



UNAUDITED INTERIM RESULTS

for the six months ended 31 March 2018

Corporate information

Steinhoff Africa Retail Limited ('STAR' or 'the company' or 'the group')

Executive directors: LM Lourens (Chief executive officer), RG Haneekom (Chief financial officer) | Non-executive directors: J Naidoo (Chairman), JB Cilliers, LJ du Preez, SH Müller, F Peterson-Cook, HJ Sonn, DM van der Merwe, JD Wiese

Registration number: 2017/221869/06 | Share code: SRR | ISIN: ZAE000247995 | Registered address: 28 Sixth Street, Wynberg, Sandton 2090 | Postal address: PO Box 6100, Parow East 7501 | Telephone: 021 929 4800

Facsimile: 021 929 4829 | E-mail: info@star-group.co.za | Transfer secretaries: Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196 | Company secretary: Steinhoff Secretarial Services

Proprietary Limited | Auditors: PricewaterhouseCoopers | Sponsor: PSG Capital Proprietary Limited

• Independent

Announcement date: 29 May 2018

www.star-group.co.za

COMPARABLE¹ HIGHLIGHTS

10.2%	Increase in revenue to R33.0bn	9.0%	Increase in operating profit ² to R3.3bn	12.2%	Increase in headline earnings per share
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² Before capital items

R18bn raised in completion of refinancing of shareholder funding

Statutory results	Six months ended 31 March 2018 H1FY18	Six months ended 31 March 2017 H1FY17	% change
Revenue (Rm)	33 013	28 490	15.9
Operating profit before capital items (Rm)	2 708	2 788	(2.9)
Headline earnings per share (c)	36.2	71.1	(49.1)

Comparable ¹ results	Six months ended 31 March 2018 H1FY18	Six months ended 31 March 2017 H1FY17	% change
Revenue (Rm)	33 013	29 953	10.2
Operating profit before capital items (Rm)	3 298	3 026	9.0
Headline earnings per share (c)	52.6	46.9	12.2

¹ Comparable results – refer to additional information below.

Introduction

The first half of the financial year has proven to be very challenging for STAR from a corporate perspective. It is understandably difficult for the market to comprehend what the impact of the events at Steinhoff International Holdings N.V. ('Steinhoff') is or can be on STAR.

STAR is a separately listed company and, after the recent refinancing of shareholder funding, is financially independent. The removal of all cross guarantees pertaining to the Steinhoff shareholder funding has been a major milestone. The company has taken a conservative approach with a specific focus to identify and limit any future downside risk.

STAR consists of some of the most iconic brands in South African retail that operate independently of the corporate noise that exist. The majority of the brands in STAR were part of the former Pepkor Holdings group (Pepkor), which has a proud and successful history.

STAR has a decentralised divisional management structure and is fortunate to have very experienced leadership that manages the respective brands. Their priority has been to create stability and to focus their teams on the execution of their strategies and customer value propositions – something they have indeed done successfully. Excluding

the extraordinary items mentioned below, STAR had a satisfactory performance for the period under review.

Extraordinary items for the six months ended 31 March 2018

STAR issued a trading statement on 25 May 2018 describing the impact of the Steinhoff events on the STAR interim results. This followed an audit committee meeting earlier that day that confirmed that a reasonable degree of certainty exists that extraordinary losses will be incurred, and the quantum thereof.

STAR, through its subsidiaries, has been a guarantor of third-party debt related to a Pepkor management investment company since 2011. The investment initially consisted of Pepkor shares, but was converted to Steinhoff shares in 2015 following Steinhoff's acquisition of Pepkor. Following the finalisation and publication of STAR's 2017 annual financial statements and the subsequent decline of the Steinhoff share price, the risk of liability in this regard can no longer be considered to be remote. Therefore, the STAR board has taken the conservative approach to fully provide for STAR's exposure in this regard, amounting to R440 million. In addition, a provision for an impairment of loans associated to the third-party debt, amounting to R60 million, was provided

for, thereby sufficiently providing for STAR's exposure in this regard.

Given the decline of the Steinhoff share price, the legacy Steinhoff share incentive scheme ('Steinhoff scheme') no longer adequately addresses the need to retain, motivate and reward key senior employees of the group. This resulted in the introduction of a cash retention scheme at an additional cost of R90 million in the current reporting period.

STAR interim results

The comparability of STAR's statutory results is limited by the timing of its internal restructure in July 2017, prior to its listing. The issue of 750 million shares (21.47% of issued share capital) upon listing on 20 September 2017 and acquisitions in both the comparative and current period materially impact the comparability of the results.

For purposes of clarity we provide comparable results for the six months ended 31 March 2018 (H1FY18) as further detailed below and graphically depicted on page 3.

Additional information Six months ended 31 March 2017

	Pro forma STAR as per pre-listing statement ^(a) Rm	Normalisation of effective tax rate ⁽¹⁾ Rm	BSG six months ended 31 March 2017 ⁽²⁾ Rm	Pro-forma BSG adjustments ⁽³⁾ Rm	Comparable STAR six months ended 31 March 2017 H1FY17 Rm
Revenue	29 222	-	731	-	29 953
Operating profit before capital items	2 964	-	62	-	3 026
Net finance costs	(651)	-	(19)	(16)	(685)
Profit before taxation	2 276	-	43	(16)	2 304
Taxation	(618)	(88)	(7)	-	(713)
Profit for the period	1 658	(88)	37	(16)	1 591
Profit attributable to:					
Owners of the parent	1 653	(88)	37	(16)	1 586
Non-controlling interests	5	-	-	-	5
Profit for the period	1 658	(88)	37	(16)	1 591
Headline earnings per ordinary share (cents)	48.9	(2.6)	1.1	(0.5)	46.9
Basic earnings per ordinary share (cents) ^(b)	47.9	(2.6)	1.1	(0.5)	46.0
Number of ordinary shares in issue (millions)	3 450	-	-	-	3 450
Weighted average number of ordinary shares in issue (millions)	3 450	-	-	-	3 450

The comparable results as set out in the additional results have been prepared for illustrative purposes only, in order to provide shareholders with comparable results. Because of its nature, the historic financial information may not fairly present STAR's financial position, changes in equity, results of operations or cash flows.

The comparable results are presented in accordance with the JSE Listings Requirements, the Guide on Pro Forma Financial Information issued by SAICA.

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

In determining the H1FY17 comparable results, the H1FY17 statutory results were adjusted as follows:

- The STAR reviewed 31 March 2017 results included tax adjustments of a non-recurring nature that has been normalised by way of using the average effective tax rate for the 12 months ended 30 September 2017. Tax adjustments include inter alia deferred tax assets raised on previously unrecognised tax losses and therefore not recurring in nature.

- The column titled 'BSG six months ended 31 March 2017' has been extracted from the Building Supply Group (BSG) management accounts for the six months ended 31 March 2017. BSG was acquired by STAR and consolidated as part of the STAR unaudited results from 1 October 2017 to 31 March 2018. The management of STAR is satisfied with the quality of the management accounts of BSG applied.

- The column titled 'Pro forma BSG adjustments' refers to the finance costs incurred in funding the acquisition of BSG. The costs are not expected to be tax deductible as it is not in the production of taxable income.

Save for otherwise stated, all comparable adjustments will have a continuing effect on the financial results of STAR.

Notes:

- The column titled 'Pro forma STAR as per pre-listing statement' refers to the pro forma adjusted results of STAR included in annexure 3 of the pre-listing statement prior to the effects of the Shoprite call options.
- Rounded

Additional information

Six months ended 31 March 2018

	Statutory STAR six months ended 31 March 2018		Provision for guarantee and loan impairment ¹	Cash retention scheme ²	Comparable STAR six months ended 31 March 2018	
	H1FY18	Rm			H1FY18	Rm
Operating profit before capital items	2 708	500	90	3 298		
Capital items	(1)	-	-	(1)		
Operating profit after capital items	2 707	500	90	3 297		
Profit before taxation	2 154	500	90	2 744		
Taxation	(899)	-	(25)	(924)		
Profit for the period	1 255	500	65	1 820		
Profit attributable to:						
Owners of the parent	1 249	500	65	1 814		
Non-controlling interests	6	-	-	6		
Profit for the period	1 255	500	65	1 820		
Headline earnings per ordinary share (cents)	36.2	14.5	1.9	52.6		
Basic earnings per ordinary share (cents) (a)	36.2	14.5	1.9	52.6		
Number of ordinary shares in issue (millions)	3 450	-	-	3 450		
Weighted average number of ordinary shares in issue (millions)	3 450	-	-	3 450		

(a) Rounded

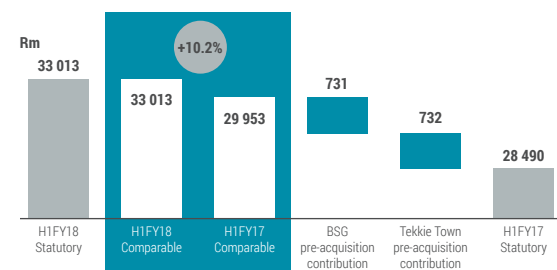
The comparable results as set out in the additional results have been prepared for illustrative purposes only, in order to provide shareholders with comparable results. Because of its nature, the historic financial information may not fairly present STAR's financial position, changes in equity, results of operations or cash flows.

The comparable results are presented in accordance with the JSE Listings Requirements, the Guide on Pro Forma Financial Information issued by SAICA.

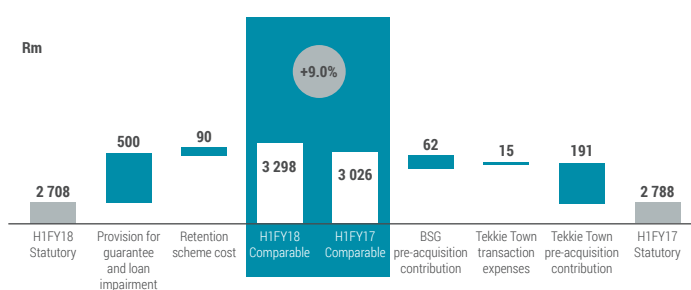
The comparable results are the responsibility of the board and were not reviewed or reported on by STAR's auditors. In determining the H1FY18 comparable results trading range as detailed in the trading statement, the H1FY18 statutory results were adjusted for the following:

1. STAR is party to a guarantee of third-party debt that is underpinned by the Steinhoff International Holdings N.V (Steinhoff) share price. Since the decline of the Steinhoff share price, the risk of liability in this regard ('Steinhoff share exposure') can no longer be considered remote. Exposure to the company pertaining to the Steinhoff share exposure, equating to R440 million (taxation of RNil) and the provision for an impairment of loans associated to the third-party amounting to R60 million (taxation of RNil), have been recognised in the H1FY18 results. This will not have a continuing effect on the financial results as STAR has sufficiently provided for its exposure in this regard.
2. The long-term cash retention scheme impact of R90 million (taxation of R25 million) was recognised in the H1FY18 results. This adjustment will have a continuing effect on the financial results of STAR until 2020 by a similar amount, subject to performance.

Comparable six-month revenue



Comparable six-month operating profit²



²Before capital items

COMPARABLE STAR RESULTS

On a comparable basis, STAR delivered a good performance in a challenging retail environment characterised by slow economic growth and consumer spending that remains under severe pressure. Additionally, the challenge of deflation continued to impact sales growth within the clothing, footwear and homeware (CFH) retailers, which comprise more than 65% of STAR's revenue. Action plans were implemented to mitigate the impact of deflation, resulting in a stronger sales performance during the second quarter. It is expected that the impact of deflation will dissipate gradually in the remainder of this financial year.

STAR's ability to provide the best price and value offerings in the market translated into revenue growth (on a comparable basis) of 10.2% to R33.0 billion for the group. STAR added 155 new stores during the period, increasing its footprint to 5 108 stores covering 2.4 million square metres.

Operating profit growth was supported by strong growth in Ackermans and the turnaround of the JD Group. Challenging operating conditions in Pep Africa and Steinbuild weighed on operating profit growth. STAR reported comparable operating profit growth of 9.0% to R3.3 billion (H1FY17: R3.0 billion). Overall, STAR's comparable operating margin was largely maintained at 10.0% (H1FY17: 10.1%).

OPERATIONAL REVIEW BASED ON COMPARABLE RESULTS

Pep and Ackermans

The Pep and Ackermans brands in aggregate reported 8.9% sales growth, supported by the opening of 80 stores on a net basis. Like-for-like sales growth of 3.5% for the six months was driven by a stronger performance during the second quarter as a result of increased sales volumes and interventions to mitigate the impact of deflation.

Kidswear, adultwear and homeware reported strong sales growth, with significantly improved margins in FMCG due to private label products, and cellular as a result of the direct import of handsets.

Gross margins were positively affected, mainly due to the impact of a stronger rand.

The Flash business, which provides virtual solutions in the informal market, continues to grow aggressively and now supports trading through more than 131 000 trading devices across the country.

Pep Africa

Pep Africa, representing less than 4% of STAR group revenue, reported a disappointing performance for the period under review as low commodity prices impacted consumer spending in its traditional markets, while volatile exchange rates and a stronger rand affected the business. Forex losses amounting to R88 million were incurred during the period.

Sales growth of 6.3% in rand terms was achieved, which includes the opening of 15 new stores. Negative like-for-like sales growth was however reported for the period, while gross margins were negatively impacted by currency volatility and stock clearances.

Macro-economic conditions have impacted significantly on the economies of Angola and Zimbabwe and had a severe impact on their results.

JD Group

The turnaround of the JD Group continues, and results for the period were very positive. All retail brands within the group reported improved trading compared to the previous period, with total group sales increasing by 11.4% and like-for-like sales growth of 7.3%. This performance was achieved despite extremely difficult market conditions for durable goods.

Margin improvements were achieved in the furniture brands but remain under pressure in the consumer electronics and appliance brands. Credit sales are now a much smaller revenue driver compared to historic levels, generating 29% of furniture sales. Significant investments were made in systems and processes to provide the group with a solid platform for future growth.

Speciality fashion and footwear

The speciality fashion and footwear division performed well as a group, achieving comparable sales growth of 17.3% overall and 10.1% on a like-for-like basis. The store footprint was expanded to 900 stores during the period, growing by

24 stores. Good progress continues to be made with the repositioning of the brands.

Tekkie Town showed positive sales growth and introduced credit by in-house provider, Tenacity. The John Craig brand was repositioned to a predominantly private label brand, Muratti, and has shown excellent sales growth. Supported by the reintroduction of ladieswear, Refinery has performed very well and has achieved great support and brand traction from the market. Shoe City's performance was significantly impacted by deflation and stock imbalances and, as a result, sales growth was below expectation. Dunns' profitability was impacted by high markdowns and stock clearances. A new management team was appointed to further progress the turnaround of this brand.

Building materials and DIY

The building materials industry is under severe pressure as economic development and investment in the country has slowed. Despite an improved second quarter, revenue declined by 3.6% (excluding BSG) for the six months. The trend is consistent across the general and specialised building materials divisions. Trading margins have been well managed and are in line with expectation. Costs have also been contained.

Following a high degree of corporate activity with the acquisitions of Iliad and BSG over the last two years, the focus has now shifted to sales initiatives and operational execution. Recent changes in the political landscape has created a more positive economic outlook and may assist improved industry growth in the medium to longer term.

STATUTORY RESULTS

Summarised consolidated income statement

Notes	Six months ended 31 March 2018 Unaudited Rm	Six months ended 31 March 2017 Reviewed Rm	% change	Twelve months ended 30 Sept 2017 Audited Rm
Revenue	33 013	28 490	15.9	57 850
Cost of sales	(21 281)	(18 283)	16.4	(37 412)
Gross profit	11 732	10 207	14.9	20 438
Other income	553	467	18.4	701
Operating expenses	(9 022)	(7 403)	21.9	(14 364)
Operating profit before depreciation, amortisation and capital items	3 263	3 271	(0.2)	6 775
Depreciation and amortisation	(555)	(483)	14.9	(960)
Operating profit before capital items	2 708	2 788	(2.9)	5 815
Capital items	(1)	(37)	(97.3)	(29)
Operating profit	2 707	2 751	(1.6)	5 786
Net finance charges	(553)	(283)	95.4	(620)
Profit before taxation	2 154	2 468	(12.7)	5 166
Taxation	(899)	(639)	40.7	(1 599)
Profit for the period	1 255	1 829	(31.4)	3 567
Profit attributable to:				
Owners of the parent	1 249	1 824	(31.5)	3 550
Non-controlling interests	6	5	20.0	17
Profit for the period	1 255	1 829	(31.4)	3 567
Basic earnings per share (cents)	36.2	69.9	(48.2)	132.6
Headline earnings per share (cents)	36.2	71.1	(49.1)	133.6
Diluted earnings per share (cents)	36.1	69.9	(48.3)	132.6
Diluted headline earnings per share (cents)	36.1	71.1	(49.2)	133.6

Summarised consolidated statement of comprehensive income

	Six months ended 31 March 2018 Unaudited Rm	Six months ended 31 March 2017 Restated Rm	Twelve months ended 30 Sept 2017 Restated Rm
Profit for the period	1 255	1 829	3 567
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations	169	(21)	(84)
Net fair value (loss)/gain on cash flow hedges and other fair value reserves	(524)	(39)	768
Deferred taxation on cash flow hedges and fair value reserves	59	38	(74)
Capitalisation of Pep Africa foreign currency (losses)/gains on loan	(621)	107	795
Deferred tax on capitalisation of foreign currency movements	67	(33)	(104)
Total other comprehensive loss/(income) for the period	(850)	52	1 301
Total comprehensive income for the period	405	1 881	4 868
Total comprehensive income attributable to:			
Owners of the parent	399	1 876	4 851
Non-controlling interests	6	5	17
Total comprehensive income for the period	405	1 881	4 868

Summarised consolidated statement of changes in equity

	Six months ended 31 March 2018 Unaudited Rm	Six months ended 31 March 2017 Restated Rm	Twelve months ended 30 Sept 2017 Restated Rm
Balance at the beginning of the period	52 917	51 988	52 695
Changes in ordinary stated capital			
Shares issued in terms of internal restructure	–	3 480	70 177
Common control adjustment	–	–	(10 471)
Shares issued upon listing	–	–	15 375
Share expenses capitalised	1	–	(230)
Capital distribution	–	–	(20 632)
Changes in reserves			
Total comprehensive income for the year attributable to owners of the parent	399	1 876	4 851
Dividends paid	–	7	(2 013)
Net shares bought from non-controlling interests	–	–	(5)
Share-based payments	41	15	(2)
Reserves acquired on acquisition of business	2	–	–
Other reserve movements	–	(89)	2
Common control adjustment	–	–	(56 826)
Changes in non-controlling interests			
Total comprehensive income for the year attributable to non-controlling interests	6	5	17
Non-controlling interests acquired on acquisition of business	(1)	–	–
Distributions and refinancing arrangements	(6)	(9)	(21)
Balance at end of period	53 359	57 273	52 917
Comprising			
Ordinary stated capital	64 691	60 552	64 690
Common control reserve	(11 755)	–	(11 755)
Distributable reserves	311	(3 250)	(88)
Share-based payment reserve	74	41	33
Other reserves	14	(93)	12
Non-controlling interests	24	23	25
	53 359	57 273	52 917

STATUTORY RESULTS (CONTINUED)

Summarised consolidated statement of financial position

	31 March 2018 Unaudited Rm	31 March 2017 Reviewed Rm	30 Sept 2017 Audited Rm
ASSETS			
Non-current assets			
Goodwill and intangible assets	60 966	60 652	60 826
Property, plant and equipment	4 720	3 993	4 613
Investments and loans	120	1 050	170
Deferred taxation assets	1 281	2 333	1 586
	67 087	68 028	67 195
Current assets			
Inventories	11 554	10 510	10 954
Trade and other receivables	5 817	4 743	4 931
Loans due by Steinhoff and its subsidiaries	201	-	236
Cash and cash equivalents	2 921	2 263	3 797
	20 493	17 516	19 918
Total assets	87 580	85 544	87 113
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated capital	64 691	-	64 690
Reserves	(11 357)	57 251	(11 798)
Total equity attributable to equity holders of the parent	53 335	57 251	52 892
Non-controlling interests	24	23	25
Total equity	53 359	57 274	52 917
Non-current liabilities			
Interest-bearing loans and borrowings	26	26	16
Loans due to Steinhoff and its subsidiaries	11 000	-	11 000
Employee benefits	130	(28)	112
Deferred taxation liabilities	4 088	3 835	4 050
Provisions	594	854	727
Trade and other payables	580	536	533
	16 418	5 223	16 438
Current liabilities			
Trade and other payables	10 987	10 075	11 722
Loans due to Steinhoff and its subsidiaries	5 112	11 725	4 868
Employee benefits	669	692	737
Provisions	268	382	331
Interest-bearing loans and borrowings	34	-	11
Bank overdrafts and short-term facilities	733	173	89
	17 803	23 047	17 758
Total equity and liabilities	87 580	85 544	87 113
Net asset value per ordinary share (cents)	1 545.9	2 120.4	1 533.1

Summarised consolidated statement of cash flows

	Notes	Six months ended 31 March 2018 Unaudited Rm	Six months ended 31 March 2017 Reviewed Rm	Twelve months ended 30 Sept 2017 Audited Rm
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit:		2 707	2 751	5 786
Adjusted for:				
Debtors' costs		150	115	284
Depreciation and amortisation		555	483	960
Non-cash adjustments		554	4	239
		3 966	3 353	7 269
Working capital changes				
Inventories		(515)	(1 236)	(1 910)
Receivables		(822)	126	31
Payables		(1 897)	(897)	1 074
Changes in working capital		(3 234)	(2 007)	(805)
Cash generated from operations		732	1 346	6 464
Net movement in installment sale and loan receivables		(131)	(190)	(188)
Net dividends paid		(6)	(3)	(1 963)
Net finance charges		(553)	(283)	(670)
Taxation paid		(429)	(662)	(1 396)
Net cash (outflow)/inflow from operating activities		(387)	208	2 247
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets		(715)	(704)	(1 667)
Proceeds on disposal of property, plant and equipment and intangible assets		24	56	-
Acquisition of businesses, net of cash on hand at acquisition	5	(297)	(429)	(429)
Decrease/(increase) in long-term investments and loans		(11)	(89)	780
Net cash outflow from investing activities		(999)	(1 165)	(1 316)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds of ordinary shares issued		-	-	15 375
Capital distribution		-	-	(15 132)
Share issue expenses		1	-	(123)
Transactions with non-controlling interests		-	(3)	(26)
Increase/(decrease) in bank overdrafts and short-term facilities		564	15	(69)
Increase/(decrease) in long-term interest-bearing loans and borrowings		236	(5)	(15)
Increase/(decrease) in short-term interest-bearing loans and borrowings		-	99	(88)
Increase in related party loans and receivables		-	343	293
Net cash inflow from financing activities		801	449	215
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(585)	(508)	1 146
Effects of exchange rate translations on cash and cash equivalents		(291)	-	(120)
Cash and cash equivalents at beginning of the period		3 797	2 771	2 771
CASH AND CASH EQUIVALENTS AT END OF PERIOD		2 921	2 263	3 797

STATUTORY RESULTS (CONTINUED)

Notes to the summarised consolidated financial statements for the six months ended 31 March 2018

Statement of compliance

The summarised consolidated interim financial statements have been prepared and presented in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited, the information at a minimum as required by IAS 34: Interim Financial Reporting and the requirements of the South African Companies Act, No. 71 of 2008. The summarised consolidated interim financial statements have been prepared using accounting policies that comply with IFRS, which are consistent with those applied in the consolidated financial statements for the period ended 30 September 2017.

Basis of preparation

The summarised consolidated interim financial statements are prepared in millions of South African rand (Rm) on the historical-cost basis, except for certain assets and liabilities, which are carried at amortised cost, and derivative financial instruments, which are stated at their fair values. The preparation of the summarised consolidated interim financial statements for the six months ended 31 March 2018 was supervised by RG Hanekom CA(SA), the group's chief financial officer.

Restatement

Subsequent to the finalisation and publication of the group's 2017 audited annual financial statements, an error was identified in the accounting treatment of unrealised exchange rate differences pertaining to the group's net foreign investment in the Pep Africa operations. In terms of IAS 21: The effects of changes in foreign exchange rates, exchange differences pertaining to the translation of foreign currency monetary items receivable from or payable to foreign operations for which settlement is neither planned nor likely to occur, should be recognised initially in other comprehensive income. Notwithstanding the fact that the group recognised such exchange differences in the statement of changes in equity, these items were not included in the statement of other comprehensive income.

Financial statements

These results have not been reviewed or reported on by the group's auditors. All forward-looking information is the responsibility of the board of directors and has not been reviewed or reported on by the group's auditors. The results were approved by the board of directors on 28 May 2018.

Additional related parties

The forensic investigation underway at the group's controlling shareholder, Steinhoff International Holdings N.V. ('Steinhoff'), includes aspects that may influence the identification of related parties at the STAR group level. This is as a result of possible significant influence of Steinhoff over the Fulcrum Financial Services SA group companies ('Fulcrum'). Fulcrum provides consumer financing to some of STAR's customers. As a result, the related party disclosure in STAR's 2017 audited financial statements may need to be enhanced to include the relationship and transactions with Fulcrum. Any such restatement, pending the outcome of the forensic investigation, will not impact STAR's historical financial performance nor financial position and merely includes qualitative disclosure as required in terms of IAS 24: Related party disclosures.

Accounting policies

The accounting policies utilised in the preparation of the summarised consolidated interim financial information are consistent with those of the audited consolidated financial statements for the year ended 30 September 2017.

Events subsequent to the reporting period

On 23 May 2018, the refinancing of the Steinhoff shareholder funding (shareholder funding) was completed with the conclusion of agreements between STAR (and its designated wholly-owned subsidiaries) and various South African financial institutions. The repayment of the shareholder funding also facilitated the release of STAR and its subsidiaries from all third-party guarantees related to the financing of the shareholder funding. The company raised a total of ZAR18 billion stand-alone financing facilities, which was well received by the SA market with the overall demand exceeding the company's requirements. The additional ZAR2 billion, over and above what was required to settle the shareholder funding, was raised in line with STAR's funding needs and growth in operations.

Changes to the board/board committees

The following changes to the board occurred during the reporting period:

AB la Grange	resigned 24 January 2018
MJ Jooste	resigned 5 December 2017
AE Swiegers	resigned 13 February 2018
VP Khanyile	resigned 10 January 2018
LM Lourens	appointed 6 December 2017
LJ du Preez	appointed 24 January 2018
F Petersen-Cook	appointed 14 April 2018

	Six months ended 31 March 2018 Unaudited Rm	Six months ended 31 March 2017 Reviewed Rm	% change	Twelve months ended 30 Sept 2017 Audited Rm
1. SEGMENTAL ANALYSIS				
REVENUE				
Integrated retail: Discount and value	26 688	23 875	11.8	44 130
Integrated retail: Speciality	6 325	4 615	37.1	13 720
Integrated retail: Consumer goods	33 013	28 490	15.9	57 850
OPERATING PROFIT BEFORE CAPITAL ITEMS				
Integrated retail: Discount and value	2 907	2 681	8.4	5 585
Integrated retail: Speciality	391	107	265.4	230
Extraordinary items	(590)	–	(100)	–
Integrated retail: Consumer goods	2 708	2 788	(2.9)	5 815
RECONCILIATION BETWEEN OPERATING PROFIT PER INCOME STATEMENT AND OPERATING PROFIT BEFORE CAPITAL ITEMS PER SEGMENTAL ANALYSIS				
Operating profit per income statement	2 708	2 788	(2.9)	5 786
Capital items (note 2)	(1)	(37)	(97)	29
Operating profit before capital items per segmental analysis	2 707	2 751	(1.6)	5 815
RECONCILIATION BETWEEN TOTAL ASSETS PER STATEMENT OF FINANCIAL POSITION AND SEGMENTAL ASSETS				
Total assets per statement of financial position	87 580	85 544	2.4	87 113
Less: Cash and cash equivalents	(2 921)	(2 263)	29.1	(3 797)
Less: Long-term investments and loans	(120)	(1 050)	(88.6)	(170)
Less: Loans due by Steinhoff and its subsidiaries	(201)	–	(100)	(236)
Segmental assets	84 338	82 231	2.6	82 910

Despite the fact that the brands have different sales channels, the product sourcing, supply chain and treasury systems are largely integrated, and as a result the presentation of segmental assets are limited to one single segment within the group.

	Six months ended 31 March 2018 Unaudited Rm	Six months ended 31 March 2017 Reviewed Rm	Twelve months ended 30 Sept 2017 Audited Rm
2. OPERATING PROFIT			
Capital items			
Capital items reflect and affect the resources committed in producing operating/trading performance and are not the performance itself. These items deal with the platform/capital base of the entity. Capital items are required to be reported by the Johannesburg Stock Exchange (JSE) as part of the calculation of headline earnings.			
Impairments	–	–	7
Loss on disposal of intangible assets	–	–	27
Loss on disposal of property, plant and equipment	1	37	–
Profit on disposal and dilution of investment	–	–	(5)
	1	37	29
	Six months ended 31 March 2018 Unaudited %	Six months ended 31 March 2017 Reviewed %	Twelve months ended 30 Sept 2017 Audited %
3. TAXATION			
Reconciliation of rate of taxation			
South African standard rate of taxation	28.0	28.0	28.0
Effect of different statutory taxation rates	(0.5)	0.0	(0.3)
Withholding taxes	3.1	1.7	2.0
Prior year adjustments	0.8	1.5	2.5
Other adjustments	10.3	(5.3)	(1.4)
Effective rate of taxation	41.7	25.9	31.0

STATUTORY RESULTS (CONTINUED)

Notes to the summarised consolidated financial statements for the six months ended 31 March 2018 (continued)

	Six months ended 31 March 2018 Unaudited Rm	Six months ended 31 March 2017 Reviewed Rm	Twelve months ended 30 Sept 2017 Audited Rm
3. TAXATION (continued)			
Reconciliation of profit before taxation to adjusted profit before taxation			
Profit before taxation	2 154	2 468	5 166
Share of profit of equity accounted companies	–	–	–
Capital items	1	37	29
Adjusted profit before taxation	2 155	2 505	5 195
Reconciliation of taxation to taxation before capital items			
Taxation	899	639	1 599
Taxation on capital items	–	4	3
Taxation before capital items	899	643	1 602
4. EARNINGS PER SHARE			
Weighted average number of ordinary shares			
4.1 Issued ordinary shares at beginning of the period	3 450	2 568	2 568
Effect of shares issued during the period	–	43	87
Effect of shares issued in terms of private placement	–	–	23
Weighted average number of ordinary shares	3 450	2 611	2 678
Effect of dilutive potential ordinary shares ¹	11	–	–
Diluted weighted average number of ordinary shares	3 461	2 611	2 678
¹ Dilutive shares relate to the STAR share scheme grant in March 2018.			
4.2 Earnings and headline earnings			
Profit for the period	1 255	1 829	3 567
Attributable to non-controlling interests	(6)	(5)	(17)
Earnings attributable to ordinary shareholders	1 249	1 824	3 550
Capital items	1	37	29
Taxation effect of capital items	–	(4)	(3)
Capital items of equity accounted companies (net of taxation)	–	–	–
Headline earnings attributable to ordinary shareholders	1 250	1 857	3 576

5. NET CASH FLOW ON ACQUISITION OF BUSINESSES

On 1 October 2017, Steinhoff Doors and Building Materials acquired 100% of BSG (BSG is the parent company of the MacNeil, Tiletoria and Brands for Africa groups) for an enterprise value of R645.7 million, subject to a clawback or 'agterskot' based on the results for the 12-month period ending September 2018. The acquisition has been approved by the relevant regulatory authorities. BSG has been consolidated within STAR from 1 October 2017. At the time of the conclusion of the BSG deal, JD Wiese had an interest in the contract, as a director of both the seller, Invicta Holdings Limited, and the purchaser, STAR.

On 1 October 2016, a call centre and debt collector company was acquired for R471 million cash. On 1 February 2017, Tekkie Town was acquired for a purchase price of R 3.4 billion settled through the issue of Steinhoff Africa Retail shares. For Steinhoff N.V. group purposes the Tekkie Town purchase was settled through a combination of shares and cash (2016: Iliad was purchased for a net cash consideration of R1.3 billion). 100% shareholding in all entities was acquired.

	Total March 2018 Unaudited Rm	Total March 2017 Reviewed Rm	Total Sept 2017 Audited Rm
	BSG	Tekkie Town and Call Centre & Debt Collector	
Assets			
Intangible assets	7	805	805
Property, plant and equipment	89	193	193
Deferred taxation assets	10	25	25
Tax receivable	8	–	–
Cash on hand	–	42	42
Other reserves	(2)	–	–
Liabilities	(157)	(237)	(237)
Working capital	216	460	460
Existing non-controlling interests	1	–	–
Total assets and liabilities acquired	172	1 288	1 288
Goodwill attributable to acquisition	124	2 533	2 533
Total consideration	297	3 821	3 821
Cash on hand at date of acquisition	–	(42)	(42)
Paid through issue of shares	–	(3 350)	(3 350)
Net cash outflow on acquisition of subsidiaries	297	429	429

The goodwill arising on the acquisition of these companies is attributable to the strategic business advantages acquired, principal retail locations and leases, 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.

6. CORRECTION OF ERROR

Resulting from the error identified as mentioned in the section on 'Restatement', certain comparative figures were corrected in accordance with IAS 8: Accounting policies, changes in accounting estimates and errors. This resulted in a restatement of the six months ended March 2017 and 12 months ended September 2017 figures, in particular the statement of other comprehensive income and the statement of changes in equity. The aggregate effect of the restatement on the comparative figures are as follows:

	Six months ended 31 March 2017 Rm	Twelve months ended 30 Sept 2017 Rm
Impact on statement of other comprehensive income		
Other comprehensive (loss)/income before restatement	(22)	610
Other comprehensive income after restatement	52	1 301
Effect of restatement	74	691
Impact of statement of changes in equity		
Other comprehensive income for the period included in other reserves before restatement	1 824	694
Other comprehensive income for the period included in other reserves after restatement	1 898	1 385
Effect of restatement	(74)	(691)
Other reserve movements before restatement	(15)	693
Other reserve movements after restatement	(89)	2
Effect of restatement	74	691

FINANCIAL REVIEW BASED ON STATUTORY RESULTS

Good operational performance was overshadowed by the effects as described in STAR's pre-listing statement and this set of results. Caution should be exercised when comparing the statutory six-month unaudited financial results with the six-month comparative period. In particular, earnings growth on a statutory basis is not representative and should be considered on a comparable basis.

On a statutory basis, STAR achieved revenue growth of 15.9% to R33 billion during the six months ended 31 March 2018. This is, however, inflated by the acquisition of Tekkie Town, acquired 1 February 2017, and BSG, acquired on 1 October 2017. Excluding the effects of the Steinhoff-related losses of R590 million, operating profit before capital items on a statutory basis increased by 18.3% from the prior year. This is inflated by the acquisition of Tekkie Town and BSG. A deflationary operating environment and very challenging trading conditions in Pep Africa weighed on performance. The 21.9% increase in operating expenses includes the extraordinary losses of R590 million and higher distribution costs due to increased sales units as a result of deflation. In addition, costs pertaining to the Tekkie Town and BSG businesses are included in the current period.

Operating margin in the discount and value reporting segment was particularly affected by the effects of deflation resulting from the stronger rand. The acquisition of Tekkie Town and BSG added scale to the Speciality reporting segment, which contributed to operating profit margin expansion from 2.3% in the six-month comparative period to 6.1% in the current period.

Tax rate

The effective tax rate of 41.7% includes the impact of the extraordinary items as previously mentioned. The normalised effective tax rate of 33.8% was affected by higher withholding taxes in Angola and the derecognition of certain deferred tax assets pertaining to the consumer electronics and appliances brands and Pep Africa.

Working capital

Investment in net working capital increased by R1 343 million from March 2017 to R5 447 million, largely due to the settlement of creditors being brought forward as a result of the timing of Chinese New Year and Easter this year.

Capital structure

Shareholders are reminded that, as part of the listing process, the balance sheet was restructured and significant debt was introduced in the form of Steinhoff shareholder funding shortly before listing. STAR successfully refinanced and settled the Steinhoff shareholder funding on 23 May 2018 after raising R18 billion from local banks. STAR subsidiaries were in turn released from all Steinhoff debt guarantees relating to the shareholder funding. The new funding terms are in line with the previous terms. Preference shares were introduced to facilitate the redemption of funding preference shares issued by Steinhoff and the release of STAR and its subsidiaries from the related guarantee. The calculated interest cover of 7.6 times is expected to reduce in future due to the timing of introduction of the debt in the calculation of the net interest expense.

Debt structure

	Six months ended 31 March 2018 Unaudited Rm	Twelve months ended 30 Sept 2017 Audited Rm
Interest-bearing long-term liabilities	26	16
Loans due to Steinhoff and its subsidiaries – long term	11 000	11 000
Interest-bearing short-term liabilities	34	11
Loans due to Steinhoff and its subsidiaries – short term	5 112	4 868
Bank overdrafts and short-term facilities	733	89
Loans due by Steinhoff and its subsidiaries	(201)	(236)
Cash and cash equivalents	(2 921)	(3 797)
Net interest-bearing debt	13 783	11 951
EBITDA*	6 767	6 775
Net finance charges*	(890)	(620)
EBITDA: interest cover* (times)	7.6	10.9
Net debt: EBITDA* (times)	2.0	1.8

* Rolling 12 months

Cash flow

The cash conversion (cash generated from operations/EBITDA) was 22.4% compared to 41.6% in the comparative period. The general low cash conversion in the interim results ended March indicates the effects of seasonality in the operations, in addition to the impact of earlier settlement of certain suppliers within the furniture retail and DIY brands.

The group continued investment in its retail footprint by expanding its total store footprint by 143 stores (excluding 12 BSG stores) to 5 108 stores.

Outlook

While the competitive retail environment is expected to inhibit real growth for the remainder of the 2018 financial year, STAR's positive sales momentum is expected to continue. This is underpinned by STAR's defensive discount and value product and service offering and the expectation that the deflationary impact on the CFH retail brands decline as the 2018 summer season nears. Sales growth in CFH is expected to be supported by strong growth in the Speciality fashion and footwear brands and the continued sales momentum in the Pep and Ackermans brands.

The JD Group is expected to maintain revenue growth momentum, while growth in the building materials industry is expected to remain constrained.

The group's targeted 350 net store openings for the 2018 financial year has been revised downwards to 330 due to slowdown of expansion in Africa.

On a comparable basis, management expects operating margins for the year to be maintained.

The STAR board resolved that no interim dividend will be declared.

Appreciation

STAR is fortunate to have experienced and dedicated employees in the operating companies and the board is grateful for their loyalty and continued dedication towards their customers and STAR during a period that has required extraordinary effort. The board would like to thank its shareholders, customers and suppliers for their continued support.

Jayendra Naidoo
Chairman

Leon Lourens
Chief executive officer

Riaan Hanekom
Chief financial officer

28 May 2018