15 March 2019

OVERVIEW OF FORENSIC INVESTIGATION

1 Introduction

The Supervisory Board and the Management Board (together, the "**Boards**") of Steinhoff International Holdings N.V. ("**SIHNV**") have now received a report prepared by PricewaterhouseCoopers Advisory Service Proprietary Limited ("**PwC**") setting out their findings following the investigation initiated at the request of the Supervisory Board in December 2017 on the instructions of Werksmans Attorneys ("**PwC Report**" or "**Report**").

PwC's findings are the product of a wide ranging review over fourteen months' work during which time a large team of PwC professionals was engaged in investigations in South Africa and other relevant jurisdictions. In the course of its investigation PwC has collected, reviewed and processed an enormous amount of information and data. The PwC Report itself is in excess of three thousand pages with over four thousand documents as annexures.

The content of the PwC Report is being considered by SIHNV and its advisers and is being used to assist production of the Group's financial statements for FY2017 and FY2018 and to assist decision making on areas for further investigation and remedial work. The PwC Report is also confidential and subject to legal privilege and other restrictions. For these reasons SIHNV does not currently intend to publish the Report and by publishing this overview does not waive the confidentiality and legal privilege which inheres in the PwC Report.

However, the Group is able at this stage to provide this overview on its understanding of the Report's key findings together with the Board's preliminary views on the additional remedial measures required and the next steps to be taken by the Group.

2 Scope of the PwC Investigation

PwC was asked to assist with an investigation into the occurrence of potential accounting irregularities, or potential non-compliance with laws and regulations impacting on Steinhoff's financial statements.

The scope of PwC's work was to analyse and investigate:

- allegations of potential accounting irregularities and/or potential non-compliance with laws and regulations, made against various Steinhoff entities and its former executives;
- concerns raised by Steinhoff's external auditor, Deloitte; and
- any other issues brought to PwC's attention requiring investigation in relation to the Steinhoff Group.

PwC's investigation to date has been performed in two phases:

- The **Initial Phase** – A period of information-gathering and understanding of the allegations, and then;
- **Phase 1** – A period of detailed investigation.

It is envisaged that a further phase of investigative work (Phase 2) will be requested in respect of certain issues identified that Steinhoff envisages will not be material to Steinhoff's financial statements but which may be significant for other reasons and will require further investigation, conclusion and resolution.

The PwC investigation team's principal interaction with SIHNV was through a special committee of the Boards being Louis du Preez, Peter Wakkie and Moira Moses assisted by Alexandra Watson and the Supervisory Board nominee director Paul Copley following his nomination in August 2018.

PwC has confirmed that it considers itself to be independent of the Group and that it has not been influenced or restricted by the Group in terms of access to information to undertake its investigation or in the writing of the report. The scope of the PwC Report is consistent with the investigation plans discussed with and approved by the Supervisory Board.

PwC's findings are the result of work performed up to 28 February 2019 and are subject to their engagement terms agreed with Werksmans and certain important limitations, including the following:

- The PwC Report (and the related information gathering and investigation) is subject to legal privilege and is confidential.
- The PwC Report does not constitute an audit, a review or examination of Steinhoff's financial statements. Deloitte, in its capacity as the external auditor, has had full and unrestricted access to the PwC Report, on terms agreed between the two firms, to facilitate the ongoing audit process.
- The work performed by PwC was focused on accounting irregularities and non-compliance with laws and regulations but PwC's work does not constitute legal advice or legal opinion.

In the course of its work, PwC has interviewed or submitted questions to twenty two current and former directors and officers. As part of that process, PwC has interviewed or received responses to questionnaires from all those current members of the Supervisory Board and current Management Board members who were serving and/or employed prior to 6th December 2017. Mr Markus Jooste, the former CEO and certain other individuals have not yet made themselves available for an interview with PwC and discussions are ongoing regarding the basis on which any such interviews may take place.

3 Key Findings and Observations

3.1 Key Findings

The Boards' current assessment of PwC's key findings is set out below and is subject to the observations in paragraph 3.2 below:

3.1.1 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.

3.1.2 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.

3.1.3 Fictitious and/or irregular transactions were entered into with parties said to be, and made to appear to be, third party entities independent of the Steinhoff Group and its executives but which now appear to be closely related to and/or have strong indications of control by the same small group of people referred to in 3.1.1 and/or 3.1.2 above.

3.1.4 Fictitious and/or irregular income was, in many cases, created at an intermediary Steinhoff Group holding company level and then allocated to underperforming Steinhoff operating entities as so called "contributions" that took many different forms and either increased income or reduced expenses in those operating entities. In most cases, the operating entities received cash for the contributions from another Steinhoff Group or from non Steinhoff companies (funded by Steinhoff), resulting in intercompany loans and receivables.

3.1.5 The transactions identified as being irregular are complex, involved many entities over a number of years and were supported by documents including legal documents and other professional opinions that, in many instances, were created after the fact and backdated.

3.2 Observations by the Boards

3.2.1 None of those Steinhoff Group executives identified in the PwC Report is currently employed by the Group. However, one individual, contracted by the Group, is co-operating to assist the ongoing investigations and related matters.

3.2.2 The Boards believe that the facts identified in the PwC Report raise serious allegations, against the senior executive in particular. As a next step the relevant former Steinhoff executives and other non Steinhoff Group individuals identified in the PwC Report will be invited to comment on its findings. (See remediation plan and next steps below)

3.2.3 The quantum of the various relevant transactions has been identified by PwC. The Steinhoff finance team are in the process of preparing financial statements, including restated financial statements for 2016, which take the findings of the PwC Report into consideration.

3.2.4 The PwC Report contains details of the contributions made to underlying Steinhoff Group operating entities over time. The findings indicate that such transactions occurred over a number of years. However, the level of financial contribution and the recipients of contributions varied from year to year. Neither Pepkor Europe, including Pepco and Poundland, Pepkor Holdings nor any of the other South African operating entities were identified as having received such contributions.

3.2.5 Despite the extensive investigative work done by PwC and Steinhoff, there are still a number of unanswered questions, particularly in relation to the identification of the true nature of the counter-parties or the ultimate beneficiaries to various transactions. These matters will be the subject of further investigation in order to assist potential recoveries for the Group.

4 Identification of Third Parties and the Nature of the Relevant Transactions

The key findings of the PwC Report result from a significant amount of work undertaken to identify the third party entities and the nature of the transactions used to create the irregularities. In general terms the PwC Report finds that the fictitious and/or irregular transactions had the effect of inflating the profits and/or asset values of the Steinhoff Group.

4.1 Key Third Party Entities Identified

The PwC Report finds that it appears that the Steinhoff Group entered into a number of transactions (some of which were fictitious or irregular) with allegedly independent third party entities which resulted in the inflation of profits and asset values.

The PwC Report identifies three principal groups of corporate entities that were counterparties to the Steinhoff Group in respect of the transactions that have been investigated. 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 three principal groups identified are as follows – the legal and/or beneficial ownership of these groups are in some cases currently unknown to the Steinhoff Group:

- The Campion / Fulcrum Group
- The Talgarth Group
- The TG Group

4.2 Nature of Relevant Transactions

The PwC Report refers, in the main, to the inflation of profits and asset values as being effected through a cycle of income creation (section 4.2.1 below), resulting in further measures being taken to address the related non-recoverable receivables and inflated asset values (section 4.2.2 below). Various transactions were entered into to obscure the extent of the overstatement of the assets (section 4.2.3 below). These included the allocation as contributions by the Steinhoff Group to operating entities within the Steinhoff Group (section 4.2.4 below).

The major relevant transactions identified in the PwC Report are categorised by them as follows:

(1) Profit and asset creation;

(2) Asset overstatement and reclassification;

(3) Asset and entity support; and

(4) Contributions.

4.2.1 Profit and asset creation

The PwC Report finds that certain Steinhoff Group entities recorded sales to, or received benefits or income from, entities that were purportedly independent of the Steinhoff Group but which now appear to be either closely related to and/or have strong indications of control by the Steinhoff Group or certain of its former employees and/or third parties or former management.

The PwC Report details the income from fictitious and/or irregular transactions identified during the PwC investigation that was recorded by the Steinhoff Group for FY 2009 to FY 2017 from the purportedly independent third parties and shown in Table 1 below. (See paragraph 5 below for commentary on the financial impact of the amounts referred to in Table 1.)

<u>Table 1.</u>

	A	B	C	D	E	F	G	H		I
#	FY	Talgarth Group (excl Triton) EUR	TG Group EUR	Triton EUR	GT Global Trademarks EUR	Tulett Holdings EUR	Group Adj** EUR	SVF SA EUR	Koenig EUR	Total EUR
1	2009	326,350,588	-	-	-	-	-	-	-	326,350,588
2	2010	545,067,601	-	-	-	-	-	-	-	545,067,601
3	2011	661,291,101	-	-	-	-	-	-	3,526,529	664,817,629
4	2012	586,481,494	-	-	-	-	-	-	-	586,481,494
5	2013	615,343,245	-	-	-	-	-	-	-	615,343,245
6	2014	45,511,907	230,961,882	120,715,281	-	-	-	-	-	397,189,070
7	2015	383,786,237	288,217,613	285,892,049	35,987,207*	-	29,863,164	-	-	1,023,746,271
8	2016	992,804,078	279,633,334	9,364,469	41,393,587*	-	27,001,490	372,993	-	1,350,569,951
9	2017	3,453,733	221,448,162	-	583,060,000*	169,405,387	12,397,358	7,265,939	-	997,030,579
10	**Total**	**4,160,089,983**	**1,020,260,991**	**415,971,799**	**660,440,795**	**169,405,387**	**69,262,012**	**7,638,932**	**3,526,529**	**6,506,596,428**

*In these periods GT Global Trademarks was not recorded as a Steinhoff Group entity and as such amounts from GT Global Trademarks were not eliminated on consolidation. Further income from the sale of brands and/ or entities in relation to GT Global Trademarks and GT Branding Holding have not been included.
** Depreciation reversals

The PwC investigation identifies transactions that result in profit and asset creation involving brands, intellectual property and know-how. The entities associated with these assets include the Talgarth Group (Talgarth and Triton) and Campion/Fulcrum Group (TG Group, GT Global Trademarks and SVF SA) and Tulett Holdings.

The income from these transactions was in many instances not paid by the so-called independent entities to the Steinhoff Group, resulting in loans or other receivables owed to the Steinhoff Group that had little or no economic substance and, which, as such were never settled.

4.2.2 Asset overstatement and reclassification

The non-recoverable receivables resulting from the fictitious or irregular income created by the transactions described in 4.2.1 above were subsequently either settled in set-off arrangements or reclassified into different assets.

In a number of instances, the non-recoverable receivables were set-off using intergroup payments and by the assignment of debts. This had the effect that loans were moved between entities both in the Steinhoff Group and around the purportedly independent entities. These set-off arrangements and/or assignments of debt resulted in movement of the loans, which were accounted for as being repayments by the original party.

In other instances, often through purportedly independent entities, the non-recoverable receivables were reclassified into different classes of assets, for example, cash equivalents, increases in the value of fixed properties, increases in the value of trademarks or increases in the value of acquired goodwill. These reclassifications created the impression that the non-recoverable receivable had been settled and resulted in other asset values being inflated.

The PwC Report also identifies further asset reclassifications in connection with the property portfolios within the Kika Leiner business and the Hemisphere property portfolio.

4.2.3 Asset and entity support

The resulting inflated asset values were then supported by, for example:

(a) increasing the rental to be paid in terms of intergroup rental contracts for properties based on valuations that may have not been reliable;

(b) increasing the royalties to be paid under intergroup royalty agreements for trademarks; and/or

(c) orchestrating intergroup payments and assignments of debt to demonstrate the settlement of the cash equivalents.

These inflated costs were included in the operating companies' results, increasing the cost bases, and in some cases, adding to the losses made by these entities. This had the following knock-on effects:

(a) the losses made by operating entities could not support the acquired goodwill; and

(b) operating entities did not positively contribute to the Steinhoff Group results.

4.2.4 Contributions

The losses in the operating entities were mitigated by the Steinhoff Group then making an onward distribution of the fictitious or irregular income (Section 4.2.1) that had, in some instances, been created at intermediary holding companies in the Steinhoff Group to the various Steinhoff operating entities via contributions. In many cases, these contributions to operating companies were settled in cash by other

Steinhoff Group companies, creating the impression (internally and externally) that they had substance.

These contributions had the effect of:

(a) the operating entities potentially appearing more profitable than they actually were (in circumstances where the contributions were greater than the inflated costs allocated to that entity);

(b) enabling forecasts made to support the price paid for acquired entities to be met; and

(c) enabling operating entity budgets to be met (although budgets often included contributions).

Contributions from Steinhoff Group entities to the Steinhoff operating entities would typically eliminate on consolidation; but before elimination these contributions supported the profitability, liquidity, solvency and value of acquired goodwill of the operating company. By contrast, the fictitious or irregular income described in Section 4.2.1 and recorded at intermediary holding companies did not eliminate on consolidation, as it was recorded as originating from purportedly independent entities, thus inflating the Steinhoff Group profits.

Table 1 in Section 4.2.1 identified the "independent" counterparty from which the Steinhoff Group had supposedly received income. The PwC Report details how the fictitious and/or irregular income recorded in Table 1 was initially accounted for among the Steinhoff entities from financial years FY2009 to FY2017. The entries for 2017 were reversed out in December 2017 but were included in the Group's reporting prior to December 2017.

5 Financial Impact of Key Findings

The full financial impact of the findings in the PwC Report is still being determined by the Steinhoff Group. The financial effect will be reflected to the extent possible in the restated closing balances for FY 2015 which forms part of the restated FY 2016 accounts as well as the, to be published, FY 2017 and FY 2018 accounts. The financial statement approval process by the Boards will take the PwC findings into consideration.

The Management Board consider that the most meaningful disclosure in the financial restatements of the various relevant elements of the investigation will be categorised as follows:

(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 of accounting irregularities.

The Group is in the process of finalising the impact on the financial statements of the findings in the PwC Report and any consequential effects of the accounting irregularities on the Steinhoff Group's financial results. The share transactions and consequential effects include goodwill and brand impairments as a result of lower profitability, employee share-based payment scheme reversals and share based payment expenses relating to shares issued to purported third parties and funded with non-recourse loans.

If the Group, having considered the findings in the PwC Report, including any consequential impacts, believes that the restatements to the total equity position of the Group as reflected in the unaudited half year results published on 29 June 2018 are materially out of line, the Group will inform the market as soon as it becomes aware of such material difference.

Despite the considerable work done by PwC as well as Steinhoff employees in the course of the investigation, there is still a degree of uncertainty relating to the nature of relationships with various counterparties and their ultimate beneficiaries, and therefore the appropriate reporting of financial transactions. The Group financial statements to be published will also seek to clearly identify the areas where management's judgment has been exercised.

6 Remedial Measures

In light of the emerging facts from the investigation work undertaken by Steinhoff and PwC, the Group is documenting and developing a remediation plan under the auspices of the Supervisory Board. A number of remediation measures have already been put in place, and others will follow in due course. These steps are additional to steps that will be taken to join individuals in proceedings or to initiate recovery proceedings.

An initial project plan has been produced and a newly created position of Chief Compliance and Risk Officer will be filled shortly. The Chief Compliance and Risk Officer will report monthly to the Boards, with a dual reporting line to the CEO and Audit and Risk Committee.

The remediation plan focuses on:

- Governance: the continued change and improvement to all aspects of governance and controls throughout the Steinhoff Group supported by a clear plan and support for the required further changes;
- Remediation of the accounting irregularities, non-compliance with laws and regulations and misappropriations: the assessment of the investigation, interpretation of the findings and the next steps in relation to those findings and any further investigations that may be required including an assessment and implementation of measures to recover losses incurred by the Group; and
- Analysis and assessment of the investigation: to ensure, among other things, that all material aspects have been identified and evaluated including those allegations that have been raised by the auditors and other sources. This will

inform the identification of matters to be dealt within a Phase 2 scope of the investigation.

The remediation plan is in the process of being finalised (and will be continuously reviewed and updated as the Group progresses) and advanced versions have been reviewed and commented on by the Management Board and the Supervisory Board.

In addition, following the key findings in the PwC Report, the Boards' have resolved to pursue claims against certain individuals that appear responsible for the unlawful conduct identified. Those claims will be multifaceted and will be pursued in the various jurisdictions where the unlawful conduct has taken place. There are pre-requisites in certain jurisdictions which require that the individuals be given an opportunity to address the allegations made against them prior to the institution of proceedings against them. This is in process.

If required and immediately following expiry of any necessary process, proceedings will be instituted against the individuals and orders will be sought that, among other things, in the event that any allegations against the Steinhoff Group by third party claimants are sustained, the individuals reimburse or pay a contribution to the Steinhoff Group in an amount equal to the amount which the Steinhoff Group is ordered to pay the third party claimants in any such proceedings or in any further proceedings. In addition, the Group intends to seek recovery of the bonuses paid to certain individuals.

The Amsterdam Court has recently granted Dutch leave against Mr Markus Jooste, the Group's former CEO, at the Group's request.

7 Next Steps

The Boards continue to consider the contents of the PwC Report. Actions now being progressed include the following:

- Consideration of the findings in the PwC Report to ensure that they are treated appropriately in the preparation of the Group's financial statements for the 2017 and 2018 financial years.
- Pursuit of recovery of losses incurred and damages suffered by the Group.
- Full assistance and co-operation with any criminal investigations against those who perpetrated the unlawful actions and with other regulatory authorities.
- Finalisation and implementation of the remediation plan.
- Consideration of the Group's options to address the various litigation action initiated against the Group.
- Further detailed review of the findings of the PwC Report and finalisation of the scope of work for Phase 2 of the investigation.

Updates on these actions will be provided when appropriate. These steps are in addition to the continued focus on the Group's stability, liquidity and support for the operating companies.