Integrated into every day

KAP

Integrated Report 2017

KAP Industrial Holdings Limited (KAP) is a JSE-listed diversified industrial group consisting of **industrial**, **chemical** and **logistics** businesses.

www.**kap**.co.za

Performance objectives

Strategic drivers

1 Market leadership	KAP's businesses are either market leaders or have the ability to be market leaders, through market share growth in their specific industry sectors.
High barriers to entry	The group's significant experience, scale and specialisation provide a competitive advantage in highly regulated industries. Access to key raw materials, licences to operate, specialist skills and expertise and economies of scale contribute to higher barriers to entry.
Industry diversification	The group is diversified across various industries, market sectors and geographies. This diversity enables the group to manage concentration risk and provides a level of protection to stabilise margins.
Adding value through specialisation	The group is focused on adding value to its customers through the provision of value-added products and services, thereby mitigating some degree of risk against the volume and price pressures inherent in the commodity markets.
Leveraging our African base	Operations are positioned towards servicing customers in emerging markets, with a specific focus on sub-Saharan African countries. The group leverages its industry knowledge and expertise of African markets to provide a competitive advantage.

Strategic implementation

Segmental analysis

	REVENUE % BREAKDOWN BY SEGMENT	OPERATING PROFIT % BREAKDOWN BY SEGMENT	TOTAL ASSETS % BREAKDOWN BY SEGMENT
DIVERSIFIED INDUSTRIAL	31%	38%	37%
DIVERSIFIED CHEMICAL	27%	27%	34%
DIVERSIFIED LOGISTICS	42%	35%	29%

DIVERSIFIED INDUSTRIAL

Revenue for the diversified industrial segment increased by **13% to R6.4 billion**, while the operating profit increased by **33% to R944 million**.

DIVERSIFIED CHEMICAL

Revenue for the diversified chemical segment increased by **79% to R5.5 billion**, while the operating profit increased by more than **100% to R672 million**.

DIVERSIFIED LOGISTICS

Revenue for the diversified logistics segment increased by **10% to R8.7 billion**, while the operating profit decreased by **9% to R883 million**.

Strategic implementation

Divisional highlights

DIVERSIFIED INDUSTRIAL

Integrated timber
Forestry and timber manufacturing operations with primary and secondary processing

Automotive components
Manufacture of components used in new vehicle assembly and retail vehicle accessories

Integrated bedding
Manufacture of foam, fabrics, springs, bases and mattresses

DIVERSIFIED CHEMICAL

Safripol
Manufacture of high-density polyethylene (HDPE) and polypropylene (PP)

Hosaf
Manufacture of polyethylene terephthalate (PET)

Woodchem
Manufacture of urea formaldehyde (UF) resin and impregnated paper

DIVERSIFIED LOGISTICS

Contractual logistics
Specialised contractual supply chain and logistics services

Passenger transport
Personnel, commuter, intercity and tourism transport

	REVENUE	OPERATING PROFIT	TOTAL ASSETS
DIVERSIFIED INDUSTRIAL	R6 385m (FY16: R5 632m) ↑ 13%	R944m (FY16: R709m) ↑ 33%	R9 149m (FY16: R8 325m) ↑ 10%
DIVERSIFIED CHEMICAL	R5 467m (FY16: R3 060m) ↑ 79%	R672m (FY16: R319m) ↑ >100%	R8 354m (FY16: R1 509m) ↑ >100%
DIVERSIFIED LOGISTICS	R8 656m (FY16: R7 899m) ↑ 10%	R883m (FY16: R969m) ↓ 9%	R7 070m (FY16: R6 228m) ↑ 14%

Strategy

Key performance objectives

The group's strategy provides the divisional businesses with guiding principles and direction to enable them to formulate and implement their business plans, in order to achieve their performance objectives.

Profitable revenue growth

The group aims to grow revenue in a responsible and sustainable manner through mutually beneficial long-term partnerships with strategic customers. Revenue growth will be achieved through expansion of existing operations, products and services, growth in market share and entry into new markets.

Solid returns on capital employed

Long-term contracts, owning strategic industrial properties and key raw materials, and a continued focus on driving efficiencies sustain the long-term cost structures of the group and support sustainable and improved returns on capital employed.

Strong cash generation

Operational strategies are directed towards cash generation and growth is focused towards investment in businesses with consistently strong cash flows.

Disciplined execution of the group's strategy has resulted in:

Revenue from continuing operations increased by 23% to R20bn

Operating profit from continuing operations increased by 25% to R2.5bn

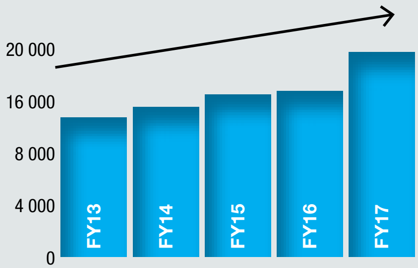
Headline earnings per share from continuing operations increased by 15.4%

Cash generated from operations of R3bn

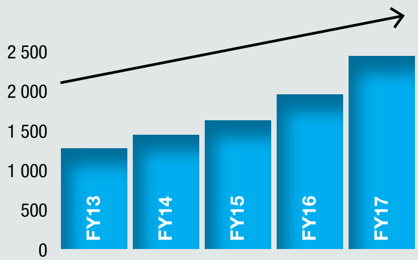
Dividend per share increased by 17%

Net asset value per share increased by 17%

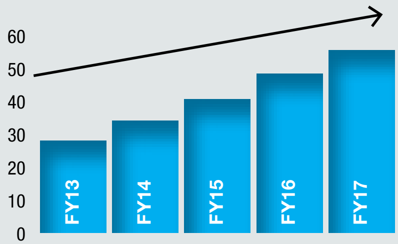
Revenue (Rm)
CAGR* 10%



Operating profit (Rm)
CAGR* 18%



HEPS (cents)
CAGR* 19%



** Compound annual growth rate of continuing operations*

Sustainability

The group regularly reviews and adapts its policies and processes to reinforce its ability to be economically viable, socially responsible and environmentally sound, while still remaining competitive.

Sustainability

Group policies provide guidance for divisions to develop their own policies relevant to their industry requirements.

The group remains focused on managing its long-term sustainability for the benefit of:

its **shareholders** and **investors,** who expect acceptable returns on investment;

its **customers** and **suppliers,** who rely on its ability to remain competitive;

its **employees** and their **communities;** and

the **environment** and its ability to manage its impact thereon.

Each division remains responsible for its own sustainability efforts, with divisional management being directly accountable to the board of directors and their stakeholders. KAP subscribes to the guiding principles and reporting requirements of the FTSE4Good Index and has achieved inclusion on this index this past year. The group's social and ethics committee manages all social and economic aspects and reports directly to the board of directors on this.

READ MORE
Page 104

FTSE4Good

Group overview

Sustainability

Environmental, social and corporate governance form the basis of sustainability

Social awareness

The group supports the development of the consumer in African countries by contributing to economic growth through its active involvement in infrastructural services and general business in these countries. The group also supports the communities, in which it operates, through various community development and employment programmes.

- R15.7 million contributed to socio-economic development
- The group's focus is on community development, education and childcare

Transformation

The group observes and proactively aligns day-to-day business practices in South Africa with the broad-based black economic empowerment (B-BBEE) codes. Commitment to the principles of B-BBEE, to make it real and tangible for the group and its employees, is a key priority.

- Ongoing B-BBEE commitment
- 19 729 permanent employees

Black **88.2%**

White **11.8%**

Skills and talent management

Multifunctional skills and experience are required for specialised and diverse employment in each business. Access to skills, actively managing talent and employee retention enhance the group's ability to provide value and quality products and services at competitive prices.

- 14 000+ employees trained
- R140.9 million spent on training, of which 92% was spent on black employees
- 843 learnerships awarded in South Africa

Human relations

Corporate and employee behaviour is guided by the group's code of ethics. This code provides employees with summary information on what constitutes unlawful or unethical business practices and provide guidelines on topics that include, among others, basic human rights, anti-corruption, health and safety and non-discrimination.

- KAP subscribes to the principles of the UN Global Compact, the recommendations of the International Labour Organization and the Organisation for Economic Cooperation and Development

Scarce raw materials

Raw materials are often scarce and in certain instances subject to commodity and import price fluctuations. Ownership and effective management of raw materials in manufacturing processes secure the long-term supply and pricing thereof.

- 44 088 hectares of forestry land owned

READ MORE
Page 26

Carbon emissions

Significant fuel and energy usage and fluctuations in prices thereof influence the group's operational cost of services and products. Businesses therefore focus on optimising operational efficiencies and continuously invest in new technologies to manage fuel consumption and energy usage. This not only ensures profitability and competitiveness, but it also manages and reduces overall carbon emissions.

- Scope 1 emissions: 467 234
- Scope 2 emissions: 329 501
- R10 million per year saved from thermal energy plant

Waste

Waste production and cost of waste management in upstream and downstream processes impact profitability. Reducing waste and using recycled materials increases efficiencies and margins on manufactured products.

- Zero waste to landfill policy in certain manufacturing businesses

READ MORE
Page 50

Water and land

Manufacturing processes are dependent on water, which is in scarce supply. The group aims to reduce and manage water usage and protect natural resources and areas of biodiversity.

- 52 069 hectares of protected biodiversity land

Reports to stakeholders

A market leader in the industries we serve

Chairman's report

KAP's results for the year continue to reflect the disciplined execution of its strategy.

Jaap du Toit
Independent non-executive chairman

Since the transformation of the 'new' KAP in 2012, the company has focused on the disciplined execution of its strategy, which has involved the disposal of non-core businesses, the rationalisation of operations to improve efficiencies, organic expansion activities and the acquisition of complementary businesses. This has facilitated the evolution of KAP into a sizable industrial group with strong competitive positioning, a diverse revenue base and healthy cash flow generation to facilitate future growth.

Year under review

I am pleased with the company's performance for the year under review. Revenue from continuing operations increased by 23%, while operating profit before capital items from continuing operations increased by 25%. This growth was as a result of both organic expansion activities with related market share growth and complementary acquisitions concluded during the year. Management of the balance sheet was sound in terms of the capital structure, strategic investments in assets and working capital management.

The successful conclusion of the Safripol acquisition for R3.9 billion, and the associated capital raise during the year, was particularly exciting in terms of the scale and industry exposure that it provides to KAP, as well as reflecting management's capacity to execute and successfully integrate large scale acquisitions.

Board and subcommittee changes

Certain changes to the board of KAP took place subsequent to year-end, with the resignations of Mr Markus Jooste and Mr Ben la Grange as a result of their Steinhoff International Holdings N.V. and Steinhoff Africa Retail Limited responsibilities. On behalf of management and my fellow directors we express our sincere gratitude for their invaluable contribution to the board and the company.

Mr Theodore de Klerk and Mr Louis du Preez were appointed to the board with effect from 1 October 2017. Theodore and Louis bring a wealth of experience and a fresh perspective and I look forward to their positive contributions to the board in future.

In compliance with King IV, Mr Frans Olivier stepped down from the company's social and ethics committee during the year and Mr Steve Müller, an independent non-executive director, was appointed to this committee.

Broad-based black economic empowerment (B-BBEE)

The company remains committed to the principles of B-BBEE and continues to pursue a balanced approach to the transformational impact thereof. Management and the board continued to focus on the new B-BBEE codes of good conduct during the year and the impact that the various changes to these codes have on the operating divisions. Good progress has been made in concluding a transaction to facilitate an improved ownership score in the contractual logistics division.

Corporate social responsibility

The company continued to pursue a sound and balanced approach to its corporate social responsibilities and the impact that its operations have on its various stakeholders and the environment. Our engagements with communities and other stakeholders in the areas where the company operates continued to yield productive and mutually beneficial results.

The company gained inclusion in the FTSE4Good Index during the year, which will provide further guidance in this regard.

Training and development

Our people, at all levels within the organisation, remain a key driver of success. Our ability to employ, train and retain critical skills is a priority in our highly specialised operations. The management of people is an important responsibility and it is imperative to ensure that we are sufficiently investing in our people. Significant focus was therefore placed on training and development in the company, from executive level through to general employees, with a view to the long-term growth of our people and the company.

Prospects

I am excited about the company's prospects. Management has shown the vision and execution capability to produce sustained growth despite the economic and political challenges that we face. They have also demonstrated strong discipline in the execution of the company's strategy, which has led to exciting expansion opportunities and strategic acquisitions. This provides a strong platform for the continued growth of the company.

Jaap du Toit
Independent non-executive chairman

Chief executive officer's report

The group remains focused on providing sustainable value to all its stakeholders.

Gary Chaplin
Chief executive officer

Management continued to pursue sustainable growth during the year through optimising existing operations, organic expansion activities with related market share growth and the acquisition of complementary businesses.

Corporate review

The group remains focused on providing sustainable value to our shareholders through three core objectives – to grow profitable revenue, to generate solid returns on capital employed and to achieve strong profit-to-cash conversion. These objectives are enabled and supported by the five strategic drivers discussed in more detail below. These drivers provide competitive advantages to the company and act as a guideline to direct strategy formulation and implementation by the businesses within the group.

Market leadership

KAP strives to be the leader in the various markets served by its diversified portfolio of businesses. We believe that market leadership provides for economy of scale and for the accumulation of specialist skills that allow us to better serve our customers and grow our businesses.

High barriers to entry

KAP strives to protect its investments and revenue stream through entering markets with high barriers to entry. The company therefore operates in industries where access to key resources, specialist intellectual property, licences, technologies and the like are key to providing products and services. Our continuous investment in latest technology infrastructure, people and assets provides the base from which we deliver world-class products and services at sustainable margins to our customers. The group's high level of specialist skills, experience and scale provides further competitive advantage, illustrated by our consistent delivery on customer expectations, often in highly regulated environments.

Diversification

KAP has positioned itself in various businesses that are diversified across industries, market sectors, products, services and currencies in order to sustain consistent performance through business cycles. The group is also diversified from a geographic perspective, with locations in 13 African countries, which further balances the impact of macro-economic factors.

Adding value through specialisation

KAP strives to protect and enhance operating margins by focusing on the provision of specialised and value-added products and services in all upstream and downstream processes. Our management teams work constantly on continuous improvement programmes in order to further enhance the margin and high barrier to entry nature of these processes.

Leveraging our African base

KAP is represented with a footprint in 13 African countries, which it has grown in partnering with existing clients and multinationals in order to manage the risks of entering new territories and to provide a sustainable revenue base. This model and the existing footprint provide a platform for further growth and expansion in the region. Return on investment hurdle rates and cash management policies are applied in order to compensate for potential risks associated with doing business in certain territories.

Year under review

We are particularly pleased with how the business has evolved in recent years and we believe that this year's financial performance reflects good quality earnings, a significantly stronger balance sheet and sustainable cash flow support growth.

Significant expansion of the company was achieved during the year as a result of complementary acquisitions and capital expansion activities. The results of the company are now reported in three segments that reflect the core sectors of operation, being industrial, chemical and logistics.

Revenue from the company's continuing operations during the year increased by 23% to R19.8 billion from R16.0 billion. Operating profit for the year before capital items from continuing operations increased by 25% to R2.5 billion from R2.0 billion. Operating margin increased to 12.6% from 12.4% as a result of an improvement in the quality of revenue and the rationalisation of the group's cost base.

Diversified industrial

Revenue for the diversified industrial segment increased by 13% to R6.4 billion, while the operating profit of the segment increased by 33% to R944 million. This segment made up 31% of group revenue and 38% of group operating profit.

The integrated timber division performed well for the period, with revenue growth and margin improvement continuing to be driven by its recent technology and equipment investments, continued focus on its value-add strategy and further improvement in its forestry, sawmilling and pole operations.

The automotive components division performed well for the period, with stable vehicle assembly volumes supported by successful new model introductions in the domestic market and the successful integration of Autovest into the group. Technology investments and continuous improvement projects supported operating margin improvement.

The integrated bedding division continued to drive the synergies related to raw material integration, the streamlining of corporate and operational structures and the roll-out of their decentralised model for mattress assembly. This provided operating margin improvement from a stable revenue base.

Diversified chemical

Revenue for the diversified chemical segment increased by 79% to R5.5 billion, while the operating profit of the segment increased by more than 100% to R672 million. This segment made up 27% of group revenue and 27% of group operating profit.

The group acquired 100% of Safripol for R3.9 billion, effective 1 January 2017.

Chief executive officer's report

Safripol is engaged in the manufacture of polypropylene (PP) and high-density polyethylene (HDPE), which are used in the manufacture of a broad range of plastic injection and blow moulded products. This business operates with a similar business model to the group's other chemical operations (Hosaf and Woodchem) and manufactures complementary products to those of Hosaf.

Safripol performed to expectation for the six months ended 30 June 2017, with strong demand for both HDPE and PP. The recently installed value-add paper impregnation plant at the Woodchem operation resulted in revenue growth and margin improvement. The Hosaf operation continued to produce stable results while in the process of a major project to increase polyethylene terephthalate (PET) production capacity.

READ MORE Page 54

Diversified logistics

Revenue for the diversified logistics segment increased by 10% to R8.7 billion, while the operating profit of the segment decreased by 9% to R883 million. This segment made up 42% of group revenue and 35% of group operating profit.

The contractual logistics division acquired a controlling interest in Xinergistix Proprietary Limited, effective 1 July 2016. Xinergistix operates in the logistics sector, providing complementary services to those of the core logistics business, Unitrans. The division also acquired 100% of Lucerne Transport, effective 1 September 2016.

Lucerne's operations are complementary to those of Unitrans, specifically in terms of bulk liquid tanker transport of chemicals and edible oils.

Lower domestic industry activity in the fuel, cement and mining sectors weighed on revenue and operating margin of the division, while activity levels in the food, agriculture and other non-South African operations supported revenue and operating margin. The operations of both Lucerne and Xinergistix performed ahead of expectation and provide exciting growth opportunities.

The passenger transport division performed well, except for the impact on revenue and operating margin of lower passenger activity in the intercity operations. Increased activity and contract growth in the commuter, personnel and tourism transport sectors and continued growth in its Mozambique operations provided support to the division's results.

Southern Cape fires

During June 2017 the southern Cape region was ravaged by wildfires covering several thousands of hectares. The effects of these fires were devastating to families, communities, businesses and the environment and will be felt for several years. On behalf of the board I express my sincere gratitude to those people who showed courage, bravery and resilience in fighting these fires and our sympathies to those who suffered loss.

READ MORE Page 32

While the company's plantations (amounting to 10% of KAP's forestry land) were affected by these fires, the financial impact is mitigated by current salvage operations and insurance cover.

Outlook

Management continues to focus on optimising and expanding its existing operations and on growing its market share in all areas of operation, and remains optimistic that these activities will provide continued growth, despite the current challenging economic environment.

The momentum of existing operations in the diversified industrial segment is expected to continue. Key projects, including an upgrade of the PG Bison Piet Retief particleboard plant, the construction of a new integrated bedding facility, and new vehicle model introductions in the automotive components division are expected to support revenue and operating profit growth in FY2018.

Furthermore the incorporation of the diversified chemical segment and the acquisition of Safripol are expected to bring increased chemical industry focus to the group and scale benefits with exposure to broader markets and opportunities. This, together with the expansion of the Hosaf PET operation, is further expected to underpin revenue and operating profit growth in FY2018.

A recent rationalisation of the contractual logistics division, with a resultant improvement in management focus, operational efficiencies and cost management, will support the competitiveness of the division in FY2018 in terms of contract renewals, extensions and the procurement of new contracts. The acquisitions and integration of Lucerne and Xinergistix have produced opportunities for growth in new markets.

The diverse nature of the group's operations, with exposure to various sectors, business models and currencies, continues to provide underlying support through the current economic cycle.

Corporate and social responsibility

Management recognises its responsibility towards various stakeholder groups, including its employees, suppliers, customers and the communities located in the areas within which its businesses operate. The company addresses the interests of the various stakeholders through the broad-based black economic empowerment (B-BBEE) framework, which it believes provides the most effective and regulated mechanism to contribute to the challenges and opportunities within the South African economy. The company was also recently included in the FTSE4Good Index, and will continue to be directed by the guidelines of this index.

Appreciation

KAP is made up of a number of quality businesses that are managed and operated by loyal and dedicated employees. On behalf of the board of directors I express my sincere gratitude to these individuals for their ongoing commitment to the company, and to our shareholders, business partners and other stakeholders for their continued support.

Gary Chaplin
Chief executive officer

Chief financial officer's report

During the year under review the group delivered pleasing results and continued to grow by carefully executing its strategy.

Frans Olivier
Chief financial officer

The group continued to invest in strategically aligned businesses that operate with high barriers to entry, which enhance the group's quality of earnings in respect of sustainability, solid margins and strong cash conversion.

Following the successful acquisition of Safripol effective 1 January 2017, the results of the group are now reported in three segments as follows: diversified industrial, diversified chemical and diversified logistics. The implementation of the group's strategy resulted in revenue growth of 23% to R19 783 million and growth in operating profit before capital items of 25% to R2 499 million. Continued focus on product mix and operating efficiency resulted in margins increasing to 12.6% from 12.4%.

Income statement

Revenue

The diversification of revenue protects the group from volatility and cycles in the markets in which it operates. Revenue from continued operations is diversified, as illustrated in **figure 1**. The diversification is achieved across various industries, market sectors, territories and currencies.

Revenue for all three segments increased as result of both organic expansion and acquisitions. The diversified industrial segment increased revenue by 13% to

R6 385 million, the diversified chemical segment increased revenue by 79% to R5 467 million and the diversified logistics segment increased revenue by 10% to R8 656 million. Revenue growth by segment and division is illustrated in **figure 2**.

READ MORE
Page 124

Key metrics	FY17	FY16	Improvement
Revenue (Rm)*	19 783	16 047	23%
Operating profit before capital items (Rm)*	2 499	1 997	25%
Operating margin* (%)	12.6	12.4	0.2%
Headline earnings (Rm)*	1 431	1 172	22%
Headline earnings per share (cents)*	55.6	48.2	15%
Cash generated from operations before working capital (Rm)	3 341	2 858	17%
Gearing (%)	52	24	(28%)
Net asset value per share (cents) as at 30 June	415	355	17%

** Continuing operations*

FIGURE 1: REVENUE BREAKDOWN BY SEGMENT

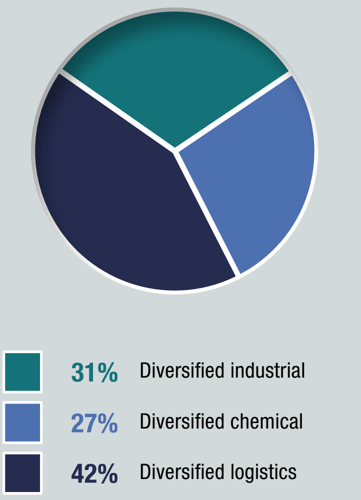
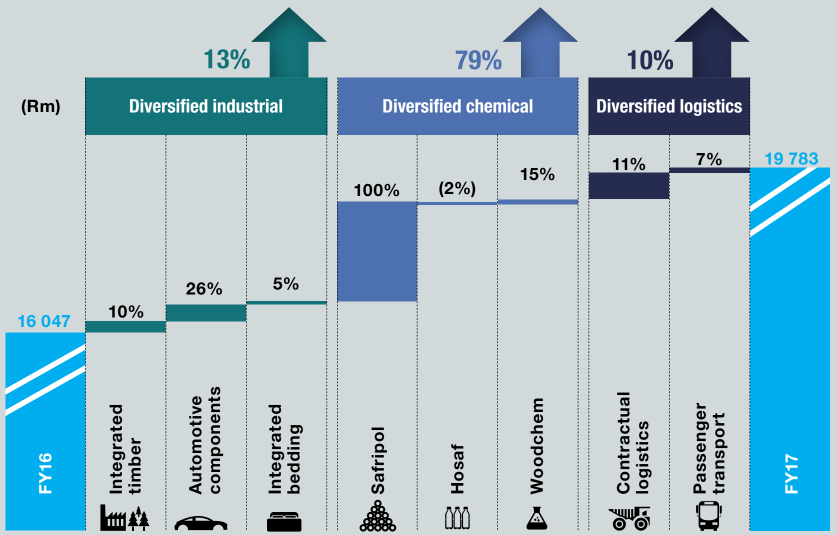


FIGURE 2: REVENUE ANALYSIS



Chief financial officer's report

Operating profit before capital items

The operating profit before capital items from continued operations increased by 25% from R1 997 million to R2 499 million. The group operating margin increased to 12.6% from 12.4% as a result of improved product mix, integration efficiencies, continued operational streamlining and recent capital investments and acquisitions. The segmental operating profit growth and segmental operating margins are illustrated in **figure 3** and **figure 4.** The operating profit of the diversified industrial segment increased by 33% to R944 million from R709 million, resulting in margins increasing to 14.8% from 12.6%. The operating profit of the diversified chemical segment increased by 111% to R672 million from R319 million, resulting in margins increasing to 12.3% from 10.4%. The operating profit of the diversified logistics segment decreased by 9% to R883 million from R969 million, resulting in margins decreasing to 10.2% from 12.3%.

Tax rate

The effective tax rate decreased to 25.8% from 28.8%, mainly due to incentives in relation to the group's manufacturing investment activities during the year.

Discontinued operations

During the year the group announced the intended closure or, as an alternative, the disposal of Glodina, which is a non-core asset. As such it was classified as an operation held for sale.

FIGURE 3: OPERATING PROFIT ANALYSIS

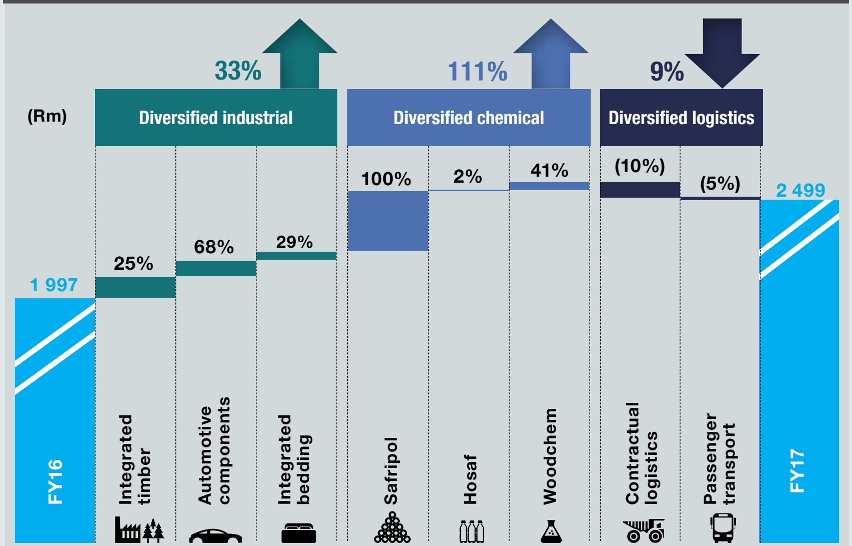
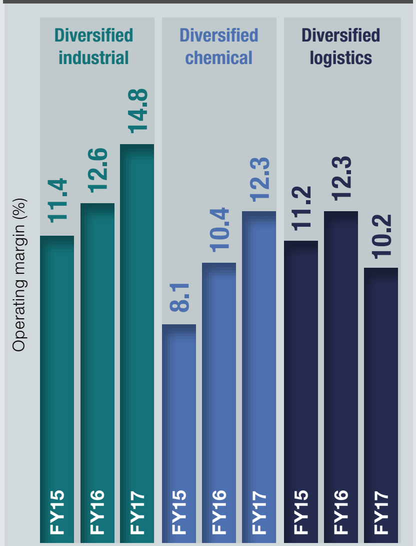


FIGURE 4: MARGIN ANALYSIS



Balance sheet

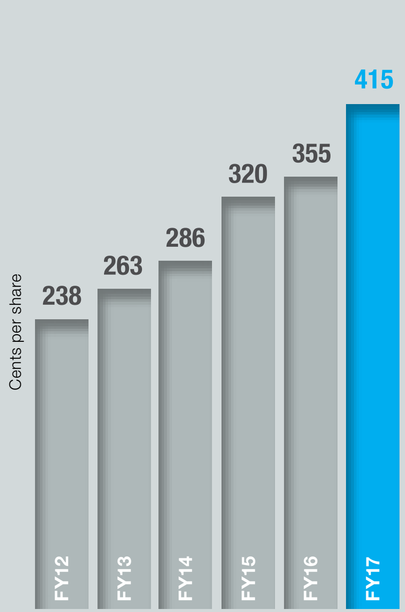
Net asset value (NAV)

The NAV per share increased by 17% to 415 cents from 355 cents (see **figure 5**).

Property, plant and equipment

The group's earnings are underpinned by a solid asset base of infrastructure, plant and machinery and vehicles as illustrated in **figure 6**. The group's significant continued investment resulted in a strong asset base of new technology assets that will support future competitiveness and growth.

FIGURE 5: NET ASSET VALUE



Intangible assets and goodwill

Intangible assets predominantly include supplier relationships, patents and trademarks that are used by the diversified chemical and diversified industrial businesses. These intangible assets create barriers to entry and secure market leadership. The acquisition of Safripol resulted in goodwill of R241 million, which was recognised in the current year. Intangible assets and goodwill were assessed in terms of International Financial Reporting Standards (IFRS) with no impairment required.

READ MORE Note 8, page 154

FIGURE 6: PROPERTY, PLANT AND EQUIPMENT

	2017 Rm	2016 Rm
Land and buildings	2 120	1 585
Plant and machinery	4 026	1 797
Vehicles	4 090	3 825
Capital work-in-progress	1 383	707
Other	138	138
Total	11 757	8 052

Biological assets

The group's strategically owned biological assets (mainly timber plantations) of R1 978 million (FY16: R1 890 million) support earnings and sustainability within the integrated timber division. The valuation technique in respect of the plantations is consistent with that used in previous years, with the Faustmann formula and discounted cash flow models being applied in determining the value. The southern Cape experienced devastating wild fires during June 2017, which resulted in damage to 4 456 hectares of the group's plantations. The estimated value of the affected plantations is R200 million. It is estimated that R160 million worth of this timber can be salvaged and utilised, with the balance of value being covered by the group's insurance.

READ MORE Note 11, page 158
Case study, page 32

Debt structure and finance costs

It is imperative that the group maintain a sound capital structure and access to funding in order to continue growth. The objective of the group's capital management strategy is to maintain an optimal level of capital, diversified in nature, at competitive rates, from a variety of funding sources. The group supports operations from a central treasury and monitors gearing on a group-wide basis in line with internal serviceability ratios set by the board.

Chief financial officer's report

Net interest-bearing debt increased by R3 708 million to R5 777 million as a result of the group's investing activities, while net debt EBITDA remains at a healthy 1.7 times, despite the fact that Safripol operations are only included for six months. The group successfully raised R1 500 million in equity during the year to fund the acquisition of Safripol. The debt structure and debt serviceability ratios are reflected as follows (see **figure 7**).

The group has more than sufficient headroom under these serviceability ratios for continued operations, committed capital projects and future acquisitions.

The group successfully funded the acquisition of Safripol and the capital expenditure requirements during the year. The group also addressed all its short and medium-term refinancing requirements by replacing debt with longer dated facilities in order to facilitate future growth. The debt maturity profile, which is the result of these activities, is reflected in **figure 8**.

The group finances its operations through cash generated from operations and a mix of short-, medium- and long-term bank credit facilities, bank loans and domestic medium-term notes. This provides the group with a balanced range of funding sources as reflected in **figures 9 and 10.**

In October 2016, Global Credit Ratings confirmed KAP's long-term debt rating of A(za) with a Stable outlook.

FIGURE 7: DEBT STRUCTURE AND CAPACITY RATIOS

	30 Jun 2017 Rm	30 Jun 2016 Rm
Interest-bearing long-term liabilities	**7 307**	4 204
Interest-bearing short-term liabilities	**405**	431
Bank overdrafts and short-term facilities	**74**	36
Cash and cash equivalents	**(2 009)**	(2 602)
Net interest-bearing debt	**5 777**	2 069
EBITDA*	**3 361**	2 797
Net finance charges*	**515**	312
EBITDA:interest cover (times)	**6.5**	9.0
Net debt:EBITDA (times)	**1.7**	0.7

** From continuing operations, Safripol operations only included for six months.*

Management limit in respect of debt serviceability ratios:

Net debt to annualised EBITDA < 3.2 times EBITDA:interest cover > 4.5 times

FIGURE 8: MATURITY OF NET INTEREST-BEARING DEBT AS AT 30 JUNE 2017

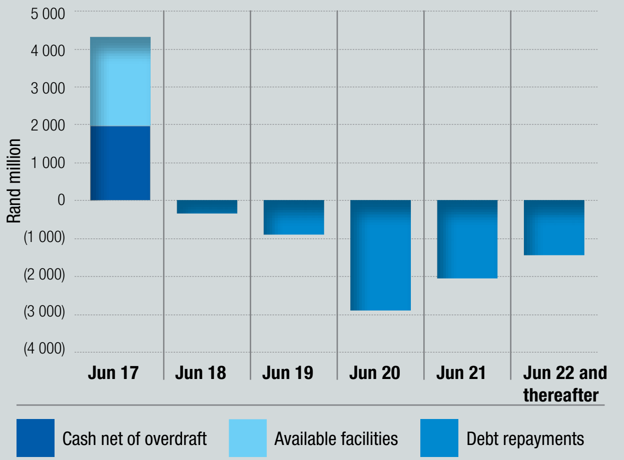
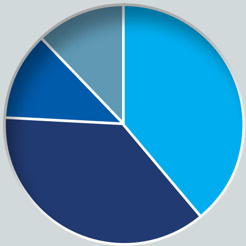


FIGURE 9: FUNDING STRUCTURE



- 39% Banks and financial institutions
- 37% Listed notes
- 12% Unutilised facility
- 12% Unlisted notes

Statement of cash flows

Cash generated from operations

Cash generated from operations before working capital changes increased by 17% to R3 341 million from R2 858 million. The conversion ratio of operating profit before capital items into cash generated from operations was 118%, highlighting the group's focus on cash generation and underscoring the quality of earnings.

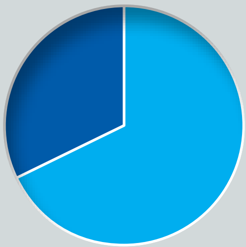
Capital expenditure and acquisitions

The group's focus on investment in organic expansion activities and acquisitions is reflected in the R6 083 million invested during the year, which includes the acquisition of Safripol for R3 925 million.

During the last three financial years, the group has invested R9 712 million in acquisitions and investments in latest technology plant and equipment, vehicles, buses and intangibles as illustrated in **figure 11**. It is anticipated that capital expenditure will decrease in FY2018 as some large divisional projects were completed during the year and further capital investment will not be required for these projects. The split of capital expenditure per segment is illustrated in **figure 12**.

READ MORE
Note 26, **page 173**
Case study, **page 60**

FIGURE 10: FIXED VS FLOATING INTEREST RATE FUNDING



- 68% Floating interest rate funding
- 32% Fixed interest rate funding

FIGURE 11: CAPEX AND ACQUISITION INVESTMENTS

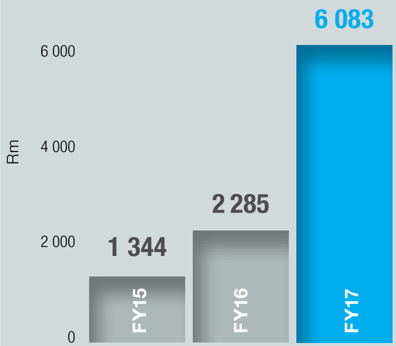
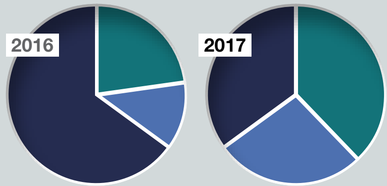


FIGURE 12: CAPITAL EXPENDITURE PER SEGMENT



	2016	2017
Diversified industrial	23%	38%
Diversified chemical	12%	27%
Diversified logistics	65%	35%

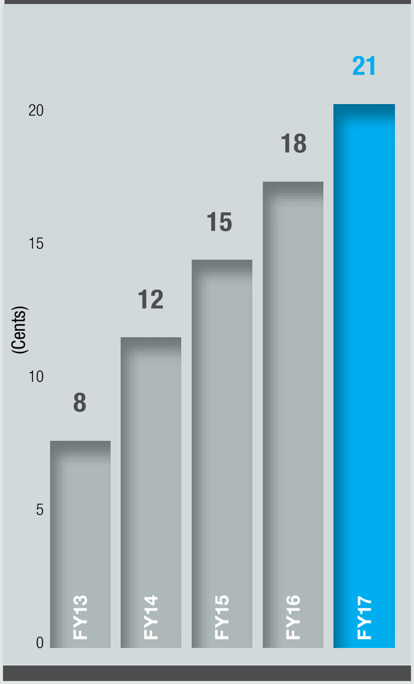
Chief financial officer's report

Dividends

With improved earnings and strong cash generation, the group increased its dividend per share by 17% from 18 cents to 21 cents, to be paid from income reserves.

The growth in the group's dividends over time is illustrated below in **figure 13**.

FIGURE 13: DIVIDEND PER SHARE



Risk management

The group's success in its overall strategy is largely attributable to its business philosophy, which supports centralised strategy determination and provision of corporate services and decentralised operation of autonomous decentralised business units with an entrepreneurial culture.

The board recognises that some elements of risk management can only be achieved on an integrated basis. Financial risks, such as exchange rate risk, interest rate risk and liquidity risk are largely controlled centrally. The group's risk management process and internal control environment remains a key focus area.

The audit and risk committee provide continuous assurance of the control environment through internal audit. The group's financial instruments are listed in note 28 to the audited consolidated financial statements.

Liquidity risk

The group's policy remains to spread debt over a range of instruments and maturity dates from a variety of funding sources to reduce refinancing risk and concentration risk.

Currency risk

The principal objective of our currency risk management strategy remains to mitigate against open exposure to movements in foreign exchange rates in relation to purchase or sales orders for products, services and capex.

Interest rate risk

The group's policy remains to spread debt instruments between variable and fixed interest rates in line with expected movements in interest rates.

Credit risk

The group's trade accounts receivable consist mainly of a large and widespread customer base. Group companies continually monitor the financial position of their customers, and appropriate use is made of credit insurance. Provision is made for both specific and general bad debt. At year-end, management did not consider there to be any material credit risk exposure that had not been covered by the bad debt provision or credit insurance.

Insurance risk

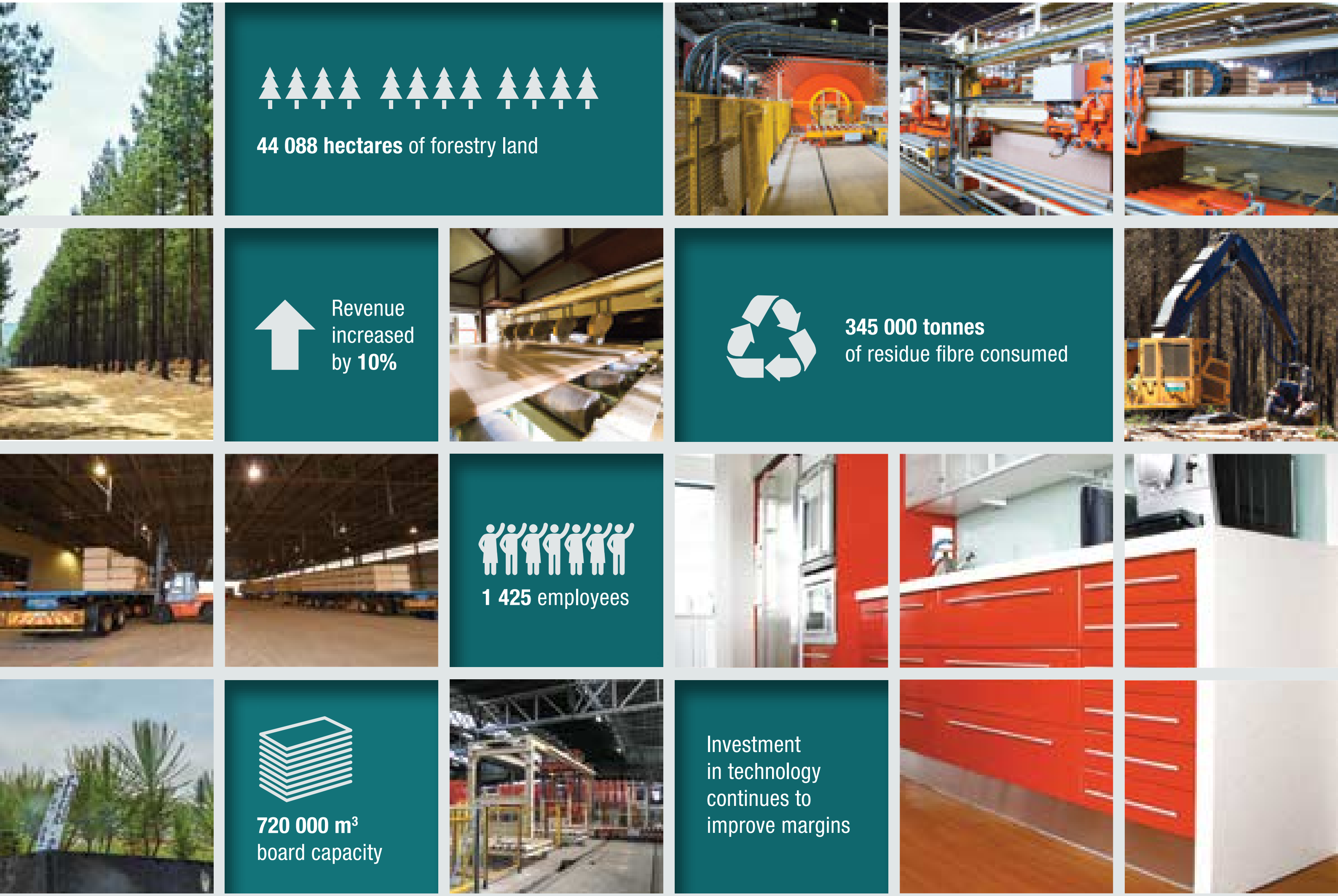
The group maintains an insurance programme, including a degree of self-insurance, which provides financial protection against unforeseen events that could cause financial loss. All material risks are considered to be adequately covered, except for political risks. Regular risk management audits are conducted whereby improvement areas are identified and resultant action plans implemented accordingly.

Looking ahead

Management remains optimistic that the diverse nature of the group's operations and the continued investments will provide a platform for continued growth despite the current challenging economic environment. Management remains focused on execution of the group's strategy and ensuring that an adequate capital structure is maintained.

Frans Olivier
Chief financial officer

Integrated timber



PG BISON

BISON BORD · SUPA WOOD · SURFACE INNOVATIONS · WOOD LINE · MELAWOOD · MELAWOOD SUPAGLOSS · FORMICA · THESEN

Forestry and timber manufacturing operations with primary and secondary processing

PG Bison harnesses the benefits of an integrated business model by owning and managing its own forestry and timber operations with primary manufacturing and value-adding facilities.

Operations: Kenya, South Africa, Uganda, Zimbabwe

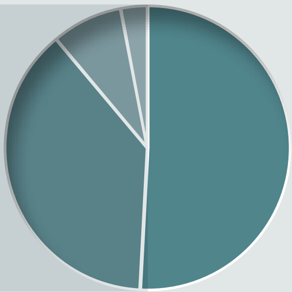
Sales and distribution: Angola, Botswana, DRC, Ethiopia, Ghana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Reunion, Rwanda, Swaziland, Tanzania, Uganda, Zambia

Also in: Australia, India, UAE

Manufacturing plants **6**

REVENUE SPLIT

- **53%** Value added
- **36%** Primary processing
- **8%** Forestry
- **3%** Distribution



Integrated timber

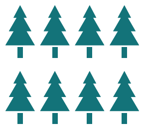
Business environment

The retail, construction, furniture and residential development sectors to which PG Bison's operations are exposed continue to evolve, with consolidation taking place in certain sectors and fragmentation in others. This has resulted in the market requirements in terms of product range and service offering also evolving. PG Bison, through its continuous investment in product development, marketing and manufacturing technology, combined with integration into key raw materials, on its own and via its associate companies in KAP, is well positioned to navigate this changing environment.

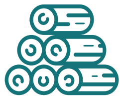
PG Bison's access to key raw materials in the form of timber from its own plantations and resin and impregnated paper from Woodchem remains a long-term strategic imperative that mitigates against anticipated timber supply constraints in South Africa and upward raw material pricing pressure.

PG Bison remains committed to growing its supply of product into non-South African territories in order to facilitate a sustainable and diversified revenue base and to promote economy of scale benefits at its operations.

Products and services

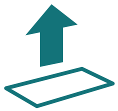


Forestry
Sawlogs, poles, pulpwood



Primary processing – Timber
Structural timber (Thesen), poles (Woodline)

Primary processing – Board
Particleboard (BisonBord), medium-density fibreboard (MDF) (SupaWood)



Upgrading
Foil (DecoBord), Formica Lifeseal worktops, melamine face board (MelaWood), gloss board (MelaWood Supagloss)

Distribution
High-pressure laminates (Formica), solid surfacing (Corian)

"Our aim is to be the leading manufacturer and primary upgrader of timber products in our chosen markets."

Gerhard Victor, CEO: Integrated timber division

Group strategy

1 Market leadership

PG Bison is the largest manufacturer of particleboard and MDF in southern Africa.

High barriers to entry

PG Bison has secured strategic control over its major raw materials and has invested in state-of-the-art facilities to convert these into world-class products at the lowest cost to market.

Industry diversification

PG Bison has a balanced exposure to various market sectors and customers, with a broad range of primary and value-added products.

Adding value through specialisation

PG Bison has made significant investment in product-upgrading facilities to increase the ratio of value-added products that it produces and sells.

Leveraging our African base

Southern and east Africa remain important growth markets for PG Bison in terms of export sales and manufacturing investments.

Key facts

Continued annual cost saving through investment and technology

Largest and most advanced manufacturing plants in Africa

96 157 hectares of land owned

Internal manufacturing of melamine face board (MFB) paper in conjunction with Woodchem

Improved efficiencies for lowest cost-to-market supplier

Preferred supplier of branded products

R14.3 million spent on training for the year
Three bursaries
225 learnerships/apprenticeships

110 000 tonnes wood fibre recycled into energy

Export market growth in line with expectations

Integrated timber

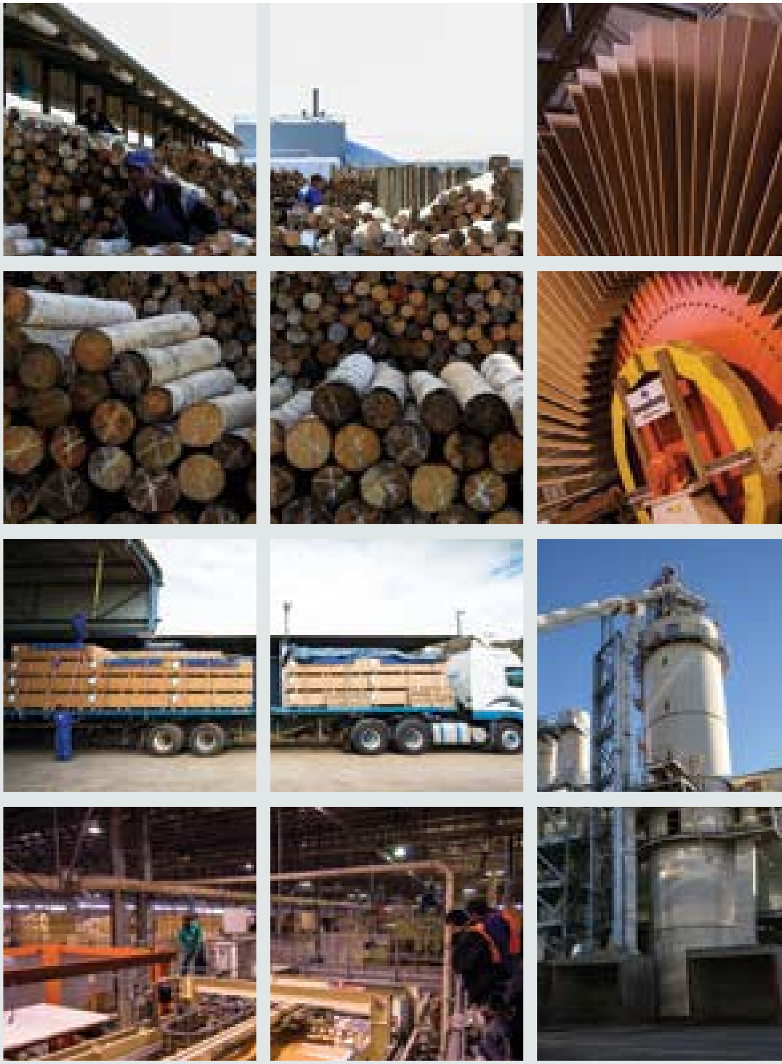
Commentary

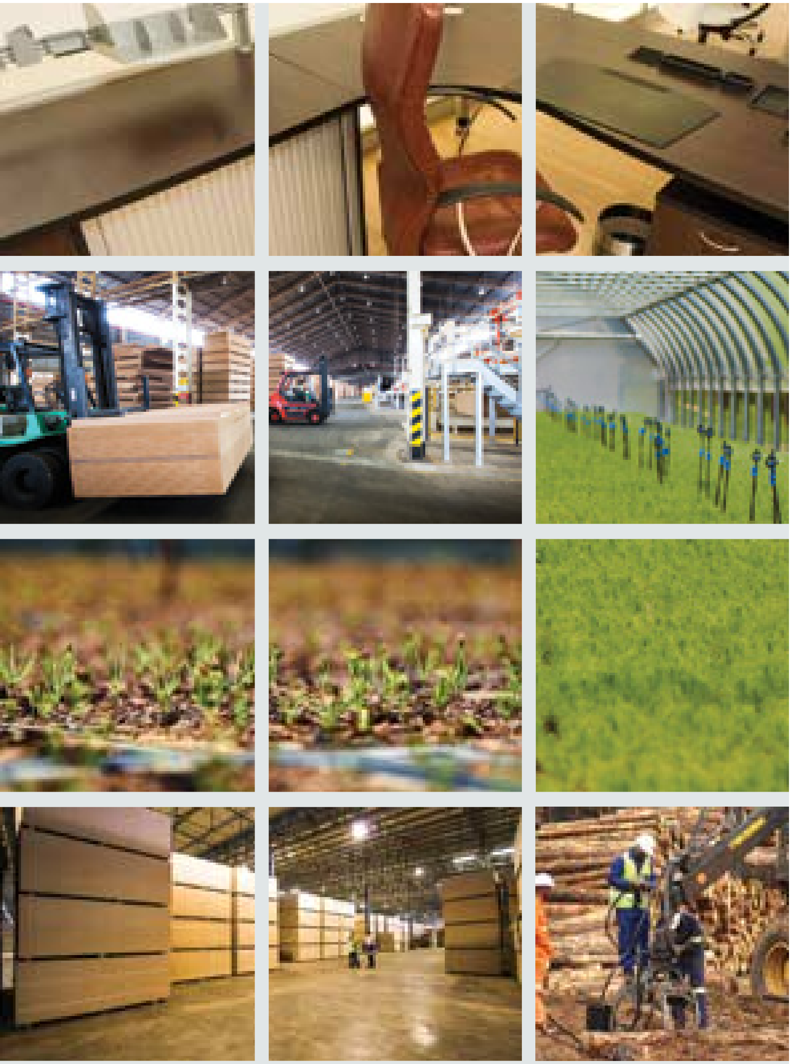
The integrated timber division performed well for the year, showing 10% revenue growth and 25% growth in operating profit.

The division continued to implement its strategy of increasing its value-added product and service offering in its panel products operations, with associated investments in product development, marketing, supply chain, capacity expansions and new technology. This supported revenue growth and margin expansion. During the year the division installed a fifth MFB (melamine-faced-board) press and replaced its particleboard press in Piet Retief with a latest technology continuous press line.

The southern Cape forestry, sawmilling and pole operations performed particularly well compared to the prior year. The operations were affected by devastating fires that occurred during June 2017 and damaged 4 456 hectares (only 10% of forestry land) of the division's plantations. The financial impact of these fires on the company are fully accounted for in the current year.

The integrated timber division showed 10% revenue growth and 25% growth in operating profit.





Outlook

The focus remains on providing value-added products and improving operational efficiencies through investing in technology and creating a culture of innovation.

The division will continue to pursue its strategy through investment in its products, customers, employees, systems and manufacturing assets in order to produce fit-for-purpose products at the lowest cost to market. Recent investments in the replacement and expansion of primary plant to manufacture particleboard and MDF, as well as upgrading plant to add value to these products, will continue to yield product improvements, efficiency benefits and cost savings.

Case study

Disaster recovery action reduces risk of loss

High barriers to entry

Scarce raw materials

A total plantation area of 4 456 hectares was damaged, amounting to 403 777 m^3 of timber that potentially needed to be harvested.

A full assessment of damage was done within 24 hours from the fire being contained.

Located in the Knysna district, PG Bison's southern Cape commercial plantation (SCF) spans a total area of 19 936 hectares, of which 10 508 hectares is planted with pine trees. The objective of the plantation is to optimise the production of pine saw timber for logs supplied to the group's Thesen sawmill, situated in the southern Cape province of South Africa, and also to maximise the production of building and fencing poles for delivery to Woodline, PG Bison's nearby pole treating plant.

Although SCF is situated in a coastal area with a lower risk exposure to fires and subsequent damages, fire risk – especially during unfavourable weather conditions – remains a threat.

In the early morning of 7 June 2017, several fires entered the company's plantations from neighbouring properties.

Due to very strong winds, high temperatures and severe drought conditions, the fires could not be contained and they spread through SCF landholding. Two days after they started, a 100 km/h wind shifted the fires' direction. Two fires raged simultaneously across an extended area, causing damage to numerous properties over a span of 80 km before being contained after four days.

Impact

Determining the impact of the fire and deciding when to harvest the trees is of great financial and economic importance. The objective is to salvage all pine timber that can still be used in the shortest possible time, before it deteriorates and becomes unusable because of damage by fungi and insect borers.

The fire damage was assessed and certified based on the severity of the damage to cambium (tissue layer beneath the bark); needle scorch; live crown; and root damage due to ground fire intensity. A harvesting priority rating was put in place to determine the sequence in which to harvest the different compartments of damaged trees. A continued monitoring programme was also put in place to check and adjust the harvesting priority, should anything change.

Salvage

A plan is in place to salvage 70% to 80% of all trees older than 10 years. To ensure that the harvesting process is completed in the shortest possible time, assistant teams have been deployed from operations in KwaZulu-Natal, Mpumalanga and Ugie. A total volume of 130 000 m^3 will be harvested within 14 months after the fire and the timber will be used by the Thesens sawmill, Woodline and other customers.

The rest of the timber that cannot be used immediately by the processing plants (estimated at about 250 000 m^3), will be stored in a wet deck preservation system positioned close to the harvested areas. Logs from the preservation deck will supply the operations with their raw material requirements for the next two years.

The estimated damage of R200 million was reduced by R160 million as a result of the salvage procedures described above, with the balance being covered by insurance.

Preservation

Logs are stacked in a continuous pile of 5 m high, 28 m wide and 3 km long. This deck of logs will be under irrigation to preserve the timber for use. The continuous wetting of the logs will create a shortage of oxygen in the wood to prevent fungi from entering and damaging the timber.

Groundwater has been identified as a viable option to keep the wet deck irrigated and will be supplied from an unpotable borehole field, to be developed for this purpose. A geophysical survey of the proposed area was done to select the most productive ground formations for borehole development and drilling. Borehole positions were identified, drilled and yield-tested to determine their consistency in discharge and recovery rate, to manage the well-field and pumping regime from the boreholes. Ongoing groundwater monitoring will be done to ensure sustainable use of the resource through optimal abstraction.

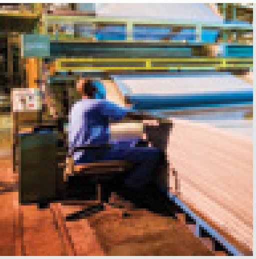
Case study

Replanting
It is estimated that the damaged area will be replanted over a three-year period, and a Pinus radiata seed source has been identified to supply the seedling quota required for this process. SCF's own nursery capacity will be supplemented by nurseries from North East Cape Forest (NECF) in Ugie and two other nurseries in the immediate vicinity.

The future
The effects of the fires will be felt for several years and will change the face of the forestry and sawmilling industry in the southern Cape.

Our management teams are formulating plans to further optimise resources and to mitigate against the longer term impact of the fires.

Automotive components




1 118 228 accessories sold per annum




Revenue increased by **26%**

2 347 tonnes of offcut material recycled back into products


2 555 employees



26.9 million components produced annually

5 680 tonnes of foam produced

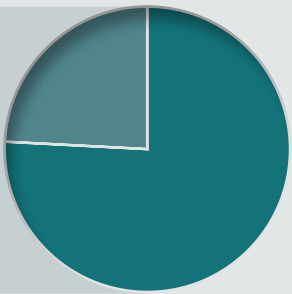
Manufacture of components used in new vehicle assembly and retail vehicle accessories

The automotive components division is well placed through its economy of scale and international technology agreements and partnerships to benefit from continued new model introductions in South Africa.

REVENUE SPLIT BY DIVISION

76% Feltex

24% Autovest



Manufacturing plants **17**

Automotive components

Business environment

With world-class quality and manufacturing capabilities, South Africa remains an attractive production destination for international original equipment manufacturers (OEMs) as a strategic gateway to the African continent. Annual vehicle production by international OEMs in South Africa remained flat at 555 597 units compared to 552 876 units in the prior year. The industry's objective is to reach 1 000 000 units produced per annum by 2020. South Africa's vehicle build is spread over seven OEMs that build 15 models, with approximately 55% of all vehicles produced being exported.

The Automotive Production and Development Programme (APDP), which currently runs to 2020, provides an element of certainty to the business environment. As a result of this, replacement models are being secured by the South African OEMs as the current models reach the end of their production periods. It is anticipated that this programme will be replaced with a similar programme after 2020.

The trend of centrally manufacturing 'stripped down' model configurations for global distribution, with the fitment of accessories taking place in-country according to regional requirements, provides a sound base for the sale of aftermarket automotive accessories like those manufactured by Autovest and Maxe.

The increased demand for SUVs*and LCVs• is also encouraging as these vehicles provide greater scope for accessorising.

Sport utility vehicle

• *Light commercial vehicle*

Products

Feltex Automotive Trim
Textile-based automotive acoustic

Autoneum Feltex
Underfloor systems for thermal and impact protection and aluminium heatshields

Caravelle
Overlay carpets/loose-lay vehicle mats

Feltex Fehrer
Polyurethane flexible foam, moulded seats, conventional and pour-in-place headrests, foam pads, side bolsters and armrests

Feltex Foam
Polyester and polyether flexible, semi-rigid and rigid thermoformable foams for use in vehicles and high-tech industrial products

IAC Feltex
Acoustically engineered tufted automotive carpet and A, B and C pillars

Autovest
118 franchise fitment centres for automotive accessories

Auto Armor
Supplier of a range of vehicle protection products that include window and paint protection film, as well as paint and interior surface treatments

Kilber Products
Steel products to the independent aftermarket, including towbars, bullbars, rollbars and sidesteps

Maxe
Premium automotive accessories made from mild and stainless steel, supplying the LCV•, SUV* and truck markets

Rhino Linings
Supplier of locally developed spray-on bin linings for LCV• and selected industrial applications

SA Canopy
Supplier of locally manufactured and imported fibreglass canopies

"Our aim is to be the supplier of choice with leading technology and globally competitive manufacturing capabilities."

Ugo Frigerio, CEO: Automotive components division

Group strategy

1 Market leadership

Feltex Automotive commands high market share throughout the sector in terms of the products that it produces, while Autovest, with its leading brands, has a national network of 118 franchised fitment centres serving as an execution platform.

High barriers to entry

International technology partnerships, OEM-approvals, the five to ten-year model life cycles and economies of scale facilitate a globally competitive cost base.

Industry diversification

The automotive components division is balanced between components for new vehicle build across all seven OEMs and aftermarket accessories across a broad range of products.

Adding value through specialisation

Based on its balance across all seven OEMs the division is highly skilled at implementing new model introductions and extending the technology benefits thereof throughout its operations.

Leveraging our African base

The division is competitively placed to take advantage of export opportunities as vehicle assembly is initiated in African countries.

Key facts

- R22.4 million investment in training 102 learnerships/apprenticeships during the year
- Acquisition and integration of Autovest Limited
- R167.2 million investment in new technology to facilitate new models
- R8.1 million investment in technology systems during the year
- Just-in-time and just-in-sequence supply to all OEM fitment centres in close proximity to dealerships
- Close relationship with local OEMs and dealerships, expanding African footprint
- Rebranded 17 franchises to Autovest

Automotive components

Commentary

The automotive components division reported a 26% increase in revenue and a 68% increase in operating profit for the year. This was primarily as a result of the acquisition of Autovest in April 2016, increased parts penetration, and continued automation initiatives and technology upgrades following recent new model introductions. Operating margin was further enhanced by improved product mix. The Autovest operation performed to expectation for the year in spite of lower industry new vehicle sales and received strong support from the launch of the new Toyota Hilux in January 2016.

Significant progress was made in the rationalisation of the Autovest business model, with increased focus and investment in the sales and marketing function, improved efficiency in the franchised fitment network as an execution platform, and improved information systems during the year.

The automotive components division reported a 26% increase in revenue and a 68% increase in operating profit for the year.

Outlook

The automotive components division is well placed to benefit from the success of recently introduced models such as the Mercedes Benz C Class and Toyota Hilux, and anticipated new model introductions like the Volkswagen Polo and BMW X3. New model introductions provide Feltex with the ability to increase its parts penetration (market share) and to employ new technology. Focus on localisation of component manufacturing, in line with the APDP incentive scheme, remains a priority for the business, as does continuous improvement through training and development, technology investments, and research and development.

Case study

Together Feltex and Autovest own a bigger ‘share’ per vehicle

High barriers to entry

The acquisition of the Autovest group of brands added scale to the automotive components division, positioning it to become a market leader in providing OEMs, automotive dealerships and individual customers with high-quality vehicle accessories.

In addition to the components produced by Feltex, which are used in the assembly of vehicles, aftermarket accessories, which include towbars, bullbars, rollbars, canopies, vehicle protection products and spray-on bin linings, increase the division’s total ‘share’ per vehicle.

For both new vehicle component and aftermarket products, the automotive components division can build on its reputation of supplying world-class OEM-approved products. Feltex brings years of experience and intellectual property at improving manufacturing efficiencies and quality, which is also beneficial to the manufacture of products for Autovest’s aftermarket sales. With increased expertise in manufacturing and processes adding to the quality of products, it is geared to grow its market penetration.

As part of the process to integrate Autovest into the KAP automotive components division and to streamline its offering to the market, Autovest consolidated five stand-alone businesses into two. Instead of operating independently branded outlets, Autovest franchise outlets are being rolled out nationally where all product brands can be bought and installed as part of the aftermarket service to customers.

The integration includes benefits for:

KAP Automotive

There is a clear focus to service the automotive industry by providing assembly components and aftermarket accessories. It provides the opportunity to service OEMs with component parts for locally manufactured vehicles and aftermarket accessories for locally produced and imported vehicles.

Autovest

A consolidated, one brand approach translates into a co-ordinated growth plan, which improves manufacturing, logistics, administrative, sourcing and sales efficiencies. The focus is to build one brand and to improve the customer experience.

The franchisee

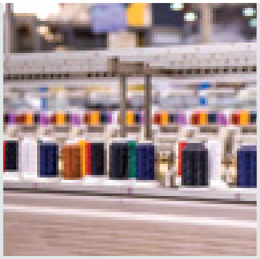
More than 118 franchisees nationwide are serviced by one team providing a basket of products and with a co-ordinated marketing, training and network expansion plan. The strategy is to grow the franchisee network to offer an inclusive basket of products to OEMs and dealerships.

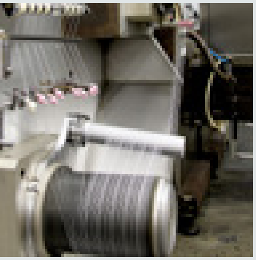
The customer

Dealerships and OEMs are provided with a broad range of approved quality products from a single supplier. This reduces the risk for dealership customers and improves their ability to service their customers, ensuring quality and OEM-approved products fitted through a highly skilled franchisee network. Accessories can be fitted on-site at the dealership or through the Autovest network.

Integrated bedding

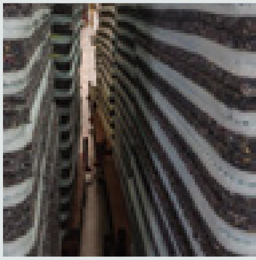
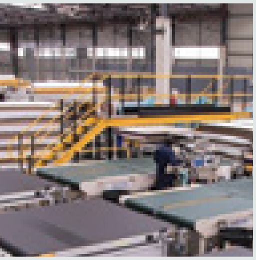
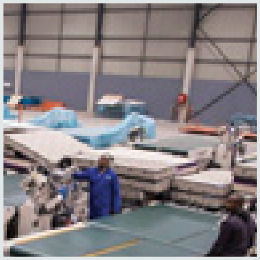

900 tonnes of expanded polyethelene (EPE) produced



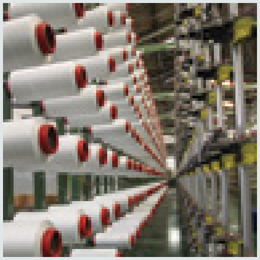



Revenue increased by **5%**

7.3 million linear metres of fabric produced annually

1 464 employees

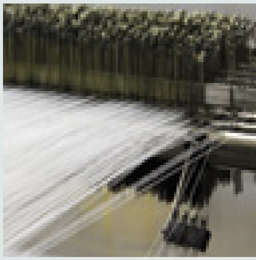


In excess of **300 000 mattresses** produced annually

The **largest** fully integrated bedding manufacturer in southern Africa

8 500 tonnes of polyurethane foam produced

360 000 kg (4 million units) plastic components produced



RESTONIC
CRAFTING QUALITY BEDS SINCE 1938

vita vitafoam

DESLEE MATTEX

Manufacture of foam, fabrics, springs, bases and mattresses

Operating from strategically positioned locations throughout South Africa and Namibia, the division's extensive infrastructure and scale benefits reduce costs and enable the division to provide products and services to customers at competitive prices.

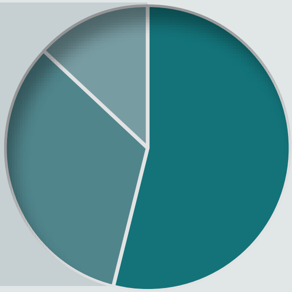
Locations **9**

REVENUE SPLIT BY DIVISION

54% Restonic (bedding)

33% Vitafoam (industrial foam and EPE)

13% DesleeMattex (fabric)



Integrated bedding

Business environment

Within the global furniture retail sector, the bedding category has proven to be resilient through economic cycles. The bedding category has also remained relatively stable in the South African furniture retail sector, despite volatile and subdued performances in other categories. A trend has developed toward speciality bedding retail outlets, which has added further support to the sector.

Mattresses and bed bases are expensive products to transport due to their size, and as such the mattress industry is highly fragmented with numerous regional retail and manufacturing operators. The strategy of KAP integrated bedding is to manufacture key raw materials centrally using state-of-the-art technology, which provides economy of scale benefits, and to produce innerspring and foam mattress and bed bases in key regional locations in order to facilitate cost-effective distribution. This enables the division to supply national brands at regional locations on a competitive basis.

Products

Bedding
Mattresses and base sets

Foam and related products
Flexible polyurethane foam, expanded polyethylene and fibre products for various industrial applications

Mattress ticking
Knitted and woven fabrics for use in the mattress industry

Non-woven spunbond
Various products for household and industry use

"Our aim is to be the leading manufacturer of bedding-related products in southern Africa by utilising world-class technology and expertise."

Michael Metz, CEO: Integrated bedding division

Group strategy

Market leadership

The integrated bedding division is the largest manufacturer of mattress fabric and flexible polyurethane foam and the second-largest manufacturer of branded mattresses in southern Africa.

High barriers to entry

The integrated bedding division is fully integrated into the manufacturing of all primary raw materials using state-of-the-art machinery.

Industry diversification

The division is well balanced in terms of its exposure to industrial foam, fabric and mattress markets.

Adding value through specialisation

The integrated bedding division has invested in a state-of-the-art facility in Johannesburg to consolidate the operations of five sites into a single location, utilising latest technology production processes and equipment in order to produce innovative products at the lowest cost to market.

Leveraging our African base

The division recently invested R12 million in its operations in Namibia in order to increase production capacity to service its growing market.

Key facts

- Increased demand for our products
- Improved margins due to technology investments
- Increased margins through economy of scale
- Higher cash generation
- Increased efficiencies
- Increased demand from customers for new technology products
- Savings in logistics costs
- Improved lead times to delivery
- Reduced customer support response times
- Growth outside of South African borders

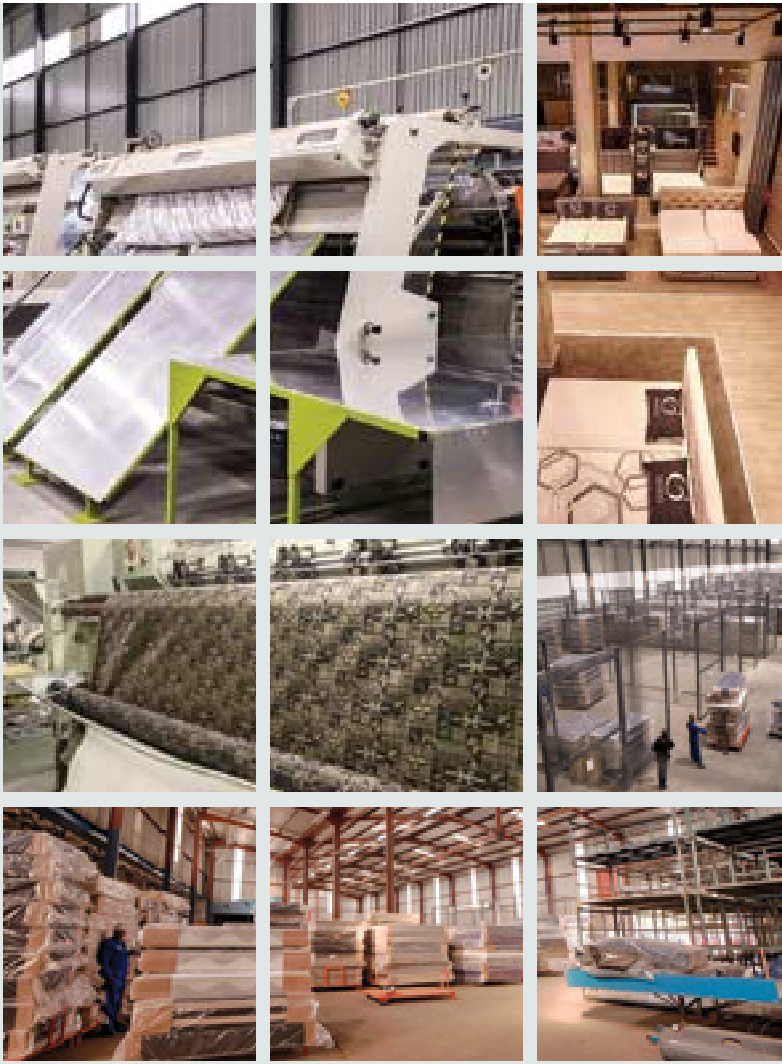
Integrated bedding

Commentary

The integrated bedding division performed well for the year, showing 5% revenue growth and 29% growth in operating profit. The business model of decentralised mattress assembly and distribution of all Restonic products in Johannesburg, Cape Town, Durban, Port Elizabeth and Windhoek was completed during the year. In addition, the division successfully completed the construction of and relocation to a new factory in Johannesburg that consolidates the operations of five sites into a single state-of-the-art facility.

Volume growth in mattress and base set manufacture and distribution, although at lower selling prices, resulted in strong expansion in operating margin for the division, due to a substantial increase in intercompany trade of raw materials of foam and fabrics.

The integrated bedding division performed well for the year, showing 5% revenue growth and 29% growth in operating profit.



Outlook

The retail focus on bedding products in the context of a subdued South African furniture sector is expected to continue and will provide a sound platform for KAP's integrated bedding division. The operating structure within the division, with focused management in specific product sectors, investments in new technology manufacturing assets and continued integration, is expected to bring operational efficiencies and market share gains and will promote further growth of the division.

The modern state-of-the-art factory in Johannesburg will provide well-considered workflow systems and energy-efficient production lines and a near zero waste policy, thereby reducing costs, while also improving product quality and ensuring sustainability. New technology investments will drive margin improvements and enhance product quality.

Case study

Implementing a zero waste priority

Market leadership

High barriers to entry

The integrated bedding business subscribes to a zero waste target, and reduces its carbon emissions by implementing efficiencies in the manufacturing processes. The focus is therefore on minimising waste in each of the manufacturing processes. Where waste is generated, as part of the manufacturing process, most of it is converted and reused as production material for other components.

Initiatives include:

Foam

Foam is produced for use in various industries. During the process of preparing the foam for use or distribution it is cut to size, producing offcut material. The offcut foam is chipped into smaller pieces, which is then treated with a rebond binder, and through the application of steam and pressure, is compressed into foam blocks. These foam blocks, called rebond, is used in the production of certain mattresses.

Approximately 25% of the annual foam production, including rebond, is utilised in Restonic's retail bed products.

Fabric

DesleeMattex produces mattress ticking that is used to make borders and to cover mattress panels and bed bases. During the process of covering the mattresses and bases, some offcuts are generated. These offcuts are chipped into finer pieces called flock. The flock is mixed with low-melt fibre and pressed into a thermo-bonded insulation pad through the application of pressure and heat. This material is used in all mattresses and bed bases to prevent spring-feel and spring protrusion.

Approximately 25% of the mattress ticking is utilised in DesleeMattex's own consumer products.

Approximately 130 tonnes of flock was recycled back into the manufacturing process.

Expanded polyethylene (EPE)

EPE is a non-cross linked, closed-cell polyethylene foam made from low-density polyethylene (LDPE), which is a virgin raw material and is manufactured using an extrusion process. It has good thermal insulation properties and is waterproof. It is used mostly for packaging. The extrusion process is quite sensitive to external factors such as heat and air, therefore waste is generated during the start-up and curing process. All waste from this process is recycled – it goes through a grinding/chipping process and is then heated and forced through a dye, producing thin strands that are cooled and chipped. The resulting product, recycled non-virgin LDPE, is then mixed with the virgin LDPE during the EPE manufacturing process.

Approximately 20% of the EPE is utilised in the division's consumer products, such as mattress side wall and corner supports and base bullnoses.

100% of the waste generated and converted into non-virgin LDPE is utilised in the EPE manufacturing process.

Industry diversification

Solid returns on capital employed

Adding value through specialisation

Scarce raw materials

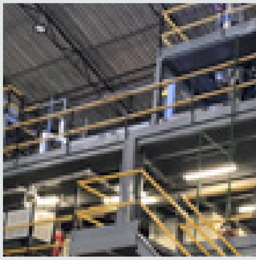
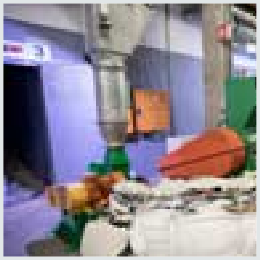
Plastic extrusion

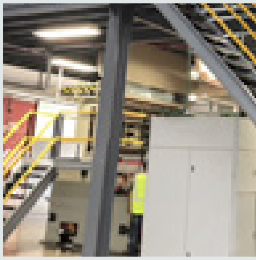
To manufacture key components for the bedding and mattress manufacturing process, such as bed base corners, bed legs and plugs, polypropylene (PP) is melted and formed into continuous profiles. During this process waste is generated in the form of start-up material and/or damaged components from extrusion. The waste is regrinded into smaller pieces and then mixed in with the PP to be used in the injection moulding process. Further to this, the plastic bobbins on which yarn is supplied (waste from the fabric manufacturing process); caps of plastic water bottles (consumed internally); and plastic cones on which sewing thread is wound are also collected, regrinded and mixed with PP to be used in the same injection moulding process.

100% of these plastic components are used to produce the division's bedding products.

Approximately 50 tonnes of regrind was used to produce various bedding components.

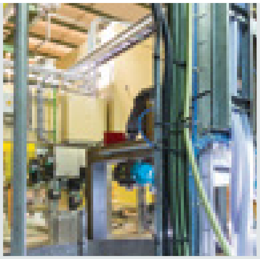


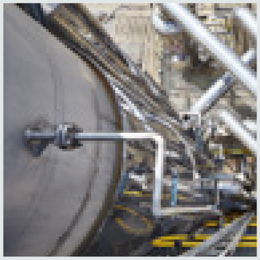
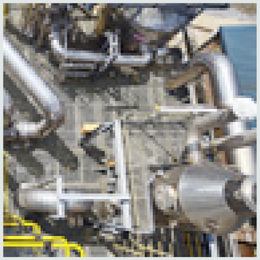


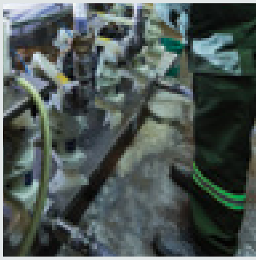

Chemical

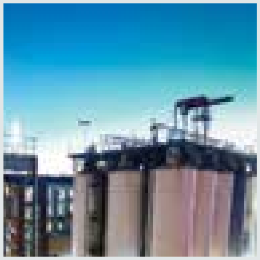

Polymers 85% of revenue
Resins 15% of revenue



Revenue increased by **79%**

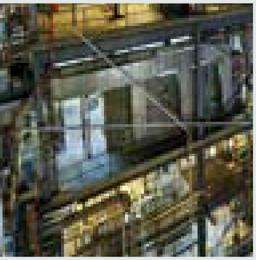





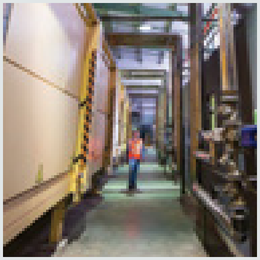


539 employees

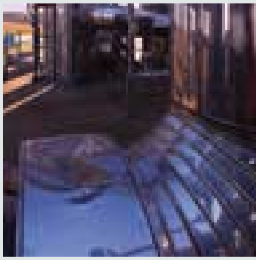
3 production facilities

106 000+ tonnes of UF resin produced



121 000+ tonnes of PET produced



A specialised chemical manufacturing division

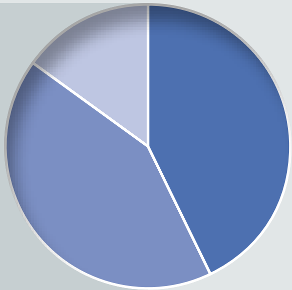
Safripol is the only producer of high-density polyethylene (HDPE) and one of two producers of polypropylene (PP) in South Africa, while Hosaf is the only South African producer of virgin polyethylene terephthalate (PET), which is used for packaging in the beverage industry. Woodchem SA is the largest producer of urea formaldehyde (UF) resins in Africa and the only producer of impregnated paper used in the board industry in South Africa.

Manufacturing plants 3

Sales and distribution

REVENUE SPLIT

- **43%*** Safripol
- **42%** Hosaf
- **15%** Woodchem



** Included for six months*

Chemical

The group acquired 100% of Safripol for R3.9 billion, effective 1 January 2017. Safripol is engaged in the manufacture of polypropylene (PP) and high-density polyethylene (HDPE), which are used in the manufacture of a broad range of plastic injection and blow moulded products, fibres, extrusions and packaging materials. This business operates with a similar business model to the group's other chemical operations, Hosaf and Woodchem.

This division operates state-of-the-art equipment in world-class manufacturing plants, with the lowest emissions and energy consumption levels in its sector. The high level of technical expertise required to manage these plants was a key determinant in creating a focused chemical division.

Business environment

Safripol produces PP and HDPE resin at state-of-the-art facilities in Sasolburg with propylene and ethylene sourced from Sasol in South Africa. As a result of the high-quality propylene and ethylene procured, Safripol is able to manufacture superior grade PP and HDPE, which allows it to actively compete in this global market.

Hosaf produces PET resin from three key chemical raw materials, which are sourced from international suppliers. Because of its high intrinsic viscosity and clarity, PET is used in South Africa primarily in the bottling industry for carbonated soft drinks and water.

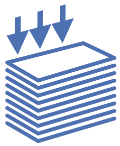
Woodchem manufactures formaldehyde gas through a continuous process of catalytic oxidation of methanol and absorption of the gas in liquid. Formaldehyde from Woodchem is further processed into UF resin for use primarily in the timber panel industry. Woodchem is the largest manufacturer of UF resin in South Africa. Specialist décor paper is imported and treated with urea and melamine resins through a paper impregnation line, making it ideal for use as decorative laminates, industrial laminates and laminates for melamine-faced board (MFB).

Products

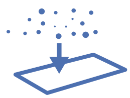
PP
Used for a wide range of applications, such as furniture, clothing, textiles and automotive components

HDPE
Used for a wide range of applications, such as plastic bottles, chemical containers and toys

PET, resin and polymers
Primarily used in the manufacture of bottles for carbonated soft drinks



Formaldehyde and UF resin
Primarily used in the timber panel industry



Impregnated paper
Primarily used in the timber panel industry to manufacture MFB

"Our aim is to deliver premium products through leading technical expertise and world-class technology."

Leigh Pollard, CEO: Chemical division

Group strategy

1 Market leadership	The chemical division is the only manufacturer of PET and impregnated paper in southern Africa, and the largest manufacturer of UF resin. With the addition of Safripol, the division is now a market leader in polymer manufacturing.
High barriers to entry	Following the R700 million upgrade of the PET manufacturing facility, the chemical division comprises the latest technology manufacturing equipment, which produces on a globally competitive basis.
Industry diversification	The division is balanced in terms of its exposure to the timber and bottling sectors. The R3.9 billion investment in Safripol added further diversification into the packaging sector.
Adding value through specialisation	Research and development of new product derivatives and manufacturing processes remain at the forefront of the division's strategy
Leveraging our African base	With the Hosaf upgrade and Safripol acquisition the division is well placed to take advantage of existing markets in neighbouring countries.

Key facts

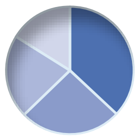
Inclusion of Safripol in the diversified chemical segment (for six months), producing:
- 61 000 tonnes of PP
- 78 000 tonnes of HDPE

Hosaf continues to produce 'bio PET' made from renewable sugarcane resources

Woodchem paper impregnation volumes of 44 million m^2

Member and financial contributor to PETco in support of national PET recycling initiatives, with a goal of 0% waste to landfill and certified waste disposal

Product volumes



PET	37%
UF related	26%
HDPE (six months)	21%
PP (six months)	16%

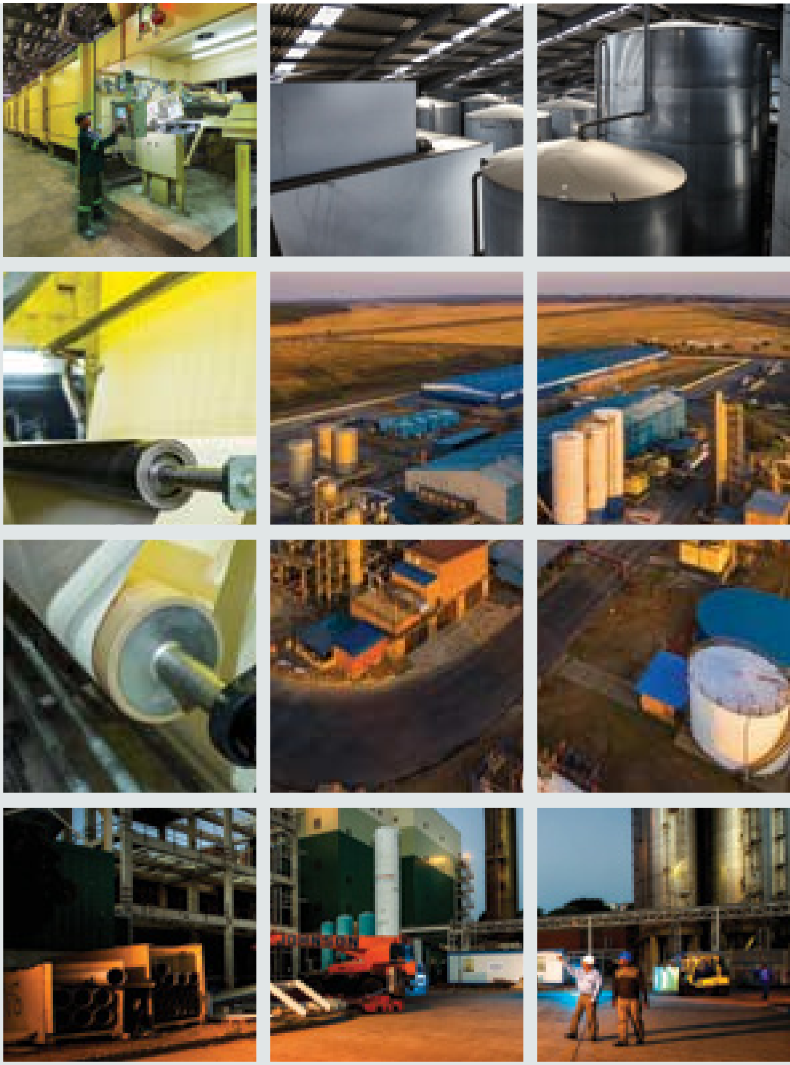
Chemical

Commentary

The chemical division performed well for the year, showing revenue growth of 79% and operating profit growth of 111%, primarily as a result of the acquisition of Safripol. Demand for PET, PP, HDPE and UF resin remained stable for the year, which allowed the division to operate all plants at full capacity. Demand for impregnated paper grew strongly, in line with PG Bison's value add strategy. Currency and raw material commodity price fluctuations were well managed, thereby protecting margins. Safripol performed to expectation for the period.

Good progress was made during the year on the expansion project at Hosaf, which involves increasing production capacity from 128 000 tonnes to 240 000 tonnes per annum. Construction activity on site and the manufacture of the plant is well advanced and it is expected that this expansion has been commissioned during September and October 2017. The expansion will improve the competitiveness of Hosaf by providing economy of scale benefits, and the technology being utilised will facilitate improved quality and performance criteria of the PET produced.

The chemical division showed revenue growth of 79% and operating profit growth of 111%.



Outlook

The acquisition of Safripol and the various expansion activities initiated by the division create a solid platform for growth, as the division is able to access broader product markets and explore export opportunities. Hosaf's production capacity after the expansion will match anticipated domestic consumption. The paper impregnation line provides opportunities for volume growth through market share gains, which will yield significant economy of scale benefits. The installation of a third formaldehyde line at Woodchem in order to meet domestic demand remains under investigation.

Case study

The acquisition of Safripol supports KAP's strategic drivers

High barriers to entry

The acquisition of Safripol established a diversified chemical division, incorporating the existing operations of Hosaf and Woodchem. Safripol's inclusion in the group added another industry-leading industrial asset that is complementary to existing operations and, together with Hosaf, has established a unique polymer business cluster.

Together, Hosaf and Safripol have an estimated 37% market share in PP and 70% in HDPE and PET. There is only one other local PP supplier, with the rest of the market being supplied by imports. The business model, with global indexed and US dollar-priced products and raw materials, provides a pure US dollar margin business within South Africa.

An overlap in the customer base between Hosaf and Safripol further provides additional value to customers:

- Synergies within the polymer cluster add to increased revenue, increased operational efficiencies and cost savings, due to wider product offerings, value creation and integrated management and support structures.
- Distribution efficiencies will be created by combining deliveries and improving utilisation of transport through return loads on long-haul deliveries.
- Sales and marketing structures will extract greater value from a consolidated client base.
- Research and development teams from Hosaf and Safripol have been integrated and will ensure consistent applications of world-class and leading technical expertise to deliver premium products.

The combined and complementary products of Safripol and Hosaf created a polymer cluster that strategically positions the chemical division to provide three of the five polymers that underpin the plastics industry:

- **Polyethylene** (PP) is a lightweight, high melting point plastic with high stiffness, hardness and strength. PP is used in the manufacture of injection-moulded articles, blow-moulded containers, pipe, sheet and textile fibres.
- **High-density polyethylene** (HDPE) is polymerised from ethylene to produce a plastic with excellent stiffness and environmental stress crack resistance. It has superb chemical resistance and low water absorption and is ideally suited to the food industry.
- **Polyethylene terephthalate** (PET) is used in the beverage and packaging industries, and primarily in the bottling industry because of its high intrinsic viscosity and clarity.

Contractual logistics

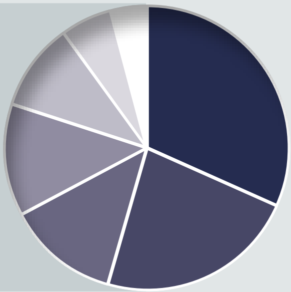
A diversified supply chain company serving the needs of select sub-Saharan African markets

Unitrans's highly successful business model incorporates the design, implementation and ongoing provision of supply chain solutions for its customers.

Operating sites **130**

REVENUE BY SECTOR

33%	Petroleum
23%	Food
12%	General freight
12%	Mining and infrastructure
10%	Agriculture
6%	Specialised warehousing
4%	Chemicals



Contractual logistics

Business environment

The 'One Unitrans' strategy, which was concluded during the prior year in order to provide a clear framework for the company's engagement with the market in identified sectors, continued to be driven by management and has created a more efficient and effective organisation with improved utilisation of assets and infrastructure.

The division remains focused on long-term contractual logistics services, diversified across the areas of fuel, chemicals, food, agriculture, cement, mining warehousing and general freight. While the economic environment remains challenging, the medium-term contractual nature of the business provides some protection through the economic cycle.

The division generally operates from its clients' sites, which provides the ability to rapidly rationalise operations to optimise cost structures in instances where contracts are not renewed.

The division's operations in various non-South African territories provide further diversification in terms of exposure to economic cycles. Currency volatility is closely managed by the group's treasury team in order to minimise translation losses and to optimise the repatriation of cash into the group's South African cash management system.

Meeting customer requirements, specifically in terms of the preferential procurement elements of their sector codes, created challenges during the year. However, good progress was made in this regard with the conclusion of a B-BBEE ownership transaction subsequent to year-end.

Services

Agriculture
- Infrastructure and estate services
- Land preparation
- Transport

Mining and infrastructure
- Cement
- Explosives
- Materials handling

Foods
- Animal feed
- FMCG
- Poultry
- Refrigeration
- Sugar/Molasses

Petroleum
- Alcohol
- Fuel
- Gas
- Lubricants

Chemicals
- Acids
- Chemicals
- Food grade oils
- Industrial oils
- Solvents

Specialised warehousing
- Freight forwarding
- Warehousing
- X-docking

General freight
- Cross-border
- Line haul

“Our aim is to be the leading supply chain partner in our chosen markets, adding value to our clients through the provision of specialist services.”

Theunis Nel, CEO: Contractual logistics division

Group strategy

1 Market leadership

The ‘One Unitrans’ strategy provides for the economy of scale and efficiency benefits of a national business that are applied in order to secure market leadership in seven specific sectors.

High barriers to entry

Unitrans operates primarily in areas that require specialised equipment, technology, expertise and regulatory controls in order to provide a broad range of end-to-end logistics solutions.

Industry diversification

Unitrans provides a diverse range of services across seven industry sectors and earns 26% of its revenue from territories outside of South Africa, which mitigates against concentration risk.

Adding value through specialisation

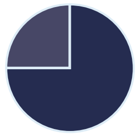
Unitrans consistently invests to remain at the forefront of technology in specialised logistics in order to improve operating efficiencies and thereby enhance margins.

Leveraging our African base

The ‘One Unitrans’ strategy provides a framework of specialist skills and expertise in five specific sectors in order to provide a consolidated service offering in territories where it enjoys an existing footprint.

Key facts

Geographical areas of operation (revenue)



74% South Africa

26% Rest of Africa

Fully operational control tower introduced that manages the operational execution of the fleet and provides customers with real-time information

Continuous decrease in accident-related costs

With a focus on continuous improvement, ISO standards are being rolled out to operations outside of South Africa. Certifications include:
ISO 9001, 14001, OHSAS 18001 NOSA integration systems, RTMS, SQAS

R567 million capex employed for expansion and replacement of specialised vehicles

B-BBEE level 3, with business practices aligned to meet requirements

New operational structure provides a consolidated service offering from an existing footprint in Africa

Contractual logistics

Commentary

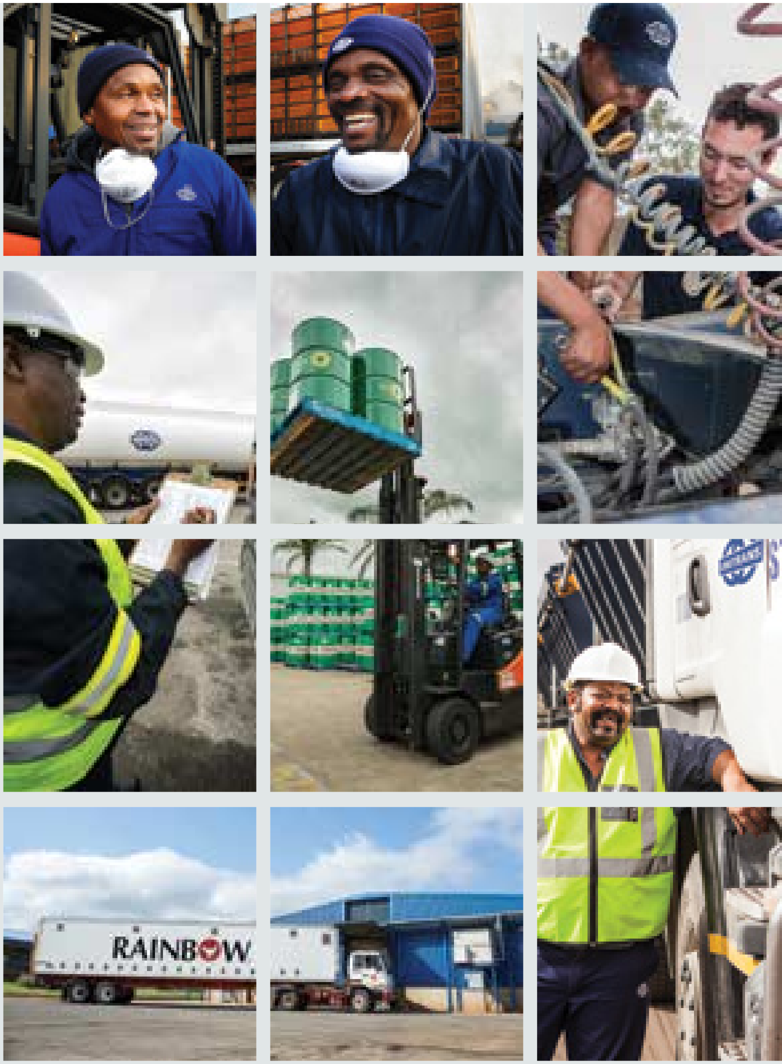
Revenue of the contractual logistics division increased by 11%, primarily as a result of the acquisition of Lucerne Transport Proprietary Limited ("Lucerne") during the year, and a controlling stake in Xinergistix Proprietary Limited ("Xinergistix"). Operating profit of the division decreased by 10%.

While the division endeavours to position itself in the area of non-discretionary goods and services, which are less affected by economic cycles, the division was exposed to materially lower industry volumes in the fuel, poultry and cement sectors. The division defended its market share in terms of contract renewals, in line with the normalised operating margin levels of the current year, following non-recurring items in the prior year.

The division's operations outside of South Africa showed strong growth and provided support to revenue and operating profit. Increased focus was placed on exploring further growth opportunities outside of South Africa.

Both Lucerne and Xinergistix traded ahead of expectation for the year.

Revenue of the contractual logistics division increased by 11%.



Outlook

During the year the division responded rapidly to changing market conditions and rationalised operations and management structures accordingly. Focus remains on renewing and securing medium-term contracts in its key areas of operation and protecting its market share. It is expected that the conclusion of a B-BBEE transaction to facilitate an improved ownership score will place the division in a competitive position to grow its market share. Opportunities in non-South African territories will receive increased management focus.

Case study

Technology enhances driver and road safety

1 Market leadership

High barriers to entry

Central control

Unitrans's centralised control tower continuously monitors the movement of vehicles through satellite tracking technologies and GPRS information transfer. It mitigates on-road risk and drives productivity through tracking vehicles against defined planned routes and managing them through live exception-based reporting. The facility also contributes towards increased operational efficiencies and productivity.

The control tower adds value to Unitrans and its customers and can be fully integrated into customers' supply chains. It assists in managing receiving and dispatch points, and improves supply chain management through visibility, information availability and reporting.

The control tower:

- monitors vehicles for speeding, driving hours and route adherence against each journey's management plan;
- responds to potential accidents through impact alerts and panic alarms;
- predicts times of arrival, allowing for off-load scheduling and customer planning;
- assists in mitigating the risk of theft and hijackings of goods in transit; and
- ensures load integrity.

Vehicle technology

New-generation trucks include technology options that significantly increase the safety of vehicles for all road users.

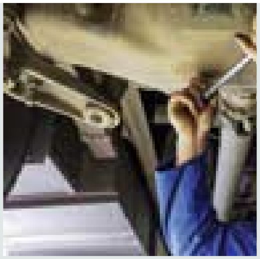
Collision Avoidance Technology and **Automatic Emergency Braking** (AEB), using forward-facing integrated radar, detects speed differences between the truck and other objects in its path. It assists in avoiding a collision by warning the driver of a possible collision or by automatically applying the brakes of the vehicle. These two systems help to avoid incidents and reduce the severity of an accident when unavoidable – by reducing the velocity of the vehicle in order to reduce the impact.

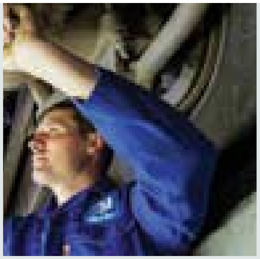
Roll Stability Systems (RSS) and Electronic Braking Systems (EBS) prevent vehicles from jackknifing and assist in reducing vehicle roll-overs. This is achieved by comparing tyre revolution speed across axles and applying the vehicle's brakes differentially across the axles, which stabilises and straightens out a vehicle and maximises the possible braking force. This technology is employed on both prime movers and trailed units.

DriveCam is installed in all Unitrans on-road prime movers. The DriveCam system is triggered and immediately generates an in-cab-facing video when any of the specified parameters are exceeded, such as speeding or harsh breaking, and when potential impact is identified. These clips are 12 seconds long – initiating four seconds before the G-force trigger point is reached, and eight seconds afterwards. This video clip is then analysed, reported on and categorised. DriveCam is used to manage drivers and incidents, and to identify high-risk drivers and risky behaviour that could lead to an incident. It has also been used extensively to understand the causes that led to incidents and accidents. Further developments, which are showing positive results, include proactive fatigue and distraction detection.

Passenger transport

1 350 revenue-earning vehicles





Revenue increased by **7%**

112+ million km travelled per annum

4 095 employees

10.4 million passengers per annum

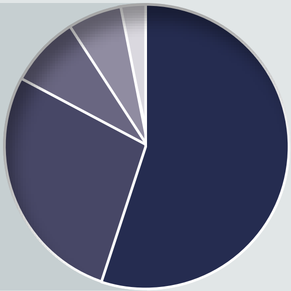
A complete transport solution to customers in the commuter, personnel, intercity and tourism markets

Specialised service offering focuses on innovation, safety, service and cost optimisation, and has resulted in the division's positioning as a market leader providing world-class passenger services to customers in southern Africa's fast-growing markets.

Depots	25
Intercity destinations	143
Servicing terminals	19

REVENUE SPLIT

55%	Commuter and personnel
25%	Intercity
8%	Gautrain bus feeder
8%	Tourism
4%	Rest of Africa



Passenger transport

Business environment

Megabus operates in the commuter and personnel markets under mid to long-term contracts with government, as well as with large corporate entities. The Megabus service remains the mainstay of the passenger transport division with its long-term contractual business model. The intercity business operates in southern Africa under the Greyhound and Citiliner brands, transporting passengers between cities and towns daily. Mega Coach and Magic Transfers service the inbound tourism markets and the South African corporate market. The intercity and tourism operations are leaders in the coach segment and offer a high standard of safety, service and reliability. Mega Express operates and manages the Gautrain feeder and distribution service, which was the first of its kind in commuter transport in South Africa.

Passenger safety is a critical element of management in the passenger transport division. The division has, over time, reported low incident rates due to diligent driver training and control procedures, and disciplined vehicle maintenance in an environment where road safety is often affected by third-party behaviour and road surface conditions. Vehicles are also equipped with tracking devices and speed control and monitoring equipment.

Services

Greyhound
Luxury coach operator transporting more than 800 000 passengers per annum over 17 million kilometers.

Citiliner
Semi-luxury coach service transporting more than 500 000 passengers annually over 10 million kilometres.

Mega Bus
Operating in the commuter and personnel markets under mid to long-term contracts with government, as well as with large corporate entities.

Mega Coach
With a fleet in excess of 80 expertly driven and well-maintained vehicles, Mega Coach is rated as one of the leading coach companies in southern Africa, servicing the corporate and tourism markets.

Bonjala Bus
Servicing the North West Province, catering mainly for commuters staying in the surrounding rural areas, with platinum mining as the main economic activity.

Magic Transfers
Chauffeur-driven transport from Johannesburg, Durban and Cape Town International airports. This exclusive service is available 24 hours a day, 7 days a week, 365 days of the year.

"We strive to be the preferred passenger transport service provider, differentiated by high standards of safety and reliability."

Nico Boshoff, CEO: Passenger division

Group strategy

1 Market leadership

Greyhound and Citiliner are market leaders in intercity travel, while the commuter and personnel operations are leaders in the regions within which they operate. The economy of scale benefits of a large national business facilitate continued investments in order to effectively compete with regional competitors.

High barriers to entry

The passenger transport sector is highly regulated in terms of operating licences, vehicle maintenance and safety.

Industry diversification

The passenger division has a balanced exposure to the commuter, personnel, intercity and tourism sectors.

Adding value through specialisation

The passenger division consistently invests to remain at the forefront of technology in passenger transport and safety, in order to improve the customer experience and operating efficiencies, which enhances margins.

Leveraging our African base

The passenger division has effectively leveraged off the Unitrans footprint in Mozambique to secure a 90-bus personnel contract.

Key facts

R212 million capex invested in new fleet

39 million litres of fuel used per annum

112 million km travelled annually

10.4 million passengers per annum

Staff turnover remained low at 2% (FY16: 2%)

R8.7 million investment in employee training

R638 million spent on salaries and employee benefits for the year

Fleet size increased from 45 vehicles at start of contract in Mozambique to 90 vehicles

Additional work secured with existing customer

Passenger transport

Commentary

The operations within the passenger transport division delivered mixed results for the year. Revenue increased by 7%, while operating profit decreased by 5%, primarily as a result of a particularly challenging intercity transport environment.

The commuter transport operations performed well as commuter numbers stabilised, and the impact of prior period rationalisation initiatives were realised. The personnel transport operations showed a marked improvement with increased activity levels and the commencement of a significant new contract.

Increased tourism activity provided strong support for the Mega Coach operations, which resulted in an improved performance. Mega Express, the Gautrain bus feeder system, performed to expectation with stable passenger numbers.

Both the Tete and Nacala operations in Mozambique exceeded expectations as a result of good project execution by the implementation teams, as well as contract volume increases.

The results of the intercity operations were disappointing. Revenue and operating profit decreased as a result of lower recorded industry passenger numbers and increased competition from low-fare airlines and competing bus operators.

Revenue increased by 7%, while operating profit decreased by 5%.

Outlook

The division remains well positioned in terms of its modern and well-maintained asset base; diversification and strong cash conversion to sustain above-average returns on capital employed; and to competitively pursue expansion opportunities. The intercity operations will be an area of increased management focus during the upcoming year.

Case study

Public safety – a key focus area

Market leadership

High barriers to entry

The passenger transport division transports more than 10 million people over more than 112 million km annually. With such high volumes, it is key to the sustainability of the business to ensure that passengers are safe when using any of the services, and that third-party road users are considered when buses are in transit.

To implement road safety successfully, a holistic approach is taken – managing all aspects from vehicle maintenance and safety to continuous driver training. Highly skilled people are employed and entrusted with taking care of equipment and people's lives, which makes this a highly specialised and high barrier to entry business.

Key elements to this strategy include:

Sophisticated and advanced 24/7 vehicle monitoring control rooms

Through tracking devices, the team monitors driver speed to ensure that the required limit is maintained throughout the journey. Should a driver exceed the company set speed limit (a maximum of 100 km/h), they are contacted by the tracking team to initiate immediate corrective action. Impact alerts are sent to this department for immediate follow-up. In addition, pre-loaded no-go areas are activated by alarms for scheduled routes and monitoring is managed through trip scheduling with automated reporting on driver, vehicle and trip performance.

Pre-trip inspection

Before any departure, all buses are fully inspected, including all roadworthy and critical safety checks.

Preventative and regular maintenance

All vehicles undergo weekly workshop inspections. All workshops are accredited by major OEMs of the bus fleet, including Volvo, Mercedes Benz and MAN. A strict preventative, predicative and component life management programme is followed, with advanced administrative maintenance control systems to support road safety. When tyres are scrapped and removed from vehicles, they are inspected for root causes. A preventative plan is then implemented to eliminate the root cause to ensure tyre safety.

Drivecams

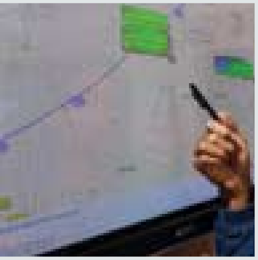
To manage unusual driver behaviour or reactions, such as hard braking or sharp cornering, drivecams send alerts to operation managers. Unusual behaviour is recorded and corrective measures can be put in place immediately.

Helivac emergency services

A 24-hour medical call centre can provide drivers and hostesses with emergency medical advice, emergency medical response to the scene of an accident, medical transportation and trauma counselling.

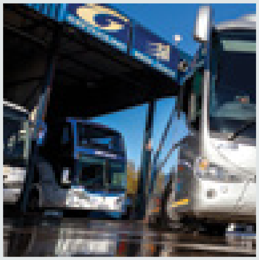
Scarce raw materials

Skills and talent management








Ongoing training

- **Drivers:** Training is conducted with driver trainers and drivers to ensure that the rules of the road are adhered too, correct driving habits are followed and all safety aspects are considered when on the road. Intercity is a registered Transport Education Training Authority (TETA) and manages all driver training for the business.
- **Hostesses and hosts:** Training includes basic first-aid training, fire evacuation training and preventative measures training for incidences such as breakdowns and safety procedures for accidents.
- **Technicians:** Training includes daily communication with workshop staff on safety priority elements and weekly themes that directly support safety aspects.

Vehicle features

Vehicle safety features include lane guard assist, emergency brake assist, seat belts and adaptive cruise control.

Member of regulatory boards

Members of management are active on regulatory boards that advise on and implement the Occupational Health and Safety Act and guidelines of the National Occupational Safety Association (NOSA), the leading global supplier of occupational risk management services and solutions.

Roadworthiness

All vehicles have to undergo a six-monthly ‘certificate of fitness’ test with the national roads authority. Without this, a vehicle is deemed unroadworthy. Although this is an expensive test, at R30 000 per vehicle, it is a non-negotiable requirement.

Corporate governance

Effective corporate governance and remuneration policies are key factors in the group's decentralised management structure.

The board and its committees

Remuneration

The ultimate responsibility for ensuring full and effective control of the group's businesses rests with the board of KAP. The company has adopted a decentralised approach to the management of its day-to-day divisional operations, subject to compliance by the divisions with the group control and approvals framework and the systems and governance policies set by the board. There are defined reporting lines from divisional management level to the board, to facilitate effective monitoring by the board of compliance by the divisions with group and divisional policies.

Save where pre-approved materiality levels apply, decisions on material matters are reserved for the board, including but not limited to decisions on the allocation of capital resources, the authorisation of capital expenditure, property transactions, borrowings and investments. Decisions are made by the board taking into account the legitimate interests and expectations of stakeholders and the sustainability of the group's operations.

The detailed responsibilities and powers of the board are contained in a formal charter, which is available on the group's website at www.kap.co.za, together with the corporate governance report.

The group's policy is to reward all employees fairly for their individual and joint contributions in the execution of KAP's business strategy and delivery of the group's operating and financial performance. KAP's remuneration philosophy is to remunerate all employees fairly, responsibly and transparently in a market-related and competitive manner in order to attract, motivate and retain a competent workforce.

To facilitate this, the board has established a human resources and remuneration committee, which operates within defined terms of reference and authority granted to it by the board. The divisional human resources and remuneration committees report to the KAP human resources and remuneration committee that in turn, reports to the group's main board.

Remuneration policy

Element	Purpose	Determinants
Base salary	Provides a competitive level of remuneration and benefits Subject to annual review	Experience, responsibilities, job grading and market benchmarks
Annual incentive bonus	Incentivises the achievement of short and medium-term goals	Group and divisional financial targets Strategic and personal performance objectives
Longer-term incentives (LTI)	Aligns performance with the interests of investors over longer-term periods The retention of key staff members	Key group performance criteria over a three-year period include: growth, cash generation and returns

The remuneration policy is aligned with the report on Corporate Governance for South Africa 2016 (King IV), and is based on the following principles:	Compliance with legal, best practice guidelines and regulatory requirements	Results of implementation
Alignment of remuneration practices with strategy execution. Competitive total rewards within the specific markets and industries. Incentive-based awards are earned through achieving demanding performance targets, with due regard for the interests of all stakeholders. Effective structuring of incentive plans and performance targets to operate throughout business cycles. Prudent design of longer-term incentives to ensure the sustainability of the company. Fair, responsible and transparent remuneration	The group applies King IV, which operates on an "apply and explain" basis. Explanations as to how the group has applied the 16 King IV principles are contained within the corporate governance report and the King IV application schedule, available on the group's website at www.kap.co.za. KAP Industrial Holdings Limited has met its reporting requirements relating to King IV, the Listing Requirements of the JSE and the 2008 Companies Act (as amended) together with the Companies Regulations (jointly "the Act").	The application by the group of the principles contained in King IV, has served to further strengthen the group's approach to corporate governace and, in the field of remuneration, has served to emphasise the necessity for fair, responsible and transparent remuneration. The robust committee and reporting structures in place across the group underpin the group's commitment to sound corporate governance and afford stakeholders the assurance that the group's businesses are managed responsibly.

Responsibilities framework

A decentralised structure supports the development and retention of expertise in a diversified group. Each division has specialised industry and market experience that supports its ability to grow sustainable earnings.

Formulation of strategic intent

Board of directors

Holding company

READ MORE
Board of directors
page 86 – 89

Governance and compliance

Board committees

Holding company

Board committees support the board of directors with regard to specific functions. These official board committees are constituted in accordance with the recommendations of King IV and the requirements of the Companies Act. Each committee's responsibility is described in the corporate governance report.

Committees include:

- Audit and risk committee
- Human resources and remuneration committee
- Nomination committee
- Social and ethics committee

READ MORE
Corporate governance report
www.kap.co.za

Material subsidiaries

- KAP Automotive Proprietary Limited
- KAP Bedding Proprietary Limited
- KAP Diversified Industrial Proprietary Limited
- Unitrans Holdings Proprietary Limited
- Unitrans Passenger Proprietary Limited
- Unitrans Supply Chain Solutions Proprietary Limited

Management teams have the autonomy to employ the appropriate people to implement group strategy in a way that best aligns with their businesses. Management teams are supported by human resources, risk, health and safety, social and ethics and information technology committees that monitor legal, regulatory and best practice compliance across all operations.

Strategy development

Executive committee

Divisional structure

- Diversified industrial
- Diversified chemical
- Diversified logistics

Strategy implementation

Divisional management teams
Divisional committees

Operational structure

- Integrated timber
- Automotive components
- Integrated bedding
- Chemical
- Contractual logistics
- Passenger transport

Implementation

Directors	
Executive	17%
Independent non-executive	50%
Non-executive	33%

Executive management	Years with group or relevant divisional businesses
Chief executive officer	
Gary Chaplin	20
Chief financial officer	
Frans Olivier	11
HR executive	
Johan Geldenhuys	18
Busines development and transformation	
Vukile Zondani	New appointment
Divisional CEO – Integrated timber	
Gerhard Victor	21
Divisional CEO – Automotive components	
Ugo Frigerio	27
Divisional CEO – Integrated bedding	
Michael Metz	42
Divisional CEO – Chemical	
Leigh Pollard	25
Divisional CEO – Contractual logistics	
Theunis Nel	16
Divisional CEO – Passenger transport	
Nico Boshoff	22

Note: With effect from 1 September 2017, Mr Penwell Lunga was appointed to the executive management in the role of stakeholder relations executive.

Board of directors

Executive directors

Non-executive directors

GN (Gary) Chaplin (47)
CA(SA)

Chief executive officer
Member of the social and ethics committee

Gary qualified as a chartered accountant in 1995 after completing his articles with Deloitte. In 1996, he joined a private company in the timber industry, which was soon thereafter acquired by Steinhoff Africa Holdings Proprietary Limited (Steinhoff). Gary held various board positions and fulfilled various roles in Steinhoff's timber and furniture-related operations, including PG Bison, where he was appointed to the board in August 2006 and appointed as chief executive officer in October 2011. In June 2012, when KAP International Holdings Limited (KAP) acquired the South African industrial operations of Steinhoff, including PG Bison, Gary was appointed to the KAP Exco and later assumed full responsibility of KAP's diversified industrial segment. In November 2014, Gary was appointed as chief executive officer of KAP and as a member of the social and ethics committee.

FH (Frans) Olivier (38)
CA(SA)

Chief financial officer

Frans qualified as a chartered accountant in 2004 and performed his articles at KPMG Inc. in Johannesburg. Shortly after completion of his articles he joined Steinhoff Africa Holdings Proprietary Limited as a financial manager. Frans has gained extensive experience through various roles in the Steinhoff and KAP groups over a period of 11 years. His most recent appointments have been as the chief financial officer of KAP's diversified industrial segment and, prior to that, as the chief financial officer of PG Bison, a major subsidiary of KAP. Frans was appointed as chief financial officer of KAP Industrial Holdings Limited on 15 April 2016.

KJ (Jo) Grové (68)
AMP (Oxford)

Non-executive deputy chairman

Jo has more than 40 years' experience in finance and banking. In 1976 he founded Medical Leasing Services, a company providing specialised financial services to medical doctors. In 1987, the business was sold to the Absa Group, the name was changed to MLS Bank and Jo was appointed chief executive, a position he held until 1995. He established Imperial Bank and served on the main board of Imperial Holdings until joining Unitrans Limited as chief executive in September 1998. Jo was appointed as an executive director of Steinhoff International Holdings Limited, following the acquisition by Steinhoff of the majority shareholding in Unitrans Limited, subsequently becoming an alternative executive director on the Steinhoff International Holdings Limited board in December 2007. Jo was appointed as chief executive officer of KAP Industrial Holdings Limited in 2012. Jo stepped down as chief executive and was appointed executive deputy chairman in November 2014 and as non-executive deputy chairman in January 2017.

AB (Ben) la Grange (43)
BCom (Law), CA(SA)

Non-executive director

Ben is the chief financial officer for the Steinhoff group. He completed his articles with PricewaterhouseCoopers Inc. and spent two and a half years in their international and corporate tax division before joining Steinhoff in 2003 as manager of the corporate tax division. Ben acted as chief financial officer for the Steinhoff group's Southern Hemisphere operations and as an alternate director to the Steinhoff International board, prior to being appointed group CFO and to the board of Steinhoff International Holdings Limited (JSE-listed) in March 2013. Ben was appointed as a member of management board of Steinhoff International Holdings N.V. (FSE-listed) in November 2015. Ben was recently appointed to the board of Steinhoff Africa Retail Limited. He was appointed as a non-executive director of KAP Industrial Holdings Limited in 2012. He also serves as an alternate director on the board of PSG Group Limited.

MJ (Markus) Jooste (56)
BAcc, CA(SA)

Non-executive director

Markus is the chief executive officer for the Steinhoff International Holdings N.V. group of companies ("Steinhoff") and serves on the board of several Steinhoff group companies. He joined the Gommagomma (now Steinhoff) group in 1989 and was appointed to the management board of Steinhoff International Holdings N.V. in 2015. He also serves as a non-executive director on the boards of PSG Group Limited (member of the remuneration committee), and Phumelela Gaming and Leisure Limited (member of the remuneration committee). Markus was appointed as a non-executive director of KAP Industrial Holdings Limited in 2004.

DM (Danie) van der Merwe (59)
BCom, LLB

Non-executive director
Member of the human resources and remuneration committee
Member of the nomination committee

Danie is the chief operating officer for the Steinhoff group. He was admitted as an attorney of the High Court of South Africa in 1986 and practised as an attorney specialising in the commercial and labour law fields. In 1990, Danie joined the Roadway Transport Group, and in early 1998 he joined the Steinhoff group. He was appointed to the Steinhoff International Holdings Limited (JSE-listed) board in 1999 and to the Steinhoff International Holdings N.V. (FSE-listed) board in 2015. He serves on the boards of several Steinhoff group companies. Danie was appointed as a non-executive director of KAP Industrial Holdings Limited in 2005 and serves on the human resources and remuneration committee as well as the nomination committee.

Board of directors

Independent non-executive directors

J (Jaap) de V du Toit (63)
BAcc, CA(SA), CTA, CFA

Independent non-executive chairman
Chairman of the nomination committee

Jaap was appointed as senior general manager at the Trust Building Society in 1984, as financial director at SMK Securities Proprietary Limited in 1988, and as their portfolio director in 1990. He was a founder member of PSG Group Limited in 1996 and has since then acted as a director on that board. He acted as chairman of PSG Konsult from its formation in 1998 until 2013, and is still a director on that board. In August 2012, Jaap was appointed as the lead independent non-executive director for PSG Financial Services Limited. Jaap has served, and currently serves, as chairman of various national committees and boards. He was appointed as chairman of KAP Industrial Holdings Limited in 2012, and in 2013 as chairman of the nomination committee.

IN (Ipeleng) Mkhari (43)
BSocSci

Independent non-executive director
Chairperson of the social and ethics committee
Member of the human resources and remuneration committee

Ipeleng holds a Bachelor of Social Science Degree from the University of Natal, has completed the Executive Development Programme (Wits 2004) and is an Archbishop Tutu Fellow. She founded Motseng Investment Holdings where she is currently chief executive officer. In November 2012, Ipeleng co-founded Delta Property Fund, a company listed on the Johannesburg Stock Exchange. She also serves as a non-executive director on the boards of South African Property Owners Association, Nampak, and St. John's Diocesan School for Girls and is a trustee of the Women's Property Network Education Trust. Ipeleng was appointed as an independent non-executive director of KAP Industrial Holdings Limited in 2004. She chairs the social and ethics committee and serves as a member of the human resources and remuneration committee.

SH (Sandile) Nomvete (45)
EDP (Wits), Prop Dev Prog (UCT)

Independent non-executive director
Member of the audit and risk committee

Sandile co-founded Delta Property Fund in 2002, which was listed on the Johannesburg Stock Exchange in 2012. He has since led the company to be a predominantly sovereign underpinned fund that is represented in all nine of South Africa's provinces, growing the value of its asset base from R2.1 billion at the time of listing to its current value of R11.4 billion. Through his leadership, Sandile has managed to position Delta as one of the most prominent black-owned and black-managed property funds for government and state-owned enterprises across South Africa. He has more than a decade and a half of experience in executive and non-executive positions. He is a graduate of the Property Development Programme from the University of Cape Town's Graduate School of Business. He also holds an Executive Development Programme and Finance for Non-financial Managers Diploma from the University of Witwatersrand's Graduate School of Business. Sandile was appointed as an independent non-executive director of KAP Industrial Holdings Limited in 2004 and is a member of the audit and risk committee.

CJH (Chris) van Niekerk (70)
BA

Independent non-executive director

Chris managed several operations during a long career in the chemical industry with Sentrachem Group, after which he was appointed to the board of PG Bison in May 1998 as chief executive officer. Steinhoff Africa Holdings Proprietary Limited acquired PG Bison in 2006, expanding the business into sawmilling and forestry before it was integrated into the KAP Industrial Holdings group in 2012. Chris also holds several other directorships, including Investec Equity Partners, Synchem and Phumelela Gaming and Leisure Limited. Chris was appointed to the board of KAP Industrial Holdings Limited in 2012.

PK (Patrick) Quarmby (63)
CA(SA) (Hons)

Independent non-executive director
Chairman of the audit and risk committee

Patrick was a partner at Ernst & Young until moving overseas in 1987. During his nine years overseas he was employed in the Corporate Finance Department of Schroders in London. He was one of the founding directors of Standard Bank in London and established Standard Bank's presence in Hong Kong. Patrick returned to South Africa and was appointed a director of Dimension Data Holdings Limited in 1996, responsible for the global expansion of the group. Patrick retired from this position in 2014. He was the non-executive chairman of Datacraft Asia, an IT services company listed in Singapore, until it delisted in 2008, and an independent non-executive director of Unitrans Limited until the acquisition by Steinhoff of Unitrans in 2007. Patrick was appointed as an independent non-executive director of KAP Industrial Holdings Limited in 2012 and serves as chairman of the audit and risk committee.

SH (Steve) Müller (56)
BAcc (Hons), CA(SA), Sanlam EDP*

Independent non-executive director
Chairman of the human resources and remuneration committee
Member of the audit and risk committee, nomination committee and social and ethics committee

Steve qualified as a chartered accountant in 1985. In 1993 he joined Rand Merchant Bank as a senior credit manager. and in 1995 he joined Genbel Investments. Over the next 13 years he fulfilled various capacities within that group, including chief operating officer: equities of Genbel Securities Limited, executive director of Gensec Bank Limited, serving as a non-executive director and member of the audit and remuneration committees of various investee companies within the Genbel Securities Group. During 2008 he left the group to pursue his own interests. Steve was appointed as an independent non-executive director of KAP Industrial Holdings Limited in 2012. He was appointed as an independent non-executive director and chairman of the audit committee of AIM on the London Stock Exchange. In 2014 Steve was appointed chairman of KAP's human resources and remuneration committee and serves as a member on the nomination committee, social and ethics committee and audit and risk committee.

Remuneration report

KAP's remuneration philosophy is to remunerate employees fairly and responsibly, in a market-related and competitive manner, in order to attract, motivate and retain a competent workforce.

Background statement

The King Report on Corporate Governance for South Africa 2016 ("King IV") is effective in respect of financial years commencing on or after 1 April 2017. KAP endorses King IV's inclusive, interconnected approach to corporate governance and its recognition of the importance of ensuring sustainability over the longer term. Fair, responsible and transparent remuneration is viewed as a key factor in ensuring the sustainability of the group.

Human resources and remuneration committee

The board's human resources and remuneration committee ("the committee") operates within defined terms of reference and authority granted to it by the board. The board oversees that the implementation and execution of the remuneration policy achieve its objectives.

The committee comprises two independent non-executive directors, one of whom is appointed as chairman, as well as another non-executive director. The chief executive officer and certain executive managers attend parts of the meetings by invitation. This committee meets at least once a year and, should this be required, additional ad hoc meetings are convened. The committee chairman is a member of the KAP social and ethics committee that, inter alia, plays a contributory role in remuneration matters, with particular focus on the ethical and social aspects of remuneration and other value proposition offerings to employees.

Due to the group's decentralised management structures, the committee has established divisional human resources and remuneration subcommittees ("the subcommittees"). The subcommittees are responsible for all human capital management and employee remuneration matters at business unit level, within the parameters set by the committee. The subcommittees are supported by established human resource practitioners at group, divisional and business unit level, with responsibility for the implementation and management of human resource and remuneration strategies, policies and practices at such levels.

The commitee is satisfied that it has fulfilled its responsibilities during the review period.

Internal and external factors influencing remuneration

KAP's business model requires specialist managerial and technical skills. In addition, KAP expects its executives to be mobile and for some to have knowledge and experience across international borders. Although KAP is a South Africa-based company with approximately 11% of its revenue earned outside of South Africa, it has several international shareholders at business unit level who actively participate in the relevant businesses, as well as several technology agreements with international companies. As a result, KAP competes for management and specialist skills and succession talent in a challenging global marketplace, and its approach to remuneration needs to remain competitive.

The success of KAP's business is critically dependent on its human resources in order to maintain high standards of quality products and personal service to customers in very competitive sectors. Operational efficiency must be maintained within formally approved staff remuneration costs; the latter to be comparable to the median of the market.

Shareholder approval

Following the introduction of King IV, in addition to the requirement to obtain shareholder approval for the payment of fees to the non-executive directors as detailed below, the remuneration policy and implementation report will be tabled each year for a separate non-binding advisory vote by shareholders at the annual general meeting. In the event that either the remuneration policy or the implementation report, or both, are voted against by shareholders exercising 25% or more of the total voting rights exercised at the annual general meeting, the committee will issue an invitation to dissenting shareholders to engage with them in a mutually accepted manner and timing in order to address legitimate and reasonable concerns.

At the annual general meeting on 15 November 2016, the shareholders endorsed the remuneration policy of the company by way of a non-binding advisory vote of 92.38% in favour of the policy.

Remuneration report

Key areas of focus of the committee during the period under review included:

- a review of the group's remuneration policy, which is presented annually for a non-binding advisory vote by shareholders;
- a review and approval of the remuneration packages of all senior executives, including annual and longer-term incentive schemes, in order to ensure that they remain appropriate and act as drivers to the achievement of the business strategy;
- the fulfilment of delegated responsibilities for KAP's share-based incentive schemes;
- a review of the human capital management practices in place across the group to ensure fairness, responsibility and transparency, alignment with King IV and compliance with the specific requirements of South African labour legislation; and
- the review of the recommendations of the group's subcommittees and their assessment of compliance with the terms of reference prescribed by the committee, in order to establish whether the committee can rely on the work of the subcommittees and to ensure that the subcommittees remain aligned with the group's remuneration policy.

Key considerations for the subcommittees include the review of divisional:

- pay structures and equitable base salary increases for all employees;
- performance management systems and processes;
- annual performance incentive schemes;
- longer-term incentive schemes; and
- employee relations management, talent management and succession planning, taking due cognisance of employment equity.

In determining appropriate levels of remuneration, the views of expert external parties are, where appropriate, taken into consideration.

Alignment with strategy

KAP's remuneration structures are aligned with the group's long-term strategic business priorities, namely:

- to develop and grow the group within and outside the South African borders;
- to sustain and improve its leading position in high barrier to entry markets;
- to grow sustainable long-term revenue, having due regard to the longevity of the business;
- to increase its operating profit and cash flows sustainably; and
- to improve return on equity sustainably.

Employee share ownership and black management share ownership plans

Steinhoff International Holdings N.V. ("Steinhoff") recognised the importance of affording its South African citizen employees an opportunity to participate in the success of its businesses. During 2009, Steinhoff implemented an employee share participation scheme, together with a black management share participation scheme, which effectively empowered all South African citizen employees, the majority of whom are black (as defined in the amended Broad-Based Black Economic Empowerment Act, No. 53 of 2003). As a result of Steinhoff's historic shareholding in KAP and its underlying operations, approximately 12 000 KAP employees participate at various levels in these schemes and collectively hold approximately 40 million Steinhoff shares with the associated funding. Senior management participating in the KAP long-term incentive schemes are excluded from the employee share scheme.

During the financial year, a dividend of R15 million was declared to scheme participants.

In anticipation of the maturing of these schemes in December 2017, a programme to advise participants of their rights and to afford participants financial counselling has been put in place across the group.

The group's employee share participation schemes have proved to be a valuable asset in ensuring the sustainability of the employee base, the retention of skills and the achievement of the group's strategic objectives in the short, medium and long term. Further initiatives will be considered by the committee and the board as appropriate.

Service contracts

Executives' contracts are subject to terms and conditions of employment as governed by the Labour Relations Act of South Africa. The contracts of the top executives or any other executive directors do not contain termination packages or excessive notice periods.

Directors are subject to regulations on appointment and/or rotation in terms of the company's memorandum of incorporation and the Companies Act, No. 71 of 2008.

Non-executive directors' remuneration
Independent surveys are obtained from specialist human resource consultants to assist the committee with its annual review of non-executive directors' fees.
The committee submitted its proposals for the fees payable for the period from the date of the forthcoming annual general meeting to the 2018 annual general meeting to the board and the board has endorsed the committee's proposals. The proposals have taken into account the growth of the group and the increased responsibilities assumed by the directors. The non-executive directors' remuneration is not linked to the company's share price or share performance. Non-executive directors do not qualify for shares in terms of the KAP Performance Share Rights Incentive Scheme and do not hold share rights under this scheme, other than the rights held by the non-executive deputy chairman over 2 653 860 shares, granted during the period of his service in an executive capacity prior to 1 January 2017 and awaiting maturity.

Refer to the attached implementation report for details of the non-executive directors' fees to be proposed at the forthcoming annual general meeting and the fees paid subsequent to the previous annual general meeting.

Areas of future focus
The committee will focus on its commitment to the application of King IV and, in adhering to the King IV principle of fair, responsible and transparent remuneration, will consider all new developments and best practices in this field, in order to further the best interests of all stakeholders.

Remuneration policy

The committee has implemented a remuneration policy, which has been approved by the board and shareholders, to assist in the achievement of the group's strategy and objectives. The policy is available on the company's website at www.kap.co.za.

The remuneration policy is reviewed on an annual basis and is aligned to the recommendations of King IV, based on the following principles:

- Remuneration practices throughout the group are aligned with the applicable business strategies and objectives.
- Remuneration is set at levels that are competitive and appropriate within the specific markets, geographical areas and industries in which the group operates.
- Incentive-based remuneration, applicable to management involved in determining and implementing the strategy of the group and/or divisions, is determined with reference to demanding performance targets with due regard for the sustainable well-being of the group over the short, medium and long term.
- Executive remuneration must be fair and responsible in the context of overall remuneration in the group.

The committee seeks to ensure an appropriate balance between the fixed and performance-related elements of managerial remuneration, and also between short-term financial performance and longer-term sustainable stakeholder value creation.

The committee considers each element of remuneration relative to the market and, in determining its quantum, takes into account the performance of the group and/or division, the management team and the individual concerned.

Elements of remuneration
Benchmarking of the remuneration of executive managers and executive directors was undertaken during the previous two years, utilising the services of a professional HR consulting firm. The committee is satisfied that remuneration in all forms accruing to employees at all levels is market-related and equitably awarded under the remuneration systems and practices in place.

The remuneration policy covers three elements of remuneration:

Total cost to company guaranteed salary ("salary")
The salary element of remuneration incorporates all guaranteed cash benefits. Its purpose is to provide a competitive level of remuneration for employees.
The salary is subject to annual review and is intended to be competitive, with reference to market practice in companies comparable in size, market sector, business complexity and geographic location, as well as equally graded positions. A global grading system has been applied across the group and employee gradings have been standardised. Company performance, individual performance, general inflation and changes in responsibilities are also taken

Remuneration report

into consideration when determining annual base salaries.

The remuneration of all employees, other than bargaining council represented employees, is contracted on a total cost to company package basis, which includes basic salary, allowances and contributions by the company to retirement savings, risk insurance and medical schemes.

In terms of this arrangement, a minimum level of healthcare cover is compulsory and additional cover is available to employees according to their personal circumstances. The healthcare benefits are outsourced to service providers. There are no post-retirement healthcare commitments for employees.

In addition to industry or bargaining council based compulsory membership of retirement schemes, an in-house provident fund has been established to facilitate retirement savings of all other employees. The scheme is a defined contribution scheme and employees have flexibility of choice in the level of contributions to savings and risk benefits.

Several initiatives have been introduced in the past year to improve communications with employees at all levels, and advisory services are offered on an outsourced basis in relation to employment benefits.

The amount of the annual package is determined, with effect from 1 July in each year, based on parameters approved by the board, differentiating pay levels based on individual and market factors, as follows:

Position profiles are compiled for each approved position in each division and department, and these are graded using the company's uniform grading system.

A competency profile and levels of proficiency are determined for each approved position. Annual performance reviews of the employee may lead to the employee receiving merit increments from year to year, which over time enable him or her to earn remuneration at a level above the market median for the position, but within market norms.

The market positioning of the pay of key managers and professional staff is benchmarked and reassessed regularly, using the market median of reputable salary surveys as reference points.

Inflationary remuneration increases are approved from year to year, based on movements in consumer price and gross domestic product indices in South Africa or the relevant country of operation. These may also be influenced by periodic market benchmarking, pay levels being compared for this purpose within the sector using a reputable salary survey at least once every second financial year, and by the test of general affordability.

Pay scales are realigned with the labour market annually using a professional HR consulting firm's salary surveys on the basis of positional modal grades. This is done to ensure that the differentiation of pay between executive management and all other employees, including semi- and unskilled employees, is fair and reasonable.

In relation to employees represented by trade unions, their wages and substantive conditions of employment are negotiated with the applicable bargaining councils via a collective bargaining process. Increases negotiated are contained in one, two or three-year arrangements. Multi-year arrangements are favoured as giving more stability to industrial relations.

Payments on termination of employment or office, sign-on, retention or restraint payments, commissions and allowances are limited to contractual, legal and/or negotiated obligations and any deviations from this policy would require appropriate motivation and the specific approval of the committee.

Annual incentive bonus ("AIB")

An AIB, payable in cash, is designed to incentivise applicable levels and groupings of management to achieve the divisional and the group's short-term goals.

The AIB is based on the achievement of group or divisional financial targets, as well as the strategic and personal performance objectives determined by the committee, the board and the executive committee of KAP. Financial targets are set by taking into account various factors, including the prevailing economic environment, relevant market conditions in the sectors within which the group operates, the performance of market peers, as well as the group's objective of improving its financial performance over time. Objectives are set after taking into account that management is obliged to maintain the group's assets on a sustainable basis.

Policies affecting variable pay
A principle underlying this policy is that senior executives and managers of the company and each of its business units are required to assume more business risk in relation to corporate returns than their subordinates and to place more of their remuneration at risk in relation to the achievement of budget and stretch targets. Consequently, they are offered a combination of guaranteed and variable pay to incentivise performance.

Variable pay is designed to incentivise and reward both team and individual effort and serves as a tool to attract, motivate and retain staff of the calibre needed to achieve the goals of the business. These policies are also used to ensure that top management teams are, at all times, duly motivated to achieve organisational goals and strategic objectives. Bonuses are determined and recorded in the financial year following that to which the performance relates.

For members of the group's executive team, the performance measures for the annual bonus plan include:

1. Achievement of operational and financial growth objectives	
Objective	**Metric**
Performance against profit target	Headline earnings before tax
Performance against cash flow target	Conversion of EBIT into cash generated from operations
Both of the above objectives need to be achieved in order to qualify for the annual bonus.	
Performance against return on investment criteria	Return on equity
This objective is managed over time, taking into consideration acquisitions, capital expansion and equity issuances.	

2. Implementation of key strategic initiatives related to the strategic development and competitive positioning of KAP	
Objective	**Metric**
Securing an appropriate and flexible capital and debt structure in order to minimise the risk of stressed debt or equity issuance in volatile economic environments	At the discretion of the committee and the board
Implementation of risk management policy and framework	
Successful conclusion and implementation of strategic mergers, acquisitions and disposals	
Implementation of growth initiatives, which do not benefit the year under review	
Other initiatives, such as B-BBEE, internal audit ratings, health and safety, succession planning, etc.	

Should the first component (operational and financial growth objectives) not be met, no bonus will be payable in respect of the second component, although progress against the relevant objectives is monitored on an ongoing basis to ensure that, where required, corrective action is implemented to enable the achievement of all objectives.

Remuneration report

AIB allocations to the executive management are weighted as follows:

Role	Percentage of AIB relating to group performance	Percentage of AIB relating to divisional performance	On-target bonus as a percentage of guaranteed salary
Group chief executive officer	100%	–	50%
Group chief financial officer	100%	–	50%
Divisional chief executive officers	100%	–	50%
Group human resources executive	100%	–	50%
Group business development executive	100%	–	50%
Key divisional management		100%	15% – 50%

Key executives are further entitled to share in performance in excess of budgeted headline earnings before taxation applicable to their respective division or the group, varying between 12% and 20% as a maximum of such applicable excess earnings. Total annual bonuses are, however, limited to 100% of executives' respective annual salary. The group's executive committee (i.e. chief executive officer, chief financial officer, divisional CEOs, human resources executive and business development executive) participates in a single group AIB pool in order to support the alignment of the interests of executive management with those of the group's shareholders and to ensure the optimum allocation of capital across the group.

The performance objectives for individual divisions are assessed, taking into account their specific industry, identified peers and/or competitors and the maturity of the division.

The committee performs an annual review to ensure that the performance measures and the targets set are appropriate within the economic context and the performance expectations for the division or group.

The committee retains the discretion to make adjustments to AIB payments, taking into account both group performance and the overall and specific contribution of the management teams towards meeting the group's objectives. Divisional bonus schemes applicable to middle and junior management are aimed at enhancing and achieving production-related targets.

Longer-term incentives ("LTIs")

Details of employee share ownership and black management share ownership plans are contained in the "Background" section of this report.

KAP competes for management skills and talent in the African employment marketplace, and its approach to remuneration takes account of the need to retain key management over the longer term.

LTIs are awarded with the primary aim of promoting the sustainability of the company through business cycles; aligning performance of key management with the interests of stakeholders and retaining key management over the longer term. The LTIs comprise a share rights scheme for executive staff and a cash-settled scheme for key senior management.

The allocation of incentives is at the discretion of the committee and applies to individuals who are key to determining and implementing the long-term business strategy at group and/or divisional levels. Benchmark performance criteria are aligned with the group's long-term strategic priorities to ensure that there are no non-performance-related or 'windfall' gains. The allocation and quantum of LTIs are based on the responsibility levels and salary packages of relevant individuals.

Share rights vest only when the group has achieved its cumulative targets over the relevant three-year period, as detailed in the AIB above. In order to qualify for the LTI, participants of the cash-settled scheme are required to achieve their own division's cumulative targets, as detailed in the AIB above, over the same period.

The value of share scheme allocations to the group's executive management is as follows:

Role	Percentage of guaranteed salary allocated to share scheme
Group chief executive officer	167%
Group chief financial officer	133%
Divisional chief executive officers	133%
Group human resources executive	100%
Group business development executive	100%
Key divisional management	33% – 100%

An additional condition of the vesting of each share rights' grant is that the recipient must retain the previous year's vested shares, which effectively extends the scheme to a minimum four-year scheme and further encourages the retention of shares by recipients.

Except as approved by the committee in exceptional circumstances, share rights will lapse should any participant in the share rights scheme leave the employ of the group other than in the event of death, incapacity, disability or retirement as detailed in the share scheme rules approved by shareholders.

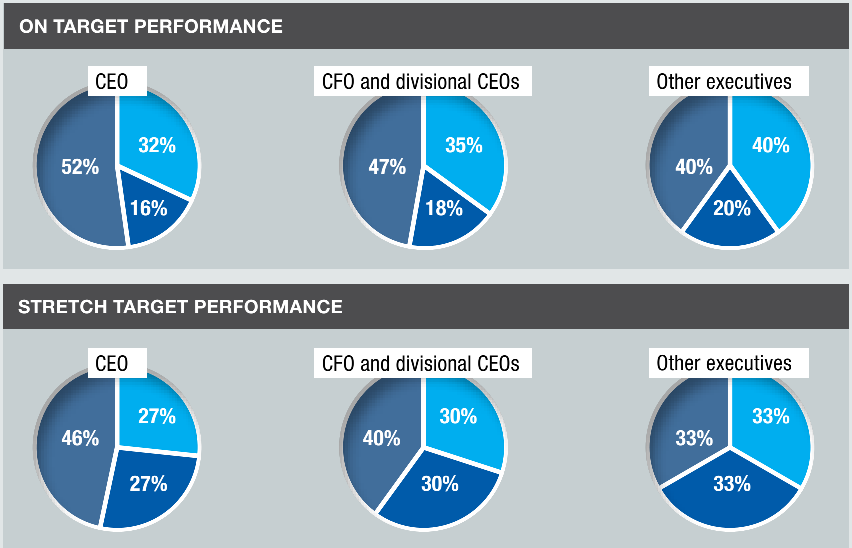
The value of long-term cash incentives to the group's senior management is as follows:

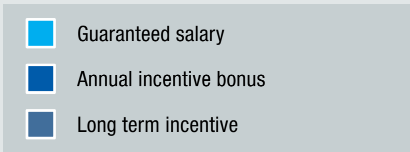
Role	Percentage of guaranteed salary allocated to long-term cash incentive
Key divisional management	25% – 67%

All scheme rules, the application thereof and the quantum of allocations are regularly reviewed by the committee to ensure equity and compliance with legislative and regulatory requirements. In addition, the quantum of shares placed under the control of directors in order to facilitate the share rights scheme at the company's annual general meetings.

Package structures: components of pay

Overall remuneration of the executives of the group is weighted heavily toward achieving board-approved performance targets. The remuneration mix in terms of components is depicted below for 'on target' (budgeted) and 'stretch' (excess over budget) performance.





The committee has satisfied itself that, during the period under review, the remuneration policy has achieved its objectives and that the committee has fulfilled its obligations.

Remuneration report

Implementation report

During the 2017 financial year the remuneration policy of the group was applied with no deviations.

Total cost to company guaranteed salary

The base salaries of executive management were benchmarked by an external service provider, with reference to market practice by companies comparable in size, market sector, business complexity and geographic location, to ensure that they provide a competitive level of remuneration. Base salary increases were awarded based on inflation, except where there were changes in responsibilities and roles that warranted higher increases.

The base salaries of executive management comprised the following elements:

Executive directors	Total guaranteed salary 2017	Total guaranteed salary 2016	Increase in guaranteed salary
	R	R	%
Gary Noel Chaplin[1]	5 250 000	4 000 000	31%
Karel Johan Grové[2]	3 406 500	5 406 000	–
Frans Hendrik Olivier[3]	3 355 000	2 335 237	44%
John Peter Haveman[3]	–	2 500 000	–
Total	**12 011 500**	**14 241 237**	

[1] Gary Noel Chaplin's base salary was increased to account for the additional responsibilities assumed by him following the retirement of Karel Johan Grové from his executive responsibilities.

[2] Karel Johan Grové retired from his executive position with the company effective 1 January 2017, but continues to serve on the board of directors as the non-executive deputy chairman. No termination benefits were paid to Mr Grové on his retirement.

[3] John Peter Haveman resigned from the board on 15 April 2016 as CFO, with a consulting role for six months in order to ensure a smooth handover process to Frans Hendrik Olivier, who was appointed as CFO, with his base salary being increased in 2017 as a result of the new role and responsibilities. No termination benefits were paid to Mr Haveman on his resignation.

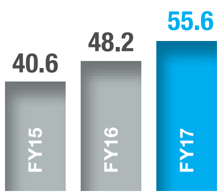
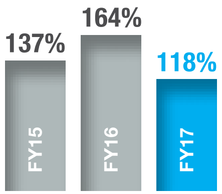
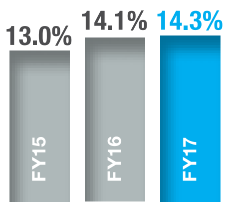
Other executive committee members	Total guaranteed salary 2017	Total guaranteed salary 2016	Increase in guaranteed salary
	R	R	%
Total[4]	21 147 000	19 522 000	8%

[4] The increase in guaranteed salaries paid to other executive committee members is based on inflation and additional responsibilities resulting from acquisitions and market relativity.

Annual incentive bonus

Bonuses are determined in line with the remuneration policy and were awarded based on the following criteria:

1. Achievement of operational and financial growth objectives

Objective	Metric	Performance	
Performance against profit target	Growth in headline earnings per share	**Headline earnings per share (cents)** 	Growth of headline earnings per share from continuing operations in excess of budget.
Performance against cash flow target	Conversion of EBIT into cash generated from operations	**EBIT conversion in cash** 	Conversion of EBIT into cash generated from operations, calculated as cash generated from operations divided by EBIT, has exceeded a minimum requirement of 80%.
Performance against return on investment criteria	Growth in return on equity	**Return on equity** 	Return on equity (calculated as profit from continuing operations attributable to owners of the parent divided by the average total equity attributable to equity holders of the parent) has exceeded budget.

Remuneration report

2. Implementation of key strategic initiatives related to the strategic development and competitive positioning of KAP		
Objective	**Metric**	**Performance**
• Securing an appropriate and flexible capital and debt structure in order to minimise the risk of stressed debt or equity issuance in volatile economic environments • Implementation of risk management policy and framework • Successful conclusion and implementation of strategic mergers, acquisitions and disposals • Implementation of growth initiatives which do not benefit the year under review • Other initiatives, such as B-BBEE, internal audit ratings, health and safety, and succession planning, etc.	At discretion of committee and the board	The group continued with strategic corporate activities to enhance the group's quality of earnings and its sustainability into the future. In line with its key investment criteria, the group entered into the following material transactions with a dedicated focus on strategic industrial assets: **Claw-back Offer** Additional capital was required to contribute to the financing of the major expansion projects within the group and to maintain a healthy capital structure to facilitate future growth of the group. The company therefore offered for subscription, by way of a renounceable claw-back offer, 197 368 421 Ordinary Shares ("the Claw-back Shares"), on terms and conditions detailed in the circular to shareholders dated 22 November 2016 ("the Claw-back Offer"). To underpin the Claw-back Offer, the company entered into a subscription agreement with Ainsley Holdings Proprietary Limited, Allan Gray Proprietary Limited (in its capacity as investment manager and agent for and on behalf of its clients) and Public Investment Corporation SOC Limited ("the Subscribers"), for the subscription of the Claw-back Shares pro rata to their existing shareholdings in the company. On 12 December 2016, a total of 180 640 465 Ordinary Shares were issued to shareholders, at a subscription price of R7.60 per Ordinary Share, constituting 91.5% of the Claw-back Shares. The balance of 16 727 956 Ordinary Shares not subscribed for by shareholders, constituting 8.5% of the Claw-back Shares, were accordingly issued to the Subscribers on that date, pro rata to their existing shareholdings in the company. **In the diversified industrial segment** Effective 1 July 2016, the group acquired the entire issued ordinary share capital and claims of Ndlovu Forestry Corporation Proprietary Limited ("Ndlovu"). Ndlovu owns 4 821 hectares of land, of which 1 505 hectares are under established pine plantations. On 18 April 2017, the group announced the intended closure or, as an alternative, the disposal of Glodina, a division of KAP Homeware Proprietary Limited, being a non-core asset. This is anticipated to be finalised in the following year. **In the diversified chemical segment** Effective 1 January 2017, the group acquired the entire issued ordinary share capital of Safripol Holdings Proprietary Limited ("Safripol"). Safripol is engaged in the manufacture of PP and HDPE, products which are used in the manufacture of a broad range of plastic injection and blow-moulded products. This business operates with a similar business model to that of the group's other chemical operations, Hosaf and Woodchem, and manufactures products which are complementary to those of Hosaf. **In the diversified logistics segment** Effective 1 July 2016, the group acquired an additional 23.09% of the issued ordinary share capital of Xinergistix Proprietary Limited ("Xinergistix"), thereby acquiring control of the company. Xinergistix provides road transport services and fully integrated supply chain management solutions to customers in southern Africa. Effective 1 September 2016, the group acquired the entire issued ordinary share capital and claims relating to the business operations of Lucerne Transport Proprietary Limited ("Lucerne"). Lucerne provides contractual logistics services and is a bulk liquid tanker transport company with a comprehensive fleet of trucks, incorporating a variety of specially configured tankers, structured to transport general chemicals, industrial oils, food products and acids to customers in southern Africa. The operations of Xinergistix and Lucerne are complementary to existing operations within the diversified logistics segment.

Note: Bonuses are determined and recorded in the financial year following that to which the performance relates.

Executive directors	Total bonuses 2017
	R
Gary Noel Chaplin	4 000 000
Karel Johan Grové[1]	5 750 000
Frans Hendrik Olivier	2 271 096
Total	**12 021 096**

Other executive committee members	Total bonuses 2017
	R
Total	**19 278 250**

[1] *Relates to the period of service by Mr Grové as executive deputy chairman for the 12 months ended 30 June 2016.*

Long term incentives

Long term incentives were awarded in line with the remuneration policy and stipulated allocation levels. The committee reviewed the performance of individuals against the target criteria (in line with the AIB criteria) for the December 2013 grant and approved the vesting thereof, where target criteria were met.

Executive directors	Offer date	Vesting date	Number of rights as at 30 June 2016	Number of rights (exercised)/ (expired)/ awarded during the year	Number of rights as at 30 June 2017	Market value of rights at grant date	Market value of rights upon vesting	Market value of rights at 30 June 2017
						R	R	R
Gary Noel Chaplin	Dec 2013	Dec 2016	1 334 188	(1 334 188)	–	4 602 949	10 126 487	
	Dec 2014	Dec 2017	1 543 470	–	1 543 470	7 161 701		12 548 411
	Dec 2015	Dec 2018	1 151 851		1 151 851	8 189 661		9 364 549
	Dece 2016	Dec 2019	–	1 401 589	1 401 589	10 638 061		11 394 919
Total			**4 029 509**	**67 401**	**4 096 910**	**30 592 372**	**10 126 487**	**33 307 879**
Karel Johan Grové[1]	Dec 2013	Dec 2016	2 818 191	(2 818 191)	–	9 722 759	21 390 070	
	Dec 2014	Dec 2017	2 191 160	(365 193)	1 825 967	8 472 487		14 845 112
	Dec 2015	Dec 2018	1 556 726	(728 833)	827 893	5 886 319		6 730 770
Total			**6 566 077**	**(3 912 217)**	**2 653 860**	**24 081 565**	**21 390 070**	**21 575 882**
Frans Hendrik Olivier	Dec 2013	Dec 2016	560 744	(560 744)	–	1 934 567	4 256 047	
	Dec 2014	Dec 2017	507 466	–	507 466	2 354 642		4 125 699
	Dec 2015	Dec 2018	486 191		486 191	3 456 818		3 952 733
	Dec 2016	Dec 2019	–	713 328	713 328	5 414 160		5 799 357
Total			**1 554 401**	**152 584**	**1 706 985**	**13 160 187**	**4 256 047**	**13 877 789**
Total executive directors			**12 149 987**	**(3 692 232)**	**8 457 755**	**67 834 124**	**35 772 604**	**68 761 550**

[1] *Share rights of Karel Johan Grové have been adjusted to reflect the pro rated entitlement as per the rules of the share scheme in terms of retirement.*
Refer to note 30 of the audited consolidated annual financial statements at www.kap.co.za for details on the remuneration earned by executive directors for the year ended 30 June 2017.

Remuneration report

Non-executive directors' remuneration

Non-executive directors' remuneration	2018 R	2017 R
Board membership fees		
Independent non-executive chairman (all-inclusive fee)	815 000	762 000
Non-executive deputy chairman (all-inclusive fee) #	515 000	-
Member*	325 000	305 000
Committee fees		
Audit and risk committee		
Chairman	320 000	300 000
Member	160 000	150 000
Human resources and remuneration committee		
Chairman	155 000	142 000
Member	75 000	68 000
Nomination committee		
Chairman	6 500	6 000
Member	6 500	6 000
Social and ethics committee		
Chairman	30 000	27 000
Member	15 000	14 000

The proposed committee fees are based on the planned number of meetings and are exclusive of VAT.

 # The non-executive deputy chairman retired from his executive position in the group with effect from 1 January 2017.
** This comprises an annual retainer of R45 000 for continuous informal commitments, as well as a 'per meeting' fee of R70 000. There are four scheduled quarterly board meetings per annum.*

Nomination committee report

The group's nomination committee ("the committee") operates under a mandate from the board of directors and in accordance with the duties as set out in formal terms of reference, which are aligned with the provisions of the company's memorandum of incorporation, the Companies Act, No. 71 of 2008 and the Companies Regulations 2001, the Listing Requirements of the JSE Limited and the recommendations of the King IV Report on Corporate Governance for South Africa ("King IV").

The key function of the committee is to ensure that the board and its committees are appropriately structured and resourced to enable them to efficiently fulfil their duties in terms of their charters or terms of reference. The committee ensures that appointments to the board and committees are made through a formal and transparent process.

Full details of the duties of the committee and its specific responsibilities are set out in the corporate governance report, which is available on the company's website at www.kap.co.za.

During the review period, the committee met on 15 August 2016, at which meeting no changes to the board or the composition of the board committees were recommended. In May 2017, to align with the requirements of King IV, the committee recommended, and the board approved, the appointment of independent non-executive director Mr SH Müller as a member of the social and ethics committee in place of the chief financial officer, Mr FH Olivier.

Subsequent to year-end, the committee met on 14 August 2017:

At this meeting the appointment of two new directors to the board, namely Messrs TLR de Klerk and LJ du Preez, to replace Messrs MJ Jooste and AB la Grange who both tendered their resignations as non-executive directors from the board with effect from 1 October 2017, were recommended. (Shareholders will be asked to ratify these appointments at the annual general meeting to be held on 13 November 2017).

Following a formal, robust assessment of the independence of two long-serving non-executive directors, Mrs IN Mkhari and Mr SH Nomvete, and taking into account their experience, valuable contributions and actual conduct, the committee recommended, and the board concurred, that both directors may continue to serve in an independent capacity on the KAP board and its committees.

Having considered the recommendation of King IV in respect of the role and position of the chairman of a company's board and the need to appoint a lead independent non-executive director ("LINED"), the committee concluded, and the board subsequently agreed, not to appoint a LINED while the position of a deputy chairman exists on the KAP board, since the material obligations and duties of a LINED are in practice fulfilled by the current serving non-executive deputy chairman, Mr KJ Grové.

The self-assessment exercises conducted by the board committees during the period under review confirm that the composition of the group's committees continues to be appropriate, that the group's committees continue to be effective and that the duties of these committees have been carried out efficiently.

The composition of the committee meets with the recommendations of King IV, i.e. all members are non-executive directors, the majority of whom are independent non-executive directors possessing an appropriate mix of knowledge, skills, experience, diversity and independence. More details of the composition of the committee are recorded in the corporate governance report, which is available on the company's website at www.kap.co.za.

The committee is satisfied that it has fulfilled its responsibilities during the review period.

Social and ethics committee report

Good governance in all aspects of KAP's businesses is non-negotiable. Systems and structures have been embedded across the group to ensure that the group conducts its operations in an ethical, responsible and sustainable manner.

The long history and recognition of the group's brands are testament to the high standards set by KAP and its commitment to be, and to be seen as being, a good corporate citizen.

The board is assisted by the social and ethics committee ("the committee") with its oversight of social and ethical matters across the group. The composition and duties of the committee are detailed in the corporate governance report, which is available on the Company's website at www.kap.co.za, and are guided by formal terms of reference, which are aligned with the Companies Act, No. 71 of 2008, and the Companies Regulations 2001 (collectively 'the Act"), as well as the Listing Requirements of the JSE Limited("the JSE LRs") and the recommendations of the King IV Report on Corporate Governance for South Africa 2016 ("King IV").

The committee enjoys the support and co-operation of the KAP audit and risk committee, the KAP human resources and remuneration committee, the KAP executive committee ("Exco") and the KAP BEE forum in exercising certain overlapping duties.

The role of the committee is to assist the board with the oversight of social and ethical matters relating to the group.

The overall objectives of the committee include the following:

- To monitor KAP's activities with regard to the duties that are attributed to it by the Act, the JSE LRs and King IV, with a specific focus on those duties stated in regulation 43(5) of the Act and under King IV
- To draw matters within its mandate to the board as occasion requires

The role of the board, assisted by the committee, is to ensure that policies, reporting and monitoring systems are in place across the group to allow for the timeous and accurate reporting of environmental, social and ethical concerns and, where required, the appropriate implementation of corrective action; all of such being fundamental to the sustainability of the group.

KAP's commitment to maintaining its good corporate standing includes the following:

- The establishment of dedicated teams at operational levels to ensure compliance with all rules, laws and other requirements relevant to the group's operations.
- The establishment of a code of ethics and supporting policies. The code of ethics can be viewed on the company's website at www.kap.co.za.
- An ethics hotline has been put in place to provide employees and/or suppliers with a protected, anonymous facility to report unlawful or unethical behaviour. KAP follows a consistent approach in actively pursuing and prosecuting perpetrators of fraud or other illegal activities that may occur across its business operations.
- A group communications policy prescribes responsible behaviour from employees on all digital platforms. The use of inappropriate language or hate speech will not be tolerated.
- The adoption of policies on insider trading, price-sensitive information, the environment, corporate social investment and gender diversity at board level.
- The formation of a KAP BEE forum to monitor KAP's transformation progress.
- Particular emphasis on the development of black female employees identified as having potential for progress within the group.
- The group supports and implements international best practice from applying the UN Global Compact's best principles on human rights to managing health and safety aspects.
- The initiation of specific projects at operational level to add value to its businesses and stakeholders by working with the community.

In recognition of its approach to corporate governance, KAP has now been included in the FTSE4Good Index. (This index replaces the JSE Socially Responsible Investment (SRI) Index, on which KAP was previously included.) Ratings comprise an overall score based on underlying environmental, social and governance (ESG) exposure measures and performance scores built on individual indicator assessments. Only companies demonstrating good management of ESG issues are eligible for inclusion in the FTSE4Good Index.

Audited consolidated financial statements

Preparation supervised by Frans Olivier CA(SA)

Table of contents

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of KAP Industrial Holdings Limited (the Group) set out on pages 124 to 194, which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of income statement and statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Impairment of goodwill and indefinite useful life intangible assets	
Goodwill and indefinite useful life intangible assets comprise 19% (2016: 16%) of the total assets of the Group. These assets have been recognised in the consolidated statement of financial position as a consequence of current and prior year acquisitions. The Directors conduct annual impairment tests to assess the recoverability of the carrying value of goodwill and indefinite useful life intangible assets. This is performed using discounted cash flow models. There are a number of key sensitive judgements and assumptions made in determining the inputs into these models, which include: ■ Growth in revenue and operating margins; ■ The discount rates applied to the projected future cash flows; and ■ Royalty rates. The Directors assess the intangible assets with indefinite useful lives for impairment on an annual basis using cash flow projections based on financial projections.	We focused our testing of the impairment of goodwill and indefinite useful life intangible assets on the key judgements and assumptions made by the Directors by reviewing the value-in-use calculations prepared with a focus on the key assumptions, including the growth rates and discount rates. Our audit procedures included: ■ Critically evaluating whether the models used by the Directors to calculate the value in use of the individual cash-generating units comply with industry acceptable models and International Accounting Standard 36 – Impairment of Assets ("IAS 36"); ■ Validating the assumptions used against external benchmarks to calculate the discount rates and recalculating these rates; ■ Evaluating the Directors royalty rates against industry norms;

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">Impairment of goodwill and indefinite useful life intangible assets continued</td></tr>
<tr><td>These projections are based on past performance and expected market development.

Accordingly, the impairment test of these goodwill and intangible assets with indefinite useful lives are considered to be a key audit matter.

The disclosures around goodwill and intangible assets are set out in note 7 and 8 of the consolidated financial statements respectively.</td><td>■ Analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable, given the current macroeconomic climate and expected future performance of the cash-generating units;

■ Comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance where applicable and the Directors' budgets to test the reasonableness thereof;

■ Recalculating the value in use of the cash-generating units;

■ Subjecting the key assumptions and inputs to sensitivity analyses; and

■ Engaging the services of our Corporate Finance specialists to independently assess the reasonability of the discount rate used in the Directors' impairment calculations.

We noted that:

■ The key assumptions and inputs used by the Directors were comparable with historical performance and the expected future outlook and that the discount rates used were appropriate in the circumstances.

■ We consider the disclosure of the goodwill and indefinite useful lives intangible assets to be relevant and useful.</td></tr>
<tr><td colspan="2">Purchase price allocation</td></tr>
<tr><td>The Group made the following significant acquisitions during the current year:

The Group acquired 100% of the issued share capital of Lucerne Transport Proprietary Limited ("Lucerne") and Safripol Holdings Proprietary Limited ("Safripol") for a consideration of R176.5 million and R3.9 billion respectively. The purchase consideration in excess of the fair value of the net assets transferred was recognised as goodwill of R99.8 million and R240.7 million respectively.

The effective dates of the transactions were 1 September 2016 and 1 January 2017 respectively.</td><td>Our procedures included amongst others:

■ Inspecting the agreements paying particular attention to:
  ■ the identification of the acquirer;
  ■ the acquisition date; and
  ■ the assets acquired and liabilities assumed.

■ Inspecting the calculations prepared by the Directors identifying the goodwill and any tangible and intangible assets and liabilities not previously recognised and recorded in the consolidated financial statements.</td></tr>
</table>

Key audit matter	How the matter was addressed in the audit
Purchase price allocation continued	
The Group acquired a further investment in Xinergistix Proprietary Limited ("Xinergistix") that increased the Group's shareholding from 28.3% to 51.4% for a consideration of R44.1 million. The fair value of the net assets transferred in excess of the purchase consideration was recognised as a bargain purchase of R4.3 million. The effective date of the transaction was 1 July 2016. These transactions are considered to be business combinations in terms of *IFRS 3 – Business Combinations* ("IFRS 3") and the accounting for these transactions is a complex and judgemental exercise, requiring the Directors to determine the fair value of the acquired assets and liabilities, in particular determining the allocation of the purchase price to goodwill and separately identifiable tangible and intangible assets and liabilities. The Board engaged an external expert to perform the Purchase Price Allocation (PPA) of the Safripol acquisition, while the PPA of the other acquisitions was performed internally. It is due to the estimation processes involved in accounting for these transactions and the judgements involved that this is a key audit matter. The disclosure around these acquisitions are set out in note 26 of the consolidated financial statements.	We evaluated the assumptions used by the Directors in their calculations such as the revenue forecast; operating costs; discount rates and growth rates used to determine the value of the identifiable tangible and intangible assets and liabilities, with the consideration paid in excess of the fair value of the net assets and liabilities recognised as goodwill. We challenged the assumptions made by the Directors by studying the evaluation report obtained from the external experts relating to the Safripol acquisition and assessing the Directors evaluation in relation to the other acquisitions made during the period. Our procedures included: ■ Assessing the identification of assets and liabilities and the process followed to confirm these; ■ Assessing the appropriateness of the models used in the valuation of these intangible assets against industry benchmarks and typical valuation methodologies used in the valuation of these assets; ■ Comparing the valuation assumptions to external benchmarks; ■ Using our internal specialists to independently review the PPAs as well as calculate a Weighted Average Cost of Capital ("WACC") rate to compare to the Directors WACC rate. ■ Where applicable, assessed forecasts against prior actual results for reasonability; and ■ Assessed the adequacy of the Group's disclosures in respect of these business acquisitions. We noted that: ■ The assumptions used by the Directors were comparable with historical performance and the expected future outlook and the WACC rates used were appropriate in the circumstances. ■ We found the purchase consideration to be adequately allocated between identified assets and liabilities assumed and goodwill. ■ We consider the disclosure of the business combinations to be relevant and useful.

Key audit matter	How the matter was addressed in the audit
Valuation of timber plantation biological assets and insurance receivable	
As disclosed in note 11, the valuation of biological assets amounted to R1 950.0 million (2016: R1 877.0 million) for the year. The fair value adjustment for the year ended 30 June 2017 amounted to a decrease profit of R1.0 million (2016: increase of R45.0 million). The value of biological assets is measured at fair value less costs to sell. The fair value is determined using discounted cash flows based on sustainable forest management plans taking into account the growth potential of one cycle. One cycle varies depending on the geographic location and species. These discounted cash flows require estimates of growth, harvest, sales price and costs. A fire that occurred in June 2017 in the Southern Cape region, affected in excess of 4 456 hectares. Significant estimates and assumptions were made by the Directors in determining the impact of the damage to the timber plantation in order to determine the value of the biological asset at 30 June 2017 as well as an estimate of the cover provided by insurance over the biological asset. Due to the level of judgement involved in the valuation of biological assets and insurance receivable as well as the significance of biological assets to the Group's financial position, this is considered to be a key audit matter.	The valuation of biological assets involve a significant degree of estimation. Our assessment of the valuation of timber plantation biological assets included the following: ■ Testing the effective design and implementation of key controls including management monitoring controls in respect of the determination of inputs into the biological assets fair value model; ■ Assessing the method of valuation used by the Directors for consistency with prior years, alignment to industry practice and compliance with the requirements of *IAS 41 – Biological Assets* and Group's policy; ■ Assessing the key assumptions contained within the fair value calculations such as sales prices, growth and discount rates; ■ The use of specialists to assist in assessing the key assumptions; and ■ Performing analytics on the valuation results in order to highlight outliers, which warranted performing further audit procedures. Our audit procedures performed on the valuation of the impact of the damage to the timber plantation as a result of the fires included the following: ■ Holding discussions with the Directors and local foresters to understand the process followed to determine the categories of damaged product; ■ Developing an understanding for the basis of determining salvage values of different product with different levels of fire damage; ■ Assessing the process followed to determine the quantum of damaged biological assets and the methods used to determine possible salvage volumes per product; and ■ Performing an assessment of the reasonableness of sales prices against market-related prices.

Key audit matter	How the matter was addressed in the audit
Valuation of timber plantation biological assets and insurance receivable continued	
	Our procedures performed to consider the reasonableness of any insurance cover over the affected biological assets included the following: ■ Examining the insurance policy over the insured assets and obtained an understanding from the Directors of any inclusions and exclusions; ■ Reviewing the Directors' calculation of their best estimate of salvage value based on the affected volume per product type; and ■ Recalculating the Directors best estimate of the insurance receivable required to cover any declared asset value not covered by the estimated salvage value. We noted that: ■ The judgements made by the Directors and the key assumptions appear to be reasonable; and ■ We concur with the appropriateness of presentation in the consolidated financial statements of matters relating to the timber plantation biological assets.

Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report, Report of the Audit and Risk Committee and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Report, which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 4 December 2015, we report that Deloitte has been the auditor of KAP Industrial Holdings Limited for 14 years.

Deloitte & Touche

Deloitte & Touche
Registered auditors
Per Dirk Steyn
Partner

14 August 2017

1st Floor The Square
27 Somerset Road
Greenpoint
8005

The directors are pleased to present the audited consolidated financial statements for KAP Industrial Holdings Limited ("KAP" or "the company") and its subsidiaries ("the group") for the year ended 30 June 2017.

Financial results

The results for the year under review are set out fully in the attached financial statements.

Distribution

The board has approved a dividend of 21 cents per share (2016: 18 cents per share) payable from income reserves on 26 September 2017 to shareholders registered on 22 September 2017. The dividend withholding tax of 20% (2016: 15%), if applicable, will result in a net cash dividend of 16.8 cents per share (2016: 15.3 cents per share).

Stated share capital

The authorised ordinary share capital of KAP remains unchanged from the prior year and consists of 6 000 000 000 shares of no par value ("the Ordinary Shares").

At the annual general meeting ("AGM") held on 30 November 2016, shareholders placed 240 000 000 of the unissued Ordinary Shares, together with 1 000 000 000 cumulative, non-redeemable, non-participating preference shares of no par value and 50 000 000 perpetual preference shares of no par value (collectively "the Preference Shares"), under the control of the directors. No Preference Shares have been issued as at the date of this report.

In addition, at the AGM, shareholders placed 18 000 000 of the unissued Ordinary Shares under the control of the directors for purposes of the KAP Performance Share Rights Scheme ("the Scheme").

During the year under review, the issued share capital of the company increased to 2 662 199 369 (2016: 2 440 936 305) Ordinary Shares by the allotment and issue of the following new Ordinary Shares:

- On 10 October 2016, 3 655 068 Ordinary Shares were allotted and issued in respect of the acquisition of Lucerne Transport Proprietary Limited ("Lucerne") (see "Corporate activity" below).
- On 23 November 2016, 197 368 421 Ordinary Shares were granted a listing on the JSE Limited in respect of the renounceable letters of allotment issued under the Claw-back Offer (see "Corporate activity" below). The resultant shares were issued on 12 December 2016.
- On 5 December 2016, 20 239 575 Ordinary Shares were allotted and issued in settlement of the company's obligation to participants under the Scheme.

Subsidiary companies

The material subsidiaries of the group are reflected in note 29 to the financial statements.

Restructuring in the group and nature of business

The acquisition of Safripol Holdings Proprietary Limited ("Safripol") and its integration with the existing businesses in the chemical division of Hosaf and Woodchem was concluded during the year. The enlarged chemical division is reported separately from the diversified industrial segment as the diversified chemical segment. Pursuant to such restructuring, the group operates from the below-mentioned segments as follows:

Diversified industrial segment

- The integrated timber division houses the group's forestry and timber manufacturing operations and incorporates timber plantations, sawmills and production facilities for panel products.
- The automotive components division manufactures automotive components used primarily in new vehicle assembly and manufactures after-market accessories, which are fitted through its own franchise fitment centres.
- The integrated bedding division manufactures bed bases, foam and sprung mattresses, together with mattress fabric and a range of industrial foams.

Diversified chemical segment

- The operations within the chemical segment manufacture polyethylene terephthalate (PET), urea-formaldehyde (UF) resin, impregnated paper and pursuant to the acquisition of Safripol (see "Corporate activity" below), polypropylene (PP) and high-density polyethylene (HDPE).

Diversified logistics segment

- The contractual logistics division designs, implements and manages supply chain, warehousing and logistics services. The division services the petroleum, chemical, food, agriculture, mining, cement and general freight and warehousing sectors in southern and east Africa.
- The passenger transport division provides personnel, tourist, intercity and commuter transport services.

Corporate activity

The group continued with strategic corporate activities to enhance the group's quality of earnings and its sustainability into the future. In line with its key investment criteria, the group entered into the following material transactions with a dedicated focus on strategic industrial assets:

Claw-back Offer

- Additional capital was required to contribute to the financing of the major expansion projects within the group and to maintain a healthy capital structure to facilitate future growth of the group.

  The company therefore offered for subscription, by way of a renounceable claw-back offer, 197 368 421 Ordinary Shares (the "Claw-back Shares"), on terms and conditions detailed in the circular to shareholders dated 22 November 2016 (the "Claw-back Offer"). To underpin the Claw-back Offer, the company entered into a subscription agreement with Ainsley Holdings Proprietary Limited, Allan Gray Proprietary Limited (in its capacity as investment manager and agent for and on behalf of its clients) and Public Investment Corporation SOC Limited (the "Subscribers"), for the subscription of the Claw-back Shares pro rata to their existing shareholdings in the company.

  On 12 December 2016, a total of 180 640 465 Ordinary Shares were issued to shareholders, at a subscription price of R7.60 per Ordinary Share, constituting 91.5% of the Claw-back Shares. The balance of 16 727 956 Ordinary shares not subscribed for by shareholders, constituting 8.5% of the Claw-back Shares, were accordingly issued to the Subscribers on that date, pro rata to their existing shareholdings in the company.

Diversified industrial segment

- Effective 1 July 2016, the group acquired the entire issued ordinary share capital and claims of Ndlovu Forestry Corporation Proprietary Limited ("Ndlovu"). Ndlovu owns 4 821 hectares of land, of which 1 505 hectares are under established pine plantations. These assets were not affected by the recent forest fires.
- On 18 April 2017, the group announced the intended closure or, as an alternative, the disposal of Glodina, a division of KAP Homeware Proprietary Limited being non-core assets, which is anticipated to be finalised in the following year.

Diversified chemical segment

- Effective 1 January 2017, the group acquired the entire issued ordinary share capital of Safripol. Safripol is engaged in the manufacture of PP and HDPE, products that are used in the manufacture of a broad range of plastic injection and blow-moulded products. This business operates with a similar business model to that of the group's other chemical operations, Hosaf and Woodchem, and manufactures products that are complementary to those of Hosaf.

Diversified logistics segment

- Effective 1 July 2016, the group acquired an additional 23.09% of the issued ordinary share capital of Xinergistix Proprietary Limited ("Xinergistix"), thereby acquiring control of the company. Xinergistix provides road transport services and fully integrated supply chain management solutions to customers in southern Africa.
- Effective 1 September 2016, the group acquired the entire issued ordinary share capital and claims relating to the business operations of Lucerne. Lucerne provides contractual logistics services and is a bulk liquid tanker transport company with a comprehensive fleet of trucks incorporating a variety of specially configured tankers, structured to transport general chemicals, industrial oils, food products and acids to customers in southern Africa.

  The operations of Xinergistix and Lucerne are complementary to existing operations within the diversified logistics segment.

Directorate

There was no change to the board of directors during the year under review, other than the reclassification of Mr KJ Grové as a non-executive. Mr Grové retired from his executive position with the company effective 1 January 2017, but continues to serve on the board as the non-executive deputy chairman.

The directors of the company are as follows:

Executive directors

Gary Noel Chaplin (chief executive officer)
Frans Hendrik Olivier (chief financial officer)

Non-executive directors

Karel Johan Grové (deputy chairman)
Markus Johannes Jooste
Andries Benjamin la Grange
Daniel Maree van der Merwe

Independent non-executive directors

Jacob de Vos du Toit (chairman: board, chairman: nomination committee)
Ipeleng Nonkululeko Mkhari (chairperson: social and ethics committee)
Stephanus Hilgard Müller (chairman: human resources and remuneration committee)
Sandile Hopeson Nomvete
Patrick Keith Quarmby (chairman: audit and risk committee)
Christiaan Johannes Hattingh van Niekerk

Directors' shareholding

As at 30 June 2017, the present directors of the company held no direct or indirect interests in the company's issued Ordinary Shares other than:

	2017 Number of shares	2016 Number of shares
Gary Noel Chaplin	**3 000 000**	1 824 048
Jacob de Vos du Toit	**540 368**	500 000
Karel Johan Grové	**3 403 206**	1 610 451
Stephanus Hilgard Müller	**225 034**	300 004
Frans Hendrik Olivier	**1 050 000**	557 997

In aggregate, the directors of the company and its subsidiaries held 72 755 769 (2016: 58 907 773) of the company's Ordinary Shares at 30 June 2017, equating to 2.7% (2016: 2.4%) of the Ordinary Shares in issue.

Other than the above movements in shareholdings, there were no dealings in the company's Ordinary Shares by directors during the year under review. From 1 July 2017 to the date of approval of the company's consolidated financial statements, there were no dealings by directors in the company's Ordinary Shares.

Directors' contracts declarations

No contracts were entered into during the year in which any director and/or officer of the company had an interest and which significantly affected the affairs and business of the group.

Disclosure of beneficial interest of major shareholders

	2017 %	2016 %
Shareholders with a beneficial interest above 5%:		
Steinhoff International Holdings N.V.[1]	**42.98**	43.00
Allan Gray	**12.03**	13.07
Government Employees Pension Fund	**7.52**	7.75

[1]Shares held via Ainsley Holdings Proprietary Limited, a subsidiary of Steinhoff Africa Holdings Proprietary Limited

Borrowing facilities and limits

The group's borrowing facilities and usage thereof are set out in notes 20 and 24. In terms of the memoranda of incorporation of the company and its subsidiaries, there is no limitation on the various companies' borrowing powers.

Subsequent events

No significant events occurred between 30 June 2017 and the date of this report.

Corporate governance

The directors subscribe to the principles incorporated in the King Code of Practices and Conduct as set out in King IV and the company has applied these principles. Details of the application of King IV will be provided in the company's integrated report.

Share incentive scheme

The company operates a performance-based share incentive scheme, namely the KAP Performance Share Rights Scheme, which was approved by shareholders on 14 November 2012. The maximum number of Ordinary Shares in the company that may be used for the continued implementation of the Scheme may not exceed 366 274 533 Ordinary Shares.

As stated in "Stated share capital" above, 18 000 000 unissued Ordinary Shares were placed under the control of the directors for the continued implementation and fulfilment of any obligations that may arise under the Scheme. Rights in respect of 12 958 255 (2016: 14 799 796) Ordinary Shares in the company were granted to participating employees on 1 December 2016 and the remaining 5 041 745 (2016: 5 200 204) Rights over Ordinary Shares were reserved to provide for any new Scheme entrants prior to the next Scheme allocation in December 2017.

The share rights in respect of the allocation made on 1 December 2013, vested on 1 December 2016 and, to fulfil its obligations in accordance with the rules of the Scheme, the company listed 20 239 575 new Ordinary Shares and allotted and issued these Ordinary Shares to the qualifying Scheme participants, three of whom were executive directors of the company at the time.

Report of the audit and risk committee

The report of the audit and risk committee, as required in terms of Section 94(7)(f) of the Companies Act, No. 71 of 2008 of South Africa ("the Companies Act"), is set out on pages 121 to 123 of these financial statements.

Auditor

It is recommended that, subject to the approval of the shareholders at the company's next AGM, Deloitte & Touche continues in office as the group's auditor.

Responsibility of directors

It is the directors' responsibility to ensure that the financial statements fairly present the state of affairs of the group. The external auditors are responsible for independently auditing and reporting on the financial statements.

The directors are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance on the reliability of the financial statements, to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems occurred during the year under review.

The financial statements set out in this report were prepared by management on the basis of appropriate accounting policies, which were consistently applied, except where stated otherwise. The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act.

Going concern

The consolidated financial statements were prepared on the going concern basis since the directors have every reason to believe that the group has adequate resources in place to continue in operation for the foreseeable future.

Approval of financial statements

The consolidated financial statements for the year ended 30 June 2017, set out on pages 124 to 194, were approved by the board of directors on 14 August 2017 and signed on its behalf by:

J de V du Toit
Independent non-executive chairman

GN Chaplin
Chief executive officer

FH Olivier
Chief financial officer

14 August 2017

Company secretary's certificate

The company secretary certified, in accordance with Section 88(2)(e) of the Companies Act, that the company had lodged with the Commissioner of the Companies and Intellectual Property Commission all such returns as are required for a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

Steinhoff Secretarial Services Proprietary Limited
Company secretary

14 August 2017

28 Sixth Street, Wynberg, Sandton, 2090

Background

The audit and risk committee's operation is guided by a formal detailed charter that is in line with the Companies Act, No. 71 of 2008 of South Africa ("the Companies Act") and has been approved by the board. The committee has discharged all its responsibilities as contained in the charter. This process is supported by the audit and risk subcommittees, which are in place for all operating divisions. These subcommittees meet regularly and deal with all issues arising at the operational division or subsidiary level. The subcommittees then elevate any unresolved issues of concern to the KAP Industrial Holdings Limited ("KAP") audit and risk committee.

The committee is pleased to present its report for the financial year ended 30 June 2017 as recommended by the previous King Report on Corporate Governance for South Africa (King III) and in line with the Companies Act. During the year under review, King III was replaced in its entirety by the King Report on Corporate Governance for South Africa 2016 (King IV). Although King IV is only applicable in respect of financial years commencing on or after 1 April 2017, the committee has taken cognisance of the requirements of both King III and King IV in fulfilling its obligations.

Objective and scope

The overall objectives of the committee are as follows:

- To review the principles, policies and practices adopted in the preparation of the financial statements of companies in the group and to ensure that the financial statements of the group and any other formal announcements relating to the financial performance comply with all statutory and regulatory requirements as may be required.
- To ensure that the consolidated interim condensed financial statements of the group, in respect of the first six-month period, comply with all statutory and regulatory requirements.
- To ensure that all financial information contained in any consolidated submissions to KAP is suitable for inclusion in its consolidated financial statements in respect of any reporting period.
- To annually assess the appointment of the external auditors and confirm their independence, recommend their appointment to the annual general meeting and approve their fees.
- To review the work of the group's external and internal auditors to ensure the adequacy and effectiveness of the group's financial, operating compliance and risk management controls.
- To review the management of risk and the monitoring of compliance effectiveness within the group.
- To perform duties that are attributed to it by its mandate from the board, the Companies Act, the JSE Limited and regulatory requirements.

During the year under review, the committee:

- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the internal control environment, systems and processes.
- Reviewed the reports of both internal and external auditors detailing their concerns arising out of their audits and requested appropriate responses from management to ensure that their concerns were being addressed.
- Made appropriate recommendations to the board of directors regarding the corrective actions to be taken as a consequence of audit findings.
- Considered the independence and objectivity of the external auditors and ensured that the scope of any additional services provided was not such that they could be seen to have impaired their independence.
- Reviewed and recommended for adoption by the board, such financial information that is publicly disclosed, which for the year included:
  - the consolidated financial statements for the year ended 30 June 2017; and
  - the consolidated interim results for the six months ended 31 December 2016.
- Considered the effectiveness of internal audit, approved the one-year internal audit plan and monitored the adherence of internal audit to its annual plan.
- Held meetings with the internal and external auditors where management was not present, and no matters of concern were raised.

The audit and risk committee is of the opinion that the objectives of the committee were met during the year under review. Where weaknesses in specific controls were identified, management undertook to implement appropriate corrective actions to address the weakness identified.

Membership

The three members of the audit and risk committee are all independent non-executive directors of the company and were as follows throughout the period:

Patrick Keith Quarmby (chairman)
Stephanus Hilgard Müller
Sandile Hopeson Nomvete

The nomination committee and the board are satisfied that these members have the required knowledge and experience as set out in Section 94(5) of the Companies Act and Regulation 42 of the Companies Regulations, 2011. The re-appointment of committee members will be a matter for consideration by shareholders at the forthcoming annual general meeting.

The company secretary is the secretary of this committee.

Meetings

The committee performs the duties required of it by Section 94(7) of the Companies Act by holding meetings with the key role players on a regular basis and by the unrestricted access granted to the external auditor.

Two formal meetings were held by the committee during the year under review.

Internal audit

The group's internal auditors operate in terms of the internal audit charter and under the direction of the committee, which approves the scope of the work to be performed.

Significant findings are reported to both executive management and the committee, and corrective action is taken to address identified internal control deficiencies.

The committee is satisfied with the effectiveness and performance of the internal auditors and compliance with their mandate.

The committee is also satisfied that the internal auditors have the necessary resources, budget, standing and authority to enable them to effectively discharge their functions.

External audit

The committee has satisfied itself through enquiry that the auditors of KAP Industrial Holdings Limited and its subsidiaries are independent as defined by the Companies Act. The committee, in consultation with executive management, has agreed to the audit fee for the 2017 financial year. The fee is considered appropriate for the work that could reasonably have been foreseen at that time. Audit fees are disclosed in note 2 to the financial statements.

There is a formal policy that governs the process whereby the external auditor is considered for the provision of non-audit services, and each engagement letter for such work is reviewed in accordance with this set policy and attendant procedures.

The external auditor was given the opportunity to engage at each meeting with the audit committee members without management being present. No matters of concern were raised.

The committee has reviewed the performance of the external auditors and has nominated, for approval by shareholders at the forthcoming annual general meeting, Deloitte & Touche, an eligible registered auditor ("Deloitte"), as the external auditor for the 2018 financial year, with Dr Dirk Steyn, a registered auditor and member of Deloitte, as the individual who will undertake the audit. Upon appointment at the forthcoming annual general meeting, this will be Dr Steyn's second year of performing the external audit of the company.

Key audit matters

The committee notes the key audit matters set out in the independent auditor's report, which are:

- Impairment of goodwill and indefinite useful life intangible assets
- Purchase price allocation
- Valuation of timber plantation biological assets and insurance receivable

The committee has considered and evaluated these matters and is satisfied that they are represented correctly.

Accounting practices and internal control

Internal controls and systems have been designed to provide reasonable assurance as to the integrity and reliability of the financial information represented in the financial statements, and to safeguard, verify and maintain the assets of the group. Nothing has come to the attention of the committee to indicate that any material breakdown in the functioning of the group's key internal control systems has occurred during the year under review. The committee considers the group's accounting policies, practices and financial statements to be appropriate.

Financial statements

The audit and risk committee has evaluated the consolidated financial statements for the year ended 30 June 2017 and considers that they comply, in all material aspects, with the requirements of the Companies Act and International Financial Reporting Standards. The committee has therefore recommended the financial statements for approval to the board. The board has subsequently approved the financial statements, which will be open for discussion at the forthcoming annual general meeting.

Evaluation of chief financial officer

As required by JSE Listing Requirement 3.84(h), as well as the recommended practices as per King III and King IV, the committee has assessed the competence and performance of the group chief financial officer and believes that he possesses the appropriate expertise and experience to meet his responsibilities in that position. The committee is satisfied with the expertise and adequacy of resources within the finance function and the experience of financial staff in this function.

PK Quarmby
Audit and risk committee chairman

14 August 2017

Audited consolidated financial statements // **Income statement** //
for the year ended 30 June 2017

	Notes	2017 Rm	2016[1] Rm
Continuing operations			
Revenue		**19 783**	16 047
Cost of sales		**(15 562)**	(12 292)
Gross profit		**4 221**	3 755
Other operating income		**392**	345
Distribution expenses		**(592)**	(560)
Other operating expenses		**(1 522)**	(1 543)
Capital items	1	**(34)**	(19)
Operating profit	2	**2 465**	1 978
Finance costs	3	**(633)**	(356)
Income from investments	3	**118**	44
Share of profit of associate and joint venture companies	12	**15**	24
Profit before taxation		**1 965**	1 690
Taxation	4	**(510)**	(487)
Profit for the year from continuing operations		**1 455**	1 203
Discontinued operations			
Loss for the year from discontinued operations	5	**(62)**	(10)
Profit for the year		**1 393**	1 193
Profit attributable to:			
Owners of the parent		**1 343**	1 147
Profit for the year from continuing operations		**1 405**	1 157
Loss for the year from discontinued operations		**(62)**	(10)
Non-controlling interests	19	**50**	46
Profit for the year from continuing operations		**50**	46
Loss for the year from discontinued operations		**–**	–
Profit for the year		**1 393**	1 193
		cents	cents
Earnings per share from continuing and discontinued operations			
Earnings per share	6	**52.2**	47.1
Diluted earnings per share	6	**51.7**	46.5
Earnings per share from continuing operations			
Earnings per share	6	**54.6**	47.6
Diluted earnings per share	6	**54.1**	46.9

[1] *Prior year disclosure has been restated to reflect discontinued operations.*

 Statement of comprehensive income // for the year ended 30 June 2017

	2017 Rm	2016 Rm
Profit for the year	**1 393**	1 193
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(75)**	53
Total comprehensive income for the year, net of taxation	**1 318**	1 246
Total comprehensive income attributable to:		
Owners of the parent	**1 269**	1 198
Non-controlling interests	**49**	48
Total comprehensive income for the year	**1 318**	1 246

	Stated share capital Rm	Distributable reserves Rm
Balance at 1 July 2015	7 318	4 212
Total comprehensive income for the year	–	1 147
Profit for the year	–	1 147
Other comprehensive income for the year	–	–
Ordinary dividends paid	–	(363)
Share-based payments expense (note 2.3)[1]	–	–
Share-based payments movement through reserve accounting: deferred taxation (note 14.1)	–	–
Transfer between reserves	–	22
Balance at 30 June 2016	**7 318**	**5 018**
Net shares issued[2]	**1 456**	**–**
Total comprehensive income for the year	**–**	**1 343**
Profit for the year	**–**	**1 343**
Other comprehensive income for the year	**–**	**–**
Ordinary dividends paid	**–**	**(442)**
Share-based payments expense (note 2.3)	**–**	**–**
Share-based payments movement through reserve accounting: deferred taxation (note 14.1)	**–**	**–**
Transfer between reserves	**–**	**(4)**
Introduced and acquired on acquisition of subsidiaries (note 26)	**–**	**–**
Shares issued to non-controlling shareholder	**–**	**–**
Balance at 30 June 2017	**8 774**	**5 915**

[1] *Share-based payments in the prior year has been re-presented to reflect the deferred taxation movement through reserve accounting separately.*

[2] *The issue of ordinary shares during the year is shown net of transaction costs of R68 million.*

Share-based payment reserve Rm	Reverse acquisition reserve Rm	Other reserves Rm	Total equity attributable to owners of the parent Rm	Non-controlling interests Rm	Total Rm
128	(3 952)	55	7 761	169	7 930
–	–	51	1 198	48	1 246
–	–	–	1 147	46	1 193
–	–	51	51	2	53
–	–	–	(363)	(22)	(385)
66	–	–	66	–	66
5	–	–	5	–	5
–	–	(22)	–	–	–
199	**(3 952)**	**84**	**8 667**	**195**	**8 862**
–	**–**	**–**	**1 456**	**–**	**1 456**
–	**–**	**(74)**	**1 269**	**49**	**1 318**
–	**–**	**–**	**1 343**	**50**	**1 393**
–	**–**	**(74)**	**(74)**	**(1)**	**(75)**
–	**–**	**–**	**(442)**	**(37)**	**(479)**
68	**–**	**–**	**68**	**–**	**68**
17	**–**	**–**	**17**	**–**	**17**
(10)	**–**	**14**	**–**	**–**	**–**
–	**–**	**–**	**–**	**103**	**103**
–	**–**	**–**	**–**	**3**	**3**
274	**(3 952)**	**24**	**11 035**	**313**	**11 348**

Audited consolidated financial statements // **Statement of financial position** // as at 30 June 2017

	Notes	2017 Rm	2016 Rm
ASSETS			
Non-current assets			
Goodwill	7	**1 251**	911
Intangible assets	8	**4 082**	1 167
Property, plant and equipment	9	**11 757**	8 052
Investment property	10	**75**	76
Consumable biological assets	11	**1 978**	1 890
Investments in associate and joint venture companies	12	**67**	124
Investments and loans	13	**11**	3
Deferred taxation assets	14	**130**	105
Other receivables	16	**40**	–
		19 391	12 328
Current assets			
Inventories	15	**1 727**	1 286
Trade and other receivables	16	**3 652**	2 677
Short-term loans receivable	13	**3**	2
Taxation receivable		**93**	44
Cash and cash equivalents		**2 009**	2 602
		7 484	6 611
Assets classified as held for sale	17	**103**	–
		7 587	6 611
Total assets		**26 978**	18 939
EQUITY AND LIABILITIES			
Capital and reserves			
Stated share capital	18	**8 774**	7 318
Reserves		**2 261**	1 349
Total equity attributable to equity holders of the parent		**11 035**	8 667
Non-controlling interests	19	**313**	195
Total equity		**11 348**	8 862
Non-current liabilities			
Loans and borrowings	20	**7 357**	4 205
Operating lease liability		**14**	15
Employee benefits	21	**21**	21
Provisions	22	**27**	56
Deferred taxation liabilities	14	**2 928**	1 368
		10 347	5 665
Current liabilities			
Loans and borrowings	20	**407**	432
Employee benefits	21	**350**	360
Provisions	22	**82**	84
Trade and other payables	23	**4 302**	3 454
Taxation payable		**68**	46
Bank overdrafts and short-term facilities		**74**	36
		5 283	4 412
Total equity and liabilities		**26 978**	18 939

Audited consolidated financial statements // **Statement of cash flows** //
for the year ended 30 June 2017

	Notes	2017 Rm	2016 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	25	**2 958**	3 285
Dividends received		**10**	13
Income from investments		**118**	44
Finance costs[1]		**(714)**	(374)
Dividends paid		**(479)**	(385)
Taxation paid		**(295)**	(266)
Net cash inflow from operating activities		**1 598**	2 317
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment[2]		**(2 493)**	(1 853)
Government grants received		**24**	17
Proceeds on disposal of property, plant and equipment		**228**	125
Additions to intangible assets		**(44)**	(23)
Proceeds on disposal of investment property		**1**	11
Additions to consumable biological assets		**(15)**	(7)
Net cash outflow on acquisition of subsidiaries and businesses	26	**(3 781)**	(573)
(Increase)/decrease in investments and loans		**(5)**	1
(Increase)/decrease in short-term loans receivable		**(1)**	24
Net decrease/(increase) in investments in associate and joint venture companies		**3**	(7)
Net cash outflow from investing activities		**(6 083)**	(2 285)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of shares issued		**1 432**	–
Transactions with non-controlling interests		**3**	–
Increase in bank overdrafts and short-term facilities		**25**	31
Increase in long-term loans and borrowings		**2 886**	2 143
Decrease in short-term loans and borrowings		**(435)**	(1 000)
Net cash inflow from financing activities		**3 911**	1 174
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(574)**	1 206
Cash and cash equivalents at beginning of the year		**2 602**	1 370
Effects of exchange rate translations on cash and cash equivalents		**(19)**	26
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**2 009**	2 602

[1] Borrowing costs capitalised in the prior year have been reallocated from additions to property, plant and equipment to finance costs, in accordance with IAS 23 – Borrowing Costs.

[2] Additions to property, plant and equipment in the prior year have been re-presented to reflect government grants received separately.

	2017 Rm	2016[1] Rm
Continuing operations		
REVENUE		
Diversified industrial	**6 385**	5 632
Diversified chemical	**5 467**	3 060
Diversified logistics	**8 656**	7 899
	20 508	16 591
Intersegment revenue eliminations	**(725)**	(544)
	19 783	16 047
OPERATING PROFIT BEFORE CAPITAL ITEMS[2]		
Diversified industrial	**944**	709
Diversified chemical	**672**	319
Diversified logistics	**883**	969
	2 499	1 997
RECONCILIATION BETWEEN OPERATING PROFIT PER INCOME STATEMENT AND OPERATING PROFIT BEFORE CAPITAL ITEMS PER SEGMENTAL ANALYSIS		
Operating profit per income statement	**2 465**	1 978
Capital items	**34**	19
Operating profit before capital items per segmental analysis	**2 499**	1 997
SEGMENTAL ASSETS[3]		
Diversified industrial	**9 149**	8 325
Diversified chemical	**8 354**	1 509
Diversified logistics	**7 070**	6 228
	24 573	16 062
RECONCILIATION BETWEEN TOTAL ASSETS PER STATEMENT OF FINANCIAL POSITION AND SEGMENTAL ASSETS		
Total assets per statement of financial position	**26 978**	18 939
Less: Investments in associate and joint venture companies	**(67)**	(124)
Less: Interest-bearing long-term loans receivable	**(2)**	(2)
Less: Deferred taxation assets	**(130)**	(105)
Less: Interest-bearing short-term loans receivable	**(1)**	–
Less: Taxation receivable	**(93)**	(44)
Less: Cash and cash equivalents	**(2 009)**	(2 602)
Less: Assets classified as held for sale	**(103)**	–
Segmental assets	**24 573**	16 062
GEOGRAPHICAL ANALYSIS		
Revenue		
South Africa	**17 978**	14 130
Rest of Africa	**1 805**	1 917
	19 783	16 047
Non-current assets		
South Africa	**18 179**	11 112
Rest of Africa	**1 212**	1 216
	19 391	12 328

[1] Prior year disclosure has been restated to reflect discontinued operations. Subsequent to the acquisition of Safripol into the chemical division, the prior year disclosure has been restated to reflect the new segments in which the group is now structured, i.e. diversified industrial, diversified chemical and diversified logistics.

[2] Prior year segmental operating profit before capital items has been restated by reallocating head office costs of R37 million to the diversified logistics segment from the other segments in line with the treatment of the current year.

[3] Prior year segmental assets have been restated to more accurately reflect the assets that generate operating profit, thereby excluding deferred taxation assets and taxation receivable.

Basis of segmental presentation

The segmental information has been prepared in accordance with IFRS 8 – Operating Segments (IFRS 8), which defines requirements for the disclosure of financial information of an entity's operating segments. The standard requires segmentation based on the group's internal organisation and reporting of revenue and operating income based upon internal accounting methods.

Identification of segments

The group discloses its operating segments according to the entity components regularly reviewed by the chief operating decision-makers. The components comprise various operating segments located in southern Africa. The revenue and non-current assets are further disclosed within the geographical areas in which the group operates. Segmental information is prepared in conformity with the measure that is reported to the chief operating decision-makers. These values have been reconciled to the consolidated financial statements. The measures reported by the group are in accordance with the accounting policies adopted for preparing and presenting the consolidated financial statements.

Segment revenue excludes value added taxation and includes intersegment revenue. Net revenue represents segment revenue from which intersegment revenue has been eliminated. Sales between segments are made on a commercial basis. Segment operating profit before capital items represents segment revenue less segment expenses, excluding capital items included in note 1. Segment expenses include distribution expenses and other operating expenses. Depreciation and amortisation have been allocated to the segments to which they relate.

The segment assets comprise all assets of the different segments that are employed by the segment and that either are directly attributable to the segment, or can be allocated to the segment on a reasonable basis.

Operational segments

The acquisition of Safripol and its integration with the existing businesses in the chemical division of Hosaf and Woodchem, was concluded during the year. The enlarged chemical operations were subsequently reported separately from the diversified industrial segment as the diversified chemical segment. This is expected to bring increased chemical industry focus to the group, as well as scale benefits with exposure to broader markets and opportunities.

Diversified industrial

This segment comprises an integrated timber division, automotive components division and integrated bedding division. The integrated timber division incorporates timber plantations, sawmills and production facilities for panel products. The automotive components division manufactures automotive components used primarily in new vehicle assembly and manufactures after-market accessories, which are fitted through its own franchise fitment centres. The integrated bedding division manufactures bed bases, foam and sprung mattresses, together with mattress fabric and a range of industrial foams.

Diversified chemical

This segment comprises chemical operations that manufacture PET, UF resin, impregnated paper and, pursuant to the acquisition of Safripol, PP and HDPE.

Diversified logistics

This segment comprises a contractual logistics division and passenger transport division. The contractual logistics division services the petroleum, chemical, food, agriculture, mining, cement and general freight and warehousing sectors in southern and east Africa. The passenger transport division provides personnel, tourist, intercity and commuter transport services.

Major customers

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

KAP is a South African registered company. The consolidated financial statements of KAP, for the year ended 30 June 2017, comprise KAP and its subsidiaries (together referred to as the KAP group) and the group's interest in associate companies and joint venture companies.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act, No. 71 of 2008, the Listing Requirements of the JSE Limited as required for annual financial statements, and have been audited in compliance with all the requirements of Section 29(1) of the South African Companies Act 2008, as required.

Adoption of new and revised standards

During the current year, the group has adopted all the new and revised standards issued by the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2016. The adoption of these new and revised standards has resulted in changes to the group's accounting policies.

The group adopted the following standards and amended standards during the year:

IFRS 10	Consolidated Financial Statements: Investment entities: Applying the consolidation exception
IFRS 11	Joint Arrangements: Investment entities: Applying the consolidation exception
IFRS 12	Disclosure of Interests in Other Entities: Investment entities: Applying the consolidation exception
IAS 1	Presentation of Financial Statements: Disclosure initiative
IAS 27	Separate Financial Statements: Investment entities: Equity method in separate financial statements
IAS 28	Investments in Associates: Investment entities: Applying the consolidation exception
	Annual Improvements to IFRSs 2012 – 2014 Cycle

Basis of preparation

The consolidated 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 and consumable biological assets, which are stated at their fair value at the end of each reporting period, as explained in the accounting policies below.

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed in note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 – Share-based Payments, leasing transactions that are within the scope of IAS 17 – Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 – Inventories or value in use in IAS 36 – Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The material accounting policies applied by the group, as well as accounting policies where IFRS allows choice, are set out below and have been applied consistently to the periods presented in these consolidated financial statements, except where stated otherwise.

The accounting policies have been applied consistently by all group entities.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the group (including structured entities). An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, substantive rights relating to an investee are taken into account. For a right to be substantive, the holder must have the practical ability to exercise that right.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any difference between the cost of acquisition and the group's share of the net identifiable assets, liabilities and contingent liabilities, fairly valued, is recognised and treated in terms of the group's accounting policy for goodwill.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Subsequently, any losses applicable to the non-controlling interests are allocated to the non-controlling interests even if this results in the non-controlling interests having deficit balances.

Associate companies

An associate company is an entity over which the group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the entity, but which it does not control or jointly control. The group applies equity accounting to its associates.

Dilution gains and losses arising on the investment in associate companies are recognised in other comprehensive income.

The profit or loss on transactions with associate companies is not eliminated.

Joint arrangements

A joint arrangement is defined as an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. There are two types of joint arrangements, namely joint operation and joint venture.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise and measure the assets and liabilities (and recognise the related revenues and expenses) in relation to its interest in the arrangement in accordance with the relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses.

A joint venture is a joint arrangement whereby the parties that have control of the arrangement have rights to the net assets of the arrangement. A joint venturer recognises an investment and accounts for that investment using the equity method.

Contingent consideration

Where a structured business combination contains a puttable instrument on the interest of an apparent non-controlling shareholder, the acquirer will classify the obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and financial liability in IAS 32 – Financial Instruments: Presentation.

Contingent consideration is measured at fair value at each reporting date, and changes in fair value are recognised in profit or loss.

Common control transactions and premiums and discounts arising on subsequent purchases from, or sales to non-controlling interests in subsidiaries

When a purchase price allocation has been performed for separate financial statements it is reversed for group consolidated accounts. Any increases or decreases in ownership interest in subsidiaries without a change in control are recognised as equity transactions. The carrying amounts of the group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received are recognised directly in equity and attributed to owners of the company.

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arising on the acquisition of a subsidiary, associate company or joint venture company represents the excess of the aggregate consideration transferred, non-controlling interest in the acquiree and in business combinations achieved in stages, the acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree, over the group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate company or joint venture company recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. An impairment loss in respect of goodwill is not reversed.

Goodwill is allocated to cash-generating units (CGUs) and is tested annually for impairment, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

On disposal of a subsidiary, associate company or joint venture company, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Gains on bargain purchases arising on acquisition are recognised directly as capital items in profit or loss.

Reverse takeover acquisition accounting

IFRS 3 defines the acquirer in a business combination as the entity that obtains control. Accordingly, a corporate action or business combination where another legal entity will obtain control of the entity itself is accounted for as a reverse acquisition.

A reverse acquisition is a business combination in which the legal acquirer (i.e. that entity that issues shares) becomes the acquiree for accounting purposes and the legal acquiree becomes the acquirer for accounting purposes. The accounting acquiree must meet the definition of a business for the transaction to be accounted for as a reverse acquisition. Guidance in IFRS 3 concludes that this is a reverse acquisition and that Steinhoff Industrial Assets is therefore the accounting acquirer and KAP the accounting acquiree for IFRS 3 purposes.

Reverse acquisitions are accounted for using the acquisition method under IFRS 3. Effectively, the financial results presentation will reflect Steinhoff Industrial Assets acquiring the traditional KAP businesses at fair value. Consequently, for consolidation purposes, a fair value exercise is performed on the traditional KAP businesses. The equity structure appearing in the consolidated statement of financial position must reflect the equity structure of the legal parent, including the shares issued by the legal parent to effect the business combination.

The consolidated financial results and position will reflect:

- assets and liabilities of Steinhoff Industrial Assets recognised and measured at their pre-combination carrying amounts;
- the assets and liabilities of traditional KAP recognised and measured at fair value in terms of the requirements of IFRS 3 at the effective date of the transaction;
- retained earnings and other reserves of Steinhoff Industrial Assets before the business combination;
- the amount recognised as issued equity interests in the consolidated financial statements and is determined by adding the issued equity interest of Steinhoff Industrial Assets outstanding immediately before the business combination to the fair value of the consideration transferred; and
- the creation of a reverse acquisition reserve to enable the presentation of the consolidated statement of financial position, which combines the equity structure of the legal parent with the non-statutory reserves of the legal parent. Effectively, this reserve is required to ensure the correct equity structure of the legal parent is reflected after the business combination.

Intangible assets

Intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses. If an intangible asset is acquired in a business combination, the cost of that intangible asset is measured at its fair value at the acquisition date.

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation of intangible assets is recognised in other operating expenses in profit or loss on a straight-line basis over the assets' estimated useful lives, unless such lives are indefinite. An intangible asset is regarded as having an indefinite useful life when, based on analysis of all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortised but are tested for impairment annually or more often when there is an indication that the asset may be impaired. Other intangible assets are amortised from the date they are available for use.

The amortisation methods, estimated useful lives and residual values are reassessed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost to the group, less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the costs of materials, direct labour, the initial estimate, where relevant, of the cost of dismantling and removing the items and restoring the site on which they are located, borrowing costs capitalised and an appropriate proportion of production overheads.

The gain or loss on disposal or retirement of an item of property, plant and equipment is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised as a capital item in profit or loss.

Leased assets

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the group are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease.

The capital element of future obligations under the leases is included as a liability in the statement of financial position. Lease payments are allocated using the effective-interest method to determine the lease finance costs, which are charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Subsequent costs

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, if it is probable that additional future economic benefits embodied within the item will flow to the group and the cost of such item can be measured reliably. Costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as an expense when incurred.

Depreciation

Depreciation is recognised in profit or loss on either a straight-line or units-of-production basis at rates that will reduce the book values to estimated residual values over the estimated useful lives of the assets.

Land is not depreciated. Leasehold improvements on premises occupied under operating leases are written off over their expected useful lives or, where shorter, the term of the relevant lease.

The depreciation methods, estimated useful lives and residual values are reassessed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Investment property

Investment property is land and buildings that are held to earn rental income or for capital appreciation, or both.

Investment property is initially recognised at cost, including transaction costs, when it is probable that future economic benefits associated with the investment property will flow to the group and the cost of the investment property can be measured reliably. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction development is complete.

Investment property is accounted for under the cost model and the accounting treatment after initial recognition follows that applied to property, plant and equipment.

Consumable biological assets

The group's timber plantations and livestock are classified as consumable biological assets. These assets are measured on initial recognition and at each reporting date at their fair value less estimated costs to sell. Costs to sell include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to the market. Gains and losses arising from changes in the fair value of the plantations less estimated costs to sell are recorded in other operating income in profit or loss.

Borrowing costs

Borrowing cost is recognised as an expense in the period in which it is incurred, except to the extent that it is directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period to prepare for their intended use or sale. Borrowing costs directly attributable to these qualifying assets are capitalised as part of the costs of those assets.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs capitalised are the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purposes of obtaining a qualifying asset, the amount of borrowing costs capitalised is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate applied is the weighted average of the borrowing costs applicable to the borrowings of the group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

Capitalisation of borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Impairment of tangible and intangible assets other than goodwill

The carrying amounts of the group's assets, other than assets carried at fair value, are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually and when there is an indication of impairment.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount is the greater of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

Reversal of impairment losses

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount – however, not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in previous years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Government grants

Government grants are not recognised until there is reasonable assurance that the group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the group should purchase, construct or otherwise acquire non-current assets are recognised by deducting the grant in calculating the carrying amount of the asset, in which case the grant is recognised in profit and loss over the life of the depreciable asset by way of a reduced depreciation expense.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan, based on prevailing market interest rates.

Taxation

Current taxation

Income taxation on the profit or loss for the year comprises current and deferred taxation. Income taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised directly in other comprehensive income or equity.

Current taxation is the expected taxation payable on the taxable income for the year, using taxation rates enacted or substantially enacted at the reporting date, and any adjustment to taxation payable in respect of previous years.

Deferred taxation

Deferred taxation is provided for using the statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used in the computation of taxable income. The following temporary differences are not provided for: goodwill not deductible for taxation purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current taxation assets and liabilities on a net basis.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the taxation rates (and taxation laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred taxation liabilities and assets reflects the taxation consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset will be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs is determined on either a first-in, first-out (FIFO) method or weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling and distribution expenses.

The cost of harvested timber is its fair value less estimated costs to sell at the date of harvest, determined in accordance with the accounting policy for consumable biological assets. Any change in fair value at the date of harvest is recognised in profit or loss. The cost of other inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity.

Where necessary, the carrying amounts of inventory is adjusted for obsolete, slow-moving and defective inventories.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. These assets may be a component of an entity, a disposal group or an individual non-current asset. Upon initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Remeasurements from carrying amount to the lower of fair value less costs are recognised in profit or loss upon initial classification as held for sale.

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operation or a subsidiary acquired exclusively with a view to resell. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale.

Share-based payment transactions

Equity-settled

The fair value of the deferred delivery shares and the share rights granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and is expensed over the period during which the employees are required to provide services in order to become unconditionally entitled to the equity instruments. The fair value of the instruments granted is measured using generally accepted valuation techniques, taking into account the terms and conditions upon which the instruments are granted. The amount recognised as an expense is adjusted to reflect the actual number of deferred delivery shares and the share rights that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Group share-based payment transactions

Transactions in which a parent grants rights to its equity instruments directly to the employees of its subsidiaries are classified as equity-settled in the financial statements of the subsidiary, provided the share-based payment is classified as equity-settled in the consolidated financial statements of the parent.

The subsidiary recognises the services acquired with the share-based payment as an expense and recognises a corresponding increase in equity representing a capital contribution from the parent for those services acquired. The parent recognises in equity the equity-settled share-based payment and recognises a corresponding increase in the investment in subsidiary.

A recharge arrangement exists whereby the subsidiary is required to fund the difference between the exercise price on the share right and the market price of the share at the time of exercising the right. The recharge arrangement is accounted for separately from the underlying equity-settled share-based payment as follows upon initial recognition:

- The subsidiary recognises a share scheme settlement provision at fair value, using cash-settled share-based payment principles, and a corresponding adjustment against equity for the capital contribution recognised in respect of the share-based payment.
- The parent recognises a corresponding share scheme settlement asset at fair value and a corresponding adjustment to the carrying amount of the investment in the subsidiary.

Subsequent to initial recognition, the recharge arrangement is remeasured at fair value at each subsequent reporting date until settlement date to the extent vested. Where the settlement provision recognised is greater than the initial capital contribution recognised by the subsidiary in respect of the share-based payment, the excess is recognised as a net capital distribution to the parent. The amount of the settlement asset in excess of the capital contribution recognised as an increase in the investment in subsidiary is deferred and recognised as dividend income by the parent when settled by the subsidiary.

Provisions and contingent liabilities

Provisions are recognised when the group has a present constructive or legal obligation as a result of a past event, and when it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A contingent liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation, but payment is not probable or the amount cannot be measured reliably.

Restructuring

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligation under the contract.

Foreign currency

Foreign currency transactions

Transactions in currencies other than the functional currency of entities are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates ruling on the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

The assets and liabilities of all foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at rates of exchange ruling at the reporting date. The revenues and expenses of foreign operations are translated at rates approximating the foreign exchange rates ruling at the date of the transactions.

Foreign exchange differences arising on translation are recognised in other comprehensive income and aggregated in the 'foreign currency translation reserve' (FCTR). The FCTR applicable to a foreign operation is released to profit or loss as a capital item upon disposal of that foreign operation.

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are recognised in other comprehensive income and accumulated in the FCTR. They are released to profit or loss as a capital item upon disposal of that foreign operation.

Financial instruments

Initial recognition

Financial assets and financial liabilities are recognised on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument.

Initial measurement

All financial instruments are initially recognised at fair value, including transaction costs that are incremental to the group and directly attributable to the acquisition or issue of the financial asset or financial liability, except for those classified as fair value through profit or loss where the transaction costs are recognised immediately in profit or loss.

Subsequent measurement

Financial instruments at fair value through profit or loss consist of items classified as held for trading or where they have been designated as fair value through profit or loss.

All financial liabilities, other than those at fair value through profit or loss, are classified as financial liabilities at amortised cost.

Loans and receivables are carried at amortised cost, with interest recognised in profit or loss for the period, using the effective-interest method.

Available-for-sale financial assets are measured at fair value, with any gains and losses recognised directly in equity along with the associated deferred taxation. Any foreign currency gains or losses, dividend income or interest revenue, measured on an effective-yield basis, are recognised in profit or loss.

Derecognition

The group derecognises a financial asset when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

A financial liability is derecognised when, and only when, the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

Impairment of financial assets

An impairment loss for loans and receivables is recognised in profit or loss when there is evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative unrealised gains and losses recognised in equity are reclassified to profit or loss, even though the financial asset has not been derecognised. Impairment losses are only reversed in a subsequent period if the fair value increases due to an objective event occurring since the loss was recognised. Impairment reversals other than available-for-sale debt securities are not reversed through profit or loss but through other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Instalment sale and loan receivables, such as up-to-date and early-stage delinquent trade receivables, i.e. assets that are assessed not to be impaired individually, are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the level of arrears of a customer, part payment of instalments or missed instalments, as well as observable changes in national or economic conditions that correlate with defaults on receivables.

Effective-interest method

The effective-interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of a financial instrument, or, where appropriate, a shorter period.

Hedge accounting

The group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges in foreign exchange risk on firm commitments are accounted for as cash flow hedges.

Fair value hedges

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in fair value of the hedged item that are attributable to the hedged risk.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Goods sold and services rendered

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at reporting date. The stage of completion is assessed by reference to surveys of the work performed.

Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods as well as continuing management involvement with goods to a degree usually associated with ownership. Where the group acts as agent and is remunerated on a commission basis, only the commission income, and not the value of the business transaction, is included in revenue.

The recovery of duties and taxes payable on imports and exports are not recognised in revenue but netted off against the expense paid on behalf of the customer.

Interest

Interest is recognised on the time proportion basis, taking account of the principal debt outstanding and the effective rate over the period to maturity.

Rental income

Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

Dividend income

Dividend income from investments is recognised when the right to receive payment has been established.

Operating leases

Payments and receipts under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Segmental reporting

A segment is a distinguishable component of the group that is engaged in providing products or services that are subject to risks and rewards that are different from those of other segments. The basis of segmental reporting is representative of the internal structure used for management reporting as well as the structure in which the chief operating decision-makers review the information.

The basis of segmental allocation is determined as follows:

- Revenue that can be directly attributed to a segment and the relevant portion of the profit that can be allocated on a reasonable basis to a segment.
- Segmental assets are those assets that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segmental assets exclude investments in equity accounted companies, investments and loans, cash and cash equivalents, assets of discontinued operations and assets held for sale.

	Gross of taxation and non-controlling interests 2017 Rm	Net of taxation and non-controlling interests 2017 Rm	Gross of taxation and non-controlling interests 2016 Rm	Net of taxation and non-controlling interests 2016 Rm
1. CAPITAL ITEMS				
Continuing operations				
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.				
Expenses/(income) of a capital nature are included in the 'capital items' line in the income statement. These expense/(income) items are:				
Impairments	**2**	**2**	12	13
Goodwill	**–**	**–**	5	5
Property, plant and equipment	**2**	**2**	–	1
Investments in associate and joint venture companies	**–**	**–**	7	7
Gain on bargain purchase	**(4)**	**(4)**	–	–
Loss on disposal of property, plant and equipment	**36**	**27**	3	1
Loss on disposal of investment property	**–**	**–**	4	2
Other capital items	**–**	**1**	–	–
	34	**26**	19	16

		2017 Rm	2016 Rm
2.	**OPERATING PROFIT**		
	Continuing operations		
	Operating profit is stated after taking account of the following items:		
2.1	**Amortisation and depreciation**		
	Amortisation	**24**	15
	Depreciation	**838**	785
		862	800
	Recognised in:		
	Cost of sales	**830**	650
	Distribution expenses	**9**	6
	Other operating expenses	**23**	144
		862	800
2.2	**Auditor's remuneration**		
	Audit fees	**24**	22
	Fees for other services	**3**	2
		27	24
2.3	**Personnel expenses**		
	Retirement plans (note 2.4)	**245**	216
	Salaries and wages	**3 729**	3 353
	Share-based payments – equity-settled (note 18.3)	**68**	66
	Other employee-related (income)/expenses	**(3)**	6
		4 039	3 641
2.4	**Post-retirement benefit expenses**		
	Contributions to defined benefit plans	**4**	5
	Contributions to defined contribution plans	**233**	205
	Contributions to state-managed plans	**8**	6
		245	216
2.5	**Net foreign exchange losses/(gains)**		
	Net (gains)/losses on forward exchange contracts	**(1)**	10
	Net losses/(gains) on conversion of monetary assets – realised	**52**	(48)
	Net losses on conversion of monetary assets – unrealised	**36**	22
		87	(16)

		2017 Rm	2016 Rm
2.	**OPERATING PROFIT** *(continued)*		
2.6	**Operating lease charges**		
	Rental of properties	**120**	88
	Leases of plant, equipment, vehicles and other	**609**	112
		729	200
2.7	**Fair value (gain)/loss on consumable biological assets (note 11)**		
	Fair value gain on timber plantations	**(235)**	(212)
	Fair value loss on timber plantations due to fire	**40**	–
	Fair value (gain)/loss on livestock	**(10)**	2
		(205)	(210)
2.8	**Net expenses directly attributable to timber plantations (note 11)**		
	Decrease due to harvesting	**196**	167
	Other operating expenses in respect of plantations	**230**	215
	Insurance income in respect of plantations	**(40)**	–
		386	382
2.9	**Impairment/(reversal of impairment) of financial assets**		
	Related party	**–**	28
	Other	**–**	(1)
		–	27

	Expense Rm	Income Rm	Net Rm
3. FINANCE COSTS AND INCOME FROM INVESTMENTS			
Continuing operations			
2017			
Banks	**27**	**(89)**	**(62)**
Loans	**338**	**–**	**338**
Senior unsecured listed and unlisted notes	**332**	**–**	**332**
Other	**14**	**(11)**	**3**
Related-party interest (note 27)	**–**	**(18)**	**(18)**
Less: Borrowing cost capitalised	**(78)**	**–**	**(78)**
	633	**(118)**	**515**
2016			
Banks	14	(34)	(20)
Loans	246	–	246
Senior unsecured listed and unlisted notes	107	–	107
Other	6	(2)	4
Related-party interest (note 27)	–	(8)	(8)
Less: Borrowing cost capitalised	(17)	–	(17)
	356	(44)	312

	2017 Rm	2016 Rm
4. TAXATION		
Continuing operations		
4.1 Taxation charge		
Normal taxation		
South African normal taxation – current year	**100**	118
South African normal taxation – prior year adjustment	**(12)**	4
Foreign normal taxation – current year	**152**	99
Foreign normal taxation – prior year adjustment	**3**	9
	243	230
Deferred taxation		
South African deferred taxation – current year	**248**	189
South African deferred taxation – prior year adjustment	**12**	(10)
South African deferred taxation – change in rate	**–**	41
Foreign deferred taxation – current year	**6**	37
Foreign deferred taxation – prior year adjustment	**(4)**	–
	262	257
Capital gains taxation		
Current year	**5**	–
	510	487

For detail on deferred taxation assets/(liabilities) refer to note 14.

	%	%
4.2 Reconciliation of rate of taxation		
Standard rate of taxation	**28.0**	28.0
Effect of different statutory taxation rates of subsidiaries in other jurisdictions	**0.1**	1.5
Effect of profit of associate and joint venture companies	**(0.2)**	(0.4)
Prior year adjustments	**(0.1)**	(0.4)
Change in rate	**–**	2.4
Net utilisation of unrecognised taxation losses	**(1.3)**	(0.6)
Permanent differences, withholding taxes, items charged at capital rates and other	**(0.5)**	(1.7)
Effective rate of taxation	**26.0**	28.8

	Notes	2017 Rm	2016 Rm
5. DISCONTINUED OPERATIONS			

5.1 Discontinuation of Glodina division

On 18 April 2017, KAP announced the intended closure or as an alternative the disposal of Glodina, a division of KAP Homeware Proprietary Limited, which is anticipated to be finalised in the following year. Glodina manufactures towels and is reported as part of the diversified industrial segment. (2016: There were no discontinued operations.)

5.2 Analysis of loss for the year from discontinued operations

The results of the discontinued operations included in the income statement are set out below:

	Notes	2017 Rm	2016 Rm
Revenue		**227**	202
Cost of sales		**(224)**	(165)
Gross profit		**3**	37
Other operating income		**2**	5
Distribution expenses		**(19)**	(25)
Other operating expenses		**(36)**	(30)
Capital items	5.3	**(35)**	(1)
Operating loss	5.4	**(85)**	(14)
Net finance costs		**(3)**	(1)
Loss before taxation		**(88)**	(15)
Taxation		**26**	5
Loss for the year from discontinued operations		**(62)**	(10)
Loss from discontinued operations attributable to:			
Owners of the parent		**(62)**	(10)
Non-controlling interests		**–**	–
		(62)	(10)

For detail on deferred taxation assets/(liabilities) refer to note 14.

	Gross of taxation and non-controlling interests 2017 Rm	Net of taxation and non-controlling interests 2017 Rm	Gross of taxation and non-controlling interests 2016 Rm	Net of taxation and non-controlling interests 2016 Rm
5.3 Capital items for the year from discontinued operations				
Loss on disposal of property, plant and equipment	**1**	**1**	1	1
Impairment of property, plant and equipment	**34**	**24**	–	–
	35	**25**	1	1

	2017 Rm	2016 Rm
5. DISCONTINUED OPERATIONS *(continued)*		
5.4 Operating loss from discontinued operations		
Operating loss is stated after taking account of the following items:		
5.4.1 Amortisation and depreciation		
Amortisation	**1**	1
Depreciation	**5**	5
	6	6
Recognised in:		
Cost of sales	**6**	5
Other operating expenses	**–**	1
	6	6
5.4.2 Auditor's remuneration		
Audit fees	**1**	1
5.4.3 Personnel expenses		
Retirement plans (note 5.4.4)	**7**	6
Salaries and wages	**62**	53
	69	59
5.4.4 Post-retirement benefit expenses		
Contributions to defined contribution plans	**7**	6
5.4.5 Net foreign exchange gains		
Net losses on conversion of monetary assets – realised	**–**	1
5.5 Cash flows from discontinued operations		
Net cash (outflow)/inflow from operating activities	**(37)**	7
Net cash (outflow)/inflow from investing activities	**(4)**	6
Net cash inflow from financing activities	**26**	1
Net cash flow	**(15)**	14

		2017 cents	2016 cents
6.	**EARNINGS**		
	The calculation of per share numbers uses the exact unrounded numbers, which may result in differences when compared to calculating the numbers using the rounded number of shares and earnings as disclosed below.		
	Basic earnings/(loss) per share		
	Basic earnings per share are calculated by dividing the net earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.		
	From continuing operations	**54.6**	47.6
	From discontinued operations	**(2.4)**	(0.5)
	Basic earnings per share	**52.2**	47.1
	Diluted earnings/(loss) per share		
	Diluted earnings per share are calculated by dividing the diluted earnings attributable to ordinary shareholders by the diluted weighted average number of ordinary shares in issue during the year. The calculation assumes conversion of all dilutive potential shares.		
	From continuing operations	**54.1**	46.9
	From discontinued operations	**(2.4)**	(0.4)
	Diluted earnings per share	**51.7**	46.5
	Headline earnings/(loss) per share		
	Headline earnings per share are calculated by dividing the headline earnings by the weighted average number of ordinary shares in issue during the year.		
	From continuing operations	**55.6**	48.2
	From discontinued operations	**(1.4)**	(0.4)
	Headline earnings per share	**54.2**	47.8
	Diluted headline earnings/(loss) per share		
	Diluted headline earnings per share are calculated by dividing the headline earnings by the diluted weighted average number of shares in issue during the year.		
	From continuing operations	**55.1**	47.5
	From discontinued operations	**(1.5)**	(0.3)
	Diluted headline earnings per share	**53.6**	47.2
	Net asset value per ordinary share		
	Net asset value per ordinary share is calculated by dividing the ordinary shareholders' equity by the number of ordinary shares in issue at year-end.	**415**	355

		2017 million	2016 million
6.	**EARNINGS** *(continued)*		
6.1	**Weighted average number of ordinary shares**		
	Issued ordinary shares at beginning of the year	**2 441**	2 423
	Effect of shares issued	**133**	10
	Weighted average number of ordinary shares at end of the year for the purpose of basic earnings per share and headline earnings per share	**2 574**	2 433
	Effect of dilutive potential ordinary shares – KAP share options	**25**	33
	Weighted average number of ordinary shares for the purpose of diluted earnings per share and diluted headline earnings per share	**2 599**	2 466

		Rm	Rm
6.2	**Earnings and diluted earnings attributable to owners of the parent**		
	Earnings and diluted earnings from continuing operations attributable to owners of the parent	**1 405**	1 157
	Losses and diluted losses from discontinued operations attributable to owners of the parent	**(62)**	(10)
	Earnings and diluted earnings attributable to owners of the parent	**1 343**	1 147
6.3	**Reconciliation between earnings and headline earnings and diluted headline earnings**		
	Earnings and diluted earnings from continuing operations attributable to owners of the parent	**1 405**	1 157
	Non-controlling interests' portion of capital items	**1**	–
	Capital items of associate and joint venture companies (net of taxation)	**–**	(1)
	Adjusted for capital items attributable to continuing operations (note 1)	**25**	16
	Headline earnings and diluted headline earnings from continuing operations attributable to owners of the parent	**1 431**	1 172
	Losses and diluted losses from discontinued operations attributable to owners of the parent	**(62)**	(10)
	Adjusted for capital items attributable to discontinued operations (note 5)	**25**	1
	Headline earnings and diluted headline earnings attributable to owners of the parent	**1 394**	1 163
6.4	**Net asset value**		
	Attributable to ordinary shareholders	**11 035**	8 667

		2017 Rm	2016 Rm
7.	**GOODWILL**		
	Carrying amount at beginning of the year	**911**	519
	Arising on business combinations (note 26)	**340**	397
	Impairments	**–**	(5)
	Carrying amount at end of the year	**1 251**	911
	Cost	**1 305**	964
	Accumulated impairment	**(54)**	(53)
	Carrying amount at end of the year	**1 251**	911

When the group acquires a business that qualifies as a business combination in respect of IFRS 3, the group allocates the purchase price paid to the assets acquired, including identifiable intangible assets, and the liabilities assumed. Any excess of the aggregate of the consideration transferred, non-controlling interest in the acquiree, and for a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of those net assets, is considered to be goodwill. The goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating unit (CGU) that is expected to benefit from that business. Goodwill is assessed for impairment annually, irrespective of whether there is any indication of impairment.

Review of impairment
The impairment test compares the carrying amount of the unit, including goodwill, to the value in use, or fair value of the unit. The recoverable amount of the CGU is determined from the value-in-use calculation. The key assumptions for the value-in-use calculation are those regarding the discount rates, growth rates and the expected changes to the selling prices and the direct costs during the period. The discount rates are based on a weighted average pre-tax cost of capital, while growth rates are based on management's experience and expectations. Growth rates used do not exceed the long-term average growth rate for the area in which the CGU operates. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market, and are derived from the most recent financial budgets and forecasts that have been prepared by management.

Where an intangible asset, such as a trademark and/or patent, has been assessed as having an indefinite useful life (see note 8), the cash flow of the CGU, supporting the goodwill and driven by the trademark or patent is also assumed to be indefinite.

An impairment charge is required for both goodwill and other indefinite life intangible assets when the carrying amount exceeds the recoverable amount (higher of value in use and fair value less costs to sell). No impairment charge was recorded for the year ended 30 June 2017 (2016: R5 million), which comprises Rnil (2016: R4 million) from the diversified logistics segment, Rnil (2016: R1 million) from the diversified industrial segment and Rnil (2016: Rnil) from the diversified chemical segment.

The group prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolated cash flows for the following years based on an estimated growth rate as set out on the next page.

All impairment testing was consistent with methods applied as at 30 June 2016.

7. GOODWILL *(continued)*

Impairment tests for CGUs containing goodwill

The following divisions have significant carrying amounts of goodwill:

	Pre-tax discount rate	Forecasted cash flows	2017 Rm	2016 Rm
Timber	15.12%	Budget year 1, thereafter a 3% annual growth rate	**123**	123
Autovest	16.67%	Budget year 1, thereafter a 3% annual growth rate	**397**	397
Bedding	16.50%	Budget year 1, thereafter a 3% annual growth rate	**343**	343
Safripol	15.65%	Budget year 1, thereafter a 3% annual growth rate	**241**	–
Logistics	14.70%	Budget year 1, thereafter a 3% annual growth rate	**48**	48
Lucerne	14.70%	Budget year 1, thereafter a 3% annual growth rate	**99**	–
Carrying amount at end of the year			**1 251**	911

8. INTANGIBLE ASSETS

	Patents and trademarks Rm	Supplier relationships	Software Rm	Other[1] Rm	Total Rm
Balance at 1 July 2015	1 024	–	31	24	1 079
Additions	–	–	12	11	23
Amortisation	–	–	(8)	(8)	(16)
Disposals	–	–	–	(1)	(1)
Reclassify from property, plant and equipment	–	–	2	–	2
Reclassification	4	–	–	(4)	–
Acquired on acquisition of subsidiaries (note 26)	79	–	1	–	80
Balance at 30 June 2016	**1 107**	**–**	**38**	**22**	**1 167**
Additions	**–**	**–**	**19**	**25**	**44**
Amortisation	**(1)**	**–**	**(11)**	**(13)**	**(25)**
Reclassify from property, plant and equipment	**–**	**–**	**(1)**	**–**	**(1)**
Acquired on acquisition of subsidiaries (note 26)	**744**	**2 148**	**2**	**3**	**2 897**
Balance at 30 June 2017	**1 850**	**2 148**	**47**	**37**	**4 082**
Cost	1 126	–	83	62	1 271
Accumulated amortisation and impairment	(19)	–	(45)	(40)	(104)
Net book value at 30 June 2016	1 107	–	38	22	1 167
Cost	**1 875**	**2 148**	**132**	**77**	**4 232**
Accumulated amortisation and impairment	**(25)**	**–**	**(85)**	**(40)**	**(150)**
Net book value at 30 June 2017	**1 850**	**2 148**	**47**	**37**	**4 082**

[1] *Other intangible assets include customer relationships, contracts and licence agreements.*

Patents and trademarks and supplier relationships are considered to have indefinite useful lives. However, included under patents and trademarks is an immaterial amount of design registrations and technology licences, which have finite useful lives and are amortised accordingly. In accordance with the group's accounting policy, an impairment test was performed on the carrying values of intangible assets with indefinite useful lives at year-end, as set out on the next page.

Supplier relationships were acquired as part of the Safripol acquisition during the year and recognised at fair value. Safripol has evergreen contracts in place with its major supplier for the supply of raw materials used in its manufacture processes.

Review of impairment

IAS 38 – Intangible Assets (IAS 38) gives guidance on how the fair value of intangible assets can be determined. The guidance has been applied throughout the valuation of the patents and trademarks and supplier relationships. The impairment test compares the carrying amount of the unit, to the value in use, or fair value of the unit. The recoverable amount of the CGU is determined from the value-in-use calculation. The key assumptions for the value-in-use calculation are those regarding the discount rates, growth rates and royalty rates. The discount rates are based on a weighted average pre-tax cost of capital, while growth rates are based on management's experience and expectations. Growth rates used do not exceed the long-term average growth rate for the area in which the CGU operates. Royalty rates used are determined with reference to industry benchmarks.

An impairment charge is required for indefinite life intangible assets when the carrying amount exceeds the recoverable amount (higher of value in use and fair value less costs to sell). No impairment charge was recorded for the year ended 30 June 2017 (2016: Rnil).

The group prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolated cash flows for the following years based on an estimated growth rate as set out below.

Impairment

All impairment testing was done consistently with methods used in the prior years.

	Pre-tax discount rate	Forecasted cash flows	2017 Rm	2016 Rm
Timber patents and trademarks	15.12%	Budget year 1 thereafter a 3% annual growth rate	**207**	207
Autovest patents and trademarks	16.67%	Budget year 1 thereafter a 3% annual growth rate	**79**	79
Bedding patents and trademarks	16.50%	Budget year 1 thereafter a 3% annual growth rate	**59**	59
Safripol patents and trademarks	15.65%	Budget year 1 thereafter a 3% annual growth rate	**734**	–
Safripol supplier relationships	15.65%	Budget year 1 thereafter a 3% annual growth rate	**2 148**	–
Logistics patents and trademarks	14.70%	Budget year 1 thereafter a 3% annual growth rate	**759**	759
Lucerne patents and trademarks	14.70%	Budget year 1 thereafter a 3% annual growth rate	**9**	–
Various divisions' software and other			**87**	63
Carrying amount at end of the year			**4 082**	1 167

Useful lives

Under IAS 38, the useful life of an asset is either finite or indefinite. An indefinite life does not mean an infinite useful life, but rather that there is no foreseeable limit to the period over which the asset can be expected to generate cash flows for the entity. Intangible assets with an indefinite useful life are not amortised; an impairment test is performed at least annually as well as an annual review of the assumptions used to determine the useful life.

The majority of the group's patents and trademarks and supplier relationships have been assessed as having an indefinite useful life. The majority of these patents and trademarks and supplier relationships were assessed independently at the time of the acquisitions, and the indefinite useful life assumptions were supported by the following evidence:

- The industry is a mature, well-established industry.
- The patents and trademarks and supplier relationships are long-established relative to the market and have been in existence for a long time.
- The intangible assets relate to patents and trademarks and supplier relationships rather than products and are therefore not vulnerable to typical product life cycles or to the technical, technological, commercial or other types of obsolescence that can be seen to limit the useful lives of other intangible assets.

	Land and buildings Rm	Plant and machinery Rm	Long-haul motor vehicles, motor vehicles and equipment Rm	Capital work-in-progress Rm	Leasehold improvements Rm	Office and computer equipment, furniture and other assets Rm	Total Rm
9. PROPERTY, PLANT AND EQUIPMENT							
Balance at 1 July 2015	1 493	1 660	3 572	194	35	84	7 038
Additions[1]	93	184	850	681	18	25	1 851
Government grants received	–	(17)	–	–	–	–	(17)
Depreciation	(22)	(167)	(567)	–	(6)	(28)	(790)
Disposals	(14)	(8)	(99)	(3)	(1)	(1)	(126)
Acquired on acquisition of subsidiaries (note 26)	32	20	3	–	–	4	59
Reclassification	1	115	42	(166)	4	4	–
Borrowing cost capitalised	2	12	–	3	–	–	17
Reclassify to intangible assets	–	–	–	(2)	–	–	(2)
Exchange differences on consolidation of foreign subsidiaries	–	(2)	24	–	–	–	22
Balance at 30 June 2016	**1 585**	**1 797**	**3 825**	**707**	**50**	**88**	**8 052**
Additions	**83**	**576**	**646**	**1 154**	**20**	**21**	**2 500**
Government grants received	**–**	**(36)**	**–**		**–**	**–**	**(36)**
Assets held for sale (note 17)	**(35)**	**(10)**	**–**	**–**	**–**	**–**	**(45)**
Depreciation	**(25)**	**(216)**	**(570)**	**–**	**(13)**	**(19)**	**(843)**
Disposals	**–**	**(61)**	**(192)**	**(6)**	**–**	**(1)**	**(260)**
Impairment	**–**	**(33)**	**(3)**	**–**	**–**	**–**	**(36)**
Acquired on acquisition of subsidiaries (note 26)	**503**	**1 493**	**388**	**15**	**1**	**5**	**2 405**
Reclassification	**–**	**487**	**55**	**(526)**	**27**	**(43)**	**–**
Borrowing cost capitalised	**9**	**29**	**–**	**40**	**–**	**–**	**78**
Reclassify from/(to) intangible assets	**–**	**–**	**–**	**(1)**	**–**	**2**	**1**
Exchange differences on consolidation of foreign subsidiaries	**–**	**–**	**(59)**	**–**	**–**	**–**	**(59)**
Balance at 30 June 2017	**2 120**	**4 026**	**4 090**	**1 383**	**85**	**53**	**11 757**
Cost	1 761	3 095	6 873	707	92	293	12 821
Accumulated depreciation and impairment	(176)	(1 298)	(3 048)	–	(42)	(205)	(4 769)
Net book value at 30 June 2016	1 585	1 797	3 825	707	50	88	8 052
Cost	**2 331**	**6 228**	**7 055**	**1 383**	**152**	**196**	**17 345**
Accumulated depreciation and impairment	**(211)**	**(2 202)**	**(2 965)**	**–**	**(67)**	**(143)**	**(5 588)**
Net book value at 30 June 2017	**2 120**	**4 026**	**4 090**	**1 383**	**85**	**53**	**11 757**

[1] *Additions in the prior year have been re-presented to reflect government grants received separately.*

Land and buildings
Details of land and buildings are available for inspection by shareholders on request at registered offices of the company and its subsidiaries.

Encumbered assets
Assets with a book value of R477 million (2016: R37 million) are encumbered as set out in note 20.

Insurance
Property, plant and equipment, with the exception of land, long-haul vehicles, motor vehicles and equipment and bus fleet are insured at approximate cost of replacement. Motor vehicles are insured at market value. Long-haul vehicles and bus fleet are self-insured.

Impairment
Refer to 'Capital items' (notes 1 and 5).

Useful lives
The estimated useful lives are reflected under 'Judgements and estimates' (note 31).

	2017 Rm	2016 Rm
Borrowing cost		
Borrowing cost capitalised to qualifying assets	78	17
Capitalisation rates used to determine the amount of borrowing cost eligible for capitalisation	9.57% to 9.69%	8.57% to 9.32%

		2017 Rm	2016 Rm
10.	**INVESTMENT PROPERTY**		
	Carrying amount at beginning of the year	76	91
	Disposals	(1)	(15)
	Balance at end of the year	75	76

No depreciation was recognised on investment property in the current or prior years as the residual values exceeded the carrying values of all properties classified as investment property.

At 30 June 2017, investment property was valued by management at R90 million (2016: R91 million). The fair valuation of the group's investment property has been carried out by Steinhoff Properties Proprietary Limited. The fair value was based on the income approach whereby the market-related net income of the property is discounted at the market yield for a similar property. The market yields used in the valuation were between 11% and 13.5% (2016: between 11% and 13.5%). In estimating the fair value of investment properties, the highest and best use for the majority of the properties is their current use. There has been no change to the valuation technique since the previous year.

No restrictions exist on the sale of investment property.

There are no material contractual obligations to purchase, construct or develop investment property. There are, however, service level agreements and building maintenance contracts in place with third-party contractors for security, repairs, maintenance and minor enhancements.

Rental income from investment properties of R21 million was recognised through profit or loss for the year ended 30 June 2017 (2016: R21 million).

		2017 Rm	2016 Rm
11.	**CONSUMABLE BIOLOGICAL ASSETS**		
	Timber plantations		
	Carrying amount at beginning of the year	**1 878**	1 816
	Additions	**4**	–
	Acquired on acquisition of subsidiary (note 26)	**69**	17
	Decrease due to harvesting (note 2.8)	**(196)**	(167)
	Fair value adjustment to plantations (note 2.7)	**235**	212
	Fair value adjustment due to fire (note 2.7)	**(40)**	–
	Carrying amount at end of the year	**1 950**	1 878
	Livestock	**28**	12
		1 978	1 890
	Expenses incurred in the management and operations of plantations (notes 2.8)	**230**	215

In terms of IAS 41 – Agriculture, the plantations are valued at fair value less estimated costs to sell. The Faustmann formula and discounted cash flow models were applied in determining the fair value of the plantations. The principal assumptions used in the Faustmann formula include surveying physical hectares planted, age analysis and the mean annual incremental growth.

The fair value of mature standing timber, being the age at which it becomes marketable, is based on the market price of the estimated recoverable timber volumes, net of harvesting costs. The fair value of younger standing timber is determined using the Faustmann formula.

The group owns and manages timber plantations for use in manufacturing timber products and for external sales. The plantations comprise pulpwood and sawlogs and are managed on a rotational basis. As such, increases by means of growth are negated by fellings, for the group's own use or for external sales, over the rotation period. The plantations are managed to ensure that the optimum fibre balance is maintained.

At 30 June 2017, consumable biological assets were valued by management at R1 978 million (2016: R1 890 million). The valuation of the group's consumable biological assets has been carried out by management. The valuation technique is consistent with the method used at 30 June 2016. The fair value of consumable biological assets is classified as Level 3 based on the fair value hierarchy. There were no transfers between the levels during the year.

		2017 Hectares	2016 Hectares
11.1	**Quantities of biological assets**		
	Pine	**35 978**	34 586
	Eucalyptus	**6 438**	6 074
	Temporary unplanted areas	**1 672**	1 555
		44 088	42 215

		m^3	m^3
11.2	**Reconciliation of standing volume**		
	Opening balance	**5 464 385**	5 376 259
	Increase due to growth[1]	**546 815**	564 195
	Decrease due to harvesting	**(541 457)**	(529 389)
	Acquired on acquisition of subsidiary	**205 799**	53 320
		5 675 542	5 464 385

[1] *Growth models are updated regularly with enumeration data. Enumerations refer to updates that are made due to more accurate information being collected about the rate of growth and stocking of trees in the plantations.*

11.3 Sensitivity analysis

The Faustmann formula is sensitive to the market price (net of harvesting costs), growth rate and volume used to determine the fair value of timber plantations. The sensitivities calculated below are based on an increase of 100 basis points for each category and would result in an increase/(decrease) in the calculated fair value.

	2017 Rm	2016 Rm
Market price – 100 basis point increase	**19**	19
Growth rate – 100 basis point increase	**8**	9
Volume – 100 basis point increase	**7**	8

A 100 basis point decrease in the above categories would have had an equal, but opposite effect on fair value.

11.4 Southern Cape plantation fire

The southern Cape region experienced devastating fires during June 2017 that resulted in damage to 4 456 hectares of the group's plantations. The estimated value of the affected plantations is R200 million. Management estimates that it will be able to salvage and utilise timber to the value of R160 million from the affected area. The timber plantations are insured for fire damage, which will compensate the company for the difference between the value affected and the value salvaged. The valuation of the plantation was therefore reduced by R40 million, while an insurance debtor was raised for the concurrent amount (see note 16). It is estimated that the insurance claim will require more than one year to be finalised.

The group is exposed to a number of risks regarding its timber plantations:

- **Regulatory and environmental risks**
  The group's timber plantation operations are subject to laws and regulations. The group has established environmental policies and procedures aimed at compliance with local environmental and other laws. The southern and northeastern Cape forests are managed according to the Forestry Stewardship Council (FSC) principles. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

- **Supply and demand risks**
  For external sale of timber, the group is exposed to risks arising from the fluctuations of price and sales volumes of timber. Where possible, the group manages these risks by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

- **Climate and other risks**
  The group's timber plantations are exposed to the risk of damage from climate changes, disease, forest fires and other natural forces. The group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry and pest disease surveys. The group also insures itself, where cost-effective, against natural disasters such as fire. Livestock was introduced to the plantations as part of the fire prevention strategy of the group.

Encumbered consumable biological assets

None of the group's consumable biological assets are encumbered.

Commitments

There are no amounts committed for the development and acquisition of consumable biological assets.

		Nature of business	2017 % holding	2016 % holding
12.	**INVESTMENTS IN ASSOCIATE AND JOINT VENTURE COMPANIES**			
12.1	**Associate companies**			
	Various unlisted associate companies	Retail outlets selling structural timber and value added panel products and the manufacturing of fibreboard.	**43.33 – 50.0**	28.31 – 50.0
12.2	**Joint venture companies**			
	Various unlisted joint venture companies	Automotive and manufacturing	**49.0**	49.0

		2017 Rm	2016 Rm
12.3	**Summarised information in respect of individually immaterial associate and joint venture companies**		
	Aggregate information of associate and joint venture companies that are individually not material		
	Aggregate carrying amount of the group's interests in these associate companies	**30**	85
	Aggregate carrying amount of the group's interests in these joint venture companies	**37**	39
		67	124
	Aggregate total comprehensive income from associate and joint venture companies		
	The group's share of profit for the year of associate companies	**8**	16
	The group's share of profit for the year of joint venture companies	**7**	8
	The group's share of total comprehensive income	**15**	24

12.4 Change in the group's ownership interest in an associate

In the prior year, the group held a 28.31% interest in Xinergistix Proprietary Limited and accounted for the investment as an associate. On 1 July 2016, the group acquired an additional 23.09% interest for a consideration of R44 million, resulting in a controlling interest of 51.40%. The investment is accounted for as a subsidiary and the results of the company and its subsidiaries consolidated into those of the group.

	2017 Rm	2016 Rm
13. INVESTMENTS AND LOANS		
Long-term investments and loans		
Unlisted investments	**3**	1
Loans receivable (carried at amortised cost)	**8**	2
	11	3
Short-term loans receivable		
Loans receivable (carried at amortised cost)	**3**	2

The unsecured loans receivable consist of various long-term and short-term loans bearing interest at market-related interest rates as well as interest-free loans.

None of the loans receivable included as non-current financial assets are past due or impaired at reporting date and there are no indications that any of the counterparties will not meet their repayment obligations.

The fair value of investments and loans are disclosed in note 28.1.

	2017 Rm	2016 Rm
14. DEFERRED TAXATION ASSETS/(LIABILITIES)		
14.1 Deferred taxation movement		
(Liabilities)/assets		
Balance at beginning of the year	**(1 263)**	(1 001)
Deferred taxation of subsidiaries acquired (note 26)	**(1 326)**	(10)
Amounts charged directly to equity		
Share-based payments	**17**	5
Current year charge		
From continuing operations	**(262)**	(257)
From discontinued operations	**26**	5
Exchange differences on consolidation of foreign subsidiaries	**10**	(5)
Balance at end of the year	**(2 798)**	(1 263)

	2017 Rm	2016 Rm
14. DEFERRED TAXATION ASSETS/(LIABILITIES) *(continued)*		
14.2 Deferred taxation balances		
Assets		
Provision for taxation on temporary differences resulting from South African normal taxation rate (28%), South African capital gains taxation (SA CGT) rate (22.4%) and foreign taxation rates:		
Intangible assets	**–**	(13)
Prepayments and provisions or allowances	**41**	45
Property, plant and equipment (including consumable biological assets)	**(55)**	(70)
Share-based payments	**36**	31
Other	**10**	24
	32	17
Taxation losses		
Taxation losses	**98**	88
Total deferred taxation assets	**130**	105

Realisation of the deferred taxation asset is expected out of future taxable income, which is based on the assessment by management of future plans and forecasts, and is assessed and deemed to be reasonable.

	2017 Rm	2016 Rm
Liabilities		
Provision for taxation on temporary differences resulting from South African normal taxation rate (28%), SA CGT rate (22.4%) and foreign taxation rates:		
Intangible assets	**(1 042)**	(221)
Prepayments and provisions or allowances	**48**	61
Property, plant and equipment (including consumable biological assets)	**(2 250)**	(1 479)
Share-based payments	**9**	9
Other	**5**	(5)
	(3 230)	(1 635)
Taxation losses		
Taxation losses	**302**	267
Total deferred taxation liabilities	**(2 928)**	(1 368)

14.3 Unrecognised deferred taxation assets

	2017 Rm	2016 Rm
Deferred taxation assets have not been recognised in respect of the following items:		
Taxation losses	**243**	333

The taxation losses and deductible temporary differences do not expire under current taxation legislation. Deferred taxation assets have not been recognised in respect of these items because it is not yet certain that future taxable profits will be available against which the group can realise the benefits therefrom. Deferred taxation assets are assessed at each statutory entity individually.

14.4 Taxation losses

	2017 Rm	2016 Rm
Estimated taxation losses available for offset against future taxable income	**1 741**	1 601

		2017 Rm	2016 Rm
15.	**INVENTORIES**		
	Inventories at cost less allowances		
	Consumables	**359**	232
	Finished goods and merchandise	**726**	349
	Raw materials	**577**	627
	Work-in-progress	**65**	78
		1 727	1 286

		2017 Rm	2016 Rm
16.	**TRADE AND OTHER RECEIVABLES**		
	Long-term other receivables		
	Insurance receivable (note 11.4)	**40**	–
	Other receivables (financial assets)	**40**	–
	Short-term trade and other receivables		
	Trade receivables	**3 051**	2 095
	Other amounts due	**201**	152
	Less: Allowance for doubtful debts (note 28.5)	**(71)**	(100)
		3 181	2 147
	Related-party receivables (note 27)	**107**	130
	Derivative financial assets (note 28)	**6**	15
	Trade and other receivables (financial assets)	**3 294**	2 292
	Prepayments	**233**	162
	Value added taxation receivable	**125**	223
		3 652	2 677

The credit period on sales of goods varies based on industry norms. Where relevant, interest is charged at market-related rates on outstanding balances.

Before accepting any new customers, credit risk management performs credit assessments to assess the potential customer's credit potential and credit limit. The credit limits are reviewed on a regular basis as and when increased limits are required. Customers with material balances are subject to additional security requirements or are insured as appropriate.

In determining the recoverability of a customer, the group considers any change in the credit quality of the customer from the date credit was initially granted up to the reporting date.

Given the diverse nature of the group's operations, it does not have significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

No customer represents more than 5% of the total trade receivables at year-end.

The group's exposure to foreign currency and credit risk related to trade and other receivables is disclosed in notes 28.3 and 28.5.

17. ASSETS CLASSIFIED AS HELD FOR SALE

As described in note 5, on 18 April 2017, KAP announced the intended closure or as an alternative the disposal of Glodina, a division of KAP Homeware Proprietary Limited, which is anticipated to be finalised in the following year.

The carrying amount of total assets held for sale still carried in the statement of financial position is:

	2017 Rm	2016 Rm
Assets		
Property, plant and equipment	45	–
Inventories	58	–
	103	–

18. STATED SHARE CAPITAL

	2017 Number of shares	2016 Number of shares
18.1 Authorised		
Ordinary shares of no par value	6 000 000 000	6 000 000 000
Cumulative, non-redeemable, non-participating preference shares of no par value	1 000 000 000	1 000 000 000
Perpetual preference shares of no par value	50 000 000	50 000 000
18.2 Stated share capital		
Ordinary shares in issue at beginning of the year	2 440 936 305	2 422 812 158
Ordinary shares issued during the year	221 263 064	18 124 147
Ordinary shares in issue at end of the year	2 662 199 369	2 440 936 305

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the company.

18.3 Share-based payments

KAP Performance Share Rights Scheme

At the annual general meeting of KAP on 14 November 2012, a new share incentive scheme was approved and implemented. The share rights granted annually since this meeting are subject to the following scheme rules:

a) Rights are granted to qualifying senior executives on an annual basis.

b) Vesting of rights occur on the third anniversary of grant date, provided performance criteria, as set by KAP's remuneration committee at or about the time of the grant date, have been achieved.

c) In the event of performance criteria not being satisfied by the third anniversary of the relevant annual grant, all rights attaching to the particular grant will lapse.

	2017 Options	2016 Options
Reconciliation of rights granted under the KAP Performance Share Rights Scheme		
Balance at beginning of the year	**49 217 738**	57 622 847
Forfeited during the year	**(1 815 011)**	(5 080 758)
Exercised during the year	**(20 239 575)**	(18 124 147)
Granted during the year	**12 958 255**	14 799 796
Granted during the year for prior period service	**192 583**	–
Balance at end of the year	**40 313 990**	49 217 738

	Rm	Rm
Charged to profit or loss	**68**	66

Assumptions

The fair value of services received in return for share rights granted is measured by reference to the fair value of the share rights granted. The estimated fair value of the services received is measured based on the assumption that all vesting conditions are met and all employees remain in service. The pricing model used was the Black-Schöles model. The volatility was estimated using the KAP daily closing share price over a rolling three-year period.

Fair value of KAP share rights and assumptions	2016 Grant	2015 Grant	2014 Grant	2013 Grant
Fair value at measurement date	**R7.02**	R6.62	R4.10	R3.04
Share price at grant date	**R7.59**	R7.11	R4.64	R3.45
Exercise price	**R0.00**	R0.00	R0.20	R0.20
Expected volatility	**25.58%**	32.50%	31.88%	41.4%
Dividend yield	**2.63%**	2.42%	2.90%	2.5%
Risk-free interest rate	**7.72%**	7.48%	6.70%	6.8%
Life of share right	**3 years**	3 years	3 years	3 years

19. NON-CONTROLLING INTERESTS

Details of subsidiaries that have non-controlling interests:

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	2017 %	2016 %	2017 Rm	2016 Rm	2017 Rm	2016 Rm
Individually immaterial subsidiaries with non-controlling interests	**25.0 – 50.0**	25.0 – 40.0	**50**	46	**313**	195

20. LOANS AND BORROWINGS

20.1 Analysis of closing balance

	2017 Rm	2016 Rm
Secured financing		
Capitalised finance lease and instalment sale agreements	**236**	8
Term loans	**88**	10
	324	18
Unsecured financing covered by intragroup cross-guarantees		
Term loans	**3 250**	2 050
Senior unsecured listed and unlisted notes	**4 117**	2 542
	7 367	4 592
Unsecured financing		
Other loans	**73**	26
Total interest-bearing loans and interest-free borrowings	**7 764**	4 636
Portion payable before 30 June 2018 included in current liabilities	**(407)**	(431)
Total non-current interest-bearing loans and interest-free borrowings	**7 357**	4 205
Current interest-bearing loans and interest-free borrowings		
Portion of non-current interest-bearing loans and interest-free borrowings payable before 30 June 2018	**407**	431
Related-party loan payable (note 27)	**–**	1
Total current interest-bearing loans and interest-free borrowings	**407**	432

20.2 Analysis of repayment

	2017 Rm	2016 Rm
Repayable within the next year and thereafter		
Next year	**407**	432
Within two to five years	**7 327**	3 752
Thereafter	**30**	453
	7 764	4 637

All loans and borrowings are carried at amortised cost. The fair values of interest-bearing loans and interest-free borrowings are disclosed in note 28.1.

		Facility Rm	Current year Interest rate	2017 Rm	2016 Rm
20.3	**Loan details**				
	Secured				
	Variable interest rates				
	Capitalised finance lease and instalment sale agreements	236	9.20% to 11.50%	**236**	8
	Term loans	106	5.50% to 11.50%	**88**	10
	The book value of assets encumbered in favour of the above amounts to R477 million (2016: R37 million).				
	Unsecured financing covered by intragroup cross-guarantees				
	Variable interest rates				
	Term loans	3 000	9.07% to 9.83%	**2 000**	1 600
	Senior unsecured listed notes	2 632	9.03% to 9.61%	**2 632**	1 500
	Fixed interest rates				
	Term loans	1 250	9.65% to 10.94%	**1 250**	450
	Senior unsecured listed and unlisted notes	1 420	9.98% to 10.23%	**1 420**	1 000
	Interest due on term loans and unsecured listed and unlisted notes	–	–	**65**	42
	Unsecured				
	Fixed interest rates				
	Other loans	–	7.0%	**21**	25
	Interest-free				
	Other loans	–	–	**52**	1
				7 764	4 636
	Current interest-bearing loans and interest-free borrowings				
	Interest-free				
	Related-party loan payable (note 27)	–	–	**–**	1
	Total			**7 764**	4 637

20. LOANS AND BORROWINGS *(continued)*

20.3 Loan details *(continued)*

Unsecured financing covered by intragroup cross-guarantees

The following companies participate in the cross-guarantees in respect of the term loans (jointly and severally) together with KAP Industrial Holdings Limited:

- KAP Automotive Proprietary Limited
- KAP Bedding Proprietary Limited
- KAP Diversified Industrial Proprietary Limited
- KAP Homeware Proprietary Limited
- Mvelatrans Proprietary Limited
- PG Bison Southern Cape Proprietary Limited
- Unitrans Holdings Proprietary Limited
- Unitrans Passenger Proprietary Limited
- Unitrans Supply Chain Solutions Proprietary Limited

The following companies participate in the cross-guarantees in respect of the listed and unlisted notes (jointly and severally) together with KAP Industrial Holdings Limited:

- KAP Automotive Proprietary Limited
- KAP Bedding Proprietary Limited
- KAP Diversified Industrial Proprietary Limited
- Mvelatrans Proprietary Limited
- PG Bison Southern Cape Proprietary Limited
- Unitrans Passenger Proprietary Limited
- Unitrans Supply Chain Solutions Proprietary Limited

	2017 Rm	2016 Rm
21. EMPLOYEE BENEFITS		
Performance-based bonus accrual	**148**	202
Wage/13th cheque bonus accrual	**66**	56
Leave pay accrual	**128**	108
Post-retirement medical benefits	**8**	8
Other	**21**	7
Total liability	**371**	381
Transferred to short-term employee benefits	**(350)**	(360)
Long-term employee benefits	**21**	21

	2017 Rm	2016 Rm
21.1 Defined contribution plans		
The group has various defined contribution plans, to which employees contribute. The assets of these schemes are held in administered trust funds separate from the group's assets.		
21.2 Post-retirement medical benefits		
Balance at beginning of the year	**8**	8
Balance at end of the year	**8**	8

The principal actuarial assumptions applied in determination of fair value of all the obligations include:

	2017	2016
Health-care cost inflation	**7.9%**	8.0%
Discount rate	**9.1%**	9.0%
Percentage married at retirement	**74.7%**	90.0%
Retirement age	**64 years**	63 years

Performance-based bonus accrual

The bonus payable refers to various schemes across the group and is calculated based on the employee's achievement of performance targets.

Leave pay accrual

The leave pay accrual relates to vesting leave pay to which employees may become entitled on leaving the employment of the group. The accrual arises as employees render a service that increases their entitlement to future compensated leave and is calculated based on employee's total cost of employment. The accrual is utilised when employees become entitled to and are paid for the accumulated leave or utilise compensated leave due to them.

		Accident and insurance fund provisions Rm	Contingent liability provision Rm	Rehabilitation provision Rm	Other[1] Rm	Total Rm
22.	**PROVISIONS**					
	Balance at 1 July 2015	42	48	7	53	150
	Additional provision raised	89	–	1	27	117
	Amounts unused reversed	(42)	(8)	–	(22)	(72)
	Amounts utilised	(53)	–	–	(16)	(69)
	Acquired through business combinations (note 26)	–	–	10	4	14
	Balance at 30 June 2016	**36**	**40**	**18**	**46**	**140**
	Additional provision raised	**120**	**–**	**–**	**23**	**143**
	Amounts unused reversed	**(86)**	**(1)**	**(9)**	**(21)**	**(117)**
	Amounts utilised	**(27)**	**(27)**	**–**	**(5)**	**(59)**
	Acquired through business combinations (note 26)	**–**	**–**	**–**	**1**	**1**
	Reclassification from accruals	**–**	**–**	**–**	**1**	**1**
	Balance at 30 June 2017	**43**	**12**	**9**	**45**	**109**

	2016 Rm	2015 Rm
Non-current portion	**27**	56
Current portion	**82**	84
	109	140

[1] *Other provisions include, among others, onerous contracts.*

Accident and insurance fund provisions
The fund relates to accidents that occurred but were not settled at reporting date.

Contingent liability provision
IFRS 3 requires certain contingent liabilities of the acquiree to be recognised and measured in a business combination at acquisition date fair value. Therefore, contrary to IAS 37 – Provision, Contingent Liabilities and Contingent Assets, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of economic benefits will be required to settle the obligation. This provision is in respect of the Steinhoff transaction of 2012.

Rehabilitation provision
The provision relates to the estimated cost in terms of contractual lease agreements for the rehabilitation of properties, which are leased by the group. Anticipated expenditure within the next year is R1 million and thereafter R8 million. These amounts have not been discounted for the purpose of measuring the provision for rehabilitation work as the effect is not materiall.

Onerous contracts provision
Provision for long-term leases containing onerous provisions or terms in comparison with average terms and conditions of leases and the provision for unfavourable legally binding contracts where the terms of the contract are unfavourable, based on market-related rates. Anticipated expenditure within the next year is R1 million and thereafter R7 million.

		2017 Rm	2016 Rm
23.	**TRADE AND OTHER PAYABLES**		
	Trade payables	**3 325**	2 469
	Accruals	**313**	336
	Derivative financial liabilities (note 28)	**11**	26
	Other payables and amounts due	**464**	311
	Related-party payables (note 27)	**119**	148
	Trade and other payables (financial liabilities)	**4 232**	3 290
	Short-term operating lease liability	**1**	2
	Value added taxation payable	**69**	162
		4 302	3 454

The fair value of trade and other payables is disclosed in note 28.1.

		2017 Rm	2016 Rm
24.	**COMMITMENTS AND CONTINGENCIES**		
24.1	**Capital expenditure**		
	Contracts for capital expenditure authorised	**158**	599

Capital expenditure will be financed from cash and existing loan facilities.

24.2 Borrowing facilities

In terms of the memorandum of incorporation, the borrowing powers of the company are unlimited.

		2017 Rm	2016 Rm
24.3	**Unutilised borrowing facilities at 30 June**	**4 091**	2 613

		Property Rm	Plant, equipment, vehicles and other Rm	2017 Total Rm	2016 Total Rm
24.4	**Operating leases**				
	Amounts outstanding under non-cancellable operating lease agreements payable within the next year and thereafter:				
	Next year	**97**	**60**	**157**	200
	Within two to five years	**319**	**46**	**365**	333
	Thereafter	**185**	**3**	**188**	134
	Total	**601**	**109**	**710**	667

Balances denominated in currencies other than South African rand were converted at the closing rates of exchange ruling at 30 June 2017 and 30 June 2016. The leases are generally subject to escalation clauses and also have renewal options.

24. COMMITMENTS AND CONTINGENCIES *(continued)*

24.5 Contingent liabilities

Certain companies in the group are involved in disputes where the outcomes are uncertain. However, the directors are confident that they will be able to defend these actions and that the potential of outflow or settlement is remote and, if not, that the potential impact on the group will not be material.

There is no other litigation, current or pending, which is considered likely to have a material adverse effect on the group.

The group has a number of guarantees and sureties outstanding at year-end. However, the directors are confident that no material liability will arise as a result of these guarantees and sureties.

The group has issued cross-suretyships to various banks for the banking facilities available to the group.

	2017 Rm	2016 Rm
25. CASH GENERATED FROM OPERATIONS		
Operating profit	**2 465**	1 978
Adjusted for:		
Operating loss from discontinued operations	**(85)**	(14)
Capital items	**69**	20
Depreciation and amortisation	**868**	806
Net of fair value adjustments of consumable biological assets[1]	**(4)**	(43)
Share-based payment expense	**68**	66
Other non-cash adjustments[2]	**(40)**	45
Cash generated before working capital changes	**3 341**	2 858
Working capital changes		
Increase in inventories	**(41)**	(73)
Increase in trade and other receivables	**(328)**	(32)
(Decrease)/increase in net derivative financial liabilities	**(6)**	11
Decrease in non-current and current provisions	**(32)**	(24)
(Decrease)/increase in non-current and current employee benefits	**(69)**	21
Increase in trade and other payables	**93**	524
Net changes in working capital	**(383)**	427
Cash generated from operations	**2 958**	3 285

[1] *Includes decreases due to harvesting and sale of livestock.*

[2] *Other non-cash adjustments in the prior year have been re-presented to reflect capital items separately. The current year amount comprises the long-term insurance receivable of R40 million.*

26. NET CASH FLOW ON BUSINESS COMBINATIONS

26.1 The fair value of assets and liabilities assumed at date of acquisition

	Xinergistix Rm	Lucerne Rm	Safripol Rm	Ndlovu Rm	Other Rm	2017 Rm	2016 Rm
Assets							
Intangible assets	–	13	2 884	–	–	2 897	80
Property, plant and equipment	347	156	1 871	28	3	2 405	59
Consumable biological assets	–	–	–	69	–	69	17
Investments and loans	2	1	–	–	–	3	3
Deferred taxation assets	–	–	–	–	–	–	5
Inventories	7	–	453	–	–	460	53
Trade and other receivables[1]	145	30	497	–	–	672	88
Taxation receivable	1	–	–	–	–	1	–
Cash on hand	22	10	374	–	–	406	25
Liabilities							
Existing non-controlling interests	(2)	–	–	–	–	(2)	–
Loans and borrowings	(107)	(94)	(350)	–	–	(551)	(5)
Deferred taxation liabilities	(46)	(28)	(1 226)	(25)	(1)	(1 326)	(15)
Operating lease liability	–	–	–	–	–	–	(4)
Provisions[2]	–	(1)	–	–	–	(1)	(14)
Employee benefits	(3)	(2)	(54)	–	–	(59)	(9)
Short-term loans payable	(48)	–	(75)	–	–	(123)	(29)
Trade and other payables	(95)	(7)	(687)	(8)	–	(797)	(50)
Taxation payable	(2)	–	(3)	–	–	(5)	(1)
Bank overdrafts and short-term facilities	(13)	–	–	–	–	(13)	(2)
Total assets and liabilities acquired	208	78	3 684	64	2	4 036	201
Less: Non-controlling interests' portion of assets and liabilities acquired	(101)	–	–	–	–	(101)	–
Total assets and liabilities acquired	107	78	3 684	64	2	3 935	201
Investment in associate company that became a subsidiary	(59)	–	–	–	–	(59)	–
(Gain on bargain purchase)/goodwill at acquisition	(4)	99	241	–	–	336	397
Total consideration	44	177	3 925	64	2	4 212	598
Settled via issue of shares	–	(25)	–	–	–	(25)	–
Cash and cash equivalents on hand at acquisition	(22)	(10)	(374)	–	–	(406)	(25)
Net cash outflow on acquisition of subsidiaries	22	142	3 551	64	2	3 781	573

[1] *The fair value of receivables acquired (which principally comprised trade receivables) is R672 million (2016: R88 million). All estimated contractual cash flows are expected to be collected.*

[2] *Included in provisions is a provision for rehabilitation of Rnil (2016: R10 million) relating to the lease properties to be carried out at the end of the lease terms. These amounts have not been discounted for the purposes of measuring the provision for rehabilitation work as the effect is not material.*

26. NET CASH FLOW ON BUSINESS COMBINATIONS *(continued)*

26.1 The fair value of assets and liabilities assumed at date of acquisition *(continued)*

The goodwill arising on the acquisition of these companies are attributable to the strategic business advantages acquired, expected synergies, as well as knowledgeable employees and management strategies that did not meet the criteria for recognition as identifiable intangible assets on the date of acquisition.

None of the goodwill arising on these acquisitions are expected to be deductible for tax purposes.

Further details regarding material acquisitions are noted below:

26.2 Acquisition of Xinergistix group

In the prior year, the group held a 28.31% interest in Xinergistix Proprietary Limited ("Xinergistix") and accounted for the investment as an associate. On 1 July 2016, the group acquired an additional 23.09% interest for a total consideration of R44 million, resulting in a controlling interest of 51.40% of Xinergistix and its subsidiaries. The investment is accounted for as a subsidiary and the results of the company and its subsidiaries consolidated into those of the group. Xinergistix provides road transport services and fully integrated supply chain management solutions to customers in southern Africa.

The revenue and profit for the year, included in the statement of comprehensive income since the date of acquisition, contributed was R806 million and R14 million respectively.

The fair value of the group's equity interest of 28.31% in Xinergistix held before the business combination amounted to R59 million. An immaterial gain was recognised in other capital items as a result of measuring the equity interest at fair value.

The non-controlling interest in Xinergistix recognised at the acquisition date of R101 million was measured by reference to the total fair value of Xinergistix and its subsidiaries at the proportionally held interest of 48.60%.

26.3 Acquisition of Lucerne group

The acquisition of 100% of the shares and claims of Lucerne Transport Proprietary Limited ("Lucerne") and its subsidiary was concluded on 1 September 2016, for a total consideration of R177 million. Lucerne provides contractual logistics services and is a bulk liquid tanker transport company with a comprehensive fleet of trucks with a variety of specially configured tankers, structured to transport general chemicals, industrial oils, food products and acids to customers in southern Africa.

Included as part of the total consideration of R177 million, is the consideration of R25 million settled by the allotment and issuance of 3 655 068 KAP shares to the seller on 10 October 2016. The number of shares was calculated based on the volume weighted average price of the KAP shares in the 30 days preceding the acquisition date.

Also included as part of the total consideration, is a contingent consideration of R45 million, which the group is required to pay to the seller. This contingent consideration is payable if Lucerne achieves certain profit warranties and the payment will be discharged by the issuance of KAP shares. The directors consider it probable that this payment will be required and have recognised a liability for the amount.

The revenue and profit for the year, included in the statement of comprehensive income since the date of acquisition, contributed was R229 million and R18 million respectively. Had this business combination been effected by 1 July 2016, the revenue and profit for the year contributed, would have been R272 million and R21 million respectively.

26.4 Acquisition of Safripol group

The acquisition of 100% of the shares of Safripol Holdings Proprietary Limited ("Safripol") and its subsidiary was concluded on 1 January 2017, for a total consideration of R3 925 million. Safripol is engaged in the manufacture of polypropylene and high-density polyethylene, products that are used in the manufacture of a broad range of plastic injection and blow-moulded products.

The revenue and profit for the year, included in the statement of comprehensive income since the date of acquisition, contributed was R2 359 million and R118 million respectively. Had this business combination been effected by 1 July 2016, the revenue and profit for the year contributed, would have been R4 882 million and R329 million respectively.

26.5 Acquisition of Ndlovu Forestry Corporation Proprietary Limited

The acquisition of 100% of the shares and claims of Ndlovu Forestry Corporation Proprietary Limited ("Ndlovu") was concluded on 1 July 2016, for a total consideration of R64 million. Ndlovu owns 4 821 hectares of land, of which 1 505 hectares are under established pine plantations.

The revenue and profit for the year, included in the statement of comprehensive income since the date of acquisition, contributed was Rnil and R12 million respectively.

26.6 Other acquisitions during the year

The acquisition of 100% of the shares of Redwood Timbers Proprietary Limited was concluded on 1 March 2017, for a total consideration of R2 million. The revenue and profit for the year have been included in the statement of comprehensive income since the date of acquisition.

The directors consider these pro forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Acquisition-related costs, included in other operating expenses of the group amounted to R15 million (2016: R2 million).

In the prior year, 100% of the businesses of Autovest Limited and Dubbelberg Timbers Proprietary Limited were acquired.

	Xinergistix[3] Rm	Lucerne Rm	Safripol Rm	Ndlovu Rm
26. NET CASH FLOW ON BUSINESS COMBINATIONS *(continued)*				
26.7 The carrying value of identifiable assets and liabilities immediately prior to the material acquisitions				
Assets				
Goodwill	3	1	58	–
Intangible assets	–	–	6	–
Property, plant and equipment	314	158	364	3
Consumable biological assets		–	–	69
Investments and loans	2	1	–	–
Inventories	7	–	453	–
Trade and other receivables	149	29	632	–
Taxation receivable	1	–	–	–
Cash on hand	22	10	374	–
Liabilities		–	–	–
Existing non-controlling interests	(2)	–	–	–
Loans and borrowings	(107)	(94)	(350)	(44)
Deferred taxation liabilities	(40)	(25)	(31)	(20)
Provisions	–	(1)	–	–
Employee benefits	(3)	(2)	(54)	–
Short-term loans payable	(48)	–	(75)	–
Trade and other payables	(92)	(7)	(687)	(8)
Taxation payable	(2)	–	(3)	–
Bank overdrafts and short-term facilities	(13)	–	–	–
Total assets and liabilities acquired	191	70	687	–

[3] *The carrying values for the Xinergistix group have been shown at 100%, as control has been acquired and the results of the company and its subsidiaries consolidated into those of the group.*

27. RELATED-PARTY BALANCES AND TRANSACTIONS

Related-party relationships exist between shareholders, subsidiaries, associate and joint venture companies within the group. KAP Industrial Holdings Limited is an associate company of Ainsley Holdings Proprietary Limited, which itself is ultimately owned by Steinhoff International Holdings N.V.

These transactions are concluded in the normal course of business. All material intragroup transactions are eliminated on consolidation. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Trading balances and transactions

The following is a summary of material transactions with related parties, associate and joint venture companies during the year and the balances of receivables and payables at year-end:

	2017 Rm	2016 Rm
Related-party loans receivable/(payable)		
Steinhoff International Holdings N.V. and its subsidiaries	**–**	(1)
Associate and joint venture companies	**25**	25
	25	24
Related-party receivables		
Steinhoff International Holdings N.V. and its subsidiaries	**56**	88
Associate and joint venture companies	**51**	42
	107	130
Related-party payables		
Steinhoff International Holdings N.V. and its subsidiaries	**(104)**	(133)
Associate and joint venture companies	**(15)**	(15)
	(119)	(148)
Dividends paid to:		
Steinhoff International Holdings N.V. and its subsidiaries	**(189)**	(157)
Sales to:		
Steinhoff International Holdings N.V. and its subsidiaries	**665**	535
Associate and joint venture companies	**142**	110
	807	645
Purchases from:		
Steinhoff International Holdings N.V. and its subsidiaries	**(16)**	–
Associate and joint venture companies	**(75)**	(68)
	(91)	(68)
Net operating fees, including administration and management fees		
Steinhoff International Holdings N.V. and its subsidiaries	**(37)**	(38)
Associate and joint venture companies	**8**	3
	(29)	(35)

	2017 Rm	2016 Rm
27. RELATED-PARTY BALANCES AND TRANSACTIONS *(continued)*		
Net rent paid to:		
Steinhoff International Holdings N.V. and its subsidiaries	**(26)**	(38)
Net rebates and settlement discounts paid to:		
Steinhoff International Holdings N.V. and its subsidiaries	**(94)**	(51)
Associate and joint venture companies	**(1)**	(1)
	(95)	(52)
Net finance costs received from/(paid to):		
Steinhoff International Holdings N.V. and its subsidiaries	**17**	7
Associate and joint venture companies	**1**	1
	18	8
Asset purchases		
Steinhoff International Holdings N.V. and its subsidiaries	**(257)**	(363)

For details of material related parties where control exists, refer to note 29.

Directors of the company are considered to be key management personnel. For details in respect of key management compensation, refer to note 30.

28. FINANCIAL INSTRUMENTS

The executive team is responsible for implementing the risk management strategy to ensure that an appropriate risk management framework is operating effectively across the group, embedding a risk management culture throughout the group. The board and the audit and risk committee are provided with a consolidated view of the risk profile of the group, and any major exposures and relevant mitigating actions are identified.

The system of risk management is designed so that the different business units are able to tailor and adapt their risk management processes to suit their specific circumstances.

Regular management reporting and internal audit reports provide a balanced assessment of key risks and controls. The chief financial officer provides quarterly confirmation to the board that financial and accounting control frameworks have operated satisfactorily and consistently.

The group does not speculate in the trading of derivative or other financial instruments. It is group policy to hedge exposure to cash and future contracted transactions.

Financial instruments below exclude assets and liabilities held for sale and profit and loss from discontinued operations.

28.1 Total financial assets and liabilities

	At fair value through profit or loss[1] Rm	Loans and receivables and other financial liabilities at amortised cost Rm	Total carrying values Rm	Fair value of loans and receivables and other financial liabilities Rm	Total fair values Rm
2017					
Investments and loans	–	11	11	11	11
Other receivables (financial assets)	–	40	40	40	40
Non-current financial assets	–	51	51	51	51
Trade and other receivables (financial assets)	6	3 288	3 294	3 288	3 294
Short-term loans receivable	–	3	3	3	3
Cash and cash equivalents	–	2 009	2 009	2 009	2 009
Current financial assets	6	5 300	5 306	5 300	5 306
Long-term loans and borrowings	–	(7 357)	(7 357)	(7 407)	(7 407)
Non-current financial liabilities	–	(7 357)	(7 357)	(7 407)	(7 407)
Short-term loans and borrowings	–	(407)	(407)	(409)	(409)
Bank overdrafts and short-term facilities	–	(74)	(74)	(74)	(74)
Trade and other payables (financial liabilities)	(11)	(4 221)	(4 232)	(4 221)	(4 232)
Current financial liabilities	(11)	(4 702)	(4 713)	(4 704)	(4 715)
	(5)	(6 708)	(6 713)	(6 760)	(6 765)
Net (gains)/losses recognised in profit or loss	(1)	88	87		
Net interest expense	–	515	515		

28. FINANCIAL INSTRUMENTS *(continued)*

28.1 Total financial assets and liabilities *(continued)*

	At fair value through profit or loss[1] Rm	Loans and receivables and other financial liabilities at amortised cost Rm	Total carrying values Rm	Fair value of loans and receivables and other financial liabilities Rm	Total fair values Rm
2016					
Investments and loans	–	3	3	3	3
Non-current financial assets	–	3	3	3	3
Trade and other receivables (financial assets)	15	2 277	2 292	2 277	2 292
Short-term loans receivable	–	2	2	2	2
Cash and cash equivalents	–	2 602	2 602	2 602	2 602
Current financial assets	15	4 881	4 896	4 881	4 896
Long-term loans and borrowings	–	(4 205)	(4 205)	(4 210)	(4 210)
Non-current financial liabilities	–	(4 205)	(4 205)	(4 210)	(4 210)
Short-term loans and borrowings	–	(432)	(432)	(432)	(432)
Bank overdrafts and short-term facilities	–	(36)	(36)	(36)	(36)
Trade and other payables (financial liabilities)	(26)	(3 264)	(3 290)	(3 264)	(3 290)
Current financial liabilities	(26)	(3 732)	(3 758)	(3 732)	(3 758)
	(11)	(3 053)	(3 064)	(3 058)	(3 069)
Net losses/(gains) recognised in profit or loss	10	(26)	(16)		
Net interest expense	–	312	312		

No items were classified as ‘held to maturity’ or ‘available for sale’ during any period presented.

[1] *This category includes derivative financial instruments that are not designated as effective hedging instruments.*

28.2 Fair values

The fair values of financial assets and financial liabilities are determined as follows:

Trade and other receivables and long and short-term loans receivable

The fair values of trade and other receivables and long and short-term loans receivable are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives

The fair values of forward exchange contracts are based on their listed market price, if available. If a listed market price is not available, then the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The fair values are not necessarily indicative of the amounts the group could realise in the normal course of business.

IFRS 7 – Financial Instruments: Disclosure (IFRS 7), has established a three-level hierarchy for making fair value measurements:

- Level 1 – Unadjusted quoted prices for financial assets and financial liabilities traded in an active market for identical financial assets or financial liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the financial asset or financial liability that are not based on observable market data.

The fair values of the financial assets and liabilities as determined by the IFRS 7 hierarchy are as follows:

	2017 Level 2 Rm	2016 Level 2 Rm
Derivative financial assets	**6**	15
Derivative financial liabilities	**(11)**	(26)
	(5)	(11)

There were no Level 1 or Level 3 financial assets or financial liabilities as at 30 June 2017 or 30 June 2016.

28. FINANCIAL INSTRUMENTS *(continued)*

28.3 Foreign currency risk

The group's manufacturing operating costs and expenses are principally incurred in South African rand. Its revenue derived from outside South Africa, however, is principally in US dollars.

It is group policy to hedge exposure to cash and future contracted transactions in foreign currencies for a range of forward periods, but not to hedge exposure for the translation of reported profits or reported assets and liabilities.

Exposure to currency risk

Currency risk (or foreign exchange risk), as defined by IFRS 7, arises on financial instruments that are denominated in a foreign currency, i.e. in a currency other than the functional currency in which they are measured. For the purpose of IFRS 7, currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

Differences resulting from the translation of subsidiary financial statements into the group's presentation currency are not taken into consideration.

At reporting date, the carrying amounts of the group's material foreign currency denominated monetary assets and liabilities that will have an impact on profit or loss when exchange rates change, are as follows:

	Euro Rm	US dollar Rm	AU dollar Rm
2017			
Trade and other receivables (financial assets excluding derivatives)	**6**	**57**	**24**
Cash and cash equivalents	**13**	**56**	**2**
Trade and other payables (financial liabilities excluding derivatives)	**(17)**	**(664)**	**(1)**
Pre-derivative position	**2**	**(551)**	**25**
Derivative effect	**5**	**(10)**	**–**
Open position	**7**	**(561)**	**25**
2016			
Trade and other receivables (financial assets excluding derivatives)	–	58	30
Cash and cash equivalents	51	60	–
Trade and other payables (financial liabilities excluding derivatives)	(49)	(23)	–
Pre-derivative position	2	95	30
Derivative effect	(25)	13	2
Open position	(23)	108	32

The following significant exchange rates applied during the year and were used in calculating sensitivities:

Rand	Forecast rate[1] 30 June 2018	Forecast rate[1] 30 June 2017	Reporting date spot rate 30 June 2017	Reporting date spot rate 30 June 2016
Euro	**16.1433**	17.5200	**14.9168**	16.3307
US dollar	**14.3853**	16.6200	**13.0551**	14.7050
AU dollar	**10.6740**	11.3016	**10.0401**	10.9545

[1] *The forecast rates represent a weighting of foreign currency rates forecasted by the major banks that the group transacts with regularly. These rates are not necessarily management's expectations of currency movements.*

Sensitivity analysis
The table below indicates the group's sensitivity at year-end to the movements in the major currencies that the group is exposed to on its financial instruments. The percentages given below represent a weighting of foreign currency rates forecasted by the major banks that the group transacts with regularly. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2016.

The impact on the reported numbers of using the forecast rates as opposed to the reporting-date spot rates is set out below.

Through (profit)/loss	2017 Rm	2016 Rm
Euro strengthening by 8.2% (2016: strengthening by 7.3%) to the rand	**1**	(2)
US dollar strengthening by 10.2% (2016: strengthening by 13.0%) to the rand	**(57)**	14
AU dollar strengthening by 6.3% (2016: strengthening by 3.2%) to the rand	**2**	1

If the foreign currencies were to weaken/strengthen against the rand, by the same percentages as set out in the table above, it would have an equal, but opposite effect on profit or loss.

Foreign exchange contracts
The group uses forward exchange contracts to hedge its foreign currency risk against change in foreign currency denominated assets and liabilities. Most of the forward exchange contracts have maturities of less than one year after reporting date. As a matter of policy, the group does not enter into derivative contracts for speculative purposes. The fair values of such contracts at year-end, by currency, were:

	2017 Rm	2016 Rm
Short-term derivatives		
Assets		
Fair value of foreign exchange contracts		
Euro	**6**	–
US dollar	**–**	14
AU dollar	**–**	1
	6	15
Liabilities		
Fair value of foreign exchange contracts		
Euro	**(1)**	(25)
US dollar	**(10)**	(1)
	(11)	(26)
Net derivative liabilities	**(5)**	(11)

Currency options are only purchased as a cost-effective alternative to forward currency contracts.

Changes in the fair value of forward exchange contracts of economically hedged monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied, are recognised in profit or loss.

28. FINANCIAL INSTRUMENTS *(continued)*

28.4 Interest rate risk

As part of the process of managing the group's borrowings mix, the interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates. Interest rate exposure is managed within limits agreed by the board.

The interest and related terms of the group's interest-bearing loans are disclosed in note 20.

At the reporting date the interest rate profile of the group's financial instruments were:

	Variable JIBAR and SA prime Rm	Variable other Rm	Fixed rate Rm	Non-interest-bearing Rm	Total Rm
2017					
Non-current financial assets	**2**	**–**	**–**	**49**	**51**
Current financial assets	**1 754**	**242**	**–**	**3 310**	**5 306**
Non-current financial liabilities	**(4 622)**	**–**	**(2 686)**	**(49)**	**(7 357)**
Current financial liabilities	**(435)**	**–**	**(38)**	**(4 240)**	**(4 713)**
	(3 301)	**242**	**(2 724)**	**(930)**	**(6 713)**
2016					
Non-current financial assets	2	–	–	1	3
Current financial assets	2 112	328	–	2 456	4 896
Non-current financial liabilities	(2 733)	–	(1 471)	(1)	(4 205)
Current financial liabilities	(441)	–	(27)	(3 290)	(3 758)
	(1 060)	328	(1 498)	(834)	(3 064)

Sensitivity analysis

The group is sensitive to movements in the JIBAR and SA prime rates, which are the primary interest rates to which the group is exposed.

The sensitivities calculated below are based on an increase of 100 basis points for each interest category. These rates are also used when reporting sensitivities internally to key management personnel.

Through (profit)/loss	2017 Rm	2016 Rm
JIBAR and SA prime – 100 basis point increase	**33**	11

A 100 basis point decrease in the above rates would have had an equal, but opposite, effect on profit or loss.

28.5 Credit risk

Potential concentration of credit risk consists principally of short-term cash and cash equivalent investments, trade and other receivables, and loans receivable. The group deposits short-term cash surpluses with major banks of high quality credit standing. Trade receivables comprise a large and widespread customer base, and group companies perform ongoing credit evaluations on the financial condition of their customers, and appropriate use is made of credit guarantee insurance. At 30 June 2017, the group did not consider there to be any significant concentration of credit risk that had not been adequately provided for. The amounts presented in the statement of financial position are net of allowances for doubtful debts, estimated by the group companies' management based on prior experience and the current economic environment.

The carrying amounts of financial assets represent the maximum credit exposure.

	2017 Rm	2016 Rm
The maximum exposure to credit risk at the reporting date, without taking account of the value of any collateral obtained, was:		
Non-current financial assets	**51**	3
Current financial assets	**5 306**	4 896
	5 357	4 899
The maximum exposure to credit risk at the reporting date by segment was (carrying amounts):		
Diversified industrial[1]	**1 182**	2 690
Diversified chemical[1]	**1 923**	638
Diversified logistics	**2 252**	1 571
	5 357	4 899

[1] *Prior year disclosure has been restated to reflect the new segments in which the group is now structured, i.e. diversified industrial, diversified chemical and diversified logistics.*

	2017 Rm	2016 Rm
The maximum exposure to credit risk at the reporting date by geographical region was (carrying amounts):		
Southern Africa	**5 322**	4 833
Other regions	**35**	66
	5 357	4 899
Ageing of financial assets		
Not past due or impaired	**4 842**	4 433
Past due 1 to 30 days but not impaired	**315**	270
Past due 31 to 60 days but not impaired	**51**	36
Past due 61 to 90 days but not impaired	**21**	13
Past due more than 90 days but not impaired	**31**	26
Past due but not impaired in full	**97**	121
Past due balance	**168**	221
Impairment allowance	**(71)**	(100)
	5 357	4 899

28. FINANCIAL INSTRUMENTS *(continued)*

28.5 Credit risk *(continued)*

	2017 Rm	2016 Rm
Movement in allowance for doubtful debts and impairments		
Balance at beginning of the year	**(100)**	(71)
Additional provision raised	**(10)**	(25)
Amounts unused reversed	**57**	6
Amounts utilised during the year	**49**	12
Acquired on acquisition of subsidiary companies	**(67)**	(22)
Balance at end of the year	**(71)**	(100)

The group has liens over items sold until full payment has been received from customers. The fair value of collateral held against these loans and receivables is linked to the value of the liens. Furthermore the group has credit insurance to partially cover its exposure to risk on receivables. In addition to the liens over inventories, the group has collateral over other assets of counterparties valued at R371 million (2016: R546 million).

28.6 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected.

The group manages liquidity risk by monitoring forecast cash flows and by ensuring that adequate borrowing facilities are available. Cash surpluses and short-term financing needs of the group are mainly centralised in the central treasury office. The central treasury office invests net cash reserves on the financial markets, mainly in short-term instruments linked to variable interest rates.

The following table details the group's remaining contractual maturity for its financial liabilities. The table has been drawn up on the undiscounted cash flows of financial liabilities based on the earliest date on which the group can be required to pay. The table includes both interest and principal cash flows:

	2017 Rm	2016 Rm
0 to 3 months	**(4 550)**	(3 435)
4 to 12 months	**(863)**	(716)
Year 2	**(1 603)**	(854)
Years 3 to 5	**(7 222)**	(3 974)
After 5 years	**(42)**	(502)
	(14 280)	(9 481)

28.7 Treasury risk

A finance forum, consisting of senior executives of the group, meets on a regular basis to analyse currency and interest rate exposure and to review and, if required, adjust the group's treasury management strategies in the context of prevailing and forecast economic conditions.

28.8 Capital risk

The group manages its capital to ensure that entities in the group will be able to continue as going concerns, while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

		Principal activity	Place of incorporation/ business	Ownership 2017 %	Ownership 2016 %
29.	**MATERIAL SUBSIDIARIES**				
	KAP Automotive Proprietary Limited	To manufacture automotive components used primarily in new vehicle assembly	South Africa	**100**	100
	KAP Bedding Proprietary Limited	To manufacture bed bases, foam and sprung mattresses, together with mattress fabric	South Africa	**100**	100
	KAP Diversified Industrial Proprietary Limited	Incorporates timber plantations and production facilities for panel products. To manufacture PET, UF resin, impregnated paper, PP and HDPE. To manufacture after-market accessories that are fitted through its own franchise fitment centres.	South Africa	**100**	100
	Unitrans Holdings Proprietary Limited	To provide administrative, financial and support services	South Africa	**100**	100
	Unitrans Passenger Proprietary Limited	To provide personnel, tourist, intercity and commuter transport services	South Africa	**100**	100
	Unitrans Supply Chain Solutions Proprietary Limited	To provide and manage supply chain, warehousing and logistics services	South Africa	**100**	100

	Basic R	Company contributions R	Bonuses R	Other benefits R	Total R
30. DIRECTORS' REMUNERATION					
30.1 Remuneration					
Executive directors					
2017					
Gary Noel Chaplin	**4 913 650**	**336 350**	**4 000 000**	**–**	**9 250 000**
Karel Johan Grové[1]	**3 231 376**	**175 124**	**5 750 000**	**–**	**9 156 500**
Frans Hendrik Olivier	**3 079 622**	**275 378**	**2 271 096**	**262 500**	**5 888 596**
	11 224 648	**786 852**	**12 021 096**	**262 500**	**24 295 096**
2016					
Gary Noel Chaplin	3 566 241	433 759	2 664 880	774 966	7 439 846
Karel Johan Grové[1]	4 823 628	582 372	7 056 000	–	12 462 000
John Peter Haveman[2]	2 086 981	413 019	3 332 000	254 672	6 086 672
Frans Hendrik Olivier	2 153 256	181 981	1 866 667	–	4 201 904
	12 630 106	1 611 131	14 919 547	1 029 638	30 190 422

[1] Rnil (2016: R2 000 000) of the bonus amount was paid by Steinhoff Africa Holdings Proprietary Limited. Karel Johan Grové retired from his executive position with the company effective 1 January 2017, but continues to serve on the board of directors as the non-executive deputy chairman.

[2] Rnil (2016: R1 000 000) of the bonus amount was paid by Steinhoff Africa Holdings Proprietary Limited. John Peter Haveman resigned from the board on 15 April 2016.

	2017 R	2016 R
Non-executive directors		
Jacob de Vos du Toit	**747 083**	706 612
Karel Johan Grové[1&3]	**152 315**	–
Markus Johannes Jooste[3]	**295 405**	277 248
Andries Benjamin la Grange[3]	**295 405**	277 248
Ipeleng Nonkululeko Mkhari	**316 190**	364 270
Stephanus Hilgard Müller	**577 825**	529 608
Sandile Hopeson Nomvete	**432 354**	268 515
Patrick Keith Quarmby	**571 500**	516 074
Daniel Maree van der Merwe[3]	**367 377**	345 297
Christiaan Johannes Hattingh van Niekerk	**295 405**	277 248
	4 050 859	3 562 120

[3] Paid to Steinhoff International Holdings Limited as management fees.

All remuneration disclosed above was paid to directors in respect of services rendered as directors of the company.

Directors of the company are considered to be key management personnel.

		Offer date	Number of rights as at 30 June 2016	Number of rights (exercised)/ (expired)/ awarded during the year	Number of rights as at 30 June 2017
30.2	**Share rights**				
	Executive directors				
	Gary Noel Chaplin	December 2013	1 334 188	(1 334 188)	–
		December 2014	1 543 470	–	1 543 470
		December 2015	1 151 851	–	1 151 851
		December 2016	–	1 401 589	1 401 589
			4 029 509	**67 401**	**4 096 910**
	Karel Johan Grové	December 2013	2 818 191	(2 818 191)	–
		December 2014	2 191 160	–	2 191 160
		December 2015	1 556 726	–	1 556 726
		December 2016	–	99 060	99 060
			6 566 077	**(2 719 131)**	**3 846 946**
	Frans Hendrik Olivier	December 2013	560 744	(560 744)	–
		December 2014	507 466	–	507 466
		December 2015	486 191	–	486 191
		December 2016	–	713 328	713 328
			1 554 401	**152 584**	**1 706 985**
	Total executive directors		**12 149 987**	**(2 499 146)**	**9 650 841**

	Number of rights exercised	Value of rights exercised R'000
30. DIRECTORS' REMUNERATION *(continued)*		
30.2 Share rights *(continued)*		
Value of share rights exercised during the year		
2017		
Executive directors[1]		
Gary Noel Chaplin	**1 334 188**	**10 126**
Karel Johan Grové	**2 818 191**	**21 390**
Frans Hendrik Olivier	**560 744**	**4 256**
	4 713 123	**35 772**
2016		
Executive directors[2]		
Gary Noel Chaplin	1 125 336	8 001
Karel Johan Grové	2 377 036	16 901
John Peter Haveman	841 373	5 982
Frans Hendrik Olivier	472 877	3 362
	4 816 622	34 246

[1] The market price of share rights exercised was R7.59 for 1 December 2016.
[2] The market price of share rights exercised was R7.11 for 1 December 2015.

31. JUDGEMENTS AND ESTIMATES

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next financial year are discussed below.

31.1 Significant judgements and estimates:

Consumable biological assets

The fair value of standing timber, which has become marketable, is based on the market price of the estimated recoverable timber volumes, net of harvesting costs. The fair value of younger standing timber is based on the present value of the net cash flows expected to be generated by the plantation at maturity.

Impairment of assets

Investments, goodwill, property, plant and equipment, investment property and intangible assets that have an indefinite useful life, and intangible assets that are not yet ready for use, are assessed annually for impairment.

Fair values in business combinations

Management uses valuation techniques to determine the fair value of assets, liabilities and contingent liabilities acquired in business combination. Fair value of property, plant and equipment is determined by using external valuations as well as rental return on property.

Although a comprehensive valuation exercise is performed for each business combination, the group applies initial accounting for its business combinations that will allow the group a period of one year after the acquisition date to adjust the provisional amounts recognised for a business combination.

31.2 Other judgements and estimates:

Useful lives and residual values

The estimated useful lives for intangible assets with a finite life and property, plant and equipment are:

Intangible assets	
Customer relationships	10 – 20 years
Contracts and licences	Over the term of the contract or project
Software	1 – 3 years

Supplier relationships and patents and trademarks, which are considered to be well-established growing brands and product lines for which there is no foreseeable limit to the period in which these assets are expected to generate cash flows, are classified as indefinite useful life assets. The classification of such assets is reviewed annually.

Indefinite useful life intangible assets, excluding goodwill, recognised at fair value in business combinations, are expected to generate cash flows indefinitely and the carrying value would only be recovered in the event of disposal of such assets. Accordingly, deferred taxation is raised at the capital gains taxation rate on the fair value of such assets exceeding its taxation base.

Property, plant and equipment	
Straight-line basis:	
Buildings	5 – 80 years
Bus fleet	5 – 10 years
Computer equipment	2 – 4 years
Long-haul motor vehicles	5 – 15 years
Motor vehicles	3 – 10 years
Office equipment and furniture	3 – 16 years
Plant and machinery	3 – 60 years
Units-of-production basis:	
Long-haul vehicles	Kilometres
Plant and machinery	Hours

The estimated useful lives and residual values are reviewed annually, taking cognisance of the forecasted commercial and economic realities and through benchmarking of accounting treatments in the specific industries where these assets are used.

31. JUDGEMENTS AND ESTIMATES *(continued)*

31.2 Other judgements and estimates: *(continued)*

Valuation of equity compensation benefits

Management classifies its share-based payment scheme as an equity-settled scheme based on the assessment of its role and that of the employees in the transaction. In applying its judgement, management consulted with external expert advisors in the accounting and share-based payment advisory industry. The critical assumptions, as used in the valuation model, are detailed in note 18.

Post-employment benefit obligations

In applying its judgement to defined benefit plans, management consulted with external expert advisors in the accounting and post-employment benefit obligation industry. The critical estimates, as used in each benefit plan, are detailed in note 21.

Allowance for doubtful debts

The allowance for doubtful debts was based on a combination of specifically identified doubtful debtors and providing for older debtors.

32. NEW/REVISED ACCOUNTING PRONOUNCEMENTS

		Effective date – annual periods commencing on or after
At the date of authorisation of these financial statements, there are standards and interpretations in issue but not yet effective. These include the following standards and interpretations that have not been early adopted and may have an impact on future financial statements:		
IFRS 2	Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 7	Statement of Cash Flows: Disclosure initiative	1 January 2017
IAS 12	Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
IAS 40	Investment Property: Transfers to, or from, investment properties	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRSs 2014 – 2016 Cycle		1 January 2017

32.1 IFRS 2

In June 2016, the IASB issued amendments to IFRS 2 – Share-based Payments (IFRS 2). The amendment clarifies how to account for certain types of share-based payment transactions. The group is in the process of evaluating the impact the amendments will have on the group. The amendments will be adopted by the effective date.

32.2 IFRS 9

In July 2014, the IASB issued the completed version of IFRS 9 – Financial Instruments (IFRS 9). The statement addresses the classification and measurement of financial assets and financial liabilities. The new standard enhances the ability of investors and other users of financial information to understand the accounting of financial assets and financial liabilities and aims to reduce complexity. The group is in the process of evaluating the impact the standard will have on the group. This standard will be adopted by the effective date.

32.3 IFRS 15

In June 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (IFRS 15). The standard is aimed at improving the financial reporting of revenue and improving the comparability of the top line in financial statements globally. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The group is in the process of evaluating the impact the standard will have on the group. This standard will be adopted by the effective date.

32.4 IFRS 16

In January 2016, the IASB issued IFRS 16 – Leases (IFRS 16). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The group is in the process of evaluating the impact the standard will have on the group. This standard will be adopted by the effective date.

32.5 IAS 7

In January 2016, the IASB issued amendments to IAS 7 – Statement of Cash Flows (IAS 7). The amendments require entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The group is in the process of evaluating the impact the amendments will have on the group. The amendments will be adopted by the effective date.

32.6 IAS 12

In January 2016, the IASB issued amendments to IAS 12 – Income Taxes (IAS 12). The amendments clarify how to account for deferred taxation assets related to debt instruments measured at fair value. The group is in the process of evaluating the impact the amendments will have on the group. The amendments will be adopted by the effective date.

32.7 IAS 40

In December 2016, the IASB issued amendments to IAS 40 – Investment Properties (IAS 40). The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 to specify that such a transfer should only be made when there has been a change in use of the property. The group is in the process of evaluating the impact the amendments will have on the group. The amendments will be adopted by the effective date.

32.8 IFRIC 22

In December 2016, the IASB issued IFRIC 22 – Foreign Currency Transactions and Advance Consideration (IFRIC 22). The interpretation clarifies how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The group is in the process of evaluating the impact the interpretation will have on the group. This interpretation will be adopted by the effective date.

32.9 IFRIC 23

In June 2017, the IASB issued IFRIC 23 – Uncertainty over Income Tax Treatments (IFRIC 23). The interpretation clarifies how to reflect uncertainty in accounting for income taxes. The group is in the process of evaluating the impact the interpretation will have on the group. This interpretation will be adopted by the effective date.

32.10 Annual Improvements to IFRSs 2014 – 2016

In December 2016, the IASB issued Annual Improvements to IFRSs 2014 – 2016. The improvements cover the following topics; IFRS 1 – First-time Adoption of International Financial Reporting Standards: Deletions of exemptions for first-time adopters; IFRS 12 – Disclosure of Interests in Other Entities: Clarifying the scope of the standard; IAS 28 – Investments in Associates and Joint Ventures: Measuring an associate or joint venture at fair value. The group is in the process of evaluating the impact the improvements will have on the group. The improvements will be adopted by the effective date.

33. EVENTS AFTER REPORTING DATE

The directors are not aware of any significant events after the reporting date that will have a material effect on the group's results or financial position as presented in these financial statements.

	2017 Number of shareholders	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	2 189	33.69	491 089	0.02
1 001 – 10 000 shares	2 450	37.71	10 444 847	0.39
10 001 – 100 000 shares	1 196	18.41	34 349 730	1.29
100 001 – 1 000 000 shares	466	7.17	162 867 389	6.12
1 000 001 shares and over	196	3.02	2 454 046 314	92.18
	6 497	100.00	2 662 199 369	100.00
Resident/non-resident split				
Resident	6 321	97.29	2 412 132 687	90.61
Non-resident	176	2.71	250 066 682	9.39
	6 497	100.00	2 662 199 369	100.00

	2017 Number of shares	2017 %	2016 Number of shares	2016 %
Shares held by directors of the company				
Gary Noel Chaplin	3 000 000	0.113	1 824 048	0.075
Jacob de Vos du Toit	540 368	0.020	500 000	0.020
Karel Johan Grové	3 403 206	0.128	1 610 451	0.066
Stephanus Hilgard Müller	225 034	0.008	300 004	0.012
Frans Hendrik Olivier	1 050 000	0.039	557 997	0.023
	8 218 608	0.309	4 792 500	0.196
Shares held by directors of group subsidiaries	64 537 161	2.424	54 115 273	2.217
Shares held by management of the company and its group subsidiaries[1]	2 889 882	0.109	837 674	0.034
	75 645 651	2.841	59 745 447	2.448
Public/non-public shareholdings				
Steinhoff International Holdings N.V.[2]	1 144 206 661	42.98	1 049 561 154	43.00
Allan Gray[3]	320 171 984	12.03	319 091 367	13.07
Directors (and associates) of the company and its subsidiaries	72 755 769	2.73	58 907 773	2.41
Management of the company and its subsidiaries	2 889 882	0.11	837 674	0.03
Non-public shareholders[4]	1 540 024 296	57.85	1 428 397 968	58.52
Public shareholders[5]	1 122 175 073	42.15	1 012 538 337	41.48
	2 662 199 369	100.00	2 440 936 305	100.00

[1] *The non-public shareholders in the prior year have been re-presented to include management of the company and its subsidiaries.*
[2] *Shares held via Ainsley Holdings Proprietary Limited, a subsidiary of Steinhoff Africa Holdings Proprietary Limited.*
[3] *Allan Gray is a beneficial shareholder holding more than 10% of the shares of the company at year-end.*
[4] *There were 59 (2016: 54) non-public shareholders at year-end.*
[5] *There were 6 438 (2016: 4 620) public shareholders at year-end.*

Shareholders' diary

Annual general meeting 2017	Monday, 13 November 2017
Announcement of interim results	February 2018
Announcement of annual results and anticipated declaration of dividend/distribution	August 2018
Annual general meeting 2018	November 2018

Corporate information

KAP Industrial Holdings Limited

Business address
Block D, De Wagenweg
Stellentia Road
Stellenbosch
7600

Postal address
PO Box 18
Stellenbosch
7599

Telephone
+27 21 808 0900

Facsimile
+27 21 808 0901

E-mail
info@kap.co.za

Website
www.kap.co.za

Registered address
28 Sixth Street
Wynberg, Sandton
2090

PO Box 1955
Bramley
2018

Registration number
1978/000181/06

Share code
KAP

ISIN
ZAE000171963

Company secretary
Steinhoff Secretarial Services
Proprietary Limited
28 Sixth Street
Wynberg, Sandton
2090

PO Box 1955
Bramley
2018

External auditors
Deloitte & Touche

Sponsor
PSG Capital Proprietary Limited
First Floor, Ou Kollege
35 Church Street
Stellenbosch
7600

PO Box 7403
Stellenbosch
7599

Telephone
+27 21 887 9602

Facsimile
+27 21 887 9624

Bankers
FirstRand Bank Limited
Nedbank Limited
The Standard Bank
of South Africa Limited
Absa Bank Limited

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

PO Box, 61051
Marshalltown
2107

Telephone
+27 11 370 5000

Facsimile
+27 11 688 7710