



STEINHOFF
INTERNATIONAL HOLDINGS N.V.

Steinhoff Briefing to Parliament 19 March 2019



FOR LIFE

- : CLOTHING
- : FOOTWEAR
- : HOUSEHOLD GOODS
- : PERSONAL ACCESSORIES
- : CELLULAR PRODUCTS
- : SELECTED FINANCIAL SERVICES



FOR THE HOME

- : FURNITURE
- : HOUSEHOLD GOODS
- : APPLIANCES
- : HOME ACCESSORIES
- : CONSUMER ELECTRONICS AND TECHNOLOGY PRODUCTS
- : BUILDING MATERIALS AND DIY PRODUCTS



AUTOMOTIVE

- : NEW VEHICLES
- : PRE-OWNED VEHICLES
- : HEAVY ROAD VEHICLES
- : ACCESSORIES, PARTS AND SERVICES
- : CAR RENTAL

- The Steinhoff delegation here today
 - Heather Sonn (chairperson of the supervisory board)
 - Louis du Preez (management board; chief executive)
- Forensic investigation
 - Mandate
 - Report
 - What happened
 - Financial
 - Accounting
 - Responsible
- Regulators
- Forensic investigation
 - Lessons learnt
 - Next steps
- Conclusion

Forensic investigation – Mandate

- PwC appointed in December 2017
- Investigate potential accounting irregularities, non-compliance with laws and regulations, impacting financial statements
- Scope – analyse and investigate:
 - 1) potential accounting irregularities, non-compliance,
 - 2) concerns raised,
 - 3) other issues
- Investigation overseen by Supervisory Board committee comprising only new appointees
- Unrestricted scope and unhindered process
 - Initial phase
 - Phase 1
- Substantial and complex investigation; extensive documentation; numerous countries; multiple workstreams
- Interviewed 22 current or former directors / officers
- Positive and constructive cooperation between PwC, Steinhoff and the regulators
- Constant interaction to ensure appropriate remedial steps can be taken at the right time

- PwC completed the investigation and delivered the report to Steinhoff last week
 - 14 months of work
 - Excess of 3 000 pages
 - >4 000 documents as annexures
- Findings:
 - Subject to legal privilege, confidential
 - Is not an audit – Deloitte (external auditor) granted access
 - Focused on accounting irregularities; not legal advice or opinions
- An overview of the findings, released by Steinhoff on 15 March 2019, ensures that the legally privileged nature of the report is not undermined and its position in the various pending legal and other proceedings, including the recovery proceedings to be instituted by Steinhoff, is not jeopardised

Key findings from the Investigation

- Income and asset values were overstated
 - *“A small group of Steinhoff Group former executives and other non Steinhoff executives, led by a senior management executive, structured and implemented various transactions over a number of years which had the result of substantially inflating the profit and asset values of the Steinhoff Group over an extended period.”*
- The major relevant transactions were grouped into four categories:
 1. Profit and asset creation: >€6 billion income from fictitious and / or irregular transactions
 2. Asset overstatement and reclassification: to eliminate receivables
 3. Asset and entity support: increased rentals / royalties to justify asset valuations
 4. Contributions: reallocating the profits within the group

Financial impact of key findings

- Income was overstated through fictitious and / or irregular transactions totaling more than €6 billion
- Resulting impairments to asset values increase the accounting impact on Steinhoff equity
- 2018 Interim Results, released on 29 June 2018, indicated a €11 billion write-down of total equity as at 31 March 2017
- The complexity of the investigation delayed the release of the 2017 and 2018 financial results
- Working with Deloitte to finalise the 2017 and 2018 consolidated financial statements; taking into account the findings from the forensic investigation
- The cumulative effect of all prior year restatements will be disclosed in the 2017 Annual Report. More specifically, the restated 2016 income statement, balance sheet, cash flow and notes will be included as comparative numbers in that report as well as an opening balance sheet for 2016 with a reconciliation of the impact of the total prior year adjustments on the opening retained income balance at 1 July 2015
- The forensic findings may influence the nature of the audit opinions

Key findings for the restatements to the financial accounts

- Income and asset values are being restated
- The restatements have been grouped into five categories (for the financial statements):
 - a) Intangible asset transactions
 - b) Accounting for group or related entities
 - c) Contributions and 'cash equivalents'
 - d) Property transactions; and
 - e) Share transactions and consequential effects
- If the total impact on group equity is materially different from that disclosed in 2018 Interim Results – the market will immediately be informed

Individuals implicated

- A small group of Steinhoff Group executives together with a small number of other persons
 - “The PwC investigation found a pattern of communication which shows the senior management executive instructing a small number of other Steinhoff executives to execute those instructions, often with the assistance of a small number of persons not employed by the Steinhoff Group.”
- It identifies three principal groups of corporate entities that were counterparties to the Steinhoff Group:
 - The Champion / Fulcrum Group
 - The Talgarth Group
 - The TG Group
- Other corporate entities have also been identified together with a finding that there was a practice of using similar entity names and changing company names resulting in confusion between entities
- The legal and/or beneficial ownership is, in some cases, currently unknown to the Steinhoff Group

- Regular engagement and co-operation with various regulators
 - **CIPC:** Compliance notice received. Continuing to co-operate.
 - **FSCA:** Co-operating, subject to secrecy provisions.
 - **The Hawks:** Co-operating.
 - **NPA:** No outstanding requests for information.
 - **National Director of Public Prosecutions:** Interacted with senior member.
 - **JSE / BaFin / AFM:** Engaging pro-actively.
 - **SA Reserve Bank:** Co-operating.
 - **Asset Forfeiture Unit:** Co-operating with two different branches.

Remedial measures

- Steinhoff is developing a remedial plan following on from the findings of the investigations
- The intention of the remedial plan is to enhance the governance within the Group
- Appoint a Chief Compliance and Risk Officer
- Focus of the plan:
 - Governance
 - Remediation of accounting irregularities, non-compliance with laws and regulations and misappropriations
 - Analysis and assessment of the investigation
- Boards' resolved to pursue claims against responsible parties

Forensic investigation – Next steps

Continue to consider the contents of the PwC Report, and:

- Transactions treated appropriately in preparation of Group financial statements
- Pursuit of recovery of losses incurred and damages suffered
- Full assistance and co-operation with any criminal investigation / regulators
- Finalisation and implementation of remedial plan
- Consider options in litigation against the Group
- Review findings and finalise scope of Phase 2 investigation

Conclusion

- The PwC investigation is complete and those responsible will be held accountable
- The findings will be taken into account in the financial results
- Steinhoff has developed an initial project plan to address shortcomings identified
- Steinhoff is communicating with and cooperating fully with regulators
- The Steinhoff Group remains in a precarious position
- Regular communication is being provided to the public on developments