INTEGRATED REPORT 2018

KAP

Integrated into every day

CONTENTS

www.**kap**.co.za

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

Diversified industrial

INTEGRATED TIMBER

Integrated forestry and timber manufacturing operations with primary and upgrading processes

AUTOMOTIVE COMPONENTS

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

INTEGRATED BEDDING

Manufacture of foam, fabrics, springs, bases and branded mattresses

Diversified chemical

POLYMERS

Manufacture of polyethylene terephthalate ('PET'), high-density polyethylene ('HDPE') and polypropylene ('PP')

RESINS

Manufacture of formaldehyde and urea formaldehyde ('UF') resins

Diversified logistics

CONTRACTUAL LOGISTICS

Provision of specialised contractual supply chain and logistics services

PASSENGER TRANSPORT

Provision of personnel, commuter, intercity and tourism transport services

Critical factors that shape our strategy

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.

Being the leaders in the markets we serve
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 barrier to entry industries
The group's significant experience, scale and specialisation provide a competitive advantage while access to key raw materials, licences to operate, specialist skills and expertise and economies of scale contribute to higher barriers to entry.

Sustainable margins through specialisation
The group is focused on adding value to its customers through the provision of value-added products and services, thereby mitigating risk associated with commodity markets.

Sustainable earnings through diversity
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.

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 in African markets to provide a competitive advantage.

Resulting in strong cash flow generation

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

Strategically aligned investment

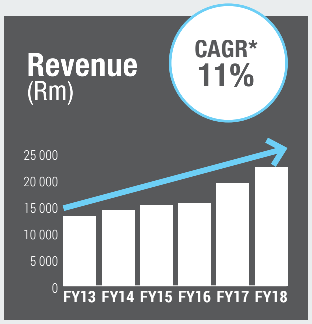
in technology, products, process and people to enhance competitive positioning.

Market share growth

Disciplined execution of the group’s strategy has resulted in ...

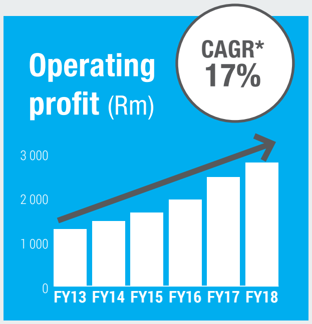
Revenue from continuing operations up on prior year by **16%** to

R23.0bn



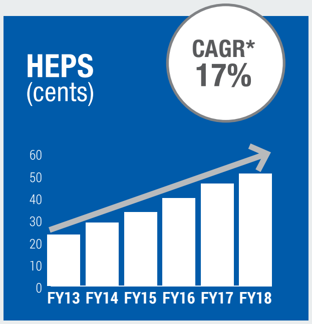
Operating profit from continuing operations up on prior year by **15%** to

R2.9bn



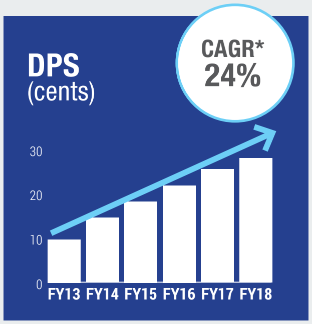
Headline earnings per share from continuing operations up on prior year by

9%



Cash generated from operations up on prior year by **12%** to

R3.3bn

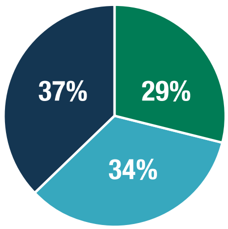


** Compound annual growth rate of continuing operations.*

Group segmental highlights

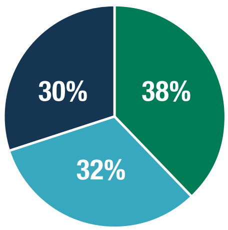
Segmental split

Revenue



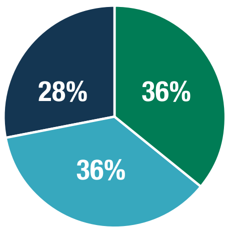
Diversified industrial	Diversified chemical	Diversified logistics
Revenue ↑ by **7%** to **R6 801m**	Revenue ↑ by **47%** to **R8 018m**	Revenue ↑ by **4%** to **R8 971m**

Operating profit



Diversified industrial	Diversified chemical	Diversified logistics
Operating profit ↑ by **17%** to **R1 100m**	Operating profit ↑ by **38%** to **R925m**	Operating profit ↓ by **5%** to **R842m**

Total assets



Diversified industrial	Diversified chemical	Diversified logistics
Total assets ↑ by **3%** to **R9 458m**	Total assets ↑ by **11%** to **R9 292m**	Total assets ↑ by **3%** to **R7 280m**

KAP's results for the year reflect the resilience of the diversified business model.

We live in a fascinating time in history. Never in my career have I observed the extent of integration of social, political, economic and business environments into a single co-dependent system. There are global and national events taking place and decisions being made on an almost daily basis that have far-reaching consequences. This is a very challenging environment in which to operate – both in terms of investing and running a business – most notably as a result of the frequency of these major events, the speed at which the resulting changes take place and are communicated, and the depth of impact of these changes.

JAAP DU TOIT

During the 2018 financial year, KAP has certainly been exposed to an extraordinary environment, and I am pleased with the manner in which the board and management have navigated the situation. The board has functioned well and has maintained its independence, and the cooperation between the board and management has been good. It has been important in this environment not to overreact and to take well-considered decisions in order to maintain the clear and steady direction of the company.

Governance

Following recent events within Steinhoff International Holdings N.V. ('Steinhoff'), the KAP board of directors resolved in December 2017 to initiate certain measures in order to create greater independence for KAP, as compared to the previously integrated relationship between KAP and Steinhoff. While Steinhoff remains a 25.92% shareholder in KAP, KAP is independently funded, independently managed with strong governance structures and maintains a clear strategy with a very effective management team. A full corporate services function has recently also been established to allow the company to continue to operate and grow independently. The composition of the board and its subcommittees remains in line with King IV™ and they are governed by clear terms of reference. A new investment committee has been established and certain changes have been made to the composition of the various subcommittees in order to improve the independence of these committees and the effectiveness of the board.

Corporate citizenship

The company continued to pursue a responsible and balanced approach to its environmental and social responsibilities. The company's recent inclusion on the FTSE4Good Index provides the framework against which KAP will measure its compliance and progress in this regard, compared to emerging market industry best practice. Significant progress was made during the year on consolidating various environmental, social and governance ('ESG') activities that the company undertakes on a continuous basis and to report these more effectively in line with FTSE4Good Index guidelines.

It is exciting to see how management have embraced this as a sustainable approach to business.

B-BBEE

The company remains committed to the principles of B-BBEE and continues to pursue a balanced approach to the transformational impact thereof. The company concluded a transaction in its Contractual Logistics division, which became effective on 3 September 2018, and provides its South African logistics operations with > 51% black and > 30% black-women ownership. The company also founded the Sakhumzi Foundation Empowerment Trust with the objective of consolidating KAP's various empowerment activities within an independent entity, with enduring benefits to a broad range of beneficiaries.

People

A strategic objective of KAP is to be an industry leader in its chosen markets. This implies a requirement to attract and retain the best people in industry and to consistently improve their skills. The increased focus on leadership development, succession planning, employment equity and training and development provides a sound platform for the continued growth of the company.

The remuneration structures in the company were adjusted during the year in order to encourage a more balanced approach to the running of the business and to ensure that growth is sustainable over the long term. In this regard, the aspects of B-BBEE, strategy execution, compliance and ESG were included as measurement criteria in the company's incentive schemes, in addition to the traditional financial targets.

Performance

I am pleased with the company's performance for the year under review and congratulate management for their efforts in challenging circumstances. Revenue from continuing operations increased by 16% and operating profit before capital items from continuing operations increased by 15%, resulting in an increase in headline earnings from continuing operations of 9%. An important focus area for the year was the completion of certain major projects and the integration of certain acquisitions, which were successfully concluded. Custodianship of the balance sheet was sound in terms of the capital structure, strategic investments and working capital management. It is pleasing to note that, following the major acquisitions in the prior year and the major capital projects completed, the gearing level at year-end was once again below the 50% target level.

These results reflect, firstly, the value in the diversity of the group's operations, and secondly, the value in KAP's business model, with growth being generated from a combination of acquisitions, capital expansions and organic growth opportunities.

Prospects

It is very encouraging that, in spite of major disruptions during the year, the company produced strong growth in revenue and earnings and maintained a strong balance sheet with a conservative funding structure. The company's strategy remains intact and management are engaged and excited about the future of the business. Management have demonstrated a strong ability to execute on acquisitions, major expansion projects and operational targets, which I believe will continue to drive growth and expansion of the company. I am excited about the company's prospects.

Appreciation

I record my appreciation to my fellow board members for their support, uncompromising commitment and clear thinking during a very challenging time.

Mr Danie van der Merwe has decided not to stand for re-election to the board at the forthcoming AGM as a result of his various other commitments. I'd like to thank Danie for his contribution to the company and wish him well in his future endeavours.

Mr Chris van Niekerk has decided to retire and will therefore also not stand for re-election to the board at the forthcoming AGM. Chris has had a long history with the company through its underlying operations. I'd like to thank him for his contribution to the group and wish him well in his retirement.

Jaap du Toit
Independent non-executive chairman

The company is focused on providing sustainable value to all its stakeholders.

GARY CHAPLIN

The 2018 financial year was an eventful year in South Africa, dominated by major political changes and a major corporate failure. The proximity of these events to the business and operating environment of KAP resulted in a significant distraction to the normal running of the business. In spite of this, KAP continued to grow, showing revenue, profit and cash growth, while successfully implementing a number of major expansion projects and concluding the integration of its recent acquisitions. This is a clear reflection of the resilience of the KAP business model and the strength of management in the organisation.

Governance

The recent events at Steinhoff International Holdings N.V. ('Steinhoff') initiated a number of actions within KAP directed toward strengthening its governance framework to ensure the effective operation of the board and its subcommittees and to ensure sustainable growth for the benefit of all stakeholders.

The establishment of a full corporate services function was concluded during the year in order to replace those services previously outsourced. These corporate services include treasury, secretarial, tax, corporate finance, legal, and internal audit. In addition, the company adopted a consolidated approach to the areas of compliance and sustainability, which will further strengthen the governance and internal control environments. This has created a broader base of knowledge and expertise within KAP, created division of responsibilities, increased the depth of management and provided for improved succession planning opportunities.

Sustainability

Management recognises its responsibility toward various stakeholder groups in addition to its shareholders, including its employees, suppliers, customers and the communities located in the areas within which its businesses operate. The company also recognises its responsibility for the impact of its operations on the environment and takes a proactive approach to minimising this. The company subscribes to the FTSE4Good Index and uses this as a framework to manage compliance and progress in the areas of environment, social and governance ('ESG') against industry best practice. A senior KAP executive has been tasked with the responsibility of driving sustainability for the group and ESG targets have been integrated into employee remuneration structures.

The environmental impact of discarded plastics has been widely publicised and public sentiment against the use of 'single-use plastics' has recently gained momentum. This is an extremely complex issue that will potentially entail legislative amendments, industry cooperation and changes in consumer behaviour and waste management practices. KAP is committed to working constructively with relevant stakeholders to create a sustainable solution to the issue. An enormous amount of good work is in progress in this regard, and we are confident that an integrated solution will be formulated.

B-BBEE

The company remains committed to transformation in line with the B-BBEE Codes of Good Practice and maintained its level 7 rating, in spite of significant changes to its shareholding during the year. Management view sustainable transformation not only as a redress of historic inequality, but also as a business imperative to sustainable growth and, as a result, several initiatives are in progress to extend transformation into the future. The conclusion of a B-BBEE transaction in the South African operations of Unitrans Contractual Logistics is an exciting step in this regard.

Sakhumzi Foundation Empowerment Trust

During the year, KAP founded the Sakhumzi Foundation Empowerment Trust as a broad-based ownership trust, as defined in the B-BBEE Codes of Good Practice, and committed to supporting the foundation with the primary objective of consolidating a broad range of B-BBEE initiatives into larger, more meaningful projects. This is an exciting initiative in KAP's objectives of driving transformation through grassroots education and business development.

Financial performance

The company produced a strong set of results for the year, with revenue from continuing operations increasing by 16% to R22 985 million (2017: R19 783 million) and operating profit before capital items from continuing operations increasing by 15% to R2 867 million (2017: R2 499 million). Operating margin remained stable at 12.5% (2017: 12.6%). Cash generated from operations increased by 12% to R3 308 million (2017: R2 958 million).

The balance sheet was well managed. Although net working capital increased by R707 million to R1 330 million, this more fairly represents the increased scale of operations of the company. Capital expenditure of R1 648 million was mainly directed toward expansion of the PET plant in Durban, replacement vehicle model introductions, logistics long-haul vehicles and passenger transport vehicles, in line with the expansionary objectives of the company.

Successfully funding the activities of the company remains an important role of management. The reduction in gearing from 52% to 47% as a result of the strong operating performance of the company and the improvement in the company's credit rating from A(za) to A+(za) with a stable rating outlook, provide a solid platform for the future funding requirements of the company.

Corporate activity

The group concluded several transactions during the period, in accordance with its strategy:

- A series of transactions and funding arrangements were concluded in order to facilitate greater than 51% 'black-ownership' and greater than 30% 'black women ownership' of its South African logistics operations, Unitrans Supply Chain Solutions Proprietary Limited ('USCS'). Associated with this was the acquisition by USCS of the remaining shares of Xinergistix Proprietary Limited, resulting in Xinergistix becoming a wholly owned subsidiary of USCS. The effective date of these transactions was 3 September 2018.
- Support-a-Paedic Proprietary Limited and RME Components Proprietary Limited were acquired effective 1 December 2017 for R48 million, in order to provide the Integrated Bedding division with access to new markets and brands.
- On 1 December 2017, Southern Star Logistics Proprietary Limited (a 50%-owned subsidiary) was formed in order to facilitate growth in the Swaziland territory.
- KAP acquired 45% minority interests in Crystal Cool Holdings Proprietary Limited on 1 July 2017 for R10 million in order to consolidate and streamline operations in the Contractual Logistics division.
- The disposal of 23% of Feltex Fehrer Proprietary Limited to the Automotive Components division's technology partner, F.S. Fehrer Automotive GmbH, was concluded effective 1 July 2017 for R58 million in terms of a call option.
- The disposal of Glodina was concluded on 27 February 2018 for approximately R110 million and became effective on 3 September 2018.

Segmental review

DIVERSIFIED INDUSTRIAL

Revenue for the diversified industrial segment increased by 7% to R6 801 million, while the operating profit of the segment increased by 17% to R1 100 million.

The Integrated Timber division performed well following recent upgrades to its Piet Retief particleboard plant and continued focus on its value-add product strategy, which provided revenue growth and margin expansion. A further production capacity expansion project was successfully completed at its medium-density fibreboard plant in Johannesburg. The division's forestry, sawmilling and pole operations performed satisfactorily notwithstanding the operational impact of major fires that affected the southern Cape region during June 2017.

The Automotive Components division successfully completed the industrialisation of two replacement vehicle models being assembled in the country. The division continued to show growth, albeit modest, in spite of the lower industry vehicle assembly volumes that are normally associated with replacement model introductions. The increased parts penetration into these replacement models resulted in market share gains for the division. Autovest performed below expectation in a subdued motor retail environment.

The Integrated Bedding division continued to show strong growth as a result of recent capital investments in infrastructure and new technology manufacturing equipment and through further integration into the manufacture of its primary bedding-related component raw materials. The acquisition of Support-a-Paedic provided access to new markets and brands.

DIVERSIFIED CHEMICAL

Revenue for the diversified chemical segment increased by 47% to R8 018 million, while the operating profit of the segment increased by 38% to R925 million.

The Chemical division successfully concluded the integration of Hosaf and Safripol into a single polymers business, which was recently launched under a reformatted Safripol brand. This resulted in increased operational efficiencies and provided access to broader markets for the division. Both the PP and HDPE product streams performed ahead of expectation as a result of strong demand for the products and healthy industry margins. The PET product stream produced a disappointing result due to the delayed start-up of a major expansion project at its plant in Durban. The expansion project was, however, successfully completed and tested to full capacity. Domestic and international demand for PET remains strong with healthy industry margins, which has supported the plant running close to full capacity since year-end. The division's resin operation produced a pleasing result, with strong demand for the product.

DIVERSIFIED LOGISTICS

Revenue for the diversified logistics segment increased by 4% to R8 971 million, while the operating profit of the segment decreased by 5% to R842 million.

The Contractual Logistics division produced a disappointing result. After a good first half of the financial year, the division found economic conditions particularly challenging during the second half with reduced volumes and pricing pressure across its main areas of operations. The recent acquisitions of this division performed ahead of expectation, while efforts toward operational efficiencies and cost control continued in the traditional operations. Certain strategic contracts were successfully renewed.

The Passenger Transport division produced a pleasing result in spite of a subdued economic environment and a major industry strike. The intercity operations continued to perform below expectation due to increased competitor activity and lower passenger numbers. The personnel, commuter and tourism operations performed well, as did the company's personnel operations in Mozambique.

Prospects

The diverse nature of the group's operations, with exposure to various sectors, business models and currencies, and the recent investments in organic and acquisitive expansion support the continued growth of the company.

During the last 24 months, KAP has made significant investments in the expansion of its operations and concluded several acquisitions and transactions including the USCS B-BBEE transaction. The primary focus of management in the year ahead will therefore be on optimising its expanded operations and growing its market share in all areas of operation in order to extract full value from these recent investments and transactions.

Management remain optimistic that this focus will provide continued operational growth and will result in a strong balance sheet, sustainable earnings and good cash generation in order to facilitate future expansion activities and acquisition opportunities in terms of its strategy.

Appreciation

This has been an extraordinary year for KAP. On behalf of the board of directors, I express my sincere gratitude to shareholders and financial institutions for their overwhelming support during a challenging and uncertain time, to the 20 163 staff members of KAP for their unwavering commitment and dedication, and to our customers, suppliers and business partners, who continue to support the growth and expansion of our company.

My personal thanks to the board of directors, under the leadership of our chairman, Jaap de Vos du Toit, for their invaluable guidance and support over the past year.

Gary Chaplin
Chief executive officer

The primary focus of management in the year ahead will be on optimising KAP's expanded operations and growing its market share in all areas of operation as a base to facilitate future expansion activities.

During the year, the group continued to grow its business, showing revenue, profit and cash growth, while successfully implementing several major expansion projects and concluding the integration of its recent acquisitions.

KEY METRICS (from continued operations)	**FY18**	FY17	Variance
Revenue (Rm)	**22 985**	19 783	16%
Operating profit before capital items (Rm)	**2 867**	2 499	15%
Operating margin	**12.5%**	12.6%	(0.1%)
Headline earnings (Rm)	**1 615**	1 431	13%
Weighted average number of ordinary shares (m)	**2 671**	2 574	4%
Headline earnings per share (cents)	**60.5**	55.6	9%
Effective tax rate	**23.9%**	25.8%	(1.9%)

The group remained focused on the execution of its strategy in a challenging year and continued to invest in strategically aligned businesses that operate with high barriers to entry. This strategy enhances the group's quality of earnings, resulting in solid and more sustainable margins, while also contributing to a strong cash conversion ratio.

During the year, the group continued to grow its business, showing revenue, profit and cash growth, while successfully implementing several major expansion projects and concluding the integration of its recent acquisitions.

This resulted in revenue growth of 16% to R22 985 million and growth, in operating profit before capital items of 15% to R2 867 million, despite the impact of the delayed start-up of a major expansion to its polyethylene terephthalate ('PET') plant in Durban and challenging economic conditions during the second half of the financial year, which had a direct impact on the Contractual Logistics division, with lower volumes and pricing pressure across its main areas of operations.

Income statement

Revenue

Revenue increased by 16% to R22 985 million (FY17: R19 783 million) and increased in all three segments as a result of both organic expansion and acquisitions. The diversified industrial segment increased revenue by 7% to R6 801 million, the diversified chemical segment increased revenue by 47% to R8 018 million and the diversified logistics segment increased revenue by 4% to R8 971 million. Revenue growth by segment and division is illustrated in **figure 1**.

Operating profit and margin before capital items

The operating profit before capital items increased by 15% to R2 867 million (2017: R2 499 million). The operating profit of the diversified industrial segment increased by 17% to R1 100 million, with the operating margin increasing to 16.2%. The margin was positively impacted by recent capital investments, integration efficiencies and improved product mix. The operating profit of the diversified chemical segment increased by 38% to R925 million, while the operating margin decreased to 11.5%. The margin was negatively impacted by the extended production stoppage associated with the expansion of the PET plant, which is considered to be non-recurring. The operating profit of the diversified logistics segment decreased by 5% to R842 million and the operating margin decreased to 9.4%. The margin was impacted by the challenging economic conditions in the second half of the financial year.

The group's overall operating margin remained stable at 12.5%, which clearly illustrates the value of the group's diversified business model. See **figures 2** and **3**.

FIGURE 1: REVENUE ANALYSIS

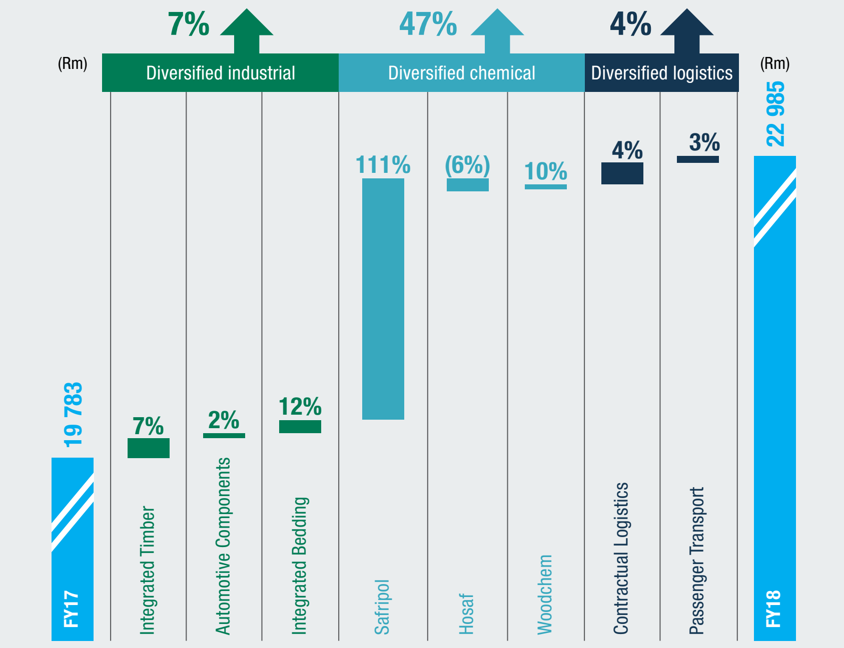


FIGURE 2: OPERATING PROFIT ANALYSIS

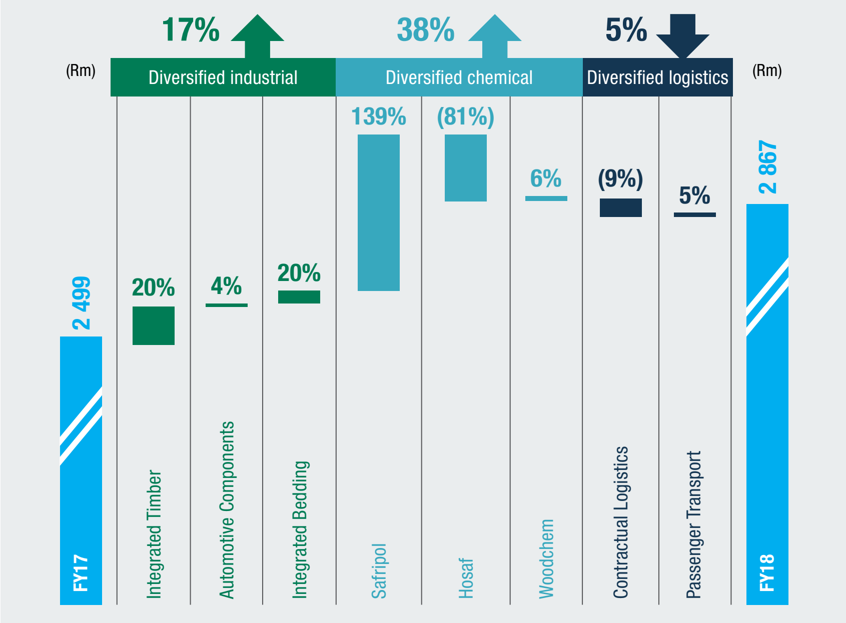
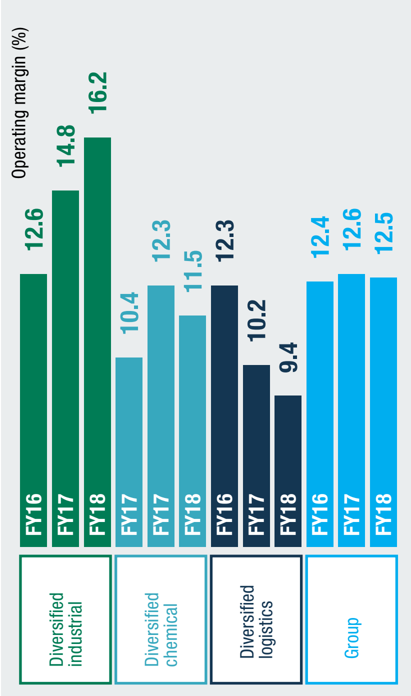


FIGURE 3: OPERATING MARGIN ANALYSIS



Headline earnings

Headline earnings increased by 13% to R1 615 million (FY17: R1 431 million) as illustrated in **figure 4.**

FIGURE 4: RECONCILIATION OF HEADLINE EARNINGS	FY18 Rm	FY17 Rm	Variance
Profit attributable to owners of the parent	**1 559**	1 405	11%
Capital items	**66**	34	
Tax effect on capital items	**(10)**	(9)	
Non-controlling interests' portion		1	
Headline earnings	**1 615**	1 431	13%

The weighted average number of ordinary shares increased by 4% to 2 671 million shares. The increase was due to the full-year impact of the clawback offer implemented in the 2017 financial year, as well as shares issued in the current year for the acquisition of Support-a-Paedic and share scheme vesting. Accordingly, the headline earnings per share increased by 9% to 60.5 cents (FY17: 55.6 cents).

Tax rate

The effective tax rate decreased to 23.9% from 25.8%, mainly due to incentives related to the group's investments in expanding manufacturing capacity during the year.

Discontinued operations

During the year, an agreement was concluded to dispose of Glodina, a non-core operation that produces towels, subject to competition authority approval. The transaction became effective on 3 September 2018.

Balance sheet

FIGURE 5: ASSET BASE (from continued operations)	FY18 Rm	% Total	FY17 Rm
Plant and machinery	**5 367**	27%	4 026
Vehicles and buses	**4 381**	22%	4 090
Intangible assets	**4 109**	21%	4 082
Land and buildings	**2 244**	11%	2 120
Biological assets	**1 919**	10%	1 978
Goodwill	**1 283**	6%	1 251
Capital work-in-progress	**385**	2%	1 383
Other	**136**	1%	213
Total	**19 824**	100%	19 143

Property, plant and equipment
The group's earnings are underpinned by a solid asset base of land holdings, forestry assets, infrastructure, plant and machinery and vehicles. This strong asset base of new technology assets will support future competitiveness and growth.

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 secure access to strategic raw material inputs, create barriers to entry and secure market leadership. Intangible assets and goodwill are assessed annually in terms of International Financial Reporting Standards ('IFRS'). Based on these assessments, no impairment of these assets was required during the 2018 financial year.

Biological assets
The group's biological assets (mainly timber plantations) provide sustainable access to strategic raw material inputs and support earnings and sustainability within the Integrated Timber division. The valuation technique used in respect of the plantations is consistent with that used in previous years. The southern Cape experienced devastating 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. During the year, the group salvaged timber to the value of R122 million from the affected areas, of which R57 million was utilised in the operations during the year and R65 million remains preserved for use in the near future. Management estimates that it will be able to salvage and utilise a further R35 million of standing timber. In total, it is estimated that timber to the value of R157 million will be salvaged and utilised from the affected areas. The value of timber not salvaged was comprehensively covered by the group's insurance.

Net working capital
Net working capital (excluding assets held for sale) increased by R707 million to R1 330 million (FY17: R623 million).

Inventories increased by R418 million, mainly due to increased stockholding associated with the expansion at the group's PET operations and accelerated sawlog harvesting following the extensive plantation fires in the southern Cape mentioned above. Accounts receivable increased by R361 million, mainly due to longer-dated payments for exports of PET. Accounts payables increased by R72 million. These net working capital levels reflect a more sustainable level, bearing in mind the increased scale of the group.

Debt structure and finance costs
It is imperative that the group maintains a sound capital structure and has access to sufficient funding to support its operations and to facilitate continued growth. The objective of the group's capital management strategy is to maintain an optimal level of capital, diversified in nature, at competitive rates, sourced from a variety of funding alternatives. The group's central treasury function supports operations and monitors gearing on a group-wide basis, ensuring that the group treasury and funding requirements operate in line with internal serviceability ratios set by the board.

Net interest-bearing debt amounted to R5 727 million (FY17: R5 777 million). The net debt to EBITDA ratio of 1.5 times and the EBITDA interest cover ratio of 5.5 times are well within the group's internal targets. This positions the group well in terms of funding future growth and expansion activities.

Net finance charges were 37% higher at R706 million (FY17: R515 million), mainly due to the inclusion of the Safripol acquisition debt of R2 425 million for 12 months compared to six months in the prior year, as well as the additional finance costs related to the various expansion projects and capital expenditure during the year.

Gearing reduced to 47% (FY17: 52%), in line with management's expectation.

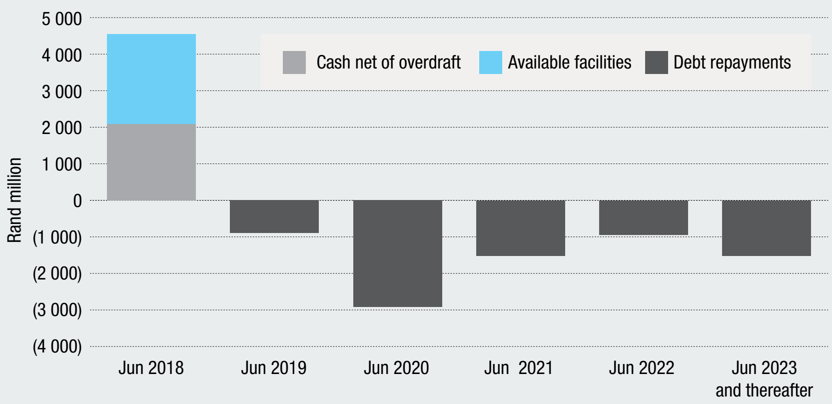
The debt structure and debt serviceability ratios are reflected as follows in **figure 6**:

FIGURE 6: THE DEBT STRUCTURE AND CAPACITY RATIOS	30 Jun 2018 Rm	30 Jun 2017 Rm
Interest-bearing long-term liabilities	**6 922**	7 307
Interest-bearing short-term liabilities	**956**	405
Bank overdrafts and short-term facilities	**–**	74
Cash and cash equivalents	**(2 151)**	(2 009)
Net interest-bearing debt	**5 727**	5 777
EBITDA*	**3 912**	3 361
Net finance charges*	**706**	515
EBITDA: interest cover (times)	**5.5**	6.5
Net debt: EBITDA (times)	**1.5**	1.7
Gearing %	**47%**	52%

** From continuing operations.*

The debt maturity profile is reflected in **figure 7**.

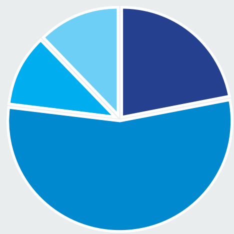
FIGURE 7: MATURITY OF NET INTEREST-BEARING DEBT AS AT 30 JUNE 2018



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 8** and **9**.

Global Credit Rating Co Proprietary Limited reviewed KAP's credit rating in October 2017, and upgraded KAP from A(za) to A+(za) with a stable rating outlook.

FIGURE 8: FUNDING STRUCTURE



- **22%** Banks and financial institutions
- **55%** Listed notes
- **11%** Unlisted notes
- **12%** Unutilised facility

FIGURE 9: FIXED VERSUS FLOATING INTEREST RATE FUNDING

- **66%** Floating interest rate funding
- **34%** Fixed interest rate funding

Statement of cash flows

Cash generated from operations

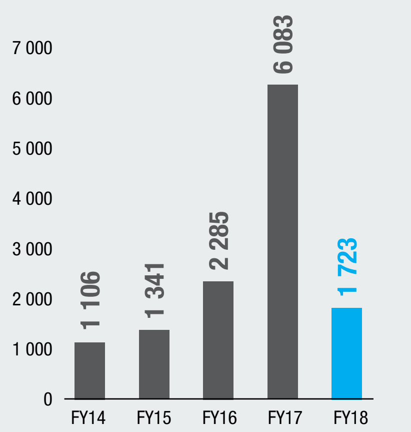
Cash generated from operations increased by 12% to R3 308 million from R2 958 million. The cash conversion ratio of operating profit before capital items into cash generated from operations was 116% and is in line with management's expectations.

Capital expenditure and acquisitions

The group's focus on investing in organic expansion activities and acquisitions is reflected in the R1 723 million (FY17: R6 083 million) invested during the year, which includes R481 million for the completion of the R1 223 million expansion of the PET plant (excluding capitalised interest).

During the last three financial years, the group invested R10 091 million in acquisitions and investments in new technology plant and equipment, vehicles, buses and intangible assets as illustrated in **figure 10**. It is anticipated that capital expenditure will decrease in FY19 as most of the large divisional projects were completed during the year.

FIGURE 10: CAPEX AND ACQUISITION INVESTMENTS (RM)



The split of capital expenditure per segment is illustrated in **figure 11**:

FIGURE 11: SPLIT OF CAPITAL EXPENDITURE PER SEGMENT	FY18 Rm	Total %	FY17 Rm
Diversified industrial	**238**	14	847
Diversified chemical	**579**	35	613
Diversified logistics	**831**	51	780
Total	**1 648**	100	2 240

Dividends

With improved earnings and strong cash generation, the group increased its dividend per share by 10% from 21 cents to 23 cents, to be paid from income reserves.

Corporate activity

The group concluded the following significant transactions during the period, in accordance with its strategy.

The group concluded a series of transactions and funding arrangements to facilitate greater than 51% black ownership and greater than 30% black-women ownership of its South African logistics operations, Unitrans Supply Chain Solutions Proprietary Limited ('USCS'). This series of transactions resulted in the following:

- Effective sale of 23.02% of USCS to a wholly owned entity of FWG Pieters Trust.
- Effective sale of 21.98% of USCS to a wholly owned entity of the Sakhumzi Foundation Empowerment Trust.
- Acquisition by USCS of the remaining shares of Xinergistix Proprietary Limited, resulting in it being a wholly owned subsidiary of USCS.

The transactions were successfully implemented on 3 September 2018.

Support-a-Paedic Proprietary Limited and RME Components Proprietary Limited were acquired effective 1 December 2017 for R48 million, in order to provide the Integrated Bedding division with access to new markets and brands.

On 1 December 2017, Southern Star Logistics Proprietary Limited (a 50% subsidiary) was formed to facilitate growth for the Contractual Logistics division in the Swaziland territory. Certain assets from KAP-owned subsidiaries were combined with a R92 million contribution of assets from an external party.

The disposal of 23% of Feltex Fehrer Proprietary Limited to the Automotive Components division's technology partner F.S. Fehrer Automotive GmbH, was concluded effective 1 July 2017 for R58 million in terms of a call option.

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 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 managed centrally. The group's risk management process and internal control environment remains a key focus area. The group provides continuous assurance of the control environment through internal audit.

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 receivables 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 program, 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 to identify improvement areas and implement resultant action plans accordingly.

Governance

The decentralised business model that KAP employs allows the divisions to operate autonomously with a strong entrepreneurial culture, while KAP corporate provides a governance framework through which the divisions are managed and internal controls are monitored.

The primary control environment of the company is key to the success of the decentralised model, both in terms of governance and providing effective support to divisional management to grow their businesses.

KAP acknowledges the importance of technology and the benefits that are unlocked through accuracy and visibility of information, as well as the improved control environment that is related to robust systems. The divisions all operate on separate enterprise resource management ('ERP') systems appropriate to their businesses, and continuous investment and upgrades are done to these systems.

A consolidation reporting system has been implemented in the past two years, which has improved the visibility and accuracy of financial reporting. Detailed divisional management accounts are available within five days of month-end, providing enhanced insight into the divisional results.

KAP previously outsourced certain corporate services, which included corporate finance, secretarial, legal, taxation, and internal audit services. In December 2017, KAP made the decision to establish its own corporate services functionality, which was concluded in April 2018.

The company now has a corporate services function that consists of competent, well-qualified, experienced people, focused only on KAP. The company also established new corporate offices in Stellenbosch and Johannesburg.

The company operates with a centralised treasury function that raises funding to deploy in the divisions. The divisional funding structures and divisional balance sheet structures are determined centrally, according to the requirements of each division. Cash management is controlled and reported centrally to ensure that it is managed effectively and provides daily full visibility of all bank accounts in the group.

All the governance structures of the company were reviewed during the year to ensure that they are appropriate and function appropriately. The board, subcommittees terms of reference and policies were reviewed. The internal audit function was independently reviewed and the findings were presented to the audit and risk committee.

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 executing the group's strategy and ensuring that an adequate capital structure is maintained.

Frans Olivier
Chief financial officer

CHIEF FINANCIAL OFFICER'S REPORT / Seven-year financial review

from continuing operations

A summary of the group's key financial performance measurements is set out below. It is evident from the performance over the seven-year period that the group has, in line with its strategy, delivered consistent growth. This has been achieved through a combination of organic expansion and complementary acquisitions. Return on net assets and return on equity declined in 2018 as a result of capital investments where the associated returns will be earned in the forthcoming financial years.

	Financial definition	Five-year CAGR%	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Extracts from income statement – continued operations									
Revenue		11%	**22 985**	19 783	16 047	15 664	14 471	13 513	10 481
Operating profit		17%	**2 867**	2 499	1 997	1 666	1 480	1 309	1 098
EBITDA	1	14%	**3 912**	3 361	2 797	2 450	2 230	2 050	1 727
Net finance charges			**706**	515	312	289	327	364	381
Income tax expense			**508**	510	487	261	309	272	218
Headline earnings		20%	**1 615**	1 431	1 172	969	801	658	485
Extracts from balance sheet									
Intangible assets and goodwill			**5 392**	5 333	2 078	1 598	1 290	1 311	1 311
Property, plant and equipment and investment property			**12 513**	11 832	8 128	7 129	6 633	6 394	6 129
Consumable biological assets			**1 919**	1 978	1 890	1 824	1 875	1 761	1 656
Net working capital	2		**1 330**	623	(27)	352	170	267	689
Net operating assets	3	17%	**21 154**	19 766	12 069	10 903	9 968	9 733	9 785
Gross interest-bearing debt			**7 878**	7 712	4 635	3 456	3 504	4 269	4 143
Bank and overdraft			**(2 151)**	(1 935)	(2 566)	(1 367)	(828)	(1 179)	(603)
Net interest-bearing debt			**5 727**	5 777	2 069	2 089	2 676	3 090	3 540
Equity		15%	**12 155**	11 035	8 667	7 761	6 709	6 166	5 564
Extracts from cash flow statement									
Cash generated from operations			**3 308**	2 958	3 285	2 275	1 888	2 249	1 906
Cash flow from investing activities*			**(1 723)**	(6 083)	(2 285)	(871)	(828)	(1 159)	(617)
Free cash flow	4		**523**	(4 046)	395	891	588	566	847
Key information									
Headline earnings per share (cents)		17%	**60.5**	55.6	48.2	40.6	34.1	28.1	24.0
Dividends per share (cents)		24%	**23**	21	18	15	12	8	6
Net asset value per share (cents)		12%	**454**	415	355	320	286	263	238
Weighted average number of shares (million)		3%	**2 671**	2 574	2 433	2 384	2 346	2 342	2 019
Shares in issue (million)		3%	**2 678**	2 662	2 441	2 423	2 346	2 346	2 337
Ratios									
Operating margin – %	5		**12.5%**	12.6%	12.4%	10.6%	10.2%	9.7%	10.5%
EBITDA margin – %	6		**17.0%**	17.0%	17.4%	15.6%	15.4%	15.2%	16.5%
Effective tax rate – %	7		**23.9%**	25.8%	28.8%	19.3%	26.5%	27.7%	27.0%
Cash conversion ratio	8		**116%**	121%	166%	137%	129%	167%	172%
Gearing %	9		**47%**	52%	24%	27%	40%	50%	64%
Gearing % – gross debt	10		**65%**	70%	53%	45%	52%	69%	74%
EBITDA:interest cover (times)			**5.5**	6.5	9.0	8.5	6.8	5.6	4.5
Net debt:EBITDA (times)			**1.5**	1.7	0.7	0.9	1.2	1.5	2.0
Gross debt:EBITDA (times)			**2.0**	2.3	1.7	1.4	1.6	2.1	2.4
RONA % (return on net assets)	11		**14.0%**	15.7%	17.4%	16.0%	15.0%	13.4%	12.4%
ROE % (return on equity)	12		**13.3%**	13.6%	14.0%	12.3%	11.2%	11.5%	12.1%

** Cash flow from investing activities has been restated from 2012 to 2016 to include capitalised interest in net finance charges. It was previously included in additions to property, plant and equipment.*

DEFINITIONS **1 EBITDA** – operating profit before depreciation, amortisation and capital items. **2 Net working capital** – consists of inventories, trade and other receivables, trade and other payables, employee benefits and provisions. **3 Net operating assets** – consists of goodwill, intangible assets, property, plant and equipment, investment properties, consumable biological assets and net working capital. **4 Free cash flow** – cash flow from operating activities less net finance charges, net dividends paid to minority shareholders, taxation paid and cash flow from investing activities. **5 Operating margin %** – operating profit divided by revenue. **6 EBITDA margin %** – EBITDA divided by revenue. **7 Effective tax rate %** – taxation expense divided by profit before tax from continuing and discontinued operations. **8 Cash conversion ratio %** – cash flow from operations divided by operating profit from continuing and discontinued operations. **9 Gearing %** – net interest-bearing debt divided by equity. **10 Gearing %** – gross debt – gross interest-bearing debt divided by equity. **11 RONA %** – operating profit divided by average net operating assets. **12 ROE %** – headline earnings divided by average equity.

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.

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

Gerhard Victor
CEO: Integrated Timber division

REVENUE

7% ↑

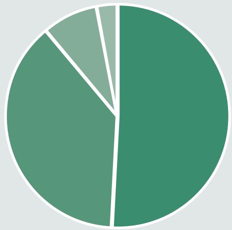
OPERATING PROFIT

20% ↑

PG BISON

Revenue split

- **56%** Value added
- **37%** Primary processing
- **4%** Forestry
- **3%** Distribution



Products and services

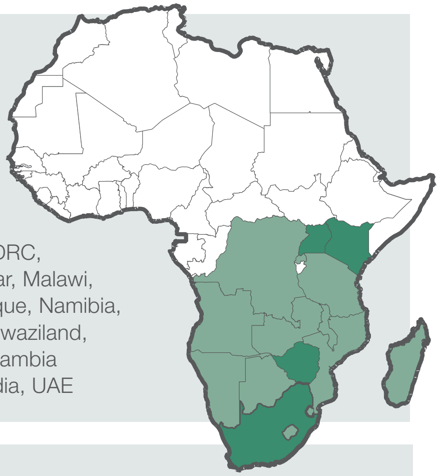
Forestry
Sawlogs, poles, pulpwood

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)



Operations
Kenya, South Africa, Zimbabwe

Sales and distribution
Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Reunion, Rwanda, Swaziland, Tanzania, Uganda, Zambia
Also in: Australia, India, UAE

6 manufacturing plants

BISONBORD SUPAWOOD MELAWOOD SUPAGLOSS SURFACE INNOVATIONS MELAWOOD FORMICA THESEN WOODLINE

44 092 hectares
of planted forestry land

740 000 m³
board capacity

390 000 tonnes
of residue fibre consumed

1 445
employees

Review

Business environment

PG Bison services the retail, construction, furniture manufacturing and residential development sectors with a variety of timber products, primarily in southern and East Africa and Australia. This diversity of geographies and sectors supports consistent underlying demand through the business cycles.

The South African markets continue to evolve, with consolidation taking place in the DIY retail sector and fragmentation taking place in the furniture retail, construction and development, merchant reseller and manufacturing sectors. 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 activities and manufacturing technology, combined with integration into key raw materials, is well positioned to capitalise on this changing environment in order to continue its growth.

Commentary

The Integrated Timber division performed well for the year, showing 7% revenue growth to R3 362 million from R3 139 million in the prior year.

The division continued to implement its strategy of increasing its volume capacity and its value-added product and service offering, with investments in product development, marketing, supply chain, capacity expansions and new technology during the year. The recently installed continuous particleboard press line at its operations in Piet Retief operated ahead of expectation for the period in terms of volume and efficiency. The division successfully completed and commissioned an additional upgrade to its MDF (medium-density fibreboard) line in Johannesburg during January 2018, facilitating volume increases across a broader range of board thicknesses. Sales were supported by a significant investment in new product launches and marketing activities during the year.

The southern Cape forestry, sawmilling and pole operations performed well for the year in spite of the significant distraction of managing the impact of the recent fires in the region and the drought in the Western Cape, which affected demand for its products.

PG Bison's operating profit grew by 20%, with the obvious margin expansion being a direct result of the above-mentioned activities.

Outlook

PG Bison's access to key raw materials, in the form of timber from its own plantations and its own manufactured impregnated paper and resin from the group's Chemical division, remains a long-term strategic imperative that mitigates against anticipated timber supply constraints in South Africa and upward raw material pricing pressure. The focus of the division remains on providing value-added products and improving operational efficiencies through investing in technology and creating a culture of innovation.

While market conditions are expected to remain challenging in the near future, the division's 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, together with its continued investments into its products and marketing activities, will continue to drive growth in market share, revenue and operating profit.

PG Bison remains committed to growing its supply of products 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.

Key facts

- Continued annual cost saving through investment and technology
- Largest and most advanced manufacturing plants in Africa
- 96 157 hectares of land owned
- FSC® certificate awarded to NECF
- Improved efficiencies for lowest cost supplier
- Preferred supplier of branded products
- 4.2 million trees planted
- 28 new value-added products launched
- Thesens awarded the Crickmay Sawmill Productivity Improvement Award

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

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.

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

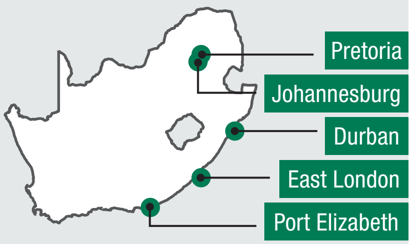
Ugo Frigerio
CEO: Automotive Components division

REVENUE

2% ↑

OPERATING PROFIT

4% ↑



Products

Feltex Automotive Trim
Textile-based automotive acoustic and soft trim components

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

Caravelle
Overlay carpets/loose-lay vehicle mats and tonneau covers

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

Auria Feltex
Acoustically engineered tufted automotive carpet.

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

Autovest
112 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
Towbars, bullbars, rollbars and sidesteps sold to the independent aftermarket

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

** Light commercial vehicle.*
• Sport utility vehicle.

17 manufacturing plants

3 distribution hubs

1 research and development site

1.9 million
accessories sold annually, used in 7 vehicle brands

26 million
components produced annually, used in 15 assembly models

1 043 tonnes
of offcut material recycled back into products

2 709
employees

AUTOMOTIVE COMPONENTS

Review

Business environment

With world-class quality and manufacturing capabilities, South Africa remains an attractive production destination for international vehicle original equipment manufacturers ('OEMs'). Annual vehicle production by international OEMs in South Africa remained relatively flat for the year at 552 260 units compared to 555 597 units in the prior year, primarily as a result of the introduction of two replacement models during the current year compared to only one replacement model introduction in the prior year. 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 investment certainty to the business environment. As a result of this, replacement models continue to be 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 in order to facilitate the sustainability and growth of this critical sector.

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.*

Commentary

The Automotive Components division reported a 2% increase in revenue to R2 025 million from R1 979 million in the prior year. The introductions of the replacement VW Polo and the BMW X3 were successfully completed in September 2017 and April 2018 respectively. Total production volumes of the division for the year remained relatively stable, in line with OEM assembly volumes. The division experienced a major explosion, which affected its operations in East London, and major weather damage, which affected its operations in Durban. Both situations were well managed with limited disruption of supply to the division's customers.

Subdued new vehicle sales weighed negatively on Autovest, the division's retail vehicle accessories operation. This was offset by a strong performance by the Maxe operation as a result of new product introductions.

In spite of an extremely challenging year, the Automotive Components division grew operating profit by 4% over the prior year.

Outlook

New model introductions provide Feltex with the ability to increase its parts penetration (market share) and to employ new technology, which improves operational efficiency. This, however, also results in major disruption to normal manufacturing activities, as was experienced during 2018. With no replacement model introductions scheduled for the 2019 financial year, management will be focused on extracting full value from its recent investments through continuous improvement and optimisation projects and extracting scale benefits of increased manufacturing volumes.

Positive sentiment toward the finalisation of the replacement APDP programme is encouraging.

Key facts

- R125 million investment in new technology and model development
- R7.1 million investment in technology systems
- 5 074 tonnes of foam produced
- New flexible lightweight insulation products developed
- Maxe receives the Toyota supplier award for the last five consecutive years
- Caravelle receives the Toyota supplier merit award
- New VWSA business results in opening of Port Elizabeth plant, creating 75 new jobs
- New BMW business allows for plant expansion
- Maxe successfully introduces a black stainless steel range
- Technologies installed enabling honey-comb reinforcement to make lighter trim parts and lightweight foam insulation parts
- A new tonneau cover introduced to the market
- IATF 16949 quality certification was awarded to the Trim, Fehrer, Autoneum Feltex, Caravelle and Foam business units

Manufacture of foam, fabrics, springs, bases and branded mattresses

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

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

Michael Metz
CEO: Integrated Bedding division

REVENUE

12% ↑

OPERATING PROFIT

20% ↑

RESTONIC

CRAFTING QUALITY BEDS SINCE 1938

vita vitafoam

DESLEE MATTEX

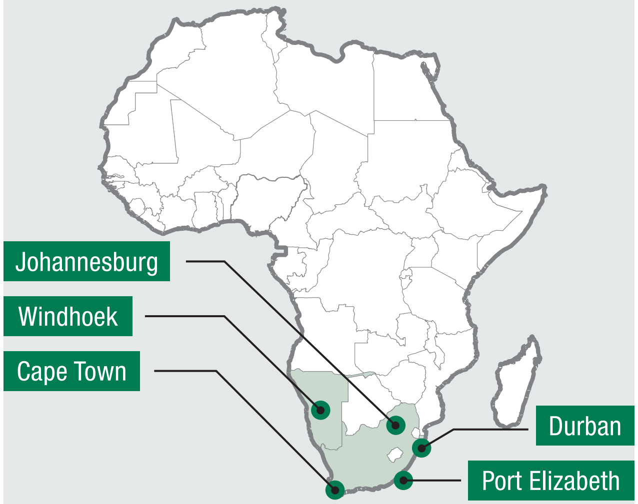
Products

Bedding
Mattresses and base sets

Foam and related products
Flexible polyurethane foam, expanded polyethylene ('EPE') 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



Manufacturing in: South Africa, Namibia

Sales in: Angola, Botswana, Kenya, Lesotho, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe

9 locations

GENESSI

greenCoil® luxury crafted mattresses

Brands manufactured under contract

perfekt green sleep systems

Sleepmasters

> 7.3 million
linear metres of fabric produced annually

> 378 000
mattresses produced annually

> 9 200 tonnes
of foam produced

1 629
employees

Review

Business environment

Within the global furniture retail sector, the bedding category has proved to be resilient through economic cycles. It has also remained relatively stable in the South African furniture retail sector, despite volatile and subdued performances in other product 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. As a result, the mattress industry is highly fragmented with numerous regional retail and manufacturing operators. The KAP Integrated Bedding strategy 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 mattresses and bed bases in key regional locations in order to facilitate cost-effective distribution and access to the market. This enables the division to supply national brands in regional locations on a competitive basis.

Commentary

The Integrated Bedding division performed well for the year, showing 12% revenue growth to R1 414 million from R1 268 million in the prior year. The continued furniture retail focus on the bedding category continued to drive volume growth and provided increased opportunity for the division to extract value from its fully integrated business model where it manufactures all of its primary raw materials. The division remains the only fully integrated bedding manufacturer in South Africa.

The division successfully concluded the acquisition and integration of Support-a-Paedic during the year. Although relatively small, it provides the opportunity to access new markets and to build strong brand equity with new and existing brands. This operation performed to expectation for the period.

The division's operating profit increased by 20%, with margin expansion resulting from further integration driven by volume growth.

Outlook

A bed remains the leading furniture item for first-time furniture consumers. In view of the relatively young demographic profile of South African consumers, it is expected that the retail focus on bedding products will continue and will provide a sound platform for the continued growth of KAP's Integrated Bedding division. The acquisition of Support-a-Paedic provides access into the independent retail sector, supported by large-scale manufacturing capacity, new technology mattress construction and well-known national brands.

The final equipment installations in the division's state-of-the-art factory in Johannesburg will be completed during 2019 and will provide well-considered workflow systems, energy-efficient production lines and a near zero waste policy. This will have the effect of increased capacity, reduced costs and improved product construction and quality. This, together with its integration into all primary raw materials and increased investment in its brands, is expected to result in market share gains for the division.

Key facts

- Restonic nominated for Best Sponsorship of an Event for its EFC sponsorship, which aligns strongly with its brand and target market
- Support-a-Paedic awarded: Tafelberg Supplier of the Year, Tafelberg After Sales Supplier of the Year, Full House Supplier of the Year, Full House Representative of the Year
- Vitafoam enters into the agricultural market with fruit netting and fruit pad trays
- Vitafoam receives a Pure Gas award for Risk Management in its EPE plant
- Restonic chips and recycles 700 tonnes of borders and foam trimmings back into the manufacturing of stiffy pads
- Vitafoam recycles 1 500 tonnes Prime Foam, 100 tonnes of expanded polyethylene and 1.6 tonnes of non-woven PP (spunbond) during the period under review
- Vitafoam invests R12 million in a new spunbond line (non-woven), adding a new revenue stream and enabling them to enter diversified markets
- Approximately R1 million invested in research and development

A specialised polymer manufacturing division

The division is the only producer of polyethylene terephthalate ('PET'), high-density polyethylene ('HDPE') and urea formaldehyde (UF) resins and one of two producers of polypropylene ('PP') in South Africa. PET is used primarily in the bottling industry for water, carbonated and other soft drinks due to its high intrinsic viscosity and clarity, while HDPE and PP are used in a broad range of applications, including piping, multipurpose containers, fibres, films, non-woven fabrics and packaging. UF resins are used primarily in the manufacture of timber board products.

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

Leigh Pollard
CEO: Chemical division

REVENUE

47% ↑

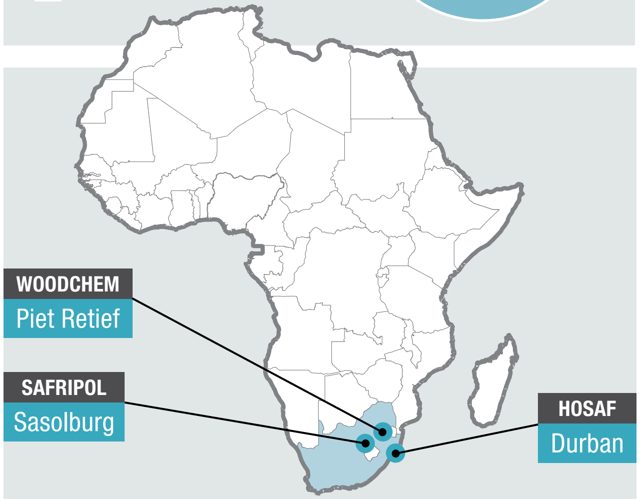
OPERATING PROFIT

38% ↑

SAFRIPOL
preferred polymer partner

Revenue % split by product

- **28%** PET
- **39%** HDPE
- **25%** PP
- **8%** UF-related



3 manufacturing sites

Products

PET (Polyethylene terephthalate)
Primarily used in the manufacture of bottles for carbonated soft drinks

HDPE (High-density polyethylene)
Used for a wide range of applications, such as pipes, containers, toys and packaging

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

Formaldehyde and UF resin
Primarily used in the timber panel industry

Impregnated paper
Primarily used in the timber panel industry to manufacture MFB (melanine-faced board)

Exporting to the USA, Europe and SADC countries (Zambia and Zimbabwe)

522 000
tonnes of PET, HDPE and PP capacity

98 225
tonnes of UF resin produced

46 million m^2
of impregnated paper produced

491
employees

Review

Business environment

The division produces HDPE and PP at state-of-the-art facilities in Sasolburg, with ethylene and propylene, its two primary raw materials, sourced directly from Sasol in South Africa at internationally indexed US dollar prices. As a result of the high-quality ethylene and propylene procured and the proximity of supply, the division is able to manufacture superior grade HDPE and PP, which allows it to compete actively in the global polymers market. PET is manufactured at the division's operation in Durban from three primary raw materials, which are sourced from international suppliers. Selling prices of PET, HDPE and PP are strongly influenced by international supply and market demand forces and the resultant internationally indexed US dollar equivalent import parity prices. With both selling prices and raw material prices being US dollar-driven, this division provides the group with significant US dollar-linked margins without the complexity of doing business in foreign jurisdictions.

The division's UF resin operation in Piet Retief manufactures formaldehyde, which is further processed into UF resin for use primarily in the timber panel industry. 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').

Commentary

The Chemical division performed well for the year, showing revenue growth of 47% to R8 018 million from R5 467 million in the prior year, primarily as a result of the acquisition of Safripol midway through the prior year.

The division successfully concluded the integration of its PET operation in Durban and its HDPE and PP operations in Sasolburg into a single polymers business, which was recently launched under a reformatted Safripol brand. This will result in increased operational efficiencies and provide access to broader markets.

The PET product stream produced a disappointing result due to the delayed start-up of a major expansion project. The expansion project was, however, successfully completed, commissioned and tested to full capacity during the year. Domestic and international demand for PET remained strong, which resulted in US-dollar margins expanding by 11%. Both the HDPE and PP product streams performed ahead of expectation as a result of strong demand for the products. HDPE US-dollar margins expanded by 28% compared to the prior year, while PP US-dollar margins contracted by 1%.

The division's UF resin operation also produced a pleasing result, with strong demand for the product and expanding margins.

Operating profit of the division grew by 38%.

Outlook

Global and domestic demand for the division's products remains strong in spite of consumer sentiment surrounding the impact of single-use plastics on the environment. The division's expanded PET operation in Durban is already operating close to nameplate capacity, in spite of a scheduled three-year ramp-up, as a result of strong demand for the product both locally and in certain international markets. Process yields are in line with industry best practice. Global polymer demand is expected to continue to grow as product conversion continues to take place in order to exploit the numerous benefits of polymers.

The group is actively involved in various initiatives to promote the reduction, reuse and recycling of plastics and to reduce the impact of discarded plastics on the environment.

Key facts

- Safripol earns Top Employer award once again for FY18
- Commissions new PET plant with a capacity increase of 85%
- 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
- Successful integration of the polymer business under one brand

Product volumes

27% PET
31% HDPE
23% PP
19% UF-related

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

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

"Our aim is to be the leading supply chain partner in our chosen markets and to add value to our clients through the provision of specialist services."

Theunis Nel
CEO: Contractual Logistics division

REVENUE

4% ⬆

OPERATING PROFIT

9% ⬇

Services

Agriculture
- Infrastructure and estate services
- Land preparation
- Transport

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

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

General freight
- Line haul
- Cross-border

Mining and infrastructure
- Materials handling
- Cement
- Explosives

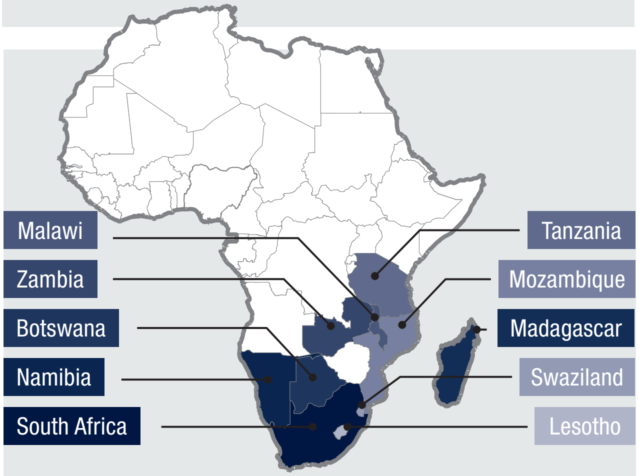
Petroleum
- Fuel
- Gas
- Lubricants
- Alcohol

Specialised warehousing
- Warehousing
- X-docking
- Freight forwarding

130 operating sites

Revenue by sector

- **28%** Petroleum
- **23%** Food
- **13%** General freight
- **13%** Mining and infrastructure
- **11%** Agriculture
- **6%** Specialised warehousing
- **6%** Chemicals



237 million km travelled per annum

2 700 revenue-earning vehicles

82 256 m² of warehouses managed

> 9 700 employees

Review

Business environment

The division remains focused on medium- to long-term contractual logistics services, diversified across the areas of petroleum, chemicals, food, agriculture, cement, mining, warehousing and general freight. These are generally non-discretionary products and services. The diversified nature of the division in terms of sector and the medium- to long-term contractual nature of the business provides some protection through the economic cycles.

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

The division generally operates from its clients' premises, which provides the ability to rapidly up or down-scale operations to optimise cost structures in instances where contracts are awarded or lost. This flexibility provides additional support to the sustainability of the business model.

Commentary

The Contractual Logistics division produced a disappointing result. Revenue increased by 4% to R6 743 million from R6 496 million in the prior year, despite a slight reduction in activity, primarily as a result of fuel and cost escalations contractually passed through to customers. After a good first half of the financial year, the division found economic conditions particularly challenging during the second half with reduced volumes and pricing pressure across its main areas of operations. Meeting customer requirements, specifically in terms of the preferential procurement elements of their respective B-BBEE sector codes, created challenges in terms of contract renewals and associated revenue growth during the year. The division, however, successfully concluded a B-BBEE transaction during the year, which became effective after year-end on 3 September 2018, and will provide the division with greater than 51% black ownership and greater than 30% black-women ownership going forward, a critical element for future growth.

The division was particularly affected during the year by changes in the petroleum sector, which had a material impact on the road haulage of fuel and, as a result, a negative impact on the division. Activity levels and resulting performance in the other major areas of operation remained stable and efforts toward operational efficiencies and cost control continued. Certain major contracts were successfully renewed and implemented during the year, mainly in the food business.

The recent acquisitions, Xinergistix and Lucerne, both performed ahead of expectation for the year and were fully integrated in the division. On 1 December 2017, Southern Star Logistics Proprietary Limited (a 50%-owned subsidiary) was formed in order to facilitate growth in the Swaziland territory, which also performed operationally ahead of expectation.

Operating profit of the division declined by 9%.

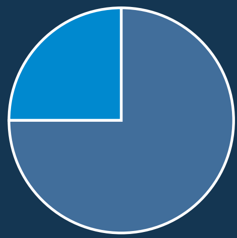
Outlook

Industrial activity in South Africa remains subdued as a result of a challenging economic and political period for the country. In spite of this, the division remains well placed in terms of its recent B-BBEE transaction, its recent acquisitions, and its efforts toward improved operational efficiency and cost control to grow its activity levels through market share gains during 2019.

As political and economic stability returns to South Africa, the Contractual Logistics division will benefit directly from the resultant increase in industrial activity.

Key facts

Geographical areas of operation (revenue)



- **73%** **South Africa**
- **27%** **Rest of Africa**

R553 million capex in new fleet

Merger of Unitrans Swaziland with South Star Investments Proprietary Limited to form a new Swaziland entity, Southern Star Logistics Proprietary Limited, effective 1 December 2017

Ten-year contract extension secured with major client

B-BBEE transaction concluded in the South African operations, providing > 51% black ownership and > 30% black-women ownership, resulting in a level 2 rating

A complete passenger 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 fit-for-purpose passenger services to customers in South Africa, Mozambique and Zimbabwe.

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

Nico Boshoff
CEO: Passenger Transport division

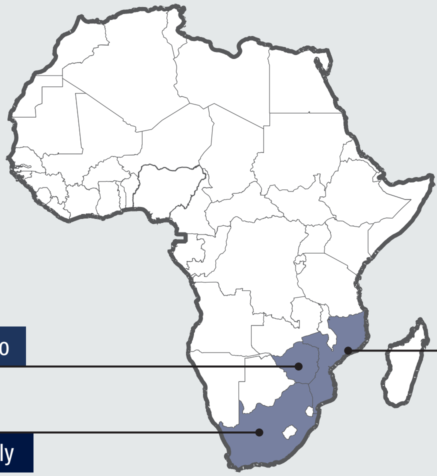
REVENUE

3% ↑

OPERATING PROFIT

5% ↑

UNITRANS



176 Intercity destinations

22 depots

24 sales terminals

Services

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

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.

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.

> 108 million km travelled per annum

1 419 revenue-earning vehicles

> 1.3 million intercity passengers per annum

4 063 employees

Review

Business environment

Megabus operates in the commuter and personnel markets under mid to long-term contracts with government and 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 major 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. Disciplined vehicle maintenance in an environment where road safety is often affected by third-party behaviour and road surface conditions is a prime focus area. Vehicles are also equipped with tracking devices, speed control and monitoring equipment.

Commentary

The Passenger Transport division produced a pleasing result in spite of a subdued economic environment and a major industry strike. The division grew revenue by 3% to R2 228 million from R2 160 million in the prior year.

The division's core operations of personnel, commuter and tourism transport performed well, as did the company's personnel operations in Mozambique. The intercity operations continued to perform below expectation due to increased competitor activity and lower passenger numbers.

The division grew operating profit by 5% in spite of the significant negative impact of the 28-day industry sector strike and generally subdued commuter activity.

Outlook

While the uncertain political and resultant subdued economic environment impacts negatively on employment in the division's areas of operation, 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 competitively pursuing expansion opportunities. A strategic review has been initiated in relation to the division's intercity operations in terms of optimising the allocation of capital.

Key facts

More than R238 million capex invested in new fleet

Greyhound voted the best bus company by The Star and Pretoria News

Introduction of new bus models to match consumer demands:

- New Dreamliner double deckers
- New Citiliner seating configurations

Strong corporate governance and a sustainable approach to business remain key factors in delivering on the group's strategy.

4.2 million
trees planted

R129.6m
invested in training and people development

1 551
employee learnerships, apprenticeships and internships (FY17: 843)

The group is committed to continuously evaluating and improving its long-term sustainability in terms of the environment, social commitment and corporate governance to the benefit of shareholders, customers, suppliers, employees and communities.

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.

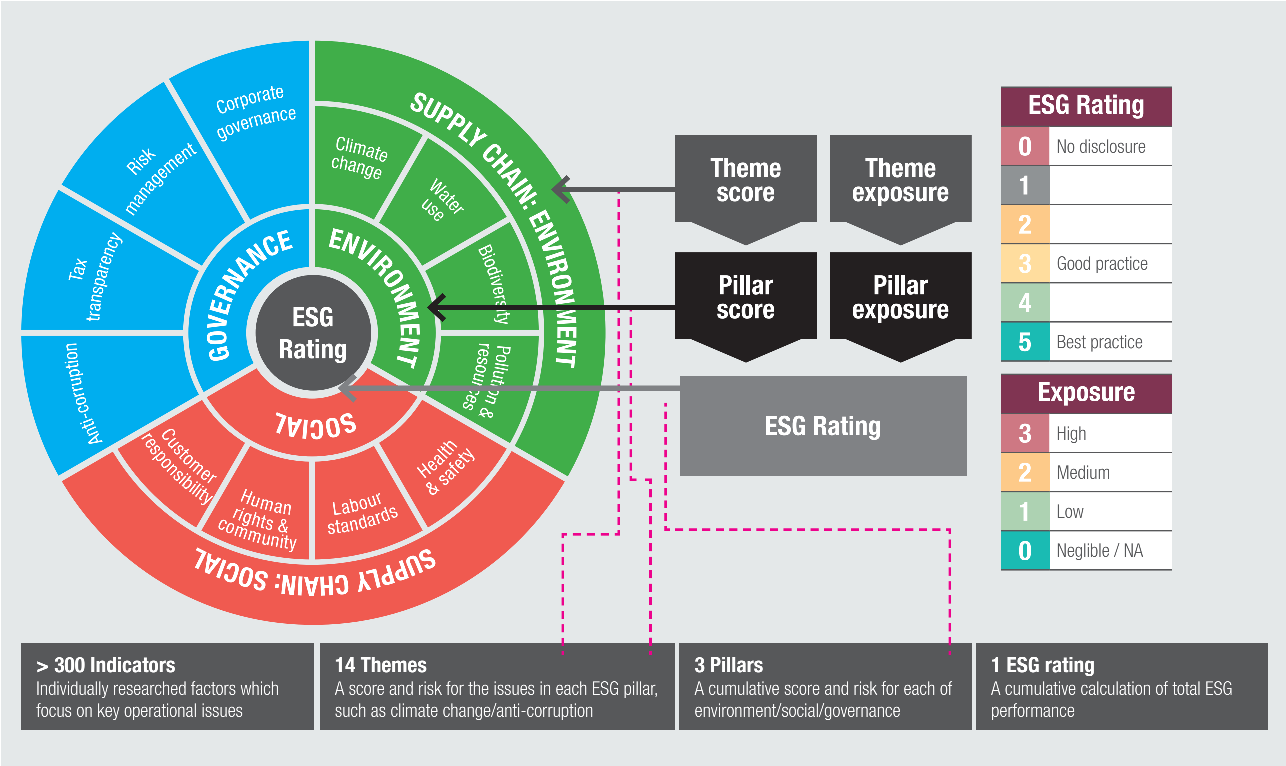
FTSE4Good Index

The group provides policies and guidance to each of the operating divisions. The divisional management is responsible for managing their own sustainability efforts and are accountable to the board of directors and their stakeholders.

KAP subscribes to the guiding principles and reporting requirements of the FTSE4Good Index across all the themes of environment, social and governance ('ESG') and uses this as a framework to monitor compliance and progress. KAP was first included in the FTSE4Good Index in June 2017.

The group has done an extensive evaluation of its scores across the various ESG themes and has identified areas for possible improvement.

Theme exposure	
Pollution and resources	Health and safety
Climate change	Human rights and community
Water usage	Social supply chain
Biodiversity	Risk management
Environmental supply chain	Corporate governance
Labour standard	Anti-corruption



A senior KAP executive has been tasked with the responsibility of driving sustainability for the group. ESG targets have also been integrated into employee remuneration structures.

The social and ethics committee reviews the group's ESG targets in the context of FTSE4Good and also monitors the group's standing in terms of:

- the goals and purposes of the 10 principles as set out in the United Nations Global Compact ('UNGC') around human rights, labour, the environment and anti-corruption;
- the recommendations regarding corruption of the Organisation for Economic Co-operation and Development ('OECD');
- the Employment Equity Act ('EE');
- the Broad-Based Black Economic Empowerment Act ('B-BBEE');
- good corporate citizenship;
- the environment, health and public safety;
- consumer relationships;
- labour and unemployment;
- training and development; and
- exposure to politically exposed people ('PEP')

Social responsibility

The group acknowledges its role and responsibility in supporting the communities in the areas where it operates.

KAP's various businesses support 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 addresses this through a focus on community development, education and childcare. Throughout the group, divisions identify and are involved in social projects that are aligned with their strategies and that are usually in close proximity to the operations, to make the biggest impact and difference to these communities.

The businesses actively engage with community members and work with community organisations, NPOs and various community service delivery organisations to develop the appropriate projects and to successfully execute these projects to the benefit of the recipients.

During 2018, R14.6 million was contributed to socio-economic development across a number of projects of which a few are highlighted:

Ugie vegetable project

PG Bison, with the local community, identified the need to provide a source of fresh vegetables to the local community. Two projects have been established: the Ugie socio-agricultural project, which has been running for four years, and the Malibongwe project, which is two years old.

PG Bison provided nine hectares of land, infrastructure and various implements, such as tractors, to establish the farms. The seedlings, fertiliser and expertise are also provided by PG Bison.

The two projects have been established as sustainable cooperatives that employ 16 local people and supply fresh vegetables to the community.

Ugie feeding scheme

PG Bison has partnered with Judea Hope (an NPO), local farmers and JEI Forestry Transport to establish a feeding scheme in the Ugie area.

The feeding scheme provides 30 000 packed nutritious meals to the elderly and crèche-going children per annum.

In addition, this programme has trained 20 early childhood development ('ECD') teachers to further assist in the development of local children.

PG Bison's Ugie socio-agricultural project, which has been running for four years

Unitrans volunteer programme: FoodForward SA

Unitrans encourages its staff to volunteer to assist with packaging meals for FoodForward SA. FoodForward SA is a non-profit organisation that collects surplus food from manufacturers, wholesalers and retailers and repackages and labels the food for distribution to organisations focusing on ECD, youth development, women empowerment groups and day-care centres. They distribute over 17 million meals per annum.

The company encourages Unitrans employees to volunteer for one working day per month to unpack boxes, check product expiry dates, rebrand the food and repackage it for distribution.

Unitrans employees volunteer for one working day per month to assist in packaging food

Vitafoam mattress donation

Vitafoam identifies deserving charities in the various communities within which they operate and donates beds to old age homes, orphanages and hospices on an ongoing basis.

Phomolong in Maseru, Lesotho

Unitrans provides funding to Phomolong, one of the rest houses in the SOS Village in Lesotho. The SOS Village takes care of orphans aged nought to eight years old.

PG Bison Knock-Out soccer tournament

In the Eastern Cape, an annual soccer and netball tournament is held, involving the communities of Elliot, Mount Fletcher, Ugie and Maclear. The tournament is funded by PG Bison and is targeted at the youth in the community. Eleven soccer teams and eight netball teams participate.

Participants receive clothing and more than 3 000 meals are served to participants and spectators.

KAPsani2c

KAP has partnered with sani2c since its inception. KAPsani2c is a three-day mountain bike event in KwaZulu-Natal, with its route starting at the bottom of the Sani Pass and ending in the coastal town of Scottburgh.

Established 14 years ago, primarily as a vehicle to raise funds for a local farm school, the event now attracts more than 4 500 riders per annum. Their reach extends to a far wider community and provides much-needed funds and employment in the area. Sixteen local schools and communities are now recipients of the funds raised through entries to the race and sponsorships.

The event employs permanent and temporary staff from the local community. In 2018, the organisers of KAPsani2c contributed more than R10 million to the local communities. The sani2c Development Trust recently purchased land to expand the Kings Harvest Academy, a rural school catering for the local children.

Infundo School Project

PG Bison supports Infundo, an independent organisation whose aim is to develop and coach high school educators in critical subjects, such as mathematics, physical science, accounting and English to improve education standards.

As part of the Infundo School Project, PG Bison has provided assistance in the form of books, infrastructure and mentoring to four schools, namely the ET Thabane Public School, Ugie High School, Umthawelanga Senior Secondary School and the Sibabale Senior Secondary School. These schools collectively educate 4 800 learners. In the six years since the inception of the programme, pass rates have increased dramatically.

The Infundo School Project educates 4 800 learners

Environmental responsibility

KAP is committed to protecting natural resources, reducing waste and investing in technologies that reduce our environmental impact. KAP acknowledges that this is an ongoing process requiring continuous monitoring and action.

Protecting the biodiversity in our forests

The long-term sustainability of timber supply is of strategic significance to PG Bison.

We are members of the Forestry South Africa ('FSA') environmental management committee, which oversees the environmental standards for forestry in South Africa. Management works closely with communities, NGOs, civil interest groups and the government's department of environmental and natural resource management.

We work with a number of government departments and NGOs to eradicate alien invasive species, restore natural wetlands and maintain weeding and fire prevention.

PG Bison's North East Cape Forest ('NECF') received a Forestry Stewardship Council ('FSC®') certification in January 2018, which is valid for five years. The NECF accounts for 79% of PG Bison's plantations.

The NECF has a land area of 76 393 ha, of which 33 601 ha is planted and the balance of 42 792 ha consists of either protected wetlands, or is being used for other agricultural activities.

The areas that are not protected or suitable for commercial forestry are used for cattle farming. The NECF herd of 4 298 cattle plays an important role in protecting the biodiversity. An effective grazing programme optimises conditions in the veld in terms of specie richness and maintaining the optimum biodiversity within the plantations. The herd also plays an important role in reducing fire risk. Our own farmers, supported by local and state veterinarians, manage the cattle on a commercial basis.

Several species of wild animals previously common to the area have been reintroduced, while other species like Cape Grysbok have immigrated naturally. The game forms part of an integrated environmental plan and includes species such as Burchell's Zebra, Blesbok, Mountain Reedbuck, Southern Reedbuck, Grey Rhebok, Grey Duiker, Bushbuck, African striped weasel and Black Wildebeest. We have identified and monitor Red Data bird species, such as the Wattled Crane, Grey Crowned Crane and Blue Crane that reside in our plantations.

In our southern Cape plantation, we participate in a forum, the Knysna Elephant Landowners, which, together with the South African National Parks, assists in the research of the rare Knysna elephant.

Our non-commercial forestry areas have been mapped using a vegetation mapping standard developed by the South African forestry industry that records information on fauna and flora, rare and endangered species, as well as areas of special interest, such as archaeological, paleontological and historical sites. The conservation management plans monitor and implement actions to mitigate and manage the impact on the environment in these special identified areas.

Managing plastic waste

The benefits of plastic are well documented in terms of lightness, strength, durability, formability, and its use in sterile and hygienic environments. Plastic is found in many everyday products and can be reused and recycled almost infinitely.

Discarded plastic waste is, however, a global challenge. KAP is committed to working with industry, government and society to promote the reduction, reuse or recycling of plastic waste.

KAP is involved in a number of initiatives to reduce the impact of plastic waste. We participate in industry forums such as Packaging SA, PETCO, Polyco and Plastics SA, which all have recycling and waste management at their core. These industry forum initiatives include clean-up operations, education, training programmes, awareness campaigns and employment creation. They are actively engaging with government, industry, local communities and retailers to develop an Integrated Waste Management Plan ('IWMP') for approval by the government's Department of Environmental Affairs.

KAP's financial contribution to these industry forums is linked to our production volumes. KAP contributed R4.5 million to Plastics SA and an additional R1.4 million to PETCO in the form of a grant in 2018.

PETCO is an industry-driven and industry-financed initiative to self-regulate post-consumer PET recycling.

READ MORE
www.petco.co.za

PETCO has been extremely successful in growing the PET recycling volumes and currently 66% of all PET is recycled, creating an estimated 50 000 income opportunities for informal collectors. PETCO subsidises collections and recyclers.

The PET recycling industry has created 1 335 permanent jobs at recyclers.

Over 103 800 tonnes of PET was recycled this past year. PETCO estimates that over the past 10 years, recycled PET has saved 651 000 tonnes of carbon and avoided 2.7 million m^3 of landfill space.

PETCO also has several education initiatives for both industry and schools to encourage recycling.

Polyco provides financial funding support to the polyolefin recycling industry value chain to grow the collections, recycling and recovery or beneficiation of polyolefin plastics.

KAP supports a number of education and recycling initiatives within the local community where Safripol operates.

Reducing and managing water usage
Our manufacturing processes are dependent on water, which is a scarce resource. The KAP businesses actively monitor and manage water consumption and strive to reduce water usage. Through the group's risk management structure, water usage is reviewed on an operational level. Rainwater is harvested, recycled and reused at several of the group's operations.

During this past year, various operations introduced a number of initiatives to reduce their water usage.

DesleeMattex fitted remote metering systems to monitor all water usage throughout their plant and to identify any potential leaks and wastage. They also installed storage tanks with a 40 000 litres capacity of rainwater for reuse in their production processes. Aerators have been fitted to all taps to reduce the flow of water from 12 litres per minute to less than 1.5 litres per minute. At both our DesleeMattex and Vitafoam plants, we now reuse the water after testing our fire sprinkler systems.

Unitrans Passenger installed additional rainwater harvesting capacity and changed their bus-washing processes to reduce water consumption. At its Epping operation in the Western Cape, average water usage was reduced from 613 kl to 245 kl per month.

Plans for saving water were integrated into the design of the newly constructed Restonic superplant. Based on average annual rainfall, they are able to harvest over 2 million litres of rainwater and have capacity to store 220 000 litres. In addition, a borehole was sunk, which reduces their dependency on municipal water.

PG Bison installed a 1.2 million litre capacity storage system that harvests rainwater from the factory roof at its Boksburg facility.

The group will continue to measure its water consumption and focus on reducing consumption and waste; collecting rainwater and increasing the storage facilities of harvested water; and reusing and recycling water.

Investing in pilot projects to improve safety and reduce the environmental impact
Unitrans's participation in an innovative pilot project, in conjunction with the Council for Scientific and Industrial Research ('CSIR') and the Department of Transport, has yielded significant benefits.

With an investment from Unitrans in excess of R150 million in specialist technology vehicles and systems with increased safety standards, the project, which is known as the Performance-Based Standards ('PBS') programme, has reduced the impact on the environment, improved payload efficiency and reduced supply chain costs.

The innovative design of PBS vehicles and the use of new technologies allow for safer and more productive vehicle combinations to be manufactured and operated. This, in turn, causes less damage to the environment and road infrastructure.

The project's metrics indicate that PBS vehicles have a 39% lower crash rate or 1.37 accidents per million kilometres compared to well-managed fleets with a standard average of 2.24 accidents per million kilometres.

Payloads have increased significantly and with some PBS vehicles consuming on average 16.94% less fuel per ton kilometre, the emissions per tonne kilometre transported has been significantly reduced.

The impact of these units on road and highway infrastructure per tonne transported payload is 9.5% less.

Unitrans currently has 50 PBS vehicles in its fleet operating in a variety of industries, including the mining, agricultural and petrochemical sectors.

Unitrans recently introduced a locally manufactured PBS-designed petrochemical tanker with a lower centre of gravity and a higher static rollover threshold than conventional units. This feature, coupled with other dynamic handling criteria, ensures optimal vehicle performance and improved handling and safety. The unit outperforms other commercial vehicle combinations on the road and its tyre and axle combinations significantly reduce the wear on road and bridge infrastructure.

One of the 50 Unitrans PBS vehicles

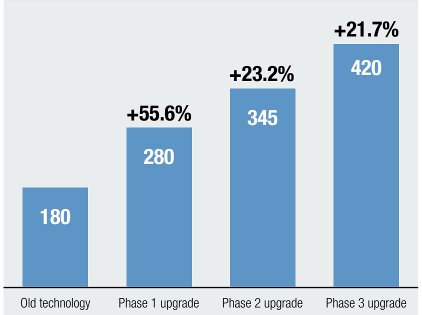
Investment strategies benefit customers and have a positive impact on efficiencies, the environment and resources consumed

In 2013, a new continuous process MDF plant was installed on the Boksburg site, replacing the old batch-process technology. Production volumes increased, quality improved, the product offering expanded and manufacturing costs were lowered, raising the barriers to entry to further enable the group to invest in new technology, processes and people.

Subsequent to the commissioning of the MDF plant in 2013, PG Bison explored additional opportunities and continued investing in the plant, completing further upgrades that once again increased capacity, lowered costs and reduced the impact on the environment.

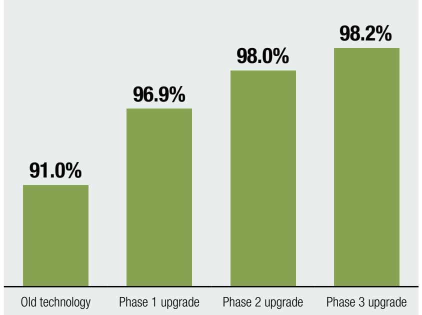
Production capacity has increased from 180 m^3 per day to over 420 m^3 per day (16 mm equivalent).

AVERAGE PRODUCTION VOLUMES (m^3/day)



The quality of the product has improved significantly with A-grade yields steadily improving:

A-GRADE PRODUCT %

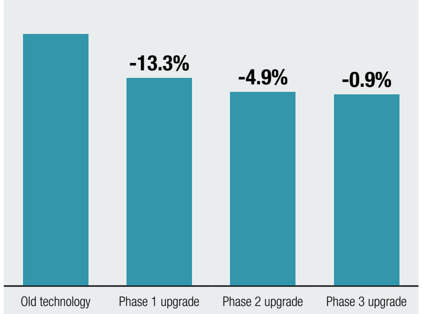


A better-quality product has enabled PG Bison to penetrate new markets and to improve the offering to existing customers, both domestically and internationally. It has allowed PG Bison to introduce new value-added product ranges to the market, both in terms of sizes and finishes, such as the new gloss boards. The introduction of value-added products has enhanced margins and displaced previously imported products. The new technology enables PG Bison to offer E1 boards to the market, making them the only local MDF manufacturer with this capability.

Customers have further benefited as improved efficiencies and new product ranges have kept prices below inflation, while still improving PG Bison's margins.

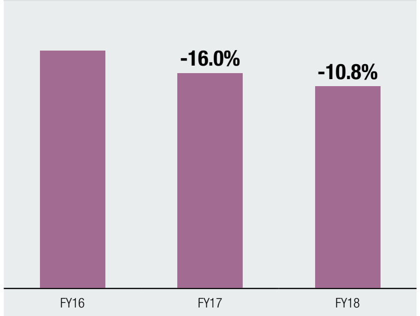
The investment in new technology and processes has reduced the use of raw material resources in terms of timber, water and energy consumption per m^3 produced.

COMBINED RAW MATERIAL USAGE

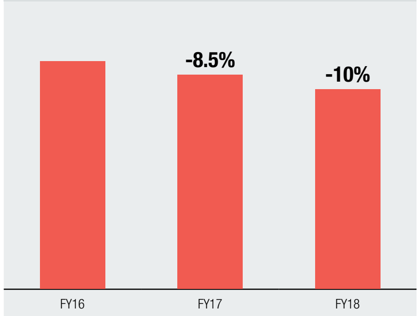


Electricity consumption and coal consumption per m^3 produced has also reduced:

ELECTRICITY CONSUMPTION/m^3



COAL CONSUMPTION/m^3



PG Bison's own technical team and engineers executed all the plant upgrades and developed the new products within budget and within the project timelines. The skills they have gained are transferable to other capital investment projects within the KAP stable.

Climate change and carbon emissions

KAP is committed to the effective management of its climate-related risks and opportunities, and the reduction of its carbon footprint.

This year KAP improved the measurement of its carbon footprint through:

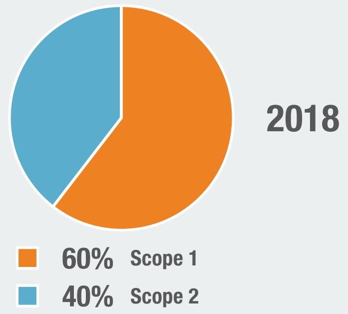
- improving data collection processes;
- ensuring all greenhouse gas emissions are captured; and
- aligning with the South African government's *National Greenhouse Gas Emission Reporting Regulations (Gn 40762)* as published in 2017.

Where required, KAP registered with the South African Department of Environmental Affairs to report on its greenhouse gas emissions. KAP submitted its first report in March 2018 on emissions for the 2017 calendar year.

KAP's carbon footprint is calculated in accordance with the Intergovernmental Panel on Climate Change ('IPCC') 2006 Guidelines and the *Technical Guidelines for Monitoring, Reporting and Verification of Greenhouse Gas Emissions by Industry*. We measure all activities over which we have operational control.

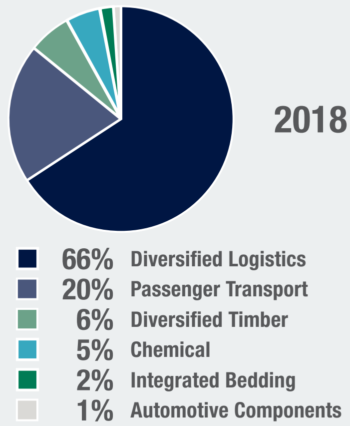
KAP's carbon footprint increased year on year due to acquisitions and increased production capacity. Scope 1 and Scope 2 for the 2018 financial year were 1 004 052 tonnes CO_2e. (2017: 796 734 Co_2e; 2016: 650 994 CO_2e). Of this, 60% can be attributed to emission sources under direct operational control (Scope 1) and 40% to emissions from purchased electricity and steam (Scope 2).

CARBON EMISSIONS



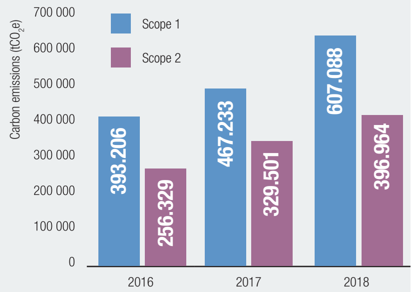
KAP's major source of Scope 1 emissions is the fuel consumed by its Contractual Logistics and Passenger Transport businesses. These two divisions account for 87% of the Scope 1 emissions.

SCOPE 1 CARBON EMISSIONS BY DIVISION



Scope 1 emissions increased primarily due to the acquisition of Lucerne Transport in September 2016, and the inclusion of Southern Star in December 2017. Diesel consumption increased from 145 998 435 litres to 171 635 807 litres.

SCOPE 1 AND 2 CARBON EMISSIONS



The majority of the Scope 2 emissions are attributable to the Chemical and Integrated Timber divisions, where volumes increased significantly through capacity upgrades and the inclusion of Safripol's greenhouse gas emissions for a full year. Electricity consumption increased from 310 491 725 kWh to 379 096 391 kWh as result of capacity expansion and acquisitions.

KAP continues to identify opportunities to reduce its carbon footprint by investing in new technologies. For example, in the design of the PG Bison Boksburg upgrade, new technologies were installed, including energy-efficient lighting and 'soft starters' for large motors to reduce the carbon footprint. Unitrans Logistics also completed a pilot project on PBS vehicles where they invested R150 million in more than 50 vehicles that have a significantly better fuel consumption and lower impact on the environment.

KAP continues to focus on reducing its emissions and is monitoring any potential changes in legislation. KAP is in the process of evaluating the benefits of its plantations that sequester carbon.

KAP has a strategic and multifaceted approach to developing human capital and managing identified talent for the future.

A strategic objective of KAP is to be an industry leader in its chosen markets. This implies a requirement to attract and retain the best people in industry and to consistently improve their skills.

R56 million
invested in learnerships, apprenticeships and internships

15 623
people trained (including health and safety initiatives)
(FY17: 14 000)

328 people promoted, of whom 18% are women

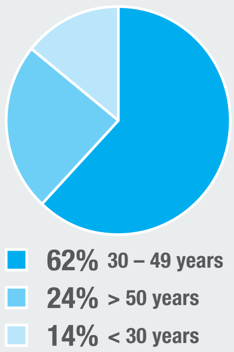
READ MORE
Code of ethics
www.kap.co.za

This strategy is underpinned by our corporate culture and reinforced through our code of ethics to create a competitive advantage for KAP.

To enable us to achieve this strategic objective, our annual investment in terms of remuneration and benefits is R4.3 billion, which represents 53% of the wealth created.

KAP employs 20 163 permanent and seasonal staff. Seasonal workers are employed primarily by our African Contractual Logistics division, operating in the agricultural sector.

PERMANENT STAFF PROFILE



Women play an important role and add significant value throughout the group. Currently, women only represent 13.3% of our permanent staff, but several initiatives are in progress to increase female representation across all the businesses and levels of management. Of the employees studying for a degree or diploma, 33% are women and, in terms of participants in learnership or apprenticeship programmes, 13% internal participants and 34% external participants are female. We promoted 328 people this past year of whom 18% are women. They represented 21% of all middle and senior management promotions.

Despite the physical industrial nature of the industries we operate in, the group has 80 employees with disabilities.

The group focuses on developing and retaining its own staff. Permanent staff turnover was 4%, in line with industry trends. KAP proactively aligns day-to-day business practices in South Africa with B-BBEE requirements and creates opportunities for the youth through learnerships and educational upskilling.

We acknowledge the importance of creating a healthy and safe environment, giving our staff a 'voice', and ensuring we reward our staff relative to market standards.

KAP strives, where applicable, to employ people from the local communities.

Training and development

KAP encourages staff to further develop themselves by creating a positive environment through either financial assistance and/or time off to pursue degree or diploma courses. We have 102 full-time employees currently studying toward a degree or diploma, of whom 91 are black employees. We have 34 women studying toward a degree or diploma. KAP invested R129.6 million in training and people development and trained 6 475 employees during the year.

In terms of learnerships, apprenticeships and internships, we have 1 551 participants in these programmes, of whom 76% are black and 24% are female. We invested R56 million in these programmes. KAP has 820 non-employees participating in third-party recognised learnerships, apprenticeships or internships across the various businesses. Of the 820 participants, 281 are women. There are 109 learners with disabilities that participate in these programmes.

The learnership programmes provide both a theoretical and practical learning environment. If positions are available in the company, candidates are first sourced from this pool of learners.

Each business has submitted a three-year EE plan and target to the South African Department of Labour. The EE plan identifies the skills and the target number of people across all management levels required to balance the gender and race diversity levels within the organisation, to better reflect the demographics of our communities. Progress is measured against these targets in each division to ensure that we have a sustainable supply of educated talent for the future needs of the company and that we achieve our gender and race diversity targets.

Employee engagement

A quarterly engagement forum aimed at all senior employees across the various businesses encourages interaction and creates a platform to share experiences and case studies. Senior executives receive training at these forums on relevant topics, for example competition legislation, ethics, ESG and leadership-related matters.

The various divisional managers provide regular feedback and communication to all levels of staff.

The culture of open communication in the business is further encouraged through staff surveys and, where applicable, staff can access KAPREF, an independently managed and confidential reporting hotline. All incidents reported on the hotline are investigated in detail and reported to the social and ethics committee and in divisional board meetings.

Creating a safe place to work

Our health and safety policy is embodied in our code of ethics and it applies to all our own staff, as well as to contractors working on our sites. The CEO, Gary Chaplin, is ultimately responsible for health, safety and environment, which he delegates throughout the organisation. Each business identifies, measures and reports back to the board on health, environmental and safety issues. A continuously evolving process exists with a legal register, risk register, incident register and risk management plan with regular hazard identification and risk assessments, internal audits, safety training, management reviews and third-party audits undertaken on both existing businesses and any new projects. In-depth investigations are conducted into all incidents and mitigation procedures are continuously reviewed. Targets are set by each business and their performance is measured.

There are regular interactions to continuously ensure the health and safety of our staff. Safety representatives are appointed from the shop floor in accordance with the South African Occupation Health and Safety Act. We continuously train our staff and contractors in health and safety.

KAP is regularly audited by accredited independent specialists to ensure compliance to statutory and legal requirements.

KAP continues to focus on safety to reduce our Lost Time Frequency Rate ('LTIFR')/ 1 million hours worked of seven. During the period under review, 9 148 people were trained or had safety interventions (FY17: 5 727).

Programmes are also in place to ensure the health of our employees. HIV/Aids is addressed in divisional policies, and divisions have holistic and comprehensive programmes in place to promote awareness, prevention, voluntary testing and support. Policies cover aspects of confidentiality, non-discrimination and commitment to implement programmes relevant and of value to that division and its employees. Where applicable, local communities are involved in initiatives such as World Aids Day. HIV/Aids education is ongoing, with 6 285 staff educated in the past year.

Certain businesses, where appropriate, have on-site health clinics for their staff. Within our transport environment, mobile clinics are available on the main routes. Our clinics have qualified nursing staff, assisted by doctors, to provide workplace health risk assessments, including the monitoring of TB, industrial hygiene, medical surveillance, outcome management and incident management in line with the Health Risk Control section of the Health Care Model.

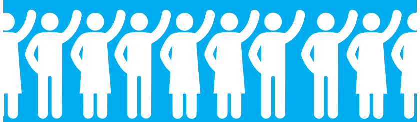
Responsible employment

KAP subscribes to the principles of the UNGC, the recommendations of the International Labour Organisation, and the OECD. Our code of ethics provides employees with summary information on what constitutes unlawful or unethical practices and behaviour and provides guidelines on topics that include basic human rights, gender and race diversity.

Freedom of association is guaranteed in the South African Constitution. Of our 15 639 South Africa employees, 59% are unionised. KAP is actively involved and prominent in all our associated industry bargaining councils and engages with all the main unions represented in the various businesses. Almost 95% of all the group's collective bargaining is conducted through centralised structures.

KAP meets or exceeds all minimum wage requirements as legislated by the Minister of Labour in South Africa. Furthermore, our staff voluntarily participate in both medical and health schemes. Memberships to retirement schemes are compulsory for permanent employees. Overtime is strictly monitored and reported on at each business unit to ensure we remain compliant with all local labour laws.

20 163
permanent employees



Staff profile

Black	91%
White	9%

Level 7
B-BBEE rating

The company is focused on providing sustainable value to all its stakeholders.

VALUE-ADDED STATEMENT 30 JUNE 2018	2018 Rm	%	2017 Rm	%
Revenue	**22 985**		19 783	
Net cost of raw materials, goods and services	**(14 728)**		(12 383)	
Wealth created by trading operations	**8 257**		7 400	
Capital items	**(66)**		(34)	
Income from investments	**60**		133	
Total wealth created	**8 251**	**100.0**	7 499	100.0
Distributed as follows				
Employees				
Benefits and remuneration	**4 345**	**52.7**	4 039	53.9
Governments				
Taxation	**508**	**6.2**	510	6.8
Providers of capital	**1 339**	**16.2**	**1 146**	15.3
Finance costs	**743**	**9.0**	633	8.4
Distributions to shareholders	**559**	**6.8**	442	5.9
Distributions to non-controlling interests	**37**	**0.4**	71	0.9
Retained for growth	**2 059**	**25.0**	1 804	24.1
Depreciation and amortisation	**1 045**	**12.7**	862	11.5
Profit attributable to the owners of the parent[1]	**1 000**	**12.1**	963	12.8
Profit attributable to non-controlling interests[2]	**14**	**0.2**	(21)	(0.3)
	8 251	**100.0**	7 499	100.0

[1] Profit for the year attributable to non-controlling interests less dividends paid.
[2] Profit for the year attributable to owners of the parent less dividends paid.

KAP's remuneration philosophy is to remunerate employees fairly and responsibly in a balanced approach, in order to attract, retain and motivate competent individuals who can contribute meaningfully to the sustainable growth of the company.

The King IV Report on Corporate Governance™ for South Africa, 2016 ('King IV™') is effective in respect of financial years that commenced 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 balanced remuneration is viewed as a key factor in ensuring the sustainability of the company.

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 the implementation and execution of the remuneration policy.

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. During the review period the committee met on 14 August 2017 and all the members were present. The committee chairman is a member of the KAP social and ethics committee, which, inter alia, plays a contributory role in remuneration matters, with particular focus on the ethical and social aspects of remuneration and other benefits to employees.

With effect from 14 August 2018, Mr DM (Danie) van der Merwe resigned from this committee and Mr KJ (Jo) Grové was appointed in his stead by the nomination committee.

Due to the group's decentralised management structures, the committee has established divisional human resources and remuneration subcommittees ('the divisional subcommittees'). The divisional subcommittees are responsible for all human capital management and employee remuneration matters at business-unit level, within the parameters set by the committee. The divisional 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.

The committee is satisfied that it has fulfilled its responsibilities during the review period. Key areas of focus of the committee during the period under review included:

- a review of the strategic drivers of human resources and remuneration and the alignment thereof to the vision and strategy of the company;
- a review of the group's remuneration policy, which is presented annually for a non-binding advisory vote by shareholders;
- a review of the measurement criteria in relation to the company's cash-settled incentive schemes;
- a review and approval of the remuneration packages of all senior executives, including annual and long-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
- a review of the recommendations of the divisional 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 divisional subcommittees and to ensure that the divisional subcommittees remain aligned with the group's remuneration policy.

Key considerations for the divisional 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;
- long-term incentive schemes; and
- employee relations management, talent management and succession planning, taking due cognisance of employment equity.

Alignment with strategy

The success of KAP's business is critically dependent on its people in order to maintain high standards of quality products and service to customers over time, in very competitive sectors. KAP's remuneration structures are therefore aligned with the group's long-term strategic business priorities, namely:

- to sustain and improve its leading positions in high barrier to entry markets;
- to add value through specialisation in a diverse range of industries, markets and geographies;
- to grow sustainable long-term revenue;
- to increase its sustainable operating profit and cash flows; and
- to improve sustainable return on equity.

A strategic objective of KAP is to be an industry leader in its chosen markets. This implies a requirement to attract and retain the best people in industry and to consistently improve their skills. As KAP has grown into industry-leading positions, it has become increasingly exposed to and benchmarked against global best practice. Although KAP is a South African-based company, it earns approximately

9% of its revenue outside South Africa; it imports a material portion of its inputs from outside South Africa; a significant portion of its inputs are globally indexed in foreign currencies; and it has international shareholders at certain business units who actively participate in the relevant businesses and several technology agreements with international companies. As a result, KAP expects its executives to have knowledge and experience across international borders and to be internationally mobile. KAP therefore competes for management and specialist skills and succession talent in a challenging global marketplace and, as a result, its approach to remuneration needs to remain competitive and encourage retention.

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 of South Africa.

Non-executive directors' remuneration
Independent surveys are obtained from expert consultants to assist the committee with its annual review of non-executive directors' fees.

The committee submitted its proposals to the board for the fees payable for the period from the date of the forthcoming AGM to the 2019 AGM, 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 Scheme and do not hold share rights under this scheme, other than the rights held by the non-executive deputy chairman over 827 893 shares, granted during the period of his service in an executive capacity prior to 31 December 2016 and awaiting maturity.

Refer to the attached implementation report for details of the non-executive directors' fees to be proposed at the forthcoming AGM.

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 AGM. 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 AGM, 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 AGM on 13 November 2017, the shareholders endorsed the remuneration policy of the company by way of a non-binding advisory vote of 87.84% in favour of the policy. In determining appropriate levels of remuneration, the company routinely benchmarks against industry best practice with the use of independent experts.

Skhulasonke Scheme
The Skhulasonke Scheme, which was independently established in 2008 with the objective of creating value for black South African citizen employees of the group's underlying operations, drew to a conclusion in 2017. This resulted in the payment of R105 132 071 to black management in the group and R480 185 477 to primarily black employees of the group during the financial year.

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 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 vision and strategy.
- 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 is fair, responsible and transparent 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 long-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 financial year, utilising the services of independent experts. 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 two 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 grading has been standardised. Company performance, individual performance, general inflation and changes in responsibilities are also taken into consideration when determining annual base salaries.

The amount of the salary package is determined, with effect from 1 July 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 a 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 independent salary surveys as reference points.
- Inflationary remuneration increases are approved from year to year, based on movements in consumer price inflation 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 an independent salary survey at least once every second financial year and by the test of general affordability.

The remuneration of employees, other than union and other bargaining structure 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 a condition of employment at certain levels and additional cover is available to employees according to their personal circumstances. The healthcare benefits are outsourced to service providers. The company does not provide post-retirement healthcare benefits for current employees.

The group has various independently administered defined benefit plans.

The company encourages union membership and collective bargaining among its employees in order to provide for responsible and structured engagement. In relation to employees represented by trade unions or similar bargaining structures and similarly graded positions, their wages and substantive conditions of employment are negotiated from time to time with the applicable bargaining structures, preferably via collective bargaining processes. Changes to remuneration and benefits are negotiated in one, two or three-year arrangements. Multi-year arrangements are favoured in terms of stability and consistency in industrial relations. Access by these employees to suitable medical, retirement and associated insured benefits is also facilitated by the company.

Advisory and administrative services are offered on an outsourced basis in relation to employment benefits.

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 in relation to senior executives would require appropriate motivation and the specific approval of the committee.

Variable performance-related incentives ('incentives')
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 certain targets. Consequently, they are offered a combination of guaranteed and variable pay to incentivise performance on a short-term and long-term basis.

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 required to achieve the objectives of the business. These policies are also used to ensure that top management are duly motivated to achieve organisational goals and strategic objectives to ensure the long-term sustainability of the company. Bonuses are determined and paid in the financial year following that to which the performance relates and are disclosed together with the applicable performance targets.

Annual incentive bonus ('AIB') for the year ended 30 June 2018

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.

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.

For members of the group's executive team, the performance measures for the AIB for the year ended 30 June 2018 include:

1. Achievement of operational and financial growth objectives	
Objective	Metric
Performance against profit target	Headline earnings before tax from continuing operations of R2 149 million
Performance against cash flow target	Cash from continuing operations less net finance cost of R2 498 million
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 of 14%
This objective is managed over time in setting profit and cash flow targets, 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: ▪ successful integration of the various acquisitions ▪ successful completion of various major expansion projects ▪ successful conclusion of the Unitrans Supply Chain Solutions B-BBEE transaction ▪ successful management of the impact of the collapse of a major shareholder ▪ successful increase on the company's bond programme and successful refinancing of maturing debt
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 unless in extraordinary circumstances and with the approval of the committee. 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.

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
Chief executive officer	100%	–	50%
Chief financial officer	100%	–	50%
Divisional chief executive officers	100%	–	50%
Human resources executive	100%	–	50%
Business development executive	100%	–	50%
Stakeholder relations executive	100%	–	50%
Key divisional management	–	100%	15% – 50%

Key executives are further entitled to participate in the value created by performance in excess of budgeted headline earnings before taxation applicable to their respective division or the group. This participation varies between 12% and 20% of such applicable headline earnings before tax excess over budget. 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, business development executive and stakeholder relations 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 optimal 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 achieving project, production and sales-related targets.

Long-term incentives applicable to allocations before 30 June 2018

KAP competes for management skills and talent and its approach to remuneration takes account of the need to retain key management over the long term.

Long-term incentives 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 long term. The long-term incentives comprise a share rights scheme ('SRS') for executive staff and a cash-settled ('LTI') scheme for key senior management.

The allocation of SRS and LTI incentives is at the discretion of the committee and applies to individuals who are key to determining and implementing the long-term vision and 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 'windfall' gains. The allocation and quantum of long-term incentives are based on the responsibility levels and salary packages of relevant individuals.

Share rights vest only when the group has achieved its cumulative financial targets over the relevant three-year period, as detailed in the AIB above.

Except as approved by the committee in exceptional circumstances, share rights and LTI allocations will lapse should any participant in the SRS or LTI 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 SRS allocations to the group's executive management during the year ended 30 June 2018 was 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%
Stakeholder relations executive	100%
Key divisional management	33% – 100%

In order to qualify for the LTI, participants are required to achieve their own division's cumulative targets, as detailed in the AIB above, over a cumulative three-year period. The value of LTI allocations to the group's senior management during the year ended 30 June 2018 were 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. There have been no changes to the rules of the SRS since its inception.

Implementation report

During the 2018 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, in order 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 the executive committee comprised the following elements:

Executive directors	Total guaranteed salary 2018	Total guaranteed salary 2017	Increase in guaranteed salary
	R	R	
Gary Noel Chaplin[1]	6 000 000	5 250 000	14%
Karel Johan Grové[2]	–	3 406 500	–
Frans Hendrik Olivier[3]	3 700 000	3 355 000	10%
Total	**9 700 000**	**12 011 500**	

[1] Gary Noel Chaplin's base salary was increased in the first of a two-phased approach aimed at aligning his remuneration with the market median for companies of similar size and complexity.

[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. The remuneration is for six months.

[3] Frans Hendrik Olivier's base salary was increased in the first of a two-phased approach aimed at aligning his remuneration with the market median for companies of similar size and complexity.

Other executive committee members	Total guaranteed salary 2018	Total guaranteed salary 2017	Increase in guaranteed salary
	R	R	%
Total[4]	**27 172 000**	**21 355 333**	**27%**

[4] The increase in guaranteed salaries paid to other executive committee members is based on inflation, additional responsibilities resulting from acquisitions, market benchmarks and an increase in the number of executive committee members. The year on year increase, excluding the impact of changes in the number of members, is 7%.

Annual incentive bonus

Bonuses paid in the 2018 financial year were determined in line with the remuneration policy and were awarded based on the following criteria in relation to the 2017 financial year:

1. Achievement of operational and financial growth objectives for the 2017 financial year

Objective	Metric
Performance against profit target	Headline earnings before tax of R1 751 million
Performance against cash flow target	Cash from operations less net finance cost of R1 972 million
Performance against return on investment criteria	Return on equity of 14.5%

2. Implementation of key strategic initiatives related to the strategic development and competitive positioning of KAP for the 2017 financial year

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 that 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 the committee and the board	The group continued with strategic corporate activities to enhance its 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: **Clawback 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 clawback offer, 197 368 421 ordinary shares (‘the clawback shares’), on terms and conditions detailed in the circular to shareholders dated 22 November 2016 (‘the clawback offer’). To underpin the clawback 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 clawback 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 clawback shares. The balance of 16 727 956 ordinary shares not subscribed for by shareholders, constituting 8.5% of the clawback 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. **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 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 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.

The committee reviewed the performance of individuals against the target criteria set out above and confirmed that these criteria were met. AIBs were awarded in line with the remuneration policy and stipulated allocation levels as follows:

Executive directors	Total bonuses 2018
	R
Gary Noel Chaplin	5 250 000
Frans Hendrik Olivier	3 355 000
Total	**8 605 000**

Other executive committee members	Total bonuses 2018
	R
Total	**21 174 000**

Long-term incentives

LTIs 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 2014 grant and approved the vesting thereof, where target criteria were met.

Executive directors	Offer date	Vesting date	Number of rights as at 30 June 2017	Number of rights (exercised)/(expired)/awarded during the year	Number of rights as at 30 June 2018	Market value of rights at grant date	Market value of rights upon vesting	Market value of rights at 30 June 2018
						R	R	R
Gary Noel Chaplin	Dec 2014	Dec 2017	1 543 470	(1 543 470)	–	7 161 701	13 536 232	–
	Dec 2015	Dec 2018	1 151 851		1 151 851	8 189 661		8 627 364
	Dec 2016	Dec 2019	1 401 589		1 401 589	10 638 061		10 497 902
	Dec 2017	Dec 2020	–	1 198 565	1 198 565	10 427 516		8 977 252
Total			**4 096 910**	**(344 905)**	**3 752 005**	**36 416 939**	**13 536 232**	**28 102 518**
Frans Hendrik Olivier	Dec 2014	Dec 2017	507 466	(507 466)	–	2 354 642	4 450 477	–
	Dec 2015	Dec 2018	486 191		486 191	3 456 818		3 641 571
	Dec 2016	Dec 2019	713 328		713 328	5 414 160		5 342 827
	Dec 2017	Dec 2020	–	588 636	588 636	5 121 133		4 408 884
Total			**1 706 985**	**81 170**	**1 788 155**	**16 346 753**	**4 450 477**	**13 393 282**
Total executive directors			**5 803 895**	**(263 735)**	**5 540 160**	**52 763 692**	**17 986 709**	**41 495 800**
Karel Johan Grové[1]	Dec 2014	Dec 2017	1 825 967	(1 825 967)	–	8 472 487	16 013 731	–
	Dec 2015	Dec 2018	827 893		827 893	5 886 319		6 200 919
Total			**2 653 860**	**(1 825 967)**	**827 893**	**14 358 806**	**16 013 731**	**6 200 919**
Total non-executive directors			**2 653 860**	**(1 825 967)**	**827 893**	**14 358 806**	**16 013 731**	**6 200 919**
Total directors			**8 457 755**	**(2 089 702)**	**6 368 053**	**67 122 498**	**34 000 440**	**47 696 719**

[1] *Share rights of Karel Johan Grové have been adjusted to reflect the pro rata entitlement as per the rules of the share scheme in terms of retirement.*

Non-executive directors' remuneration

Non-executive directors' remuneration is reflected as follows based on pre-planned and annually scheduled meetings. Additional meetings are held by the board and its subcommittees from time to time as required and are remunerated accordingly.

Non-executive directors' fees	Increase %	2019 R	2018 R
Board membership fees			
Independent non-executive chairman	6%	864 000[2]	815 000[1]
Non-executive deputy chairman	6%	546 000[2]	515 000[1]
Non-executive deputy chairman – additional services		360 000[3]	–
Member	6%	344 500[4]	325 000[4]
Ad hoc meeting fees (fee per formal meeting)	6%	74 200[5]	70 000[5]
Audit and risk committee fees			
Chairman	25%	400 000[6]	320 000
Member	25%	200 000[6]	160 000
Human resources and remuneration committee fees			
Chairman	6%	164 300	155 000
Member	6%	79 500	75 000
Nomination committee fees			
Chairman	6%	6 900	6 500
Member	6%	6 900	6 500
Social and ethics committee fees			
Chairman	6%	31 800	30 000
Member	6%	15 900	15 000
Investment committee fees			
Chairman (fee per formal meeting)		30 000[7]	–
Member (fee per formal meeting)		25 000[7]	–

[1] All-inclusive annual fee.

[2] This fee is no longer an all-inclusive annual fee. From time to time the board may be required to meet formally in addition to the scheduled annual commitments. In the event of formal ad hoc meetings, the independent non-executive chairman and non-executive deputy chairman will qualify for the ad hoc meeting fee upon attendance.

[3] The non-executive deputy chairman facilitates the meetings of the divisional management boards on a quarterly basis as an independent facilitator. Remuneration in relation to these additional services is based on a rate of R15 000 per meeting.

[4] This comprises an annual retainer of R47 700 (2018: R45 000) and a per meeting fee of R74 200 (2018: R70 000), based on four scheduled formal board meetings per annum.

[5] From time to time the board may be required to meet formally, in addition to the scheduled annual commitments. In the event of formal ad hoc meetings all directors will qualify for the ad hoc meeting fee upon attendance. Two formal board meetings were held in addition to the four scheduled board meetings during the 2018 year. Members in attendance at these additional formal board meetings were remunerated at R70 000 per meeting during August 2018.

[6] The above-inflation increase (25%) for the audit and risk committee members is to bring their fees in line with fees paid by comparable organisations, and takes into account the additional responsibilities assumed by the committee as a result of the expansion of the group.

[7] An investment committee was constituted on 14 August 2018 as a subcommittee of the board in order to evaluate corporate actions in relation to the group from time to time and to make recommendations to the board in this regard.

The above non-executive directors' remuneration is exclusive of VAT.

All reasonable travelling and accommodation expenses to attend board and committee meetings are paid by the company.

Areas of future focus

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

The company has targeted four key areas of focus in relation to its divisional human resources activities, namely:

- leadership development;
- succession planning;
- employment equity; and
- training and development.

The successful development of these areas will provide a sound platform for sustainable growth of the company and its employees.

The remuneration philosophy of the company was reconsidered during the year in order to encourage a more balanced and socially responsible approach to the running of the business and to ensure that growth is sustainable over the long term. In this regard, the inclusion of B-BBEE, long-term strategy execution, internal audit and compliance, ESG and retention was approved by the committee on 14 August 2018 as measurement criteria in the company's incentive schemes, in addition to the traditional financial targets.

Variable performance-related incentives ('incentives')

This remuneration philosophy historically provided for a high weighting toward risk-based remuneration based on achievement of rigid financial targets, on an 'all or nothing' basis that had the potential to negatively influence the culture of the company and the behaviour of its executives over time. A more balanced approach to the measurement criteria within its incentive schemes was therefore considered and adopted by the committee on 14 August 2018, effective 1 July 2018, in order to promote a more balanced approach to the long-term growth and sustainability of the company. These changes are reflected as follows in relation to:

Annual incentive bonus

Measurement criteria before 30 June 2018		Measurement criteria after 30 June 2018	
Measurement criteria	Weighting	Measurement criteria	Weighting
Financial targets	100%	Financial targets	75%
Strategy execution-related incentives remain subject to achievement of financial targets.		B-BBEE targets	15%
		Internal audit and compliance targets	10%

Long-term incentives

Measurement criteria before 30 June 2018		Measurement criteria after 30 June 2018	
Measurement criteria	Weighting	Measurement criteria	Weighting
Cumulative three-year AIB financial targets	100%	Cumulative three-year AIB financial targets	35%
		Return on equity three-year targets	15%
		Strategy execution targets	15%
		ESG targets	10%
		Retention	25%

Annual incentive bonus for years after 30 June 2018

As already mentioned, the measurement criteria of the AIB scheme have been amended to take effect from 1 July 2018. The revised measurement criteria and the weighting thereof are detailed as follows:

Objective	Metric	Weighting
Performance against profit target	Core headline earnings per share (at group level) Core headline earnings before tax (at division level)	75%
Performance against cash flow target	Cash from operations, less net cash finance cost, less taxation, (less)/add any capex and investment (over)/underspend	
Performance against B-BBEE scorecard targets	B-BBEE scorecard defined in terms of the B-BBEE Codes of Good Practice	15%
Performance against internal audit and compliance targets	Management effectiveness in maintaining the integrity of the system of internal controls against predetermined criteria	10%

The following changes have also been approved by the committee with effect from 1 July 2018:

- Divisional CEO incentives will be split 50/50 in relation to group and divisional performance against relevant measurement criteria in order to balance divisional performance with group performance, without compromising the optimal allocation of capital across the group.
- A phasing provision has been introduced in order to eliminate the potential negative implications of an 'all or nothing' approach to financial targets.
- The cap on executive incentives of 100% of annual cost to company salary has been removed. However, any incentive that exceeds 100% of an executive's cost to company in a year will be carried forward for payment in the following financial year if the relevant executive is still in the employ of the group and with a clean disciplinary record.

Long-term incentives applicable to allocations after 1 July 2018

As mentioned above, the SRS measurement criteria, which are determined by the committee in terms of the SRS rules, have been amended to take effect from 1 July 2018. The revised measurement criteria and the weighting thereof are detailed as follows:

Objective	Metric	Weighting
1. Achievement of financial targets		
▪ Performance against profit target	Cumulative three-year core headline earnings per share	35%
▪ Performance against cash flow target	Cumulative three-year cash from operations, less net cash finance cost, less taxation, (less)/add any capex and investment (over)/underspend	
▪ Performance against return on investment target	Return on equity over three years	15%
2. Implementation of key strategic initiatives related to the strategic development and competitive positioning of KAP		
▪ 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 necessarily benefit the year under review ▪ Other initiatives, such as B-BBEE, internal audit ratings, health and safety, succession planning, etc.	Board-approved initiatives	15%
3. Achievement of ESG targets	FTSE4Good Index measurement criteria	10%
4. Retention	Continued employment through the measurement period with a clean disciplinary record on vesting date	25%

The ultimate responsibility for ensuring full and effective control of the group's businesses rests with the KAP board.

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 the divisions' compliance 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 made by the board take 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, together with the corporate governance report.

The board committees that support the board of directors include the audit and risk, human resources and remuneration, nomination, social and ethics and the investment committees. 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.

READ MORE

Board charter / Corporate governance report / King IV™ www.kap.co.za

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, which are available on the group's website.

KAP has met its reporting requirements relating to King IV™, the Listings Requirements of the JSE and the 2008 Companies Act (as amended) together with the Companies Regulations (jointly 'the Act').

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.

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.

Formulation of strategic intent	Governance and compliance		Strategy development	Strategy implementation
Board of directors	Board committees		Executive committee	Divisional management teams Divisional committees
Holding company	Holding company	Material subsidiaries	Divisional structure	Operational structure

KAP

Holding company – Board committees

Board committees support the board of directors with regard to specific functions. These formal 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 for the review period include:

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

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

Divisional structure

- Diversified industrial
- Diversified chemical
- Diversified logistics

Operational structure

- Integrated Timber
- Automotive Components
- Integrated Bedding
- Chemical
- Contractual Logistics
- Passenger Transport

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

Executive management	
Chief executive officer	
Gary Chaplin	21
Chief financial officer	
Frans Olivier	12
HR executive	
Johan Geldenhuys	19
Business development and transformation	
Vukile Zondani	1
Stakeholder relations executive	
Penwell Lunga	12
Divisional CEO – Integrated Timber	
Gerhard Victor	22
Divisional CEO – Automotive Components	
Ugo Frigerio	28
Divisional CEO – Integrated Bedding	
Michael Metz	43
Divisional CEO – Chemical	
Leigh Pollard	26
Divisional CEO – Contractual Logistics	
Theunis Nel	17
Divisional CEO – Passenger Transport	
Nico Boshoff	23

☐ Years with group or relevant divisional businesses

Executive directors

GN (Gary) Chaplin (48)

CA(SA)

Chief executive officer

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 positions and fulfilled various roles in Steinhoff's timber and furniture-related operations. He then joined PG Bison and was appointed to the board in August 2006 and appointed as chief executive officer in November 2011. In June 2012, KAP Industrial Holdings Limited ('KAP') acquired PG Bison, whereupon Gary was appointed to the KAP executive committee and later assumed full responsibility for 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.

Member of the social and ethics committee

Member of the investment committee (appointed 14 August 2018)

FH (Frans) Olivier (39)

CA(SA)

Chief financial officer

Frans qualified as a chartered accountant in 2004 and performed his articles at KPMG Inc. in Johannesburg. After completing his articles, Frans joined Riso Africa Proprietary Limited for a short while during 2005 as financial manager, following which he joined Steinhoff Africa Holdings Proprietary Limited in 2006 as a financial manager. In 2009, Frans joined PG Bison as group financial manager and was appointed as chief financial officer of PG Bison in 2010. KAP Industrial Holdings Limited acquired PG Bison in 2012. Frans was promoted to the role of chief financial officer for the diversified industrial segment of KAP in 2015. He was later appointed as chief financial officer of KAP Industrial Holdings Limited on 15 April 2016.

Member of the investment committee (appointed 14 August 2018)

Non-executive directors

KJ (Jo) Grové (69)

AMP (Oxford)

Non-executive deputy chairman

Jo has more than 20 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 a non-executive director of Steinhoff International Holdings, following the approval and implementation of the acquisition by Steinhoff of the majority shareholding in Unitrans Limited, subsequently becoming a non-executive alternative director on the Steinhoff International Holdings board in December 2007 until he resigned in December 2015. Jo was appointed as chief executive officer of KAP Industrial Holdings Limited in 2012. He stepped down as chief executive and was appointed executive chairman in November 2014, and as non-executive deputy chairman in January 2017.

Member of the investment committee (appointed 14 August 2018)

Member of the human resources and remuneration committee (appointed 14 August 2018)

TLR (Theo) de Klerk (49)

Bcom (Hons), CTA, HDip (Tax), CFM

Non-executive director

After completing his articles with Ernst & Young, **Theo** worked for four years as a corporate tax consultant. He joined Murray & Roberts as financial director of its marine construction operation. He spent five years with Gensec Investment Bank as part of its corporate finance advisory unit, focusing on mergers and acquisitions, capital raisings and related structuring functions. During 2003, he joined Steinhoff as a senior executive responsible for mergers and acquisitions, corporate advisory services and investor relations. He acted as chief executive officer of the group's building material retail business from 2008 to 2015. Theo also serves as a director of IEP Group Proprietary Limited. He was appointed as a non-executive director of KAP Industrial Holdings Limited on 1 September 2017. In January 2018, Theo joined the board of Steinhoff International Holdings N.V. as operations director.

Member of the investment committee (appointed 14 August 2018)

LJ (Louis) du Preez (49)

Bcom, LLB

Non-executive director

Louis qualified as an attorney of the High Court of South Africa in 1997, after completing his articles. He joined Jan S de Villiers and was appointed a partner of the firm in 1998. With the merger of Werksmans Attorneys in 2009, he became a member of the national executive committee of the combined firm and served in that capacity until early 2017. While practising as an attorney, Louis advised clients on a variety of corporate and commercial matters. He joined the Steinhoff Group as general counsel in mid-2017. Louis was appointed as a non-executive director of KAP Industrial Holdings Limited on 1 September 2017. In December 2017, he was appointed as commercial director of Steinhoff International Holdings N.V. He has also served as a director of Pepkor Holdings Limited since January 2018.

DM (Danie) van der Merwe (60)

Bcom, LLB

Non-executive director

Danie 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, he joined the Roadway Transport Group and was instrumental in developing the strategic direction and growth of this group. In early 1998, following the merger of Roadway Transport Group with Steinhoff Africa, Danie joined the Steinhoff Group and, in 1999, was appointed as a director of Steinhoff International Holdings Limited. From this time he acted as chief executive officer of Steinhoff's Southern Hemisphere operations, was appointed as group chief operating officer in 2013, and was designated as acting chief executive officer of Steinhoff International Holdings N.V. on 19 December 2017. He holds several other appointments within the Steinhoff Group and currently also serves as a non-executive director of KAP Industrial Holdings Limited and Pepkor Holdings Limited.

Member of the nomination committee (resigned 14 August 2018)

Member of the human resources and remuneration committee (resigned 14 August 2018)

Independent non-executive directors

J (Jaap) de Vos du Toit (64)

BAcc, CA(SA), CTA, CFA

Independent non-executive chairman

Jaap was appointed as senior general manager of 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 served 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. 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.

Chairman of the nomination committee

IN (Ipeleng) Mkari (44)

BSocSci

Independent non-executive director

Ipeleng holds a Bachelor of Social Science degree from the University of Natal and has completed the Executive Development Programme (Wits 2004) and is an Archbishop Tutu Fellow. She founded Motseng Investment Holdings, where she is currently the 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 Attacq, 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 and the nomination committee.

Chairperson of the social and ethics committee

Member of the human resources and remuneration committee

Member of the nomination committee (appointed 14 August 2018)

SH (Steve) Muller (57)

BAcc (Hons), CA(SA), Sanlam EDP

Independent non-executive director

Steve qualified as a chartered accountant and worked at KPMG from 1983 to 1992. In 1992, he joined Rand Merchant Bank as a senior credit manager, and in 1995, he joined Genbel Investments. Over the next 13 years, he functioned in various capacities within that group, including Chief Operating Officer: Equities of Genbel Securities Limited, executive director of Gensec Bank Limited, and served 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 served as an independent non-executive director and chairman of the audit committee of SACOIL from 2013 to 2016. In 2012, Steve was appointed as an independent non-executive director of KAP Industrial Holdings Limited and in 2014, he was appointed chairman of the KAP human resources and remuneration committee. He currently also serves on the audit and risk committee, the social and ethics committee and the investment committee. In January 2017, Steve was appointed as an independent non-executive director of the Phumulela Gaming and Leisure Limited board and as the chairman of the company's audit committee. During August 2017, he was appointed as an independent non-executive director of Pepkor Holdings Limited, where he serves as the chairman of the human resources and remuneration committee, and a member of the audit committee.

Chairman of the human resources and remuneration committee

Member of the audit and risk committee

Member of the social and ethics committee

Member of the nomination committee (resigned 14 August 2018)

Member of the investment committee (appointed 14 August 2018)

SH (Sandile) Nomvete (46)

EDP (Wits), Prop Dev Prog (UCT)

Independent non-executive director

Sandile is a co-founder of Delta Property Fund and has nearly a decade and a half of experience in executive and non-executive positions. His entrepreneurial and forward-thinking persona has propelled him into becoming one of South Africa's leading business executives. Sandile was appointed as an independent non-executive director of KAP Industrial Holdings Limited in 2004, and he is a member of the audit and risk committee.

Member of the audit and risk committee

PK (Patrick) Quarmby (64)

CA(SA) (Hons)

Independent non-executive director

Patrick was a partner at Ernst & Young until he moved 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 in 2007. Patrick was appointed as an independent non-executive director of KAP Industrial Holdings Limited in 2012, and serves as the chairman of the audit and risk committee. He is also a member of the nomination committee and the investment committee.

Chairman of the audit and risk committee

Chairman of the investment committee (appointed 14 August 2018)

Member of the nomination committee (appointed 14 August 2018)

CJH (Chris) van Niekerk (71)

BA

Independent non-executive director

After a long career in the chemical industry with Sentrachem Group, where **Chris** managed several operations, he was appointed to the board of PG Bison in May 1998 as chief executive officer. Chris led the management buy-out of PG Bison, which was later incorporated into the KAP Group. He was also involved with the management buy-out of Chlor-Alkali Holdings, a salt and chemicals holding group. Chris 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.

The key function of the committee is to ensure that the board and its committees are appropriately structured and resourced to enable them to fulfil their duties efficiently in terms of their charters or terms of reference.

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 Listings Requirements of the JSE Limited and the recommendations of the King IV Report on Corporate Governance™ for South Africa, 2016 ('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 fulfil their duties efficiently 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. 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.

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Corporate governance
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During the review period, the committee met on 14 August 2017, at which meeting changes to the composition of the board were recommended. This was confirmed by shareholders at the company's annual general meeting in November 2017.

Subsequent to year-end, the committee met on 14 August 2018 and again on 17 September 2018.

At these meetings, the election/re-election of directors at the forthcoming annual general meeting to be held in November 2018 was considered, as well as the establishment of an investment committee and changes to the membership of the existing board committees. These included:

- the resignation of Mr SH Müller from the nominations committee;
- the resignation of Mr DM van der Merwe from both the nomination committee and the human resources and remuneration committee;
- the appointment of Mr KJ Grové to the human resources and remuneration committee;

- the appointment of Mrs IN Mkhari and Mr PK Quarmby to the nomination committee; and
- the appointment of Messrs GN Chaplin, FH Olivier, KJ Grové, TLR de Klerk, SH Müller and PK Quarmby to the newly formed investment committee.

The non-executive directors were categorised as required by the JSE Listings Requirements and in accordance with the recommendations of King IV™. 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 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 committee recommended the directors for re-appointment to the audit and risk committee, being Messrs PK Quarmby, SH Müller and SH Nomvete.

The committee also recommended the directors who stand for re-election to the board, having retired by rotation, being Messrs PK Quarmby and SH Müller.

Mr DM van der Merwe has not made himself available for re-election to the board as a result of his various other responsibilities and following his retirement by rotation.

The company's memorandum of incorporation requires that after attaining the age of seventy, board members will be required to retire by rotation on an annual basis. At seventy one years of age Mr CJH van Niekerk has decided to retire and as a result has not made himself available for re-election to the board.

The nomination committee recommended, and the board agreed, that the aforementioned board vacancies will not be filled at this time. Shareholders will be asked to approve these appointments and further to reduce the number of directors on the board.

The most recent self-assessment exercises conducted by the board committees confirm that the group's committees continue to operate effectively and that the duties of these committees have been carried out efficiently. The composition of the committee meets with the recommendations of King IV™ and the Companies Act and there is 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.

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

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.

Background and overview

The operations of the social and ethics committee ('S&E committee') of KAP are guided by a formal terms of reference, which provisions are in line with the requirements of the Companies Act, No. 71 of 2008 and the Companies Regulations 2001 (collectively the 'Companies Act'), as well as the Listings Requirements of the JSE Limited ('JSE LRs') and the recommendations of the King IV Report on Corporate Governance™ for South Africa, 2016 ('King IV™'). The terms of reference were approved by the KAP board of directors ('the board'). The terms of reference were recently reviewed and updated with the latest recommendations and requirements from King IV™.

The committee is both a statutory committee and a committee of the board of directors in respect of other duties assigned to it by the board.

The committee enjoys the support and cooperation and draws on the competencies and experience of the members serving on the KAP audit and risk committee, the human resources and remuneration committee ('RemCom'), the executive committee ('Exco') and the BEE Exco in exercising certain overlapping duties in the areas of KAP's integrated reporting, remuneration, human resources, employment equity ('EE'), broad-based black economic empowerment ('B-BBEE'), and other aspects of the group's business.

Objective and scope

The role of the S&E committee is to assist the board with the oversight of social and ethical matters relating to the group. The overall objectives of the S&E committee are as follows:

- to monitor KAP's activities with regard to the duties that are attributed to it by the Companies Act, the JSE LRs and King IV™, with a specific focus on those duties stated in regulation 43(5) of the Companies Act, relating to:
  - social and economic development
  - the prevention of fraud and corruption and the promotion of ethical behaviour
  - good corporate citizenship
  - the environment, health and public safety
  - public relations and consumer relationships
  - employment and labour relations
  - compliance with applicable legislation
  - the impact of KAP's activities, products and services on communities

- to draw matters within its mandate to the board's attention as required
- to report to the company's shareholders on the matters within its mandate

Overview of duties fulfilled

The S&E committee has discharged all its responsibilities as contained in its terms of reference, the Companies Act, the JSE LRs and King IV™. This is presented as an overview, and should not be regarded as an exhaustive list of all duties carried out.

Among others, the S&E committee received and considered reports relating to:

- KAP's standing in terms of the goals and purposes of the Ten Principles as set out in the United Nations Global Compact ('UNGC'), in the areas of human rights, labour, the environment and anti-corruption
- the instruments of the Organisation for Economic Co-operation and Development ('OECD') aimed at combatting the fight against corruption and averting the solicitation of bribes and extortion
- the instruments of the OECD aimed at promoting economic and social well-being of people
- the protocol and recommendations of the International Labour Organisation on decent work and working conditions, freedom of association, the right to collective bargaining, elimination of forced or compulsory labour and discrimination in the workplace
- the company's employment relationships with its employees and the labour unions
- the company's contribution toward the educational development of its employees and other employee benefits
- the company's compliance with:
  - the Employment Equity ('EE') Act
  - the Broad-Based Black Economic Empowerment ('B-BBEE') Act and the new Codes of Best Practice
  - the Occupational Health and Safety Act ('OHASA')
  - other relevant and applicable legislation in the areas of labour, the environment, health and public safety, insider trading, etc.

The S&E committee reviewed KAP's position in terms of the goals and purposes of each of the aforementioned aspects and management's actions in applying the above across the business operations of the KAP Group, and the committee concluded that:

- KAP's practices are aligned with the principles and guidelines of the UNGC, those of the OECD as well as those recommended by the International Labour Organisation.
- The group's controls are sufficient in mitigating the risks of fraud, bribery and extortion, and that the recent introduction of a politically exposed people ('PEP') interest declaration across the business would enhance the monitoring of risks associated with money-laundering, corruption, embezzlement, bribes and related criminal activities that are associated with politically exposed persons.
- The group had filed its statutory EE reports with the Department of Labour. Progress towards achieving the three-year EE targets set and agreed with the Department of Labour is on track.
- KAP's transformation progress is monitored on a constant basis by, among others, the various divisional human resources ('HR') and remuneration committees, the KAP BEE Exco and the KAP Exco.
- Good progress has been made towards B-BBEE. A black ownership transaction was concluded in terms of which 45% of Unitrans Supply Chain Solutions Proprietary Limited was sold to black business partners, as a result of which a greater than 51% black-owned and greater than 31% black-women owned entity was established in the Contractual Logistics business environment.
- The group has made positive strides in the areas of stakeholder and labour relationships since the appointment of an expert black industrial relations executive to the KAP Exco to guide the group's relationships with key government institutions, regulatory authorities, industry associations as well as communities and local authorities.
- Similar positive progress and improved relations were evident in respect of business development and, in particular, B-BBEE contracts with institutional customers and suppliers following the appointment of a black business development executive to Exco.
- KAP's efforts to provide affordable medical access to all its employees was commendable.
- The group's compliance, health, safety and environmental compliance aspects under OHASA were well managed, and no matters of material concern had been identified for escalation to the board.

The S&E committee expressed satisfaction with KAP's current Level 7 B-BBEE compliance status under the more stringent revised generic codes. The committee has, however, also placed emphasis on the need to improve the scorecard. The latest B-BBEE certificate is available on the KAP website.

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The S&E committee has reinforced numerous controls and safeguards around conflicts of interests, ethics, employees' code of conduct, as well as the awareness of corruption and fraud. Fraud prevention was reinforced by an independent hotline through which unethical actions are reported anonymously for investigation by independent investigators. Anti-fraud and corruption were further combatted via awareness campaigns and training at HR induction sessions. Overall, indications are that KAP's code of ethics had been embedded deeply into the daily operations and lives of the group's employees. As espoused by the committee, KAP follows a consistent approach in actively pursuing and prosecuting perpetrators of fraudulent or other illegal activities across its business operations.

KAP has published on its website various important documents for wider stakeholder absorption, such as the group's HIV approach; its code of ethics; the promotion of access to information guide; its gender diversity policy and its race diversity policy; its environmental policy; the KAP board charter; its value-added statement; as well as an overview of its contributions to socio-economic development and training and development.

From a good corporate citizenship perspective, the S&E committee monitored:

- the promotion of equality across the operations of KAP;
- the prevention of unfair discrimination;
- KAP's contribution to the development of the communities in which its activities are predominantly conducted and its products and services are marketed; and
- the sponsorship and donations of the company to various communities.

In this regard, the committee reviewed and endorsed KAP's corporate social investment ('CSI') and socio-economic development ('SED') approach, in terms of which CSI and SED are managed within the dimensions of enterprise development projects, direct donations and humanitarian activities by each division in the communities in which KAP conducts its business. The group's CSI policy is primarily focused on child welfare, health and education. The S&E committee sanctioned the giving of donations, financial assistance and goodwill to alleviate poverty, combat crime, and enhance community development, education, health, art and agriculture.

Under the guidance of the committee, the following policies were formulated and adopted and are regularly reviewed:

- a communications policy, which, in particular, also makes provision for 'crisis communication'
- a communications policy for financial analysts
- a corporate social investment policy, including the group's donations policy
- a social media policy
- an environmental policy and strategy
- a hotline policy for prevention of fraud, crime and unethical behaviour
- a number of sustainability-related plans and guidelines focused on enhancing triple bottom-line and corporate governance aspects in support of KAP's business strategy

The S&E committee reviewed relevant information that was publicly disclosed in its 2017 integrated report and concluded that the integrity of the non-financial information disclosed therein was reliable and beyond reproach.

In collaboration with the JSE and FTSE Russell, and following an independent assessment of the group's publicly disclosed information, KAP secured inclusion on the FTSE4Good Index in the Industrial Goods and Services sector. KAP achieved an overall rating of 2.5 out of a maximum of 5 and a governance score of 4 out of 5. Under the guidance of the S&E committee, KAP will, in the coming financial year, work toward improving its public ESG disclosures with a view of improving its current social score of 2 and environment score of 1.8.

Membership

The committee is comprised of three members. The composition of the committee, which has been reviewed and approved by the KAP nomination committee, satisfies the requirements of the Companies Act and its regulations and, in addition, meets the higher requirements of King IV™ in that the majority of its members are independent non-executive directors.

During the review period, S&E committee members were:

- Mrs IN Mkhari (independent chairperson and member of the human resources and remuneration committee)
- Mr SH Müller (independent non-executive director and member of the human resources and remuneration committee)
- Mr GN Chaplin (chief executive officer)

The S&E committee is satisfied that the committee as a whole is appropriately diverse and has the required knowledge, experience and skills to discharge its responsibilities effectively.

Meetings and attendance

The S&E committee convenes once every year (unless circumstances dictate otherwise) and met on 17 July 2018. All members were in attendance, save for Mrs IN Mkhari. The meeting was chaired by Mr SH Müller in the absence of the regular chairperson. Attendance at meetings by other directors, officers or advisors is by way of invitation.

The company secretary is the secretary of the S&E committee and formal minutes are recorded.

IN Mkhari
Chairperson: KAP social and ethics committee

14 August 2018

Audited consolidated financial statements

Preparation supervised by
Frans Olivier CA(SA)

Independent auditor's report TO THE SHAREHOLDERS OF KAP INDUSTRIAL HOLDINGS LIMITED

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 98 to 171, which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated income statement and consolidated 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 2018, 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% (2017: 19%) 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 business 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 by calculating the value-in-use for these assets. There are a number of key sensitive judgements and assumptions made in determining the inputs into the calculations 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 life 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: • We tested the controls designed and implemented by the Group to provide assurance that the assumptions used in preparing the impairment calculations are regularly updated, that changes are monitored, scrutinised and approved by appropriate personnel and that the final assumptions used in impairment testing have been appropriately approved. These include controls implemented by Those Charged with Governance to understand the robustness of key assumptions. • 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');

Key audit matter	How the matter was addressed in the audit
Impairment of goodwill and indefinite useful life intangible assets (continued)	
These projections are based on past performance and expected market development. Accordingly, the impairment test of these goodwill and intangible assets with indefinite useful life 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.	• Validating the assumptions used against available external benchmarks to calculate the discount rates and recalculating the discount rates; • Evaluating the Directors' royalty rates against industry norms; • 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 life intangible assets to be relevant and useful.
Capitalisation of plant expansion costs and capitalisation dates	
The capital expansion project of the chemical plant in Hosaf (a division of KAP Diversified Industrial (Pty) Ltd) was completed during the year. The Directors applied significant judgement in assessing the nature of the costs incurred in the expansion, and whether these qualify to be capitalised in accordance with *IAS 16 – Property, Plant and Equipment ('IAS16)*. Further significant judgement was applied in determining at what date to cease capitalisation of costs ('commissioning date') and to begin recognising depreciation. The Directors concluded that on 31 December 2017, the plant was producing in-spec product capable of being sold at the intended margin, ceased capitalisation of costs, and began recognising depreciation.	We focused our detailed testing on key assumptions made by the Directors and conclusions reached. Our audit procedures also included the following: • Assessing and confirming the date of completion of construction of the plant; • Independently determining the period reasonably expected to constitute the testing period; • Analysing production levels compared to budgeted production for the period; • Ensuring that the process was in line with the Group's accounting policy and accounting standards for determining the commissioning date of costs incurred in constructing major plant capital investment;

Independent auditor's report TO THE SHAREHOLDERS OF KAP INDUSTRIAL HOLDINGS LIMITED (CONTINUED)

Key audit matter	How the matter was addressed in the audit
Capitalisation of plant expansion costs and capitalisation dates (continued)	
The criteria used to assess the commissioning date are determined based on the unique circumstance of the plant such as, the following: • The majority of the assets making up the project are substantially complete and ready for use; • Completion of a reasonable period of testing of the plant and equipment; • A specified percentage of design capacity for the plant has been achieved over a continuous period; • The ability to produce the product in a saleable form and within specifications (in accordance with regulatory specifications); and • The ability to sustain ongoing production over a certain period. The total value of costs capitalised to the plant amounted to R1 277.8 million, which is included in the total cost of plant and machinery disclosed in note 9 of the consolidated financial statements as at 30 June 2018.	• Obtaining the detailed general ledger expenditure account used during the construction of the plant and assessing the nature of the cost to determine whether the cost was either administrative or capital in nature; and • We challenged key judgements made by the Directors based on the nature of these costs and our understanding of the production processes. We concluded based on the procedures performed, that the Directors appropriately capitalised items to the Hosaf plant, and appropriately determined the commission date thereof. Disclosure in note 9 of the consolidated financial statement are appropriate.
Valuation of timber plantation biological assets and wet-deck timber stockpile	
As disclosed in note 11 of the consolidated financial statements, the valuation of timber plantation biological assets amounted to R1 881.0 million (2017: R1 950.0 million) for the year. The net fair value adjustment for the year ended 30 June 2018 amounted to a decrease in profit of R69.0 million (2017: decrease of R1.0 million). The value of timber plantation biological assets is measured at fair value less estimated 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. Harvesting of 4 456 hectares of plantation affected by the June 2017 fire in the Southern Cape Region begun in 2018. Timber with an estimated value of R92.0 million is currently stored in a wet-deck stockpile ('wet-deck') and is recognised as inventory as at 30 June 2018. Furthermore, an estimated R35.4 million worth of timber is yet to be harvested as at 30 June 2018.	The valuation of timber plantation biological assets involves 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 timber plantation 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 the Group's accounting policy; • Assessing the key assumptions contained within the fair value calculations such as sales prices, harvesting, growth and discount rates; • The use of our specialists to assist in assessing the key assumptions; and • Performing analytics and sensitivity analysis on the valuation results in order to highlight outliers which warranted performing further audit procedures.

Key audit matter	How the matter was addressed in the audit
Valuation of timber plantation biological assets and wet-deck timber stockpile (continued)	
Due to the level of judgement involved in the valuation of timber plantation biological assets and wet-deck inventory, as well as the significance of timber plantation biological assets to the Group's financial position, this is considered to be a key audit matter.	Our audit procedures performed on the valuation of the wet-deck included the following: • We met with management and local foresters to understand the process followed to determine the grade of damaged product; • Developed an understanding for the basis of determining the salvage values of different grade of product with different level of fire damage; • Assessed the process followed to determine the quantum of damage timber plantation biological assets and the methods used to determine possible salvage volumes per product; and • Performed an assessment of the reasonableness of sales prices used in the calculations. We noted that: • The judgements made by the Directors and the key assumptions appear to be reasonable; and • We concur with the appropriateness of the presentation in note 11 of the consolidated financial statements of matters relating to the timber plantation biological assets, and wet-deck inventory.

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 15 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: DA Steyn
Partner

14 August 2018

1st Floor The Square
Cape Quarter
27 Somerset Road
Greenpoint
8005

Directors' report FOR THE YEAR ENDED 30 JUNE 2018

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 2018.

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 23 cents per share (2017: 21 cents per share) payable from income reserves on 25 September 2018 to shareholders registered on 21 September 2018. The dividend withholding tax of 20% (2017: 20%), if applicable, will result in a net cash dividend of 18.4 cents per share (2017: 16.8 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 13 November 2017, shareholders placed 130 000 000 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 30 000 000 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 2 677 874 340 (2017: 2 662 199 369) Ordinary Shares by the allotment and issue of the following new Ordinary Shares:

- On 4 December 2017, 13 746 334 Ordinary Shares were allotted and issued in settlement of the company's obligation to participants under the Scheme.
- On 5 December 2017, 1 928 637 Ordinary Shares were allotted and issued in respect of the acquisition of Support-a-Paedic Proprietary Limited ('Support-a-Paedic') and RME Components Proprietary Limited ('RME Components') (see 'Corporate activity').

Subsidiary companies

The material subsidiaries of the group are reflected in note 30 to the financial statements.

Nature of business

KAP is a diversified industrial group, operating in southern Africa, with leading industry positions in the wood-based panel, automotive components, bedding, polymers, logistics and passenger transport sectors. The group operates in the below-mentioned segments as follows:

- Diversified industrial segment: comprises an Integrated Timber division, Automotive Components division and Integrated Bedding division.
- Diversified chemical segment: comprises the Chemical division which manufacture polyethylene terephthalate ('PET'), high-density polyethylene ('HDPE'), polypropylene ('PP') and urea-formaldehyde ('UF') resin.
- Diversified logistics segment: comprises a Contractual Logistics division and a Passenger Transport division.

Further detail regarding segmental reporting is set out on pages 104 to 106 of these financial statements.

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 transactions with a dedicated focus on strategic industrial assets:

In the diversified industrial segment

- Effective 1 July 2017, the group disposed of a 23% interest in Feltex Fehrer Proprietary Limited to the existing non-controlling shareholder F.S. Fehrer Automotive GmbH in terms of a call option. The company remains a subsidiary of the Automotive Components division.
- Effective 1 December 2017, the group acquired the entire issued ordinary share capital and claims of Support-a-Paedic and RME Components. The acquisition provided the Integrated Bedding division with access to new markets and brands.

In the diversified logistics segment

- Effective 1 July 2017, the group acquired the existing 45% non-controlling interest in Crystal Cool Holdings Proprietary Limited, in order to consolidate and streamline operations.

- Effective 1 December 2017, Southern Star Logistics Proprietary Limited (a 50%-owned subsidiary) was formed in order to facilitate growth in the Swaziland territory. This was achieved through certain assets from KAP-owned subsidiaries, Unitrans Swaziland Proprietary Limited and Unitrans Agricultural Services Proprietary Limited, being combined with a R92 million contribution of assets from an external party, South Star Investments Proprietary Limited.
- The group believes it is imperative for the continued growth of its South African contractual logistics and supply chain operations to introduce direct B-BBEE ownership in Unitrans Supply Chain Solutions Proprietary Limited ('USCS'), an indirectly wholly owned subsidiary of KAP.

On 18 May 2018, the group announced that it had reached an agreement with Sakhumzi Foundation Empowerment Trust ('Sakhumzi') and FWG Pieters Trust ('Pieters Trust'), in terms of which Sakhumzi and Pieters Trust will, through two wholly owned entities, subscribe for newly issued share capital in USCS, for a value of R591 million (21.98% interest) and R620 million (23.02% interest) respectively, ('B-BBEE Transaction'). The subscription of new USCS shares will be funded by the KAP group, through the issue of an equivalent value of preference shares by the two wholly owned entities of Sakhumzi and Pieters Trust, to a KAP-owned subsidiary.

USCS will acquire an additional 46.9% interest in Xinergistix Proprietary Limited ('Xinergistix'), for a consideration of R145 million, from an entity associated with the Pieters Trust, being the CGL Custodian Trust No 124 ('CGL Trust') (collectively the 'Xinergistix Transaction'). The remaining 3% is held by a non-controlling shareholder and will be repurchased by Xinergistix as part of the Xinergistix Transaction, resulting in USCS owning 100% of the equity of Xinergistix.

All of the transactions mentioned above are indivisible and will only be implemented once all the conditions precedent are fulfilled or waived (as the case may be) in respect of the relevant transaction, including approval by the competition authorities. It is anticipated that the implementation of the B-BBEE and Xinergistix Transactions will occur on or before 31 August 2018, and will result in USCS' ownership structure changing to > 51% 'black owned' and > 30% 'black-women owned'.

Directorate

On 1 October 2017, Mr MJ Jooste and Mr AB la Grange resigned as non-executive directors from the board. On the same date, the board appointed Mr T le R de Klerk and Mr LJ du Preez as non-executive directors to the board.

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: board*)
Theodore le Roux de Klerk
Louis Jacobus du Preez
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 2018, the present directors of the company held no direct or indirect interests in the company's issued Ordinary Shares other than:

	2018 Number of shares	2017 Number of shares
Gary Noel Chaplin	**1 877 592**	3 000 000
Frans Hendrik Olivier	**1 050 000**	1 050 000
Karel Johan Grové	**4 407 487**	3 403 206
Theodore le Roux de Klerk	**20 000**	–
Louis Jacobus du Preez	**20 000**	–
Jacob de Vos du Toit	**540 368**	540 368
Stephanus Hilgard Müller[1]	**225 004**	225 004

[1] Mr SH Müller's shareholding in the prior year has been restated, as it incorrectly reflected 30 more shares than were held at 30 June 2017.

In aggregate, the directors of the company and its subsidiaries held 65 215 836 (2017: 72 755 739) of the company's Ordinary Shares at 30 June 2018, equating to 2.4% (2017: 2.7%) 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 2018 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, which were not disclosed.

Disclosure of beneficial interest of major shareholders

	2018 %	2017 %
Shareholders with a beneficial interest above 5%:		
Steinhoff International Holdings N.V.[2]	25.92	42.98
Allan Gray	13.19	12.03
Government Employees Pension Fund	8.21	7.52
Old Mutual	5.26	0.64

[2] *Shares held via Ainsley Holdings Proprietary Limited, an indirectly owned subsidiary of Steinhoff International Holdings N.V.*

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 2018 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 the King IV Report on Corporate Governance™ for South Africa, 2016 ('King IV™') and the company has applied these principles. Details of the application of King IV™ are provided in this 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, 30 000 000 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 11 402 604 (2017: 12 958 255) Ordinary Shares in the company were granted to participating employees on 1 December 2017, and the remaining 18 597 396 (2017: 5 041 745) Rights over Ordinary Shares were reserved to provide for any new Scheme entrants prior to the next Scheme allocation in December 2018.

The share rights in respect of the allocation made on 1 December 2014, vested on 1 December 2017 and, to fulfil its obligations in accordance with the rules of the Scheme, the company listed 13 746 334 new Ordinary Shares on 4 December 2017 and allotted and issued these Ordinary Shares to the qualifying Scheme participants, two 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 95 to 97 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 its interpretations adopted by the International Accounting Standards Board ('IASB') in issue and effective for the group at 30 June 2018, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council 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 2018, set out on pages 90 to 172, were approved by the board of directors on 14 August 2018, 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 2018

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.

KAP Secretarial Services Proprietary Limited
Company secretary

14 August 2018

Report of the audit and risk committee FOR THE YEAR ENDED 30 JUNE 2018

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 2018 as recommended by the King IV Report on Corporate Governance™ for South Africa, 2016 ('King IV™') and in line with the Companies Act and the Listing Requirements of the JSE Limited.

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 assess annually 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, King IV™ and regulatory requirements.
- To oversee the governance structures relating to information and communication technology, in its support of the business in executing the business strategy and day-to-day operation.

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 2018; and
  - the consolidated interim results for the six months ended 31 December 2017.
- 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.
- Reviewed reports from the Information and Communication Technology ('ICT') steering committee and group ICT executive concerning the effectiveness, suitability and reliability of the information and technology systems and processes and made appropriate recommendations to the board of directors regarding the corrective actions to be taken.
- Considered the JSE's 2017 report back on proactive monitoring of financial statements, as well as the reports of previous periods and has taken appropriate action to apply the findings.

Report of the audit and risk committee FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

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, as well as the head of internal audit; and compliance with their mandate.

The committee is also satisfied that the internal auditors, as well as the head of internal audit, 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 2018 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 requested from the external auditor, the information detailed in JSE Listings Requirement 22.15(h), as it is required to do annually for every re-appointment. 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 2019 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 third year of performing the external audit of the company. Deloitte has been the auditor of the group for some years and the committee will give the matter of audit firm rotation in-depth consideration in due course, to comply with the 2023 deadline in this regard.

The committee has satisfied itself that the audit firm and designated auditor are accredited and do not appear on the JSE List of Disqualified Auditors. The committee further satisfied itself that Deloitte was independent of the company, which includes consideration of compliance with criteria relating to independence proposed by the Independent Regulatory Board for Auditors.

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;
- Capitalisation of plant expansion costs and capitalisation dates; and

- Valuation of timber plantation biological assets and wet-deck timber stockpile.

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 2018, and considers that they comply, in all material aspects, with the requirements of the Companies Act, International Financial Reporting Standards and the Listings Requirements of the JSE Limited. 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 Listings Requirement 3.84(g), as well as the recommended practices as per 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 2018

AUDITED CONSOLIDATED FINANCIAL STATEMENTS /

Income statement FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 Rm	2017 Rm
Continuing operations			
Revenue		**22 985**	19 783
Cost of sales		**(18 477)**	(15 562)
Gross profit		**4 508**	4 221
Other operating income		**589**	392
Distribution expenses		**(720)**	(592)
Other operating expenses		**(1 510)**	(1 522)
Capital items	1	**(66)**	(34)
Operating profit	2	**2 801**	2 465
Finance costs	3	**(743)**	(633)
Income from investments	3	**37**	118
Share of profit of associate and joint venture companies	12	**23**	15
Profit before taxation		**2 118**	1 965
Taxation	4	**(508)**	(510)
Profit for the year from continuing operations		**1 610**	1 455
Discontinued operations			
Loss for the year from discontinued operations	5	**(19)**	(62)
Profit for the year		**1 591**	1 393
Profit attributable to:			
Owners of the parent		**1 540**	1 343
Profit for the year from continuing operations		**1 559**	1 405
Loss for the year from discontinued operations		**(19)**	(62)
Non-controlling interests	19	**51**	50
Profit for the year from continuing operations		**51**	50
Loss for the year from discontinued operations		**–**	–
Profit for the year		**1 591**	1 393

	Notes	cents	cents
Earnings per share from continuing and discontinued operations			
Earnings per share	6	**57.7**	52.2
Diluted earnings per share	6	**57.2**	51.7
Earnings per share from continuing operations			
Earnings per share	6	**58.4**	54.6
Diluted earnings per share	6	**58.0**	54.1

Statement of comprehensive income FOR THE YEAR ENDED 30 JUNE 2018

	2018 Rm	2017 Rm
Profit for the year	**1 591**	1 393
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**27**	(75)
Deferred taxation	**12**	–
Total other comprehensive income/(loss) for the year, net of taxation	**39**	(75)
Total comprehensive income for the year, net of taxation	**1 630**	1 318
Total comprehensive income attributable to:		
Owners of the parent	**1 579**	1 269
Non-controlling interests	**51**	49
Total comprehensive income for the year	**1 630**	1 318

AUDITED CONSOLIDATED FINANCIAL STATEMENTS /

Statement of changes in equity FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Stated share capital Rm
Balance at 1 July 2016		7 318
Net shares issued[1]		1 456
Total comprehensive income/(loss) for the year		–
Profit for the year		–
Other comprehensive loss for the year		–
Ordinary dividends paid		–
Share-based payments expense	2.3	–
Share-based payments movement through reserve accounting: deferred taxation	14.1	–
Transfer between reserves		–
Introduced and acquired on acquisition of subsidiaries	26	–
Shares issued to non-controlling shareholder		–
Balance at 30 June 2017		**8 774**
Net shares issued[1]		**17**
Total comprehensive income for the year		**–**
Profit for the year		**–**
Other comprehensive income for the year		**–**
Ordinary dividends paid		**–**
Share-based payments expense	2.3	**–**
Share-based payments movement through reserve accounting: deferred taxation	14.1	**–**
Transfer between reserves		**–**
Net effect of shares sold to non-controlling shareholder	19.2	**–**
Net effect of shares bought from non-controlling shareholder	19.3	**–**
Balance at 30 June 2018		**8 791**

[1] *The issue of ordinary shares during the year is shown net of transaction costs of Rnil (2017: R68 million).*

	Distributable reserves Rm	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
	5 018	199	(3 952)	84	8 667	195	8 862
	–	–	–	–	1 456	–	1 456
	1 343	–	–	(74)	1 269	49	1 318
	1 343	–	–	–	1 343	50	1 393
	–	–	–	(74)	(74)	(1)	(75)
	(442)	–	–	–	(442)	(37)	(479)
	–	68	–	–	68	–	68
	–	17	–	–	17	–	17
	(4)	(10)	–	14	–	–	–
	–	–	–	–	–	103	103
	–	–	–	–	–	3	3
	5 915	**274**	**(3 952)**	**24**	**11 035**	**313**	**11 348**
	–	**–**	**–**	**–**	**17**	**–**	**17**
	1 540	**–**	**–**	**39**	**1 579**	**51**	**1 630**
	1 540	**–**	**–**	**–**	**1 540**	**51**	**1 591**
	–	**–**	**–**	**39**	**39**	**–**	**39**
	(559)	**–**	**–**	**–**	**(559)**	**(71)**	**(630)**
	–	**65**	**–**	**–**	**65**	**–**	**65**
	–	**(4)**	**–**	**–**	**(4)**	**–**	**(4)**
	9	**(43)**	**–**	**34**	**–**	**–**	**–**
	–	**–**	**–**	**27**	**27**	**31**	**58**
	–	**–**	**–**	**(5)**	**(5)**	**(2)**	**(7)**
	6 905	**292**	**(3 952)**	**119**	**12 155**	**322**	**12 477**

Statement of financial position AS AT 30 JUNE 2018

	Notes	2018 Rm	2017 Rm
ASSETS			
Non-current assets			
Goodwill	7	**1 283**	1 251
Intangible assets	8	**4 109**	4 082
Property, plant and equipment	9	**12 497**	11 757
Investment property	10	**16**	75
Consumable biological assets	11	**1 919**	1 978
Investments in associate and joint venture companies	12	**75**	67
Investments and loans	13	**13**	11
Deferred taxation assets	14	**68**	130
Other receivables	16	**–**	40
		19 980	19 391
Current assets			
Inventories	15	**2 145**	1 727
Trade and other receivables	16	**4 053**	3 652
Short-term loans receivable	13	**6**	3
Taxation receivable		**87**	93
Cash and cash equivalents		**2 151**	2 009
		8 442	7 484
Assets classified as held for sale	17	**82**	103
		8 524	7 587
Total assets		**28 504**	26 978
EQUITY AND LIABILITIES			
Capital and reserves			
Stated share capital	18	**8 791**	8 774
Reserves		**3 364**	2 261
Total equity attributable to equity holders of the parent		**12 155**	11 035
Non-controlling interests	19	**322**	313
Total equity		**12 477**	11 348
Non-current liabilities			
Loans and borrowings	20	**6 960**	7 357
Operating lease liability		**10**	14
Employee benefits	21	**37**	21
Provisions	22	**28**	27
Deferred taxation liabilities	14	**3 141**	2 928
		10 176	10 347
Current liabilities			
Loans and borrowings	20	**1 007**	407
Employee benefits	21	**295**	350
Provisions	22	**60**	82
Trade and other payables	23	**4 438**	4 302
Taxation payable		**51**	68
Bank overdrafts and short-term facilities		**–**	74
		5 851	5 283
Total equity and liabilities		**28 504**	26 978

Statement of cash flows FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 Rm	2017 Rm
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	25	**3 308**	2 958
Dividends received		**10**	10
Income from investments		**37**	118
Finance costs		**(801)**	(714)
Dividends paid		**(630)**	(479)
Taxation paid		**(237)**	(295)
Net cash inflow from operating activities		**1 687**	1 598
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(1 857)**	(2 493)
Government grants received		**29**	24
Proceeds on disposal of property, plant and equipment		**119**	228
Additions to intangible assets		**(58)**	(44)
Proceeds on disposal of investment property		**61**	1
Additions to consumable biological assets		**(5)**	(15)
Net cash outflow on acquisition of subsidiaries and businesses	26	**(29)**	(3 781)
Decrease/(increase) in investments and loans		**6**	(5)
Increase in short-term loans receivable		**(5)**	(1)
Net decrease in investments in associate and joint venture companies		**16**	3
Net cash outflow from investing activities		**(1 723)**	(6 083)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of shares issued		**–**	1 432
Transactions with non-controlling interests	19.4	**51**	3
(Decrease)/increase in bank overdrafts and short-term facilities	27	**(74)**	25
Increase in long-term loans and borrowings	27	**342**	2 886
Decrease in short-term loans and borrowings	27	**(141)**	(435)
Net cash inflow from financing activities		**178**	3 911
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**142**	(574)
Cash and cash equivalents at beginning of the year		**2 009**	2 602
Effects of exchange rate translations on cash and cash equivalents		**–**	(19)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**2 151**	2 009

Segmental reporting FOR THE YEAR ENDED 30 JUNE 2018

	2018 Rm	2017 Rm
Continuing operations		
REVENUE		
Diversified industrial	**6 801**	6 385
Diversified chemical	**8 018**	5 467
Diversified logistics	**8 971**	8 656
	23 790	20 508
Intersegment revenue eliminations	**(805)**	(725)
	22 985	19 783
OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND CAPITAL ITEMS		
Diversified industrial	**1 314**	1 095
Diversified chemical	**1 061**	732
Diversified logistics	**1 537**	1 534
	3 912	3 361
OPERATING PROFIT BEFORE CAPITAL ITEMS		
Diversified industrial	**1 100**	944
Diversified chemical	**925**	672
Diversified logistics	**842**	883
	2 867	2 499
RECONCILIATION BETWEEN OPERATING PROFIT PER INCOME STATEMENT AND OPERATING PROFIT BEFORE CAPITAL ITEMS; AND OPERATING PROFIT BEFORE DEPRECIATION, AMORTISATION AND CAPITAL ITEMS PER SEGMENTAL ANALYSIS		
Operating profit per income statement	**2 801**	2 465
Capital items per income statement	**66**	34
Operating profit before capital items per segmental analysis	**2 867**	2 499
Depreciation and amortisation (note 2.1)	**1 045**	862
Operating profit before depreciation, amortisation and capital items per segmental analysis	**3 912**	3 361
SEGMENTAL ASSETS		
Diversified industrial	**9 458**	9 149
Diversified chemical	**9 292**	8 354
Diversified logistics	**7 280**	7 070
	26 030	24 573

	2018 Rm	2017 Rm
RECONCILIATION BETWEEN TOTAL ASSETS PER STATEMENT OF FINANCIAL POSITION AND SEGMENTAL ASSETS		
Total assets per statement of financial position	**28 504**	26 978
Less: Investments in associate and joint venture companies	**(75)**	(67)
Less: Interest-bearing long-term loans receivable	**(6)**	(2)
Less: Deferred taxation assets	**(68)**	(130)
Less: Interest-bearing short-term loans receivable	**(5)**	(1)
Less: Taxation receivable	**(87)**	(93)
Less: Cash and cash equivalents	**(2 151)**	(2 009)
Less: Assets classified as held for sale	**(82)**	(103)
Segmental assets	**26 030**	24 573
GEOGRAPHICAL ANALYSIS		
Revenue		
South Africa	**20 971**	17 978
Rest of Africa	**2 014**	1 805
	22 985	19 783
Non-current assets		
South Africa	**18 685**	18 179
Rest of Africa	**1 295**	1 212
	19 980	19 391

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 are either directly attributable to the segment, or can be allocated to the segment on a reasonable basis.

Segmental reporting FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

Operational segments

Diversified industrial

This segment comprises an Integrated Timber division, Automotive Components division and Integrated Bedding division. 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

This segment comprises the Chemical division which manufactures polyethylene terephthalate ('PET'), high-density polyethylene ('HDPE'), polypropylene ('PP') and urea-formaldehyde ('UF') resin.

Diversified logistics

This segment comprises a Contractual Logistics division and a Passenger Transport division. 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.

Major customers

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

Summary of accounting policies FOR THE YEAR ENDED 30 JUNE 2018

KAP is a South African registered company. The consolidated financial statements of KAP, for the year ended 30 June 2018, 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') and its interpretations adopted by the International Accounting Standards Board ('IASB') in issue and effective for the group at 30 June 2018, 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 Listings 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 Companies Act, 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 2017. The adoption of these amendments did not have any impact on the amounts recognised in prior periods. The amendments will not affect the current and future periods as they clarify existing practice and do not introduce major changes. The amendments to IAS 7 - Statement of Cash Flows require disclosure of changes in liabilities arising from financing activities. See note 27 for additional information.

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

IAS 7	Statement of Cash Flows: Disclosure initiative
IAS 12	Income Taxes: Recognition of deferred tax assets for unrealised losses
	Annual Improvements to IFRS 2014 - 2016 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 32.

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 IFRS 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 and non-controlling interest in the acquiree. 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 is 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 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. Capitalisation of costs ceases when the assets are substantially ready for their intended use or sale and in their intended location.

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 assets 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.

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.

Summary of accounting policies FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

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 are 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 process, cost includes an appropriate share of overheads based on normal operating capacity.

Where necessary, the carrying amounts of inventory are 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.

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.

Reversal of impairment losses

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. A reversal of an impairment loss is recognised in profit or loss.

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 is 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.

Notes to the financial statements FOR THE YEAR ENDED 30 JUNE 2018

	Gross of taxation and non-controlling interests 2018 Rm	Net of taxation and non-controlling interests 2018 Rm	Gross of taxation and non-controlling interests 2017 Rm	Net of taxation and non-controlling interests 2017 Rm
1. CAPITAL ITEMS				
Continuing operations				
Expenses/(income) of a capital nature are included in the 'capital items' line in the income statement. These expense/(income) items are:				
Impairments	**62**	**51**	2	2
Intangible assets	**4**	**2**	–	–
Property, plant and equipment	**32**	**23**	2	2
Investments in associate and joint venture companies	**26**	**26**	–	–
Gain on bargain purchase	**–**	**–**	(4)	(4)
Loss on disposal of intangible assets	**1**	**1**	–	–
Loss on disposal of property, plant and equipment	**6**	**6**	36	27
Profit on disposal of investment property	**(3)**	**(2)**	–	–
Other capital items	**–**	**–**	–	1
	66	**56**	34	26

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.

	2018 Rm	2017 Rm
2. OPERATING PROFIT		
Continuing operations		
Operating profit is stated after taking account of the following items:		
2.1 Amortisation and depreciation		
Amortisation	**32**	24
Depreciation	**1 013**	838
	1 045	862
Recognised in:		
Cost of sales	**963**	830
Distribution expenses	**9**	9
Other operating expenses	**73**	23
	1 045	862
2.2 Auditor's remuneration		
Audit fees	**22**	24
Fees for other services	**4**	3
	26	27
2.3 Personnel expenses		
Retirement plans (note 2.4)	**281**	245
Salaries and wages	**3 999**	3 729
Share-based payments – equity-settled (note 18.3)	**65**	68
Other employee-related income	**–**	(3)
	4 345	4 039
2.4 Post-retirement benefit expenses		
Contributions to defined benefit plans	**4**	4
Contributions to defined contribution plans	**265**	233
Contributions to state-managed plans	**12**	8
	281	245
2.5 Net foreign exchange (gains)/losses		
Net gains on forward exchange contracts	**(49)**	(1)
Net (gains)/losses on conversion of monetary assets – realised	**(16)**	52
Net losses on conversion of monetary assets – unrealised	**53**	36
	(12)	87

Notes to the financial statements FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

	2018 Rm	2017 Rm
2. OPERATING PROFIT (continued)		
2.6 Operating lease charges		
Rental of properties	**138**	120
Leases of plant, equipment, vehicles and other	**434**	609
	572	729
2.7 Fair value (gain)/loss on consumable biological assets (note 11)		
Fair value gain on timber plantations	**(188)**	(235)
Fair value loss on timber plantations due to fire	**3**	40
Fair value gain on livestock	**(5)**	(10)
	(190)	(205)
2.8 Net expenses directly attributable to timber plantations (note 11)		
Decrease due to harvesting	**254**	196
Other operating expenses in respect of plantations	**311**	230
Insurance income in respect of plantations	**(37)**	(40)
	528	386
2.9 Reversal of impairment of financial assets		
Related party	**(28)**	–

	Expense Rm	Income Rm	Net Rm
3. FINANCE COSTS AND INCOME FROM INVESTMENTS			
Continuing operations			
2018			
Banks	**19**	**(28)**	**(9)**
Loans	**253**	**–**	**253**
Senior unsecured listed and unlisted notes	**503**	**–**	**503**
Other	**25**	**(7)**	**18**
Related-party interest (note 28)	**–**	**(2)**	**(2)**
Less: Borrowing cost capitalised	**(57)**	**–**	**(57)**
	743	**(37)**	**706**
2017			
Banks	27	(89)	(62)
Loans	338	–	338
Senior unsecured listed and unlisted notes	332	–	332
Other	14	(11)	3
Related-party interest (note 28)	–	(18)	(18)
Less: Borrowing cost capitalised	(78)	–	(78)
	633	(118)	515

	2018 Rm	2017 Rm
4. TAXATION		
Continuing operations		
4.1 Taxation charge		
Normal taxation		
South African normal taxation – current year	**84**	100
South African normal taxation – prior year adjustment	**–**	(12)
Foreign normal taxation – current year	**141**	152
Foreign normal taxation – prior year adjustment	**(2)**	3
	223	243
Deferred taxation		
South African deferred taxation – current year	**287**	248
South African deferred taxation – prior year adjustment	**(3)**	12
Foreign deferred taxation – current year	**(1)**	6
Foreign deferred taxation – prior year adjustment	**1**	(4)
	284	262
Capital gains taxation		
Current year	**1**	5
	508	510

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	**(0.4)**	0.1
Effect of profit of associate and joint venture companies	**(0.3)**	(0.2)
Prior year adjustments	**(0.2)**	(0.1)
Net utilisation of unrecognised taxation losses and temporary differences	**–**	(1.3)
Permanent differences, withholding taxes and other[1]	**(3.1)**	(0.5)
Effective rate of taxation	**24.0**	26.0

[1] *The current year amount comprises industrial policy project tax allowances of -4.4%, learnership allowances of -0.4% and withholding taxes of 0.9%, among others.*

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 ('Glodina'). However, the original purchaser did not fulfil the suspensive conditions during the current period and the proposed sale was terminated. On 27 February 2018, KAP concluded a new agreement to dispose of Glodina, subject to suspensive conditions including competition authority approval, which is anticipated to be finalised in the following year. Glodina manufactures towels and is reported as part of the diversified industrial segment.

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	2018 Rm	2017 Rm
Revenue		**57**	227
Cost of sales		**(66)**	(224)
Gross (loss)/profit		**(9)**	3
Other operating income		**–**	2
Distribution expenses		**(5)**	(19)
Other operating expenses		**(11)**	(36)
Capital items	5.3	**–**	(35)
Operating loss	5.4	**(25)**	(85)
Net finance costs		**(1)**	(3)
Loss before taxation		**(26)**	(88)
Taxation		**7**	26
Loss for the year from discontinued operations		**(19)**	(62)
Loss from discontinued operations attributable to:			
Owners of the parent		**(19)**	(62)
Non-controlling interests		**–**	–
		(19)	(62)

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

5. DISCONTINUED OPERATIONS (continued)

5.3 Capital items for the year from discontinued operations

	Gross of taxation and non-controlling interests 2018 Rm	Net of taxation and non-controlling interests 2018 Rm	Gross of taxation and non-controlling interests 2017 Rm	Net of taxation and non-controlling interests 2017 Rm
Loss on disposal of property, plant and equipment	**–**	**–**	1	1
Impairment of property, plant and equipment	**–**	**–**	34	24
	–	**–**	35	25

	2018 Rm	2017 Rm
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
Depreciation	**–**	5
	–	6
Recognised in:		
Cost of sales	**–**	6
5.4.2 Auditor's remuneration		
Audit fees	**–**	1
5.4.3 Personnel expenses		
Retirement plans (note 5.4.4)	**1**	7
Salaries and wages	**21**	62
	22	69
5.4.4 Post-retirement benefit expenses		
Contributions to defined contribution plans	**1**	7
5.5 Cash flows from discontinued operations		
Net cash outflow from operating activities	**(11)**	(37)
Net cash outflow from investing activities	**–**	(4)
Net cash inflow from financing activities	**11**	26
Net cash flow	**–**	(15)

	2018 cents	2017 cents
6. EARNINGS PER SHARE		
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	**58.4**	54.6
From discontinued operations	**(0.7)**	(2.4)
Basic earnings per share	**57.7**	52.2
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	**58.0**	54.1
From discontinued operations	**(0.8)**	(2.4)
Diluted earnings per share	**57.2**	51.7
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	**60.5**	55.6
From discontinued operations	**(0.7)**	(1.4)
Headline earnings per share	**59.8**	54.2
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	**60.0**	55.1
From discontinued operations	**(0.7)**	(1.5)
Diluted headline earnings per share	**59.3**	53.6
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.	**454**	415

Notes to the financial statements FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

			2018 million	2017 million
6.	**EARNINGS PER SHARE** (continued)			
	6.1	**Weighted average number of ordinary shares**		
		Issued ordinary shares at beginning of the year	**2 662**	2 441
		Effect of shares issued	**9**	133
		Weighted average number of ordinary shares at end of the year for the purpose of basic earnings per share and headline earnings per share	**2 671**	2 574
		Effect of dilutive potential ordinary shares – KAP share options	**19**	25
		Weighted average number of ordinary shares for the purpose of diluted earnings per share and diluted headline earnings per share	**2 690**	2 599

		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	**1 559**	1 405
	Losses and diluted losses from discontinued operations attributable to owners of the parent	**(19)**	(62)
	Earnings and diluted earnings attributable to owners of the parent	**1 540**	1 343
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	**1 559**	1 405
	Adjusted for:		
	Capital items attributable to continuing operations (note 1)	**66**	34
	Taxation effects of capital items	**(10)**	(9)
	Non-controlling interests' portion of capital items	**–**	1
	Headline earnings and diluted headline earnings from continuing operations attributable to owners of the parent	**1 615**	1 431
	Losses and diluted losses from discontinued operations attributable to owners of the parent	**(19)**	(62)
	Adjusted for:		
	Capital items attributable to discontinued operations (note 5)	**–**	35
	Taxation effects of capital items	**–**	(10)
	Headline earnings and diluted headline earnings attributable to owners of the parent	**1 596**	1 394
6.4	**Net asset value**		
	Attributable to ordinary shareholders	**12 155**	11 035

7. GOODWILL

	2018 Rm	2017 Rm
Carrying amount at beginning of the year	**1 251**	911
Arising on business combinations (note 26)	**32**	340
Carrying amount at end of the year	**1 283**	1 251
Cost	**1 283**	1 305
Accumulated impairment	**–**	(54)
Carrying amount at end of the year	**1 283**	1 251

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 2018 (2017: 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 next 10 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 2017.

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	2018 Rm	2017 Rm
Integrated Timber	15.37%	Budget year 1, thereafter a 3% annual growth rate	**123**	123
Automotive Components	17.17%	Budget year 1, thereafter a 4% annual growth rate	**397**	397
Integrated Bedding	17.07%	Budget year 1, thereafter a 3% annual growth rate	**375**	343
Chemical	16.47%	Budget year 1, thereafter a 4% annual growth rate	**241**	241
Contractual Logistics	14.97%	Budget year 1, thereafter between 1% to 4% annual growth rate	**147**	147
Carrying amount at end of the year			**1 283**	1 251

8. INTANGIBLE ASSETS

	Patents and trademarks Rm	Supplier relationships Rm	Software Rm	Other[1] Rm	Total Rm
Balance at 1 July 2016	1 107	–	38	22	1 167
Additions	–	–	19	25	44
Amortisation	(1)	–	(11)	(13)	(25)
Reclassify to 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**
Additions	**–**	**–**	**11**	**47**	**58**
Impairment	**(1)**	**–**	**(3)**	**–**	**(4)**
Amortisation	**(1)**	**–**	**(13)**	**(18)**	**(32)**
Disposals	**–**	**–**	**(1)**	**–**	**(1)**
Reclassify from property, plant and equipment	**–**	**–**	**6**	**–**	**6**
Balance at 30 June 2018	**1 848**	**2 148**	**47**	**66**	**4 109**
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
Cost	**1 872**	**2 148**	**143**	**122**	**4 285**
Accumulated amortisation and impairment	**(24)**	**–**	**(96)**	**(56)**	**(176)**
Net book value at 30 June 2018	**1 848**	**2 148**	**47**	**66**	**4 109**

[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 below.

Supplier relationships were acquired as part of the Safripol acquisition in the prior 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 indefinite life intangible assets for the year ended 30 June 2018 (2017: 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 next 10 years based on an estimated growth rate as set out below.

All impairment testing was consistent with methods applied as at 30 June 2017.

Impairment tests of indefinite life intangible assets

The following divisions have significant carrying amounts of intangible assets:

	Pre-tax discount rate	Forecasted cash flows	2018 Rm	2017[1] Rm
Integrated Timber patents and trademarks	15.37%	Budget year 1, thereafter a 3% annual growth rate	**207**	207
Automotive Components patents and trademarks	17.17%	Budget year 1, thereafter between 3% to 5.48% annual growth rate	**78**	78
Integrated Bedding patents and trademarks	17.07%	Budget year 1, thereafter a 3% annual growth rate	**59**	59
Chemical patents and trademarks	16.47%	Budget year 1, thereafter a 4% annual growth rate	**731**	731
Chemical supplier relationships	16.47%	Budget year 1, thereafter a 4% annual growth rate	**2 148**	2 148
Contractual Logistics patents and trademarks	14.97%	Budget year 1, thereafter a 3% annual growth rate	**768**	768
Carrying amount at end of the year			**3 991**	3 991

[1] *The prior year has been re-presented to reflect indefinite life intangible assets only.*

8. INTANGIBLE ASSETS (continued)

Impairment of finite life intangible assets

Refer to 'Capital items' (notes 1 and 5) for the impairment charge of finite life intangible assets.

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 one.
- 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 vehicles, motor vehicles and equipment Rm	Capital work in progress Rm	Leasehold improve-ments Rm	Office and computer equipment, furniture and other assets Rm	Total Rm
9. PROPERTY, PLANT AND EQUIPMENT							
Balance at 1 July 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 translation of foreign operations	–	–	(59)	–	–	–	(59)
Balance at 30 June 2017	**2 120**	**4 026**	**4 090**	**1 383**	**85**	**53**	**11 757**
Additions	**20**	**233**	**768**	**804**	**9**	**23**	**1 857**
Government grants received	**–**	**(29)**	**–**	**–**	**–**	**–**	**(29)**
Depreciation	**(30)**	**(363)**	**(587)**	**1**	**(12)**	**(22)**	**(1 013)**
Disposals	**(6)**	**(13)**	**(88)**	**(15)**	**(2)**	**–**	**(124)**
Impairment	**–**	**(31)**	**(1)**	**–**	**–**	**–**	**(32)**
Acquired on acquisition of subsidiaries (note 26)	**–**	**2**	**–**	**–**	**–**	**1**	**3**
Reclassification	**137**	**1 526**	**174**	**(1 822)**	**(37)**	**22**	**–**
Borrowing cost capitalised	**3**	**14**	**–**	**40**	**–**	**–**	**57**
Reclassify to intangible assets	**–**	**–**	**–**	**(6)**	**–**	**–**	**(6)**
Exchange differences on translation of foreign operations	**–**	**2**	**25**	**–**	**–**	**–**	**27**
Balance at 30 June 2018	**2 244**	**5 367**	**4 381**	**385**	**43**	**77**	**12 497**
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
Cost	**2 480**	**7 886**	**7 655**	**385**	**102**	**220**	**18 728**
Accumulated depreciation and impairment	**(236)**	**(2 519)**	**(3 274)**	**–**	**(59)**	**(143)**	**(6 231)**
Net book value at 30 June 2018	**2 244**	**5 367**	**4 381**	**385**	**43**	**77**	**12 497**

9. PROPERTY, PLANT AND EQUIPMENT (continued)

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 R582 million (2017: R477 million) are encumbered as set out in note 20.

Insurance

Property, plant and equipment, with the exception of land and certain long-haul vehicles are insured at approximate cost of replacement. Motor vehicles are insured at market value. The remaining long-haul vehicles 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 32).

	2018 Rm	2017 Rm
Borrowing cost		
Borrowing cost capitalised to qualifying assets	**57**	78
Capitalisation rates used to determine the amount of borrowing cost eligible for capitalisation	**9.33% to 9.66%**	9.57% to 9.69%

	2018 Rm	2017 Rm
10. INVESTMENT PROPERTY		
Carrying amount at beginning of the year	**75**	76
Disposals	**(59)**	(1)
Carrying amount at end of the year	**16**	75

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 2018, investment property was valued by management at R17 million (2017: R90 million). 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 yield used in the valuation was 11% (2017: 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. The valuation technique is consistent with the method applied as at 30 June 2017.

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 R5 million was recognised through profit or loss for the year ended 30 June 2018 (2017: R21 million).

11. CONSUMABLE BIOLOGICAL ASSETS

	2018 Rm	2017 Rm
Timber plantations		
Carrying amount at beginning of the year	**1 950**	1 878
Additions	**–**	4
Acquired on acquisition of subsidiary (note 26)	**–**	69
Decrease due to harvesting (note 2.8)	**(254)**	(196)
Fair value adjustment to plantations (note 2.7)	**188**	235
Fair value adjustment due to fire (note 2.7)	**(3)**	(40)
Carrying amount at end of the year	**1 881**	1 950
Livestock	**38**	28
	1 919	1 978
Expenses incurred in the management and operations of plantations (note 2.8)	**311**	230

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 2018, consumable biological assets were valued by management at R1 919 million (2017: R1 978 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 2017. 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.

	2018 Hectares	2017 Hectares
11. CONSUMABLE BIOLOGICAL ASSETS (continued)		
11.1 Quantities of biological assets		
Pine	**33 724**	35 978
Eucalyptus	**6 710**	6 438
Temporary unplanted areas	**3 658**	1 672
	44 092	44 088

	m³	m³
11.2 Reconciliation of standing volume		
Opening balance	**5 675 542**	5 464 385
Increase due to growth[1]	**456 354**	546 815
Decrease due to harvesting	**(714 215)**	(541 457)
Acquired on acquisition of subsidiary	**–**	205 799
	5 417 681	5 675 542

[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. Included in the growth amounts are the decreases due to fire damage.

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.

	Rm	Rm
Market price – 100 basis point increase	**15**	19
Growth rate – 100 basis point increase	**7**	8
Volume – 100 basis point increase	**12**	7

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 2017 valuation of the plantation was therefore reduced by R40 million, while an insurance debtor was raised for the concurrent amount.

During the 2018 year, the group salvaged timber to the value of R122 million from the affected area, of which R65 million remains preserved for future use at 30 June 2018. Management estimates that it will be able to salvage and utilise a further R35 million of standing timber. In total, it is estimated that timber to the value of R157 million (2017 estimate: R160 million) will be salvaged and utilised from the affected area.

The timber plantations are insured for fire damage and during the current year, insurance income of R17 million (2017: R40 million) was recognised, which related to the damaged plantations. A further R20 million was received for additional costs incurred due to harvesting and replanting of the affected area, as well as for costs associated with the preservation of timber. The insurance claim was finalised and settled in the current year.

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 northeastern Cape forests are managed in compliance with the requirements of the Forestry Stewardship Council ('FSC') and is FSC certified. The southern Cape forests are managed according to 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	2018 % holding	2017 % 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	**44.33 – 50.0**	43.33 – 50.0
12.2	**Joint venture companies**			
	Various unlisted joint venture companies	Automotive and manufacturing	**49.0**	49.0

		2018 Rm	2017 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	**42**	30
	Aggregate carrying amount of the group's interests in these joint venture companies	**33**	37
		75	67
	Aggregate total comprehensive income from associate and joint venture companies		
	The group's share of profit for the year of associate companies	**9**	8
	The group's share of profit for the year of joint venture companies	**14**	7
	The group's share of total comprehensive income	**23**	15

		2018 Rm	2017 Rm
13.	**INVESTMENTS AND LOANS**		
	Long-term investments and loans		
	Unlisted investments	**1**	3
	Loans receivable (carried at amortised cost)	**14**	8
	Less: Provision for impairment	**(2)**	–
		13	11
	Short-term loans receivable		
	Loans receivable (carried at amortised cost)	**8**	3
	Less: Provision for impairment	**(2)**	–
		6	3

The loans receivable consist of various long-term and short-term loans bearing interest at market-related interest rates as well as interest-free loans.

A provision for impairment was raised for loans receivable which are past due or impaired at 30 June 2018 of R4 million (2017: Rnil). There are no indications that any of the counterparties of the remaining loans receivable will not meet their repayment obligations.

The fair value of investments and loans are disclosed in note 29.1.

	2018 Rm	2017 Rm
14. DEFERRED TAXATION ASSETS/(LIABILITIES)		
14.1 Deferred taxation movement		
(Liabilities)/assets		
Balance at beginning of the year	**(2 798)**	(1 263)
Deferred taxation of subsidiaries acquired (note 26)	**–**	(1 326)
Amounts charged directly to equity		
Share-based payments	**(4)**	17
Foreign currency translation reserve	**12**	–
Current year charge		
From continuing operations	**(284)**	(262)
From discontinued operations	**7**	26
Exchange differences on translation of foreign operations	**(6)**	10
Balance at end of the year	**(3 073)**	(2 798)

	2018 Rm	2017 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:		
Prepayments and provisions or allowances	**18**	41
Property, plant and equipment (including consumable biological assets)	**(40)**	(55)
Share-based payments	**2**	36
Other	**(1)**	10
	(21)	32
Taxation losses		
Taxation losses	**89**	98
Total deferred taxation assets	**68**	130

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.

	2018 Rm	2017 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	**(1 041)**	(1 042)
Prepayments and provisions or allowances	**59**	48
Property, plant and equipment (including consumable biological assets)	**(2 517)**	(2 250)
Share-based payments	**31**	9
Other	**13**	5
	(3 455)	(3 230)
Taxation losses		
Taxation losses	**314**	302
Total deferred taxation liabilities	**(3 141)**	(2 928)

	2018 Rm	2017 Rm
14.3 Unrecognised deferred taxation assets		
Deferred taxation assets have not been recognised in respect of the following items:		
Temporary differences	**62**	45
Taxation losses	**251**	243
	313	288

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.

	2018 Rm	2017 Rm
14.4 Taxation losses		
Estimated taxation losses available for offset against future taxable income	**1 580**	1 541
Estimated taxation losses available for offset against future taxable capital gains	**106**	200
	1 686	1 741

		2018 Rm	2017 Rm
15.	**INVENTORIES**		
	Inventories at cost less allowances		
	Consumables	**414**	359
	Finished goods and merchandise	**777**	726
	Raw materials	**854**	577
	Work in process	**100**	65
		2 145	1 727

		2018 Rm	2017 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	**3 463**	3 051
	Other amounts due	**204**	201
	Less: Allowance for doubtful debts (note 29.5)	**(40)**	(71)
		3 627	3 181
	Related-party receivables (note 28)	**68**	107
	Derivative financial assets (note 29)	**58**	6
	Trade and other receivables (financial assets)	**3 753**	3 294
	Prepayments	**230**	233
	Value added taxation receivable	**70**	125
		4 053	3 652

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 no further credit provision is 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 29.3 and 29.5.

	2018 Rm	2017 Rm
17. ASSETS CLASSIFIED AS HELD FOR SALE		
The carrying amount of total assets held for sale still carried in the statement of financial position is:		
Assets		
Property, plant and equipment	**45**	45
Inventories	**37**	58
	82	103

On 18 April 2017, KAP announced the intended closure or, as an alternative, the disposal of Glodina, a division of KAP Homeware Proprietary Limited ('Glodina'). However, the original purchaser did not fulfil the suspensive conditions during the current period and the proposed sale was terminated. On 27 February 2018, KAP concluded a new agreement to dispose of Glodina, subject to suspensive conditions including competition authority approval, which is anticipated to be finalised in the following year. Glodina manufactures towels and is reported as part of the diversified industrial segment.

	2018 Number of shares	2017 Number of shares
18. STATED SHARE CAPITAL		
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	**2 662 199 369**	2 440 936 305
Ordinary shares issued during the year	**15 674 971**	221 263 064
Ordinary shares in issue at end of the year	**2 677 874 340**	2 662 199 369

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.

Reconciliation of rights granted under the KAP Performance Share Rights Scheme	**2018 Rights**	2017 Rights
Balance at beginning of the year	**40 313 990**	49 217 738
Forfeited during the year	**(3 763 248)**	(1 815 011)
Exercised during the year	**(13 746 334)**	(20 239 575)
Granted during the year	**11 402 604**	12 958 255
Granted during the year for prior period service	**–**	192 583
Balance at end of the year	**34 207 012**	40 313 990

	Rm	Rm
Charged to profit or loss (note 2.3)	**65**	68

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	**2017 Grant**	2016 Grant	2015 Grant	2014 Grant	2013 Grant
Fair value at measurement date	**R8.05**	R7.02	R6.62	R4.10	R3.04
Share price at grant date	**R8.70**	R7.59	R7.11	R4.64	R3.45
Exercise price	**R0.00**	R0.00	R0.00	R0.20	R0.20
Expected volatility	**22.21%**	25.58%	32.50%	31.88%	41.35%
Dividend yield	**2.63%**	2.63%	2.42%	2.90%	2.52%
Risk-free interest rate	**7.67%**	7.72%	7.48%	6.70%	6.79%
Life of share right	**3 years**	3 years	3 years	3 years	3 years

19. NON-CONTROLLING INTERESTS

19.1 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**	
	2018 %	2017 %	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm
Individually immaterial subsidiaries with non-controlling interests	**25.0 – 50.0**	25.0 – 50.0	**51**	50	**322**	313

	Notes	2018 Rm
19. NON-CONTROLLING INTERESTS (continued)		
19.2 Net effect of shares sold to non-controlling shareholder		
Effective 1 July 2017, the group disposed of a 23% interest in Feltex Fehrer Proprietary Limited ('Feltex Fehrer') to the existing non-controlling shareholder F.S. Fehrer Automotive GmbH, the Automotive Components division's technology partner, in terms of a call option. The company remains a subsidiary of the group. On the date of disposal, the net assets of Feltex Fehrer included in the financial statements of the group, amounted to R134 million.		
Carrying amount of non-controlling interest disposed		**(31)**
Total consideration received		**58**
Increase in equity attributable to owners of the parent		**27**
19.3 Net effect of shares bought from non-controlling shareholder		
Effective 1 July 2017, the group acquired the existing 45% non-controlling interest in Crystal Cool Holdings Proprietary Limited ('Crystal Cool Holdings'), increasing its ownership to 100% of the equity. On the date of acquisition, the net assets of Crystal Cool Holdings included in the financial statements of the group amounted to R5 million.		
Carrying amount of non-controlling interest acquired		**2**
Total consideration paid		**(7)**
Decrease in equity attributable to owners of the parent		**(5)**
19.4 Transactions with non-controlling interests		
Total consideration received	19.2	**58**
Total consideration paid	19.3	**(7)**
		51

	2018 Rm	2017 Rm
20. LOANS AND BORROWINGS		
20.1 Analysis of closing balance		
Secured financing		
Capitalised finance lease and instalment sale agreements	**387**	236
Term loans	**72**	88
	459	324
Unsecured financing covered by intragroup cross-guarantees		
Term loans[1]	**1 502**	3 270
Senior unsecured listed and unlisted notes[1]	**5 876**	4 097
	7 378	7 367
Unsecured financing		
Other loans	**79**	73
Total interest-bearing loans and interest-free borrowings	**7 916**	7 764
Portion payable before 30 June 2019 included in current liabilities	**(956)**	(407)
Total non-current interest-bearing loans and interest-free borrowings	**6 960**	7 357
Current interest-bearing loans and interest-free borrowings		
Portion of non-current interest-bearing loans and interest-free borrowings payable before 30 June 2019	**956**	407
Other current loans payable	**51**	–
Total current interest-bearing loans and interest-free borrowings	**1 007**	407

[1] *The prior year has been re-presented to reflect the interest due on term loans and senior unsecured listed and unlisted notes separately.*

	2018 Rm	2017 Rm
20.2 Analysis of repayment		
Repayable within the next year and thereafter		
Next year	**1 007**	407
Within two to five years	**6 941**	7 327
Thereafter	**19**	30
	7 967	7 764

All loans and borrowings are carried at amortised cost. The fair values of interest-bearing loans and interest-free borrowings are disclosed in note 29.1.

	Facility Rm	Current year interest rate	2018 Rm	2017 Rm
20. LOANS AND BORROWINGS (continued)				
20.3 Loan details				
Secured				
Variable interest rates				
Capitalised finance lease and instalment sale agreements	387	8.00% to 11.50%	**387**	236
Term loans	93	5.00% to 11.50%	**72**	88
The book value of assets encumbered in favour of the above amounts to R582 million (2017: R477 million).				
Unsecured financing covered by intragroup cross-guarantees				
Variable interest rates				
Term loans	1 250	8.94% to 9.57%	**250**	2 000
Senior unsecured listed notes	4 396	8.57% to 9.58%	**4 396**	2 632
Fixed interest rates				
Term loans	1 250	9.65% to 10.94%	**1 250**	1 250
Senior unsecured listed and unlisted notes	1 420	9.98% to 10.23%	**1 420**	1 420
Interest due on term loans	–	–	**2**	20
Interest due on senior unsecured listed and unlisted notes	–	–	**60**	45
Unsecured				
Variable interest rates				
Other loans	–	10.25% to 10.75%	**24**	–
Fixed interest rates				
Other loans	–	7.00%	**17**	21
Interest-free				
Other loans	–	–	**38**	52
			7 916	7 764
Current interest-bearing loans and interest-free borrowings				
Interest-free				
Other loans	–	–	**51**	–
Total			**7 967**	7 764

Global Credit Rating Co Proprietary Limited reviewed the company's credit rating in October 2017, and upgraded the long-term national scale Issuer rating of KAP from A(za) to A+(za) and affirmed the short-term national scale Issuer rating of A1(za), with a stable rating outlook on both ratings.

The KAP Domestic Medium Term Note Programme was increased from R5 billion to R10 billion in November 2017.

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
- KAP Homeware Proprietary Limited
- Mvelatrans Proprietary Limited
- PG Bison Southern Cape Proprietary Limited
- Unitrans Passenger Proprietary Limited
- Unitrans Supply Chain Solutions Proprietary Limited

	2018 Rm	2017 Rm
21. EMPLOYEE BENEFITS		
Performance-based bonus accrual	**120**	148
Wage/13th cheque bonus accrual	**65**	66
Leave pay accrual	**130**	128
Post-retirement medical benefits	**5**	8
Other	**12**	21
Total liability	**332**	371
Transferred to short-term employee benefits	**(295)**	(350)
Long-term employee benefits	**37**	21

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

	2018 Rm	2017 Rm
Balance at beginning of the year	**8**	8
Amounts unused reversed	**(3)**	–
Balance at end of the year	**5**	8

The principal actuarial assumptions applied in determination of fair value of all the obligations include:

	2018	2017
Healthcare cost inflation	**7.6%**	7.9%
Discount rate	**9.2%**	9.1%
Percentage married at retirement	**76.8%**	74.7%
Retirement age	**65 years**	64 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.

22. PROVISIONS	Accident and insurance fund provisions Rm	Contingent liability provision Rm	Rehabilitation provision Rm	Other[1] Rm	Total Rm
Balance at 1 July 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**
Additional provision raised	**113**	**–**	**–**	**26**	**139**
Amounts unused reversed	**(90)**	**–**	**(6)**	**(2)**	**(98)**
Amounts utilised	**(36)**	**–**	**–**	**(27)**	**(63)**
Reclassification from accruals	**–**	**–**	**–**	**1**	**1**
Balance at 30 June 2018	**30**	**12**	**3**	**43**	**88**

	2018 Rm	2017 Rm
Non-current portion	**28**	27
Current portion	**60**	82
	88	109

[1] *Other provisions include onerous contracts and labour-related matters, among others.*

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. The provision was raised in respect of possible rehabilitation and legal liabilities, as part of the reverse acquisition transaction in 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 R2 million. These amounts have not been discounted for the purpose of measuring the provision for rehabilitation work as the effect is not material.

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 R2 million and thereafter R11 million.

		2018 Rm	2017 Rm
23.	**TRADE AND OTHER PAYABLES**		
	Trade payables	**3 660**	3 325
	Accruals	**280**	313
	Derivative financial liabilities (note 29)	**2**	11
	Other payables and amounts due	**253**	464
	Related-party payables (note 28)	**155**	119
	Trade and other payables (financial liabilities)	**4 350**	4 232
	Short-term operating lease liability	**2**	1
	Value added taxation payable	**86**	69
		4 438	4 302

The fair value of trade and other payables is disclosed in note 29.1.

			2018 Rm	2017 Rm
24.	**COMMITMENTS AND CONTINGENCIES**			
	24.1	**Capital expenditure**		
		Contracts for capital expenditure authorised	**52**	158

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.

		2018 Rm	2017 Rm
24.3	**Unutilised borrowing facilities at 30 June**	**4 346**	4 091

		Property Rm	Plant, equipment, vehicles and other Rm	2018 Total Rm	2017 Total Rm
24.4	**Operating leases**				
	Amounts outstanding under non-cancellable operating lease agreements payable within the next year and thereafter:				
	Next year	**109**	**25**	**134**	157
	Within two to five years	**259**	**33**	**292**	365
	Thereafter	**264**	**3**	**267**	188
	Total	**632**	**61**	**693**	710

Balances denominated in currencies other than South African rand were converted at the closing rates of exchange ruling at 30 June 2018 and 30 June 2017. The leases are generally subject to escalation clauses and also have renewal options. Operating lease agreements have been negotiated at market-related terms and rates with numerous suppliers.

24.5 Contingent liabilities

During the current period, Unitrans Supply Chain Solutions Proprietary Limited ('USCS'), an indirectly wholly owned subsidiary of the company entered into an agreement to lease Erf 244 Graceview Extension 3 ('the Property') from Investec Property Proprietary Limited ('Investec Property') for a period of 10 years. USCS also entered into an accompanying option agreement to purchase any unsold portion of the Property at the end of the lease period, which requires USCS to pay Investec Property an option premium on the expiry of the lease. Due to the uncertainties involved, the value of the option premium cannot be reliably measured at 30 June 2018. The option premium will be assessed annually to determine whether a liability may be recognised.

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.

Notes to the financial statements FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

		2018 Rm	2017 Rm
25.	**CASH GENERATED FROM OPERATIONS**		
	Operating profit	**2 801**	2 465
	Adjusted for:		
	Operating loss from discontinued operations	**(25)**	(85)
	Capital items	**66**	69
	Depreciation and amortisation	**1 045**	868
	Net of fair value adjustments of consumable biological assets[1]	**64**	(4)
	Share-based payment expense	**65**	68
	Other non-cash adjustments[2]	**(27)**	(40)
	Cash generated before working capital changes	**3 989**	3 341
	Working capital changes		
	Increase in inventories	**(389)**	(41)
	Increase in trade and other receivables	**(292)**	(328)
	Decrease in net derivative financial liabilities	**(60)**	(6)
	Decrease in non-current and current provisions	**(20)**	(32)
	Decrease in non-current and current employee benefits	**(39)**	(69)
	Increase in trade and other payables	**119**	93
	Net changes in working capital	**(681)**	(383)
	Cash generated from operations	**3 308**	2 958

[1] *Includes decreases due to harvesting and sale of livestock.*

[2] *The current year amount comprises, among others, the reversal of impairment of financial assets of R28 million (2017: comprises the long-term insurance receivable of R40 million).*

	Support-a-Paedic and RME Components Rm	2018 Rm	2017 Rm
26. NET CASH FLOW ON BUSINESS COMBINATIONS			
26.1 The fair value of assets and liabilities assumed at date of acquisition			
Assets			
Intangible assets	**–**	**–**	2 897
Property, plant and equipment	**3**	**3**	2 405
Consumable biological assets	**–**	**–**	69
Investments and loans	**–**	**–**	3
Inventories	**8**	**8**	460
Trade and other receivables[1]	**17**	**17**	672
Taxation receivable	**–**	**–**	1
Cash on hand	**2**	**2**	406
Liabilities			
Existing non-controlling interests	**–**	**–**	(2)
Loans and borrowings[2]	**(2)**	**(2)**	(551)
Deferred taxation liabilities	**–**	**–**	(1 326)
Provisions	**–**	**–**	(1)
Employee benefits	**–**	**–**	(59)
Short-term loans payable	**–**	**–**	(123)
Trade and other payables	**(11)**	**(11)**	(797)
Taxation payable	**(1)**	**(1)**	(5)
Bank overdrafts and short-term facilities	**–**	**–**	(13)
Total assets and liabilities acquired	**16**	**16**	4 036
Less: Non-controlling interests' portion of assets and liabilities acquired	**–**	**–**	(101)
Total assets and liabilities acquired	**16**	**16**	3 935
Investment in associate company that became a subsidiary	**–**	**–**	(59)
Goodwill at acquisition	**32**	**32**	336
Total consideration	**48**	**48**	4 212
Settled via issue of shares	**(17)**	**(17)**	(25)
Cash and cash equivalents on hand at acquisition	**(2)**	**(2)**	(406)
Net cash outflow on acquisition of subsidiaries	**29**	**29**	3 781

[1] *The fair value and gross contractual value of receivables acquired (which principally comprised trade receivables) is R17 million (2017: R672 million). All estimated contractual cash flows are expected to be collected.*

[2] *Loans and borrowings exclude shareholder loan claims of R5 million for the acquisition of Support-a-Paedic and RME Components.*

The goodwill arising on the acquisition of these companies is 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 is expected to be deductible for tax purposes.

Further details regarding acquisitions are noted on the next page:

26. NET CASH FLOW ON BUSINESS COMBINATIONS (continued)

26.2 Acquisition of Support-a-Paedic and RME Components

The acquisition of 100% of the shares and claims of Support-a-Paedic Proprietary Limited ('Support-a-Paedic') and RME Components Proprietary Limited ('RME Components') was concluded on 1 December 2017, for a total consideration of R48 million. The acquisition provided the Integrated Bedding division with access to new markets and brands.

Included as part of the total consideration of R48 million is the consideration of R17 million settled by the allotment and issuance of 1 928 637 KAP shares to the seller on 5 December 2017. 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 R5 million, which the group is required to pay to the sellers. This contingent consideration is payable if Support-a-Paedic and RME Components achieve certain profit warranties and the payment will be discharged in cash. The directors consider it probable that this payment will be required and have recognised a liability for the amount.

The revenue and profit contributed for the year, included in the statement of comprehensive income since the date of acquisition, was R52 million and Rnil respectively. Had this business combination been effected by 1 July 2017, the revenue and profit contributed for the year, would have been R97 million and R2 million respectively.

Acquisition-related costs, included in other operating expenses of the group amounted to Rnil (2017: R15 million).

26.3 Acquisitions in the prior period

In the prior year, 100% of the businesses of Lucerne Transport Proprietary Limited, Safripol Holdings Proprietary Limited, Ndlovu Forestry Corporation Proprietary Limited and Redwood Timbers Proprietary Limited were acquired, as well as an additional 23.09% interest in Xinergistix Proprietary Limited.

	Support-a-Paedic and RME Components Rm
26.4 The carrying value of identifiable assets and liabilities immediately prior to the acquisitions	
Assets	
Goodwill	**2**
Intangible assets	**1**
Property, plant and equipment	**3**
Inventories	**8**
Trade and other receivables	**17**
Cash on hand	**2**
Liabilities	
Loans and borrowings[3]	**(7)**
Trade and other payables	**(11)**
Taxation payable	**(1)**
Total assets and liabilities acquired	**14**

[3] *Loans and borrowings include shareholder loan claims of R5 million.*

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Long-term loans and borrowings Rm	Short-term loans and borrowings Rm	Bank overdrafts and short-term facilities Rm	Total Rm
Balance at 1 July 2016	4 205	432	36	4 673
Changes from financing cash flows	2 886	(435)	25	2 476
Increase in bank overdrafts and short-term facilities	–	–	25	25
Increase in long-term loans and borrowings	2 886	–	–	2 886
Decrease in short-term loans and borrowings	–	(435)	–	(435)
Reclassification of loans and borrowings from long term to short term	(285)	285	–	–
Acquired on acquisition of subsidiaries (note 26)	551	123	13	687
Other	–	2	–	2
Balance at 30 June 2017	**7 357**	**407**	**74**	**7 838**
Changes from financing cash flows	**342**	**(141)**	**(74)**	**127**
Decrease in bank overdrafts and short-term facilities	**–**	**–**	**(74)**	**(74)**
Increase in long-term loans and borrowings	**342**	**–**	**–**	**342**
Decrease in short-term loans and borrowings	**–**	**(141)**	**–**	**(141)**
Reclassification of loans and borrowings from long term to short term	**(741)**	**741**	**–**	**–**
Acquired on acquisition of subsidiaries (note 26)	**2**	**–**	**–**	**2**
Balance at 30 June 2018	**6 960**	**1 007**	**–**	**7 967**

28. 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:

	2018 Rm	2017 Rm
Related-party loans receivable		
Associate and joint venture companies	**16**	25
Related-party receivables		
Steinhoff International Holdings N.V. and its subsidiaries	**18**	56
Associate and joint venture companies	**50**	51
	68	107
Related-party payables		
Steinhoff International Holdings N.V. and its subsidiaries	**(128)**	(104)
Associate and joint venture companies	**(27)**	(15)
	(155)	(119)
Dividends paid to:		
Steinhoff International Holdings N.V. and its subsidiaries	**(240)**	(189)
Sales to:		
Steinhoff International Holdings N.V. and its subsidiaries	**743**	665
Associate and joint venture companies	**148**	142
	891	807
Purchases from:		
Steinhoff International Holdings N.V. and its subsidiaries	**(1)**	(16)
Associate and joint venture companies	**(86)**	(75)
	(87)	(91)
Net operating expenses, including management fees (paid to)/received from:		
Steinhoff International Holdings N.V. and its subsidiaries	**(31)**	(37)
Associate and joint venture companies	**4**	8
	(27)	(29)
Net rent paid to:		
Steinhoff International Holdings N.V. and its subsidiaries	**(26)**	(26)
Net rebates and settlement discounts paid to:		
Steinhoff International Holdings N.V. and its subsidiaries	**(115)**	(94)
Associate and joint venture companies	**(1)**	(1)
	(116)	(95)

	2018 Rm	2017 Rm
Net finance costs received from:		
Steinhoff International Holdings N.V. and its subsidiaries	**1**	17
Associate and joint venture companies	**1**	1
	2	18
Asset purchases from:		
Steinhoff International Holdings N.V. and its subsidiaries	**(201)**	(257)
Insurance proceeds received from:		
Steinhoff International Holdings N.V. and its subsidiaries	**120**	24
Insurance premiums paid to:		
Steinhoff International Holdings N.V. and its subsidiaries	**(81)**	(64)

Management has determined The RARE Group Proprietary Limited ('RARE Group') to be a related party due to a common directorship. However, this relationship ceased on 1 October 2017. Related-party sales to the RARE Group, during the current year, are R169 million (2017: R29 million) and the related-party receivable balance at 30 June 2018 is R37 million (2017: R15 million).

For details of material related parties where control exists, refer to note 30.

Directors of the company are considered to be key management personnel. For details in respect of key management compensation, refer to note 31.

29. 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.

29. FINANCIAL INSTRUMENTS (continued)

29.1 Total financial assets and liabilities

Financial instruments below exclude assets and liabilities held for sale and profit and loss from discontinued operations.

	At fair value through profit or loss[1] Rm	Loans and receivables and other financial liabilities at amortised cost Rm	Total carrying values Rm	Total fair values Rm
2018				
Investments and loans	–	13	13	13
Non-current financial assets	–	13	13	13
Trade and other receivables (financial assets)	58	3 695	3 753	3 753
Short-term loans receivable	–	6	6	6
Cash and cash equivalents	–	2 151	2 151	2 151
Current financial assets	58	5 852	5 910	5 910
Long-term loans and borrowings	–	(6 960)	(6 960)	(7 047)
Non-current financial liabilities	–	(6 960)	(6 960)	(7 047)
Short-term loans and borrowings	–	(1 007)	(1 007)	(1 014)
Trade and other payables (financial liabilities)	(2)	(4 348)	(4 350)	(4 350)
Current financial liabilities	(2)	(5 355)	(5 357)	(5 364)
	56	(6 450)	(6 394)	(6 488)
Net (gains)/losses recognised in profit or loss	(49)	37	(12)	
Net interest expense	–	706	706	

	At fair value through profit or loss[1] Rm	Loans and receivables and other financial liabilities at amortised cost Rm	Total carrying values Rm	Total fair values Rm
2017				
Investments and loans	–	11	11	11
Other receivables (financial assets)	–	40	40	40
Non-current financial assets	–	51	51	51
Trade and other receivables (financial assets)	6	3 288	3 294	3 294
Short-term loans receivable	–	3	3	3
Cash and cash equivalents	–	2 009	2 009	2 009
Current financial assets	6	5 300	5 306	5 306
Long-term loans and borrowings	–	(7 357)	(7 357)	(7 407)
Non-current financial liabilities	–	(7 357)	(7 357)	(7 407)
Short-term loans and borrowings	–	(407)	(407)	(409)
Bank overdrafts and short-term facilities	–	(74)	(74)	(74)
Trade and other payables (financial liabilities)	(11)	(4 221)	(4 232)	(4 232)
Current financial liabilities	(11)	(4 702)	(4 713)	(4 715)
	(5)	(6 708)	(6 713)	(6 765)
Net (gains)/losses recognised in profit or loss	(1)	88	87	
Net interest expense	–	515	515	

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.

29. FINANCIAL INSTRUMENTS (continued)

29.2 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. The carrying amount reasonably approximates the fair value at 30 June 2018.

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 carrying amount reasonably approximates the fair value at 30 June 2018.

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:

	2018 Level 2 Rm	2017 Level 2 Rm
Derivative financial assets	**58**	6
Derivative financial liabilities	**(2)**	(11)
	56	(5)

There were no Level 1 or Level 3 financial assets or financial liabilities as at 30 June 2018 or 30 June 2017.

29.3 Foreign currency risk

The group's operating costs are principally incurred in South African rand. Its revenue derived 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 foreign operations' 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	MZ metical Rm
2018				
Trade and other receivables (financial assets excluding derivatives)	**27**	**300**	**57**	**28**
Cash and cash equivalents	**2**	**29**	**–**	**63**
Trade and other payables (financial liabilities excluding derivatives)	**(140)**	**(847)**	**–**	**(41)**
Pre-derivative position	**(111)**	**(518)**	**57**	**50**
Derivative effect	**136**	**594**	**(36)**	**–**
Open position	**25**	**76**	**21**	**50**
2017				
Trade and other receivables (financial assets excluding derivatives)	6	57	24	28
Cash and cash equivalents	13	56	2	26
Trade and other payables (financial liabilities excluding derivatives)	(17)	(664)	(1)	(25)
Pre-derivative position	2	(551)	25	29
Derivative effect[2]	302	623	(8)	–
Open position	304	72	17	29

[2] *The prior year has been restated, as it incorrectly reflected the fair value of foreign exchange contracts rather than the derivative effect at 30 June 2017.*

29. FINANCIAL INSTRUMENTS (continued)

29.3 Foreign currency risk (continued)

The following significant exchange rates applied during the year and were used in calculating sensitivities:

Rand	**Forecast rate[3] 30 June 2019**	Forecast rate[3] 30 June 2018	**Reporting date spot rate 30 June 2018**	Reporting date spot rate 30 June 2017
Euro	**16.2370**	16.1433	**16.0406**	14.9168
US dollar	**12.8820**	14.3853	**13.7275**	13.0551
AU dollar	**10.1023**	10.6740	**10.1646**	10.0401
Mozambique new metical	**0.1901**	0.1919	**0.2333**	0.2178

[3] *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 performed was consistent with methods applied as at 30 June 2017.

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	**2018 Rm**	2017 Rm
Euro strengthening by 1.2% (2017: strengthening by 8.2%) to the rand	**–**	25
US dollar weakening by 6.2% (2017: strengthening by 10.2%) to the rand	**(5)**	7
AU dollar weakening by 0.6% (2017: strengthening by 6.3%) to the rand	**–**	1
Mozambique new metical weakening by 18.5% (2017: weakening by 11.9%) to the rand	**(9)**	(3)

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:

	2018 Rm	2017 Rm
Short-term derivatives		
Assets		
Fair value of foreign exchange contracts		
Euro	**7**	6
US dollar	**51**	–
	58	6
Liabilities		
Fair value of foreign exchange contracts		
Euro	**(2)**	(1)
US dollar	**–**	(10)
	(2)	(11)
Net derivative liabilities	**56**	(5)

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.

29. FINANCIAL INSTRUMENTS (continued)

29.4 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
2018					
Non-current financial assets	**6**	**–**	**–**	**7**	**13**
Current financial assets	**1 881**	**235**	**–**	**3 794**	**5 910**
Non-current financial liabilities	**(4 218)**	**(24)**	**(2 682)**	**(36)**	**(6 960)**
Current financial liabilities	**(919)**	**–**	**(37)**	**(4 401)**	**(5 357)**
	(3 250)	**211**	**(2 719)**	**(636)**	**(6 394)**
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)

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	2018 Rm	2017 Rm
JIBAR and SA prime – 100 basis point increase	**33**	33

A 100 basis point decrease in the above rates would have had an equal, but opposite, effect on profit or loss.

29.5 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 2018, 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.

	2018 Rm	2017 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	**13**	51
Current financial assets	**5 910**	5 306
	5 923	5 357
The maximum exposure to credit risk at the reporting date by segment was (carrying amounts):		
Diversified industrial	**1 647**	1 182
Diversified chemical	**2 041**	1 923
Diversified logistics	**2 235**	2 252
	5 923	5 357
The maximum exposure to credit risk at the reporting date by geographical region was (carrying amounts):		
Southern Africa	**5 508**	5 322
Other regions	**415**	35
	5 923	5 357
Ageing of financial assets		
Not past due or impaired	**5 367**	4 842
Past due 1 to 30 days but not impaired	**322**	315
Past due 31 to 60 days but not impaired	**28**	51
Past due 61 to 90 days but not impaired	**34**	21
Past due more than 90 days but not impaired	**24**	31
Past due but not impaired in full	**148**	97
Past due balance	**188**	168
Impairment allowance	**(40)**	(71)
	5 923	5 357

29. FINANCIAL INSTRUMENTS (continued)

29.5 Credit risk (continued)

	2018 Rm	2017 Rm
Movement in allowance for doubtful debts and impairments		
Balance at beginning of the year	**(71)**	(100)
Additional provision raised	**(9)**	(10)
Amounts unused reversed	**28**	57
Amounts utilised during the year	**8**	49
Acquired on acquisition of subsidiary companies	**–**	(67)
Reclassification to accruals and other provisions	**4**	–
Balance at end of the year	**(40)**	(71)

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 R458 million (2017: R371 million).

29.6 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 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 the net cash reserves and borrows the net cash deficits from 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:

	2018 Rm	2017 Rm
0 to 3 months	**(4 086)**	(4 550)
4 to 12 months	**(1 916)**	(863)
Year 2	**(3 424)**	(1 603)
Years 3 to 5	**(4 567)**	(7 222)
After 5 years	**(21)**	(42)
	(14 014)	(14 280)

29.7 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.

29.8 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	Ownership 2018 %	2017 %
30. 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 and mattresses	South Africa	**100**	100
KAP Diversified Industrial Proprietary Limited	Incorporates timber plantations and production facilities for panel products; as well as the manufacture of PET, HDPE, PP and UF resin	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

31. DIRECTORS' REMUNERATION

31.1 Remuneration

	Basic R	Company contributions R	Bonuses R	Other benefits R	Total R
Executive directors					
2018					
Gary Noel Chaplin	**5 640 063**	**359 937**	**5 250 000**	**–**	**11 250 000**
Frans Hendrik Olivier	**3 397 080**	**302 920**	**3 355 000**	**–**	**7 055 000**
	9 037 143	**662 857**	**8 605 000**	**–**	**18 305 000**
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

[1] *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.*

	2018 R	2017 R
Non-executive directors		
Theodore le Roux de Klerk[2&3]	**272 882**	–
Louis Jacobus du Preez[2&3]	**272 882**	–
Jacob de Vos du Toit	**796 910**	747 083
Karel Johan Grové[1&3]	**532 288**	152 315
Markus Johannes Jooste[2&3]	**87 030**	295 405
Andries Benjamin la Grange[2&3]	**87 030**	295 405
Ipeleng Nonkululeko Mkhari	**346 301**	316 190
Stephanus Hilgard Müller	**642 438**	577 825
Sandile Hopeson Nomvete	**471 301**	432 354
Patrick Keith Quarmby	**717 077**	571 500
Daniel Maree van der Merwe[3]	**449 863**	367 377
Christiaan Johannes Hattingh van Niekerk	**315 000**	295 405
	4 991 002	4 050 859

[2] *On 1 October 2017, Mr MJ Jooste and Mr AB la Grange resigned as non-executive directors from the board. On the same date, the board appointed Mr T le R de Klerk and Mr LJ du Preez as non-executive directors to the board.*
[3] *Paid to subsidiary companies of Steinhoff International Holdings N.V.*

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 2017	Number of rights (exercised)/ (expired)/ awarded during the year	Number of rights as at 30 June 2018
31.2	**Share rights**				
	Executive directors				
	Gary Noel Chaplin	December 2014	1 543 470	(1 543 470)	–
		December 2015	1 151 851	–	1 151 851
		December 2016	1 401 589	–	1 401 589
		December 2017	–	1 198 565	1 198 565
			4 096 910	**(344 905)**	**3 752 005**
	Frans Hendrik Olivier	December 2014	507 466	(507 466)	–
		December 2015	486 191	–	486 191
		December 2016	713 328	–	713 328
		December 2017	–	588 636	588 636
			1 706 985	**81 170**	**1 788 155**
	Total executive directors		**5 803 895**	**(263 735)**	**5 540 160**
	Non-executive director				
	Karel Johan Grové[1]	December 2014	1 825 967	(1 825 967)	–
		December 2015	827 893	–	827 893
	Total non-executive director		**2 653 860**	**(1 825 967)**	**827 893**
	Total directors		**8 457 755**	**(2 089 702)**	**6 368 053**

[1] *Share rights of Karel Johan Grové were adjusted to reflect the pro rata entitlement as per rules of the share scheme in terms of retirement.*

31. DIRECTORS' REMUNERATION (continued)

31.2 Share rights (continued)

	Number of rights exercised	Value of rights exercised R'000
Value of share rights exercised during the year		
2018		
Executive directors[2]		
Gary Noel Chaplin	**1 543 470**	**13 536**
Frans Hendrik Olivier	**507 466**	**4 450**
	2 050 936	**17 986**
Non-executive director[2]		
Karel Johan Grové	**1 825 967**	**16 014**
	3 876 903	**34 000**
2017		
Executive directors[3]		
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

[2] The market price of share rights exercised was R8.77 for 1 December 2017.
[3] The market price of share rights exercised was R7.59 for 1 December 2016.

32. 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.

32.1 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 determined using the Faustmann formula.

Impairment of assets

Goodwill, property, plant and equipment, investment property, investments and intangible assets that have an indefinite useful life, and intangible assets that are not yet ready for use, are assessed annually for impairment. The significant assumptions and estimates are detailed in notes 7 to 10.

Capitalisation of plant expansion costs and capitalisation dates

Costs incurred to construct and establish a plant and which management consider will provide future economic benefit are capitalised. A plant is considered commissioned once sufficient testing has been performed and it is operating as intended, producing product of sufficient quality that would be sold at a profit, the product is within regulated specifications and the plant is able to sustain ongoing production. Once the plant is commissioned, the capitalisation of costs ceases and the recognition of depreciation begins.

32.2 Other judgements and estimates:

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.

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 through use. Accordingly, deferred taxation is raised at the normal 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	4 – 8 years
Computer equipment	2 – 5 years
Long-haul 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.

32. JUDGEMENTS AND ESTIMATES (continued)

32.2 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.

Control

Management assesses whether it controls an entity based on the following factors: it owns the majority of the voting rights; it has the ability to appoint the majority of directors; it has the power to direct the operating activities; among others.

33. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2018, and have not been applied in preparing these financial statements. These standards, amendments and interpretations are set out below. The group does not plan to early adopt these standards. These will be adopted in the period that they become mandatory unless otherwise indicated.

Effective date[1]	Standard	Summary of the standard and impact assessment
1 July 2018	IFRS 15	Revenue from Contracts with Customers: this standard replaces IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfer of Assets from Customers and SIC-31 – Revenue: Barter of Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The group has a plan to adopt the requirements of IFRS 15 in time for the publication of the first set of financial statements which must be compliant. In this regard, the group has begun the process of assessing the impact of IFRS 15 on the financial statements. The following steps have been undertaken thus far: • Training has been provided to key individuals across the group, to upskill those staff most impacted by IFRS 15; • An impact assessment is underway to assess the impact on revenue streams across the group. This impact assessment will then be used to further refine the implementation plan, and to target for first round implementation, those revenue streams most at risk of experiencing change;

Effective date[1]	Standard	Summary of the standard and impact assessment
		• An implementation plan has been provisionally developed and will be finalised based on the impact assessment as well as other inputs received; • Full implementation of IFRS 15 will then proceed according to the implementation plan, which will also include considerations of the group's transition plan, as well as which practical expedients will be used, if any. In line with the work performed thus far, the group is not yet in a position to quantify the impact of the adoption of this standard. The qualitative impact of this standard may result in certain process amendments to the way certain divisions recognise revenue to align these processes with the requirements of IFRS15. Based on the initial high-level assessments performed, the revenue recognition for the diversified industrial and diversified chemical segments is not expected to be materially impacted, while diversified logistics may have limited areas of impact. Additionally, there will be an enhancement to the disclosures contained in the financial statements to adopt the disclosure requirements of IFRS 15.
1 July 2018	IFRS 9	On 24 July 2014, the IASB issued the final IFRS 9 – Financial Instruments standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement. The group has a plan to adopt the requirements of IFRS 9 in time for the publication of the first set of financial statements which must be compliant. In this regard, the group has begun the process of assessing the impact of IFRS 9 on the financial statements. The following steps have been undertaken thus far: • Training has been provided to key individuals across the group, to upskill those staff most impacted by IFRS 9; • A group-level impact assessment is underway to assess the impact of IFRS 9 on the classification and measurement of financial instruments and to set group policies for the business model which will then be tailored where relevant; • As a precursor to the development of an IFRS 9-compliant expected credit loss impairment model for financial assets, the group has performed analyses of the financial assets held across the group to inform the implementation plan for the development of the expected credit loss model; • An implementation plan has been provisionally developed and will be finalised based on the impact assessment as well as other inputs received; • Full implementation of IFRS 9 will then proceed according to the implementation plan, which will also include considerations of the group's transition plan, as well as which practical expedients will be used, if any.

Effective date[1]	Standard	Summary of the standard and impact assessment

33. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

Effective date[1]	Standard	Summary of the standard and impact assessment
	IFRS 9 (continued)	In line with the work performed thus far, the group is not yet in a position to quantify the impact of the adoption of this standard. Preliminary assessments of the financial assets held by the group indicate that the change from an incurred credit loss model to an expected credit loss model may increase the levels of impairment raised. Qualitatively, the group does not believe that the impact of this standard will result in any significant changes to the classification and measurement of financial instruments. Process amendments will be effected to integrate the requirements of IFRS 9 into the way the group assesses impairment of financial assets, as well as to embed the classification and measurement requirements of IFRS 9. Additionally, there will be an enhancement to the disclosures contained in the financial statements to adopt the disclosure requirements of IFRS 9. On transition to IFRS 9, the group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. This exemption allows for the differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9, if any, to be recognised in retained earnings and reserves, as at 1 July 2018.
1 July 2018	Amendments to IAS 40	The IASB has amended the requirements in IAS 40 - Investment Property on when a company should transfer a property asset to, or from, investment property. The investment properties held by the group are not considered significant to the operations of the group, accordingly this amendment is not expected to have a significant quantitative or qualitative impact on the group.
1 July 2018	IFRIC 22	When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 – The Effects of Changes in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item. This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The quantum of foreign currency denominated prepayments and advance receipts held by the group is not material in relation to the other assets and liabilities held by the group. Accordingly, this amendment is not expected to have a significant quantitative or qualitative impact on the group.

Effective date[1]	Standard	Summary of the standard and impact assessment
1 July 2019	IFRS 16	IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 – Leases, and related Interpretations. IFRS 16 includes a single model for lessees which will result in almost all leases being included in the statement of financial position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors. The group has begun the process of assessing the potential impact of IFRS 16 on the financial statements, and in this regard has begun the process of enhancing its lease register and assessing the register for completeness. Based on the leases register compiled thus far, preliminary results indicate that IFRS 16 is expected to have a significant impact on the financial statements of the group, both quantitatively and qualitatively, due to the quantum of leases entered into by the group's operations. Key leases identified thus far that are expected to cause an impact to the financial statements on adoption of IFRS 16 include leases of land and buildings (warehouses, distribution centres, depots and office space), as well as leases of vehicles and plant (long-haul vehicles, fleet vehicles and equipment). This process has already identified key areas in the group's operations where IFRS 16 is expected to be most impactful, and once complete, this process will be used to inform the group's implementation plan, as well as to clarify the group's transition options, including which practical expedients will be used, and how they will be used by the group.
1 July 2019	IFRIC 23	IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements. IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about: • Judgements made; • Assumptions and other estimates used; and • The potential impact of uncertainties that are not reflected. This clarification is not expected to have a significant quantitative or qualitative impact on the group. Any disclosure enhancements required will be included in the financial statements of the period where this clarification becomes effective.

[1] *Annual periods beginning on or after for the group.*

34. 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.

Analysis of shareholding FOR THE YEAR ENDED 30 JUNE 2018

	2018			
	Number of shareholders	%	Number of Shares	%
Shareholder spread				
1 – 1 000 shares	**3 213**	**32.13**	**676 196**	**0.03**
1 001 – 10 000 shares	**4 133**	**41.34**	**18 018 009**	**0.67**
10 001 – 100 000 shares	**1 829**	**18.29**	**54 610 531**	**2.04**
100 001 – 1 000 000 shares	**583**	**5.83**	**202 026 524**	**7.54**
1 000 001 – 10 000 000 shares	**205**	**2.05**	**568 426 946**	**21.23**
10 000 001 shares and over	**36**	**0.36**	**1 834 116 134**	**68.49**
	9 999	**100.00**	**2 677 874 340**	**100.00**
Resident/non-resident split				
Resident	**9 799**	**98.00**	**2 288 377 566**	**85.46**
Non-resident	**200**	**2.00**	**389 496 774**	**14.54**
	9 999	**100.00**	**2 677 874 340**	**100.00**

	2018		2017	
	Number of shares	%	Number of shares	%
Shares held by directors of the company				
Gary Noel Chaplin	**1 877 592**	**0.070**	3 000 000	0.113
Frans Hendrik Olivier	**1 050 000**	**0.039**	1 050 000	0.039
Karel Johan Grové	**4 407 487**	**0.165**	3 403 206	0.128
Theodore le Roux de Klerk	**20 000**	**0.001**	–	0.000
Louis Jacobus du Preez	**20 000**	**0.001**	–	0.000
Jacob de Vos du Toit	**540 368**	**0.020**	540 368	0.020
Stephanus Hilgard Müller[1]	**225 004**	**0.008**	225 004	0.008
	8 140 451	**0.304**	8 218 578	0.309
Shares held by directors of group subsidiaries	**57 075 385**	**2.132**	64 537 161	2.424
Shares held by management of the company and its group subsidiaries	**5 038 199**	**0.188**	2 889 882	0.109
	70 254 035	**2.624**	75 645 621	2.841
Public/non-public shareholdings				
Steinhoff International Holdings N.V.[2]	**694 206 661**	**25.92**	1 144 206 661	42.98
Allan Gray[3]	**353 183 098**	**13.19**	320 171 984	12.03
Directors (and associates) of the company and its subsidiaries	**65 215 836**	**2.44**	72 755 739	2.73
Management of the company and its subsidiaries	**5 038 199**	**0.19**	2 889 882	0.11
Non-public shareholders[4]	**1 117 643 794**	**41.74**	1 540 024 266	57.85
Public shareholders[5]	**1 560 230 546**	**58.26**	1 122 175 103	42.15
	2 677 874 340	**100.00**	2 662 199 369	100.00

[1] *Mr SH Müller's shareholding in the prior year has been restated, as it incorrectly reflected 30 more shares than were held at 30 June 2017.*
[2] *Shares held via Ainsley Holdings Proprietary Limited, an indirectly owned subsidiary of Steinhoff International Holdings N.V.*
[3] *Allan Gray is a beneficial shareholder holding more than 10% of the shares of the company at year-end.*
[4] *There were 70 (2017: 59) non-public shareholders at year-end.*
[5] *There were 9 929 (2017: 6 438) public shareholders at year-end.*

Shareholders' diary

Annual general meeting 2018	Tuesday, 13 November 2018
Announcement of interim results	February 2019
Announcement of annual results and anticipated declaration of dividend/distribution	August 2019
Annual general meeting 2019	November 2019

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