PEPKOR
Holdings Limited

UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 31 MARCH 2020

HIGHLIGHTS

FROM CONTINUING OPERATIONS, INCLUDING THE ADOPTION OF IFRS 16

↑ **6.5%**
GROWTH IN REVENUE
TO **R37.6bn**

↑ **17.2%**
GROWTH IN OPERATING PROFIT[1]
TO **R4.0bn**

↓ **13.6%**
DECREASE IN HEADLINE EARNINGS
PER SHARE TO **44.3 cents**

FROM CONTINUING OPERATIONS, EXCLUDING THE ADOPTION OF IFRS 16

↑ **6.5%**
GROWTH IN REVENUE
TO **R37.6bn**

↑ **0.3%**
GROWTH IN OPERATING PROFIT[1]
TO **R3.4bn**

↓ **3.8%**
DECREASE IN HEADLINE EARNINGS
PER SHARE TO **49.3 cents**

145 NEW STORES OPENED,
TOTALLING
5 498 stores

[1] *Before capital items*

COMMENTARY

PEPKOR
Holdings Limited

OVERVIEW

Pepkor's defensive discount and value positioning underpinned resilient performance.

The Pepkor group achieved commendable results for the six months ended 31 March 2020 as its proven defensive discount and value market positioning, disciplined focus on customer needs and leading low cost of doing business underpinned performance.

The retail environment was constrained with low consumer spending, high levels of unemployment, load shedding and low economic growth.

This was exacerbated during March with the spread of the Coronavirus (COVID-19) across South Africa and the globe – resulting in the declaration of a national state of disaster and the implementation of a national lockdown effective from 27 March 2020 until 30 April 2020.

FINANCIAL PERFORMANCE

Adoption of IFRS 16: *Leases*

The group adopted IFRS 16: *Leases* (IFRS 16) during the current reporting period, using a modified retrospective approach with no restatement of prior period reported results. This had a material impact on the group's statutory results for the current period, reducing earnings from continuing operations by **R200 million** and negatively impacting headline earnings per share from continuing operations by **10%** or **5.0 cents**.

As at period-end, leases were capitalised in the form of a right-of-use asset of **R12.4 billion**, and a lease liability of **R17.1 billion** was raised. Refer to note 11 of the summary consolidated financial statements for further information.

To provide a meaningful assessment of group performance, the following commentary excludes the impact of the adoption of IFRS 16.

Discontinued operations

Discontinued operations include PEP Africa's operations in Zimbabwe as announced in the group's FY19 financial results. It is expected that PEP Africa's exit from Zimbabwe will soon be completed.

Results from continuing operations

The group's continuing operations achieved revenue growth of **6.5%** to **R37.6 billion** for the period, while operating profit before capital items increased by **0.3%** to **R3.4 billion**. Operating profit growth was significantly impacted by increased debtors' costs while higher funding costs weighed on earnings growth. Basic earnings per share decreased by **6.5%** to **47.9 cents** and headline earnings per share reduced by **3.8%** to **49.3 cents**.

The establishment of the two internally funded credit books is now complete, following an investment of **R4.6 billion** over the past 18 months, of which **R1.2 billion** was invested during the current period. At 31 March 2020, the Connect credit book, which supports sales in the JD Group, amounted to **R1.8 billion** (gross) and the Capfin credit book, which facilitates unsecured lending, amounted to **R2.6 billion** (gross). Profitability for the period was impacted as a consequence of:

1. Increased debtors' costs amounting to **R868 million** (H1FY19: R273 million) attributable to the growth in the credit books, resultant provisions raised and increased bad debts. The application of IFRS 9 resulted in additional provisions amounting to **R134 million** during the current period compared to **R50 million** raised in H1FY19.
2. Finance costs to fund the credit books, driving a **6.1%** increase in net finance costs to **R784 million**.

FINANCIAL PERFORMANCE [CONTINUED]

Performance was further impacted by the national lockdown implemented towards the end of March by an estimated **R476 million** in lost revenue and operating profit of approximately **R150 million**.

Gross profit margins were well managed and increased by **20 basis points** to **34.6%**, supported by financial services.

Other income reduced by **7.9%** to **R408 million**, primarily as a result of external loan distribution fees that are no longer earned since the establishment of the new Capfin credit book. Notwithstanding this, very strong growth was achieved in commissions earned on bill payments and money transfers.

Operating costs increased by **2.0%** and were well controlled as the group continues to operate at the lowest cost of doing business in the market.

Pepkor's effective tax rate for the period increased to **35.7%** as a consequence of irrecoverable foreign withholding taxes, non-deductible finance costs and unrecognised tax losses.

Cash generated by operations (including discontinued operations) amounted to **R2.9 billion**, excluding **R1.2 billion**, which was invested in the new credit books during the period.

Inventory levels were well managed during the period and increased by **0.8%** year-on-year.

Net debt amounted to **R14.1 billion** on 31 March 2020, compared to **R13.9 billion** at 30 September 2019. The contractual net debt-to-EBITDA ratio of **1.7 times** and interest cover ratio of **5.3 times** remain well within funding covenants. The adoption of IFRS 16 has no bearing on current contractual covenants.

As part of the group's stated ambition to reduce gearing and the cost of funding while diversifying its sources of funding, Pepkor successfully raised **R1 billion** in three- and five-year bonds issued on 10 March 2020 under its **R10 billion** domestic medium-term note programme at favourable interest rates. The proceeds from the bond issuance were used to settle the majority of the **R1.5 billion** bridge funding facility that was repayable in 2020. Pepkor's credit rating was affirmed by Moody's Investors Services on 6 April 2020.

OPERATIONAL PERFORMANCE

Clothing and general merchandise

Segmental revenue increased by **5.4%** to **R24.3 billion** and represents **64.8%** of group revenue.

Operating profit was maintained at **R3.1 billion**, with growth impacted by lower profitability levels in PEP Africa and Speciality.

The segment's store base was expanded to **4 457 stores** during the period and included 105 new store openings led by PEP and Ackermans. Total retail space increased by **3.2%** year-on-year.

PEP and Ackermans

The discount and value positioning of PEP and Ackermans proved resilient during the period as confirmed by continued market share growth according to Retail Liaison Committee (RLC) data.

In aggregate, PEP and Ackermans reported merchandise sales growth of **7.3%** and like-for-like growth of **3.6%** despite lost trading due to the national lockdown.

Within the core clothing, footwear and homeware (CFH) product categories, retail selling price inflation was **9.8%** for the period, driven primarily by fluctuations in exchange rates.

PEP

PEP outperformed the market, further strengthening its position as leader in the discount clothing segment. While customers face financial pressure and high levels of unemployment, PEP continues to fulfil their need for basic and essential products and services. **44 new stores** were opened during the period, resulting in **2 357 stores**, growing retail space by **2.9%** year-on-year.

PEP maintained its price-leading position with best price leadership (BPL) remaining above **95%**, and a **26%** positive price differential was achieved compared to other retailers.

Improvements in product quality and fabric to meet customer demand benefited performance in the Babies and Home product categories, while growth in the Cellular product category was driven by strong demand for smartphones. Financial services achieved transaction growth of **21%** and the PAXI initiative continues to prove successful in leveraging PEP's retail footprint with **730 000 parcels** distributed for customers and SMEs during the period. Fast-moving consumer goods (FMCG) achieved **20%** sales growth through expansion of product ranges and private labels.

Ackermans

The customer value proposition of Ackermans aimed at 'women with kids in their lives' again delivered strong performance despite supply chain disruptions at the Hammarsdale distribution centre due to strike action.

Ackermans opened **33 new stores** during the period, expanding the store network to **837 stores**, which represents **7.2%** retail space growth year-on-year. The credit sales mix was maintained at a conservative **18.0%**, while lay-bys achieved strong growth and increased its sales contribution to **18.7%**.

Performance was led by double-digit growth in the Babies product category, supported by solid growth in most core product categories, including Cellular. Performance in Women's wear benefited from improved visual merchandising and successful marketing campaigns. The Ackermans Woman retail concept was expanded to **20 stand-alone stores**.

PEP Africa

PEP Africa, excluding discontinued operations in Zimbabwe, contributed **2.7%** to group revenue during the period and continues to consolidate amid adverse macroeconomic conditions across most countries of operation. The business remains profitable.

Due to local currency depreciation and the resultant inflation, consumer affordability is under significant pressure with a clear preference for entry price products. Constant currency sales declined by **5.5%**, while like-for-like sales declined by **8.1%**. Sales at actual rates decreased by **15.9%**.

Speciality

The performance of the Speciality division has been most severely affected with footwear and adult apparel purchases being more discretionary in nature. Sales decreased by **0.8%** while like-for-like sales declined by **2.9%**.

The division has **943 stores** across five retail brands. A rigorous process was employed to analyse individual store performance, closing stores where required metrics cannot be maintained. This resulted in **24** store closures during the period, reducing retail space by **1.5%** year-on-year.

Tekkie Town has made good progress to address stock-holding and other inefficiencies in the business, but a weaker demand for footwear products weighed on performance. Similarly, performance in Shoe City was impacted and **11** of its stores were closed during the period.

John Craig's performance was hampered by challenges in its merchandise mix, while Dunns performed well and is now better positioned from a market, price and product perspective. Refinery has further strengthened its unique merchandise identity through product life cycle management, 3D-technology and migration of its supplier base.

Furniture, appliances and electronics

Segmental revenue increased by **1.7%** to **R5.1 billion** with continued weak consumer demand for durable products. Operating profit increased by **11.7%** to **R67 million**, supported by sustained profitability at the retail operating level and the contribution from the Abacus insurance business, following its acquisition in December 2019. The store base was expanded to **921 stores**, while retail space decreased by **1.8%** year-on-year as store sizes continue to be reduced.

Merchandise sales decreased by **0.1%** while like-for-like sales declined by **2.7%**. Credit sales contribution reduced to **16.6%** from **18.0%**, resulting from continued prudent credit granting criteria and improved fraud prevention measures. The credit sales mix in the furniture division reduced to **25.2%** and was maintained in the electronics and appliances division at **7.1%**.

Sales in the furniture division were severely impacted from middle-March in the lead up to the implementation of the national lockdown. The electronics and appliances division benefited from the investment in online transacting and fulfilment systems and achieved strong growth in online transactions. The contribution from online sales in this division increased to **6.3%** for the period. This division is well poised to take advantage of expected growth in online trading and continuing development of its capabilities.

Building materials

Segmental revenue and merchandise sales declined by **5.1%** to **R3.8 billion** and like-for-like sales declined by **4.0%** as trading activity continued to weaken in a contracting building industry. Operating profit reduced to **R4.0 million** and performance was severely impacted in the lead-up to the national lockdown.

Good progress was made in the retail division through margin improvement, centralised procurement and automatic replenishment initiatives, while reduced activity in the specialist and wholesale divisions weighed on performance.

FinTech

The FinTech segment increased revenue by **36.4%** to **R4.3 billion**. Operating profit was maintained at **R200 million**, with growth impacted by the application of IFRS 9 on the Capfin credit book.

FLASH, with its reach into the informal market, continues to report strong growth with virtual turnover in its trader business increasing by **20.2%** during the period. The number of FLASH traders increased to **172 000** from **156 000** in the comparative period and investments in new products, channels and geographies are gaining momentum.

Capfin increased active accounts to **333 000**. Credit granting was severely curtailed towards the end of March as a result of COVID-19 and focus has now turned to collections.

PEPKOR RESPONDING TO COVID-19

The spread of COVID-19 across the world has resulted in an unprecedented time of uncertainty and will have a significant impact on the performance of Pepkor. Group revenue was severely impacted during the national lockdown period, placing pressure on the cash flow and cost base of the group.

Pepkor prioritised the livelihoods of its more than **50 000** employees to curb salary cuts and job losses where possible. The group stepped up to its responsibility through various contributions to help fight and alleviate the impact of COVID-19 on the people and communities of South Africa – making a difference in the lives of our customers.

Pepkor and its retail brands supported various organisations through contributing food aid and other support to the most vulnerable. This includes donations made to the Solidarity Fund and the Do More and Gift of the Givers foundations; repurposing the PepClo manufacturing facility to produce personal protective equipment (PPE); using the group's reach in informal communities to distribute food vouchers using FLASH technology; leveraging the Pepkor store footprint to allow customers to make donations at till points; and salary sacrifices by the Pepkor board and executive committee.

The group employed additional measures to support customers who cannot afford to make debt repayments, on a case-by-case basis.

It is the group's stated intent to make our customers' lives easier and better and help them to make it possible for their families to live with dignity and pride. This approach has underpinned resilient performance over many decades and through very challenging economic times.

The risk posed by COVID-19 to the group and its operations evolved through various stages, requiring urgent and tactical measures to be put in place to mitigate the impact.

- **Stage 1 – Risk of supply**
  The first phase of COVID-19 restricted supply from China, causing a risk of product supply to the group. With the bulk of the group's product range defensively skewed towards basic, functional, everyday products that are sourced well in advance, the bulk of winter merchandise was in transit or had already been received at that stage.
- **Stage 2 – Safety of customers and employees**
  As the pandemic spread across the world and reached South Africa, the safety of Pepkor's customers and employees became top priority and the implementation of various protocols commenced prior to the start of the national lockdown period towards the end of March. These protocols include COVID-19 education campaigns, social distancing, employee zoning, and mobilising employees to work from home where possible.
- **Stage 3 – Protection of the business**
  The vast majority of Pepkor's stores were not permitted to trade during the national lockdown period. Preservation of group liquidity and cash flow became key focus areas. Various scenario planning and stress tests were conducted to forecast potential outcomes.

  Operating cost reductions were achieved in all areas of the business. Strategic focus areas were reprioritised and capital expenditure for FY20 was reduced. New store openings were postponed and credit extension across the group was significantly curtailed.

  Pepkor proactively engaged with its funders and successfully secured additional seasonal facilities as a contingency. The group is in constructive discussions with funders in relation to existing covenant waiver and amendments for the periods ending September 2020 and March 2021, respectively.

  The risk of product supply had now evolved into the risk of depressed consumer demand leading to a potential oversupply of product going forward. The merchandise teams worked with their supplier bases to replan inflows, cancel or delay orders to the next season, and extend payment terms in certain cases. The group endeavoured to cancel as few orders as possible where product had already been produced to mitigate the impact on its loyal and long-standing supplier base.
- **Stage 4 – Restart of operations**
  It is estimated that the national lockdown period during April resulted in lost group revenue of approximately R5.0 billion. Lockdown measures were eased on 1 May 2020 to risk level 4, which allowed the reopening of most of Pepkor's stores, benefiting cash flow. Very strong trade was reported during May and can be attributed to pent-up demand and the payment of social grants.

  The safety of employees and customers remained top priority and safety and health protocols, as determined by government, were implemented before stores reopened and other operations resumed.
- **Stage 5 – Looking ahead**
  The duration and evolution of the COVID-19 pandemic and the related impact on the group's trading in the near to medium term remains uncertain. It is expected that COVID-19 and the lockdown measures will severely impact the South African economy, the retail sector as a whole and the Pepkor group as consumers face increased unemployment and hardship.

  Dependent on the recovery and momentum of trade, impairment indications may emerge that may result in the impairment of goodwill and intangible assets.

  Based on the current outlook, no additional stock provisions are expected to be raised.

  Although debt collections have thus far been ahead of expectations, it is expected that it will be impacted negatively going forward, resulting in increased provision levels.

  Pepkor is confident that it is well positioned to gain market share in the post-COVID-19 'new economy' with its defensive discount and value positioning being more resilient through its focus on babies' and children's clothing and large contribution of basic and replenishment products. The group's purpose and mission are now more relevant than ever – *to make a positive difference in the lives of our customers and the communities in which we operate by providing convenient access to everyday products and services at affordable prices.*

  Pepkor will prepare for this new, constrained environment by restructuring and consolidating the business to maintain acceptable levels of efficiency and profitability. Notwithstanding the group's low cost of doing business, additional opportunities to leverage its scale of operations will be explored to reduce its cost base, enhance its variability and improve alignment with trading performance.

Responding to changes in consumer behaviour will be critical and the group's retail brands will seek to cater for evolving consumer needs and preferences. Based on this, the product and service range will continue to evolve. E-commerce and online activity will become more prevalent for certain market segments and this presents omnichannel opportunities for the group to leverage its expansive store footprint and diversity of brands. JD Group is leading the group's strategy from an omnichannel perspective, having already established a solid online offering supplemented by a national distribution and retail presence through its Incredible Connection and Hi-Fi Corp retail brands.

Pepkor's expansive footprint extends to towns and smaller community centres and should benefit from the need of customers to shop in closer proximity to their homes.

Capital allocation, including credit granting, has entered a new era and higher minimum return thresholds will be implemented to limit spending and maximise returns. Continued store expansion will be limited primarily to PEP and Ackermans, although at a slower rate than in previous years. As profitability and return assessments are conducted on individual stores, this will give rise to some consolidation and closures. The group will consider appropriate investments in its supply chain and infrastructure to benefit and support its long-term performance.

The group's stated ambition to reduce gearing levels to one times net debt-to-EBITDA remains in place but is expected to take longer to achieve. The group continuously assesses various scenario plans and stress tests to ensure that it is taking appropriate financial actions to reduce costs, conserve cash, access liquidity and improve flexibility in its capital structure during these unprecedented circumstances.

No interim dividend is declared as in prior interim periods. Based on heightened levels of prudence applied by the board and the focus on liquidity preservation and allocation of resources, it is not expected that a full year dividend will be declared for FY20.

APPRECIATION

The Pepkor management and board appreciates the resolve, resilience and loyalty shown by customers and employees alike during one of the most challenging periods in history. The strong and healthy corporate cultures of the group and its retail brands have helped sustain the business through this trying time and will stand it in good stead for the future.

The support and understanding from our loyal, long-standing suppliers and business partners have been invaluable, and similarly we value the support from our investors as the group focuses on reinventing itself to be future-fit to create sustainable value for all stakeholders.

Jayendra Naidoo
Chairman

Leon Lourens
Chief executive officer

Riaan Hanekom
Chief financial officer

27 May 2020

All forward-looking information is the responsibility of the board of directors and has not been reviewed or reported on by the group's auditors.

PEPKOR
Holdings Limited

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

SUMMARY CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019[1] Unaudited Rm	% change	Twelve months ended 30 September 2019 Audited Rm
Revenue		**37 552**	35 273	6.5	69 634
Cost of sales		**(24 576)**	(23 144)	(6.2)	(45 639)
Gross profit		**12 976**	12 129	7.0	23 995
Other income		**395**	443	(10.8)	960
Operating expenses		**(6 593)**	(8 295)	20.5	(15 722)
Debtors' costs		**(868)**	(273)	(>100)	(1 137)
Operating profit before depreciation, amortisation and capital items		**5 910**	4 004	47.6	8 096
Depreciation and amortisation		**(1 920)**	(599)	(>100)	(1 299)
Operating profit before capital items		**3 990**	3 405	17.2	6 797
Capital items	2	**(88)**	2	(>100)	(1 278)
Operating profit		**3 902**	3 407	14.5	5 519
Finance cost		**(1 763)**	(847)	(>100)	(1 779)
Finance income		**133**	108	23.1	198
Profit before taxation		**2 272**	2 668	(14.9)	3 938
Taxation		**(814)**	(900)	9.6	(1 707)
Profit from continuing operations		**1 458**	1 768	(17.5)	2 231
Profit/(loss) from discontinued operations	4	**17**	(17)	>100	(70)
Profit for the period		**1 475**	1 751	(15.8)	2 161
Profit attributable to:					
Owners of the parent		**1 474**	1 751	(15.8)	2 160
Non-controlling interests		**1**	–	100.0	1
Profit for the period		**1 475**	1 751	(15.8)	2 161
Earnings per share (cents)					
Basic from continuing operations	5	**42.1**	51.2	(17.7)	64.6
Basic from discontinued operations	5	**0.5**	(0.5)	>100	(2.0)
Basic operations	5	**42.6**	50.8	(16.1)	62.6
Diluted basic from continuing operations	5	**41.7**	50.9	(18.1)	64.2
Diluted basic from discontinued operations	5	**0.5**	(0.5)	>100	(2.0)
Diluted basic from operations	5	**42.2**	50.4	(16.3)	62.2

[1] *Prior year comparatives have been reclassified for the effect of the discontinued operations as detailed in note 4, as well as reclassification of distribution cost in accordance with the audited financial statements of 30 September 2019, to improve disclosure.*

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019[1] Unaudited Rm	Twelve months ended 30 September 2019 Audited Rm
Profit from continuing operations		**1 458**	1 768	2 231
Profit/(loss) from discontinued operations	4	**17**	(17)	(70)
Profit for the period		**1 475**	1 751	2 161
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations		**16**	(167)	(286)
Net fair value gain on cash flow hedges		**1 182**	28	427
Net fair value loss on cash flow hedges transferred to inventory		**(209)**	(26)	(532)
Deferred taxation on cash flow hedges		**(86)**	28	37
Foreign currency translation differences relating to hyperinflation		**7**	–	–
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 period		**910**	(137)	(347)
Total comprehensive income/(loss) attributable to:				
Continuing operations		**914**	43	(130)
Discontinued operations		**(4)**	(180)	(217)
Total other comprehensive income for the period		**910**	(137)	(347)
Total comprehensive income for the period		**2 385**	1 614	1 814
Total comprehensive income attributable to:				
Owners of the parent		**2 384**	1 614	1 813
Non-controlling interests		**1**	–	1
Total comprehensive income for the period		**2 385**	1 614	1 814
Total comprehensive income for the period attributable to owners of parent arises from:				
Continuing operations		**2 371**	1 811	2 100
Discontinued operations		**13**	(197)	(287)
Total comprehensive income for the period		**2 384**	1 614	1 813

[1] Prior year comparatives have been reclassified for the effect of the discontinued operations as detailed in note 4.

PEPKOR
Holdings Limited

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019 Unaudited Rm	Twelve months ended 30 September 2019 Audited Rm
Balance at beginning of the period		**56 598**	55 711	55 711
Effect of adopting IFRS 16: *Leases* (2019: IFRS 9: *Financial Instruments*), net of taxation.	11	**(2 639)**	(68)	(82)
Restated balance at beginning of the period		**53 959**	55 643	55 629
Changes in reserves				
Total comprehensive income for the period attributable to owners of the parent		**2 384**	1 614	1 813
Dividends paid[1]		**(75)**	(959)	(959)
Shares bought from non-controlling interests		**(2)**	(5)	(5)
Share-based payment expense		**31**	(167)	108
Transfers and other reserve movements		**–**	203	9
Changes in non-controlling interests				
Total comprehensive income for the period attributable to non-controlling interests		**1**	–	1
Transactions with non-controlling equity holders		**2**	5	5
Dividends paid		**(2)**	(2)	(3)
Balance at end of the period		**56 298**	56 332	56 598
Comprising				
Ordinary stated capital		**65 336**	64 690	64 690
Common control reserve		**(11 755)**	(11 755)	(11 755)
Retained earnings		**2 196**	3 677	4 082
Share-based payment reserve		**174**	72	143
Hedging reserve		**1 089**	300	202
Foreign currency translation reserve		**(802)**	(713)	(825)
Other reserves		**53**	55	55
Non-controlling interests		**7**	6	6
		56 298	56 332	56 598

[1] A dividend amounting to R721 million was declared in November 2019, of which shareholders representing a value of R646 million elected to take up shares instead of cash.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 March 2020 Unaudited Rm	31 March 2019 Unaudited Rm	30 September 2019 Audited Rm
ASSETS				
Non-current assets				
Goodwill and intangible assets		**59 893**	61 036	59 844
Property, plant and equipment		**5 464**	5 209	5 466
Right-of-use assets	11	**12 423**	–	–
Interest in associated companies		**50**	–	50
Investments and loans		**108**	203	174
Loans to customers		**84**	–	154
Deferred taxation assets		**2 582**	1 305	1 242
		80 604	67 753	66 930
Current assets				
Inventories		**13 767**	13 664	13 825
Trade and other receivables[1]		**8 134**	6 583	6 809
Loans to customers[1]		**2 002**	304	1 669
Current income taxation assets		**273**	377	363
Loans due by related parties		**–**	229	–
Cash and cash equivalents		**3 926**	3 140	3 925
		28 102	24 297	26 591
Assets held for sale	6	**13**	–	–
Total assets		**108 719**	92 050	93 521
EQUITY AND LIABILITIES				
Capital and reserves				
Ordinary stated capital		**65 336**	64 690	64 690
Reserves		**(9 045)**	(8 364)	(8 098)
Total equity attributable to equity holders of the parent		**56 291**	56 326	56 592
Non-controlling interests		**7**	6	6
Total equity		**56 298**	56 332	56 598
Non-current liabilities				
Interest-bearing loans and borrowings		**16 511**	17 011	15 508
Lease liabilities	11	**14 819**	–	–
Employee benefits		**115**	53	89
Deferred taxation liabilities		**4 151**	4 112	4 037
Provisions		**432**	473	464
Trade and other payables		**–**	543	461
		36 028	22 192	20 559
Current liabilities				
Trade and other payables		**10 262**	9 696	11 792
Loans due to related parties		**–**	119	–
Lease liabilities	11	**2 251**	–	–
Employee benefits		**683**	861	942
Provisions[1]		**99**	307	173
Current income taxation liabilities		**1 505**	649	1 107
Interest-bearing loans and borrowings		**527**	21	1 510
Financial guarantees[1]		**512**	471	491
Bank overdrafts and short-term facilities		**542**	1 402	347
		16 381	13 526	16 362
Liabilities associated directly with assets classified as held for sale	6	**12**	–	2
		16 393	13 526	16 364
Total equity and liabilities		**108 719**	92 050	93 521
Net asset value per ordinary share (cents)		**1 613.8**	1 632.6	1 640.4

[1] Loans to customers and financial guarantees have been presented separately in the current financial year to improve disclosure. This was previously presented within trade and other receivables and provisions, respectively.

PEPKOR
Holdings Limited

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019[1] Unaudited Rm	Twelve months ended 30 September 2019 Audited Rm
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit from continuing operations		**3 902**	3 407	5 519
Operating profit/(loss) from discontinued operations	4	**21**	(15)	(74)
Operating profit:		**3 923**	3 392	5 445
Adjusted for:				
Debtors' write-offs and movement in provision		**1 000**	273	1 227
Depreciation and amortisation		**1 920**	599	1 299
Capital impairments and remeasurements	2	**79**	–	1 281
Impairment of loans to current and previous employees and members of key management		**–**	40	40
Inventories written down to net realisable value		**186**	271	449
Share-based payment expense		**31**	(21)	108
Non-working capital provisions releases and other non-cash adjustments		**315**	107	(90)
		7 454	4 661	9 759
Working capital changes				
Increase in inventories		**(350)**	(1 126)	(1 981)
Decrease/(increase) in trade and other receivables		**351**	32	(302)
Increase in instalment sale receivables and credit sales through store cards		**(897)**	(1 124)	(1 805)
Increase in loans to customers		**(687)**	(304)	(2 154)
(Decrease)/increase in trade and other payables		**(2 091)**	(1 971)	569
Net changes in working capital		**(3 674)**	(4 493)	(5 673)
Cash generated from operations		**3 780**	168	4 086
Net dividends paid		**(76)**	(961)	(962)
Finance cost paid		**(826)**	(856)	(1 599)
Finance income received		**113**	108	147
Taxation paid		**(661)**	(800)	(1 116)
Net cash inflow/(outflow) from operating activities		**2 330**	(2 341)	556
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets		**(623)**	(586)	(1 717)
Proceeds on disposal of property, plant and equipment and intangible assets		**–**	–	57
Acquisition of business, net of cash on hand at acquisition		**(29)**	–	–
Clawback on acquisition of business		**26**	–	26
Decrease/(increase) in short-term investments and loans		**51**	(1)	52
Increase in investments and loans in equity-accounted companies		**–**	–	(50)
Decrease in related-party loan and receivables		**–**	–	56
Net cash outflow from investing activities		**(575)**	(587)	(1 576)
CASH FLOWS FROM FINANCING ACTIVITIES				
Amounts received/(paid) on bank overdrafts and short-term facilities		**195**	880	(21)
Amounts received/(paid) on long-term interest-bearing loans and borrowings		**1 006**	1 498	(173)
Amounts (paid)/received on short-term interest-bearing loans and borrowings		**(995)**	2	1 500
Lease liabilities repaid		**(1 992)**	–	–
Debt raising fees paid		**–**	(5)	–
Net cash (outflow)/inflow from financing activities		**(1 786)**	2 375	1 306
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(31)**	(553)	286
Effects of exchange rate translations on cash and cash equivalents		**49**	(142)	(196)
Cash and cash equivalents at beginning of the period		**3 925**	3 835	3 835
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**3 943**	3 140	3 925
Discontinued operations cash and cash equivalents at end of the period		**(17)**	–	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD – CONTINUING		**3 926**	3 140	3 925

[1] Certain comparatives have been split into further detail in order to improve disclosures and the comparability thereof.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF COMPLIANCE

The summary consolidated interim financial statements are prepared in accordance with the requirements of the Johannesburg Stock Exchange (JSE) Listings Requirements for summary financial statements and the provisions of the South African Companies Act, No. 71 of 2008, as amended (Companies Act) applicable to summary financial statements. The Listings Requirements require summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34: *Interim Financial Reporting*. The accounting policies applied in the preparation of the consolidated interim financial statements from which the summary consolidated interim financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the annual consolidated financial statements for the year ended 30 September 2019, except for the adoption of IFRS 16: *Leases* (IFRS 16) by the group on 1 October 2019, where the impact of the adoption is disclosed in note 11. Other new and revised accounting standards became effective during the reporting period, but their implementation had no significant impact on the results of either the current of previous reporting period.

BASIS OF PREPARATION

The summary consolidated interim financial statements are prepared in millions of South African rand (Rm) on the historical cost basis, except for certain assets and liabilities, which are carried at amortised cost, and derivative financial instruments, which are stated at their fair values. The preparation of the summary consolidated interim financial statements for the six months ended 31 March 2020 was supervised by RG Hanekom CA(SA), the group's chief financial officer (CFO).

These results have not been reviewed or reported on by the group's auditors. All forward-looking information is the responsibility of the board of directors and has not been reviewed or reported on by the group's auditors. The results were approved by the board of directors on 26 May 2020.

The calculation of growth percentages and per share numbers are based on unrounded numbers, which may result in differences when compared to calculating the numbers using rounded numbers.

CHANGE IN ACCOUNTING POLICIES

On 1 October 2019, the group adopted IFRS 16, effective for financial years commencing on or after 1 January 2019. The group adopted this standard using the modified retrospective approach, therefore comparative information has not been restated and is reported under IAS 17: *Leases* (IAS 17) and IFRIC 4: *Determining Whether an Arrangement Contains a Lease* (IFRIC 4). Refer to note 11 for detail.

SIGNIFICANT EVENTS

Held-for-sale operations Zimbabwe

A decision was made during the latter part of the 2019 financial year to sell the group's operations in Zimbabwe. The decision was mainly driven by the increasing difficulty of trading in Zimbabwe as result of adverse macroeconomic conditions. Management is in the final stages of concluding the sale of the Zimbabwean operations with the relevant parties.

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.

EVENT SUBSEQUENT TO REPORTING PERIOD

COVID-19

The declaration of the state of disaster in South Africa in response to the COVID-19 pandemic and the subsequent announcement of the national lock down is expected to have a significant impact on the operations and cash flows of the group. It is expected that the group's exposure to credit risk in the collection of credit granted in terms of store cards, instalment sales and loans to customers will increase and result in increased levels of provisions.

The impact of COVID-19, in addition to the downgrade of the South African sovereign credit rating during the reporting period, may result in impairment indications to emerge and potential impairment of goodwill and intangible assets recognised by the group. This is, however, dependent on the recovery and momentum of trade.

Based on the current outlook, no additional stock provisions are expected to be raised.

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

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

	Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019[1] Unaudited Rm	% change	Twelve months ended 30 September 2019 Audited Rm
1. SEGMENTAL ANALYSIS				
REVENUE				
Clothing and general merchandise[2]	**24 347**	23 099	5.4	44 964
Furniture, appliances and electronics	**5 058**	4 973	1.7	9 330
Building materials	**3 829**	4 035	(5.1)	8 180
FinTech[2]	**4 318**	3 166	36.4	7 160
	37 552	35 273	6.5	69 634
OPERATING PROFIT BEFORE CAPITAL ITEMS				
Clothing and general merchandise[3]	**3 499**	3 142	11.4	6 286
Furniture, appliances and electronics	**181**	60	>100	(85)
Building materials	**111**	42	>100	153
FinTech[3]	**199**	201	(1.0)	483
	3 990	3 445	15.8	6 837
RECONCILIATION BETWEEN OPERATING PROFIT				
Operating profit per segmental analysis	**3 990**	3 445	15.8	6 837
BVI-related costs[4]	**–**	(40)	100.0	(40)
Capital items (note 2.1)	**(88)**	2	(>100)	(1 278)
Operating profit per income statement	**3 902**	3 407	14.5	5 519
Finance cost	**(1 763)**	(847)	(>100)	(1 779)
Finance income	**133**	108	23.1	198
Profit before taxation per income statement	**2 272**	2 668	(14.9)	3 938
BVI-related costs				
BVI-related costs relate to the following:				
Impairment of loans to current and previous members of key management	**–**	40	(100.0)	40
SEGMENTAL ASSETS	**104 668**	88 478	18.3	89 422
RECONCILIATION BETWEEN TOTAL ASSETS AND SEGMENTAL ASSETS				
Total assets per statement of financial position	**108 719**	92 050	18.1	93 521
Less: Cash and cash equivalents[5]	**(3 943)**	(3 140)	(25.6)	(3 925)
Less: Long-term investments and loans	**(108)**	(203)	46.8	(174)
Less: Loans due by related parties	**–**	(229)	100.0	–
Segmental assets	**104 668**	88 478	18.3	89 422

[1] Prior year comparatives have been reclassified for the effect of the discontinued operations as detailed in note 4.
[2] The FinTech segment revenue is disclosed net of intergroup revenue of R1 022 million (31 March 2019: R1.9 million, 30 September 2019: R441 million) earned relating to the sale of virtual vouchers and airtime to the clothing and general merchandise segment.
[3] The FinTech segment operating profit is disclosed net of intersegment expenses of R22.1 million (31 March 2019: R2.1 million, 30 September 2019: R90 million) paid to the clothing and general merchandise segment relating to the use of its footprint.
[4] BVI-related costs form part of the clothing and general merchandise segment.
[5] Including discontinued operations cash and cash equivalents of R17 million.

Basis of segmental presentation

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

Identification of segments

The identification of segments is consistent with those identified in the annual consolidated financial statements for the year ended 30 September 2019.

SEGMENTAL ANALYSIS

Geographical analysis

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

Major customers

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

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

	Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019 Unaudited Rm	Twelve months ended 30 September 2019 Audited Rm
2. CAPITAL ITEMS			
2.1 Capital items			
Capital items reflect and affect the resources committed in producing operating/trading performance and are not the performance itself. These items deal with the platform/capital base of the entity. Capital items are required to be reported by the JSE as part of the calculation of headline earnings.			
From continuing operations			
Impairment	**86**	–	1 263
Goodwill	**35**	–	672
Intangible assets	**–**	–	547
Right-of-use assets	**42**	–	–
Property, plant and equipment	**9**	–	44
Loss/(profit) on disposal of property, plant and equipment and intangible assets	**2**	(2)	15
	88	(2)	1 278
From discontinued operations			
(Gain)/loss recognised due to remeasurement of disposal group to fair value	**(7)**	–	18
	(7)	–	18
3. TAXATION			
Tax from continuing operations	**(814)**	(900)	(1 707)
Tax from discontinued operations (note 4)	**(4)**	(3)	4
Total taxation for the period	**(818)**	(903)	(1 703)

Reconciliation of rate of taxation	%	%	%
South African standard rate of taxation	**28.0**	28.0	28.0
Foreign tax rate differential	**(1.1)**	(0.3)	(0.1)
Withholding taxes	**1.9**	0.9	2.4
Unrecognised tax losses	**2.0**	0.6	1.5
Prior year adjustments	**1.7**	0.2	1.4
Impairment of goodwill and intangibles	**0.1**	–	6.0
Preference share dividends	**2.7**	2.3	3.3
Unproductive interests	**–**	1.5	1.0
Other	**0.5**	0.8	0.6
Effective rate of taxation	**35.7**	34.0	44.1

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

4. DISCONTINUED OPERATIONS

4.1 Description

The group is in the final stages of concluding the sale of its Zimbabwean business trading under the Power Sales brand as disclosed in the annual financial statements for the year ended 30 September 2019. The associated assets and liabilities were consequently presented as held for sale and are presented in note 6.

The discontinued Zimbabwean operations were included in the clothing and general merchandise segment.

	Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019 Unaudited Rm	Year ended 30 September 2019 Audited Rm
4.2 Income statement			
Revenue	**45**	25	47
Cost of sales	**(21)**	(12)	(20)
Gross profit	**24**	13	27
Operating expenses	**(10)**	(28)	(83)
Capital items (note 2)	**7**	–	(18)
Operating profit/(loss)	**21**	(15)	(74)
Finance cost	**–**	–	(1)
Finance income	**–**	1	1
Profit/(loss) before taxation	**21**	(14)	(74)
Taxation	**(4)**	(3)	4
Profit/(loss) for the period	**17**	(17)	(70)
4.3. Statement of cash flows			
Net cash inflow/(outflow) from operating activities	**16**	23	(29)
Net cash inflow from investing activities	**7**	–	–
Net cash outflow from financing activities	**(4)**	(22)	(14)
Net increase/(decrease) in cash and cash equivalents	**19**	1	(43)
Effects of exchange rate translations on cash and cash equivalents	**(11)**	(148)	(161)
Cash and cash equivalents at beginning of the period	**9**	213	213
Cash and cash equivalents at end of the period	**17**	66	9

4.4. The economy of Zimbabwe was assessed in accordance with IAS 29: *Financial Reporting in Hyperinflationary Economies* and was found to be in hyperinflation for the six months ended 31 March 2020 and the year ended 30 September 2019. However, the hyperinflation accounting impact was found to be immaterial in consideration of the group's decision to dispose of the operations. Therefore, it was decided that no adjustments would be made to the group's results for the Zimbabwean operations as being hyperinflationary.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

	31 March 2020 Million	31 March 2019 Million	30 September 2019 Million
5. EARNINGS AND HEADLINE EARNINGS PER SHARE			
5.1. Weighted average number of ordinary shares			
Issued ordinary shares at beginning of the period	**3 450**	3 450	3 450
Ordinary shares issued in terms of scrip dividend paid	**7**	–	–
Weighted average number of ordinary shares at end of the period for the purpose of basic earnings per share and headline earnings per share	**3 457**	3 450	3 450
Effect of dilution due to share rights issues in terms of share scheme	**35**	22	22
Weighted average number of ordinary shares at end of the period for the purpose of diluted earnings per share and diluted headline earnings per share	**3 492**	3 472	3 472
Number of shares in issue	**3 488**	3 450	3 450

	Six months ended 31 March 2020		
		Unaudited	
	Continuing Rm	Discontinued Rm	Total Rm
5.2. Earnings and headline earnings			
Profit for the period	**1 458**	**17**	**1 475**
Attributable to non-controlling interests	**(1)**	**–**	**(1)**
Earnings attributable to ordinary shareholders	**1 457**	**17**	**1 474**
Capital items (note 2)	**88**	**(7)**	**81**
Taxation effect of capital items	**(15)**	**–**	**(15)**
Headline earnings attributable to ordinary shareholders	**1 530**	**10**	**1 540**

	Six months ended 31 March 2019		
		Unaudited	
	Continuing Rm	Discontinued Rm	Total Rm
Earnings and headline earnings			
Profit for the period	1 768	(17)	1 751
Attributable to non-controlling interests	–	–	–
Earnings attributable to ordinary shareholders	1 768	(17)	1 751
Capital items (note 2)	(2)	–	(2)
Taxation effect of capital items	–	–	–
Headline earnings attributable to ordinary shareholders	1 766	(17)	1 749

	Year ended 30 September 2019		
		Audited	
	Continuing Rm	Discontinued Rm	Total Rm
Earnings and headline earnings			
Profit for the period	2 231	(70)	2 161
Attributable to non-controlling interests	(1)	–	(1)
Earnings attributable to ordinary shareholders	2 230	(70)	2 160
Capital items (note 2)	1 278	18	1 296
Taxation effect of capital items	(115)	–	(115)
Headline earnings attributable to ordinary shareholders	3 393	(52)	3 341

5.3 Diluted earnings and diluted headline earnings per share

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

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

	Six months ended 31 March 2020 Unaudited Cents	Six months ended 31 March 2019[1] Unaudited Cents	% change	Twelve months ended 30 September 2019 Audited Cents
5. EARNINGS AND HEADLINE EARNINGS PER SHARE (continued)				
5.4. Headline from continuing operations	**44.3**	51.2	(13.6)	98.3
Headline from discontinued operations	**0.3**	(0.5)	>100	(1.5)
Headline operations	**44.5**	50.7	(12.1)	96.8
Diluted headline from continuing operations	**43.8**	50.9	(13.9)	97.7
Diluted headline from discontinued operations	**0.3**	(0.5)	>100	(1.5)
Diluted headline from operations	**44.1**	50.4	(12.6)	96.2

[1] *Prior year comparatives have been reclassified for the effect of the discontinued operations as detailed in note 4.*

	Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019 Unaudited Rm	Twelve months ended 30 September 2019 Audited Rm
6. ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE			
The following assets and liabilities were classified as held for sale in relation to the disposal group as at 31 March 2020. Refer to note 4 for further detail.			
6.1 Assets			
Property, plant and equipment	**2**	–	3
Investments and loans	**–**	–	2
Deferred taxation assets	**1**	–	–
Trade and other receivables	**2**	–	2
Inventories	**3**	–	2
Cash and cash equivalents	**17**	–	9
Total gross assets	**25**	–	18
Impairment due to remeasurement of disposal group to fair value	**(12)**	–	(18)
Total assets post impairment	**13**	–	–
6.2 Liabilities			
Short-term lease liability	**(5)**	–	–
Current income taxation liabilities	**(1)**	–	–
VAT payable	**(2)**	–	–
Trade and other payables	**(4)**	–	(2)
Total liabilities[2]	**(12)**	–	(2)
6.3. Net assets	**1**	–	(2)

[2] *Excludes intercompany loans payable amounting to R1 million eliminated on consolidation.*

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

7. NET CASH FLOW ON ACQUISITION OF BUSINESSES

Effective 1 December 2019, Pepkor Holdings Limited acquired 100% of Abacus Holdco Proprietary Limited (Abacus) for a purchase price of R182 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.

The group further acquired Eezi Global Limited (Eezi), effective 1 March 2020, 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.

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

	Six months ended 31 March 2020 Unaudited Abacus Rm	Six months ended 31 March 2020 Unaudited Eezi Rm	Six months ended 31 March 2020 Unaudited Total Rm
7.1 The fair value of assets and liabilities assumed at date of acquisition			
Assets			
Property, plant and equipment	6	–	6
Right-of-use assets	21	–	21
Deferred taxation assets	6	–	6
Trade and other receivables	55	22	77
Insurance receivables	7	–	7
Reinsurance receivables	23	–	23
Cash on hand	141	12	153
Liabilities			–
Trade and other payables	(32)	(68)	(100)
Taxation payable	(3)	–	(3)
VAT payable	(2)	(1)	(3)
Long-term lease liability	(22)	–	(22)
Insurance liabilities	(52)	–	(52)
Reinsurance liabilities	(20)	–	(20)
Total assets and liabilities acquired	128	(35)	93
Goodwill and intangible assets attributable to acquisition[1]	54	35	89
Total consideration	182	–	182
Cash on hand at date of acquisition	(141)	(12)	(153)
Net cash inflow/(outflow) on acquisition of subsidiaries	41	(12)	29

[1] Goodwill attributable to the acquisition of Eezi Global Limited of R35 million was impaired on recognition date. Refer to note 2.

Contingent liabilities currently recognised on business combinations amount to Rnil.

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

	Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019 Unaudited Rm	Year ended 30 September 2019 Audited Rm
8. FINANCING			
Unutilised banking and debt facilities consist of the following:			
Committed	**3 500**	2 701	3 500
Uncommitted	**4 174**	3 189	3 560
Total	**7 674**	5 890	7 060

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.

9. CONTINGENT LIABILITIES

There were no significant changes in the contingent liabilities to those disclosed in the consolidated annual financial statements as at 30 September 2019.

10. RELATED PARTIES

During the period, the group entered into related-party transactions in the ordinary course of business, the substance of which are similar to those disclosed in the group's annual financial statements for the year ended 30 September 2019. There were no material movements in the balances for the six months ended 31 March 2020 and 2019.

11. CHANGE IN ACCOUNTING POLICIES

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.

Initial and subsequent measurement

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 relating lease liabilities. The recognised right-of-use assets are depreciated on a straight-line basis over the lease term, which is determined by the group as the non-cancellable period of the lease including any extension options where the group is reasonably certain it will be exercised. Right-of-use assets are tested for impairment when indicators of impairment are identified.

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 at which the future lease payments is discounted takes into account lease term, country, currency and start date of the lease. Incremental borrowing rates are based on a series of inputs of which the most significant inputs include the interbank average lending rate, credit risk adjustments and country-specific adjustment.

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 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. 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.

Transition

The group has elected to adopt the modified retrospective approach by accounting for the right-of-use assets since 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. 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 to only 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.
- Using hindsight when determining the lease term where the contract contains renewal and termination options.

Comparative information has not been restated and has been reported under the previous IAS 17 and IFRIC 4. To provide a more meaningful comparison of the current period's financial performance to the prior period, the current period has been adjusted to illustrate the impact should IFRS 16 not have been applied.

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

PRO FORMA FINANCIAL INFORMATION

The pro forma financial information excludes the impact of IFRS 16 presented in the summary consolidated interim financial statements.

PRO FORMA SUMMARY CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 31 March 2020 Unaudited Rm	Effect of adopting IFRS 16 Six months ended 31 March 2020 Unaudited Rm	Pro forma under IAS 17 Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019 Unaudited Rm	Pro forma under IAS 17 Change on prior period %
Revenue		**37 552**	–	**37 552**	35 273	6.5
Cost of sales	11.3	**(24 576)**	14	**(24 562)**	(23 144)	(6.1)
Gross profit		**12 976**	14	**12 990**	12 129	7.1
Other income		**395**	13	**408**	443	(7.9)
Operating expenses	11.2	**(6 593)**	(1 869)	**(8 462)**	(8 295)	(2.0)
Debtors' costs		**(868)**	–	**(868)**	(273)	(>100)
Operating profit before depreciation, amortisation and capital items		**5 910**	(1 842)	**4 068**	4 004	1.6
Depreciation and amortisation	11.3	**(1 920)**	1 266	**(654)**	(599)	(9.2)
Operating profit before capital items		**3 990**	(576)	**3 414**	3 405	0.3
Capital items	11.4	**(88)**	42	**(46)**	2	(>100)
Operating profit		**3 902**	(534)	**3 368**	3 407	(1.2)
Finance cost	11.5	**(1 763)**	846	**(917)**	(847)	(8.2)
Finance income		**133**	–	**133**	108	23.1
Profit before taxation		**2 272**	312	**2 584**	2 668	(3.2)
Taxation	11.6	**(814)**	(112)	**(926)**	(900)	(2.9)
Profit from continuing operations		**1 458**	200	**1 658**	1 768	(6.3)
Profit/(loss) from discontinued operations	11.7	**17**	(4)	**13**	(17)	>100
Profit for the period		**1 475**	196	**1 671**	1 751	(4.6)
Profit attributable to:						
Owners of the parent		**1 474**	196	**1 670**	1 751	(4.6)
Non-controlling interests		**1**	–	**1**	–	>100
Profit for the period		**1 475**	196	**1 671**	1 751	(4.6)
Earnings per share (cents)						
Basic from continuing operations		**42.1**	5.8	**47.9**	51.2	(6.5)
Basic from discontinued operations		**0.5**	(0.1)	**0.4**	(0.5)	>100
Basic operations		**42.6**	5.7	**48.3**	50.8	(4.9)
Headline from continuing operations		**44.3**	5.0	**49.3**	51.2	(3.8)
Headline from discontinued operations		**0.3**	(0.1)	**0.2**	(0.5)	>100
Headline operations		**44.5**	4.9	**49.4**	50.7	(2.5)
Diluted basic from continuing operations		**41.7**	5.7	**47.4**	50.9	(6.8)
Diluted basic from discontinued operations		**0.5**	(0.1)	**0.4**	(0.5)	>100
Diluted basic from operations		**42.2**	5.6	**47.8**	50.4	(5.2)
Diluted headline from continuing operations		**43.8**	5.0	**48.7**	50.9	(4.2)
Diluted headline from discontinued operations		**0.3**	(0.1)	**0.2**	(0.5)	>100
Diluted headline from operations		**44.1**	4.8	**48.9**	50.4	(3.0)

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

PRO FORMA FINANCIAL INFORMATION

PRO FORMA DISCONTINUED OPERATIONS

	Notes	Six months ended 31 March 2020 Unaudited Rm	Effect of adopting IFRS 16 Six months ended 31 March 2020 Unaudited Rm	Pro forma under IAS 17 Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019 Unaudited Rm	Pro forma under IAS 17 change on prior period %
Revenue		**45**	–	**45**	25	80.0
Cost of sales		**(21)**	–	**(21)**	(12)	(78.2)
Gross profit		**24**	–	**24**	13	81.6
Operating expenses	11.2	**(10)**	(5)	**(15)**	(29)	47.5
Operating profit before depreciation, amortisation and capital items		**14**	(5)	**9**	(15)	>100
Operating profit before capital items		**14**	(5)	**9**	(15)	>100
Capital items	11.4	**7**	–	**7**	-	100.0
Operating profit		**21**	(5)	**16**	(15)	>100
Finance cost	11.5	**–**	–	**–**	1	(100.0)
Profit before taxation		**21**	(5)	**16**	(14)	>100
Taxation	11.6	**(4)**	1	**(3)**	(3)	–
Profit from discontinued operations		**17**	(4)	**13**	(17)	>100

PRO FORMA SUMMARY CONSOLIDATED SEGMENTAL ANALYSIS

	Six months ended 31 March 2020 Unaudited Rm	Effect of adopting IFRS 16 Six months ended 31 March 2020 Unaudited Rm	Pro forma under IAS 17 Six months ended 31 March 2020 Unaudited Rm	Six months ended 31 March 2019 Unaudited Rm	Pro forma under IAS 17 change on prior period %
OPERATING PROFIT BEFORE CAPITAL ITEMS					
Clothing and general merchandise	**3 499**	(356)	**3 143**	3 102	1.3
Furniture, appliances and electronics	**181**	(114)	**67**	60	11.7
Building materials	**111**	(107)	**4**	42	(90.5)
FinTech	**199**	1	**200**	201	(0.5)
	3 990	(576)	**3 414**	3 405	0.3

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

PRO FORMA FINANCIAL INFORMATION

PRO FORMA SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 March 2020 Unaudited Rm	Effect of adopting IFRS 16 As at 31 March 2020 Unaudited Rm	Pro forma under IAS 17 As at 31 March 2020 Unaudited Rm	As at 31 March 2019 Unaudited Rm
ASSETS					
Property, plant and equipment	11.9	**5 464**	(84)	**5 380**	5 209
Right-of-use assets	11.8	**12 423**	(12 423)	**–**	–
Deferred taxation assets	11.6, 11.8	**2 582**	(1 087)	**1 495**	1 305
Trade and other receivables	11.9	**8 134**	17	**8 151**	6 583
Total assets		**108 719**	(13 577)	**95 142**	92 050
Assets held for sale		**13**	(2)	**11**	–
EQUITY AND LIABILITIES					
Capital and reserves					
Total equity	11.8	**56 298**	2 838	**59 136**	56 332
Non-current liabilities					
Lease liabilities	11.8	**14 819**	(14 819)	**–**	–
Trade and other payables	11.6	**–**	404	**404**	543
Total non-current liabilities		**36 028**	(14 415)	**21 613**	22 192
Current liabilities					
Lease liabilities	11.8	**2 251**	(2 251)	**–**	–
Trade and other payables	11.6 , 11.9	**10 262**	258	**10 520**	9 696
Total current liabilities		**16 393**	(1 993)	**14 400**	13 526
Total equity and liabilities		**108 719**	(13 570)	**95 149**	92 050
Liabilities associated directly with assets classified as held for sale		**12**	(9)	**3**	–
Net asset value per ordinary share (cents)		**1 613.8**	81.4	**1 695.2**	1 632.6

PRO FORMA SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	As at 31 March 2020 Unaudited Rm	Effect of adopting IFRS 16 As at 31 March 2020 Unaudited Rm	Pro forma under IAS 17 As at 31 March 2020 Unaudited Rm	As at 31 March 2019 Unaudited Rm
Net cash inflow/(outflow) from operating activities	**2 330**	(1 992)	**338**	(2 341)
Net cash outflow from investing activities	**(575)**	–	**(575)**	(587)
Net cash (outflow)/inflow from finance activities	**(1 786)**	1 992	**206**	2 375

UNAUDITED SUMMARY CONSOLIDATED INTERIM FINANCIAL STATEMENTS

[FOR THE SIX MONTHS ENDED 31 MARCH 2020]

PRO FORMA FINANCIAL INFORMATION

NOTES TO THE PRO FORMA FINANCIAL INFORMATION

11.1 The pro forma financial information, which is the responsibility of the group's directors, has been presented for illustrative purposes only and is consistent with the prior reporting period. The pro forma financial information is presented in accordance with the JSE Listings Requirements and the SAICA Guide on Pro Forma Financial Information. Therefore, because of its nature, the pro forma financial information may not fairly present the group's financial position, results of operations or cash flows. The pro forma financial information has not been reviewed or reported on by the group's external auditors.

11.2 Effect of reinstatement of operating lease expense (R1.988 billion, discontinued operations R5 million) and relating equalisation of operating lease payments under IAS 17, as well as the reversal of R133 million foreign exchange on the revaluation of the lease liability.

11.3 Effect of reversing the depreciation on the right-of-use assets under IFRS 16 of R1 266 million (discontinued operations: Rnil).

11.4 Effect of the reversal of the impairment of the right-of-use assets under IAS 36 of R42 million. (discontinued operations: Rnil)

11.5 Effect of reversing the interest expense on the lease liabilities under IFRS 16 of R846 million (discontinued operations: Rnil)

11.6 Effect of reversing the deferred taxation effect on the net right-of-use asset and liability under IFRS 16 and reinstatement of deferred taxation effect relating to the equalisation of operating lease payments under IAS 17 and onerous leases under IAS 37 or R112 million (discontinued operations: R1 million).

11.7 Net effect of reversing point 11.2 – 11.6 relating to the discontinued operations.

11.8 Effect of reversing the right-of-use assets and lease liabilities under IFRS 16 with the corresponding deferred taxation and net opening retained earnings effect.

11.9 Effect of reversing the reclassification of finance leases and lease incentives to the right-of-use asset and reinstating prepaid rentals of R17 million.

PRO FORMA CONSTANT CURRENCY DISCLOSURE

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

The table below sets out the percentage change in sales, based on the actual continuing results for the period, in reported currency and constant currency, for the basket of currencies in which PEP Africa operates.

Change in sales on prior period (%)	Reported currency	Constant currency
PEP Africa	(15.9%)	(5.5%)

The pro forma constant currency disclosure is presented in accordance with the JSE Listings Requirements and the Guide on Pro Forma Financial Information issued by SAICA. The pro forma constant currency disclosure has been prepared for illustrative purposes only. Because of its nature, the pro forma constant currency disclosure may not fairly present Pepkor's financial position, changes in equity, results of operations or cash flows. The pro forma constant currency disclosure presented is the responsibility of the board and was not reviewed by Pepkor's auditors.

CORPORATE INFORMATION

PEPKOR HOLDINGS LIMITED
('Pepkor' or 'the company' or 'the group')
(Incorporated in the Republic of South Africa)

Executive directors
LM Lourens (Chief executive officer), RG Hanekom (Chief financial officer)

Non-executive directors
J Naidoo (Chairman), JB Cilliers (Lead independent)*, TL de Klerk, LJ du Preez, MJ Harris* (Resigned 19 February 2020), WYN Luhabe*, SH Müller*, F Petersen-Cook*, JD Wiese

** Independent*

Registration number
2017/221869/06

Share code
PPH

Debt code
PPHI

ISIN
ZAE000259479

Registered address
36 Stellenberg Road, Parow Industria 7493

Postal address
PO Box 6100, Parow East 7501

Telephone
021 929 4800

E-mail
info@pepkor.co.za

Transfer secretaries
Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196

Company secretary
Pepkor Proprietary Limited

Auditors
PricewaterhouseCoopers Inc.

Equity sponsor
PSG Capital Proprietary Limited

Debt sponsor
Rand Merchant Bank (A division of FirstRand Bank Limited)

Corporate broker
Rand Merchant Bank (A division of FirstRand Bank Limited)

Announcement date
27 May 2020

pepkor.co.za