net fair value loss on cash flow hedges transferred to inventory	31.3	(928)	(532)
Deferred taxation on cash flow hedges		(39)	37
Exchange differences from translation of net investment in foreign operations		–	12
Taxation on exchange differences from translation of net investment in foreign operations		–	(5)
Total other comprehensive income/(loss) for the year, net of taxation		152	(130)
Other comprehensive income/(loss) from discontinued operations			
Exchange differences on translation of foreign operations		23	(217)
Other comprehensive profit/(loss) for the year, net of taxation		23	(217)
Total comprehensive (loss)/income for the year		(2 859)	1 814
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(2 859)	1 813
Non-controlling interests		–	1
Total comprehensive (loss)/income for the year		(2 859)	1 814
Total comprehensive (loss)/income for the year attributable to owners of the parent arises from:			
Continuing operations		(2 674)	3 104
Discontinued operations		(185)	(1 291)
Total comprehensive (loss)/income for the year		(2 859)	1 813

[1] Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.

CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

Consolidated statement of financial position

	Notes	30 September 2020 Rm	30 September 2019 Restated[1] Rm
ASSETS			
Non-current assets			
Goodwill	9	**37 280**	**41 865**
Intangible assets	10	**18 028**	**17 979**
Property, plant and equipment	11	**5 176**	**5 466**
Right-of-use assets	12	**10 770**	**–**
Interest in associate	13	**52**	**50**
Investments and loans	14	**108**	**174**
Loans to customers	17	**81**	**154**
Deferred taxation assets	15	**2 468**	**1 242**
		73 963	**66 930**
Current assets			
Trade and other receivables	16	**6 157**	**6 809**
Loans to customers	17	**1 335**	**1 669**
Insurance and reinsurance receivables	19.2	**9**	**–**
Inventories	18	**10 729**	**13 825**
Current income taxation assets		**284**	**363**
Cash and cash equivalents		**5 241**	**3 925**
		23 755	**26 591**
Assets classified as held for sale	20	**4 060**	**–**
		27 815	**26 591**
Total assets		**101 778**	**93 521**
EQUITY AND LIABILITIES			
Total equity attributable to equity holders of the parent		**53 207**	**56 592**
Non-controlling interests		**9**	**6**
Total equity		**53 216**	**56 598**
Non-current liabilities			
Interest-bearing loans and borrowings	22	**12 520**	**15 508**
Lease liabilities	23	**13 021**	**–**
Employee benefits	24	**86**	**89**
Deferred taxation liabilities	15	**3 933**	**4 037**
Provisions[1]	25	**91**	**91**
Trade and other payables	26	**–**	**461**
		29 651	**20 186**
Current liabilities			
Trade and other payables	26	**10 754**	**11 792**
Insurance and reinsurance payables	19.3	**49**	**–**
Employee benefits	24	**794**	**942**
Current income taxation liabilities[1]		**2 018**	**1 480**
Provisions	25	**175**	**173**
Interest-bearing loans and borrowings	22	**–**	**1 510**
Financial guarantees	31.6	**–**	**491**
Lease liabilities	23	**2 064**	**–**
Bank overdrafts and short-term facilities		**241**	**347**
		16 095	**16 735**
Liabilities associated directly with non-current assets classified as held for sale	20	**2 816**	**2**
		18 911	**16 737**
Total equity and liabilities		**101 778**	**93 521**

[1] *Prior year comparatives have been restated due to the adoption of IFRIC 23. Refer to adoption of new or revised standards for further detail.*

CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

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 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 2018		64 690	2 668	(546)	239	(16)	(11 755)	270	76	55 626	3	55 629
Total comprehensive income/(loss) for the year		–	2 160	(279)	–	–	–	(68)	–	1 813	1	1 814
Profit for the year		–	2 160	–	–	–	–	–	–	2 160	1	2 161
Recognised in other comprehensive income												
Foreign exchange movement from translation of net investment in foreign operations		–	–	12	–	–	–	–	–	12	–	12
Taxation effect of foreign exchange differences relating to net investment		–	–	(5)	–	–	–	–	–	(5)	–	(5)
Foreign exchange differences on translation of foreign operations		–	–	(286)	–	–	–	–	–	(286)	–	(286)
Net fair value gain on cash flow hedges	31.3	–	–	–	–	–	–	427	–	427	–	427
Net fair value gain on cash flow hedges transferred to inventory	31.3	–	–	–	–	–	–	(532)	–	(532)	–	(532)
Taxation effect on gain in cash flow hedges		–	–	–	–	–	–	37	–	37	–	37
Dividends paid		–	(959)	–	–	–	–	–	–	(959)	(3)	(962)
Shares bought from non-controlling interests		–	–	–	–	–	–	–	–	–	5	5
Share-based payment expense		–	–	–	108	–	–	–	–	108	–	108
Transfer due to share scheme reversal[1]		–	213	–	(204)		–	–	–	9	–	9
Transactions with non-controlling interests		–	–	–	–	(5)	–	–	–	(5)	–	(5)
Balance at 30 September 2019		64 690	4 082	(825)	143	(21)	(11 755)	202	76	56 592	6	56 598
Effect of adopting IFRS 16: *Leases*, net of taxation[2]		–	(2 640)	–	–	–	–	–	–	(2 640)	–	(2 640)
Restated balance at 30 September 2019		64 690	1 442	(825)	143	(21)	(11 755)	202	76	53 952	6	53 958
Transfer between reserves relating to internal restructures		–	54	–	–	22	–	–	(76)	–	–	–
Total comprehensive loss/(income) for the year		–	(3 034)	(89)	–	–	–	264	–	(2 859)	–	(2 859)
Loss for the year		–	(3 034)	–	–	–	–	–	–	(3 034)	–	(3 034)
Recognised in other comprehensive income		–	–	(89)	–	–	–	264	–	175	–	175
Scrip dividend/dividends paid		646	(721)	–	–	–	–	–	–	(75)	(4)	(79)
Share issued through accelerated book-build		1 898	–	–	–	–	–	–	–	1 898	–	1 898
Share-based payment expense		–	–	–	126	–	–	–	–	126	–	126
Release of FCTR reserve on disposal of discontinued operations	7.3	–	–	165	–	–	–	–	–	165	–	165
Transactions with non-controlling interests		–	–	–	–	–	–	–	–	–	7	7
Balance at 30 September 2020		67 234	(2 259)	(749)	269	1	(11 755)	466	–	53 207	9	53 216

[1] *The cumulative reserve of R204 million at 30 September 2018, including the settlement payable of R7 million, has been transferred to retained earnings as the share scheme was determined unlikely to vest. Refer to note 27.*

[2] *The group applied IFRS 16: Leases using the modified retrospective approach, by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity on date of initial application on 1 October 2019 (refer to: adoption of new or revised standards).*

CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

Consolidated statement of cash flows

	Notes	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Restated[1] Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	28	**12 912**	**4 086**
Dividends paid		**(79)**	**(962)**
Finance cost paid		**(3 066)**	**(1 599)**
Finance income received		**213**	**147**
Taxation paid		**(1 313)**	**(1 116)**
Net cash inflow from operating activities		**8 667**	**556**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	11	**(1 456)**	**(1 572)**
Additions to intangible assets	10	**(237)**	**(145)**
Proceeds on disposal of property, plant and equipment and intangible assets		**20**	**57**
Claw back on acquisition of business		**52**	**26**
Acquisition of business, net of cash and cash equivalents acquired	29	**(86)**	**–**
Decrease in related-party loan and receivables		**–**	**56**
Financial guarantee settled		**(519)**	**–**
Decrease in short-term investments and loans		**39**	**52**
Increase in investments and loans in equity accounted companies		**–**	**(50)**
Net cash outflow from investing activities		**(2 187)**	**(1 576)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issued through accelerated book-build		**1 898**	**–**
Transactions with non-controlling interests		**20**	**–**
Amounts received/(amounts paid) on bank overdrafts and short-term facilities		**72**	**(21)**
Amounts paid on long-term interest-bearing loans and borrowings	22.4	**(9 017)**	**(173)**
Amounts received on long-term interest-bearing loans and borrowings	22.4	**6 020**	**–**
Amounts paid on short-term interest-bearing loans and borrowings	22.4	**(1 509)**	**–**
Amounts received on short-term interest-bearing loans and borrowings		**–**	**1 500**
Principle lease liability repayments		**(2 033)**	**–**
Net cash (outflow)/inflow from financing activities		**(4 549)**	**1 306**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1 931**	**286**
Effects of exchange rate translations on cash and cash equivalents		**14**	**(196)**
Cash and cash equivalents at beginning of the year		**3 925**	**3 835**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**5 870**	**3 925**

[1] *Prior year comparatives have been restated due to the adoption of IFRIC 23. Refer to adoption of new or revised standards for further detail.*

SUMMARY OF ACCOUNTING POLICIES

for the year ended **30 September 2020**

Statement of compliance

The consolidated and separate annual financial statements have been prepared in accordance with 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 and the JSE Listings and Debt Listings Requirements.

Basis of preparation

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

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

The financial statements are prepared under the historical cost convention adjusted for the effects of inflation where entities operate in hyperinflationary economies and for the revaluation of certain financial instruments to fair value. During the year, the Angolan economy was considered in accordance with the accounting principles set out in IAS 29: *Financial Reporting in Hyperinflationary Economies*, and has been considered to be out of hyperinflation for the 2020 and 2019 financial years. The Zimbabwean economy was deemed to be in hyperinflation for the 2020 and 2019 financial years, but the effect thereof has been assessed to be immaterial for the group.

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* in the prior financial year, 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 continued

for the year ended **30 September 2020**

Basis of preparation – common control transactions

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

The acquisition by the group of Pepkor Holdco group, SA Poco Retail Proprietary Limited, JD Group Proprietary Limited and Tekkie Town Proprietary Limited from Steinhoff in 2017 meets the definition of a common control transaction as all the combining entities are ultimately controlled by the same party, being Steinhoff, before and after the combination, and that control is not transitory.

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

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

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

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

The calculation of the weighted average number of shares weighed the shares issued in terms of IAS 33: *Earnings per share*.

Basis of consolidation

Subsidiaries

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

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

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

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

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

Contingent consideration

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

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

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

Associate companies

The company's investments in the ordinary shares of its associates are carried at cost less impairment losses. Purchases and sales of these investments are recognised on the trade date at cost, including transaction costs.

Associates are those entities over which the group exercises significant influence but not control. Significant influence is presumed to exist when the group holds between 20% and 50% of the voting rights of another entity. The group's investments in associates are accounted for using the equity

SUMMARY OF ACCOUNTING POLICIES continued

for the year ended **30 September 2020**

method and are initially recognised at cost. Investments in associates include goodwill identified on acquisition, net of any accumulated impairment losses.

The group's share of post-acquisition profit or loss and its share of post-acquisition movements in OCI are recognised in the statement of comprehensive income and in OCI respectively, with a corresponding adjustment to the carrying amount of the investment, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses in an associate equals or exceeds its investment in the associate, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate consideration transferred, non-controlling interest in the acquisition and in business combinations achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. An impairment loss in respect of goodwill is not reversed. Gains on bargain purchases arising on acquisition are recognised directly as capital items in profit or loss. Refer to significant judgements and estimates note, capital items (use of adjusted measures), for the treatment of the impairment.

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

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

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

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

Intangible assets

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

Computer software

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

Research and development

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

Subsequent expenditure

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

Amortisation

Amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the assets' estimated useful lives, unless such lives are indefinite. An intangible asset is regarded as having an indefinite useful life when, based on analysis of all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net

SUMMARY OF ACCOUNTING POLICIES continued

for the year ended **30 September 2020**

cash inflows. Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortised but are tested annually for impairment, or more often when there is an indication that the asset may be impaired.

Other intangible assets are amortised from the date they are available for use.

Trade and brand names	Indefinite
Software and enterprise resource planning (ERP) systems	1 – 8 years

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

Leases

Where the group is the lessee (until 30 September 2019)

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Certain premises and other assets are leased. Payments made in respect of operating leases with a fixed escalation clause are charged to the statement of comprehensive income on a straight-line basis over the lease term. All other lease payments are expensed as they become due. Incentives paid to enter into a lease agreement are expensed in the statement of comprehensive income as operating lease expense over the lease term. Minimum rentals due for the non-cancellable periods after year-end are reflected under commitments. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense and any unamortised portion of the fixed escalation lease accrual is recognised in the statement of comprehensive income in the period in which termination takes place.

Where the group is the lessee (from 1 October 2019)

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

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

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

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

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

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

Lease liabilities are subsequently measured at amortised cost using the effective interest method and reduced by future lease payments net of interest charged. It is remeasured, with a corresponding adjustment to right-of-use assets, when there

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

Where the group is the lessor

Portions of owner-occupied properties and leased properties are leased or subleased under operating leases. The owner-occupied properties are included in property, plant and equipment in the statement of financial position. Rental income in respect of operating leases with a fixed escalation clause is recognised on a straight-line basis over the lease term. Incentives received to enter into a lease agreement are released to the statement of comprehensive income as operating lease income over the lease term. All other rental income is recognised as it becomes due. When an operating lease is terminated before the lease period has expired, any payment received from the lessee by way of penalty is recognised as income and any unamortised portion of the fixed escalation lease accrual is recognised in the statement of comprehensive income in the period in which termination takes place. The group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting IFRS 16: *Leases*.

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 (until 30 September 2019)

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.

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

Until 30 September 2019: 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.

Effect of hyperinflation

In the current year, PEP Africa's Angolan operations were assessed in accordance with the criteria stipulated in IAS 29: *Financial Reporting in Hyperinflationary Economies* and, based on the factors indicated under judgements, concluded that the country was no longer considered in a hyperinflationary economy. During the prior year, PEP Africa's operations in Angola were reported in accordance with IAS 29: *Financial Reporting in Hyperinflationary Economies* following its classification as a hyperinflationary economy. Contributing less than 1% to group revenue, the classification did not significantly affect Pepkor's results in the prior year, increasing operating profit by R35 million.

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Taxation

Current taxation

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

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

Deferred taxation

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

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

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

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

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

Inventories

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

The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of inventory is the net of: invoice price of merchandise, insurance, freight; customs duties, an appropriate allocation of distribution costs between distribution centres and stores, trade discounts, advertising and other rebates and settlement discounts.

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

Insurance receivables and payables

Classification

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

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

Initial recognition and measurement

Insurance receivables

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

Insurance payables

Insurance contract liabilities include the outstanding claims provision and the provision for unearned premiums. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the

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for the year ended **30 September 2020**

reporting date, whether reported or not, together with related claims handling costs. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision is recognised for equalisation or catastrophe reserves. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

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

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. These assets may be a component of an entity, a disposal group or an individual non-current asset. On initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of its carrying amount and fair value less costs to sell.

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operation, or a subsidiary acquired exclusively with a view to resell. Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale.

Share capital

Dividends

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

Share-based payment transactions

Equity settled

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

Group share-based payment transactions

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

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

A recharge arrangement exists whereby the subsidiary is required to fund the difference between the exercise price on the share rights 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 as follows on initial recognition:

- 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. At each reporting date, the unvested rights are adjusted by the number of rights forfeited during the year, to reflect the actual number of instruments outstanding. Where the settlement provision recognised is greater than the initial capital contribution recognised by the subsidiary in respect of the share-based

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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.

If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties

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

Financial guarantees

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified party fails to make a payment when it becomes due, in accordance with the terms of a debt instrument. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with the expected credit loss model under IFRS 9: *Financial Instruments* and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15: *Revenue from Contracts with Customers*. Intragroup financial guarantees are eliminated on consolidation.

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 (until 30 September 2019)

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 on consolidation. Transactions in currencies other than the functional currency of entities are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates ruling on the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

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

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

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

Hyperinflation

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

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

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

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

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

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

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

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

Net investment in foreign operations

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

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

Financial instruments

Initial recognition

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

Financial instruments are initially recognised at fair value, with the exception of trade debtors where there is no significant financing component, which is initially recognised at transaction price. Financial instruments include transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability, except for those classified as fair value through profit or loss, where the transaction costs are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'at fair value through other comprehensive income' (FVTOCI) and 'loans and receivables at amortised cost'. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortised cost.

Classification and measurement

Financial assets at FVTPL

The group classifies financial assets at FVTPL when the assets are held within a different business model other than 'hold to collect', unless the group has elected to classify an equity instrument at FVTOCI. Financial assets where contractual cash flows are not solely payments of principal and interest are also recognised as FVTPL irrespective of business model. All derivative financial instruments fall into this category, except those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets at FYTOCI

The group classifies financial assets at FVTOCI where management has made an irrevocable election at initial recognition to present fair value gains and losses on equity instruments not held for trading in OCI.

Fair value gains and losses on equity investments carried at FVTOCI are recognised in OCI with no subsequent reclassification/recycling of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from these investments continue to be recognised in profit or loss as revenue when the group's right to receive payments is established.

Financial assets at amortised cost

The group classifies financial assets as at amortised cost only if the asset is held within a business model with the objective of collecting the contractual cash flows, and the contractual terms give rise to fixed or determinable cash flow that are solely payments of principal and interest on the principal amount outstanding.

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Financial assets are carried at amortised cost, with interest recognised in profit or loss for the period, using the effective interest method.

Current and non-current financial assets

Current assets have maturity terms of less than 12 months, except for instalment sale receivables. Instalment sale receivables, which are included in trade and other receivables, have maturity terms of between one and five years, but are classified as current as they form part of the normal operating cycle.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either 'held for trading' or where management has designated it as at FVTPL. (Management has not designated financial liabilities at FVTPL.)

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Financial liabilities that are not classified as at FVTPL are classified as other financial liabilities and are carried at amortised cost, with interest recognised in profit or loss for the period, using the effective interest method.

Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year, which are unpaid. The amounts are unsecured and are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derecognition

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

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

Impairment of financial assets

Impairment of loans measured at amortised cost are measured using the ECL model under IFRS 9. The ECL model factors in information regarding past events, current conditions, supportable forecasts and economic conditions that affect the expected collectability of future cash flows at reporting date. The estimation of ECL takes into account the time value of money.

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

Cash and cash equivalents

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

Hedge accounting

The group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges in foreign exchange risk on firm commitments are accounted for as cash flow hedges. These derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period.

At inception of the hedge relationship, the group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The group documents its risk management objective and strategy for undertaking its hedge transactions.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss through cost of sales.

When forward contracts are used to hedge forecast transactions, the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. In accordance with the provisions of IFRS 9, the application of hedge accounting requires management to adjust the cost of inventory to incorporate the impact of forward exchange hedging contracts. Gains or losses

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relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item (forward points) is recognised within operating expenses.

Amounts accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss, and it is included in the same line of the income statement as the recognised hedged item.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Revenue recognition

Revenue from contracts with customers

Revenue is recognised when the group satisfies performance obligations and transfers control of goods or services to its customers at an amount that reflects the consideration the group expects to be entitled to in exchange for these goods or services, allocated to each specific performance obligation. Revenue is measured at the fair value of consideration received or receivable.

The main categories of revenue and the basis of recognition are as follows:

Sale of goods and related revenue – retail sales

Revenue from the sale of goods from ordinary group operating activities, which comprise clothing and general merchandise, furniture, appliances and electronics and building materials, is measured net of value-added taxation, rebates and discounts and after eliminating sales within the group.

Revenue from the sale of goods is recognised at a point in time when control of goods is transferred to the customer at the point of sale. For goods that are due for delivery to the customer, the sale is recognised on delivery, as this is deemed to be when the performance indicators are met and control is transferred to the customer.

Payment is usually received via cash, debit card or credit card. Related card transaction costs are recognised in the statement of comprehensive income as other expenses. When goods are sold under instalment sale agreements in the furniture, appliances and electronics segment, the present value of the instalment sale payments is recognised as a receivable using the effective interest rate computed at initial recognition over the one- to five-year term of the agreement.

The group earns ongoing revenue on starter packs that have been sold in stores. The recognition of ongoing revenue under IFRS 15 requires a certain level of judgement (refer to significant accounting judgements below). The group's policy is only to recognise the variable consideration as revenue as and when it is received, because it is only at this point that it is highly probable that a significant reversal in revenue for that contract will not occur in the future.

Deposits received from customers are recognised as deferred revenue. These balances are considered contract liabilities, as they are received prior to the satisfaction of performance obligations.

Sale of goods and related revenue – right of return

The group estimates variable consideration to be included in the transaction price for the sale of goods where customers are entitled to a right of return within a specified time frame. The group uses projection methods to forecast sales returns that are based on historical return data. Any significant changes in experience as compared to historical return patterns will impact the expected return percentages estimated by the group. Estimated return percentages are updated regularly and the refund liability adjusted accordingly.

Sale of goods and related revenue – lay-by sales

Lay-by revenue is recognised on the initiation of the contract with the customer for the clothing and general merchandise segment, as this is deemed to be when control of the goods passes to the customer. The group recognises revenue at the amount of consideration to which they expect to be entitled and for which a significant reversal of revenue is not considered probable. A contract liability for the expected possible unsuccessful lay-bys is recognised as an adjustment to revenue as well as an asset (with a corresponding adjustment to cost of sales) representing its right to recover the products from the customer. The group uses projection methods to forecast unsuccessful lay-bys that are based on historical data. Any significant changes in experience as compared to historical patterns will impact the percentages estimated by the group. Estimated percentages are updated regularly and the contract liability for unsuccessful lay-bys is adjusted accordingly.

Lay-by revenue is recognised when the final payment for the goods is received from the customer for the furniture, appliances and electronics segment, as this is deemed to be when control of the goods passes to the customer and all performance obligations are met. Proceeds from these lay-by sales are recognised as contract liabilities, and the revenue is deferred until all the performance obligations are met.

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Sale of goods and related revenue – gift vouchers

Prepaid gift cards provide rights to customers that are deemed to be accounted for as separate performance obligations. The consideration allocated to unredeemed gift cards is measured by reference to its stand-alone selling prices adjusted for an expected forfeiture rate. The group applies projection methods in its estimation of forfeiture rates by using customers' historical redemption patterns as the main input.

Service fee income

Service fee income is recognised on a monthly basis when charged to a customer's account as the services are provided by the group.

Insurance revenue

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

Other revenue – collection revenue

Service fee revenue is earned based on a fixed percentage of outstanding debtor balances collected on behalf of third parties. Performance obligations are deemed to be met once the group recovers the outstanding balance from a debtor or a portion thereof, at which point the revenue is recognised.

Financial services revenue – effective interest income

Interest income earned is recognised on a time-proportion basis. The group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired, the group calculates interest income by applying the effective interest rate to the net amortised cost (gross carrying amount less the allowance for expected credit losses) of the financial asset. If the financial asset is no longer deemed to be credit-impaired, the group reverts to calculating interest income on a gross basis.

Other operating income

Other operating income is recognised as follows:

Income earned from suppliers

The group enters into various agreements with suppliers, which provide for various purchase rebates and other income. Rebates are recognised as part of the cost of merchandise sold when they are closely related to the purchase of inventory. Where the income earned relates to inventories that are held by the group at year-end, the income is included within the cost of those inventories, and recognised in cost of sales when the inventory is sold.

Other income earned from suppliers is recognised in other income when services are provided to suppliers that are not closely related to the purchase of inventory and when the group can reasonably estimate the fair value of the service. Management uses judgement in determining whether the services provided to suppliers are sufficiently separable from the purchase of inventory, by determining if the supplier could have entered into an agreement with a party, other than a purchaser of its inventory, in order to receive those services.

Income earned from suppliers that is in substance, a cost recovery is offset against the operating expense to which the recovery relates.

Commission received

The group acts as an agent for the services and products provided by a variety of third parties to the group's customers through its retail footprint. The agent's commissions received by the businesses, other than the FinTech segment, from the third parties for the services are recognised as other income. Commissions relating to third-party products, money transfers and bill payments are recognised at the point in time when the underlying third-party payment takes place, as control is transferred to the customer and all performance obligations are deemed to be met.

Dividend income

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

Operating lease income

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

Discontinued operation

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred taxation assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases

SUMMARY OF ACCOUNTING POLICIES continued

for the year ended **30 September 2020**

in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

Government grants

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

Segmental reporting

An operating segment is a component of the group that engages in business activities that may earn revenues and incur expenses and whose operating results are regularly reviewed by the group's chief operating decision-maker (CODM, which represent the 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; and FinTech.

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

Adoption of new or revised standards

Standards, interpretations and amendments that are not yet effective at 30 September 2020

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

Number	Title	Effective for year ending
Amendments to IAS 1 and IAS 8	Disclosure Initiative (Definition of Material)	2021
Amendments to IFRS 3	Business Combinations (Definition of a Business)	2021
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	2021
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current	2023
IFRS 17	Insurance Contracts	2024

The application of the above in future financial periods is not expected to have a significant impact on the group's reported results, financial position or cash flows. IFRS 17 will have an impact on the insurance business acquired during the year. Management is still in the process of quantifying the impact on the financial statements due to the adoption of this standard but, due to the size of the insurance business in relation to the rest of the group, the effect is not expected to be material. Further, the amendments to IFRS 3 will be applied prospectively to transactions or events that occur on or after the date of first application, therefore this will not affect the group on the date of transition.

SUMMARY OF ACCOUNTING POLICIES continued

for the year ended **30 September 2020**

Standards, interpretations and amendments effective for the year ended 30 September 2020

The following amendments to existing standards are effective for the year ended 30 September 2020. This had no significant effect on the group's operations, except for IFRS 16 and IFRIC 23, which led to changes in the group accounting policies as detailed below:

Number	Title
Amendments to IAS 28	Long-term Interests in Associated and Joint Ventures
Amendments to IFRS 9	Financial Instruments (Prepayment Features with Negative Compensation)
IFRIC 23	Uncertainty Over Income Taxation Treatments
Various	Annual improvements to IFRS 2015 – 2017 Cycle

Number	Title	Effective for annual periods beginning
IFRS 16	Leases	1 January 2019

On 1 October 2019, the group adopted IFRS 16, effective for financial years ending on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces the previous leases standard and guidance, IAS 17 and IFRIC 4. IFRS 16 requires lessees to account for all leases under a single on-balance-sheet model, where a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments, with the exception of low-value and short-term leases, which are expensed through operating expenses in the income statement on a straight-line basis.

The group has elected to adopt the modified retrospective approach by accounting for the right-of-use assets from the commencement date of the lease contract, with the cumulative income statement effect accounted for in opening retained earnings, and lease liabilities as at the date of initial application of IFRS 16. Therefore the prior year comparatives have not been restated. At the date of initial application, the group elected to use the practical expedient provided by IFRS 16, which allows the group to apply IFRS 16 only to those contracts that were previously identified as leases under IAS 17 and IFRIC 4. The group further made use of the following practical expedients allowed under IFRS 16:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- using hindsight when determining the lease term where the contract contains renewal and termination options.

When measuring lease liabilities on transition to IFRS 16, the group discounted the majority of its lease payments using an incremental borrowing rate (IBR) of 9.38% for leases between one and five years, 10.01% for leases between five and 10 years, and 10.85% for leases longer than 10 years at 1 October 2019. The following table reconciles the group's operating lease commitments at 30 September 2019, as previously disclosed in the group's annual financial statements, to lease liabilities recognised on initial application of IFRS 16:

SUMMARY OF ACCOUNTING POLICIES continued

for the year ended **30 September 2020**

	Rm
Total operating lease commitments at 30 September 2019	11 036
Prior year correction of operating lease commitments	183
Less: Short-term leases recognised on a straight-line basis as an expense	(36)
Less: Low-value asset leases	(14)
Add: Payments in optional extension periods not recognised at 30 September 2019 (undiscounted)	14 812
Discounting at weighted average incremental borrowing rate at 1 October 2019	(8 959)
Lease liabilities (non-current and current) at 1 October 2019	17 022

Set out below is the effect on retained earnings of the adoption of IFRS 16 on 1 October 2019:

	Rm
Cumulative income statement effect of the adoption of IFRS 16	4 203
Release of straight-line lease provisions to equity	(576)
Release of onerous lease provisions to equity	(26)
Release of rental prepayments to equity	17
Deferred taxation effect of above	(978)
	2 640

Number	Title	Effective for annual periods beginning
Amendments to IFRS 16	COVID-19-related rent concessions	1 June 2020

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- the reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

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

Number	Title	Effective for annual periods beginning
IFRIC 23	Uncertainty Over Income Taxation Treatments	1 January 2019

On 1 October 2019, the group adopted IFRIC 23, effective for financial years beginning on or after 1 January 2019. IFRIC 23 requires an entity to reflect uncertainty over income taxation treatments in the recognition and measurement of current and deferred taxation assets or liabilities, applying the requirements in IAS 12. Current and deferred taxation liabilities and assets should be presented separately from provisions. The Interpretations Committee concluded, in an agenda decision in 2019, that an entity is required to present liabilities for uncertain taxation treatments as current taxation liabilities or deferred taxation liabilities; assets for uncertain taxation treatments should be presented as current taxation assets or deferred taxation asset.

SUMMARY OF ACCOUNTING POLICIES continued

for the year ended **30 September 2020**

This led to the voluntary restatement of prior year comparatives as detailed below:

Consolidated income statement	Previously reported (adjusted for discontinued operations) Year ended 30 September 2019 Rm	Restated Year ended 30 September 2019 Rm	Restated Year ended 30 September 2019 Rm
Operating expenses	(14 321)	(100)	(14 421)
Taxation	(1 774)	100	(1 674)
Consolidated statement of financial position			
Non-current liabilities			
Provisions	464	(373)	91
Current liabilities			
Current income taxation liabilities	1 107	373	1 480

SIGNIFICANT JUDGEMENTS AND ESTIMATES

for the year ended **30 September 2020**

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

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

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

Intangible assets

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

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

The estimated useful lives 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 in which these assets are used. Refer to note 10 where this significant estimate is discussed.

Leases

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

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

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

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life, or are not yet ready for use, are assessed annually for impairment. Investments, property, plant and equipment, right-of-use assets and finite intangibles are only tested if an impairment indicator is identified. Refer to notes 9, 10, 11 and 12 for detail of impairment of assets where applicable. The impairment review requires estimation uncertainty (refer to note 10). The group evaluates, among other things, losses incurred, duration and the extent of losses and near-term business outlook.

Allocation of goodwill to CGUs

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

Fair values in business combinations

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

SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

for the year ended **30 September 2020**

Although a comprehensive valuation exercise is performed for each business combination, the group applies initial accounting for its business combinations that will allow it a period of one year after the acquisition date to adjust the provisional amounts recognised for a business combination. Refer to note 29 for business combinations concluded during the year.

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

Recoverability of deferred taxation assets

Deferred taxation assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable profits are estimated based on business plans that include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces. Refer to note 15.

Income taxation provision

The group is subject to income taxation in more than one jurisdiction. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate taxation determination is uncertain during the ordinary course of business. Taxation positions are provided for based on either the most probable outcome method (the single most likely amount in a range of possible outcomes: the most likely amount may better predict the resolution of the uncertainty if the possible outcomes are binary or are concentrated on one value) or the expected value of the taxation position (the sum of the probability-weighted amounts in a range of possible outcomes: the expected value may better predict the resolution of the uncertainty if there is a range of possible outcomes that are neither binary nor concentrated on one value), for each type of taxation provision.

Contingent liabilities

Management apply their judgement to the fact patterns and advice they receive from their attorneys, advocates and other advisors in assessing whether an obligation is probable, more likely than not, or remote. This judgement application is used to determine whether the obligation is recognised as a liability or disclosed as a contingent liability. Refer to note 30.5.

Provision for inventory shrinkage, obsolescence and markdowns

The provision for inventory obsolescence and markdowns represents management's judgement in relation to the extent to which merchandise on hand at the reporting date will be sold below cost. This estimate takes into consideration the nature of the product and/or product category, past trends (including historical sales volumes and prices of the product and/or similar products), evidence of impairment at year-end (including damaged goods and days on hand) and an assessment of future saleability (product seasonality, technological obsolescence and aesthetic obsolescence).

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the history, existing market conditions, as well as forward-looking estimates at the end of each reporting period. Key assumptions and inputs used are detailed in note 31.5, of which the most significant are as follows:

SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

for the year ended **30 September 2020**

Impairment of financial assets judgements

Significant increases in credit risk (SICR)

In terms of IFRS 9: *Financial Instruments*, all loans and other receivables are assessed at each reporting date to determine whether there has been an SICR. In cases where an SICR has occurred, an impairment equal to the lifetime ECL is recognised. If, at reporting date, the credit risk has not significantly increased, the group recognises a 12-month ECL. The group identifies an SICR on clients that are up to date on their loans and other receivables, but who have been subject to SICR events of which the most significant are detailed below:

Event trigger	Loans to customers	Instalment sale agreements	Credit sales through store cards
Change in customer behaviour	Triggers includes: a customer entering into debt review or rescheduling an existing loan or a customer that is in arrears as defined below.	Application and behavioural scorecards are segmented into ratings. For each application rating, an appropriate notch deterioration in behavioural scorecard will result in an SICR. In the event that no application rating is available, the loan will be classified as an SICR.	Not deemed to be an SICR event.
Customer defaulting on repayments	A customer's loan is in default when 90% of an instalment is not paid or the account is 30 days in arrears.	A customer is in default when their account is 30 days in arrears. All debt counselling accounts that are less than 90 days in arrears will be classified as SICRs.	A customer is in default when their account is 30 days in arrears.

Shifting of the SICR threshold by 5% (reflects the full stage 2 ECL if the deterioration or improvement in the factor used as a behavioural or granting scores threshold is stressed by 5%) at 30 September 2020:

Impact of SICR on ECL	Loans to customers	Instalment sale agreements	Credit sales through store cards
Positive	**486**	**705**	**643**
% change in ECL	**(0.64%)**	**(0.35%)**	**(1.30%)**
Base	**489**	**707**	**651**
% change in ECL	**0.00%**	**0.00%**	**0.00%**
Negative	**492**	**711**	**659**
% change in ECL	**0.64%**	**0.62%**	**1.30%**

Shifting of the SICR threshold by 5% (reflects the full stage 2 ECL if the deterioration or improvement in the factor used as a behavioural or granting scores threshold is stressed by 5%) at 30 September 2019:

Impact of SICR on ECL	Loans to customers	Instalment sale agreements	Credit sales through store cards
Positive	**329**	**488**	**469**
% change in ECL	**(0.69%)**	**(0.47%)**	**(2.10%)**
Base	**331**	**490**	**479**
% change in ECL	**0.00%**	**0.00%**	**0.00%**
Negative	**333**	**494**	**489**
% change in ECL	**0.69%**	**0.80%**	**2.10%**

Loan write-off point

Event trigger	Loans to customers	Instalment sale agreements	Credit sales through store cards
Loan write-off policy	Five consecutive instalments in arrears and three consecutive instalments in arrears on rescheduled accounts.	Nine consecutive instalments in arrears with no qualifying payments made in the last 90 days.	Eight instalments in arrears with no payment in the previous three months.

SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

for the year ended **30 September 2020**

Impairment of financial assets estimates

Forward-looking information

It is one of the fundamental principles of IFRS 9 that the ECL impairment provision that the group holds against potential future losses takes into account changes in the economic environment in the future.

In order to quantify the effects of changes to the economic environment, the group utilises the Bureau of Economic Research's (BER) macroeconomic outlook for the country over a planning horizon of five years. Three economic scenarios (negative, baseline and positive scenario) are taken into account when calculating future expected credit losses. The probability of each scenario is determined by management estimation.

The relevance of the group's loan and other receivables is proven by the following linear relationship between the change in the following basket of macroeconomic variables for the prior year. Please refer to the impact of the COVID-19 pandemic at the end of this section on significant judgements and estimates (incorporating forward-looking information) for the current year forward-looking factors:

Event trigger	Loans to customers	Instalment sale agreements	Credit sales through store cards
Macroeconomic variables	No significant variables identified	GDP growth Household debt service cost ratio	No significant variables identified

Management has assigned a probability of 59% to the baseline scenario, 21% to the negative scenario and 20% to the positive scenario for the 12-month forecast. The impact of incorporating forward-looking information into ECL for instalment sale agreements granted by the group is as follows:

Probability-weighted impact of all three scenarios	Instalment sale agreements
100% negative scenario	**413**
% change in ECL	**(7.64%)**
100% baseline scenario	**447**
% change in ECL	**0.00%**
100% positive scenario	**532**
% change in ECL	**19.05%**

Event-driven management credit estimates

Certain events or risks arise from time to time that may not be incorporated into the statistical forward-looking model. In such instances, the additional inclusions into the ECL are reviewed and approved by management.

These events, for which an amount was included in ECL, include the introduction of DebiCheck (debit order mandate authentication by a client to confirm a debit order with the bank when entering into a contract with a service or credit provider) from October 2019, and the new draft legislation relating to the National Credit Amendment Bill.

DebiCheck will have an impact on the collection of cash flows on loans and other receivables with customers due to the changing of debit order dates or due to changes in the rescheduled contractual cash flows greater than 1.5 times the original debit order. If the client fails to confirm electronically the updated debit order, the group could fail to collect the agreed instalment from the client on the agreed loan date. The group expects a minimal impact on ECL relating to DebiCheck due to positive results from the testing phase of the DebiCheck collections system.

The National Credit Amendment Bill is not expected to have a material effect on ECLs as it does not entail a blanket amnesty for debt, but rather a rigorous process to assess a customer's ability to service unsecured debt.

Modelling assumptions

Historical data may not always be reflective of the future. The way in which it is used by statistical ECL models (probability of default (PD), exposure at default (EAD), loss given default (LGD)) to estimate the timing and amount of the forecasted cash flows based on historical default data, roll rates and recoveries, requires consideration of subsegments. These include aspects such as client risk groups, time on book, product term, payment frequency, default statuses, employment, industry and rescheduling status, and the behaviour score of the client.

Hyperinflation

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

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for the year ended **30 September 2020**

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

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

Management exercises judgement as to when a restatement of the financial statements of a group entity becomes necessary.

The economy of Angola was reassessed in accordance with IAS 29: *Financial Reporting in Hyperinflationary Economies* and was found no longer to be in hyperinflation for the years ended 30 September 2020 and 2019. Hyperinflation accounting therefore ceased, and the 2018 adjustments will unwind over time.

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

The general price indices, as published by the National Institute of Statistics of Angola, were used in adjusting the historical cost local currency results and financial positions of the group's Angolan subsidiaries. As at 30 September 2020, the cumulative three-year inflation rate was 70.99% (2019: 73.22%).

Segmental reporting

Management identified operating segments in line with internal reporting structures in accordance with IFRS 8: *Operating Segments*. Refer to note 1.

Ongoing revenue

The group earns ongoing revenue on starter packs that have been sold in stores. The group earns this ongoing revenue on all future prepaid airtime loaded and/or spent on these prepaid starter packs by the subscriber, even if the subscriber does not top up through group companies in the future.

Ongoing revenue earned is variable in nature as the group's entitlement to these amounts is dependent on the future spending patterns of the prepaid customers, and therefore contingent on a future event occurring or not occurring. IFRS 15 requires an entity to estimate the amount of variable consideration it will be entitled to for the contracts it has entered into with its customers and include this in the transaction price at contract inception, to the extent the variable consideration is not constrained.

The group has concluded that the ongoing revenue is fully constrained at the individual contract level due to the high variability in behaviour of the individual customers, including:

- the period over which prepaid customers remain on the same SIM card (this can range from one day to a number of years); and
- the spending patterns of individual customers, which are also highly variable.

In addition, because the terms of the ongoing revenue structure with the telecommunication companies are regularly up for negotiation, the group is not able to predict the likelihood or magnitude of a revenue reversal. The group's policy is therefore only to recognise the variable consideration as revenue as and when it is received, because it is only at this point that it is highly probable that a significant reversal in revenue for that contract will not occur in the future.

Share scheme

Various assumptions are applied in determining the valuations of share-based payment reserves and the number of share rights expected to vest at the end of the vesting period. Refer to note 27.

Capital items (use of adjusted measures)

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

Capital items on the face of the statement of comprehensive income include all remeasurements excluded from the calculation of headline earnings per share (HEPS) in accordance with the guidance contained in SAICA Circular 1/2019: Headline Earnings. The principal items that will be included under this measure are: gains and losses on disposal and scrapping of property, plant and equipment, intangible assets and assets held for sale, impairments or reversal of impairments, and any non-trading items, such as gains and losses on disposal of investments, operations and subsidiaries. Refer to note 8.

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 a certain extent to the risks and rewards of the commission structure of the lending book. IFRS requires the book to be recognised to the extent that the initial consideration received on sale could be returned. However, as the group does not have any

SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

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obligation to return any portion of the original sale proceeds under the agreement, the carrying amount of the receivable was derecognised in its entirety on the 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 required significant judgement to be applied.

Impact of COVID-19 pandemic

Due to the COVID-19 pandemic, governments across the world have declared national lockdowns, which have resulted in extensive quarantine measures being implemented. Businesses therefore had to limit or suspend operations. The COVID-19 measures implemented by governments globally have severely impacted a wide range of industries. Due to the unprecedented nature of the pandemic, it is not possible to predict accurately the full extent and duration of its economic impact.

While the specific areas of judgement did not change, given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impact of such a pandemic has resulted in additional judgements within those identified areas. This has resulted in changes to estimates and assumptions from the prior financial year that have been applied in the measurement of some of the group's asset and liabilities.

Significant judgements and estimates impacted by the COVID-19 pandemic

Impairment of goodwill

In line with the group's accounting policies, we have assessed our goodwill balances for impairment. The current year assessment incorporated the budgetary information for the next financial period, which contains the punitive impact of the COVID-19 pandemic, as well as the budgets for the next three years.

The disclosures relating to the assumptions and judgement used for assessing goodwill for impairment have been updated to include a sensitivity analysis.

ECL provisions

Significant increase in credit risk

A systematic and targeted approach to the impact of the COVID-19 pandemic on the customer base has been included in the provision model in line with the group's existing policy.

Incorporating forward-looking information

A fundamental principle of IFRS 9 is that the ECL impairment provision that the group holds against potential future losses takes into account changes in the economic environment in the future. Forward-looking information of the scenarios considered in determining the group's forward-looking assumptions for the purposes of the ECL calculation has been applied to each type of credit granted by the group. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the social and economic consequences of the COVID-19 pandemic, the forward-looking scenarios analysed and applied represent reasonable and supportable forward-looking views as at the reporting date. The group further raised additional provisions via post-model adjustments (COVID-19 overlays). The assumptions of the COVID-19 overlays for each major type of credit granted by the group were as follows:

	Loans to customers	Instalment sale agreements	Credit sales through store cards
Macroeconomic variables	Assumptions regarding a further 10% contraction of the economy, translating to a further 10% loss of jobs and a flat 10% reduction of LGD cash flows has been factored into the ECL calculation.	Economic data, as obtained from the BER, was used to determine the impact of changes on the gross value add (GVA) per industry. The default rate and change in GVA per industry were used to forecast the COVID-19 overlay. The forecast is derived using a weighted linear fit between the relative change in default rate and relative change in GVA.	The current ECL model includes the effect of six-months' worth of customer behaviour since the start of the lockdown. The lockdown has had a material impact on the model's projected probability of default, which is captured in the year-on-year increase in the ECL coverage. As a result, management is satisfied that further out-of-model overlays would not be appropriate. Post-year-end payment information has confirmed this view. Collection yields are back to pre-pandemic levels, while credit granting criteria remain strict.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended **30 September 2020**

1. SEGMENTAL ANALYSIS

1.1 Basis of segmental presentation

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

Identification of segments
The identification of segments is consistent with those identified in the annual consolidated financial statements for the year ended 30 September 2019. The board of directors identified and monitors segments in relation to differences in products and services.

Geographical analysis
The revenue, operating profit and assets are seen as one geographical region.

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

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Restated[4] Rm
1.2 Segmental analysis		
REVENUE		
Clothing and general merchandise	45 697	45 011
Furniture, appliances and electronics	9 459	9 330
Building materials	7 148	8 180
FinTech[1]	8 622	7 160
Revenue from total operations	70 926	69 681
RECONCILIATION OF REVENUE		
Revenue per segmental analysis	70 926	69 681
Revenue from discontinued operations[2]	(7 247)	(8 227)
Revenue from continuing operations	63 679	61 454
OPERATING PROFIT BEFORE CAPITAL ITEMS AND BVI-RELATED COSTS		
Clothing and general merchandise[3]	6 176	6 130
Furniture, appliances and electronics	(55)	(85)
Building materials	129	153
FinTech[3]	458	483
Operating profit before capital items and BVI-related costs from total operations	6 708	6 681
RECONCILIATION OF OPERATING PROFIT		
Operating profit per segmental analysis[4]	6 708	6 681
Operating loss from discontinued operations pre capital items (note 7)[5]	(184)	(97)
BVI-related costs (note 3.5)	–	(40)
Capital items (note 4)	(5 140)	(60)
Operating profit from continuing operations	1 384	6 484
Share of net profit of associate (note 13)	2	–
Finance costs (note 5)	(3 138)	(1 704)
Finance income (note 5)	219	129
(Loss)/profit before taxation from continuing operations	(1 533)	4 909
SEGMENTAL ASSETS	96 429	89 422
RECONCILIATION BETWEEN TOTAL ASSETS AND SEGMENTAL ASSETS		
Total assets per statement of financial position	101 778	93 521
Less: Cash and cash equivalents	(5 241)	(3 925)
Less: Long-term investments and loans	(108)	(174)
Segmental assets	96 429	89 422

[1] FinTech segment revenue is disclosed net of intergroup revenue of R1.8 billion (2019: R441 million) earned relating to the sale of virtual vouchers and airtime to the clothing and general merchandise segment.

[2] Revenue from discontinued operations includes R7.1 billion from the building materials segment (2019: R8.2 billion) and R99 million from the clothing and general merchandise segment (2019: R47 million).

[3] The FinTech segment operating profit is disclosed net of intersegment expenses of R27 million (2019: R90 million) paid to the clothing and general merchandise segment relating to the use of its footprint.

[4] Prior year comparatives have been restated due to the adoption of IFRIC 23. Refer to adoption of new or revised standards for further detail.

[5] Operating profit from discontinued operations before capital items includes R129 million from the building materials segment (2019: R153 million) and R55 million from the clothing and general merchandise segment (2019: R56 million loss).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Year ended 30 September 2020 Rm	Year ended 30 September 2019[1] Rm
2. REVENUE		
Revenue from contracts with customers		
Sale of goods and related revenue (note 2.1.1)[2]	60 629	58 918
Service fee income[3]	448	262
Other revenue[2]	175	1 179
Other sources of revenue		
Financial services revenue (note 2.1.2)[3]	2 126	1 095
Insurance revenue (note 2.1.3)[3]	301	–
	63 679	61 454
2.1 Disaggregation of revenue from contracts		
2.1.1 Sale of goods and related revenue		
Clothing and general merchandise		
South Africa	38 609	37 453
Other countries	6 271	6 809
Furniture, appliances and electronics		
South Africa	7 749	7 937
Other countries	667	766
FinTech		
South Africa	7 273	5 953
Other countries	60	–
	60 629	58 918
2.1.2 Financial services revenue[4]		
Finance income earned	1 815	1 056
Loan origination fees	311	39
	2 126	1 095
2.1.3 Insurance revenue		
Gross premiums written	282	–
Plus: gross premiums cede to reinsurers	9	–
Change in provision for unearned premium	10	–
	301	–

[1] Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.

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

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

[4] Prior year comparatives include only seven months of trading for the Capfin business, which is disclosed as part of financial services revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

		Year ended 30 September 2020 Rm	Year ended 30 September 2019[1] Rm
3.	**OPERATING PROFIT**		
	Operating profit includes the following items:		
3.1	**Amortisation and depreciation (recognised in operating expenses)**		
	Amortisation (note 10)	95	134
	Depreciation (note 11)	1 160	1 061
	Right-of-use assets depreciation (note 12)	2 373	–
		3 628	1 195
3.2	**Personnel expenses**		
	Post-employment benefit contributions to defined benefit plans	144	97
	Salaries and wages	6 246	6 456
	Share-based payments – equity-settled	126	103
		6 516	6 656
3.3	**Operating lease charges – properties (IAS 17)**		
	Rental of properties	–	3 531
	Leases of plant, equipment, vehicles and other	–	32
		–	3 563
3.4	**Lease related expenses**		
	Short-term lease expense	255	–
	Low value asset lease expense	10	–
	Variable lease payments not included in the measurement of lease liabilities	231	–
	Turnover rentals	11	–
		507	–
3.5	**BVI-related costs**		
	Impairment against loans to key management and employees (note 14)	–	40
3.6	**Auditor's remuneration:**		
	Audit fees	30	26
	Fees for other services	4	4
	Under provision in previous years	–	4
		34	34
3.7	**Debtors' costs**		
	Debtor/loan balances written off	1 197	384
	Debtor/loan balances increase in ECLs	536	820
	Debtor/loan balances recovered	(63)	(79)
		1 670	1 125
3.8	**Advertising and marketing**		
	Advertising and marketing	841	976
3.9	**Operating income**		
	Commission received	501	530
	Commission received – distribution fees	–	81
	Marketing and advertising income	52	66
	Dividend income	56	49
	Employee taxation incentives (non-COVID-19-related)	50	45
	Cancelled lay-bys	14	44
	Other income	30	72
		703	887

[1] *Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Year ended 30 September 2020		Year ended 30 September 2019[1]	
	Gross of taxation and non-controlling interests Rm	Net of taxation and non-controlling interests Rm	Gross of taxation and non-controlling interests Rm	Net of taxation and non-controlling interests Rm
4. CAPITAL ITEMS				
The effect of capital items should be excluded from earnings when determining headline earnings. Refer to note 8.				
Items of a capital nature are included in the 'capital items' line in the income statement. These items are:				
From continuing operations				
4.1 Impairment	**5 117**	**5 006**	**40**	**39**
Goodwill (note 9)	4 699	4 699	–	–
Intangible assets (note 10)	103	74	–	–
Property, plant and equipment (note 11)	80	60	40	39
Right-of-use assets (note 12)	235	173	–	–
4.2 Loss on disposal of property, plant and equipment and intangible assets	**23**	**23**	**20**	**20**
	5 140	**5 029**	**60**	**59**
From discontinued operations				
4.3 (Impairment reversal)/impairment	**(32)**	**(23)**	**1 223**	**1 109**
Goodwill (note 9)	–	–	672	672
Intangible assets (note 10)	–	–	547	433
Property, plant and equipment (note 11)	–	–	4	4
Right-of-use assets (note 12)	(32)	(23)	–	–
4.4 Gain on disposal of property, plant and equipment and intangible assets	**(1)**	**–**	**(5)**	**(5)**
4.5 Loss recognised due to remeasurement of disposal group to fair value (note 7.4)	**172**	**172**	**18**	**18**
4.6 Gain on sale of disposal group (note 7.3)	**(3)**	**(3)**	**–**	**–**
4.7 FCTR release on sale of disposal group (note 7.3)	**165**	**165**	**–**	**–**
	301	**311**	**1 236**	**1 122**

[1] Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Expense Rm	Income Rm	Net expense/ (income) Rm
5. FINANCE COSTS AND FINANCE INCOME			
Year ended 30 September 2020			
Interest			
Banks	**150**	**(150)**	**–**
Loans	**1 279**	**–**	**1 279**
BVI guarantee unwinding	**28**	**–**	**28**
Discounting of payables/(receivables)	**127**	**(55)**	**72**
Lease liability finance cost (note 23)	**1 435**	**–**	**1 435**
Related party lease liability finance cost (note 23)	**117**	**–**	**117**
Other	**2**	**(14)**	**(12)**
	3 138	**(219)**	**2 919**
Year ended 30 September 2019[1]			
Interest			
Banks	130	(92)	38
Loans	1 417	–	1 417
BVI guarantee unwinding	40	–	40
Discounting of payables/(receivables)	111	(36)	75
Other	6	(1)	5
	1 704	(129)	1 575

[1] Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

		Year ended 30 September 2020 Rm	Year ended 30 September 2019 Restated[1] Rm
6.	**TAXATION**		
6.1	**Taxation charge**		
	Normal taxation		
	South African normal taxation – current year	1 546	1 277
	South African normal taxation – prior year adjustment[2]	79	(135)
	Foreign normal taxation – current year	156	222
	Foreign normal taxation – prior year adjustment	3	2
	Withholding taxation – South African	62	107
	Withholding taxation – foreign	13	35
		1 859	1 508
	Deferred taxation		
	South African deferred taxation – current year	(529)	(3)
	South African deferred taxation – prior year adjustment	(63)	16
	Foreign deferred taxation – current year	23	164
	Foreign deferred taxation – prior year adjustment	3	(11)
		(566)	166
	Total taxation from continuing operations	1 293	1 674
	Normal taxation		
	South African normal taxation – current year	15	12
	South African normal taxation – prior year adjustment	(27)	–
	Foreign normal taxation – current year	19	1
	Withholding taxation – foreign – current year	4	1
		11	14
	Deferred taxation		
	South African deferred taxation – current year	(12)	(106)
	South African deferred taxation – prior year adjustment	(5)	27
	Foreign deferred taxation – current year	(1)	(6)
		(18)	(85)
	Taxation from discontinued operation	(7)	(71)
	Taxation expense recognised in profit and loss	1 286	1 603
	For detail on deferred taxation (liabilities)/assets refer to note 15.		
6.2	**Reconciliation of rate of taxation**		
	South African standard rate of taxation	28.0	28.0
	Foreign taxation rate differential	0.5	(0.1)
	Withholding taxes	(4.5)	2.4
	Unrecognised taxation losses	(4.5)	1.4
	Prior year adjustments	(5.6)	(1.6)
	Tax-exempt income	9.1	(2.7)
	Non-deductible expenses[3]	(9.7)	4.4
	Impairment of goodwill and intangibles	(78.3)	6.1
	Preference share dividends	(5.8)	3.3
	Unproductive interests	–	1.0
	BVI-related costs	(0.6)	0.6
	FCTR release through profit and loss	(2.7)	–
	Other	0.4	(0.2)
	Effective rate of taxation[2]	(73.7)	42.6

[1] Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.

[2] Prior year comparatives have been restated due to the adoption of IFRIC 23. Refer to adoption of new or revised standards for further detail.

[3] Non-deductible expenses mainly relate to expenses of a capital nature, expenses not incurred in the production of income and depreciation on leasehold improvements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

		Year ended 30 September 2020 Rm	Year ended 30 September 2019[1] Rm
7.	**DISCONTINUED OPERATIONS**		
7.1	**Description**		
	During the latter part of the 2019 financial year, the board decided to exit the group's Zimbabwe business, under the Power Sales brand. The decision was driven mainly by the increasing difficulty of trading in Zimbabwe as a result of adverse macroeconomic conditions. The sale was concluded and all conditions precedent were met on 30 September 2020.		
	The group also entered into a sale and purchase agreement with Cashbuild Limited for the disposal of the issued share capital of The Building Company Proprietary Limited for a total purchase price, including permitted leakages, of R1.2 billion. The transaction will enable the group to streamline its portfolio of businesses and focus on its core business of discount and value retail.		
	The Zimbabwe discontinued operation was previously included under the clothing and general merchandise segment, whereas The Building Company discontinued operations was previously included under the building materials segment.		
7.2	**Income statement**		
	Revenue	7 247	8 227
	Cost of sales	(5 764)	(6 604)
	Gross profit	1 483	1 623
	Operating income	48	73
	Operating expenses	(1 018)	(1 484)
	Debtors' costs	(63)	(11)
	Operating profit before depreciation, amortisation and capital items	450	201
	Depreciation and amortisation (note 10, 11 and 12)	(266)	(104)
	Operating profit before capital items	184	97
	Capital items (note 4)	(301)	(1 236)
	Operating loss	(117)	(1 139)
	Finance costs	(144)	(76)
	Finance income	50	70
	Loss before taxation	(211)	(1 145)
	Taxation	7	71
	Loss for the year before non-controlling interest	(204)	(1 074)
	Non-controlling interest	(4)	–
	Loss for the year	(208)	(1 074)
7.3	**Details of the sale of the Zimbabwe operations**		
	Consideration received in cash	–	–
	Carrying amount of net assets sold	3	–
	Gain on sale before taxation and reclassification of foreign currency translation reserve (note 4.6)	3	–
	Reclassification of foreign currency translation reserve (note 4.7)	(165)	–
	Taxation	–	–
	Loss on sale after taxation	(162)	–
7.4	**Details of the sale of The Building Company**		
	Cash consideration receivable net of transaction fees	1 206	–
	Carrying amount of net assets sold	(1 378)	–
	Loss on sale before taxation	(172)	–
	Taxation	–	–
	Loss on sale after taxation (note 4.5)	(172)	–

[1] *Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Year ended 30 September 2020 Rm	Year ended 30 September 2019[1] Rm
7. DISCONTINUED OPERATIONS (continued)		
7.5 Statement of cash flows		
Net cash inflow from operating activities	383	137
Net cash outflow from investing activities	(62)	(102)
Net cash (outflow)/inflow from financing activities	(99)	110
Net increase in cash and cash equivalents	222	145
Effects of exchange rate translations on cash and cash equivalents	(45)	(167)
Cash and cash equivalents at beginning of the year	452	474
Cash and cash equivalents at end of the year	629	452

7.6 The economy of Zimbabwe was assessed in accordance with IAS 29: *Financial Reporting in Hyperinflationary Economies*, and was found to be in hyperinflation for the year ended 30 September 2020 and 2019. The hyperinflation accounting impact was found to be immaterial, therefore it was decided that no adjustments would be made to the group's results for the Zimbabwean operations as being hyperinflationary.

[1] Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

		Year ended 30 September 2020			Year ended 30 September 2019[1]		
		Continuing Cents	Discontinued Cents	Total Cents	Continuing Cents	Discontinued Cents	Total Cents
8.	**EARNINGS AND HEADLINE EARNINGS PER SHARE**						
	Earnings and headline earnings per share are calculated in note 8.1 to 8.5 below:						
	Earnings per share (cents)						
	Basic (note 8.3)	(80.3)	(5.9)	(86.2)	93.8	(31.1)	62.6
	Headline (note 8.4)	62.6	2.9	65.5	95.5	1.3	96.8
	Diluted basic (note 8.3)	(79.4)	(5.9)	(85.3)	93.2	(30.9)	62.2
	Diluted headline (note 8.4)	62.0	2.9	64.9	94.9	1.3	96.2
8.1	**Earnings and headline earnings attributable to owners of the parent**	Rm	Rm	Rm	Rm	Rm	Rm
	(Loss)/profit for the year	(2 826)	(208)	(3 034)	3 235	(1 074)	2 161
	Attributable to non-controlling interests	–	–	–	–	(1)	(1)
	Earnings attributable to ordinary shareholders	(2 826)	(208)	(3 034)	3 235	(1 075)	2 160
	Capital items (note 4)	5 140	301	5 441	60	1 236	1 296
	Taxation effect of capital items (note 4)	(111)	10	(101)	(1)	(114)	(115)
	Headline earnings	2 203	103	2 306	3 294	47	3 341

		30 September 2020 Million	30 September 2019 Million
8.2	**Weighted average number of ordinary shares**		
	Issued ordinary shares at beginning of the year	3 450	3 450
	Scrip dividend issued	26	–
	Share issued through accelerated book-build	44	–
	Weighted average number of ordinary shares at end of the year for the purpose of basic earnings per share and headline earnings per share	3 520	3 450
	Effect of dilution due to share rights issues in terms of share scheme (note 27)[2]	37	22
	Weighted average number of ordinary shares at end of the year for the purpose of diluted earnings per share and diluted headline earnings per share	3 557	3 472

[1] Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Year ended 30 September 2020			Year ended 30 September 2019[1]		
	Continuing Cents	Discontinued Cents	Total Cents	Continuing Cents	Discontinued Cents	Total Cents
8. EARNINGS AND HEADLINE EARNINGS PER SHARE (continued)						
8.3 Earnings per share						
The calculation of per share numbers uses the exact unrounded numbers, which may result in differences when compared to calculating the numbers using the rounded number of shares and earnings as disclosed below.						
Basic earnings per share						
Basic earnings per share	**(80.3)**	**(5.9)**	**(86.2)**	93.8	(31.2)	62.6
Diluted earnings per share						
Diluted earnings per share	**(79.4)**	**(5.9)**	**(85.3)**	93.2	(31.0)	62.2
8.4 Headline earnings per share						
Headline earnings is an additional earnings number that is permitted by IAS 33. The starting point is earnings as determined in IAS 33, excluding separately identifiable remeasurements, net of related taxation (both current and deferred) and related non-controlling interests other than remeasurements specifically included in headline earnings. This number is required to be reported by the JSE and is defined by Circular 1/2019: *Headline Earnings*.						
Headline earnings per share						
Headline earnings per share	**62.6**	**2.9**	**65.5**	95.5	1.3	96.8
Diluted headline earnings per share						
Diluted headline earnings per share	**62.0**	**2.9**	**64.9**	94.9	1.3	96.2
8.5 Net asset value per share						
Net asset value per ordinary share is calculated by dividing the ordinary shareholders' equity by the number of ordinary shares in issue at year-end.						
Net asset value per share			**1 453.6**			1 640.4

[1] *Prior year comparatives have been reclassified for the effect of the discontinued operation as detailed in note 7.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
9. GOODWILL		
Carrying amount at beginning of the year	41 865	42 537
Arising on business combinations (note 29)	114	–
Impairments (note 4)	(4 699)	(672)
Carrying amount at end of the year	37 280	41 865
Cost	43 505	43 391
Accumulated impairment	(6 225)	(1 526)
Carrying amount at end of the year	37 280	41 865

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

Review of impairment

The impairment test compares the carrying amount of the CGU, including goodwill to the higher of the value in use, or fair value less cost to sell of the unit. The recoverable amount of the group of CGUs is determined from the fair value less cost to sell calculation (fair value hierarchy level 3) (2019: value in use model), using a discounted cash flow model. The key assumptions for the fair value less cost to sell calculation (2019: value in use model) are those regarding the discount rates, growth rates, expected changes to the revenue growth during the forecast period and working capital requirements. The discount rates are based on the weighted average cost of capital, while growth rates are based on management's experience and expectations. Growth rates used do not exceed the long-term average growth rate for the area in which the group of CGUs operates. Assumptions are based on past practices, expectations of future changes in the market and the impact of COVID-19 on future cash flows and economic environment, 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.

The clothing and general merchandise segment experienced lower than expected growth in the current year, due to trade restrictions following lockdowns in the majority of countries where the group operates. Management expects constrained future growth, especially for the PEP Africa, Shoe City and Tekkie Town divisions, due to weak projected macroeconomic activity and the effect thereof on customer disposable income. (2019: The general slowdown experienced in the construction sector at large continued during the year. The building contractors' element of the Business Confidence Index recorded a 20-year low. The building materials segment was significantly affected by the depressed activity during the financial year. The current performance, considered in line with the medium-term outlook of the business and the industry, has led to a significant decrease in expected future cash generation relating to the building materials segment.) See sensitivity analysis below for further possible exposure of the recoverable amount.

An impairment charge has been recognised for both goodwill and indefinite life intangible assets when the carrying amount exceeds the recoverable amount. The recoverable amount of the group of CGUs reflected the fair value less cost to sell. During the year, an impairment charge of R3.019 billion was processed to impair the goodwill relating to Ackermans, Dunns, PEP, PEP Africa, Refinery, Shoe City and Tenacity group of CGUs; R1.645 billion was processed to impair the goodwill relating to Tekkie Town's group of CGUs; and R35 million relating to the goodwill of Eezi to its recoverable amount (2019: R672 million relating to the building materials' CGU).

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:

	2020 Rm Cost	2020 Rm Accumulated impairment	2020 Rm Carrying value	2019 Rm
Clothing and general merchandise				
Ackermans, Dunns, PEP, PEP Africa, Refinery, Shoe City, Tenacity	39 320	(3 019)	36 301	39 320
Tekkie Town	2 251	(1 645)	606	2 251
S.P.C.C., CODE	24	–	24	–
Furniture, appliances and electronics				
Bradlows, Rochester, Russells, Sleepmasters	12	–	12	12
Abacus	55	–	55	–
FinTech				
Call centre and debt collector	282	–	282	282
Eezi	35	(35)	–	–
	41 979	(4 699)	37 280	41 865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

9. GOODWILL (continued)

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

	Clothing and general merchandise (excl Tekkie Town)	Tekkie Town	Furniture and appliances	Electronics	Building materials	FinTech
2020						
Post-taxation discount rate	13.9%	14.8%	15.0%	15.0%	n/a	14.4%
Short- to medium-term revenue (compound annual growth rate)	7.4%	5.5%	2.3%	2.0%	n/a	0.2%
Long-term growth rate	5.5%	4.8%	4.8%	4.8%	n/a	4.5%
Forecasted cash flows	5 years	5 years	5 years	5 years	n/a	5 years
2019						
Pre-taxation discount rate	16.5%	16.2%	17.4%	17.4%	18.0%	19.8%
Medium-term revenue (annual growth rate)	10.5%	10.8%	6.0%	6.0%	4.5%	10.3%
Long-term growth rate	6.0%	6.0%	6.0%	6.0%	5.0%	6.0%
Forecasted cash flows	5 years	5 years	5 years	5 years	5 years	5 years

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

Post-tax discount rate	Reflect specific risks relating to the relevant segments and the countries in which they operate.
Pre-tax discount rate (2019)	Reflect specific risks relating to the relevant segments and the countries in which they operate.
Revenue	Average annual growth rate over the budgeted period; based on current industry trends and including long-term inflation forecasts for each group of CGUs.
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the five-year period. The rates are consistent with forecasts included in industry reports.
Cash flow assumptions	Management base future cash flow assumptions on historical performance and approved budgets.

Sensitivity analysis

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

Refer below the recoverable amount of CGUs sensitive to reasonable fluctuations in risk factors:

	2020 Rm	2019 Rm
Clothing and general merchandise		
Ackermans, Dunns, PEP, PEP Africa, Refinery, Shoe City, Tenacity[1]	49 559	–
Tekkie Town	2 089	260

[1] Ackermans, Dunns, PEP, PEP Africa, Refinery, Shoe City and Tenacity group of CGUs was not sensitive to reasonable fluctuations in key assumptions in the prior year and the recoverable amount was therefore not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

9. GOODWILL (continued)

The recoverable amount of the Ackermans, Dunns, PEP, PEP Africa, Refinery, Shoe City and Tenacity group of CGUs would increase/decrease if the following key assumptions were to change:

2020	From	To	Recoverable amount
Recoverable amount decrease if the following key assumptions were to change:			
Post-tax discount rate	13.9%	14.8%	44 196
Short- to medium-term revenue (compound annual growth rate)	7.4%	6.9%	46 806
Long-term growth rate	5.5%	5.0%	45 208
Recoverable amount increase if the following key assumptions were to change:			
Post-tax discount rate	13.9%	13.0%	56 221
Short- to medium-term revenue (compound annual growth rate)	7.4%	7.9%	52 366
Long-term growth rate	5.5%	6.0%	54 388

The recoverable amount of the Tekkie Town CGU would increase/decrease if the following key assumptions were to change:

2020	From	To	Recoverable amount
Recoverable amount decrease if the following key assumptions were to change:			
Post-tax discount rate	14.8%	15.8%	1 905
Short- to medium-term revenue (compound annual growth rate)	5.5%	5.0%	1 869
Long-term growth rate	4.8%	4.3%	2 021
Recoverable amount increase if the following key assumptions were to change:			
Post-tax discount rate	14.8%	13.7%	2 340
Short- to medium-term revenue (compound annual growth rate)	5.5%	6.0%	2 677
Long-term growth rate	4.8%	5.3%	2 164

2019	From	To
Pre-tax discount rate	16.2%	16.9%
Long-term growth rate	6.0%	5.2%
Medium-term working capital improvement	10.0%	5.7%

The directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause a further impairment relating to the CGUs mentioned above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

10. INTANGIBLE ASSETS

	Trade and brand names[1] Rm	Software and ERP systems Rm	Customer lists Rm	Work in progress ERP systems Rm	Total Rm
Balance at 30 September 2018	**18 199**	**298**	**15**	**–**	**18 512**
Additions	3	141	–	–	144
Amortisation[2]	–	(137)	(4)	–	(141)
Impairment (note 4)	(547)	–	–	–	(547)
Transfer from property, plant and equipment (note 11)	–	11	–	–	11
Balance at 30 September 2019	**17 655**	**313**	**11**	**–**	**17 979**
Additions	4	98	–	135	237
Acquired on acquisition of businesses (note 29)	17	–	–	–	17
Amortisation[2]	–	(101)	–	–	(101)
Disposals	–	1	–	–	1
Impairment (note 4)	(103)	–	–	–	(103)
Transfer (to)/from property, plant and equipment (note 11)	–	(6)	–	8	2
Transfer to assets classified as held for sale (note 20)	–	(4)	–	–	(4)
Balance at 30 September 2020	**17 573**	**301**	**11**	**143**	**18 028**
Cost	18 843	1 453	36	–	20 332
Amortisation and impairment	(1 188)	(1 140)	(25)	–	(2 353)
Net book value at 30 September 2019	**17 655**	**313**	**11**	**–**	**17 979**
Cost	18 864	1 434	36	143	20 477
Amortisation and impairment	(1 291)	(1 133)	(25)	–	(2 449)
Net book value at 30 September 2020	**17 573**	**301**	**11**	**143**	**18 028**

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

[2] Amortisation consists of amortisation from continued operations of R95 million (2019: R134 million) and discontinued operations of R6 million (2019: R7 million).

Classification of intangible assets

	Trade and brand names Rm	Software and ERP systems Rm	Customer lists Rm	Work in progress ERP systems Rm	Total Rm
2020					
Indefinite useful life assets	17 556	–	–	–	17 556
Definite life assets	17	301	11	143	472
	17 573	301	11	143	18 028
2019					
Indefinite useful life assets	17 655	–	–	–	17 655
Definite life assets	–	313	11	–	324
	17 655	313	11	–	17 979

Trade and brand names

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

	2020 Rm	2019 Rm
Clothing and general merchandise		
Ackermans, CODE, Dunns, John Craig, PEP, PEP Africa, Refinery, Shoe City, Tenacity	15 998	15 981
Tekkie Town	766	766
Furniture, appliances and electronics		
Bradlows, Rochester, Russells, Sleepmasters	619	615
Incredible Connection	190	293
	17 573	17 655

Refer to note 9 for the assumptions relating to the impairment tests for the group of CGUs containing intangible assets other than software and ERP systems, and work in progress ERP systems.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

10. INTANGIBLE ASSETS (continued)

Review of impairment

The impairment test compares the carrying amount of the CGU, including goodwill to the higher of the value in use, or fair value less cost to sell of the unit. The recoverable amount of the group of CGUs is determined from the fair value less cost to sell calculation (2019: value in use model), using a discounted cash flow model. The key assumptions for the fair value less cost to sell calculation are those regarding the discount rates, growth rates, expected changes to the revenue growth during the forecast period and working capital requirements. The discount rates are based on the weighted average cost of capital, while growth rates are based on management's experience and expectations. Growth rates used do not exceed the long-term average growth rate for the area in which the group of CGUs operates. Assumptions are based on past practices, expectations of future changes in the market and the impact of COVID-19 on future cash flows and economic environment, 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.

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

The key assumptions for those groups of CGUs that have significant intangible assets allocated to them are presented in note 9.

Impairment

An impairment charge is required for both goodwill and other indefinite life intangible assets when the carrying amount exceeds the recoverable amount. The recoverable amount of the CGU reflected the fair value less cost to sell of R312 million (2019: value in use). Indefinite useful life intangible assets were tested for impairment during the year and an impairment of R103 million (2019: R547 million relating to the building materials segment) was recognised relating to the Incredible Connection division within the furniture, appliances and electronics segment. The division experienced lower than expected growth in the current year due to trade restrictions following the national lockdown. Management expects constrained future growth, due to weak projected macroeconomic activity and the effect thereof on customer disposable income.

There is no indication based on a reasonable fluctuation in the key assumptions that the remaining balance of the indefinite useful life intangible assets is impaired, other than those specifically noted below under the sensitivity analysis.

No impairment relating to software was recognised in the current and prior financial year. There is no indication that the software and ERP systems are impaired.

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

Sensitivity analysis

Management has adjusted the cash flows of the group of CGUs for entity-specific risk factors to arrive at the future cash flows expected to be generated from the group of CGUs. There is no indication based on a reasonable fluctuation in those risk factors that the indefinite useful life intangible assets are further impaired.

The Incredible Connection indefinite useful life intangible asset has been impaired to the CGU's recoverable amount. The sensitivity analysis is therefore presented in relation to changes in assumptions underpinning the impairment tests performed. The recoverable amount of the CGU would increase/decrease if the following key assumptions were to change:

2020	From	To	Recoverable amount
Recoverable amount decrease if the following key assumptions were to change:			
Post-taxation discount rate	**15.0%**	**15.6%**	**300**
Short- to medium-term revenue (compound annual growth rate)	**2.0%**	**1.5%**	**240**
Long-term growth rate	**4.8%**	**4.3%**	**304**
Recoverable amount increase if the following key assumptions were to change:			
Post-taxation discount rate	**15.0%**	**14.4%**	**331**
Short- to medium-term revenue (compound annual growth rate)	**2.0%**	**2.5%**	**385**
Long-term growth rate	**4.8%**	**5.3%**	**321**

The directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause a further impairment relating to the CGUs mentioned above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

10. INTANGIBLE ASSETS (continued)

Useful lives

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Land and buildings Rm	Furniture and fittings Rm	Leasehold improvements Rm	Computer equipment Rm	Other assets Rm	Total Rm
11. PROPERTY, PLANT AND EQUIPMENT						
Balance at 30 September 2018	928	2 373	517	439	994	5 251
Additions	70	769	193	283	256	1 571
Depreciation[1]	(30)	(593)	(154)	(225)	(156)	(1 158)
Disposals	–	(38)	(6)	(8)	(19)	(71)
Impairment (note 4)[2]	–	(17)	(5)	(21)	(1)	(44)
Reclassification	1	322	22	–	(345)	–
Transfer to intangible assets (note 10)	–	–	–	(11)	–	(11)
Transfer to assets classified as held for sale (note 20)	(3)	–	–	–	–	(3)
Exchange differences on consolidation of foreign subsidiaries	(24)	(41)	(4)	–	–	(69)
Balance at 30 September 2019	942	2 775	563	457	729	5 466
Additions	344	593	182	182	155	1 456
Tenant installation contribution opening balance capitalised reclassified to right-of-use assets under IFRS 16 (note 12)	–	–	85	–	–	85
Depreciation[1]	(30)	(664)	(193)	(214)	(153)	(1 254)
Disposals	–	(19)	(9)	(5)	(8)	(41)
Impairment (note 4)[2]	–	(49)	(22)	–	(9)	(80)
Acquisition of businesses (note 29)	–	–	5	2	1	8
Reclassification	–	26	12	1	(39)	–
Transfer to intangible assets (note 10)	–	–	–	6	(8)	(2)
Transfer to assets classified as held for sale (note 20)	1	(135)	(22)	(9)	(222)	(387)
Exchange differences on consolidation of foreign subsidiaries	(17)	(53)	(3)	–	(2)	(75)
Balance at 30 September 2020	1 240	2 474	598	420	444	5 176
Cost	1 060	5 718	1 283	1 790	1 365	11 216
Accumulated depreciation and impairment	(118)	(2 943)	(720)	(1 333)	(636)	(5 750)
Net book value at 30 September 2019	942	2 775	563	457	729	5 466
Cost	1 387	5 580	1 438	1 728	833	10 966
Accumulated depreciation and impairment	(147)	(3 106)	(840)	(1 308)	(389)	(5 790)
Net book value at 30 September 2020	1 240	2 474	598	420	444	5 176

[1] Depreciation consists of depreciation from continued operations of R1 160 million (2019: R1 061 million) and discontinued operations of R94 million (2019: R97 million).

[2] Impairment consists of impairments from continuing operations of R80 million (2019: R40 million) and discontinued operations of Rnil (2019:R4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Land and buildings

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

Other assets

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

Encumbered assets

Assets with a book value of Rnil (2019: R22 million) are encumbered and relates to assets transferred to discontinued operations as per note 20.

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 (continued and discontinued operations) consist of (note 4):

	2020 Rm	2019 Rm
Clothing and general merchandise[1]	51	44
Furniture, appliances and electronics[2]	29	–
	80	44

[1] The current year impairment losses relate to assets of PEP Africa (2019: R18 million) where stores were closed and assets no longer in use, computer assets of Rnil (2019: R21 million) no longer in use as these assets were replaced by newer versions (making the previous versions redundant) and Rnil (2019: R5 million) relates to other assets no longer in use.

[2] The current year impairment losses relate to closed stores and assets no longer in use of R22 million (2019: Rnil) and R7 million (2019: Rnil) relates to other assets no longer in use.

Useful lives

The estimated useful lives are reflected in the accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Land and buildings Rm	Other assets Rm	Total Rm
12. RIGHT-OF-USE ASSETS			
Opening balance on adoption of IFRS 16: *Leases* (1 October 2019)	12 652	6	12 658
Additions	2 226	–	2 226
Remeasurement due to lease modifications	(752)	–	(752)
Depreciation[1]	(2 537)	(2)	(2 539)
Impairment (note 4)[2]	(203)	–	(203)
Acquisition of businesses (note 29)	24	–	24
Transfer to assets classified as held for sale (note 20)	(579)	(4)	(583)
Exchange differences on consolidation of foreign subsidiaries	(61)	–	(61)
Balance at 30 September 2020	10 770	–	10 770
Cost	20 254	12	20 266
Accumulated depreciation and impairment	(7 602)	(6)	(7 608)
Net book value at 1 October 2019	12 652	6	12 658
Cost	12 694	–	12 694
Accumulated depreciation and impairment	(1 924)	–	(1 924)
Net book value at 30 September 2020	10 770	–	10 770

[1] Depreciation consists of depreciation from continued operations of R2 373 million and discontinued operations of R166 million.

[2] Impairment consists of impairments from continued operations of R235 million and impairment reversals from discontinued operations of R32 million.

Impairment

The right-of-use assets relating to retail stores, office space and distribution centres are each seen as an individual CGU. The group assesses each of these CGUs when indicators of impairment are identified. These mainly include loss-making stores and stores marked for closure. The impairment test compares the carrying amount of the CGU to the higher of the value-in-use, or fair value of the unit. For retail stores, the recoverable amount of the CGU is determined from the value in use calculation, whereas office space and distribution centres CGUs are determined from its fair value. The key assumptions for the value-in-use calculation are those regarding the discount rates and growth rates. The discount rates are based on the pre-taxation weighted average cost of capital of 12.7% relating to South Africa (other African countries use different weighted average cost of capital rates, but the effect thereof is immaterial), while growth rates are based on management's experience and expectations that are in line with the growth rates used for the goodwill impairment assessment as per note 9. Growth rates used do not exceed the long-term average growth rate for the area in which the CGU operates.

Lease term

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Place of incorporation	% ownership interest	Nature of relationship	Carrying amount investment[1] Rm	Carrying amount loan Rm
13. INTERESTS IN ASSOCIATE					
13.1 Balance at 30 September 2020					
S'Ya Phanda Proprietary Limited	**South Africa**	**46%**	**Associate**	**–**	**52**
				–	**52**
Balance at 30 September 2019					
S'Ya Phanda Proprietary Limited	**South Africa**	**46%**	**Associate**	**–**	**50**
				–	**50**

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

R50 million of the interest in associate relate to a loan that is secured, interest free and is repayable on 396 day notice. The loan was assessed for impairment using the ECL model. Management concluded that the current year impact is not deemed to be material (2019: S'Ya Panda had sufficient cash available to repay the loan, therefore the probability of default was deemed to be remote).

Through the shareholder agreement, the group is guaranteed one of three or two of five seats on the board of S'Ya Phanda and participates in all significant financial and operating decisions. The group has therefore determined that it has significant influence over this entity.

	2020 Rm	2019 Rm
13.2 Details of assets and liabilities of associate at year-end:		
Non-current assets		
Investments[1]	51	–
Current assets		
Cash and cash equivalents	1	50
Total assets	52	50
Equity		
Retained earnings	2	–
Non-current liabilities		
Loans due to related parties	50	50
Total equity and liabilities	52	50

[1] During the year, S'Ya Phanda Proprietary Limited acquired 76.5% of MapleWave Holdings Proprietary Limited, who holds 100% in Bradian Logistics Proprietary Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
14. INVESTMENTS AND LOANS		
Long-term investments and loans		
Fair value through OCI		
Unlisted investments – Other	1	2
Loans and receivables at amortised cost		
Gross loans to current and previous members of key management and employees	135	167
Impairment against loans (note 31.5)	(100)	(100)
Net loans to current and previous members of key management and employees	35	67
Unlisted bonds	58	105
Loan receivable	14	–
	108	174

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

Loans to current and previous members of key management and employees

Loans were advanced in prior years to current and previous employees and members of key management to enable them to purchase shares in BVI. The loans were granted after reviewing each employee or member of key management's ability to repay the loan when it falls due, as well as the underlying pledged share in BVI.

The group is still in the process of recouping the outstanding loans payable. The group managed to conclude settlement agreements with the vast majority of individuals indebted to the group on loans granted to current and previous members of management who invested in BVI. A portion of the loans to current Pepkor employees was settled by 31 March 2020 in terms of the settlement agreement reached in November 2019.

These loans were measured using the general model based on lifetime ECLs. The group holds the employee shares in BVI as security for the loans provided to current and previous employees and members of key management and employees. BVI's underlying investment is an investment in Steinhoff shares. The group holds the employees' shares in BVI as security for loans outstanding. The fair value of the shares is negligible. Refer to note 32 for the details relating to the loan balances to key management members and relating ECL provision.

The loans to current and previous members of key management and employees consist of various loans that are repayable by November 2021, bearing interest at market-related interest rates.

These loans are shown net of a provision for expected credit losses of R100 million (2019: R100 million).

The fair value of loans is disclosed in note 31.

Unlisted bonds

Unlisted bonds consist of:

	2020 Rm	2019 Rm
Angola government bonds: issued by ministry of finance	–	98
Standard Bank bond: issued by Standard Bank Angola	58	7
	58	105

The details relating to the bonds are as follows:

	Denomination	Issue date	Coupon interest rate	Maturity date
2020				
Standard Bank bond	**Angola kwanza**	**11/12/2018**	**17.00%**	**11/12/2021**
2019				
Ministry of finance bond	**Angola kwanza**	**23/08/2018**	**12.25%**	**23/08/2021**
Standard Bank bond	**Angola kwanza**	**11/12/2018**	**17.00%**	**11/12/2021**

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 BB– (2019: B3). Refer to note 31.5 for the Moody's rating scale.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

14. INVESTMENTS AND LOANS (continued)

Loan receivable
During the year, the group granted a loan of R14 million to the Share Empowerment Academy as part of enterprise and supplier development. Management has assessed the ECL for the loan and found it to be immaterial.

Consolidated structured entities
During the current financial year, a loan facility was advanced by the group amounting to R519 million in order to settle the external guarantee with RMB and thereby settling the outstanding guarantee. Proceeds that BVI may receive in respect of a claim that was instituted by BVI against Steinhoff, must be used to repay the group for its settlement of the external debt. Since extinguishing the BVI guarantee exposure to RMB, in exchange for direct credit exposure to BVI, the assessment of the group's ability to control BVI has changed to that of a control nature, therefore leading to the consolidation thereof. The impact was, however, immaterial to the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
15. DEFERRED TAXATION (LIABILITIES)/ASSETS		
15.1 Deferred taxation movement (liabilities)/assets		
Balance at beginning of the year	(2 795)	(2 777)
Effect of adopting IFRS 16: *Leases* (2019: IFRS 9: *Financial instruments*)	978	32
Deferred taxation of businesses acquired (note 29)	6	–
Amounts charged directly to OCI and equity		
Cash flow hedging reserve and share-based payment reserve	(39)	41
Current year charge		
Exchange differences from translation of net investment in foreign operations	–	(5)
Income statement charge (note 6)	584	(81)
Transfer to asset and liabilities classified as held for sale (note 20)	(202)	–
Exchange differences on consolidation of foreign subsidiaries	3	(5)
Balance at end of the year	(1 465)	(2 795)

15.2 Deferred taxation balances

The corporate taxation rate in South Africa is 28% (2019: 28%) and the capital gains taxation rate 22.4% (2019: 22.4%). Deferred taxes for non-South African subsidiaries are calculated based on taxation rates that have been enacted or substantively enacted by the reporting date.

	2020 Rm	2019 Rm
Total deferred taxation liabilities	(3 933)	(4 037)
Total deferred taxation assets	2 468	1 242

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:	2020 Rm	2019 Rm
Intangible assets	(3 925)	(3 953)
Prepayments and provisions	455	405
Taxation losses	48	48
Operating leases	–	161
Doubtful debts	413	300
Property, plant and equipment	(8)	(37)
Right-of-use assets	(3 096)	–
Lease liabilities	4 218	–
Share-based payments	71	40
Unrealised foreign exchange gain	26	27
Deferred revenue	271	168
Other	62	46
	(1 465)	(2 795)

15.3 Unrecognised deferred taxation assets

Deferred taxation assets have not been recognised in respect of the following item:

Taxation losses

The taxation losses and deductible temporary differences do not expire under current taxation legislation, with the exception of certain African jurisdictions. Deferred taxation assets have not been recognised in respect of these items because it is not yet probable that future taxable profits will be available against which the group can realise the benefits therefrom. Deferred taxation assets are assessed at each statutory entity individually. The utilisation of the deferred taxation asset recognised is dependent on future taxable profits that are in line with budgets.

	2020 Rm	2019 Rm
	2 468	2 271

15.4 Taxation losses

	2020 Rm	2019 Rm
Estimated taxation losses available for offset against future taxable income	2 673	2 475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
16. TRADE AND OTHER RECEIVABLES		
Current trade and other receivables		
Trade receivables	1 047	1 562
Related-party receivables (note 32)	5	2
Instalment sale receivables	1 630	1 479
Credit sales through store cards	2 999	2 822
Total gross trade receivables, instalment sale receivables and credit sales through store cards	5 681	5 865
Less: provision for expected credit losses relating to trade receivables (note 31.5)	(113)	(184)
Less: provision for expected credit losses relating to instalment sale receivables (note 31.5)	(707)	(490)
Less: provision for expected credit losses relating to credit sales through store cards (note 31.5)	(651)	(479)
Total trade receivables, instalment sale receivables and credit sales through store cards	4 210	4 712
Other amounts due	1 052	1 641
Less: provision for expected credit losses relating to other amounts due (note 31.5)	(57)	(69)
Derivative financial assets	636	186
Current trade and other receivables (financial assets)	5 841	6 470
Prepayments	108	139
Value-added taxation receivable	208	200
	6 157	6 809

For normal trade receivables the credit period on the sale of goods is between 30 and 90 days, whereas the credit period for credit granted through store cards is between 30 and 360 days, and instalment sales can be up to three to five years. Where relevant, interest is charged at rates as determined by the National Credit Act on the gross outstanding balances, unless the outstanding balance is credit-impaired, in which case interest is calculated on the net outstanding balance.

Before accepting any new customers, credit risk management uses various credit bureaux and performs credit assessments. These customers' credit ratings are reviewed on a regular basis. To assess the new customer's credit potential and credit limit, the credit rating together with the customer affordability, as detailed below, is taken into consideration.

For credit sales through instalment sale receivables customer affordability is also taken into consideration before accepting any new customers. This process involves collecting information regarding the customer's income, current debt obligations and additional expenses. The group has its own expense model, in addition to the National Credit Regulator's expense table. The following factors are then taken into consideration, in consultation with the customer, to conclude the affordability of each: assessing existing financial means and prospects, existing financial obligations and debt repayment history.

For credit sales through store cards, customer affordability is also taken into consideration before accepting any new customers. This process involves collecting information regarding the customer's income and expenses as well as independently obtained data regarding the prescribed minimum expenses and listed credit commitments. The customer's disposable income is then derived and the calculation with the most conservative value is used in determining the potential customer's credit limit.

Given the diverse nature of the group's operations, it does not have significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers.

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

The group's exposure to credit risk related to trade and other receivables and the movement in the provision for expected credit losses is disclosed in note 31.5.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
17. LOANS TO CUSTOMERS		
Current loans to customers		
Loans receivable from customers	1 905	2 154
Less: Provision for expected credit losses (note 31.5)	(489)	(331)
	1 416	1 823
Long-term loans receivable from customers	81	154
Short-term loans receivable from customers	1 335	1 669
	1 416	1 823

Loans receivables from customers consist of unsecured lending with repayment terms of between three and 24 months and attract interest based on rates as determined by the National Credit Act.

Before accepting any new customers, credit risk management uses various credit bureaux and performs credit assessments. These customers' credit ratings are reviewed on a regular basis. To assess the potential customer's credit potential and credit limit, the credit rating together with the customer affordability, as detailed below, is taken into consideration.

Customer affordability is also taken into consideration before accepting any new customers. This process involves collecting information regarding the customer's income, current debt obligations and additional expenses. The group has its own expense model, in addition to the National Credit Regulator's expense table. The following factors are then taken into consideration, in consultation with the customer, to conclude the affordability of each: assessing existing financial means and prospects, existing financial obligations and debt repayment history.

Given the diverse nature of the group's operations, it does not have significant concentration of credit risk in respect of loans to customers, with exposure spread over a large number of customers.

The group's exposure to credit risk related to loans to customers is disclosed in note 31.5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
18. INVENTORIES		
18.1 Inventories at cost less provisions		
Finished goods and merchandise	9 306	12 603
Goods in transit	1 345	1 146
Raw materials and other inventories	78	76
	10 729	13 825
18.2 Amount of write-down to net realisable value recognised as an expense during the year	572	449
18.3 Movement in the provision for inventory shrinkage, obsolescence and markdowns was as follows:		
Balance at beginning of the year	(536)	(643)
Acquired on acquisition of businesses (note 29)	(5)	–
Charge for the year	(460)	(309)
Amounts used during the year	153	199
Unused amounts reversed	54	189
Transfer to assets classified as held for sale (note 20)	91	25
Foreign currency translation	9	3
Balance at end of the year	(694)	(536)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

19. INSURANCE

The Abacus insurance business was purchased effective 1 December 2019. Refer to note 29 for further detail.

19.1 Insurance investments

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

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

19.2 Insurance and reinsurance receivables

	2020 Rm
Insurance receivables	
Premium debtors	8
Less: provision for expected credit losses relating to other amounts due (note 31.5)	–
	8
Reinsurance receivables	1
	9

19.3 Insurance and reinsurance payables

	2020 Rm
Insurance liabilities	49
Reinsurance liabilities	–
	49
Long-term insurance contracts	
Outstanding claims	10
Claims incurred but not reported	18
Discounted cash flow reserve	8
Total	36
Short-term insurance contracts	
Claims reported	1
Claims incurred but not reported	2
Unearned premium reserve	10
Total	13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

20. ASSETS AND LIABILITIES OF DISPOSAL GROUP

Included in assets and liabilities classified as held for sale is The Building Company's assets and liabilities in relation to the discontinued operation as at 30 September 2020. Refer to note 7 for further detail.

The group further decided to dispose of certain of the assets and liabilities of the John Craig brand. The brand mainly operates in the smart/formalwear sector of the men's wear market. This sector does not represent a strategic fit with the group's main business proposition of supplying discounted value-added products to its customers.

An active sales plan has been put in place to dispose of the aforementioned assets and liabilities.

	2020 Rm	2019 Rm
20.1 Assets		
Intangible assets (note 10)	4	–
Property, plant and equipment (note 11)	387	3
Right-of-use assets (note 12)	583	–
Investments and loans	–	2
Deferred taxation assets (note 15)	409	–
Trade and other receivables	823	2
Inventories	1 357	2
Current income taxation assets	40	–
Cash and cash equivalents	629	9
Total gross assets	4 232	18
Loss recognised due to remeasurement of disposal group to fair value less cost to sell (note 4)	(172)	(18)
Total assets post impairment	4 060	–
20.2 Liabilities		
Long-term lease liabilities (note 23)	(856)	–
Employee benefits	(60)	–
Deferred taxation liabilities (note 15)	(207)	–
Trade and other payables	(1 267)	(2)
Short-term lease liabilities (note 23)	(240)	–
Short-term interest-bearing loans and borrowings	(1)	–
Short-term provisions	(8)	–
Bank overdrafts and short-term facilities	(177)	–
Total liabilities	(2 816)	(2)
20.3 Net assets	1 244	(2)
20.4 Net assets per disposal group		
The Building Company		
Total gross assets	4 048	–
Loss recognised due to remeasurement of disposal group to fair value less cost to sell (note 4)	(172)	–
Total liabilities	(2 670)	–
Net assets	1 206	–
John Craig brand		
Total gross assets	184	–
Total liabilities	(146)	–
Net assets	38	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

		2020	2019
21.	**SHARE CAPITAL**		
21.1	**Authorised – ordinary**		
	Ordinary shares of no par value (number)	20 000 000 000	20 000 000 000
21.2	**Issued – ordinary**		
	Balance at beginning of the year	3 450 000 000	3 450 000 000
	Scrip dividend issued[1]	37 850 881	–
	Share issued through accelerated book-build[2]	172 500 000	–
	Total issued ordinary stated share capital (number)	**3 660 350 881**	**3 450 000 000**
21.3	**Issued – ordinary**		
	Balance at beginning of the year	64 690	64 690
	Scrip dividend issued	646	–
	Share issued through accelerated book-build	1 898	–
	Total issued ordinary stated share capital (Rm)	**67 234**	**64 690**
21.4	**Unissued shares**		
	Shares reserved for future participation in share schemes	172 500 000	500 000 000
	Shares under the control of the directors	–	172 500 000
	Unissued shares	16 167 149 119	15 877 500 000
	Total unissued shares (number)	**16 339 649 119**	**16 550 000 000**

By way of general authority, shareholder approval was granted to the board to issue up to 172.5 million (4.95% of issued share capital) (2019: 172.5 million, 5% of issued share capital) shares for cash, subject to the provisions of the memorandum of incorporation (MOI) and the JSE Listings Requirements, which authority shall endure until the next AGM 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.

		2020	2019
21.5	**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.

[1] *A scrip dividend totalling an amount of 37.8 million new ordinary shares was issued on 27 January 2020 at 1 707.15 cents per share to shareholders who did not elect to receive the alternative cash dividend in respect of all or part of their shareholding, resulting in a capitalisation of distributable retained earnings of the group of R646 million.*

[2] *172.5 million new ordinary no par value shares were issued during an accelerated book-build from the authorised but unissued share capital of the group (placement shares) under and in accordance with the group's existing general authority to issue shares for cash, granted by shareholders at the AGM held on 11 March 2020. The Placement Shares were issued at a price of R11.00 per share.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

		2020 Rm	2019 Rm
22.	**INTEREST-BEARING LOANS AND BORROWINGS**		
22.1	**Analysis of closing balance: External interest-bearing loans and borrowings**		
	Secured financing		
	Term loans	7 000	7 000
	Preference debt[1]	2 000	6 000
	Revolving credit facilities	2 500	2 500
	General banking facility	–	–
	Bridge facility	–	1 500
	Capitalised finance lease and instalment sale agreements	–	18
	Floating rate notes	1 006	–
	Other	14	–
		12 520	17 018
	Total interest-bearing loans and borrowings	12 520	17 018
	Portion payable within 12 months included in current liabilities	–	(1 510)
	Total non-current interest-bearing loans and borrowings	12 520	15 508
22.2	**Analysis of repayment: External loans**		
	Repayable within the next year and thereafter – current and non-current split		
	Next year	–	1 510
	Within two years	4 000	5 006
	Within three years	8 300	8 002
	Within four years	–	2 500
	Within five years	220	–
		12 520	17 018

[1] The Class A cumulative redeemable preference shares are subject to repayment terms and qualify as a financial liability in accordance with IFRS 9.

Assets with a book value of Rnil (2019: R22 million) are encumbered as disclosed in note 11 and relate to The Building Company, which was classified as a discontinued operation during the current year. No other financial assets have been pledged as collateral for either year presented.

The undiscounted cash flows of the remaining contractual maturity as well as the fair values of interest-bearing loans and borrowings are disclosed in note 31.6.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Facility Rm	Maturity date	Interest rate	2020 Rm	2019 Rm
22. INTEREST-BEARING LOANS AND BORROWINGS					
22.3 Loan details					
Unsecured					
Capitalised finance lease and instalment sale agreements under IAS 17 for the prior year	–	Various	Various	**–**	**18**
Secured hire purchase and lease agreements repayable in monthly or annual instalments over periods of one to five years. These leases are with various counterparties.					
Loans due:					
Term Loan A[1]	–	24 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**	**2 000**
Term Loan C	2 500	18 May 2023	Three month JIBAR plus 225 bps	**2 500**	**2 500**
Term Loan D[1]	2 500	30 September 2023	Three month JIBAR plus 240 bps	**2 500**	**–**
Class A cumulative redeemable preference shares	2 000	23 May 2022	74% of Prime	**2 000**	**6 000**
Revolving credit facility (RCF)	–	24 May 2021	Three month JIBAR plus 200 bps	**–**	**2 500**
Revolving credit facility (RCF B)[1]	2 500	30 September 2023	Three month JIBAR plus 245 bps	**2 500**	**–**
General banking facility (GBF)	2 500	364 days	Linked to RSA Prime	**–**	**–**
Bridge facility[1]	–	31 August 2020	Three month JIBAR plus 145 bps	**–**	**1 500**
Bridge facility (RCF)[1]	1 000	30 September 2023	Three month JIBAR plus 240 bps	**–**	**–**
Floating rate notes – PEP01	800	10 March 2023	Three month JIBAR plus 159 bps	**800**	**–**
Floating rate notes – PEP02	206	10 March 2025	Three month JIBAR plus 174 bps	**206**	**–**
Other loans	–	21 September 2025	Prime	**14**	**–**
				12 520	**17 018**

[1] The group completed the refinancing of the existing debt due in the 2021 financial year during September 2020 through a syndication process that replaced the term loan A with term loan D, revolving credit facility with revolving credit facility B and the bridge revolving credit facility of R1 billion ('New Facilities').

On 10 March 2020, notes to the value of R1.006 billion were issued under the Domestic Medium-Term Note (DMTN) programme, which is a further source of funding to the group. The DMTN is guaranteed by Pepkor Trading Proprietary Limited.

During the year, the Share Empowerment Academy granted a loan of R14 million to the group as part of B-BBEE initiatives, which is disclosed as other in the table above.

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 31.6 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
22. INTEREST-BEARING LOANS AND BORROWINGS (continued)		
22.4 Total net debt		
Continued operations		
Cash and cash equivalents	5 241	3 925
Bank overdrafts and short-term facilities	(241)	(347)
Interest-bearing loans and borrowings	(12 520)	(17 018)
Lease liabilities	(15 085)	–
	(22 605)	(13 440)
Assets classified as held for sale (note 20)		
Cash and cash equivalents	629	9
Bank overdrafts and short-term facilities	(177)	–
Interest-bearing loans and borrowings	(1)	–
Lease liabilities	(1 096)	–
	(645)	9
Net debt reconciliation		
Net debt at beginning of the year	13 440	12 223
Movement in interest-bearing loans and borrowings		
Cash outflow with settlement of interest-bearing loans and borrowings through syndication process	(6 500)	–
Cash inflow from interest-bearing loans and borrowings through syndication process	5 000	–
Cash inflow from interest-bearing loans and borrowings	–	1 500
Partial settlement of preference shares	(4 000)	–
Floating rate notes issued	1 006	–
Instalment sale agreement transferred to discontinued operations	(18)	(19)
Acquisition of businesses (note 29)	9	–
Repayment of loan acquired through acquisition of businesses	(9)	–
Other loans raised	14	–
Movement in lease liabilities		
Lease liability recognised on adoption of IFRS 16 (note 23)	17 022	–
Cash outflow on payment of lease liability (note 23)	(3 666)	–
Foreign currency adjustments (note 23)	52	–
Additions to lease liabilities (note 23)	2 250	–
Other movements	523	–
Net movement in cash and cash equivalents	(1 945)	(99)
Net movement in bank overdrafts and short-term facilities	72	(174)
Net debt at end of the year	23 250	13 431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended **30 September 2020**

	2020 Rm
23. LEASE LIABILITIES	
23.1 Reconciliation of lease liabilities	
Opening balance on adoption of IFRS 16: *Leases* (1 October)	17 022
Recognition of lease liability	2 250
Interest cost (note 5)[1]	1 637
Lease liability repayments	(3 666)
Foreign exchange losses	181
Remeasurement on modification of leases	(1 137)
Acquisition of businesses (note 29)	23
Transfer to liabilities classified as held for sale (note 20)	(1 096)
Exchange differences on consolidation of foreign subsidiaries	(129)
Closing balance	15 085
Secured liabilities total capital balances:	
Long-term liabilities: Lease liabilities	13 021
	13 021
Less: repayable in the next 12 months included in short-term liabilities	
Short-term liabilities: Lease liabilities	2 064
	2 064
23.2 Analysis of repayments	
Repayable within the next year and thereafter – current and non-current split	
Next year	2 064
Within two years	7 977
Within three to five years	2 555
Thereafter	2 489
	15 085
23.3 The group is exposed to the following potential future undiscounted cash outflows that are not included in the measurement of lease liabilities:	
Extension and termination options not reasonably assured	254

[1] Interest cost consist of interest from continued operations of R1.552 billion and discontinued operations of R85 million.

Refer to note 31.6 for the undiscounted cash flows due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
24. EMPLOYEE BENEFITS		
Post-retirement medical benefits (note 24.1 and 24.2)	90	92
Performance-based bonus accrual (note 24.3)	373	549
Leave pay accrual (note 24.3)	300	284
Other[1]	117	106
Total employee benefits	880	1 031
Transferred to short-term employee benefits	(794)	(942)
Long-term employee benefits	86	89

[1] *Other mainly relates to provision for thirteenth cheque.*

24.1 Defined contribution plans

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

24.2 Defined benefit plans

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

	Performance-based bonus Rm	Leave pay Rm	Total Rm
24.3 Performance-based bonus and leave pay accruals			
Balance at 30 September 2018	526	265	791
Accrual raised	346	69	415
Amounts unused reversed	(9)	(7)	(16)
Amounts utilised	(457)	(39)	(496)
Reclassification from accruals	143	–	143
Exchange differences on consolidation of foreign subsidiaries	–	(4)	(4)
Balance at 30 September 2019	549	284	833
Acquisition of businesses (note 29)	–	1	1
Accrual raised	353	228	581
Amounts unused reversed	(67)	(2)	(69)
Amounts utilised	(440)	(182)	(622)
Exchange differences on consolidation of foreign subsidiaries	–	(2)	(2)
Transfer to liabilities classified as held for sale (note 20)	(22)	(27)	(49)
Balance at 30 September 2020	373	300	673

Performance-based bonus accrual

The bonus payable is calculated by applying specific formulas based on the achievement of performance targets within the various divisions.

Leave pay accrual

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Dilapidation, onerous lease and onerous contract provisions Rm	Severance provision Rm	Other Rm	Total Rm
25. PROVISIONS				
Balance at 30 September 2018 (restated)	**135**	**38**	**195**	**368**
Provision raised	7	–	15	22
Reclassification between provisions and accruals	–	–	46	46
Reclassification due to accounting standard changes (note 26)	–	–	(23)	(23)
Amounts utilised	(84)	(38)	(27)	(149)
Balance at 30 September 2019 (restated)	**58**	**–**	**206**	**264**
Onerous provision released to retained earnings on adoption of IFRS 16	(26)	–	–	(26)
Reclassification between classes of provisions	91	–	(91)	–
Provision raised	58	–	38	96
Amounts unused reversed	(21)	–	(35)	(56)
Amounts utilised	(4)	–	–	(4)
Transfer to liabilities classified as held for sale (note 20)	(8)		–	(8)
Balance at 30 September 2020	**148**	**–**	**118**	**266**

	2020 Rm	2019 Rm
Long-term provisions	91	91
Short-term provisions	175	173
	266	264

Dilapidation, onerous lease and onerous contract provisions

This includes provision for dilapidation of buildings occupied by the group and in the prior financial year provision for long-term leases containing onerous provisions or terms in comparison with average terms and conditions of leases which was released to retained earnings in the current financial year due to the adoption of IFRS 16. Both the timing and the amount of the provision is uncertain. Key uncertainties in the onerous lease contract provision includes the estimation of penalties and other compensation when determining the lease net exiting cost as well as the estimated dilapidation costs to cover repairs and restorations at the end of the lease term. The amount of the provision raised is estimated based on the most likely amount/the expected value for each item and is expected to be settled within 1 – 3 years.

Contingent liabilities raised on business combinations (restated)

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 tax contingencies. Both the timing and the amount of the provision is uncertain. Key uncertainties in the contingent liabilities raised on a business combination include the estimation of the amount relating to uncertain tax positions or disputes and the probabilities of the outcome of the tax rulings. The amount of the provision raised is estimated based on the most likely amount/the expected value for each item and is expected to be settled within 1 – 5 years.

Contingent liabilities raised on business combinations previously disclosed under provisions were reclassified to income taxation payable due to the adoption of IFRIC 23. Refer to adoption of new or revised standards for further detail.

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, legal and regulatory matters. Both the timing and the amount of the provision is uncertain. Key uncertainties in the other provisions include the estimation of the outcome and probable settlement amounts of various legal disputes, and the estimation of warranty costs based on the number of goods within the warranty period and the likelihood of the products being defective. The amount of the provision raised is estimated based on the most likely amount/the expected value for each item and is expected to be settled within 1 – 3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
26. TRADE AND OTHER PAYABLES		
Non-current trade and other payables		
Equalisation of operating lease payments	–	461
	–	461
Current trade and other payables		
Trade payables	6 817	8 448
Related-party payables (note 32)	35	32
Accruals	1 181	1 025
Payroll-related creditors and other payables	1 669	1 245
Derivative financial liabilities	94	16
Deferred revenue[1]	780	796
Contract liability (Lay-bys)	532	477
Deposit received from customers	167	270
Refund liability (note 25)	33	23
Other deferred revenue	48	26
Trade and other payables (financial liabilities)	10 576	11 562
Equalisation of operating lease payments	–	115
Value added taxation payable	178	115
	10 754	11 792

[1] *Deferred revenue recognised will realise in the 2021 financial year, except for loan origination fees that are recognised over the lifetime of the loans granted to customers, which vary from six to 24 months.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

27. SHARE SCHEME

27.1 Steinhoff Scheme

During the current and previous financial years, the Steinhoff remuneration committee assessed the 2016 and 2017 open grants and concluded that the required performance criteria were not met.

The remaining Steinhoff shares of 2 399 334 were therefore forfeited during 2020.

During the 2019 financial year, the group transferred the cumulative amount related to these grants from the share-based payment reserve to retained earnings.

27.2 Pepkor Scheme

Terms of the scheme

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

Pepkor Executive Share Right Scheme

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

a) Rights are granted to qualifying senior executives on an annual basis.

b) Vesting of rights occurs on the third anniversary of grant date, provided performance criteria, as set by Pepkor Holdings Limited's remuneration committee at or about the time of the grant date, have been achieved.

c) In the event of performance criteria not being satisfied by the third anniversary of the relevant annual grant, all rights attaching to the particular grant will lapse.

	Year ended 30 September 2020 Number of rights	Year ended 30 September 2019 Number of rights
The number Pepkor share rights outstanding is:		
At beginning of the year	22 473 038	9 726 354
Granted during the year	15 904 961	13 167 723
Forfeited during the year[1]	(1 140 641)	(421 039)
Outstanding at end of the year	**37 237 358**	**22 473 038**

[1] *Certain individuals 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 per daily closing share price over a rolling three-year period.

	2020 grant	2019 grant	2018 grant
Fair value of Pepkor share rights and assumptions:			
Fair value at grant date	R13.03	R19.51	R18.86
Share price at grant date	R13.96	R20.50	R20.41
Strike price	Rnil	Rnil	Rnil
Expected volatility	28.2%	35.9%	37.0%
Dividend yield	2.3%	1.7%	2.7%
Risk-free interest rate	6.5%	7.2%	6.9%
Option life	3 years	3 years	3 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Restated[1] Rm
28. CASH GENERATED FROM OPERATIONS		
Operating profit from continuing operations	1 384	6 484
Operating loss from discontinued operations	(117)	(1 139)
Operating profit	1 267	5 345
Adjusted for non-cash adjustments included in continuing and discontinued operations:		
Debtors' write-offs and movement in provision	2 011	1 227
Amortisation and depreciation (note 10, 11 and 12)	3 894	1 299
Impairments (note 4)	5 085	1 281
Impairment of loans to current and previous employees and members of key management (note 14)	–	40
Inventories written down to net realisable value (note 18)	572	449
Net loss on disposal of property, plant and equipment and intangible assets (note 4)	22	15
Profit on disposal of operations previously classified as discontinued (note 7)	(3)	–
Share-based payment expense (note 3.2)	126	108
Profit on lease modification	(381)	–
FCTR release on the sale of the Zimbabwe operations (note 7)	165	–
Loss recognised due to remeasurement of disposal group to fair value (note 7.4)	172	–
BSG clawback settlement released through income statement (note 29)	–	(28)
Non-working capital provisions releases and other non-cash adjustments	414	(77)
Cash generated before working capital changes	13 344	9 659
Working capital changes		
Decrease/(increase) in inventories	154	(1 981)
Decrease/(increase) in trade and other receivables	56	(302)
Decrease in derivative financial assets/liabilities	585	498
Increase/(decrease) in non-current and current provisions	36	(106)
Decrease in non-current and current employee benefits	(43)	(12)
Increase in trade and other payables	147	289
Increase in instalment sale receivables and credit sales through store cards	(1 086)	(1 805)
Increase in loans to customers	(281)	(2 154)
Net changes in working capital	(432)	(5 573)
Cash generated from operations	12 912	4 086

[1] Prior year comparatives have been restated due to the adoption of IFRIC 23. Refer to adoption of new or revised standards for further detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

29. NET CASH FLOW ON ACQUISITION OF BUSINESSES

The group acquired the following businesses during the financial year. The board is of the opinion that these acquisitions present attractive investment opportunities that are aligned with the group's strategy to grow through value accretive acquisitions.

Effective 1 December 2019, 100% of the issued share capital of Abacus for a purchase price of R183 million. The acquisition has been approved by the relevant regulatory authorities. The Abacus product offering includes life- and short-term insurance. Abacus provides insurance products via its subsidiaries to customers of JD Group and other group businesses.

Effective 1 March 2020, 100% of the issued share capital of Eezi for a purchase price of GBP1. Eezi offers similar products and services to Flash in the European market and is included in the FinTech segment as part of the Flash business.

Effective 1 June 2020 and 1 September 2020 respectively, the group acquired S.P.C.C. and CODE for a combined purchase price of R46 million. Both entities are retailers of clothing and general merchandise.

During the 2018 financial year, the group raised a receivable of R50 million, relating to the BSG clawback, based on the Building Supply Group of companies not achieving the contractually agreed EBITDA during the earnout period ended 30 September 2018. During the prior year, management and the sellers, Invicta South Africa Holdings Proprietary Limited and NSM Holdings Proprietary Limited, agreed on a full and final settlement of R78 million. The settlement was paid in three equal instalments, the first falling within the prior financial year, on 1 July 2019, and the second and third falling in the current financial year on 1 October 2019 and 1 April 2020.

29.1 The fair value of assets and liabilities assumed at date of acquisition

	Year ended 30 September 2020			
	Abacus Rm	**Eezi Rm**	**S.P.C.C. and CODE Rm**	**Total Rm**
Assets				
Intangible assets (note 10)	–	–	17	17
Property, plant and equipment (note 11)	6	–	2	8
Right-of-use assets (note 12)	24	–	–	24
Deferred taxation assets (note 15)	5	–	1	6
Trade and other receivables	52	22	3	77
Intercompany loans receivable	3	–	–	3
Inventories	–	–	16	16
Insurance and reinsurance receivables	30	–	–	30
Cash on hand	141	12	2	155
Liabilities				
Interest-bearing loans and borrowings	–	(9)	–	(9)
Long-term lease liability (note 23)	(12)	–	–	(12)
Trade and other payables	(35)	(60)	(2)	(97)
Intercompany loans payable	–	–	(15)	(15)
Taxation payable	(5)	–	(1)	(6)
Employee benefits (note 24)	–	–	(1)	(1)
Short-term lease liability (note 23)	(11)	–	–	(11)
Insurance and reinsurance liabilities	(70)	–	–	(70)
Total assets and liabilities acquired	128	(35)	22	115
Goodwill and intangible assets attributable to acquisition	55	35	24	114
Total consideration	183	–	46	229
Cash on hand at date of acquisition	(141)	(12)	(2)	(155)
Intercompany loans acquired	(3)	–	15	12
Net cash outflow/(inflow) on acquisition of subsidiaries	39	(12)	59	86

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.

Contingent liabilities currently recognised on business combination amount to Rnil (2019: Rnil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	2020 Rm	2019 Rm
30. COMMITMENTS AND CONTINGENCIES		
30.1 Capital expenditure		
Contracts for capital expenditure	41	82
Capital expenditure authorised but not contracted for	114	205
Capital expenditure will be financed from cash and existing loan facilities.		
30.2 Borrowing facilities		
In terms of the MOI, the borrowing powers of the company are unlimited.		
30.3 Unutilised borrowing facilities at year-end		
Short-term cash facilities	5 792	4 706
Letters of credit, forex facilities and asset-based finance facilities	2 003	2 354
	7 795	7 060
30.4 Operating leases		
Minimum payments under non-cancellable operating lease agreements for payable within the next year and thereafter:		
Next year	–	3 709
Within two to five years	–	6 454
Thereafter	–	873
Total	–	11 036

The group has entered into various operating lease agreements on premises. Leased premises are contracted for remaining periods of between one and three 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. Note that due to the adoption of IFRS 16, the group no longer have operating leases in the current financial year.

Contingent rent payable is calculated based on turnover level. The amount recognised in profit or loss was R11 million (2019: R10 million).

30.5 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 under which the Tekkie Town business operates) for the period from 1 October 2017 to 30 September 2020. The sellers have also commenced legal proceedings for restitution of the Tekkie Town business. Based on legal advice, the directors are confident that outflow or potential success against Pepkor is remote.

Sellers of approximately 57% of the shares and previous management of Tekkie Town have instituted a claim against Steinhoff N.V. based on a written contract entered into between the parties on 29 August 2016 under which Steinhoff N.V. purchased all the ordinary shares held in Tekkie Town for a purchase price of R3.3 billion, discharged by the allotment and issuing of 43 million Steinhoff N.V. shares. The Tekkie Town Claimants allege that they entered into the contract based on false and misleading representations made by Steinhoff N.V. and claim return of the Tekkie Town equity or payment of approximately R1.9 billion. Initially, Pepkor was not a party to this litigation, but during June 2020 certain Pepkor entities were joined to the action and relief is also claimed against the Pepkor entities.

The National Credit Regulator initiated a complaint against JD Group and has referred the matter to the National Consumer Tribunal. The basis of the complaint is that JD Group is alleged to have sold credit insurance to consumers in contravention of the National Credit Act. It is uncertain what the value of the claim will amount to at this stage.

The group no longer have any exposure relating to the BVI guarantee. Refer to note 31.6 for the notional value and the maximum exposure to guarantees relating to the prior year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS

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

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

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

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

	At fair value through other comprehensive income[1] Rm	At fair value through profit or loss[1] Rm	Financial assets and liabilities at amortised Rm	Total carrying values Rm
31.1 Total financial assets and liabilities				
30 September 2020				
Investments and loans (note 14)	1	–	107	108
Loans to customers (note 17)	–	–	81	81
Non-current financial assets	1	–	188	189
Trade and other receivables (financial assets) (note 16)	592	44	5 200	5 836
Insurance and reinsurance receivables (note 19.2)	–	–	9	9
Loans to customers (note 17)	–	–	1 335	1 335
Related-party receivables (note 16)	–	–	5	5
Cash and cash equivalents	–	–	5 241	5 241
Current financial assets	592	44	11 790	12 426
Long-term interest-bearing loans and borrowings (note 22)	–	–	(12 520)	(12 520)
Non-current financial liabilities	–	–	(12 520)	(12 520)
Bank overdrafts and short-term facilities	–	–	(241)	(241)
Trade and other payables (financial liabilities) (note 26)	(82)	(12)	(10 447)	(10 541)
Insurance and reinsurance payables (note 19.3)	–	–	(49)	(49)
Related-party payables (note 26)	–	–	(35)	(35)
Current financial liabilities	(82)	(12)	(10 772)	(10 866)
	511	32	(11 314)	(10 771)
Net (gains) and losses recognised in profit or loss	–	–	–	–
Net (gains) and losses recognised in OCI	1 231	–	–	1 231
	1 231	–	–	1 231
Total interest income (note 5)	–	–	–	(219)
Total interest expense (note 5)	–	–	–	3 138
	–	–	–	2 919

[1] This category includes derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	At fair value through other comprehensive income[1] Rm	At fair value through profit or loss Rm	Financial assets and liabilities at amortised Rm	Total carrying values Rm
31. FINANCIAL INSTRUMENTS (continued)				
31.1 Total financial assets and liabilities				
30 September 2019				
Investments and loans (note 14)	2	–	172	174
Loans to customers (note 17)	–	–	154	154
Non-current financial assets	2	–	326	328
Trade and other receivables (financial assets) (note 16)	186	–	6 282	6 468
Loans to customers (note 17)	–	–	1 669	1 669
Related-party receivables (note 16)	–	–	2	2
Cash and cash equivalents	–	–	3 925	3 925
Current financial assets	186	–	11 878	12 064
Long-term interest-bearing loans and borrowings (note 22)	–	–	(15 508)	(15 508)
Non-current financial liabilities	–	–	(15 508)	(15 508)
Short-term interest-bearing loans and borrowings (note 22)	–	–	(1 510)	(1 510)
Bank overdrafts and short-term facilities	–	–	(347)	(347)
Trade and other payables (financial liabilities) (note 26)	(16)	–	(11 514)	(11 530)
Related-party payables (note 26)	–	–	(32)	(32)
Financial guarantees (note 31.6)	–		(491)	(491)
Current financial liabilities	(16)	–	(13 894)	(13 910)
	172	–	(17 198)	(17 026)
Net (gains) and losses recognised in profit or loss	–	47	–	47
Net (gains) and losses recognised in OCI	(427)	–	–	(427)
	(427)	47	–	(380)
Total interest income (note 5)	–	–	–	(198)
Total interest expense (note 5)	–	–	–	1 779
	–	–	–	1 581

[1] *This category includes derivate financial instruments.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Fair value hierarchy	Valuation techniques and key inputs	2020 Rm	2019 Rm
31. FINANCIAL INSTRUMENTS (continued)				
31.2 Fair value				
Derivative financial assets	Level 2	The fair values of forward exchange contracts are based on their listed market price, if available. If a listed market price is not available, then the fair value is estimated by discounting the difference between the contractual forward price and current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).	**636**	**186**
Derivative financial liabilities	Level 2		**(94)**	**(16)**
FVTOCI investments	Level 3		**1**	**2**

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

There were no level 1 financial assets or financial liabilities at 30 September 2020 and 30 September 2019. There were no transfers between levels during the year.

31.3 Foreign currency risk

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

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

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

Exposure to currency risk

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

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

Foreign currency sensitivity analysis

The group is exposed mainly to fluctuations in the Angolan kwanza, Botswanan pula, Chinese yuan, Mozambique metical, Nigeria naira, United States dollar and Zambian kwacha.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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31. FINANCIAL INSTRUMENTS (continued)

	Reporting date spot rate 2020	Reporting date spot rate 2019
South African rand		
US dollar	16.83	15.21
European euro	19.71	16.56
Pound sterling	21.60	18.69
Chinese yuan	2.47	2.13
Botswana pula	1.45	1.34
Zambian kwacha	0.83	1.14
Angola kwanza	0.03	0.04
Mozambique metical	0.23	0.24
Malawi kwacha	0.02	0.02
Nigeria naira	0.04	0.04
Uganda shilling	0.00	0.00

Forward exchange contracts

It is the policy of the group to enter into forward exchange contracts to cover specific foreign currency payments based on a predefined profile that takes into account the future expected date of payment. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. The risk is measured through a forecast of highly probable US dollar and Chinese yuan expenditures. The risk is hedged with the objective of minimising the volatility of the South African rand cost of highly probable forecast inventory purchases.

The group uses forward exchange contracts to hedge its foreign currency risk against the functional currency of its various global operations. Most of the forward exchange contracts have maturities of less than one year after reporting date. The group's risk management policy is to hedge between 60% and 80% of forecast US dollar and Chinese yuan cash flows for inventory purchases up to 12 months in advance, subject to a review of the cost of implementing each hedge. As a matter of policy, the group does not enter into derivative contracts for speculative purposes.

For hedges of foreign currency purchases, the group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the group uses the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the entity or the derivative counterparty. There was no significant ineffectiveness during 2020 or 2019 in relation to the forward exchange contracts.

The fair values of such contracts at year-end, by currency, were:	2020 Rm	2019 Rm
Short-term derivatives		
Assets		
Fair value of foreign exchange contracts		
US dollar	231	144
Chinese yuan	405	42
	636	186
Liabilities		
Fair value of foreign exchange contracts		
US dollar	(74)	(2)
Chinese yuan	(20)	(14)
	(94)	(16)
Net short-term derivative assets	542	170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

The group has established a hedge ratio of 1:1 (current and prior year) since the notional amount and currency of the hedged item is the same as the notional amount of the foreign currency leg of the hedging instrument.

At year-end the group holds the following forward exchange contracts that form part of a hedging relationship:

Foreign currency forward contracts – assets	Notional amount 'm	Fair value adjustment Rm	Average forward rate	Year-end revaluation rate
2020				
US dollar	203	231	USD16.56	USD17.43
Chinese yuan	1 815	405	CNY2.31	CNY2.53
	2 018	636		
2019				
US dollar	196	144	USD14.66	USD15.35
Chinese yuan	1 227	42	CNY2.13	CNY2.15
	1 423	186		
Foreign currency forward contracts – liabilities				
2020				
US dollar	14	(74)	USD16.56	USD17.43
Chinese yuan	91	(20)	CNY2.31	CNY2.53
	105	(94)		
2019				
US dollar	1	(2)	USD14.66	USD15.35
Chinese yuan	637	(14)	CNY2.13	CNY2.15
	638	(16)		

31.3 Foreign currency risk	2020 Rm	2019 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 (losses)/gains on financial instruments recognised within OCI comprises of:		
Forward exchange contracts	(1 231)	(427)
Transferred to inventory	928	532
Fair value adjustment on cash flow hedges	(303)	105

Changes in the fair value of forward exchange contracts of economically hedged monetary assets and liabilities in foreign currencies for which no hedge accounting is applied, are recognised in profit or loss.

31.4 Interest rate risk

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

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

The interest and related terms of the group's interest-bearing loans are disclosed in note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

At the reporting date, the interest rate profile of the group's financial instruments was:

	Subject to interest rate movement					
	Variable SA prime Rm	Variable JIBAR Rm	Other variable rates Rm	Fixed rate Rm	Non-interest-bearing Rm	Total Rm
2020						
Non-current financial assets	35	–	–	139	14	188
Current financial assets	6 332	–	956	2 244	2 258	11 790
Non-current financial liabilities	(2 014)	(10 506)	–	–	–	(12 520)
Current financial liabilities	(3 251)	–	(155)	–	(7 366)	(10 772)
	1 102	(10 506)	801	2 383	(5 094)	(11 314)
2019						
Non-current financial assets	67	–	–	259	2	328
Current financial assets	2 962	–	3 242	2 658	3 016	11 878
Non-current financial liabilities	(6 008)	(9 500)	–	–	–	(15 508)
Current financial liabilities	(847)	(1 500)	–	–	(11 547)	(13 894)
	(3 826)	(11 000)	3 242	2 917	(8 529)	(17 196)

Market-related rates were used in the determination of the fair values of the fixed-rate financial assets. The carrying amounts presented are not materially different from the fair value. Further details pertaining to these are disclosed in note 14 (Investments and loans) and note 17 (Loans to customers).

Sensitivity analysis

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

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

	2020 Rm	2019 Rm
Through (profit)/loss		
SA Prime – 100 basis point increase	(11)	38
JIBAR – 100 basis point increase	105	110

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

31.5 Credit risk

Potential concentration of credit risk consists principally of short-term cash and cash equivalent investments, trade and other receivables, instalment sale receivables, credit sales through store cards, loans to customers as well as related-party receivables and financial guarantees. The group deposits short-term cash surpluses with major banks of quality credit standing. Instalment sale receivables, credit sales through store cards and loans to customers comprise a large and widespread customer base and group companies perform ongoing credit evaluations on the financial condition of their customers. As at year-end, R551 million (2019: R426 million) of receivables were insured (this includes discontinued operations' receivables). At 30 September 2020, the group did not consider there to be any significant concentration of credit risk that had not been adequately provided for. The amounts presented in the statement of financial position are net of provisions for expected credit losses, estimated by the group companies' management based on past events, current conditions and supportable forecasts and economic conditions.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

	2020 Rm	2019 Rm
The maximum exposure to credit risk at the reporting date without taking account the value of any collateral obtained was:		
Investments and loans (note 14)	73	107
Loans to employees and key management (note 14)	35	67
Cash and cash equivalents (note 31.5.2)	5 241	3 925
Loan to associate (note 13)	50	50
Instalment sale agreements (note 31.5.1)	923	989
Credit sales through store cards (note 31.5.1)	2 348	2 343
Trade and other receivables (note 31.5.1)	1 934	2 952
Insurance and reinsurance receivables (note 19.2)	9	–
Loans to customers (note 31.5.1)	1 416	1 823
Financial assets	12 029	12 256
Financial guarantees (note 31.6)	–	491
	12 029	12 747

31.5.1 Credit risk modelling applied to financial assets at amortised cost

The group's financial assets measured at amortised cost are subject to impairment under the ECL model. The inputs, assumptions and estimation techniques used in measuring ECL are explained below.

Measurement of ECL in terms of the general model for impairment

ECLs are measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted value of the PD and EAD, of which PD represents the likelihood of a counterparty defaulting on its financial obligation, either over 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. EAD is based on the amounts the group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). The group calculates LGD as discounted EAD.

These three components are multiplied together, which effectively calculates the ECL. The ECL is then discounted back to the reporting date, using the original effective interest rate, and aggregated. ECL is a probability weighted outcome.

The 12-month and lifetime EADs are determined based on the probability of default, which varies by type of financial asset.

The group considers the probability of default on initial recognition of its financial asset measured at amortised cost and whether there has been a SICR on an ongoing basis throughout each reporting period. To assess whether there is an SICR, the group compares the risk of a default occurring on these asset as at the reporting date with the risk of default as at the date of initial recognition. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the credit risk team (refer to significant judgements and estimates for the groups of significant judgement exercised in assessing the SICR). Receivables with a significant financing component are grouped into stage 1, 2 and 3 as described below:

Stage 1: On recognition of financial assets, the group recognises a loss allowance based on 12 months ECLs. For disclosure purposes the stage 1 ECLs are split between performing and in arrears, where performing represents up to date debt outstanding and its corresponding ECL provision and in arrears represents debt outstanding where debt is outstanding for more than 30 days and its corresponding ECL provision.

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

Stage 3: Financial assets are considered to be credit-impaired. Financial assets are considered to be credit-impaired when one of more events that have an unfavourable impact on its estimated future cash flows have occurred. The group records a loss allowance for the lifetime ECLs.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Default and credit-impaired assets

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

	Loans to customers	Instalment sale agreements	Credit sales through store cards
Criteria used for credit-impaired accounts	Debt review accounts and non-performing accounts. As a backstop for all other customers, customers with three consecutive unpaid instalments.	Suspected fraud on a loan and loans exceeding maturity date. As a backstop for all other customers, customers with three consecutive unpaid instalments.	Three consecutive unpaid instalments/90 days in arrears.

A credit-impaired account will cure when the customer does not meet the criteria for being a credit-impaired account. For a customer to cure, a significant improvement in the customer's payment behaviour is required.

	Loans to customers	Instalment sale agreements	Credit sales through store cards
Curing occurs in the following instances	Customers with rescheduled loans are deemed to be rehabilitated once they have made contractual payments for 12 months post rescheduling and are up to date with their amended contractual obligations. For all other customers to cure, the customer is required to make 12 months of clean payments.	Customers where the facility is 90 days in arrears will cure after the customer has settled arrears causing the 90 days arrears and have maintained less than 90 days arrears for three consecutive months.	Customer accounts will cure when three consecutive instalments are paid. Accounts in debt counselling will cure when the customer is deemed to no longer be under debt counselling in terms of the National Credit Act.

Forward-looking factors

The group further considers available reasonable and supportive forwarding-looking information without undue cost or effort and for which significant judgements and estimates are applied. Refer to significant judgements and estimates for the forward-looking information incorporated in the determination of ECLs.

COVID-19 overlays

During the current year, the group applied additional COVID-19 overlays in order to derive the ECLs. Refer to significant judgements and estimates for the COVID-19 overlays incorporated in the determination of ECLs.

Measurement of ECL in terms of the provision matrix:

For short-term trade receivables, e.g. trade receivables without a significant financing component, the determination of forward-looking economic scenarios may be less significant given that over the credit risk exposure period a significant change in economic conditions may be unlikely, and historical loss rates might be an appropriate basis for the estimate of expected future losses. The group has elected to apply the provision matrix for trade receivables without a significant financing component and measures the impairment allowance at an amount equal to lifetime ECL. Lifetime ECL is assessed by applying the relevant loss rates to the trade receivable balance outstanding (i.e. a trade receivable age analysis). Due to the diversity of the group's customer base, the group used appropriate groupings if the historical credit loss experience showed significantly different loss patterns for different customer segments.

Write-off policy

Financial assets are written off when there is no reasonable expectation of recovery of the receivable or part thereof. The write-off periods differ for each type of financing the group offers to their respective clients and are detailed in the significant judgements and estimates note. Where these financial assets have been written off, the group continues to engage in enforcement activity to attempt to recover the receivable due. Subsequent recoveries made are recognised in profit or loss. Refer to note 3 for more detail on receivables written off.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

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

Investments

Investments consist of unlisted Angolan government bonds and unlisted Standard Bank of Angola bonds (see note 14). The ECL on these bonds is measured using the general model based on 12-month ECLs as there was no significant increase in credit risk from initial recognition of these bonds. There has been no default in payments based on historical information and no significant decrease in credit ratings since initial recognition.

The group has assessed ECLs based on past events, current conditions and supportable forecasts, and economic conditions that affect the expected collectability of future cash flows at reporting date and has deemed the ECLs to be insignificant.

Insurance and reinsurance receivables

Insurance and reinsurance receivables relate to insurance granted under the newly acquired business, Abacus. The ECL on the receivables is measured using the general model based on 12-month ECLs as there was no significant increase in credit risk from initial recognition of this loan. There has been no default in payments based on historical information and no significant decrease in credit ratings since initial recognition.

The group has assessed ECLs based on past events, current conditions and supportable forecasts, and economic conditions that affect the expected collectability of future cash flows at reporting date and has deemed the ECLs to be insignificant.

Loan to associate

Loan to associate consist of a loan granted to S'Ya Phanda Proprietary Limited for funding the entity for black supplier development initiatives as detailed in note 13. The ECL on the loan is measured using the general model based on 12-month ECLs as there was no significant increase in credit risk from initial recognition of this loan. There has been no default in payments based on historical information and no significant decrease in credit ratings since initial recognition.

The group has assessed ECLs based on past events, current conditions and supportable forecasts, and economic conditions that affect the expected collectability of future cash flows at reporting date and has deemed the ECLs to be insignificant.

Loans to current and previous employees and members of key management

Loans were advanced in the prior years to current and previous employees and members of key management to enable them to purchase shares in BVI. The loans were granted after reviewing each employee or member of key management's ability to repay the loan when it falls due, as well as with the underlying pledged shares in BVI. These loans were measured using the general model based on lifetime ECLs.

In 2019, management was of the view that an additional impairment provision should be raised as the underlying security to the loans' value had decreased since the inception of these loans, thus being in an indicator of impairment. In addition to the shares pledged as security, management assesses each employee or member of key management's abilities to repay the loan when it falls due annually based on the employees' future remuneration, financial health and payment plan. Management used historical and current information to estimate the ECL.

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

The majority of loans to current and previous employees and members of key management were classified as stage 2, as there was a SICR due to the loans being outstanding for more than 90 days as well as the underlying investment which acted as security to the loans being devalued to Rnil. Previous employees' loans were classified as stage 3 as these are deemed to be credit-impaired, due to the uncertainty of whether these loans will be repaid due to these individuals no longer being employed by the company. This is, however, an insignificant portion to the total amount outstanding.

	2020 Rm	2019 Rm
Balance at beginning of year	(100)	(60)
Provision raised	–	(40)
Balance at end of year	(100)	(100)

Instalment sale agreements

Instalment sale agreements relate to the credit purchases of goods by customers in South Africa within the furniture, appliances and electronics operating segment (the majority of these borrowings are deemed to be secured by the product purchased by the customer) (refer to note 16 for more detail on the process of granting instalments to customers). The group applies the general approach to calculating the ECL allowance for these balances as they are deemed to have a significant financing component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Instalment sale agreements (continued)

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

	Performing (stage 1)	In arrears (stage 1)	Under-performing (stage 2)	Non-performing (stage 3)	Total
2020					
Expected credit loss rate	10.5%	–	36.8%	83.8%	43.4%
Estimated gross carrying amount of default (Rm)	674	–	351	605	1 630
12-month ECL (Rm)	(71)	–	–	–	(71)
Lifetime ECL (Rm)	–	–	(129)	(507)	(636)
Total ECL (Rm)	(71)	–	(129)	(507)	(707)
Net carrying amount (Rm)	603	–	222	98	923
2019					
Expected credit loss rate	15.4%	–	52.8%	78.6%	33.1%
Estimated gross carrying amount of default (Rm)	946	–	290	243	1 479
12-month ECL (Rm)	(146)	–	–	–	(146)
Lifetime ECL (Rm)	–	–	(153)	(191)	(344)
Total ECL (Rm)	(146)	–	(153)	(191)	(490)
Net carrying amount (Rm)	800	–	137	52	989

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

	Performing (stage 1) Rm	In arrears (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Balance at 30 September 2018	(12)	–	(36)	(38)	(86)
Allowance on credit granted during the year	(143)	–	(132)	(175)	(450)
Derecognition of allowance due to settlement of outstanding debt	2	–	2	4	8
Amounts written off	1	–	3	24	28
Amounts recovered	5	–	10	3	18
Net remeasurement of loss allowances	–	–	–	(8)	(8)
Balance at 30 September 2019	(147)	–	(153)	(190)	(490)
Acquisition of businesses (note 29)	–	–	–	(30)	(30)
Allowance on credit granted during the year	(59)	–	(87)	(187)	(333)
Derecognition of allowance due to settlement of outstanding debt	16	–	12	6	34
Amounts written off	11	–	46	135	192
Amounts recovered	33	–	24	14	71
Net remeasurement of loss allowances	75	–	29	(255)	(151)
Balance at 30 September 2020	(71)	–	(129)	(507)	(707)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Credit sales through store cards

Credit sales through store cards relate to the credit purchases of goods by customers in South Africa (with an insignificant portion in Botswana and Swaziland) within the clothing and general merchandise operating segment (these borrowings are deemed to be unsecured) (refer to note 16 for more detail on the process of granting credit to customers). The group elected to apply the general approach to calculating the ECL allowance for these balances.

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

	Performing (stage 1)	In arrears (stage 1)	Under performing (stage 2)	Non-performing (stage 3)	Total
2020					
Expected credit loss rate	7.4%	–	36.3%	78.6%	21.7%
Estimated gross carrying amount of default (Rm)	2 171	–	380	448	2 999
12-month ECL (Rm)	(161)	–	-	–	(161)
Lifetime ECL (Rm)	–	–	(138)	(352)	(490)
Total ECL (Rm)	(161)	–	(138)	(352)	(651)
Net carrying amount (Rm)	2 010	–	242	96	2 348
2019					
Expected credit loss rate	5.0%	–	44.0%	68.5%	17.0%
Estimated gross carrying amount of default (Rm)	2 171	–	311	340	2 822
12-month ECL (Rm)	(109)	–	–	–	(109)
Lifetime ECL (Rm)	–	–	(137)	(233)	(370)
Total ECL (Rm)	(109)	–	(137)	(233)	(479)
Net carrying amount (Rm)	2 062	–	174	107	2 343

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

	Performing (stage 1) Rm	In arrears (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Balance at 30 September 2018	(92)	–	(108)	(193)	(393)
Allowance on credit granted during the year	(208)	–	(56)	(63)	(327)
Derecognition of allowance due to settlement of outstanding debt	139	–	269	101	509
Amounts written off	–	–	–	245	245
Net remeasurement of loss allowances	55	–	(239)	(329)	(513)
Balance at 30 September 2019	(106)	–	(134)	(239)	(479)
Allowance on credit granted during the year	(310)	–	(57)	(86)	(453)
Derecognition of allowance due to settlement of outstanding debt	214	–	263	123	600
Amounts written off	–	–	–	355	355
Net remeasurement of loss allowances	41	–	(210)	(505)	(674)
Balance at 30 September 2020	(161)	–	(138)	(352)	(651)

Loans to customers

Loans to customers relate to unsecured loans granted to customers in South Africa for a period of three to 24 months up to the value of R50 000 per loan granted (refer to note 17 for more detail on the process of granting loans to customers). The group applies the general approach to calculating the ECL allowance for these balances as they are deemed to have a significant financing component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Loans to customers (continued)

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

	Performing (stage 1)	In arrears (stage 1)	Under-performing (stage 2)	Non-performing (stage 3)	Total
2020					
Expected credit loss rate	7.8%	–	27.7%	79.6%	25.7%
Estimated gross carrying amount of default (Rm)	1 207	–	310	388	1 905
12-month ECL (Rm)	(94)	–	–	–	(94)
Lifetime ECL (Rm)	–	–	(86)	(309)	(395)
Total ECL (Rm)	(94)	–	(86)	(309)	(489)
Net carrying amount (Rm)	1 113	–	224	79	1 416
2019					
Expected credit loss rate	5.7%	–	37.1%	85.3%	15.4%
Estimated gross carrying amount of default (Rm)	1 731	–	267	156	2 154
12-month ECL (Rm)	(99)	–	–	–	(99)
Lifetime ECL (Rm)	–	–	(99)	(133)	(232)
Total ECL (Rm)	(99)	–	(99)	(133)	(331)
Net carrying amount (Rm)	1 632	–	168	23	1 823

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

	Performing (stage 1) Rm	In arrears (stage 1) Rm	Under-performing (stage 2) Rm	Non-performing (stage 3) Rm	Total Rm
Balance at 30 September 2018	–	–	–	–	–
Allowance on credit granted during the year	(99)	–	(99)	(149)	(347)
Amounts written off	–	–	–	16	16
Balance at 30 September 2019	(99)	–	(99)	(133)	(331)
Allowance on credit granted during the year	(350)	–	(113)	(181)	(644)
Derecognition of allowance due to settlement of outstanding debt	157	–	136	63	356
Amounts written off	–	–	–	531	531
Net remeasurement of loss allowances	198	–	(10)	(589)	(401)
Balance at 30 September 2020	(94)	–	(86)	(309)	(489)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

31.5 Credit risk (continued)

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

Trade receivables and other amounts due

Trade receivables consist mainly of credit purchases of goods by customers within the building materials operating segment and receivables from cellular companies, of which the receivables from cellular companies are mainly not exposed to ECLs. The group applies the simplified approach to calculating the ECL allowance for trade receivables that do not have a significant financing component. This approach permits the use of the lifetime ECL regardless of stage classification and is based on a provision matrix that incorporates historical credit losses as well as forward-looking information as detailed above.

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

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

	2020 Rm	2019 Rm
Balance at beginning of the year	(253)	(166)
Increase in loss allowance during the year	(38)	(87)
Transfer to liabilities classified as held for sale (note 20)	121	–
Balance at end of the year	(170)	(253)

	2020			2019		
	Expected loss rate %	Gross carrying amount Rm	Loss allowance provision Rm	Expected loss rate %	Gross carrying amount Rm	Loss allowance provision Rm
Provision matrix used in the calculation of ECL allowances:						
Current	6.7	2 013	(135)	6.2	2 700	(168)
More than 30 days past due	–	5	–	1.9	155	(3)
More than 60 days past due	–	8	–	4.5	110	(5)
More than 90 days past due	44.9	78	(35)	32.1	240	(77)
	8.1	2 104	(170)	7.9	3 205	(253)

31.5.2 Cash and cash equivalents

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

	2020 Rm	2019 Rm
Rating		
Bank balances: A1	–	–
Bank balances: Aa3	–	–
Bank balances: Baa2	–	–
Bank balances: Baa3	4 393	3 212
Fixed deposits – African Banks	54	49
Bank balances: No rating available	299	167
Cash on hand/cash in transit	495	497
	5 241	3 925

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

Global Long-Term Rating Scale:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

31. FINANCIAL INSTRUMENTS (continued)

31.6 Liquidity risk

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

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

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

	0 to 3 months Rm	4 to 12 months Rm	Year 2 Rm	Years 3 to 5 Rm	After 5 years Rm	Total Rm
2020						
Interest-bearing loans and borrowings	(178)	(530)	(4 629)	(8 953)	–	(14 290)
Lease liabilities	(864)	(2 426)	(3 132)	(7 337)	(5 958)	(19 717)
Bank overdrafts and short-term facilities	(241)	–	–	–	–	(241)
Trade and other payables (financial liabilities)	(10 452)	(104)	–	–	–	(10 556)
Insurance and reinsurance payables	(13)	(36)	–	–	–	(49)
Related-party payables	(35)	–	–	–	–	(35)
	(11 783)	(3 096)	(7 761)	(16 290)	(5 958)	(44 888)
2019						
Interest-bearing loans and borrowings	(396)	(2 610)	(6 191)	(11 310)	(1)	(20 508)
Bank overdrafts and short-term facilities	(347)	–	–	–	–	(347)
Trade and other payables (financial liabilities)	(11 532)	(9)	–	–	–	(11 541)
Related-party payables	(32)	–	–	–	–	(32)
Financial guarantees	(491)	–	–	–	–	(491)
	(12 798)	(2 619)	(6 191)	(11 310)	(1)	(32 919)

Financial guarantees

The financial guarantees are included in the maturity analysis under the 0 to 3 months bracket based on the maximum amount that can be called for under the financial guarantee contract. The BVI financial guarantee was provided for in full as at 30 September 2019 and subsequently settled, as disclosed in note 14 and below.

	2020 Rm	2019 Rm
Performance guarantee:		
BVI	–	(491)
	–	(491)
Movement in BVI guarantee in terms of IFRS 9:		
Opening balance	(491)	(451)
Provision for expected credit losses	(28)	(40)
Settlement of BVI guarantees	519	–
Balance at end of year	–	(491)

The group refinanced its interest-bearing loans and borrowings, which was successfully concluded and implemented on 30 September 2020. Refer to note 22 for more detail. Further, as part of the same process, debt covenants over these funding facilities were amended to create sufficient headroom and enhanced flexibility going forward. These covenants will become effective during the 2021 financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	As at 30 September 2020 Required covenant	As at 30 September 2020 Achieved
31. FINANCIAL INSTRUMENTS (continued)		
31.6 Liquidity risk (continued)		
Financial guarantees (continued)		
2020 Covenants:		
Net debt:EBITDA[1] cover	< 2.75	1.02
Interest cover	> 4	5.38

	31 March 2021 Required covenant	30 September 2021 and thereafter Required covenant
Covenants from the 2021 financial year:		
Net debt:EBITDA[1] cover	< 3.25	< 3.00
Interest cover	> 3.00	> 3.50

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

31.7 Treasury risk

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

31.8 Capital risk

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

The capital structure of the group consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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

31.9 Insurance risk

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

32. RELATED-PARTY TRANSACTIONS

Related-party relationships exist between shareholders, subsidiaries, joint-venture companies and associate companies within the group and its company directors and group key management employees.

Key management and directors did not have any material transactions with the group, other than those transactions disclosed below. Refer to directors' interest in contracts for directors' interest in transactions with the group (note 32.7).

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

At the date of this report, the direct holding company of the group is Ainsley Holdings Proprietary Limited. The ultimate holding company of the group is Steinhoff (Lancaster 101 Proprietary Limited owns a minority share).

The summary below reflects the material transactions with fellow subsidiaries, associate companies and joint-venture companies during the year and related receivables and payables balances at year-end:

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

Nature of related-party relationship	Nature of service
Pepkor Group Sourcing, a wholly owned subsidiary of Steinhoff.	Sourcing certain of its products for a sourcing commission, mainly within the clothing and general merchandise segment.
Steinhoff Properties Proprietary Limited and JD Group Property Holding Proprietary Limited and its subsidiaries, wholly owned subsidiaries of Steinhoff.	Rental of properties owned by Steinhoff. The properties include warehouses used by the furniture, appliances and electronics segment, distribution centres used by the clothing and general merchandise segment and a call centre used to collect on the debtors relating to credit sales through store cards.
Steinhoff Africa Holdings Proprietary Limited, wholly owned subsidiaries of Steinhoff.	Payment of non-executive committee fees.
Steinhoff International Holdings N.V.	Amount due to Steinhoff for shares allocated in 2017 under the Steinhoff share scheme to employees of the JD Group business. The amount remains in dispute with Steinhoff.
Unitrans Automotive Proprietary Limited, a wholly owned subsidiary of Steinhoff until 27 November 2019. Subsequent to this date the entity was no longer a related party.	Car rentals from Hertz and purchase of vehicles and related vehicle expenses from Unitrans.
Unitrans Insurance Limited, a wholly owned subsidiary of Steinhoff until 27 November 2019. Subsequent to this date the entity was no longer a related party.	Vehicle-related insurance
Lancaster Electricity Solutions Proprietary Limited, a company controlled by a non-executive director of Pepkor.	Agreement 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 is shared on an equal basis. The services relate to the sale of electricity.
Business Venture Investments 1499 (RF) Proprietary Limited	Investment entity for key management and employees.
Pepco Poland Sp. z.o.o and Poundland UK and Europe Limited	EeziGlobal manages the relationship between the suppliers of virtual products (being Domestic airtime, International airtime, e-vouchers and Point of sale activation cards) and the retailers being Pepco Poland Sp. z.o.o, Poundland UK Europe Limited and Dealz. EeziGlobal manage the relationship, distribution and commissions for physical sim cards sold from the Poundland stores.
S'Ya Phanda Proprietary Limited, an associated company of Pepkor.	Provision of B-BBEE consulting services and is intended to make strategic investments in the supply chain.
GT Global Trademarks SA	Purchase of Sleepmasters trademark for the furniture, appliances and electronics segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

32. RELATED-PARTY TRANSACTIONS (continued)

32.1.2 Transactions no longer classified as related in the current year/classified as related-party only for a period during the year:

Nature of related-party relationship	Nature of service
KAP Industrial Holdings Limited and its subsidiaries, previously an associated company of Steinhoff, was disposed of on 29 March 2019. Related-party information has therefore been presented until 29 March 2019.	Mainly relates to purchases from PG Bison by the Pepkor building materials segment and purchase from Restonic by the furniture, appliances and electronics segment.
Goscor Lift Truck Company Proprietary Limited, a subsidiary of the Investec Equity Partner Group, a company controlled by Steinhoff.	Purchase of forklifts used in distribution centres and distribution hubs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
32. RELATED-PARTY TRANSACTIONS (continued)		
32.1 Related-party transactions and balance		
32.1.3 Related-party transactions in the current and prior year		
Receivables		
Pepkor Group Sourcing (Fully Sun China Limited (HK))	–	2
Pepco Poland Sp. z o.o.	4	–
Poundland UK and Europe Limited	1	–
	5	2
Payables		
Steinhoff International Holdings N.V.	(22)	(23)
Pepkor Group Sourcing (Fully Sun China Limited (HK))	(8)	(7)
Unitrans Automotive Proprietary Limited	–	(1)
Poundland UK and Europe Ltd	(4)	–
Lancaster Electricity Solutions Proprietary Limited	(1)	(1)
	(35)	(32)
Loans receivable from associated companies		
S'Ya Phanda Proprietary Limited	50	50
Dividends paid to:		
Ainsley Holdings Proprietary Limited	512	681
Lancaster 101 Proprietary Limited	63	84
	575	765
Revenue from:		
Pepco Poland Sp. z o.o.	34	–
Poundland UK and Europe Limited	1	–
	35	–
Purchases from:		
KAP Industrial Holdings Limited and its subsidiaries	–	(385)
Unitrans Automotive Proprietary Limited	–	(4)
Unitrans Insurance Proprietary Limited	–	(11)
Fully Sun China Limited (Hong Kong)	(43)	–
Poundland UK and Europe Limited	(16)	–
Other related parties	–	(1)
	(59)	(401)
Purchase of trademark from:		
GT Global Trademarks SA	(4)	–
Directors fees paid to:		
Steinhoff Africa Holdings Proprietary Limited	(2)	(2)
Procurement fees paid to:		
Pepkor Group Sourcing (Fully Sun China Limited (HK))	(33)	(90)
Pepkor Europe Limited	(2)	–
	(35)	90
Other operating fees (paid to)/received from:		
Unitrans Automotive Proprietary Limited	(1)	(1)
Unitrans Insurance Proprietary Limited	–	2
	(1)	1
Net rebates received from:		
KAP Industrial Holdings Limited and its subsidiaries	–	25
Settlement discounts received from:		
KAP Industrial Holdings Limited and its subsidiaries	–	3
Net rent paid to:		
Steinhoff Properties Proprietary Limited	(69)	(98)
JD Group Property Holding Proprietary Limited and its subsidiaries	(42)	(62)
	(111)	(160)
Fees paid to:		
Lancaster Electricity Solutions Proprietary Limited	(8)	(8)
Interest received from:		
Business Venture Investments 1499 (RF) Proprietary Limited	7	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
32. RELATED-PARTY TRANSACTIONS (continued)		
32.1.3 Related-party transactions in the current and prior year		
Capex purchases		
Goscor Lift Truck Company Proprietary Limited (subsidiary of IEP Group)	–	(6)
Unitrans Automotive Proprietary Limited	–	(22)
	–	(28)

32.2 Significant subsidiaries

	2020 year-end	2019 year-end	30 September 2020 Ownership %	30 September 2019 Ownership %
Pepkor HoldCo Proprietary Limited	26 September	28 September	100	100
Pepkor Trading Proprietary Limited	26 September	28 September	100	100
Pepkorfin Proprietary Limited	26 September	28 September	100	100
Pepkor Capital (RF) Proprietary Limited	26 September	28 September	100	100
Pepkor Speciality Proprietary Limited	26 September	28 September	100	100
Iliad Africa Trading Proprietary Limited	30 September	30 September	100	100

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

32.3 Directorate

The directors of the company are as follows:

Executive directors

LM Lourens (chief executive officer)
RG Hanekom (chief financial officer)

Non-executive directors

J Naidoo (chairman until 30 November 2020)[1]	
JD Wiese	
TLR de Klerk	Appointed 29 May 2019
LJ du Preez	
Independent non-executive directors	
SH Müller	
JB Cilliers	
F Petersen-Cook	
WYN Luhabe (chairman from 1 December 2020)[1]	Appointed 1 January 2019
Directors who resigned	
MJ Harris	Appointed 30 July 2018 and resigned 19 February 2020

[1] *Subsequent to year-end, J Naidoo's term as chairman of the board of directors came to an end effective 30 November 2020 and he elected to not continue for another term. The board has appointed WYN Luhabe as the new chairman effective 1 December 2020.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

32. 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	Chairman	–
LJ du Preez	–	x	x	–
TLR de Klerk	–	–	–	–
Independent non-executive directors				
SH Müller	x	Chairman	–	–
JB Cilliers	Chairman	–	x	–
F Petersen-Cook	x	–	–	Chairman
WYN Luhabe	–	–	–	x
Executive directors				
LM Lourens	–	–	–	x
RG Hanekom	–	–	–	–

32.4 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:

	2020		2019	
	Direct/ indirect	Number of shares	Direct/ indirect	Number of shares
J Naidoo through Lancaster 101 Proprietary Limited	Indirect	306 141 663	Indirect	302 439 024
LM Lourens through Leon Lourens Beleggings Proprietary Limited	Indirect	70 826	Indirect	69 970
LJ du Preez (2019: who declares his interest in Taurus Trust of which he is a trustee (not beneficiary))	Direct	10 122	Indirect	10 000
F Petersen-Cook	Direct	4 048		–
		306 226 659		302 518 994

From 1 October 2020 to the date of approval of the company's consolidated financial statements, there were no dealings by directors in the company's ordinary shares.

32.5 Compensation of key management personnel

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

Remuneration of the executive and non-executive directors was paid by Steinhoff and Pepkor during the year. Share-based payments are linked to the Steinhoff scheme as defined under note 27. Details relating to directors' emoluments are disclosed in note 33.

	Year ended 30 September 2020 R'000	Year ended 30 September 2019 R'000
Compensation paid to key management and directors – Pepkor	87 232	85 049
Compensation paid to key management and directors – Steinhoff	107 189	90 591
Share-based payments – Pepkor scheme – post-2018	39 175	23 808
	233 596	199 448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

32. RELATED-PARTY TRANSACTIONS (continued)

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
32.6 Loans to related-parties		
The loans to employees and key management, which terms are disclosed in note 14, include the following loans to key management members:		
JL Hamman	**7**	**8**
CA Cronje	**1**	**1**
CJ Klem	**5**	**6**
S Voges	**3**	**4**
E Morkel[1]	**8**	**–**
	24	**19**

[1] During the current year, E Morkel became a member of key management. Her loan has therefore been disclosed from 2020.

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

32.7 Directors' interest in contracts

In 2015, Lancaster Electricity Solutions Proprietary Limited, partially owned by J Naidoo (the director of the Pepkor board) through a 25% holding in Lancaster 101 Proprietary Limited, entered into an agreement with Flash Mobile Vending Proprietary Limited, a wholly owned subsidiary of the group, in terms of which a commission is earned net of costs incurred and shared between the partners on an equal basis. The services relate to the sale of electricity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Basic remuneration R'000	Company and pension fund contributions R'000	Company directors' fees R'000	Annual bonus R'000	Deferred cash long term[2] R'000	Retention bonus R'000	Total remuneration and fees R'000
33. REMUNERATION REPORT							
33.1 Remuneration of the executive directors							
2020							
LM Lourens	6 237	1 087	–	1 188	1 200	3 901	13 613
RG Hanekom	3 689	704	–	712	1 200	3 724	10 029
Paid by Pepkor	9 926	1 791	–	1 900	2 400	7 625	23 642
2019							
LM Lourens	6 449	1 021	–	3 287	1 200	3 901	15 858
RG Hanekom	3 830	650	–	1 971	1 200	3 724	11 375
Paid by Pepkor	10 279	1 671	–	5 258	2 400	7 625	27 233
33.2 Remuneration of the other executive directors							
2020							
Total other executive directors	25 029	4 358	–	3 010	7 860	16 104	56 361
2019							
Total other executive directors	19 702	3 919	–	7 021	4 900	14 424	49 966
33.3 Remuneration of the non-executive directors paid							
2020							
J Naidoo	–	–	1 819	–	–	–	1 819
JD Wiese	–	–	605	–	–	–	605
SH Müller	–	–	1 181	–	–	–	1 181
JB Cilliers	–	–	1 344	–	–	–	1 344
F Petersen-Cook	–	–	1 242	–	–	–	1 242
MJ Harris	–	–	288	–	–	–	288
WYN Luhabe	–	–	750	–	–	–	750
Paid by Pepkor	–	–	7 229	–	–	–	7 229
TLR de Klerk	20 479	1 077	–	25 349	784	–	47 689
LJ du Preez	23 644	974	–	32 773	2 109	–	59 500
Paid by Steinhoff[1]	44 123	2 051	–	58 122	2 893	–	107 189
Total	44 123	2 051	7 229	58 122	2 893	–	114 418
2019							
J Naidoo	–	–	2 071	–	–	–	2 071
JD Wiese	–	–	621	–	–	–	621
SH Müller	–	–	1 355	–	–	–	1 355
JB Cilliers	–	–	1 451	–	–	–	1 451
F Petersen-Cook	–	–	1 046	–	–	–	1 046
MJ Harris	–	–	690	–	–	–	690
PE Erasmus	–	–	262	–	–	–	262
WYN Luhabe	–	–	354	–	–	–	354
Paid by Pepkor	–	–	7 850	–	–	–	7 850
PJ Dieperink	21 430	308	–	14 241	–	–	35 979
DM van der Merwe	9 917	480	–	9 360	–	–	19 757
TLR de Klerk	4 904	296	–	–	–	–	5 200
LJ du Preez	19 321	974	–	9 360	–	–	29 655
Paid by Steinhoff[1]	55 572	2 058	–	32 961	–	–	90 591
Total	55 572	2 058	7 850	32 961	–	–	98 441

[1] *Relates to remuneration received for services provided to Steinhoff. The fees to directors include fees paid as directors of ultimate holding company Steinhoff where directors serve on the board of the company and holding company. The amount payable to Steinhoff for the attendance of Pepkor board meetings as well as being non-executive Pepkor board members amounts to R1.50 million (2019: R1.96 million). During the financial year, the non-executives from Steinhoff made a donation of 30% of fees to the Solidarity Fund and CoCare Initiative that amounted to R 132 900 for the period April to June 2020.*

[2] *This relates to annual leave paid out for Steinhoff non-executive committee members.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

33. REMUNERATION REPORT (continued)

During the year, executive and non-executive directors donated 30% of their salaries to the Solidarity fund or to other charities for the period April to June 2020.

	Total remuneration and fees R'000
33.4 COVID-19 salary sacrifice	
2020	
LM Lourens	594
RG Hanekom	356
Executive directors	950
Other executive committee members	1 548
Total paid by Pepkor	2 498
J Naidoo	163
JD Wiese	50
SH Müller	109
JB Cilliers	124
WYN Luhabe	59
Non-executive committee	505
Total	3 003

	2020 R'000	2019 R'000
33.5 Directors' fees and remuneration		
Remuneration paid by:		
Steinhoff and its subsidiary companies	107 189	90 591
Pepkor and its subsidiary companies	30 871	35 083
	138 060	125 674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Offer date	Vesting date	Number of rights as at 30 September 2019	Number of rights forfeited during the year	Number of rights as at 30 September 2020	Value of rights exercised during the year R	Value of rights awarded during the year R
33. REMUNERATION REPORT (continued)							
33.6 Share rights – Steinhoff Scheme							
Directors paid for services at Pepkor level							
RG Hanekom							
	March 2016	March 2019	–	–	–	–	–
	March 2017	March 2020	111 251	(111 251)	–	–	–
			111 251	(111 251)	–	–	–
LM Lourens							
	March 2016	March 2019	–	–	–	–	–
	March 2017	March 2020	121 365	(121 365)	–	–	–
			121 365	(121 365)	–	–	–
Total executive directors paid by Pepkor			232 616	(232 616)	–	–	–
Directors paid for services at Steinhoff level only[1]							
LJ du Preez							
	No shares granted		–	–	–		
			–	–	–	–	–
TLR de Klerk							
	March 2016	March 2019	–	–	–	–	–
	March 2017	March 2020	83 438	(83 438)	–	–	–
			83 438	(83 438)	–	–	–
Total non-executive directors paid by Steinhoff			714 384	(714 384)	–	–	–
Total directors paid at Steinhoff level			947 000	(947 000)	–	–	–

The 2016 rights grant was forfeited as the non-market-performance conditions were not met. The Steinhoff remuneration committee decided, during the 2019 and 2020 financial years respectively, that the 2016 and 2017 grants would not vest. The forfeitures in these years therefore include all remaining shares under these grants.

[1] *The rights relating to TLR de Klerk are for services rendered relating to Steinhoff.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

33. REMUNERATION REPORT (continued)

33.7 Share rights – Pepkor scheme

	Offer date	Conditional vesting date	Number of rights as at 30 September 2019	Number of rights awarded during the year	Number of rights as at 30 September 2020	Value of rights exercised during the year R	Value of rights awarded during the year[1] R
Directors paid for services at Pepkor level							
Fair value per share at date of exercise/vesting and/or grant							13.03
RG Hanekom							
	March 2018	March 2021	390 244	–	390 244	–	–
	March 2019	March 2022	536 756	–	536 756	–	–
	March 2020	March 2023	–	623 365	623 365	–	8 122 446
			927 000	623 365	1 550 365	–	8 122 446
LM Lourens							
	March 2018	March 2021	570 244	–	570 244	–	–
	March 2019	March 2022	797 835	–	797 835	–	–
	March 2020	March 2023	–	1 013 832	1 013 832	–	13 210 231
			1 368 079	1 013 832	2 381 911	–	13 210 231
Total executive directors			2 295 079	1 637 197	3 932 276	–	21 332 677

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

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

34. GOING CONCERN

The board of directors evaluated the going concern assumption as at 30 September 2020, taking into account the current financial position and their best estimate of the cash flow forecasts in terms of their current knowledge and expectations of ongoing developments of the COVID-19 pandemic, and considered it to be appropriate in the presentation of these financial statements.

The cash flows and liquidity projections for the group have been prepared for a period exceeding 12 months from the reporting date and included performing sensitivity analyses based on various scenarios. The group further secured additional cash of R1.9 billion through the accelerated book-build strengthening the group's balance sheet and has renegotiated covenants to ensure that the covenants are not breached at year-end and in the foreseeable future.

35. EVENTS AFTER BALANCE SHEET DATE

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

36. DISTRIBUTION TO ORDINARY SHAREHOLDERS

No dividends have been declared for the year ended 30 September 2020 in order to reserve cash in the current uncertain economic environment.

SEPARATE FINANCIAL STATEMENTS

for the year ended **30 September 2020**

Separate income statement

	Notes	Year ended 30 September 2020 Rm	Year ended 30 September 2019[1] Rm
Revenue	1	61	1 852
Operating expenses		(8 758)	(147)
Operating (loss)/profit	2	(8 697)	1 705
Finance cost	3	(58)	–
(Loss)/profit before taxation		(8 755)	1 705
Taxation	4	–	(7)
(Loss)/profit from continuing operations		(8 755)	1 698
Loss from discontinued operations	8	(1 544)	3
(Loss)/profit for the year		(10 299)	1 701

Separate statement of comprehensive income

	Year ended 30 September 2020 Rm	Year ended 30 September 2020[1] Rm
(Loss)/profit for the year	(10 299)	1 701
Other comprehensive income	–	–
Total comprehensive (loss)/profit for the year, net of taxation	(10 299)	1 701

[1] Prior year comparatives have been reclassified for the effect of the discontinued operation reflected in note 8.

SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

Separate statement of financial position

	Notes	30 September 2020 Rm	30 September 2019 Rm
ASSETS			
Non-current assets			
Investment in subsidiary companies	5	59 666	68 000
		59 666	68 000
Current assets			
Receivables	7	19	5
Related-party loan receivable	6	–	–
Cash and cash equivalents		2	–
		21	5
Assets classified as held for sale	8	1 216	–
		1 237	5
Total assets		60 903	68 005
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated share capital	10	67 234	64 690
Reserves		(10 239)	655
		56 995	65 345
Non-current liabilities			
Interest-bearing loans and borrowings	12	1 006	–
		1 006	–
Current liabilities			
Other payables and accruals	11	7	1
Related-party loans payable and payables	15	2 895	2 659
		2 902	2 660
Total equity and liabilities		60 903	68 005

SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

Separate statement of changes in equity

	Notes	Ordinary stated share capital Rm	Retained earnings Rm	Share-based payment reserve Rm	Total Rm
Balance at 30 September 2018		64 690	(231)	36	64 495
Total comprehensive profit for the year		–	1 701	–	1 701
Dividends paid		–	(959)	–	(959)
Share-based payments	9	–	–	108	108
Balance at 30 September 2019		64 690	511	144	65 345
Total comprehensive loss for the year		–	(10 299)	–	(10 299)
Scrip dividend/dividends paid		646	(721)	–	(75)
Share issued through accelerated book-build		1 898	–	–	1 898
Share-based payments	9	–	–	126	126
Balance at 30 September 2020		67 234	(10 509)	270	56 995

Separate statement of cash flows

	Notes	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	14	8	963
Dividends paid		(75)	(959)
Interest paid		(58)	–
Net cash (outflow)/inflow from operating activities		(125)	4
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in related-party loan and receivables		–	26
Net cash inflow from investing activities		–	26
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issued through accelerated book-build		1 898	–
Amounts received from related-party loans payable		519	–
Amounts paid to related-party loans payable	12.4	(2 290)	(30)
Net cash inflow/(outflow) from financing activities		127	(30)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2	–
Cash and cash equivalents at beginning of the year		–	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		2	–

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

for the year ended **30 September 2020**

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
1. REVENUE		
Dividends received – group companies (note 15.3)	–	1 830
Management fees received – group companies (note 15.3)	19	22
Interest received – group companies (note 15.3)	42	–
	61	1 852
2. OPERATING (LOSS)/PROFIT		
Operating (loss)/profit is stated after taking account of the following items:		
Impairment of related party loan receivable in SA Poco Retail Proprietary Limited (note 6)	68	89
Management fees paid – group companies (note 15.3)	24	30
Impairment of investments (note 5)	8 643	–
All directors' fees and remuneration were paid by subsidiary companies and the ultimate holding company. (Refer to note 15.4)		
3. FINANCE COSTS		
Finance cost paid on medium-term notes issued during the year	(37)	–
Finance cost paid to banks	(21)	–
	(58)	–
4. TAXATION		
Taxation charge		
Normal taxation		
South African normal taxation – current year	–	–
Deferred taxation		
South African deferred taxation – current year	–	(7)
	–	(7)

	%	%
Reconciliation of rate of taxation		
Standard rate of taxation	(28.0)	28.0
Creation of unrecognised taxation losses	–	0.7
Taxation exempt income	–	(30.0)
Non-deductible expenditure	28.0	1.7
Effective rate of taxation	(0.0)	0.4

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
5. INVESTMENT IN SUBSIDIARY COMPANIES		
Shares at cost at beginning of the year	67 856	70 177
Acquisition of investment in Abacus Holdco Proprietary Limited	183	–
Subscription in shares of The Building Company (note 5)	1 885	–
Transfer to asset held for sale (note 8)	(1 885)	–
Subscription in shares in SA Poco Retail Proprietary Limited (note 5)	252	–
Transfer of provision on related party loan in Poco Retail Proprietary Limited to investment in subsidiary company (note 5)	(252)	–
Capital distribution received	–	(2 321)
Impairment of investments	(8 643)	–
Shares at cost at end of the year	59 396	67 856
Share-based payments	270	144
	59 666	68 000

2020

Effective 1 December 2019, 100% of the issued share capital of Abacus Holdco Proprietary Limited and its subsidiaries (Abacus) was acquired for a purchase price of R183 million. The acquisition has been approved by the relevant regulatory authorities. The Abacus product offering includes life- and short-term insurance. Abacus provides insurance products via its subsidiaries to customers of JD Group and other group businesses.

During the year, the company subscribed in shares of The Building Company amounting to R1.9 billion.

As part of a restructure during the year, the company subscribed in an additional 252 million shares in SA Poco Retail Proprietary Limited for R252 million. This investment was, however, fully impaired to its recoverable amount of Rnil based on the fair value less cost to sell calculation as the company no longer trades and has no intention to trade in the foreseeable future.

The company impaired R8.9 billion of its investments held in Pepkor Holdco Proprietary Limited and R1.6 billion in its investments held in Tekkie Town Proprietary Limited to its fair value less cost to sell. The impairment is a result of constrained future growth expectations in PEP Africa, Speciality, Tekkie Town and the JD Group in addition to an increased weighted average cost of capital. Refer to note 8 in the group financial statements for the assumptions used.

2019

Capital distribution received

During the prior year, JD Group Proprietary Limited (JD Group) declared a capital distribution to the full extent of Pepkor's investment of R2.3 billion in JD Group. The capital distribution was treated as a reduction in the company's investment in subsidiaries. Further to the capital distribution, JD Group declared a normal distribution amounting to R830 million recognised as dividend income. Both distributions were made by way of distributions in specie as follows:

	Capital distribution Rm	Dividend in specie Rm	Total Rm
Loan to – The Building Company Proprietary Limited	–	89	89
Loan to – Pepkorfin Proprietary Limited	2 321	741	3 062
	2 321	830	3 151

The Pepkorfin Proprietary Limited loan of R3.1 billion was in turn ceded to Pepkor Capital (RF) Proprietary Limited as partial settlement of the company's loan due.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

5. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

	Issued share capital Rm	Shareholding Rm	Cost Rm	Accumulated impairment Rm	Carrying value Rm
30 September 2020[1]					
Pepkor Holdco Proprietary Limited	41 157	100	64 433	(6 998)	57 435
JD Group Proprietary Limited[2]	3 046	100	–	–	–
Tekkie Town Proprietary Limited	636	100	3 423	(1 645)	1 778
SA Poco Retail Proprietary Limited[2]	3 779	100	–	–	–
Abacus Holdco Proprietary Limited	100	100	183	–	183
			68 039	(8 643)	59 396
30 September 2019[1]					
Pepkor Holdco Proprietary Limited	41 157	100	64 433	–	64 433
JD Group Proprietary Limited[2]	3 046	100	–	–	–
Tekkie Town Proprietary Limited	636	100	3 423	–	3 423
The Building Company[2]	100	100	–	–	–
SA Poco Retail Proprietary Limited[2]	3 528	100	–	–	–
			67 856	–	67 856

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

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
6. RELATED PARTY LOAN RECEIVABLES		
Related party loan receivable	–	273
Provision for impairment	–	(273)
Net of impairment provision	–	–
Reconciliation of movement for the year		
Balance at beginning of the year	–	–
Additional loan to SA Poco Retail Proprietary Limited (2020: through cession agreement)	68	89
Impairment provision against loan advanced (note 2)	(68)	(89)
Cession of related party loan receivable from The Building Company from Pepkorfin Proprietary Limited	2 135	–
Cession of related party loan receivable from The Building Company from Pepkor Capital (RF) (Proprietary) Limited	627	–
Subscription in shares of The Building Company Proprietary Limited (Note 5)	(1 885)	–
Subscription in shares in SA Poco Retail Proprietary Limited (note 5)	(252)	–
Transfer of provision on related party loan in SA Poco Retail Proprietary Limited to investment in subsidiary company (note 5)	252	–
Transfer to asset held for sale (note 8)	(877)	–
Balance at end of the year	–	–

During the year, the following related party loan receivables were ceded to the company:

- Pepkorfin Proprietary Limited ceded its loan receivable from The Building Company to the value of R2.1 billion to the company.
- Pepkor Capital (RF) Proprietary Limited ceded its loan receivable from The Building Company to the value of R627 million to the company.
- Pepkorfin Proprietary Limited ceded its loan receivable from SA Poco Retail Proprietary Limited to the value of R68 million.

During the year, the company subscribed in shares of The Building Company amounting to R1.9 million. As part of a restructure during the year, the company subscribed in shares in SA Poco Retail Proprietary Limited for R252 million.

7. TRADE AND OTHER RECEIVABLES

	2020 Rm	2019 Rm
Other receivables	10	4
Related party receivables (note 15.3)	9	1
	19	5

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	30 September 2020 Rm	30 September 2019 Rm

8. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE

8.1 Description

The group entered into a sale and purchase agreement with Cashbuild Limited for the disposal of the issued share capital of The Building Company for a total purchase price, including permitted leakages, of R1.2 billion. The transaction will enable the group to streamline its portfolio of businesses and focus on its core business of discount and value retail. The company has therefore subsequently reclassified its investment in The Building Company as assets held for sale.

As part of the sale, the following transactions were concluded, giving rise to the investment in The Building Company to increase in the current year:

- Pepkorfin Proprietary Limited ceded its loan receivable from The Building Company to the value of R2.1 billion to the company.
- Pepkor Capital (RF) Proprietary Limited ceded its loan receivable from The Building Company to the value of R627 million to the company.
- The company subscribed in shares of The Building Company amounting to R1.9 billion, which was subsequently impaired to its fair value as below.

8.2 Income statement

	30 September 2020 Rm	30 September 2019 Rm
Revenue (note 15.3)	2	3
Loss on sale of subsidiary after taxation (note 8.3)	(1 546)	–
Loss for the year	(1 544)	3

8.3 Asset held for sale

	30 September 2020 Rm	30 September 2019 Rm
Investment in subsidiary companies	1 885	–
Related-party loans	877	–
Impairment loss recognised	(1 546)	–
	1 216	–

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

9. PEPKOR GROUP SCHEME

Terms of the scheme

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

Pepkor Executive Share Right Scheme

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

a) Rights are granted to qualifying senior executives on an annual basis.

b) Vesting of rights occurs on the third anniversary of grant date, provided performance criteria, as set by Pepkor Holdings Limited's remuneration committee at or about the time of the grant date, have been achieved.

c) In the event of performance criteria not being satisfied by the third anniversary of the relevant annual grant, all rights attaching to the particular grant will lapse.

Assumptions

The fair value of services received in return for share rights granted is measured by reference to the 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 company was only listed in September 2017, the equity volatility for the 2018 grant was determined using the volatility of surrogate listed peer daily closing share price over a rolling three-year period.

	2020 grant	2019 grant	2018 grant
Fair value of Pepkor share rights and assumptions:			
Fair value at grant date	R13.03	R19.50	R18.86
Share price at grant date	R13.96	R20.50	R20.41
Strike price	Rnil	Rnil	Rnil
Expected volatility	28.2%	35.9%	37.0%
Dividend yield	2.3%	1.70%	2.70%
Risk-free interest rate	6.5%	7.2%	6.9%
Option life	3 years	3 years	3 years

Share scheme settlement provision affecting equity

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

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

	2020 Rm	2019 Rm
Fair value of share scheme settlement receivable		
Balance at beginning of the year	134	28
Increase in fair value	33	106
Balance at end of the year	167	134
Deferred dividend receivable		
Balance at beginning of the year	10	8
Dividend deferred in current year	93	2
Balance at end of the year	103	10
Total	270	144

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	30 September 2020 Number of shares	30 September 2019 Number of shares
10. SHARE CAPITAL		
10.1 Authorised – ordinary		
Ordinary shares of no par value	20 000 000 000	20 000 000 000
10.2 Issued – ordinary		
Balance at beginning of the year	3 450 000 000	3 450 000 000
Scrip dividend issued	37 850 881	–
Share issued through accelerated book-build	172 500 000	–
Total issued ordinary stated share capital	3 660 350 881	3 450 000 000

	Rm	Rm
10.3 Issued – ordinary		
Balance at beginning of the year	64 690	64 690
Scrip dividend issued	646	–
Share issued through accelerated book-build	1 898	–
Total issued ordinary stated share capital	67 234	64 690

	Number of shares	Number of shares
10.4 Unissued shares		
Shares reserved for future participation in share schemes	172 500 000	500 000 000
Shares under the control of the directors	–	172 500 000
Unissued shares	16 167 149 119	15 877 500 000
Total unissued shares	16 339 649 119	16 550 000 000

By way of general authority, shareholder approval was granted to the board to issue up to 172.5 million (4.95% of issued share capital) (2019: 172.5 million, 5% of issued share capital) shares for cash, subject to the provisions of the memorandum of incorporation (MOI) and the JSE Listings Requirements, which authority shall endure until the next AGM 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.

10.5 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 2020 Rm	30 September 2019 Rm
11. OTHER PAYABLES		
Other payables and amounts due	4	1
Payroll-related creditors and other payables	3	–
Total financial liabilities	7	1

The fair values of accounts payable are disclosed in note 16.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

		30 September 2020 Rm	30 September 2019 Rm
12.	**INTEREST-BEARING LOANS AND BORROWINGS**		
12.1	**Analysis of closing balance: External interest-bearing loans and borrowings**		
	Secured financing		
	Floating rate notes	1 006	–
	Portion payable within 12 months included in current liabilities	–	–
	Total non-current interest-bearing loans and borrowings	1 006	–
12.2	**Analysis of repayment: External loans**		
	Repayable within the next year and thereafter – current and non-current split		
	Within three years	800	–
	Within five years	206	–
		1 006	–

		Facility Rm	Maturity date	Interest rate	30 September 2020 Rm	30 September 2019 Rm
12.3	**Loan details**					
	Loans due:					
	Floating rate notes – PEP01	**800**	**10 March 2023**	**Three month JIBAR plus 159 bps**	800	–
	Floating rate notes – PEP02	**206**	**10 March 2025**	**Three month JIBAR plus 174 bps**	206	–
					1 006	–

On 10 March 2020, notes to the value of R1.006 billion were issued under the Domestic Medium-Term Note (DMTN) programme, which is a further source of funding to the group. The DMTN is guaranteed by Pepkor Trading Proprietary Limited.

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

The undiscounted cash flows of the remaining contractual maturity as well as the fair values of interest-bearing loans and borrowings are disclosed in note 16.

		30 September 2020 Rm	30 September 2019 Rm
12.4	**Total net debt**		
	Cash and cash equivalents	2	–
	Interest-bearing loans and borrowings	(1 006)	–
	Related-party loans payable	(2 895)	(2 659)
		(3 899)	(2 659)
	Net debt reconciliation		
	Net debt at beginning of the year	2 659	5 751
	Movement in interest-bearing loans and borrowings		
	Floating rate notes issued during the year via intercompany nominated bank account	1 006	–
	Movement in related-party loans payable		
	Floating rate notes issued during the year via intercompany nominated bank account	(1 006)	–
	Acquisition of investment in Abacus Holdco Proprietary Limited paid by related party (note 5)	183	–
	Cession of related party loans (note 6)	2 830	–
	Capital distribution and dividend in specie (note 5)	–	(3 062)
	Cash inflow on partial settlement of related party loans payable	519	–
	Cash outflow on partial settlement of related party loans payable	(2 290)	(30)
	Net movement in cash and cash equivalents	(2)	–
		3 899	2 659

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

13. 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 under which the Tekkie Town business operates) for the period from 1 October 2017 to 30 September 2020. The sellers have also commenced legal proceedings for restitution of the Tekkie Town business. Based on legal advice, the directors are confident that outflow or potential success against Pepkor is remote.

Sellers of approximately 57% of the shares and previous management of Tekkie Town have instituted a claim against Steinhoff N.V. based on a written contract entered into between the parties on 29 August 2016 under which Steinhoff N.V. purchased all the ordinary shares held in Tekkie Town for a purchase price of R3.3 billion, discharged by the allotment and issuing of 43 million Steinhoff N.V. shares. The Tekkie Town Claimants allege that they entered into the contract based on false and misleading representations made by Steinhoff N.V. and claim return of the Tekkie Town equity or payment of approximately R1.85 billion. Initially, Pepkor was not a party to this litigation, but during June 2020 certain Pepkor entities were joined to the action and relief is also claimed against the Pepkor entities.

The group is exposed to guarantees relating to external borrowings detailed in note 22 of the consolidated annual financial statements. Refer to note 31.6 of the consolidated annual financial statements for the notional value relating to the exposure to guarantees on external borrowings. The directors are confident that no material liability will arise from any other guarantee. The maximum exposure relating to guarantees is disclosed in note 31.6 of the consolidated annual financial statements. Pepkor Holdings Limited is a party to such guarantees as detailed in note 17. Refer to note 17 for the value relating to the exposure to guarantees on external borrowings. The company has secured a letter of support from Pepkor Holdco Proprietary Limited in the event that the company is called upon to perform on such commitment.

The directors are confident that no material liability will arise from any other guarantee. The maximum exposure relating to guarantees is disclosed in note 17.

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

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
14. CASH GENERATED FROM/(UTILISED IN) OPERATIONS		
Operating (loss)/profit	(10 243)	1 708
Adjusted for:		
Impairment of investments in subsidiary companies (note 2)	8 643	–
Loss on sale of subsidiary after taxation (note 8.2)	1 546	–
Impairment of loans due from subsidiary company (note 2)	68	89
Dividend in specie (note 5)	–	(830)
Cash generated from operations before working capital changes	14	967
Working capital changes		
Increase in receivables	(13)	(4)
Increase in payables and accruals	7	–
Net changes in working capital	(6)	(4)
Cash generated from operations	8	963

15. RELATED PARTY TRANSACTIONS

Related-party relationships exist between shareholders and subsidiaries within the group and its company directors and key management employees.

15.1 Subsidiaries

Details of investments in direct subsidiaries are disclosed in note 5.

15.2 Financial guarantee contracts

Details of financial guarantee contracts are disclosed in note 17 of the company financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

15. RELATED PARTY TRANSACTIONS (continued)

15.3 Trading transactions

The following is a summary of transactions with related parties during the year and balances at year-end:

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
Loans receivable from (discontinued operations):		
The Building Company Proprietary Limited	966	89
SA Poco Retail Proprietary Limited	–	184
Cumulative impairment provision	(89)	(273)
	877	–

The loan to The Building Company Proprietary Limited is non-interest-bearing and has no fixed terms of repayment.

The loan to SA Poco Retail Proprietary Limited is non-interest-bearing and has no fixed terms of repayment.

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
Loan payable to (continuing operations):		
Pepkorfin Proprietary Limited	(1 645)	(346)
Pepkor Capital (RF) Proprietary Limited	(1 243)	(2 312)
	(2 888)	(2 658)

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

	Year ended 30 September 2020 Rm	Year ended 30 September 2019 Rm
Accounts receivable from (continuing operations):		
Pepkor Trading Proprietary Limited	1	1
Pepkorfin Proprietary Limited	8	–
	9	1
Accounts payable to (continuing operations):		
Pepkorfin Proprietary Limited	(7)	(1)
	(7)	(1)
Dividends received (continuing operations):		
Pepkor Holdco Proprietary Limited	–	1 000
JD Group Proprietary Limited	–	830
	–	1 830
Dividends paid (continuing operations):		
Ainsley Holdings Proprietary Limited	(512)	(681)
Lancaster 101 Proprietary Limited	(63)	(84)
	(575)	(765)
Management fees received (continuing operations):		
Pepkor Speciality Proprietary Limited	1	2
Flash Mobile Vending Proprietary Limited	2	2
Pepkor Trading Proprietary Limited	16	18
Management fees received (discontinued operations):	19	22
The Building Company Proprietary Limited	2	3
Management fees received (total operations)	21	25
Management fees paid (continuing operations):		
Pepkor Trading Proprietary Limited	(23)	(28)
Directors' fees paid (continuing operations):		
Steinhoff Africa Holdings Proprietary Limited	(1)	(2)
Interest received (continuing operations):		
Pepkorfin Proprietary Limited	42	–
	42	–

15.4 Compensation of key management personnel

Refer to note 33 of the consolidated financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

16. FINANCIAL INSTRUMENTS

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

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

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

	Loans and receivables and other financial liabilities at amortised cost	
	30 September 2020 Rm	**30 September 2019 Rm**
16.1 Total financial assets and liabilities		
Receivables	19	1
Cash and cash equivalents	2	–
Current financial assets	21	1
Interest-bearing loans and borrowings	(1 006)	–
Non-current financial liabilities	(1 006)	–
Other payables	(7)	(1)
Related-party loans payable and payables	(2 895)	(2 659)
Current financial liabilities	(2 902)	(2 660)
	(3 887)	(2 659)

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

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

16.2 Foreign currency risk

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

16.3 Interest rate risk

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

At the reporting date, the interest rate profile of the company's financial instruments was:

	Subject to interest rate movement			
	Variable South African prime Rm	**Variable JIBAR Rm**	**Non-interest bearing Rm**	**Total Rm**
30 September 2020				
Current financial assets	2	–	19	21
Non-current financial liabilities	–	(1 006)	–	(1 006)
Current financial liabilities	–	–	(2 902)	(2 902)
	2	(1 006)	(2 883)	(3 887)
30 September 2019				
Current financial assets	–	–	1	1
Current financial liabilities	–	–	(2 660)	(2 660)
	–	–	(2 659)	(2 659)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

	30 September 2020 Rm	30 September 2019 Rm
16. FINANCIAL INSTRUMENTS (continued)		
16.4 Credit risk		
Potential concentration of credit risk consists principally of related-party loans receivable. At 30 September 2020, the company did not consider there to be any significant concentration of credit risk that 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:		
Current financial assets	21	1
Maximum exposure to financial guarantees	13 299	19 295
	13 320	19 296

The company is no longer exposed to the BVI financial guarantee as the debt and relating guarantee were settled. Refer to note 17.

Credit risk is concentrated within southern Africa, which has been assessed based on the ECL model and has concluded that the effect would not be material.

16.5 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected. The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are available. The company can also call on financial assistance from certain companies within the Pepkor group of companies based on an agreement if the need arises.

The following are the contractual maturities of financial liabilities:

	Total Rm	0 to 3 months Rm	4 to 12 months Rm	Year 2 Rm	Years 3 to 5 Rm
2020					
Non-current financial liabilities	1 006	–	–	–	1 006
Current financial liabilities	2 902	2 902	–	–	–
Financial guarantee contracts	13 299	13 299	–	–	–
	17 207	16 201	–	–	1 006
2019					
Current financial liabilities	2 660	2 660	–	–	–
Financial guarantee contracts	19 295	19 295	–	–	–
	21 955	21 955	–	–	–

Further details of financial guarantee contracts are provided in note 17.

16.6 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.

16.7 Capital risk

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS continued

for the year ended **30 September 2020**

17. FINANCIAL GUARANTEE CONTRACTS

The company along with other subsidiaries 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 2020 Rm	Drawn down balance 2020 Rm	Face Value 2019 Rm	Drawn down balance 2019 Rm
Term loans	**8 000**	**7 000**	9 500	8 500
Preference share funding	**2 000**	**2 000**	6 000	6 000
Revolving credit facilities	**2 500**	**2 500**	2 500	2 500
General banking facilities	**8 195**	**1 400**	6 935	1 039
Guarantee facilities	**920**	**399**	1 420	1 256
	21 615	**13 299**	26 355	19 295

18. DISTRIBUTION TO ORDINARY SHAREHOLDERS

No dividends have been declared for the year ended 30 September 2020 in order to preserve cash in the current uncertain economic environment.

19. EVENTS AFTER THE BALANCE SHEET DATE

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

20. GOING CONCERN

The board of directors evaluated the going concern assumption as at 30 September 2020, taking into account the current financial position and their best estimate of the cash flow forecasts in terms of their current knowledge and expectations of ongoing developments of the COVID-19 pandemic, and considered it to be appropriate in the presentation of these financial statements.

The cash flows and liquidity projections for the group have been prepared for a period exceeding 12 months from the reporting date and included performing sensitivity analyses based on various scenarios. The group has made substantial progress in reducing net debt, strengthening its financial position, refer to note 22 of the consolidated annual financial statements. Covenants were renegotiated to create further flexibility into the future. Refer to note 31.6 of the consolidated annual financial statements for further detail.

SHAREHOLDER ANALYSIS

for the year ended **30 September 2020**

Shareholder spread	No of shareholdings	%	No of shares	%
1 – 1 000 shares	5 508	48.47	1 458 384	0.04
1 001 – 10 000 shares	4 264	37.52	13 375 672	0.37
10 001 – 100 000 shares	928	8.17	30 989 625	0.85
100 001 – 1 000 000 shares	517	4.55	168 888 669	4.61
1 000 001 shares and over	147	1.29	3 445 638 531	94.13
Total	11 364	100.00	3 660 350 881	100.00

Distribution of shareholders	No of shareholdings	%	No of shares	%
Banks/brokers	158	1.39	269 384 031	7.36
Close corporations	64	0.56	255 120	0.01
Endowment funds	96	0.84	6 710 012	0.18
Government	3	0.03	528 089	0.01
Individuals	8 881	78.15	17 222 533	0.47
Insurance companies	73	0.64	39 069 812	1.07
Investment companies	4	0.04	6 389 827	0.17
Medical schemes	32	0.28	5 212 642	0.14
Mutual funds	367	3.23	312 329 245	8.53
Other corporations	30	0.26	94 012	0.00
Private companies	207	1.82	12 150 401	0.33
Public companies	2	0.02	70 194	0.00
Retirement funds	467	4.11	194 310 292	5.31
Strategic investors	2	0.02	2 786 136 033	76.13
Trusts	978	8.61	10 488 638	0.29
Total	11 364	100.00	3 660 350 881	100.00

Public/non-public shareholders	No of shareholdings	%	No of shares	%
Non-public shareholders	5	0.04	2 786 221 029	76.12
Directors and associates	3	0.02	84 996	0.00
Strategic holdings (more than 10%)	1	0.01	2 479 994 370	67.76
Strategic holdings (company-related)	1	0.01	306 141 663	8.36
Public shareholders	11 359	99.96	874 129 852	23.88
Total	11 364	100.00	3 660 350 881	100.00

Beneficial shareholders holding 1% or more	No of shares	%
Steinhoff International Holdings Limited	2 479 994 370	67.75
Lancaster 101 Proprietary Limited	306 141 663	8.36
Allan Gray	66 926 795	1.83
GIC Private Limited	45 782 933	1.25
Alexander Forbes Investments	42 986 105	1.17
Old Mutual	42 971 585	1.17
Coronation Fund Managers	42 101 526	1.15
Government Pension Fund – Norway	40 914 575	1.12
Total	3 067 819 552	83.80

Fund managers holding 1% or more	No of shares	%
Coronation Fund Managers	111 596 779	3.05
Allan Gray Asset Management	110 189 273	3.01
GIC Asset Management	44 869 933	1.23
Old Mutual Investment Group	44 773 557	1.22
Total	311 429 542	8.51

Data as at 25 September 2020.

CORPORATE INFORMATION

Registration number 2017/221869/06
Share code PPH
Debt code PPHI
ISIN ZAE000259479

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Company secretary
Pepkor Proprietary Limited
(Registration number 1965/007765/07)
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Sandhurst, Sandton 2196
PO Box 650957, Benmore 2010

Debt sponsor
Rand Merchant Bank (A division of FirstRand Bank Limited)
(Registration number 1929/001225/06)
1 Merchant Place, Corner Fredman Drive and Rivonia Road
Sandton 2196
PO Box 786273, Sandton 2146

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