



PUBLIC INVESTMENT
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Parliament Standing Committee On Finance: Report Back On Steinhoff

December 2019

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Steinhoff International **Unlisted** Exposure

Transaction Background

- In August 2016, the PIC facilitated the Lancaster 101 (“L101”) BEE transaction, by providing a loan facility of R9.35 billion. The proceeds were used to facilitate the acquisition by L101, of a 2.75% equity stake in Steinhoff (“First Transaction”).
 - Under the First Transaction, the PIC’s loan to L101 was secured by 25% primary cession and pledge over L101 shares in Steinhoff as well as the downside protection from the Collar Option.
- The Second Transaction was facilitated in the following manner:
- In May 2017, the PIC completed a subsequent transaction to enhance the PIC’s position emanating from the First Transaction. This led to a corporate action, which entailed L101 acquiring an equity stake STAR, now Pepkor (the “Second Transaction”).
 - No additional capital was required from the PIC.
 - CGML advanced a loan of R6.5 billion to L101 to acquire 302 million shares in STAR.
 - The PIC would have 100% primary cession and pledge over the L101 shares in STAR in order to improve its security package under the First Transaction.
- Both transactions followed PIC’s approval processes, this included deal screening, carrying out a due diligence and presenting the transactions to various committees such as:
 - Portfolio Management Committee Unlisted, which comprises of all PIC Executive heads, including the CEO and CFO.
 - Investment Committee, which comprises of non-executive directors of the company.

INVESTMENT PROCESS



APPROPRIATE GOVERNANCE COMMITTEE

INVESTMENT PROCESS

Screening and due diligence

- Mandate checks
- High-level risk analysis and preliminary ESG assessment
- First PMC presentation
- High level structure of the deal (preliminary)
- Understanding development outcomes
- Determining feasibility and potential value creation plan and returns
- Assessing technical viability and competitiveness, financial viability, management ability, legal and risk issues, environmental, social and governance issues, potential development impact and sustainability



EXCO COMMITTEE
-PMC

Project Blue Buck Presented to PMC1 in May 2017

Key Issues highlighted in request to go to Due Diligence:

- Confirm the implementation of Sierra BEE KPI's.
- No liquidity event for the BEE partners, under Project Blue Buck.
- Assess the PIC position in Blue Buck vs Sierra.
- PIC Team to negotiate for the PIC to be at least on par with the first transaction.
- Confirm Listed Investments Team in terms of PIC's shareholding in Shoprite and Steinhoff.
- Resolution - that the Transaction Team may proceed to the Due Diligence phase of Project Blue Buck

Deal structuring and decision

- Credit risk analysis
- Pricing and structuring
- Stress testing of the structure
- Deal presentation to relevant committees and approvals
- Full ESG report and corrective action plan
- Full legal report
- Full credit risk report



EXCO COMMITTEE,
BOARD SUB-COMMITTEE
&/OR BOARD
PMC 2 &/or SEC &/or FIP &/or
IC &/or Board

Project Blue Buck PMC II

- Recommendation from PMC to Proceed to IC.
- Report from investment team following DD, and
 - Additional Reports From Legal, ESG and Risk

Implementation and monitoring

- Compiling legal agreements and meeting conditions
- Meeting all Regulatory approvals
- Disbursement of capital
- Ongoing monitoring of performance
- Continued interventions and support
- Board representation
- Engagements



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Project Blue Buck – Investment Committee
10 & 13 July 2017

- Concerns raised by Risk in their Risk Report to IC, namely
 - Governance, reputational (debt Serviceability from Dividends) and security arrangements.
 - IC requested that Internal Audit provide an independent report assessing / comparing Sierra and Blue Buck

Value add

- Enhance ESG business practices to enable sustainable business practices
- Identification an exploitation of synergies between investee companies
- Board representation
- Exit



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2nd Project Blue Buck IC Meeting

IC Request for Independent Report on Project Blue Buck

- performed by PIC Internal Audit Team
- Report presented to IC
- IC Approval of the transaction.

ANNEXURE



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Project Sierra: Transaction Background (1/2)

Project Sierra

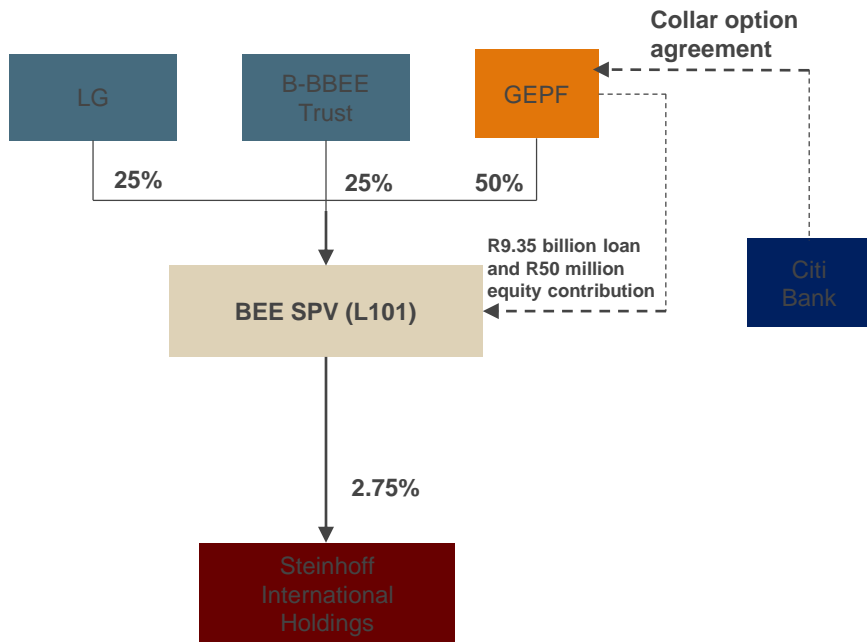
- In August 2016, IC approved a R9.35 billion loan facility to Lancaster 101 and a further R50 million equity contribution to capitalise L101.
- The proceeds were used to facilitate a BEE transaction to acquire a 2.75% equity stake in Steinhoff, (“Project Sierra”).
- L101 entered into 5 year average-term ratio collar with Citi Global Markets Limited (“Citi”) and would cede the right to receive any amounts under the ratio collar put options to the PIC as security for its loan obligations.
- Under Project Sierra the PIC loan is part-serviced by actual dividends received on shares that Citi is not required to borrow for its ongoing risk management of the Ratio Collar (i.e. the non-delta shares) over the life of the transaction.

L101

- L101 is a special purpose vehicle that was established solely for the purposes of Project Sierra.
- Lancaster Group (“LG”), the BEE sponsor is an investment vehicle focused on strategic investments in high growth companies, is a 100% black owned and controlled entity, led and 100% owned by Mr. Jayendra Naidoo.

Project Sierra: Transaction Background: (2/2)

Transaction Structure



Transaction Mechanics

- The PIC will acquired a 50% equity stake in the SPV for R50 million. LG and BBEE Trust acquired a 50% equity stake in the SPV for R50 million. LG and BBEE Trust each own 25% of the SPV.
- The PIC provided a 5-year average-term debt funding of R9.4 billion to the SPV to acquire a 2.75% equity stake in Steinhoff International Holdings.
- The SPV entered into a 5-year average-term ratio collar with the Bank.
- The capital advanced under the PIC loan is protected by the put options acquired from Citi (under the ratio collar).
- The PIC loan will be partially serviced by actual dividends received over the life of the transaction on the SNH shares.
- Any accrued interest not serviced with the distributions on the SNH shares will be capitalized to the PIC loan and will roll up until maturity.

Project Blue Buck: Transaction Overview and Mechanics

Project Blue Buck: Transaction Overview

- The PIC team has been approached by LG to facilitate its participation in Project Blue Buck by changing the security package of Project Sierra.
- Project Blue Buck is a corporate action of Project Sierra which entails a BEE SPV acquiring an 11.8% equity stake in ListCo.
- ListCo is intended to be a JSE listed vehicle that will hold 100% of Steinhoff's African assets and 22.73% of Shoprite.
- LG will become an active operational participant in ListCo.
- ListCo will list on the JSE and will have the following shareholding

Entity	Shareholding
L101	5.9%
L102	5.9%
Titan	12.9%
Minorities	12%
PIC	6.1%
Steinhoff	57.2%

Transaction Mechanics

- LG will raise third party funding from Citi and Steinhoff Group to fund the acquisition 11.8% stake in ListCo through its subsidiaries namely, L101 and L102.
 - L102 will be incorporated for the purposes of this Transaction.
- L101 will raise a R6.2 billion loan from Citi to acquire 5.9% shareholding in ListCo from Steinhoff and/or Titan.
- As a condition for the Citi funding the PIC loan shall be subordinated.
- Steinhoff Holdings, together with Thibault will provide funding of R4 billion to L102.
 - On condition that L101 has raised funding from Citi, L102 will receive an additional R2.2 billion loan to acquire up to 5.9% equity in ListCo.
- PIC Listed will convert its 5.3% equity stake in Shoprite to a 6.1% shareholding in ListCo. PIC Listed has already signed an Option Agreement in this regard.

Security Package Comparison

➤ Project Blue Buck offers a much more inclusive security package when compared to Project Sierra:

Rights	Description
Primary cession and pledge on L101 shares in SNH	PIC – on 25% of the SNH shares Citi – on 75% of the SNH shares
Reversionary cession and pledge of L101 shares in SNH	PIC – on 75% of the SNH shares Citi – on 25% of the SNH shares
Ratio collar	PIC- proceeds from the collar option- downside protection.



Rights	Description
Primary cession and pledge on SNH shares	PIC – on 0% of the SNH shares Citi – on 100% of the SNH shares
Reversionary cession and pledge on SNH shares	PIC – on 100% of the SNH shares Citi – on 0% of the SNH shares
Ratio collar	PIC- proceeds from the collar option- downside protection.

➤ **Further rights by proposed by the PIC**

Rights	Description
Primary cession and pledge of L101 shares in ListCo	PIC – on 100% of the L101 shares in ListCo
Reversionary cession and pledge of L102 shares in ListCo	Steinhoff– on 100% of the L102 shares in ListCo
Shareholding in L102	To mirror shareholding in L101.
Cross default provisions	Cross default provisions to be put in place in order to secure the PIC's position in the event that a default occurs under in either L101 or L102.

Current Financial Position

PIC's economic position

➤ The PIC's economic exposure as at 28 February 2019 is as follows:

				2019/02/28
Steinhoff International Holdings N.V				Total
Shares	118 452 224	2,06	R	244 011 581
Collar ^A			R	7 538 989 249
Less: CGML loan			-R	7 585 528 562
Net value			R	197 472 268
Pepkor Holdings limited				Total
Shares	302 439 024	19,98		6 042 731 700
Net value				6 042 731 700
Other Assets				Total
Cash ^C				330 000 000
L102 residual position ^B				-
Less: Liabilities				Total
PIC loan ^A			-	11 587 561 351
- Outstanding interest			-	2 237 561 351
- Capital			-	9 350 000 000
Total Net value			-	5 017 357 383

Notes:

A Ataraxia estimate

B Carried at zero

C Provided by Lancaster

➤ PIC's loss under the current status quo is R5.23 bn.

Lancaster's Approach

- Lancaster 101 is currently exploring whether it has claims against Steinhoff for its investments based on the following:
- Misrepresentation - as L101 concluded an investment in Steinhoff based on representations made by Steinhoff i.e. L101 placed reliance on the financial statements filed by Steinhoff. In which case, Lancaster may be able to claim restitution.

Mandate Compliance

Steinhoff was part of a diversified portfolio

GEPF Asset Under Management

Date	Market Value	R' amount Change	% Change
31/Mar/2017	1 677 811 802 778		
05/Dec/2017	1 851 766 464 957	173 954 662 180	10,37%
31/Oct/2019	1 868 904 778 389	42 115 562 864	0.93%

Steinhoff impact on GEPF

Date	Market Value	R' amount Change	% of Listed Equity Portfolio	% of Benchmark	Active Weight	Loss as % of Portfolio
31/Mar/2017	27 658 936 880		3,36	3,32	0,04	
05/Dec/2017	19 554 473 175	(8 104 463 705)	2,02	2,05	-0,03	-0,4
31/Oct/2019	340 040 171	(19 225 124 516)	0,03	0,02	-0,15	-1.03

Overall exposure to Steinhoff was limited to benchmark weight

Tracking Error remains well below Mandate Limits

	Market Value (R'bn)	% of Total	Current Tracking Error	Tracking Error (5 December)
Total GEPF Equity (excl. Cash & Derivatives)	915.36	100%	1.484	1.096

Steinhoff International

	%Port	%Bench	Active Weight	TE Contribution
5 Dec	1.91	2.05	-0.14	0.01
Current	0.03	0.02	0.004	0.00

Source: PIC Quantitative Team

What Happened

6 December 2017

- Resignation of the CEO, Mr Markus Jooste.
- Postponement of the release of the 2017 financial results and the establishment of an independent investigation by PwC in to the reported financial irregularities at Steinhoff.
- Mr. Christo Wiese (former Chairman) and largest shareholder (22.8% ownership of Steinhoff) appointed interim acting CEO but subsequently resigned post objections by PIC and other shareholders.
- Mr Ben La Grange has relinquished CFO role also post pressure from PIC and other shareholders.

Summary of Events

Since last reporting on occurrences at Steinhoff, the following has occurred.

- Group 2017 financial results were released on 7 May 2019
- Steinhoff released a summary of the findings from the PWC forensic investigation. However the report is deemed privileged and will not be published.
- PIC met with newly appointed CEO Louis Du Preez and Moira Moses (Independent Non-Executive Director) from Steinhoff on 17 May 2019
- Group 2018 financial results were released on 18 June 2019 with a disclaimer of opinion as Audit opinion
- On 19 June 2019 the Company launched proceedings against former CEO Markus Jooste and former CFO Ben La Grange in the Cape Town High Court, South Africa to recover certain salary and bonus payments paid to the former CEO and CFO prior to 2017.
- Group 2019 H1 results were released on 12 August 2019 (unaudited)
- On 14 August 2019, Steinhoff announced the successful implementation of the financial restructure being undertaken with creditors.
- Legal proceedings including shareholder class action initiated against Steinhoff. The process remains ongoing.

Impact on the Portfolio

Vast majority of loss is currently unrealised

STEINHOFF INTERNATIONAL LIMITED			5th Dec 2017	31 Oct 2019	Price movement	
Closing price			45,65	0.98	-97,9%	
Portfolio	Number of Shares Held as at 31 Oct 2019	% of Steinhoff	Market Value 5th Dec 2017	Market Value 31st Oct 2019	Unrealised Losses	Realised Losses
GEPF Internal Equities	328 861 828	7,631%	19 554 473 175	322 284 591	(14 320 052 954)	(0)
GEPF External Equities	18 087 326	0.42%	4 397 639 522	17 725 579	(4 347 717 787)	(3 805 212 542)

Source: PIC Risk and Compliance

Steinhoff's separate business units might present an opportunity to realise value

Steinhoff borrowings are worth Euro 10.7bn of which Euro 9.1bn have been restructured.

During the 2018 financial year, Steinhoff disposed of various non-core assets.

Steinhoff segmental assets are worth Euro 12bn. These present opportunities to the company to sell and improve the group Balance Sheet.

The net asset value attributable to owners of Steinhoff is worth negative Euro 994mn.

Segmental Assets	EUR mn
Conforama	1,997
European Properties (Hemisphere)	260
Pepkor Europe	2,824
Australasia (Greenlit Brands)	772
Pepkor Holdings	5,441
Corporate and treasury services	97
All other	598
Total	11,989

Please note the information above is as per the 31 March 2019 Interim Results which are also unaudited. Further impairments and or restatements could be made by Steinhoff in the future.

Lessons Learned

Governance Recommendations

- There should be increased shareholder involvement in investee companies:
 1. Shareholder Activism: Class Action forum (Collaboration of shareholders) and frequent engagement;
 2. Structured forum (e.g. JSE creates a platform for shareholders to lodge complaints)
 3. Establishment Companies Ombuds to deal with shareholder complaints (education, awareness & training).
- Demand for greater transparency & disclosure:
 1. Where complex group structures are in place & could increase the probability for accounting irregularities & tax evasion.
 2. Different shareholders carrying different voting rights, there should be mandatory disclosure on the categories (rights etc.) and protection of minorities.
 3. Investors should have direct access to auditors on company matters that are complicated and where management could be conflicted.
 4. Review on the permissibility to create off-balance sheet entities and the appointment of executives of these companies into the main company (SNH).
 5. Requirement for the greater disclosure of all the off-balance sheet transactions & shareholder approval of all transactions with these entities.
- Collapsing of the multiple share classes with different voting rights (ordinary shares).
- Revision of regulation to limit the powers/rights/involvement of individuals with excessive influence in the operation of companies.
- Regulation of holding dual or multiple strategic positions & the movement between senior positions. Legislation should not allow this as companies might make these appointments to hinder disclosure and detection of irregularities.
- Auditor rotation: should apply at all levels of the group (holding company & subsidiaries) and the timing should not synchronize.
- Regulation of director tenure to ensure that independence is not compromised.

LEGAL RECOVERY PROCESS

➤ (i) **GRANT AND EISENHOFER**

- Grant and Eisenhofer P.A. (“G&E”) has been appointed by the PIC as legal counsel in the class action law suit against Steinhoff and its related parties, filed a petition in the Amsterdam Court of Appeals Enterprise Chamber (Dutch Court) for an independent judicial inquiry into the irregularities at Steinhoff, its businesses and its related parties and any corporate governance failures. G&E also represents various institutional investors who have joined the class action law suit.
- During April 2019, Steinhoff publicly announced its intention to resolve claims that had been filed against it by third parties and indicated that it was amenable to resolving such claims by way of negotiated settlement discussion which would be conducted through a mediation process.
- Having regard to the various litigation proceedings that had been instituted against Steinhoff, and further taking into account the state of affairs with Steinhoff and its creditors, G&E advised the PIC to postpone (not withdraw) the petition in order for the PIC to participate in the mediation proceedings.
- On 21 May 2019, G&E filed the necessary papers with the Dutch Court to have the petition postponed. The Dutch Court noted that the petition had been suspended for a certain period in order to enable G&E (representing the PIC and the other participants to the class action law suit) to participate in the settlement negotiations and that G&E had not formally withdrawn the petition from the Dutch Court.



MEDIATION PROCESS

- The mediation process commenced on 4 July 2019 in Amsterdam and initially ran for a three day period and was held under strict confidentiality between participating investors and their respective representatives. All representatives and parties were required to sign a non-disclosure agreement in order to ensure that the terms of the negotiations remain confidential pending the completion of the mediation.
- There are 3 (three) key groups of creditors/claimants, being: (i) bondholders, who have the strongest position because their rights are senior and they can pull the plug and place Steinhoff in bankruptcy for all the loans on which Steinhoff has defaulted; (ii) “vendor claims” of those who purchased or exchanged Steinhoff stock as part of the many M&A transactions Marcus Jooste engaged in in recent years, and now have the right to unwind those transactions on account of fraud; and (iii) other shareholders (including the PIC group) who bring claims for prospectus liability (delict) or secondary market securities fraud.



COMMERCIAL PROPOSAL

- During the mediation, Steinhoff made a proposal to the participating investors/shareholders. This is intended to be paid by a third party by the name of “The White Knight”. The terms of this proposal remain strictly confidential and is subject to the non-disclosure agreement signed by G&E and in addition constitutes market sensitive insider information.
- While Steinhoff has made efforts to reach a settlement, it must be noted that this process is fragile, and could perhaps not come to fruition, or the details thereof could change at any moment. The sheer size of the number of parties involved, the fact that it is multi-jurisdictional (South Africa, the Netherlands and Germany) all make this process very complex and time consuming.
- The key to finding a solution is that Steinhoff will sell certain assets. (There is a maximum to what it can sell as a condition of the agreement with the bondholders). Such a structured settlement requires an additional stock issue (which will require shareholder approval) as well as approval of the Dutch Court of a mandatory haircut (“cram down”) of outstanding creditors’ claims.

LIQUIDATION

- If the mediation process falls apart and Steinhoff accordingly fails to reach a settlement with the participating shareholders, it increases the chances of the company's failure. In light of Steinhoff's financial position, it cannot afford to pay all damages claims in full to its shareholders. There is however an existing standstill agreement that was entered into between Steinhoff and its creditors which protects Steinhoff from bankruptcy for a period of 3 (three) years. This standstill agreement gives Steinhoff time to work things out with shareholders.
- A prompt, reasonable and global settlement that eliminates litigation risks is desirable for Steinhoff and significantly increases its chance of survival.

ADDITIONAL STEPS

➤ **LAW ENFORCEMENT AGENCIES INVESTIGATION INTO STEINHOFF INVESTMENTS**

- We have received confirmation from law enforcement agencies that they are investigating those implicated in the Steinhoff matter. The PIC is assisting with criminal investigations currently underway.

➤ **POSSIBLE ACTION AGAINST DIRECTORS OF STEINHOFF**

- The PIC has contemplated further steps it can possibly take against those implicated in the Steinhoff matter. The PIC notes the action taken by the Regulator (FSCA), who have since fined Steinhoff R1.5 billion for misrepresenting its finances to the market. We understand that Steinhoff will only need to pay R53 million of the fine. PIC is in the process of instituting legal proceedings against the directors implicated in the financial irregularities of the company.

➤ **CONCLUSION**

- The mediation remains ongoing and as and when there are developments, G&E provides the PIC with an update.