# INSIMBI

## INTEGRATED ANNUAL REPORT 2018

NON–FERROUS

REFRACTORY

FERROUS

PLASTICS

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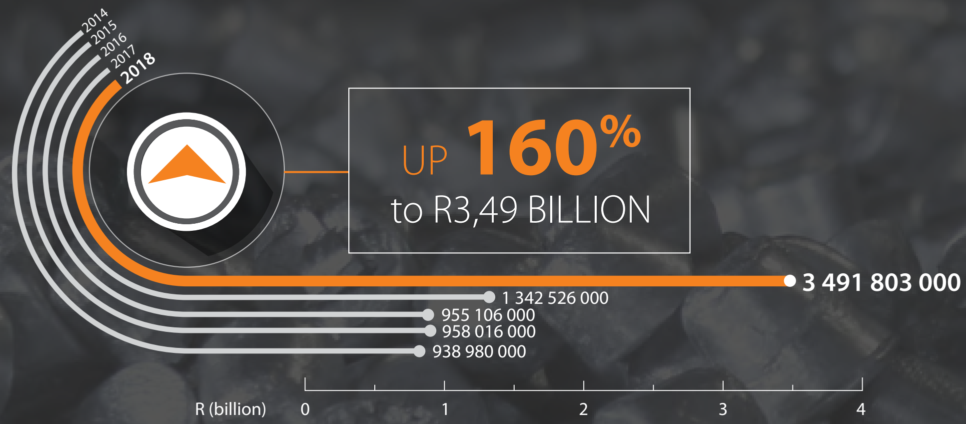
## FINANCIAL STATEMENTS

# SHAREHOLDERS' INFORMATION

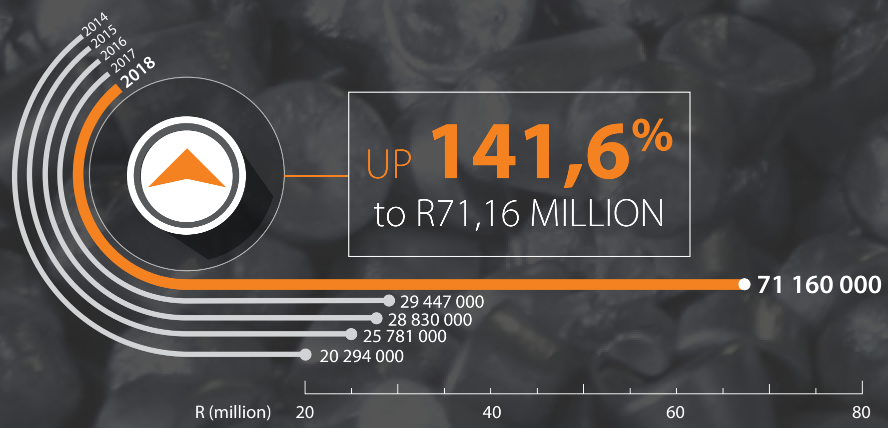


# FINANCIAL INDICATORS: 5-YEAR HISTORY

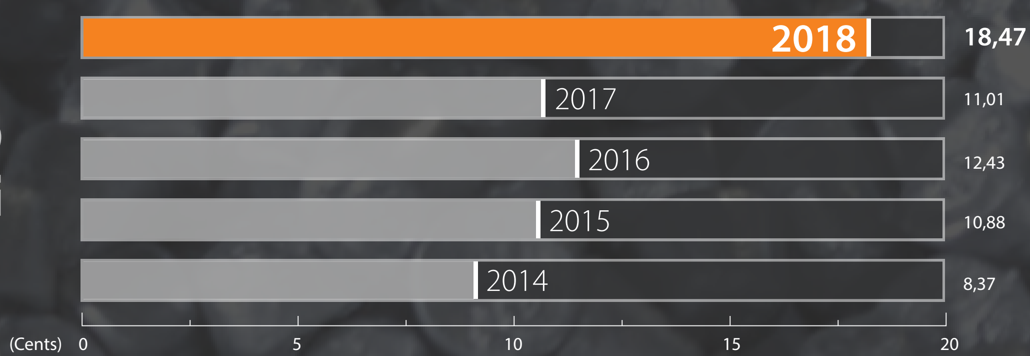
## REVENUE



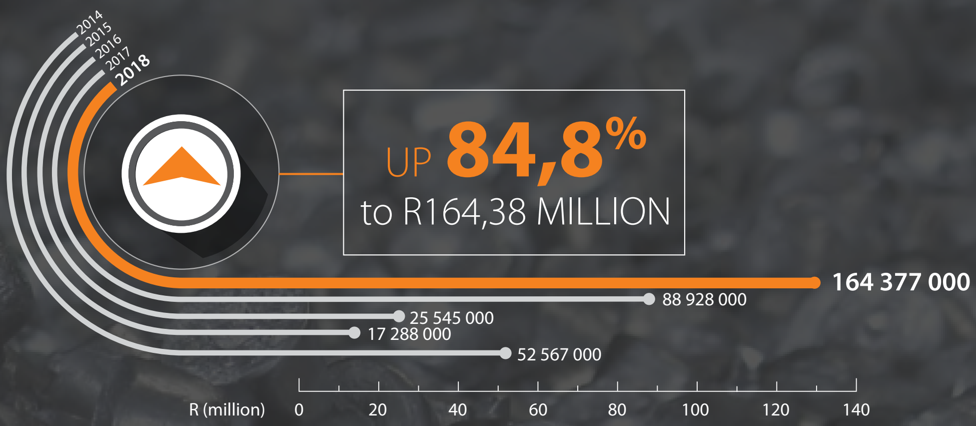

## NET PROFIT



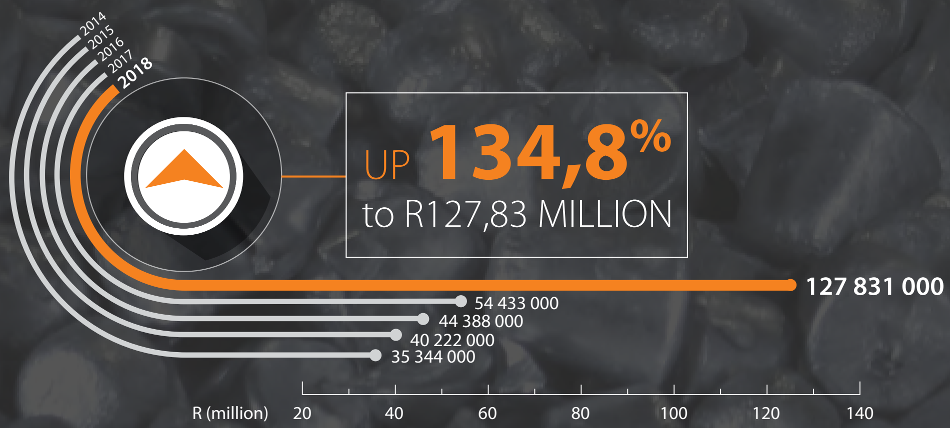

## EPS



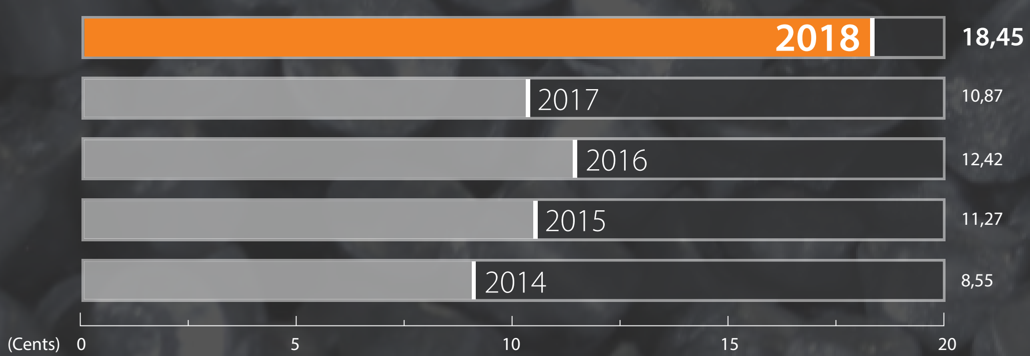
## CASH GENERATED FROM OPERATIONS




## OPERATING PROFIT



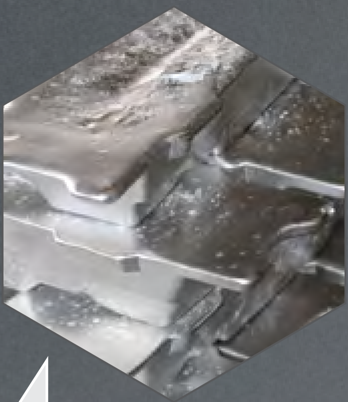

## HEPS



# THE GROUP AT A GLANCE

±950
NUMBER OF CUSTOMERS

±1 500
DIFFERENT PRODUCT LINES



OVER
30
COUNTRIES SOLD TO

±150 000
TONNES OF PRODUCT MOVED

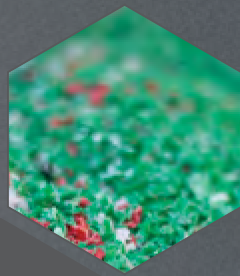
7
NUMBER OF LOCATIONS WE OPERATE FROM

4
NUMBER OF CHARITIES WE SUPPORT

4
NUMBER OF SEGMENTS

OVER
500
EMPLOYEES

# THE INSIMBI VISION...



To be a diversified, industrial company with a regional and global footprint; to continue with its plans to become a recognised B-BBEE company with a committed and satisfied work force.

# OUR MISSION...

To be the foremost ferrous, non-ferrous, refractory and plastic products supplier in Africa; to be a major exporter; to be recognised as a market leader in the supply of quality products, good service and technical support; to grow the company's market share through strategic acquisitions in addition to organic growth; to substantially control or influence the production of the majority of the company's raw materials; to ensure that a safe and healthy work environment is achieved at all times; to protect the natural environment within and surrounding the company's premises; to strengthen and grow Insimbi's business through a structured approach to diversification of products and markets and at the same time to remain focused on core activities; to be a significantly transformed, empowered, and recognised B-BBEE company.

# HISTORICAL MILESTONES

**1970**
Metallurg Inc. (USA) establishes Metallurg SA in Johannesburg

**1992**
The operation moved to its current premises in Wadeville, Germiston

**2003**
The management of Metallurg SA enter into a management buy-out agreement resulting in a break from Metallurg Inc

**2005**
Executive management rebranded the company as Insimbi Alloy Supplies

**2008**
Insimbi Refractory and Alloy Supplies listed on the AltX board of the Johannesburg Stock Exchange

**2008**
Acquired Insimbi Aluminium Alloys (ex-Future Alloys)

**2008**
Acquired Global Materials in Cape Town including warehousing and office space

**2008**
Opened branch in Kitwe, Zambia

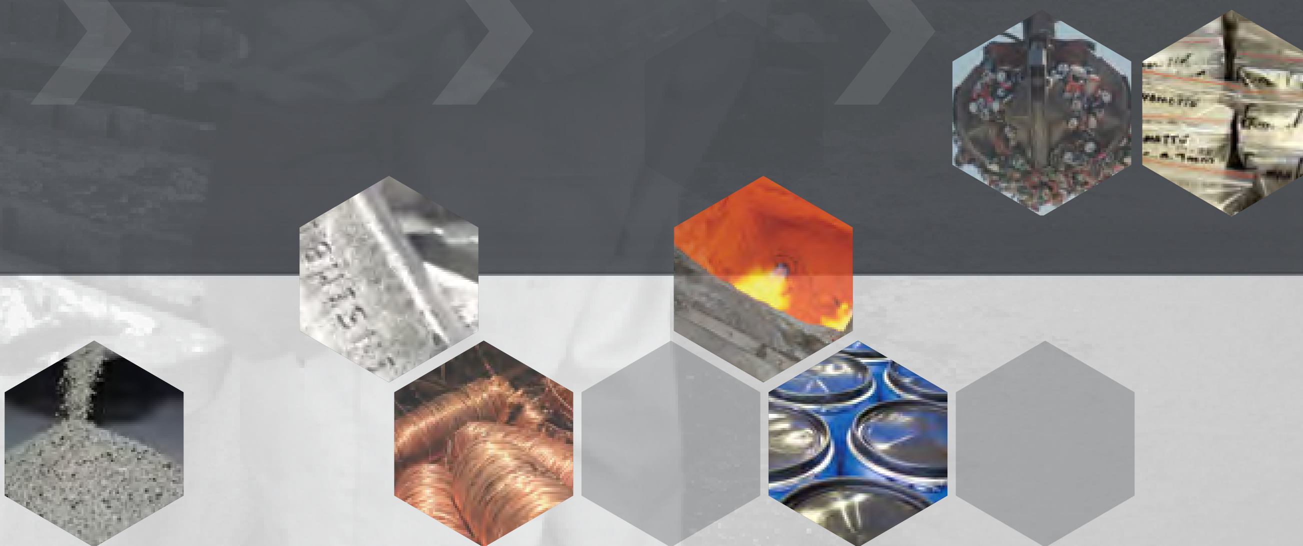
**2010**
Acquired Metlite Alloys in Cape Town

**2012**
Migrated to the non-ferrous Industrial Metals sector on the main board of the JSE

**2015**
Acquired Polydrum

**2016**
Implemented employee ownership scheme

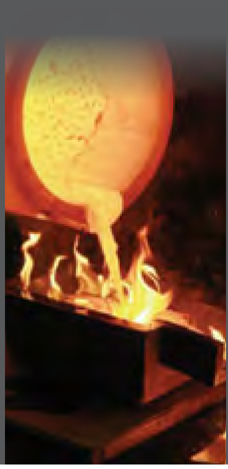
**2016**
Acquired Amalgamated Metals Recycling



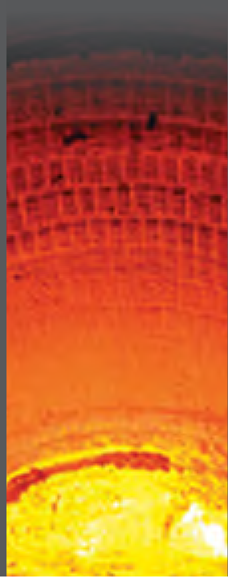
# GROUP SEGMENTS


This segment supplies mainly the steel, stainless steel and foundry industries with raw material requirements. The segment includes the supply of various recycled ferrous metals through AMR.

Non-ferrous consists of the divisions in the group that also service the steel, stainless steel, foundry and non-ferrous industry including the automotive and heavy aluminium industry and the powder coating industry, but with a specific focus on non-ferrous metals including copper, stainless steel and aluminium.

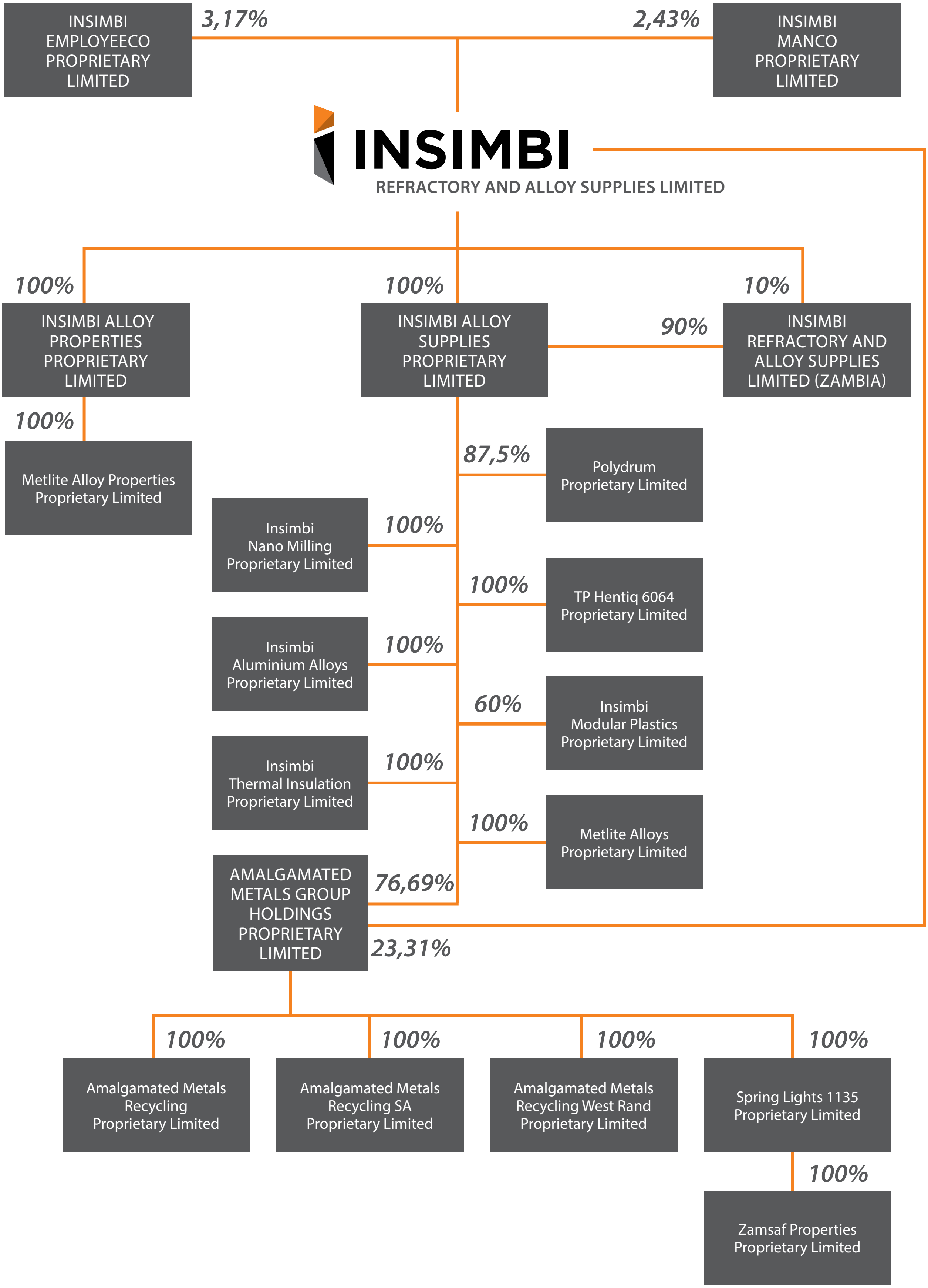


This segment consists of the divisions that service the steel, platinum, paper and pulp, and cement industry's refractory requirements as well as the supply of industrial heat resistant textiles.



Plastics incorporates the business that manufactures product for the plastic packaging industry. Customers are from the chemical, agricultural and food industries amongst others.

# GROUP STRUCTURE



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# *INVESTMENT CASE*

*"At an overall operating level, adjusting Insimbi's product basket toward higher value, lower volume products was a strategic expansionary move by management in a volume depressed environment. The company is maintaining dividends and such positive signalling seems to be justified by resilient performance."* *(Merchantec Mid-Cap Research Report)*

*Consider the following when assessing an investment in Insimbi:*

- Consistent revenue growth
- Consistent profitability
- Consistently cash flow positive
- consistent dividend stream since listing
- Strong, experienced and effective management team
- Diversified industrial group
- Geographic spread
- Acquisitive growth

# GEOGRAPHICAL FOOTPRINT

## Export market:

- Angola
- Argentina
- Australia
- Bahrain
- Botswana
- Brazil
- China
- Democratic Republic of the Congo
- Germany
- Ghana
- Hong Kong
- India
- Israel
- Kenya
- Malawi
- Malaysia
- Mozambique
- Namibia
- Nigeria
- Singapore
- Spain
- Swaziland
- Sweden
- Switzerland
- Taiwan
- Tanzania
- UAE
- Uganda
- USA
- Zambia
- Zimbabwe

## Operating from:

Johannesburg

Durban

Cape Town

# ORGANISATIONAL OVERVIEW

*Insimbi has developed its core expertise through its ability to source and provide the industrial consumer globally with the required commodity.*

## OUR BUSINESS

Insimbi has developed its core expertise through its ability to source and provide the industrial consumer globally with the required commodity. The business has evolved over the years. It is not a business that we can describe in one sentence. In our early days, it would have been easy to define our company as a supplier of ferrous and non-ferrous alloys to the South African market. However, this has changed significantly. We are now able to divide our offering into four distinct segments.

### Ferrous alloys

Our ferrous segment supplies ferrous alloys to the steel and stainless steel industry locally, regionally and globally. This segment also includes the recycling and resale of ferrous scrap metals.

### Non-ferrous alloys

Our non-ferrous segment supplies non-ferrous alloys to the steel and stainless steel industry locally, regionally and globally and includes the recycling and resale of non-ferrous scrap metals.

### Refractory materials

Our refractory segment specialises in the supply of high quality and highly specialised ceramic refractory linings to the cement, paper and pulp, steel and platinum industries.

### Plastics

Our plastics segment specialises in the blow-moulding and roto moulding of plastic containers for the chemical, agricultural and food industries.

These distinct segments complement each other while providing Insimbi's business model with an inherent diversification which has proved to be resilient and sustainable through various commodity and trading cycles experienced over Insimbi's operational life.

These segments have been created and moulded over the years through business process optimisation, acquisitions and amalgamations.

The purchase of Amalgamated Metals Recycling in 2016 has been a transformative transaction for Insimbi. Not only has it increased our revenue and profits by R2,57 billion and R80 million respectively, it has allowed us to leverage the following:

- Internalisation and therefore minimisation of ZAR/USD foreign exchange exposure within the group;
- Diversified the group further with additional revenue streams and client base;
- Insimbi has entered and become a significant player in the scrap metal recycling space;
- Operational leeway;
- Smelter capacity utilisation will be increased; and
- Backward integration into industry value chain.

The group exposes itself to various risks in this process as a result of the nature of our extended services, being transport, financing and warehousing. These risks are monitored on an ongoing basis and to date we have been able to identify and eliminate or mitigate the risks in advance. Insimbi's philosophy generally has been risk averse and relatively conservative by insisting on back-to-back trades, thereby reducing the speculative activity of warehousing, commodity price risk and foreign exchange fluctuations associated with trade in our range of commodities. Certain LME commodities are hedged, but the majority of our commodities are neither linked to any exchange nor hedged.

Experience has taught us to measure the profitability of a transaction against the costs of removing the risks. In the typical back-to-back trade, we provide a complete financial solution to the transaction and in so doing facilitate the transport, insurance, quality control, financing and hedging of the materials while in transit from the producer to the end user – in addition to our role as a marketing agent. With the tangible shift in the market in respect of the increase in demand from the Chinese and Indian countries, the group reviewed its strategy because it was becoming vitally important to Insimbi to focus on relationships with producers. The focus of the business is now on securing supply of products and diversification of the business.

## STAKEHOLDER RELATIONSHIPS

**Our progress on sustainability commitments**

In a previous annual report, we committed to several targets with regard to integrating sustainability into our business strategy.

Our progress report for 2018 towards those commitments is as follows:

- Our targets for formal engagement forums for each stakeholder grouping have been met and the formation of the two Employee Share Option Schemes ("ESOPs"), both of which are deemed to be 100% black-owned, was concluded in 2016 and has created approximately R18 million worth of value for some 230 permanent employees since inception. This supports management's commitment towards transformation, succession planning and staff retention.
- The marketing teams continue to engage with all our customers on an ongoing basis and the same applies to our procurement team, which strives to enhance the relationship with our suppliers. Engaging with our stakeholders will remain an ongoing organic process.
- BEE and transformation remains a challenge and our focus for the year ended February 2018 was to align our transformation strategy with the revised codes. The board of directors continues to strive towards improving Insimbi's status and rating. Various projects have been initiated which, if successful, will have a positive impact on the group's BEE status in the future. The successful implementation of the two ESOPs underlines the board's commitment to transformation. A number of other initiatives have also been implemented, including a comprehensive learnership programme, a staff bursary scheme for employees and their children (at both secondary and tertiary levels), as well as a focus on skills upliftment and preferential procurement, where possible.
- Insimbi continues to support enterprise development and the initiatives embarked on in prior years are ongoing, including Khomotso Khumo Trading and Projects Proprietary Limited. These projects and initiatives take time and constant monitoring, to achieve our sustainability commitment, and our previous targets; these have therefore been extended into the next financial year.

## MATERIAL ISSUES

In order to make informed decisions and take appropriate action the company and its stakeholders identify the issues material to the sustainability of the business. Stakeholders that could be affected by these issues include employees, shareholders, trade unions, customers, suppliers, the communities in which Insimbi operates and local government.

The following material issues were taken into account in presenting Insimbi's financial and non-financial information. They drive the group's sustainability and have potential to impact on Insimbi and its stakeholders.

| Issue | Stakeholder impacted | Possible impact | Mitigation and response |
|---|---|---|---|
| **Global economic environment** | • Shareholders<br>• Insimbi's management<br>• Employees | • Positive/negative impact on<br>– Demand for products<br>– Rand/Dollar exchange rate<br>– Shareholders as well as stakeholders<br>– Profitability of the group's economic performance | • Whilst we cannot influence the Rand/Dollar exchange rate or the global economy and market demand dictates the price of our products, Insimbi can take action to contain costs and remain as competitive as possible<br>• We hedge foreign currency risk and are substantially internally hedged<br>• We hedge certain commodities such as copper and aluminium |
| **Diversification** | • Shareholders<br>• Insimbi's management<br>• Employees<br>• Customers<br>• Suppliers | • Diversification into commodities and/or the production of commodities and/or new product ranges | • Implementation of the diversification strategy is progressing well with the acquisition over the past few years of Polydrum and, more recently, the Amalgamated Metals Recycling group |

# ORGANISATIONAL OVERVIEW CONTINUED

| Issue | Stakeholder impacted | Possible impact | Mitigation and response |
|---|---|---|---|
| **Empowerment credentials** | • Shareholders<br>• Employees | • Low empowerment ratings could impact negatively on Insimbi's sustainability over time | • Identification of strategies to increase Insimbi's empowerment ratings<br>• 20% of Insimbi's shares are owned by New Seasons Proprietary Limited, an empowerment partner<br>• The two ESOPs, which are deemed to be 100% black-owned, constitute 5,6% of our total shareholding<br>• Increased focus on enterprise development initiatives |
| **Safety, health and wellbeing of Insimbi's employees** | • Employees<br>• Contractors<br>• Health and safety regulator<br>• Trade unions | • Loss of skilled employees<br>• Loss of production impacting on profitability<br>• Negative impact on employee morale<br>• Reputational damage | • The Health, Safety and Environment Committee provides training to create a culture where every employee takes responsibility for their own safety and that of their fellow employees |
| **Industrial action in the mining industry** | • Employees<br>• Trade unions<br>• Shareholders<br>• Community<br>• Suppliers<br>• Customers | • Loss of product supply<br>• Increased costs due to increased demands<br>• Breakdown in business relationships – from supply and source side | • Insimbi has no influence in the mining sector, but is very dependent on the supply chain<br>• Insimbi strives to secure sustainable relationships with its suppliers and customers |
| **Environment** | • Shareholders<br>• Employees<br>• Local municipalities<br>• GDARD | • Delay in issuing of operational licences<br>• Decreased production and profitability | • Insimbi continues to engage with the local and provincial authorities to ensure compliance with all current legislation to ensure sustainable production<br>• Annual renewal of environmental licences to ensure continued operations |
| **Energy price and the availability thereof** | • Shareholders<br>• Management and employees<br>• Customers | • Loss of sales if increased costs make our product prices uncompetitive<br>• Loss of source because of power not being available<br>• Unable to grow market share | • Generators have been installed in all the plants to continue production in times of power failures<br>• 300kWh solar panel installation at Polydrum |
| **Local economic environment** | • Financial institutions<br>• Suppliers<br>• Customer | • Liquidity: Cash tied up in stock<br>• Credit: A contracting entity defaults, resulting in a financial loss<br>• Downgrade of South Africa's sovereign ratings | • Insimbi manages the liquidity position of the group to ensure sufficient funds are available to meet financial commitments in a timely and cost-effective manner<br>• We monitor customer credit compliance, obtain external credit ratings and reports and in certain instances have credit insurance |

## CAPITALS MODEL

A brief outline of the capitals model (natural, human, social, manufactured, financial and intellectual capital) is included below. The sustainability of all aspects of the model has been considered.

## NATURAL CAPITAL

Natural capital includes the natural resources and processes needed by Insimbi to produce its products.

This includes renewable (such as water) and non-renewable (fossil fuels, minerals and metals) resources and processes such as energy consumption, waste creation, emissions, etc. Without access to the natural capital, Insimbi could not operate.

Insimbi maintains and enhances natural capital by:

- Reducing our dependence on fossil fuel;
- Eliminating waste by reusing or recycling wherever possible;
- Protecting biodiversity and eco-systems;
- Wherever possible using renewable resources for well managed and restorative eco-systems; and
- Managing resources and reserves efficiently.

## HUMAN CAPITAL

Human capital includes health, safety knowledge, skills, intellectual outputs, motivation and the capacity for relationships of individuals.

Organisations depend on individuals to function. They need a healthy, motivated and skilled workforce. Intellectual capital and knowledge management is also recognised as a key intangible creator of wealth. Damaging human capital by abuse of human rights or labour rights or compromising health and safety has direct, as well as reputational costs.

### Training and development

During the financial year under review, Insimbi continued to offer financial assistance to staff members to further their career and personal development plans. The various studies have included an Executive MBA, Bachelors of Business Administration in Marketing Management, Advanced Diploma in Accounting Science, Chartered Secretary, Technical Financial Accounting, Certificate in Bookkeeping, Certificate in Office Administration, BSc Software, Engineering and a Masters in Metallurgical Engineering. A number of staff members were promoted following successful development supported by the company.

An amount of R245 353 was allocated for approved skills development tertiary funding for employee dependents and R329 481 to assist staff members financially with their children's educational cost. Insimbi in its relentless commitment to help reduce the unemployment rate and to assist the unemployed to enter the job market has also budgeted towards learnerships for unemployed individuals during 2018 academic year.

## SOCIAL AND RELATIONSHIP CAPITAL

Social capital is any value added to the activities and economic outputs of an organisation by human relationships, partnerships and cooperation. Organisations rely on social relationships and interactions to achieve their objectives. Externally, social structures help create a climate of consent or a licence to operate, in which trade and the wider functions of society are possible. Organisations also rely on wider socio-political structures to create a stable society in which to operate, e.g. government and public services, effective legal systems, trade unions and other organisations.

To enhance social capital we:

- Contribute to open, transparent and fair governance;
- Source material ethically, treat suppliers, customers and citizens fairly;
- Respect and comply with all governing legislation;
- Invest in social infrastructure;
- Provide communication; and
- Minimise any negative social impacts of our operations and maximise the positive impacts.

**Current permanent employee profile at the Insimbi group of companies (February 2018):**

| Occupational level | Group | Gender | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | White | | African | | Indian | | Coloured | | Foreign nationals | | Total |
| Level | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female | |
| Top management | 9 | 2 | 2 | 2 | – | – | 2 | – | – | – | **17** |
| Senior management | 8 | 3 | 2 | – | – | 1 | – | 1 | – | – | **15** |
| Middle management | 13 | 12 | 5 | 2 | 1 | 1 | 5 | – | 3 | – | **42** |
| Junior management | 17 | 25 | 40 | 19 | 1 | 2 | 6 | 4 | | – | **114** |
| Semi-skilled | 24 | 7 | 31 | 9 | – | – | 2 | – | 1 | – | **74** |
| Unskilled | – | – | – | 6 | – | – | – | – | – | – | **6** |
| **Grand total** | **71** | **49** | **80** | **38** | **2** | **4** | **15** | **5** | **4** | **–** | **268** |

# ORGANISATIONAL OVERVIEW CONTINUED

**Socio-economic development**

Insimbi remains committed to corporate social investment but, unfortunately, has been faced with a number of challenges in making tangible advances in this area in the past year.

Difficulty in identifying an appropriate cause and/or project in the areas where we are represented has resulted in the group continuing to support a number of worthy organisations unrelated to our trading activities.

Socio-economic development has been overseen by the Social and Ethics Committee which has been tasked with focusing on identifying reputable organisations in which the company could invest and which are aligned with the group's transformation initiatives.

## MANUFACTURED CAPITAL

Manufactured capital in the trading context relates to the trading process and how it is conducted and the commodities which are being sourced and delivered to local and international customers.

Manufactured capital is important to an organisation's sustainability because its efficient application allows an organisation to be flexible and innovative and increases the speed at which it delivers.

We enhance our manufactured capital by:

- Employing our infrastructure, technologies and processes to use our resources most efficiently; and
- Devising technology and management systems that reduce our waste emissions.

## FINANCIAL CAPITAL

Financial capital makes it possible for the other types of capital to be owned and traded and is representative of how successful the company has been at achieving the sustainable development of its natural, human, social or manufactured capital.

Sustainable organisations need a clear understanding of how financial value is created, in particular the dependence on other forms of capital. We enhance our financial capital by:

- Effective management of risk;
- Corporate governance structures;
- Assessing the wider economic impacts of our activities on society; and
- Constantly reviewing our processes and procedures to identify areas for possible improvement.

## INTELLECTUAL CAPITAL

Insimbi's intellectual property is protected through employment contracts and confidentiality agreements and/or licence agreements with external parties. These agreements establish ownership of and rights to trademarks, copyright, trade secrets, innovations and inventions resulting from any dealings with the company. Where the company has identified potential infringements, it will not hesitate to take steps (including instituting legal proceedings) to protect its interests.

*"AMR not only contributes revenue and profit but allows the foundation business to cross-pollinate products and exploit mutual financial benefits."*

***"Here's** to the crazy ones. The misfits. The rebels. The troublemakers. The round pegs in the square holes. The ones who see things differently. They're not fond of rules. And they have no respect for the status quo. You can quote them, disagree with them, glorify or vilify them. About the only thing you can't do is ignore them. Because they change things. They push the human race forward. And while some may see them as the crazy ones, we see genius. Because the people who are crazy enough to think they can change the world, are the ones who do."* *– Rob Siltanen*

As this is my inaugural Chairman's report it is incumbent on me to thank the previous Chairman for his service to the company. Insimbi has been listed for ten years this year. We listed at a time when the future of the world economy was uncertain. Lehmans had just collapsed and the notion of government assistance and quantitative easing was the norm in first world developed economies. Insimbi listed on 15 March 2008. It seems such a long time ago. So much has changed globally and domestically. So much has changed in Insimbi. We are not the business that listed ten years ago.

***Our foundation business is exactly that – our foundation. It has a loyal team who look after and service a loyal customer base that continues to contribute to our top and bottom line.***

Without it we would not have been in a position to list or take advantage of the opportunities that have presented themselves to diversify and grow Insimbi as a business. We acquired Polydrum, now known as Insimbi Plastics, Future Alloys known as Insimbi Aluminium Alloys, Metlite Alloys and Amalgamated Metals Recyclers ("AMR"). AMR has been a game-changing transaction for our business. It not only contributes revenue and profit but allows the foundation business to cross-pollinate products and exploit mutual financial benefits. The integration of these businesses into Insimbi has been seamless. In fact, when we went to the market to raise the funding to acquire AMR, we forecast revenue and profit for the company. I am able to say with pride that we were able to either meet and/or exceed those numbers. This says a lot about the management teams at both Insimbi and AMR.

Insimbi is an above-the-ground miner and distributor of commodities.

# CHAIRMAN'S REPORT CONTINUED

We are in the process of diversifying our revenue stream, our geographic spread and our client base, all the while continuously improving our service and delivery infrastructure.

***We are constantly reviewing opportunities and the industrial and agricultural chemicals sector is of particular interest as it complements our product range to our existing client base.***

## ECONOMY AND OPERATING ENVIRONMENT

The South African economy, which grew by an estimated 0,5% in 2016, was expected to grow by 1,3% in 2017 and 2% in 2018 as economic conditions strengthen. The global economic growth outlook has improved, but is clouded by policy uncertainty as the world trading system comes under mounting pressure. Government continues to work with business and labour to rebuild confidence, promote investment and improve prospects for more inclusive growth. South Africa needs broad-based economic transformation that creates jobs and business opportunities for black South Africans, reduces inequality and boosts income growth for all citizens.

Despite an uptick in the value of the Rand compared to the US Dollar, South Africa's economic outlook is still uncertain and economic experts say investment will only marginally rise by 1,3%, with the inflation outlook which was expected to worsen by the end of the year amid a muddy economic policy framework that had hindered progress.

Data showed foreign direct investment inflows into South Africa rebounding by 43% in 2017 to USD3,2 billion, but this growth trajectory is unlikely to be carried over into 2018, with consensus forecasts projecting a paltry growth outlook.

South African steel production rose by 2,6% in 2017 to an estimated 6,301 million tonnes after falling by 4,2% in 2016, according to the World Steel Association.

This compared with a 5,3% rise in global steel production to 1,6912 billion tonnes. Crude steel production increased in all regions in 2017 except in the Commonwealth of Independent States, where it was stable.

The largest producer was China, which ramped up production by 5,7% to 831,7 million tonnes. It raised its share of global production to 49,2% in 2017 from 49% in 2016. In some months of 2017 its share exceeded 50%.

Economic growth is projected to pick up moderately in 2018-19, as stronger activity in trading partners boosts exports. Investment will support growth in 2019 on the assumption that business confidence increases and policy uncertainty fades. Despite persistently high unemployment, private consumption will expand as wages increase moderately and food prices stabilise.

Falling inflation leaves room for a moderately expansionary monetary policy to support activity. Unexpected slippage of the budget deficit is contributing to growth in the short term, but is also creating more pressure to contain rising public debt and is raising the risk of a further credit downgrade. Improving the efficiency of public spending and better controlling the deficits of state-owned enterprises are necessary to raise fiscal credibility and create room for public investment to foster growth and reduce social inequality.

The high dependence on external financing is the main source of financial vulnerability. Low investor confidence and credit rating downgrades in 2017 have contributed to a net outflow of foreign investment. To cushion the transmission of external shocks to the financial system, implementation of the financial sector regulatory reform should be accelerated and foreign currency-denominated debt issued by private entities further monitored.

The negative economic and political climate has been replaced with some green shoots with the appointment of Cyril Ramaphosa as president of both the ANC and the country. He has worked to stabilise business confidence, which had been ripped apart by the Zuma administration and which had South Africa on the brink of being downgraded to junk status for inward investments.

The Rand is regarded as a safe-haven emerging-market currency, which has been a double-edged sword for Insimbi. As the Rand has strengthened the effect on our business has been considerable; although we should take comfort in the fact that our revenue and profit figures are still gratifying, the impact of foreign exchange volatility that is outside of our control does influence the ultimate profitability of Insimbi.

***We are cautiously optimistic that foreign exchange will impact on our business much less in the future due to the ability to internalise the impact.***

## THE BOARD

The board has had a number of changes, including the departure of the Chairman. I was appointed as Chairman on 8 December 2017 with Brian Craig stepping down from the board. This obviously has an impact on the composition of the committees and the Company Secretary and the board acknowledge the challenge and are making the necessary changes to align the board composition with King IV. André de Wet also joined Insimbi on 16 October 2017 as Chief Financial Officer and as such joined the board as an executive director. We wish him well and look forward to a long association with Insimbi.

**ACKNOWLEDGEMENTS**

I would like to acknowledge and thank the Insimbi team; without them we would not be able to do what we do. I would especially like to thank Fred Botha, our CEO, who has been in office now for approximately a year. He continues to drive the Insimbi strategy forward and I certainly anticipate another successful year for Insimbi.

**Robert Dickerson**
Chairman
29 May 2018

# CHIEF EXECUTIVE OFFICER'S REPORT

> "This highlights our ability to discover, review, assess and execute on opportunities that may be value accretive to our business."

***Insimbi** is the Zulu word for metal and is taken from the saying "Insimbi Kayigobi". In this context, Insimbi is seen to be strong and able to withstand the hardships of nature and, in turn, the pressures of life.*

This personifies the Insimbi business. Resilient and strong yet malleable and flexible to adjust to the economy and environment in which we operate. This is my first CEO report since being appointed. It is an honour and a privilege to have been appointed as the CEO of this fantastic company. In the time that I have been CEO, we have accomplished an enormous amount. Most significantly, we seamlessly completed and integrated the acquisition of the Amalgamated Metals Recycling ("AMR") group acquired in December 2016 into our business and the management teams across all the businesses are working well together. AMR makes a significant contribution to our revenue and profit and has given us the ability to further diversify the Insimbi business and mould it into a larger industrial player in South Africa and regionally.

***Insimbi has a had a respectable year, reaching revenue of R3,5 billion in the year under review with gross profit of R345 million, a margin of 9,9%. AMR delivered significantly more revenue than forecast, contributing 73% of the overall turnover of the group, 56% of the gross profit and 72% of the operating profit.***

Clearly a very important business for the future of Insimbi. This incredible contribution to the group would not have been achieved without the support of the rest of the group. The core Insimbi business continues to provide the group with an underpin and foundation which I often refer to as our "annuity" income and profit; but it remains challenging to improve and meaningfully grow this business. I know that we have a well-managed and efficient business at the core and this is backed by the support and loyalty of our customer base. We are able to offer a wider product offering to these clients because the Insimbi products and services are well priced and delivered with a service orientation. The group has been able to cross-pollinate products and services across all the businesses.

The second half of the financial year saw an increase in turnover, albeit with margins under pressure, and there were a number of once-off costs that the group had to bear. The consolidated margin declined by almost 2% in the second half of the year. This was attributable to the traditional downward pressure on commodity prices as the global economy slowed down for the festive season, as well as the effect of the Chinese New Year, which impacts significantly on copper and aluminium prices. However, the main impact on our margins in the last financial quarter, was the sudden and dramatic strengthening of the ZAR against major currencies mid December 2017 as a result of the "Ramaphosa effect". Executive remuneration increased due to

the appointment of a new chief financial officer and there was an increase in board fees paid for the year. Costs relating to a potential transaction were incurred in the second half of the year amounting to approximately R2,5 million. The foundation Insimbi business was impacted by the decrease in steel prices and a decline in anticipated infrastructure spend. The interest paid for the second half of the year is down by 20% compared to the first half of the year due to appropriate cash management and our ability to consistently pay down debt.

***I think it is apt to highlight some of the successes experienced over the past year. Specifically I would like to highlight the acquisition and subsequent integration of AMR into the Insimbi group. When we embarked on the strategic acquisition we went to the capital markets to raise funding. In doing so we forecast revenue of R2 billion and profit of R44 million.***

We achieved these forecasts and then some. This highlights our ability to discover, review, assess and execute on opportunities that may be value accretive to our business. This ability allows us to deliver on the strategy to create a diversified industrial business with markets domestically and internationally.

## SEGMENTAL OVERVIEW

### Ferrous

This segment supplies mainly the steel, stainless steel and foundry industries with raw material requirements. The segment includes the supply of various recycled ferrous metals through AMR and as a result of the acquisition of AMR experienced a more than doubling of our revenue due to much higher volumes albeit at lower margins.

### Non-ferrous

Non-ferrous consists of the divisions in the group that also service the steel, stainless steel, foundry and non-ferrous industry including the automotive and heavy aluminium industry and the powder coating industry, but with a specific focus on non-ferrous metals including copper, stainless steel and aluminium. The impact of AMR is clearly evident in this segment. This is the largest segment in the group and accounts for a large portion of the revenue and profit from AMR. With revenue of approximately R2,9 billion, more than 2,5 times the revenue from 2017, and EBITDA of R97 million, this segment validates the acquisition of AMR and its contribution to the Insimbi group. We have also managed to strengthen our relationships with many clients who are able to take advantage of our increased basket of products.

### Refractory

This segment comprises the divisions that service the steel, platinum, paper and pulp, and cement industry's refractory requirements as well as the supply of industrial heat resistant textiles. From a revenue perspective this segment experienced a relatively flat year although we were able to extract efficiencies and ended the year with marginally better profit.

### Plastics

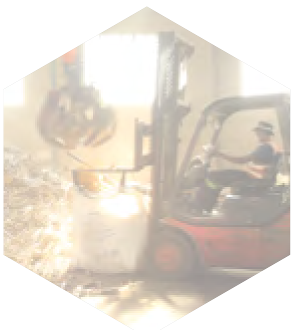
Plastics incorporates the business that manufactures product for the plastic packaging industry. Customers are from the chemical, agricultural and food industries amongst others.

# CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

We undertook to expand the plastics business and in so doing utilise our facilities in the Western Cape and KwaZulu-Natal. The expansion, whilst necessary, has taken longer and cost more than expected to complete. The management of the segment is working tirelessly to complete the integration and ensure that the plastics segment is able to create new products and service new markets in the regions in which they operate.

Lastly I would like to extend my gratitude to all our stakeholders, including our shareholders, our customers, our suppliers and most importantly the Insimbi family without all of whom we would not have achieved everything that we needed to achieve. I would also like to thank my Exco and board members for their unwavering support since I have taken over as CEO and I hope we are able to build on our relationships going forward.

**Frederick Botha**
Chief Executive Officer
Johannesburg
29 May 2018



# CHIEF FINANCIAL OFFICER'S REPORT


***"AMR has integrated seamlessly into the Insimbi fold contributing 73% to turnover bolstered by a spike in commodity prices and the Rand/US Dollar exchange rates in the first three quarters of the year."***

## OVERVIEW

It is a pleasure to present my first report as CFO of the Insimbi group. I am fortunate to continue with a competent finance team who had been groomed by my predecessor, Fred Botha.

***The very satisfactory results may be ascribed to the inclusion of Amalgamated Metals Recycling ("AMR") for a full twelve-month period since the acquisition in December 2016.***

AMR has integrated seamlessly into the Insimbi fold contributing 73% to turnover bolstered by a spike in commodity prices and the Rand/US Dollar exchange rates in the first three quarters of the year.

The "foundation" business of Insimbi, however, experienced a challenging year in the steel industry with local raw material supply having to be replaced by imports in a weak Rand/US Dollar exchange rate environment and requiring settlement in advance or on delivery. The local steel industry was also under pressure from cheaper import of finished product from the east and subdued spend on infrastructure and a sluggish economy.

The aluminium smelter business has seen a healthy 20,6% growth in turnover whilst the plastics turnover grew by 29,6%. The plastics business expanded into the Western Cape and KwaZulu-Natal; however, it incurred some once-off setup costs.

## REVENUE

Revenue increased 160% from R1,3 billion to R3,5 billion. Despite lower margins from the recycling business gross profit increased from R185,8 million to R345,4 million. The margins were depressed in the fourth quarter by a sharp decrease in the prices of affected commodities combined with a sudden and dramatic strengthening of the ZAR against other major currencies and so despite a comparable trading period in the second half of the year, lower margins impacted on the second half of the year's profitability.

## OPERATING PROFIT AND COSTS

Operating profit rose 135% from R54,4 million to R127,8 million, which reflects the impact of lower margins in the metal recycling business relative to the revenue growth. Operating expenses grew by 63,5% from R132,7 million to R216,8 million as a result of the lower cost base of the recycling operation. Employee costs constitutes 51,2% (2017: 53,9%) of operating expenses and management is constantly reviewing this metric to ensure our ability to optimally deliver product to our clients.

# CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

## FINANCE COSTS

Finance costs increased in line with expectations as a result of senior debt funding for the acquisition of AMR in 2016. The group optimises finance costs through an internal treasury function.

## PROPERTY, PLANT AND EQUIPMENT

The land and buildings were revalued by an independent professional valuer at year-end, resulting in an upward adjustment of R31,7 million. Other fixed asset additions amounted to R20,4 million, which was mainly to the vehicle fleet.

## GOODWILL

The Johannesburg Stock Exchange informed us through the proactive monitoring of annual reports that we had not recorded the shares issued, according to IFRS, in respect of the AMR transaction at the correct value. We recorded the shares issued to the vendors at the same value as the shares issued into the market for the cash element of the transaction. The share price however increased by the time the transaction had been concluded. As a results the goodwill figure has been increased by R6,0 million and the note restated. This has no impact on the statement of profit or loss. Notes 34 and 38 provide full details.

## DEBTOR MANAGEMENT

Sound credit control is exercised over all receivables. Trade receivables increased 6,45% from R275,8 million to R293,6 million against an increase in turnover of 160%. An impairment provision of only 1,3% (2017: 1,6%) was required.

## CASH FLOW AND GEARING

Cash generated from operations of R164,4 million (2017: R88,9 million) allowed for the repayment of financial liabilities of R69,8 million and the group generated total cash at the end of the year of R24,5 million (2017: R8,7 million utilised). The debt to equity ratio improved to 55% from 91% in the prior year.

## OUTLOOK

Whilst we are looking forward to the positive impact on the local economy of the interventions by government in attracting foreign investment, we expect trading conditions to remain challenging in the coming year. We will continue to monitor operating expenses and ensure we are able to maximise efficiencies and scale where appropriate. The diversification which the group has implemented over recent years combined with hard work and cost optimisation should ensure another successful financial outcome for 2019.

**André de Wet**
Chief Financial Officer
Johannesburg
29 May 2018

# EXECUTIVE DIRECTORS

## FREDERICK BOTHA (54)

**Chief Executive Officer: Insimbi group**

Member of the Executive Committee, Member of the Remuneration and Nominations and Investment committees

*BCom (UCT), BCompt (Hons) (UNISA), Chartered Accountant (South Africa)*

Fred completed his articles with Coopers & Lybrand (now PricewaterhouseCoopers). Fred's experience includes both financial and operational positions in South Africa, Malawi and Zambia. He joined Insimbi in 2002 and was appointed Financial Director in April 2014. Fred was appointed Chief Executive Officer of the group with effect from 1 June 2017 and has assumed executive responsibility for the group. He is also integrally involved in vetting of investment opportunities, due diligences and making proposals to the board regarding acquisitions which meet the company's investment strategy criteria.

CHIEF EXECUTIVE OFFICER: INSIMBI GROUP

## CHRISTIAAN COOMBS (44)

**Chief Executive Officer: Amalgamated Metals Recycling group**

Member of the Executive Committee

Over the past 20 years, Chris has gained experience in the scrap metal trading industry with a focus on international commodity trading. He is a co-founder of the Amalgamated Metals Recycling group ("AMR"), which was established in 2002. He also serves on the board of the industry body, Metal Recyclers Association of South Africa.

He will focus on growing the AMR business as part of the larger Insimbi group.

Chris joined the board on 16 January 2017.

CHIEF EXECUTIVE OFFICER: AMR

## ANDRÉ DE WET (64)

**Chief Financial Officer**

Member of the Executive Committee and the Investment Committee

*BCom (UWC), CTA (UWC), Chartered Accountant (South Africa)*

André completed his articles with Ernst & Young including a two-year secondment to the Liverpool, United Kingdom office. He has operated in senior finance executive positions in both the public and private sectors. He served as Chief Financial Officer at the University of the Western Cape and the University of the Witwatersrand. He also has experience in the property development, construction and project management industry which included joint ventures with Murray and Roberts and Group 5.

André was appointed to this position on 16 October 2017.

CHIEF FINANCIAL OFFICER

# NON-EXECUTIVE DIRECTORS


## ROBERT IAN DICKERSON (65)

**Chairman of the board, Independent Non-executive Director**

Chairman of the Nominations and the Investment committees,
Member of the Audit and Risk Committee

*BCom (UNISA)*

Robert is a seasoned businessman with experience spanning some 40 years. He is the founder of Dickerson Investments Proprietary Limited and is the former Chief Executive Officer and Group Chairman of the Fidelity Services Group. He has previously held senior financial, sales and marketing, and CEO positions at the Chubb group of companies. He is currently a non-executive director of the Fidelity Security Group as well as a non-executive director of a number of other non-listed companies, including New Seasons Investment Holdings. Robert joined the Insimbi board on 16 January 2017.

Robert was appointed as Chairman of the board in December 2017.


## INGIPHILE PAMELA MOGOTLANE (50)

**Non-executive Director**

Chairperson of the Social and Ethics Committee, Member of the Audit and Risk Committee

*BCom (University of Johannesburg)*

Pamela has experience in the financial industry spanning some 15 years. She began her career as a junior accountant at Fabcos Investment Holdings before moving on to a leading travel agency as Finance Manager. Pamela is the Finance Director for New Seasons Investment Holdings, a black-owned investment company, and serves on the boards and committees of numerous companies within the New Seasons portfolio of investments. She joined the board of Insimbi on 9 June 2016.


## NELSON MWALE (57)

**Non-executive Director**

Chairman of Remuneration Committee, Member of the Nominations and Investment committees

*HDip (Mech Eng) (Technikon Witwatersrand), Diploma in Management (Henley), Management Advancement Programme (Wits Business School), MBA (Brunel, UK)*

Nelson's experience over more than 30 years has been varied and includes both manufacturing and, more recently, general management positions. He was a project engineer at Barlows Earthmoving Equipment Company, a technical engineer at Dorbyl Structures and a packaging manager (and general project manager) at South African Breweries.

Nelson is the former operations director and a shareholder of Namitech, the secure technology and solutions provider to key market focus areas. Nelson has vast experience in the West and East African markets and was instrumental in setting up the Namitech West Africa operation in Nigeria. He is the Chief Operating Officer of New Seasons Investment Holdings and serves on the boards and committees of numerous companies within the New Seasons investment portfolio.

# NON-EXECUTIVE DIRECTORS CONTINUED

INDEPENDENT NON-EXECUTIVE DIRECTOR

**CLEOPATRA SALAPHI NTSHINGILA (53)**

**Independent Non-executive Director**

**Chairperson of the Audit and Risk Committee, member of the Social and Ethics and Remuneration and Nominations committees**

*BA (Law) LLB (University of Swaziland), H Dip Tax (Wits)*

Cleopatra studied Intermodal Logistics, brokering and chartering, as well as port and terminal operations at the Global Maritime school in New York and has completed a number of leadership development courses, including Advanced Strategic Management (IMD, Switzerland), Advanced Project Finance (Institute of Euromoney, London) and Advanced Leadership Development Programme (GIBS).

Cleopatra is currently General Manager to the Office of the Chief Executive of Transnet Freight Rail. She has served on several legal committees, as well as acting as General Counsel on the Executive Board of the Union of African Railways and as the African Region representative that advised the Executive Board of the International Association of Railways in Paris. Her experience includes positions as non-executive director and/or chairperson of various listed and unlisted companies and board committees. She was appointed to the board of Insimbi on 7 July 2015.

# PRESCRIBED OFFICERS

CHIEF EXECUTIVE OFFICER: POLYDRUM

**BRIAN CHRISTOPHER FETTING (57)**

**Chief Executive Officer: Polydrum**

**Member of the Executive Committee**

Brian has spent 24 years working in the plastics blow-moulding industry, and has experience in both production and managerial capacity within the plastic blow moulding industry.

He was previously Managing Director of Forma Packaging, and joined Polydrum in 2016 when Insimbi acquired Polydrum.

He was appointed the Chief Executive Officer of Polydrum on 1 June 2017.

CHIEF EXECUTIVE OFFICER: INSIMBI ALUMINIUM ALLOYS AND METLITE ALLOYS

**SHAUN GREEN (38)**

**Chief Executive Officer: Insimbi Aluminium Alloys and Metlite Alloys, Member of the Executive Committee**

*BTech Engineering: Metallurgy (University of Johannesburg), Management Advancement Programme from Wits Graduate School of Business Management*

Since completing his Metallurgy qualification, Shaun has spent 15 years working in the foundry and steel industries in both a technical and managerial capacity.

He has completed the Management Advancement Programme offered by Wits Graduate School of Business and is currently studying towards an MBA. He joined Insimbi in 2011.

Appointed Chief Executive Officer of Insimbi Aluminium Alloys and Metlite Alloys on 1 June 2017.

# PRESCRIBED OFFICERS CONTINUED


**EDUARD PHILIP LIECHTI (56)**

**Chief Executive Officer: Insimbi Alloy Supplies**

Member of the Executive Committee

*National Diploma in Metallurgical Engineering (Wits Technikon)*

Prior to joining Insimbi in 1988, Eddie worked as a trainee metallurgist at Haggie Rand Germiston. Over the past 28 years he has gained extensive knowledge of Insimbi's product range and has worked in and sold products to the foundry, non-ferrous, refractory and steel industries.

Appointed Chief Executive Officer of Insimbi Alloy Supplies on 1 June 2017.

# COMPANY SECRETARY


**THAPELO NEVILLE KGARI (49)**

**Company Secretary**

*BA (Law) (Vista - UJ), LLB (Randse Afrikaanse Universiteit RAU - UJ)*

Thapelo has been appointed as the Company Secretary of Insimbi Group with effect from 1 April 2018.

He is an admitted attorney, previously employed in the role of company secretary by Land Bank, Industrial Development Corporation, Legal Aid South Africa and MTN, and has more than 12 years' experience in that role.

# CORPORATE GOVERNANCE

*The board is responsible for ensuring that principles of good governance permeate the organisation so that operations are conducted in an efficient, ethical and sustainable manner.*

## INTRODUCTION

The board as the governing body of Insimbi Refractory and Alloy Supplies Limited ("Insimbi" or the "company") is the focal point and custodian of corporate governance within the company and acknowledges its responsibility for ensuring that the principles of good governance are observed and incorporated into the operational management of the Insimbi group. The primary role of the board is to ensure that the Insimbi group creates value for all our stakeholders. The directors, individually and collectively, acknowledge their responsibilities in terms of the JSE Listings Requirements ("Listings Requirements"). The board acknowledge its accountability for Insimbi's strategy and oversight of the company.

The board is furthermore responsible for ensuring that principles of good governance permeate the organisation so that operations are conducted in an efficient, ethical and sustainable manner. Principles and policies of good governance are continuously assessed against the King Report on Corporate Governance, 2016 ("King IV") and corporate governance best practice amendments are made as and when appropriate.

Insimbi adopted King IV and complies with most of the principles and, where not fully compliant, strategies and plans are in place to ensure that the principles are upheld. Insimbi will update its analysis of compliance with King IV during the 2019 financial year. The assessment of the application of King IV was performed and the Insimbi King IV application register is available on the company's website at www.insimbi-iras.co.za.

## CORPORATE GOVERNANCE

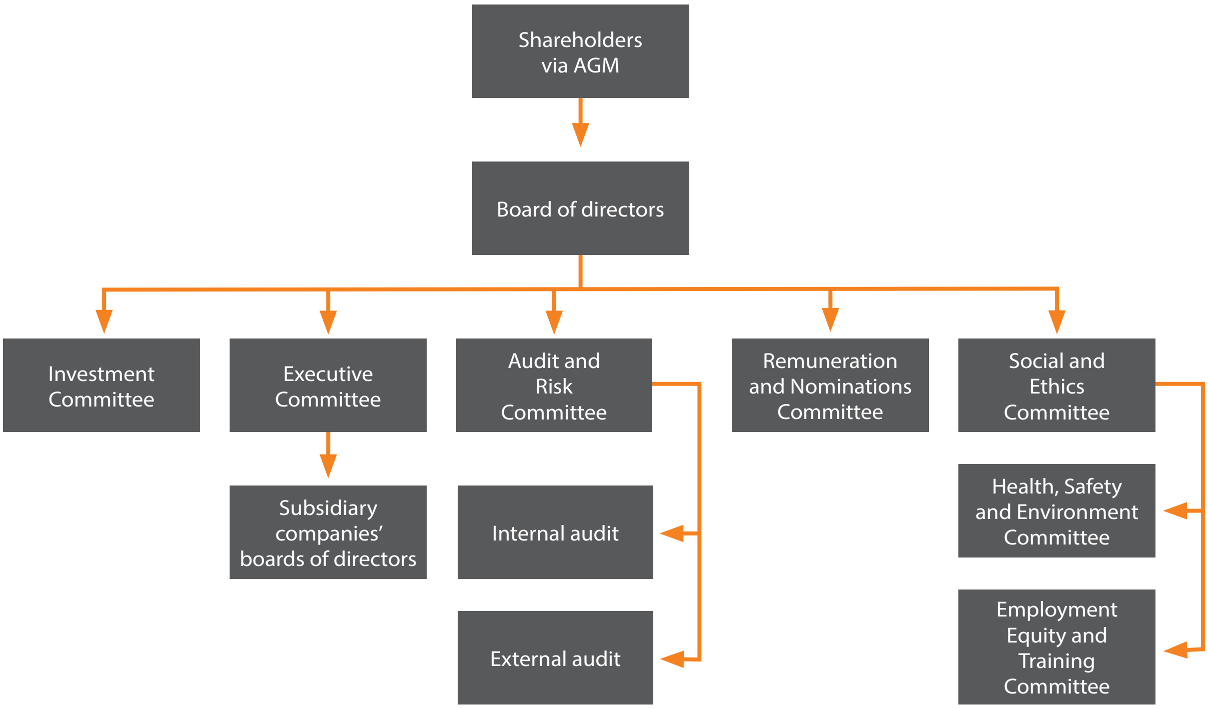
The company has taken reasonable measures to apply King IV during the year under review. Focus has been placed on areas in which the application of the King IV principles may be improved, such as governance of ethics, responsible corporate citizenship, risk management, integrated reporting structure and processes and compliance. The application of King IV principles may impact on the operations of the group's business. This may necessitate changes to its corporate governance structures and framework, which will require further review and, insofar as required, adjustment in the new financial year.

## ETHICAL CODES AND VALUES

An ethical culture and instilling ethics is key to the board. To that end Insimbi's commitment to ethical practices is paramount and permeates all aspects of the business. The group has a clear set of values and behavioural code of conduct which requires staff to display integrity, mutual respect and openness at all times, and affords them the right and obligation to challenge others who are not adhering to these values.

A report from the Social and Ethics Committee appears on page 36 of this report. The committee is responsible for reviewing and updating the group's documented policies and practices to enhance and promote ethical conduct and good corporate citizenship.

# CORPORATE GOVERNANCE CONTINUED




## GOVERNANCE STRUCTURE

Insimbi has a unitary board structure which oversees the management and control structures tasked with conducting business throughout the organisation. The board retains full and effective control over the group, and monitors the implementation of plans and strategies by management. The board discharges some of its responsibilities directly and delegates certain other responsibilities to its committees to assist it in carrying out its function of ensuring independent oversight. The board also delegates authority for the operational management of the group's business to the (Group) Chief Executive Officer for further delegation by him in respect of matters that are necessary for the effective day-to-day running and management of the business.

The board holds the (Group) Chief Executive Officer and the Executive Committee responsible for the effective control of the group's operational activities, acting as a decision-making body and facilitating communication and coordination between the various business units, companies and the board.

## BOARD OF DIRECTORS

**Board composition**

The board made some changes to its composition as follows:

- Mr B Craig joined the board as an independent non-executive director with effect from 1 August 2016 and resigned as the Chairman on 8 December 2017 and as a member of the board of directors on 15 December 2017;
- Mr RI Dickerson was appointed as Chairman of the board with effect from 8 December 2017; and
- Mr A de Wet was appointed as an executive director of the board with effect from 16 October 2017.

At year-end, the board comprised four non-executive directors, two of whom were regarded as independent in terms of King IV's requirements, and three executive directors. Details of the directors with brief *curricula vitae* can be found on page 25.

Plans to restructure the board are currently underway and the imbalance will be addressed as part of the process to ensure the appointment of non-executive directors to balance both gender and race.

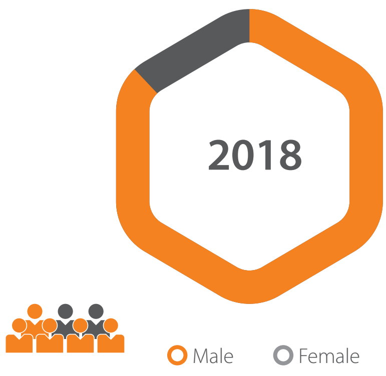
**Diversity**

To benefit from a wider range of skills, expertise and perspective in line with King IV principles the directors are drawn from a variety of sectors. Diversity is acknowledged as an essential ingredient in board composition and its effective functioning. The board therefore remains committed to appointing members with different skills from diverse backgrounds and groups, which will also include greater female representation to instil gender equity. The board will continuously maintain an appropriate balance of knowledge, skills, experience and expertise in years to come.

The board supports and upholds gender diversity and has set a specific target for nominations on this basis. The board

### Board transformation


### Board gender diversity




is committed to improving gender diversity and efforts are in place towards this goal to ensure the representation of females at board level during the proposed board restructure. The board has set itself a target of achieving a balance of male and female members and has committed to appoint additional female members. At year-end, the board consists of seven members: two black females, two black males and three white males. The transformation and gender diversity aspects of board appointments would continue to be monitored, *inter alia*, by the Social and Ethics Committee, which will make recommendations to the board regarding changes as and when required.

**Chair of the board**

In line with best practice, the roles of chair and CEO are separate, each with clearly defined responsibilities. Mr B Craig was appointed as Chairman on 16 January 2017 and resigned on 8 December 2017 and was replaced by Mr Dickerson as Chairman to ensure seamless continuity of the board. Mr Dickerson is an independent non-executive director.

**Independence and performance**

The board reviews the independence of directors on an ongoing basis and remains satisfied that they all demonstrate sound, independent judgement and mind. The board is satisfied that, other than as disclosed, there are no relationships or circumstances likely to affect their independence or judgement. The board maintains its independence in discharging its governance role and responsibilities in an objective and effective manner.

Assessments of the performance of the board collectively and the directors individually are conducted on an ongoing basis; the Chairman has addressed the board members on expectations, and a formal assessment will be scheduled during the 2019 financial year.

**Appointments to the board**

The board, assisted by the Remuneration and Nominations Committee, is responsible for the appointment of new directors. The Remuneration and Nominations Committee evaluates potential candidates and submits nominations to the board.

Newly appointed directors go through an induction process to introduce them to the business of the company. The board is encouraged to update members' knowledge through continuous director development initiatives and enable them to acquire skills by attendance at courses and discussions on relevant matters. Where the board requires expert advice and guidance on specific issues, specialists are requested to present to the board and provide clarity.

In accordance with the Companies Act 71 of 2008 ("Companies Act") and the recommendations of King IV (Report on Corporate Governance), one third of the non-executive directors retire annually by rotation, and any director appointed during the year is subject to re-election at the first annual general meeting held after their initial appointment.

The executive directors and prescribed officers have standard employment contracts requiring no more than three months' notice on termination.

**Board responsibilities**

The board is accountable for the company's matters. The board is responsible for the oversight of the company's performance and affairs, which includes protecting and enhancing the company's wealth and resources and creation of value for stakeholders, timely and transparent reporting and acting at all times in the best interest of the company bearing in mind its responsibilities to its stakeholders. In fulfilling this responsibility, the board sets strategic direction and priorities and oversees the strategy, acquisition and investment policy, risk management, financing and corporate governance policies of the company.

# CORPORATE GOVERNANCE CONTINUED

The board considers the extent, if any, of the director's interest in the business in terms of direct or indirect shareholding and/or any interests in contracts with the company. Where practicable to do so, the board assesses the materiality of the director's interest, but considers holdings of less than 5% as immaterial.

The board reserves specific powers for itself, delegating other matters with the necessary authority to management and board committees.

The board has established a number of statutory and other committees to assist in fulfilling its duties and responsibilities more effectively, which are identified in the governance framework on page 30 of this report.

The board seeks to identify the group's key risk areas and key performance indicators and updates and reviews them regularly. Full and timely information is supplied to the board and committee members and they have unrestricted access to all company information, records, documents and property.

The board oversight role is ensured through quarterly board and committee meetings held in line with the terms of reference and annual plans. An annual board strategy review session was held in 2017. Where strategic issues arise, additional meetings are held.

**Attendance at board and committee meetings:**

| | Board | Audit and Risk | Rem Com# | Social and Ethics | Invest-ment |
|---|---|---|---|---|---|
| CF Botha | 2* | n/a | n/a | n/a | 1* |
| F Botha [1] | 4 | 3* | 2* | 2 | 4 |
| C Coombs | 4 | n/a | n/a | n/a | n/a |
| B Craig [2] | 4 | 3* | 3 | n/a | 4 |
| RI Dickerson [3] | 4 | 3 | 1* | n/a | 4 |
| A de Wet [4] | 2 | 2* | n/a | n/a | n/a |
| EP Liechti | 3* | n/a | n/a | n/a | n/a |
| IP Mogotlane | 4 | 3 | n/a | 2 | n/a |
| N Mwale | 3 | n/a | 3 | n/a | 4 |
| CS Ntshingila | 4 | 2 | 2 | 2 | n/a |
| PJ Schutte [5] | 1* | n/a | n/a | 1 | n/a |
| **Total number of meetings** | **4** | **3** | **3** | **2** | **4** |

*# Remuneration and Nominations*
** attended by invitation*
*1 was appointed CEO on 1 June 2017*
*2 resigned as Chairman on 8 December 2017 and as director on 15 December 2017*
*3 was appointed Chairman on 8 December 2017*
*4 attended first board meeting at the end of the year under review*
*5 resigned as director on 31 May 2017*

## BOARD COMMITTEES

There were no changes to the number of committees or their responsibilities during the year: all committees comprised a majority of non-executive directors.

To instil effective discharge of its duties the board has delegated its authority to various board committees; and with the mandate espoused in the terms of reference the committees are responsible for various governance issues and report to the board on their activities on quarterly basis.

### The Audit and Risk Committee

Terms of reference and functions

The Audit and Risk Committee consists of three non-executive directors, all of whom comply with the requirements of section 94 of the Companies Act, and was established as a statutory committee with additional functions allocated to it by the board of directors. Its role is to assist the board in discharging its duties relating to the safeguarding of assets, reviewing the operating systems and control processes and the preparation of accurate financial reporting and statements in compliance with all legal requirements and accounting standards. The ambit of this committee has been expanded to include financial risk management, IT governance, financial compliance, combined assurance and aspects of integrated reporting. The committee does not perform any management functions or assume any management responsibilities. The committee provides a forum for discussing business risk and control issues and developing relevant recommendations for consideration by the board.

The Audit and Risk Committee has carried out its responsibilities for the year in compliance with formal terms of reference as adopted, which functions include:

- Consider and nominate the external auditor for appointment as such;
- Consider and make recommendations in connection with the provision of non-audit services by the external auditor;
- Prior to the commencement of the audit, determine the auditor's terms of engagement, the nature and scope of the audit and the audit fee;
- Evaluate the independence and effectiveness of the auditors and consider the extent to which, if at all, the provision of any non-audit services impaired their independence;
- Oversee and report on the integrated reporting processes;
- Oversee and deal appropriately with any concerns regarding accounting practices, the content of the annual financial statements or any financial controls of the company, and make recommendations to the board in appropriate circumstances;
- Ensure effective internal financial controls are in place;
- Review the integrity of financial risk control systems and policies; and

- Oversee the effectiveness of the combined assurance plan and outcome.

### Membership

The Audit and Risk Committee during the year under review, was chaired by Ms Ntshingila, with Mr Dickerson and Ms Mogotlane and Mr Craig, prior his resignation, as members. The Chairman of the board is not a member of the committee and attended the meetings as a permanent invitee. The committee held three meetings during the year under review on 22 May 2017, 21 September 2017 and 5 December 2017.

The company's independent external auditors are PricewaterhouseCoopers. The company has a policy to regulate the use of non-audit services by the independent external auditors.

### Internal controls

The Audit and Risk Committee acknowledges that King IV recommends that the board of directors should ensure that an effective risk-based internal audit function is in place. The board approved the appointment of the internal auditor who will fulfil this function with effect from 1 October 2017. The internal auditor completed a financial and internal control combined assurance effectiveness assessment and provided a written report to the Audit and Risk Committee. The Audit and Risk Committee has satisfied itself that the company's internal controls are designed to provide reasonable assurance as to the reliability of the financial statements and to adequately safeguard, verify and maintain accountability of its assets. In carrying out its tasks, the Audit and Risk Committee has a wide range of powers to consult both internally and externally in order to acquire the necessary resources and information to complete its duties and make an assessment in this regard.

### Risk management

During the year under review the board delegated the task of overseeing the risk management processes to the Audit and Risk Committee.

The committee's responsibilities include: to provide oversight on all material non-financial issues influencing strategy and the long-term viability of the company, namely sustainability (including safety, health and environmental matters) as well as risk management and compliance methodologies, processes and performance. The Audit and Risk Committee remains accountable for financial risk and compliance.

Management is committed to maintaining and monitoring the best possible strategies to minimise the risks and to ensure the growth of the company in the interest of all stakeholders. Insimbi is committed to creating safe and healthy working environments to minimise the risk of injury or disease to its employees, to prevent the loss of property and to conserve the environment. The Health, Safety and Environment Committee is responsible for ensuring that employees' working conditions are safe and healthy.

Insimbi has not taken any undue, unexpected or unusual risks in the pursuit of reward and there is no current, imminent or envisaged risk that may threaten the long-term sustainability of the company.

The Audit and Risk Committee is also responsible for ensuring that, where possible, the group takes appropriate steps to mitigate any losses.

The Audit and Risk Committee's terms of reference provide that the Chief Financial Officer and other members of the executive management be invited to attend meetings of the Audit and Risk Committee, and provide for members of the Audit and Risk Committee to meet with the external auditors without members of the executive management being present. The terms of reference provide further that at least two meetings be held each year. The committee met three times during the year.

### Information technology governance

Information and communication technology has been recognised by the board as being an essential component in the management of the group's businesses on a sustainable basis. Accordingly, an information policy, supported by the electronic communications policy, governs the use and safeguarding of information systems and networks throughout the company.

During the year under review, the Audit and Risk Committee was responsible for assisting the board to assess and evaluate the company's overall exposure to information technology risks. The IT framework was reviewed and the governance framework was approved by the board. IT policies are being developed to regulate the IT infrastructure.

The risks regarding the security, back-up, conversion and update of the information technology systems are continually addressed. An external party has been contracted to assess vulnerabilities and risk exposures. Disaster recovery plans are regularly reviewed as disruptions to critical management information would have a detrimental effect on continuing operations.

The Audit and Risk Committee considers the results of these reviews on a regular basis and confirms the appropriateness and satisfactory nature of these processes, while ensuring that breakdowns involving material loss, if any, together with remedial actions, are reported to the board.

The Audit and Risk Committee report is set out on page 44.

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**The Remuneration and Nominations Committee**

The combined Remuneration and Nominations Committee was responsible for assisting the board with identifying new members for appointment to the board to enhance the effectiveness of the board.

The committee also monitored the group's remuneration practices, ensuring that the company's remuneration structures are fair and transparent to encourage the achievement of strategic objectives and that policies are in place which helps to attract and retain suitable individuals who are able to make a commitment and contribution towards the overall goals of the company and its long-term sustainability. The committee recommends compensation strategies, policies and practices and remuneration packages, which support the group's strategic objectives and reward employees for their contribution to the operating and financial performance of the organisation with due regard to performance criteria.

The Nominations Committee ensures effective executive and board succession planning.

Membership

The Remuneration and Nominations Committee consisted of three members who are non-executive directors and the Group Chief Executive Officer, the Chief Financial Officer and the Human Resource executive as permanent invitees. The committee met three times during the year under review.

The chairmanship of the committee in respect of the Nominations and Remuneration Committee responsibilities continued to be split. Mr Mwale remains responsible for the Remuneration Committee while Mr Dickerson, who was a member and replaced Mr Craig at year-end, assumes the responsibility for the Nominations Committee. Ms C Ntshingila is a member of the Remuneration and Nominations committee.

The report of the Remuneration and Nominations Committee, which contains a summary of the group's remuneration policy, is set out on page 38.

**Social and Ethics Committee**

The Social and Ethics Committee ("SEC") is a statutory organ of the company and has an independent role with accountability directly to the board.

The committee monitors the company's activities considering compliance with relevant legislation, legal requirements and prevailing codes of best practice on social and economic development, good corporate citizenship, environment, health and public safety issues, consumer relationships, anti-bribery and corruption. The committee places focus on the stakeholder management and the CSI initiatives, including the principles of the United Nations Global Compact, broad-based black economic empowerment ("B-BBEE"), employment equity and the Organisation for Economic Co-operation and Development's ("OECD") recommendations on corruption, as well as good corporate citizenship which includes promotion of equality, prevention of unfair discrimination, corporate social responsibility, ethical behaviour and managing environmental impacts and skills development.

The committee provides a forum for discussing social and ethical matters and for developing relevant recommendations for consideration by the board.

The committee reports to the shareholders at Insimbi's annual general meeting on the matters within its mandate.

Membership

The membership of this committee changed during the year with Ms Mogotlane assuming the chairmanship. Ms Ntshingila and Mr PJ Schutte, prior to his resignation, remained members of the SEC. All directors, the Human Resources Manager, Health and Safety Manager and an employee representative may attend by invitation. The committee met twice during the year. Additional members to this committee may be appointed if required.

## ACCOUNTING AND AUDITING

The board is responsible for ensuring that Insimbi group companies maintain adequate records and report accurately and reliably on the financial position of the group and the results of its business activities. The external auditors are responsible for independently auditing and reporting on the financial statements in accordance with International Financial Reporting Standards ("IFRS").

The annual financial statements were prepared by Ms N Winde CA(SA) and supervised by Mr A de Wet CA(SA), Chief Financial Officer, and audited by PricewaterhouseCoopers Inc. in terms of the Companies Act, IFRSs and the Listings Requirements.

## INSIDER TRADING AND PRICE-SENSITIVE INFORMATION

The group has a written policy on insider trading, adopted by the board, which requires that no trading in shares by directors or senior executive management may take place without clearance first having been obtained from the Chairperson or the Chief Executive Officer, as the case may be. The Company Secretary retains records of such dealings and approvals.

Furthermore, no employee who comes into possession of potentially price-sensitive information may deal, directly or indirectly, in Insimbi's shares during any closed period.

As required by the Listings Requirements, Insimbi observes at least two closed periods in each financial year (from the half year until publication of its half year results, and from the year-end until publication of its full year results). Further closed periods may be declared as and when the situation arises.

## DIRECTORS' DEALINGS

The company continued to enforce closed periods prohibiting trading in shares by directors, senior executives and employees in terms of the company's share dealing and insider-trading policies. The closed periods are effective from the end of the interim and annual reporting periods until the financial results are disclosed on SENS. All directors trading in shares require the prior approval of the Chairperson of the board.

## CONFLICTS OF INTEREST

Guidelines are in place to assist directors in identifying situations that could present potential conflicts of interest and provide procedures to follow in the event of such conflicts arising. These guidelines comply with the procedures prescribed in the Companies Act. In addition, there is a standing agenda item for all boards and board committee meetings within Insimbi requiring directors to disclose any direct or indirect interests which could lead to a potential conflict.

## COMPANY SECRETARY

The Group Company Secretary is responsible for director training. The Group Company Secretary and Chief Executive Officer induct new directors, which includes briefings on their fiduciary and statutory responsibilities, as well as on the group's operations as required.

The Company Secretary is accountable to the board on all governance and statutory matters, ensuring the proceedings and affairs of the board are properly administered in accordance with all applicable laws, advising directors on their responsibilities and in this respect all directors have access to the services of the Company Secretary. The appointment and removal of the Company Secretary is a matter for the board as a whole.

Ms SK Saunders resigned with effect from 1 November 2017. Mr A de Wet performed the function as interim Company Secretary until Mr TN Kgari was subsequently appointed on 1 April 2018. The Company Secretary fulfils no executive management function and is not a director. Mr. Kgari holds a BA Law and LLB degree, and is an admitted attorney. He was previously employed in the role of company secretary by Land Bank, Industrial Development Corporation, Legal Aid South Africa and MTN and has more than 12 years' experience in that role. Therefore, the board is satisfied with the qualifications, competence and independence of the company secretary, and that the Company Secretary maintains an arms length with the executive team, the board and individual directors as required by the Listings Requirements.

Further details of the Company Secretary appear in the directors' report on page 46.

## GOVERNING STAKEHOLDER RELATIONSHIPS

Stakeholder engagement is actively managed at various levels within the group including at shareholder, board and executive management levels. Insimbi places stakeholder inclusivity as a fundamental tenet within business. Stakeholder relationship and engagement is regularly reviewed to ensure that concerns of our stakeholders are effectively addressed The board strives to present a balanced and understandable assessment of the group's position, addressing material matters of significant interest and concern to stakeholders. The board is responsible for formalising strategies to enhance stakeholder relations with the company. Shareholders are encouraged to attend the annual general meeting, to be held on 3 July 2018 at 10:00 at Insimbi's offices in Wadeville. Details of the annual general meeting are included in the notice of the meeting on pages 104 to 109.

## INTEGRATED REPORTING AND CONTINUOUS DISCLOSURE

The company has a policy of continuous disclosure in place for directors to ensure that timely and accurate information is provided to all stakeholders. Members of the board are required to disclose any conflicts of interest which they may have at board meetings and, as a matter of good practice, are required to make a general disclosure of potential conflicts on an annual basis.

The Company Secretary is responsible for liaising with the board to ensure that the company complies with its legal obligations. No requests for information were lodged with the company in terms of the Promotion of Access to Information Act, 2000, during the year under review.

The board acknowledges its responsibility to ensure the integrity of the integrated report and its responsibility statement authorising the release of the integrated report appears on page 42 of this report.

# SOCIAL AND ETHICS COMMITTEE REPORT

*The committee assists the board in monitoring the group's performance against transformation objectives and as a good and responsible corporate citizen conducting a sustainable business.*

The Social and Ethics Committee ("SEC") was established in accordance with the provisions of section 72(4) of the Companies Act 71 of 2008 ("Companies Act"), and operates under board-approved terms of reference which includes holding a minimum of two meetings per financial year and reporting to the board on its activities. The committee assists the board in monitoring the group's performance against transformation objectives and as a good and responsible corporate citizen conducting a sustainable business. This report is prepared in accordance with the requirements of the Companies Act and provides feedback on the key items that occupied the committee deliberations demonstrating how the SEC has discharged its statutory duties in terms of the Companies Act as well as any additional duties assigned to the committee by the board in respect of the year under review.

## COMPOSITION

The membership of this committee changed during the year with Ms Mogotlane assuming the chair and Ms Ntshingila and Mr PJ Schutte, prior to his resignation, remaining members of the SEC. Mr F Botha replaced Mr PJ Schutte effective 1 June 2017. All directors, the Human Resources Manager, Health and Safety Manager and an employee representative may attend by invitation in terms of the committee charter. To that end Ms N Mohamed (Human Resources Manager), Mr EP Liechti (CEO IAS and Health, Safety and Environment Representative) and Ms L Lebethe (Employee Representative) are invited to attend the meetings.

## FUNCTIONING

### Ethics and code of conduct

Compliance with ethical standards of behaviour, including industry practices, is expected of all staff and compliance is overseen by the committee. The existing code of conduct was reviewed and an ethics survey was recently conducted across the group to ensure that ethics remain entrenched within the Insimbi group. The committee has in the previous years, including the year under review, been monitoring the outcomes of the employee views on the ethics surveys. The survey for the year under review had 71,2% responses and the company achieved a good ethics rating and showed significant improvement on ethical behaviour score and employees' commitment to company values. The survey entrenched the role of effective leadership within the company as central to improving ethical conduct.

The committee monitors ethical issues and reputation risks, as well as regulatory and general developments.

### Socio-economic development

The group demonstrates its commitment to making a contribution to socio-economic development by investing in appropriate programmes. The company continues to provide mentoring and business assistance to Khomotso Khumo Trading and Projects Proprietary Limited, an entity established by a former employee, who continues to run the paint business with support from Insimbi.

### Environment, health and safety

The Health, Safety and Environment Committee reports to the Social and Ethics Committee. The committee considered the health and safety review, practices and the company's environmental footprint. The committee reviews the group's environmental impact, including energy and water usage and carbon emissions.

Environmental management is embedded in the group's operations to ensure sustainable business practices. The rising cost of energy has resulted in the efficient use thereof becoming a critical part of the group's cost management strategy. A number of surveys regarding energy usage and strategies to reduce the usage have been undertaken during the year under review.

The group invested in a 300kWh solar panel installation at its plastics operation which has led to a 30% reduction in municipal power dependence.

The group regularly measures the emissions of its aluminium operations in line with legislation, and will be adopting a strategy to further reduce emissions in order to maintain compliance with the reduced levels requirements when they become effective in 2020.

**Empowerment and transformation**

The company is committed to the promotion of employment equity and transformation in all of its operations. The company was rated a level 6 under the previous DTI Codes of Good Practice during its last rating. It is currently undergoing another rating in terms of the revised Codes and will improve on those areas where it is falling short. The committee will focus on the development, approval and implementation of appropriate strategies in this regard. For the year under review the committee has reviewed the current initiatives and their effectiveness and made appropriate recommendations, continues to monitor progress of the roadmap to address equity B-BBEE shortfalls, transformation on B-BBEE in general and the company and subsidiary B-BBEE ratings as well as the impact of the revised and clarified DTI codes of good practice.

## EMPLOYEE SHARE OWNERSHIP PROGRAMMES ("ESOP")

The successful implementation of the company employees empowering strategy through two Employee Share Ownership Programmes ("ESOPs") in 2016 has resulted in a greater black ownership status and is in line with the company's commitment to transformation. Since the inception of these ESOPs, in less than 21 months a value of R18 million has been created for the employees. The company will expand the programme further to all its operations including Amalgamated Metal Recycling.

## LABOUR AND EMPLOYMENT

**Employment Equity and Training Committee**

The Employment Equity and Training Committee consists of employees representing all subsidiary companies and divisions within the group and is chaired by the Human Resources Manager. The committee met four times during the year under review.

In time, the group expects to achieve the required levels of diversity across race and gender groups throughout the business. The group will ensure that when the opportunity arises, due consideration is given to those individuals who are the right fit for the position and will enhance the diversity of the employee base. The Employment Equity and Training Committee reports to the Social and Ethics Committee, and as a member of the Social and Ethics Committee, the Chairperson of the Employment Equity and Training Committee provides feedback to the SEC.

**Wellness**

The wellness of the employees is vital to the company, Insimbi provides OCSA Care to its lower income earners at its own expense to ensure that they have access to quality health care.

**Skills development**

The group is committed to developing the skills, knowledge and capability of its employees to achieve sustainable business growth and to enable employees to realise their full potential. Fourteen internal internships and four external internships were supported.

Learning and skills development interventions focused on enhancing management and leadership competencies, developing scarce and critical skills, and internal transformation.

## STAKEHOLDER ENGAGEMENT

Insimbi strives to be a transparent corporate citizen. Insimbi's website contains a range of stakeholder-related information and presentations. Insimbi is considering strategies to develop and strengthen its shareholder engagement.

## CORPORATE CITIZENSHIP

The company acknowledges its social commitment thorough community inclusion and uplifting and developing communities and has been involved in various corporate social investment projects including the monitoring of the spend on the projects, sponsorship and donations.

## COMMITMENT

Progress can only be credibly reported if indicators are identified, measured, monitored and recorded. Within Insimbi's sustainability performance a major focus going forward will be to identify and monitor the performance of the group against the determined targets for sustainability performance and with this, meeting the legislative requirements.

## APPROVAL

This Social and Ethics Committee report has been approved by the board of directors of Insimbi.

**IP Mogotlane**
Chair: Social and Ethics Committee
29 May 2018

# REMUNERATION AND NOMINATIONS COMMITTEE REPORT

*Insimbi operates with a combined Remuneration and Nominations Committee, which is responsible for carrying out the functions of both committees.*

## MEMBERSHIP

The committee consists of three non-executive directors, the majority of whom are independent. In line with legislative requirements, the Chairperson of the board is also the Chairperson of the Nominations Committee, but is not the Chairperson of the Remuneration Committee, although a member. Accordingly, the committee operates with two chairpersons, depending on the matters under consideration at the time. Mr Mwale is the Chairman of the Remuneration Committee. Following Mr Craig's resignation during the year under review, Mr Dickerson was appointed as the Chairman of the Nominations Committee.

The board is satisfied that the combined committee comprises suitably qualified board members and that the members act impartially and fairly in that role. The Chairpermen of the committee report to the board on the relative aspects of the committee's deliberations and decisions.

The Chief Executive Officer and the Chief Financial Officer (and the Human Resources Manager, in respect of remuneration-related matters) are invited to attend the committee meetings and assist the committee in its deliberations. No individual participates in discussions regarding their own remuneration.

## REMUNERATION PHILOSOPHY

Insimbi believes in investing in its employees as they are essential to achieving its goal and strategy. The group's remuneration philosophy is to attract, motivate and reward employees in a fair and responsible way to encourage a culture of high performance within the company through employees who are motivated and engaged and committed to execute business strategy, vision and conform with the best practices in a sustainable manner while having appropriate regard to shareholder interests. The remuneration policy is formulated to attract, retain and motivate top-quality people in the best interests of the group. Total rewards are set at levels that are competitive in the context of the relevant areas of responsibility and the industry in which the group operates.

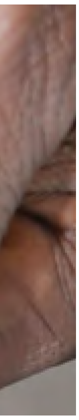
## GOVERNANCE

The purpose of the committee is to provide an independent and objective governance body that will:

- Ensure that the company upholds its entrenched remuneration policy;
- Align performance with the strategic direction and specific value drivers of the business and the interest of stakeholders in a manner that does not encourage excessive risk-taking;
- Monitor human resource strategies and policies of the group;
- Make recommendations on the remuneration policies and practices for the non-executive directors, executive directors, senior management and the group in general; and
- Make recommendations on the composition of the board and board committees.

## POLICY

The remuneration policies are monitored by the Remuneration Committee. The remuneration of executive directors and senior management is determined on a total cost-to-company basis. Remuneration is reviewed annually to ensure that the executives and senior management who contribute to the success of the group continue to be remunerated at appropriate levels



in line with the group's remuneration philosophy and annual performance.

The variable pay element provided by the incentive bonus scheme is intended to enhance total earning opportunities, should that be merited by corporate and individual performance as the company maintains a performance-based culture. The performance of executive directors and senior management is closely aligned with performance by the setting of key performance indicators ("KPIs") and measurement of performance against such KPIs. This is intended to align the interests of senior management with that of the shareholders in achieving group and subsidiary financial targets.

## FIXED REMUNERATION

Insimbi applies discretion in all remuneration reviews and there is no guaranteed or minimum across-the-board increase to all employees. Gross remuneration adjustments for the 2018 financial year represent an increase of 5% over that of the prior year. Exco then discusses and allocates to each employee in the group based on various criteria including individual performance, tenure, absenteeism, etc. Specific attention is paid to those employees on lower remuneration scales with a view to improving and uplifting their personal circumstances.

The policy regarding levels of emoluments payable to executive directors was reviewed by the Remuneration Committee. In light of the growing complexity and nature of the business, a policy in terms of which the variable remuneration and increases is linked to the performance of the group and the portion of the business for which an executive director or prescribed officer is responsible, was introduced and implemented during the period under review. Emoluments paid to executive directors and prescribed officers appear on pages 49 and 93 of the integrated annual report.

## NON-EXECUTIVE REMUNERATION

Non-executive directors receive fees for their services on the board and board committees, dependent on their attendance at meetings. The annual fees payable to non-executive directors have been substantially reviewed to bring them in line with the changes in the size and complexity of the business. In the past, a flat fee was payable for appointment as a director with an additional fee payable to the Chairperson. The revised structure includes a retainer payable for appointment as a director, with a further retainer payable in respect of appointment to each committee and as a chairperson of any committee. No distinction is made regarding the fees payable for appointment to individual committees. An additional amount is payable for attendance at each meeting of the board and committee, thus effectively penalising a board member who consistently fails to attend meetings regularly.

The level of fees was benchmarked against companies listed on the JSE with similar market capitalisation. Comparing Insimbi to companies within its sector on the JSE proved not to be helpful as there are vast differences between the size and complexity of these companies and Insimbi.

All board members are fully engaged with the company and contribute time and effort, not only by their attendance at meetings, but by making themselves available to management for consultation and input between meetings. This restructured payment arrangement is deemed appropriate in light of these considerations. The approval of shareholders for this new arrangement was obtained at the annual general meeting on 26 June 2017.

Non-executive directors do not receive short-term incentives, nor do they participate in the forfeitable share plan or outperformance bonus of the company.

The board resolved at its meeting held on 7 December 2017 that non-executive directors' remuneration would not be increased for the 2018/19 financial year.

Details of the fees paid to each of the non-executive directors during the year under review, as well as the proposed fees for the forthcoming year, are included in the notice of annual general meeting on pages 104 to 109.

## INTEREST IN DIRECTORS' CONTRACTS

Directors have confirmed that they have no material interest in any transaction of any significance with the company or any of its subsidiaries, except as otherwise disclosed in accordance with the conflict of interest policy that was approved and adopted by the board and the item is tabled at each board meeting.

## SHAREHOLDERS' NON-BINDING ADVISORY VOTE

In line with the King Report on Corporate Governance and principles of best practice, the remuneration policy as contained herein will be put to a non-binding advisory vote by shareholders at the annual general meeting scheduled for 3 July 2018.

## IMPLEMENTATION REPORT

The annual financial statements of the Group contains:

- The remuneration paid to the executive directors and prescribed officers of the Company and its subsidiaries, whilst in office;
- Bonuses paid to the executive director and senior management of certain subsidiaries as authorised by the board and in accordance to the Bonus policy, for achieving the budgeted cash flow profit for the reporting period;

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# *REMUNERATION AND NOMINATIONS COMMITTEE REPORT CONTINUED*

- The remuneration paid to non-executive directors of the Company.
- The remuneration and bonuses paid during the reporting period were in line with the remuneration policy of the Group.

Not more than 25% of the votes were received against the Remuneration Policy and the implementation report.

In the event that the Remuneration Policy and the Implementation policy are voted against by 25% or more of the votes exercised the Company will in its voting results announcement provide for an invitation to the dissenting shareholders and will engage with the shareholders setting time aside for the engagements and ensuring that the dissenting shareholders views are taken into consideration and where possible the Remuneration policy would be revised.

## PERFORMANCE AND RE-ELECTION

In terms of the memorandum of incorporation one third of the non-executive directors should retire by rotation. Ms IP Mogotlane will retire by rotation at the annual general meeting scheduled for 3 July 2018 and will be eligible and has made herself available for re-election. The committee recommends her re-election to the board.

## AUDIT AND RISK COMMITTEE

The committee is satisfied that the current members of the Audit and Risk Committee, individually and collectively, satisfy the requirements of section 94 of the Companies Act 71 of 2008 and King IV. The Nominations Committee recommends the appointment of Ms CS Ntshingila, Ms IP Mogotlane and Mr RI Dickerson as members of the Audit and Risk Committee, to serve for a one-year term, until the 2019 annual general meeting.

## APPROVAL

This Remuneration and Nominations report has been approved by the board of directors of Insimbi.

**RI Dickerson**
Chair:
Nominations Committee
29 May 2018

**N Mwale**
Chair:
Remuneration Committee
29 May 2018

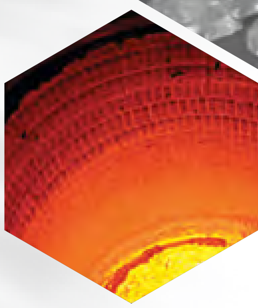
# FINANCIAL CONTENTS

## FINANCIAL STATEMENTS



## SHAREHOLDERS' INFORMATION





# DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group's cash flow forecast for the year to 30 April 2019 and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the group's annual financial statements. The annual financial statements have been examined by the group's external auditors and their report is presented on pages 51 to 55.

The annual financial statements set out on pages 56 to 102 have been prepared on a going concern basis, under supervision of the Chief Executive Officer, Mr F Botha CA(SA) and the Chief Financial Officer, Mr A de Wet CA(SA). The annual financial statements have been audited in compliance with the Companies Act 71 of 2008, and were approved by the board on 29 May 2018 and signed on its behalf by:

**F Botha**
Chief Executive Officer
Johannesburg
29 May 2018

**A de Wet**
Chief Financial Officer
Johannesburg
29 May 2018

# CERTIFICATE BY COMPANY SECRETARY

In terms of section 88 of the Companies Act, I certify and confirm that the company has filed all such returns and notices as are required of a public company in terms of the Companies Act to be lodged with the Companies and Intellectual Property Commission, for the year ended 28 February 2018, and that all such returns and notices are true, correct and up to date.

**TN Kgari**
Company Secretary
Johannesburg
29 May 2018

# AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee is pleased to present its report for the financial year ended 28 February 2018. The committee is an independent statutory committee established in terms of section 94 of the Companies Act 71 of 2008 ("the Act") and appointed by the shareholders of the company. In addition to its statutory duties the board delegated further duties to the committee. The committee reports cover these duties and responsibilities at statutory and board level. The committee adopted a formal charter which has been approved by the board and sets out the committee's functions and responsibilities.

The committee has discharged all its responsibilities and carried out all its functions as contained in its terms of reference and as required by the Act. In particular, the following:

- Monitored risk management and the compliance environment throughout the group to ensure that management maintains effective internal controls and that management demonstrates and stimulates the necessary respect for these disciplines and structures;
- Monitored the risk management framework and assessed the risks that impact on the group's ability to achieve its strategic objectives;
- Ensured that appropriate financial reporting procedures are in place;
- Reviewed the interim and annual financial statements and recommended them for adoption by the board, focusing on:
  - The going concern statement;
  - Major judgement areas; and
  - Compliance with accounting standards, stock exchange and statutory requirements;
- Received and reviewed the report from the external auditors, which included commentary on the effectiveness of the internal control environment, systems and processes and, where appropriate, made recommendations to the board.
- Overseeing the newly established internal audit function and internal financial control process. The committee confirm that it has not identified anything that indicates that the internal financial controls were not operating effectively during the financial year;
- Reviewed the independence of the external auditors, PricewaterhouseCoopers, and recommended them for re-appointment as auditors for the 2019 financial year at the annual general meeting with Mr JP van Staden as designated auditor;
- Monitored the compliance of the group with legal requirements, statutes, regulations and the group's approach to ethics;
- Monitored the adequacy and efficiency of information systems and effectiveness of information security;
- Determined the fees to be paid to the external auditors and the terms of their engagement and oversaw the external audit process;
- Determined the nature and extent, if any, of non-audit services which may be provided by the external auditors to avoid material conflicts of interest and pre-approved the contract terms for the provision of such non-audit services;
- Monitored compliance activities.
- Received and dealt appropriately with any complaints, from inside or outside the group, relating to the accounting practices and internal controls of the group, the content or auditing of its financial statements, the internal financial controls or any related matter;
- Ensured that the internal audit functions, which are provided by management, are sufficient and appropriate, and that there are no material gaps in audit assurance; and
- In accordance with King IV, has ensured that the information technology governance forms part of the overall company governance structure, policies and procedures with IT integrated into the group's strategic and business processes and was well managed.

It is noted that the committee is a combined Audit and Risk Committee. In its capacity as the Risk Committee, the committee identifies areas of risk within the group, and monitors steps taken to mitigate those risks and the outcome of such processes.

The committee members are all non-executive directors and satisfy the requirements of independence of the Act. Details of membership of the committee can be found on page 32 in the corporate governance report. The committee has proposed that the following non-executive directors be appointed as committee members by the shareholders at the annual general meeting to be held on 3 July 2018: Ms C Ntshingila (Chair), Mr RI Dickerson and Ms IP Mogotlane. At the annual general meeting, the inclusion of the Chairman of the board as a member of the Audit Committee will specifically be brought to the attention of shareholders.

The committee meets at the minimum twice every year, as required by its charter. Meetings are attended by the external auditors and the Chief Executive Officer, Chief Financial Officer, as well as other board members, members of management, internal auditors and invitees as considered appropriate by the committee's chair. Details of the number of meetings held and attendance by committee members can be found on page 32.

The committee considered the appropriateness and expertise of the finance function in accordance with the JSE Listings Requirements and governance best practice. The committee confirms that the Chief Financial Officer, Mr A de Wet, has the appropriate expertise and experience.

The Audit Committee charter provides for confidential meetings between committee members and the external auditors without executive management being present. The external auditors have unrestricted access to the committee.

Following the review and evaluation of the integrated annual report 2018, the committee is satisfied that it complies in all material respects with its legal, regulatory and other responsibilities as per its terms of reference and with the requirements of the Act and International Financial Reporting Standards ("IFRSs") and recommended it to the board for approval.

**On behalf of the Audit and Risk Committee**

**CS Ntshingila**
Chair: Audit and Risk Committee
29 May 2018

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# DIRECTORS' REPORT

The directors have pleasure in presenting their report on the activities of the company and the group for the year ended 28 February 2018. The consolidated financial statements for the year ended 28 February 2018 were approved by the directors at a meeting held on 29 May 2018.

Insimbi Refractory and Alloy Supplies Limited ("Insimbi") is a public company incorporated in South Africa and listed on the JSE. Insimbi provides the steel, aluminium, cement, foundry, plastics, paper and pulp industries with resource-based commodities like ferrous and non-ferrous alloys, as well as refractory materials, by integrating the supply, logistics and technical support function.

## GENERAL REVIEW

Insimbi continues to operate from premises in Johannesburg, Durban and Cape Town, including the AMR group active from sites in Devland, Booysens and Roodepoort on the West Rand. Insimbi has exported goods and materials across the world, including South America (Argentina and Brazil), Australia, Middle East (Bahrain, Israel and UAE), China and Asia (Hong Kong, India, Malaysia, Singapore and Taiwan), elsewhere in Africa (Angola, Botswana, DRC, Ghana, Kenya, Malawi, Mozambique, Namibia, Nigeria, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe), Europe (Germany, Spain, Sweden and Switzerland) and the USA.

The financial results of the group and the company for the year ended 28 February 2018 are set out herein with commentary in the Chairman's, CEO's and CFO's reports.

## SHARE CAPITAL

No shares were issued during the current financial year. The issued share capital remain unchanged at 410 000 000 shares.

## DIVIDEND

An interim dividend number 15 of 3,0 cents per share (2017: 1,5 cents) or R12 283 079 (2017: R3 898 384) was declared on 21 September 2017 for the half year ended 31 August 2017. The board has elected to retain this conservative approach and has opted to declare a final dividend of 3,0 cents per share (2017: nil cents).

## COMPLIANCE WITH KING IV

The Insimbi group is committed to the principles of effective corporate governance and complies substantially with the principles of King IV. During the forthcoming year, Insimbi will be updating its analysis of compliance with King IV and developing a project to address any areas identified for improvement.

## SPECIAL RESOLUTIONS ADOPTED BY THE COMPANY

No special resolutions were passed in the year under review.

## INTERESTS IN SUBSIDIARIES

As at 28 February 2018, Insimbi held the following interests in the subsidiaries listed below:

| Name of subsidiary | Par value of issued shares | **Percentage holding 2018 %** | Percentage holding 2017 % | **Indebtedness 2018 R'000** | Indebtedness 2017 R'000 |
|---|---|---|---|---|---|
| Insimbi Alloy Supplies Proprietary Limited | 100 ordinary shares of R1 each | **100,00** | 100,00 | **51 702** | 50 704 |
| Insimbi Alloy Properties Proprietary Limited | 100 ordinary shares of R1 each | **100,00** | 100,00 | **5 456** | 5 435 |
| Insimbi Refractory and Alloy Supplies Limited, incorporated in Zambia* | 10 ordinary shares of K1 000 each | **10,00** | 10,00 | **–** | – |
| Insimbi EmployeeCo Proprietary Limited^ | 1 000 ordinary shares of R0,01 each | **0,01** | 0,01 | **1** | 1 |
| Insimbi ManCo Proprietary Limited^ | 1 000 ordinary shares of no par value | **0,02** | 0,02 | **1** | 1 |
| Amalgamated Metal Group Holdings* | 20 000 ordinary shares of no par value | **23,31** | 23,31 | **–** | – |

** Effectively 100% holding within the group*

*^ Special purpose entities under control of the group*

| Name of subsidiary | Par value of issued shares | **Percentage holding 2018 %** | Percentage holding 2017 % | **Indebtedness 2018 R'000** | Indebtedness 2017 R'000 |
|---|---|---|---|---|---|
| **Interest in subsidiaries through Insimbi Alloy Supplies Proprietary Limited** | | | | | |
| Insimbi Aluminium Alloys Proprietary Limited | 100 ordinary shares of R1 each | **100,00** | 100,00 | **5 880** | (807) |
| Insimbi Modular Plastics Proprietary Limited | 120 ordinary shares of R1 each | **60,00** | 60,00 | **1 270** | 653 |
| Insimbi Nano Milling Proprietary Limited | 100 ordinary shares of no par value | **100,00** | 100,00 | **5 547** | 5 547 |
| Insimbi Refractory and Alloy Supplies Limited, incorporated in Zambia* | 90 ordinary shares of K1 000 each | **90,00** | 90,00 | **1 982** | 1 987 |
| Insimbi Thermal Insulation Proprietary Limited | 404 ordinary shares of R1 each | **100,00** | 100,00 | **–** | – |
| Metlite Alloys Proprietary Limited | 52 ordinary shares of R1 each | **100,00** | 100,00 | **(4 129)** | (4 134) |
| TP Hentiq 6064 Proprietary Limited | 10 000 ordinary shares of R0,001 each | **100,00** | 100,00 | **782** | 780 |
| Polydrum Proprietary Limited | 200 ordinary shares of R1 each | **87,50** | 87,50 | **18 093** | 15 413 |
| Amalgamated Metals Group Holdings Proprietary Limited* | 65 808 ordinary shares of no par value | **76,69** | 76,69 | **3 261** | 10 796 |
| **Interest in subsidiaries through Insimbi Alloy Properties Proprietary Limited** | | | | | |
| Metlite Alloy Properties Proprietary Limited | 100 ordinary shares of R1 each | **100** | 100 | **–** | – |

** Effectively 100% holding within the group*

# DIRECTORS' REPORT CONTINUED

## DIRECTORATE

There have been a number of changes to the board during the year under review:

- Mr PJ Schutte resigned on 31 May 2017 and Mr F Botha was appointed the Chief Executive Officer with effect from 1 June 2017;
- Mr B Craig resigned on 15 December 2017; and
- Mr AJ de Wet was appointed on 16 October 2017.

In accordance with the company's memorandum of incorporation Ms IP Mogotlane retires by rotation at the forthcoming annual general meeting but, being eligible, offers herself for re-election. A brief biographical note on Ms IP Mogotlane may be found on page 26 of this report.

## DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS

As at 28 February 2018, the directors' and prescribed officers' beneficial and non-beneficial, direct and indirect interests in the issued share capital of the company amounted to 49,25% (2017: 59,48%) in aggregate. The interests of the directors and prescribed officers are as follows:

| | Beneficial | | | | Non-beneficial | | | |
|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | |
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Directors** | | | | | | | | |
| F Botha | **37 135 676** | 36 847 300 | **–** | – | **–** | – | **250 000** | 250 000 |
| C Coombs* | **–** | – | **21 950 200** | 21 950 200 | **–** | – | **–** | – |
| A de Wet | **–** | – | **–** | – | **–** | – | **–** | – |
| N Mwale | **–** | – | **–** | – | **–** | – | **82 000 000**** | 82 000 000 |
| IP Mogotlane | **–** | – | **–** | – | **–** | – | **82 000 000**** | 82 000 000 |
| RI Dickerson | **–** | – | **–** | – | **–** | – | **82 000 000**** | 82 000 000 |
| **Prescribed officers** | | | | | | | | |
| CF Botha | **29 547 000** | 33 297 000 | **–** | – | **–** | – | **250 000** | 250 000 |
| D de Beer | **–** | – | **–** | – | **–** | – | **–** | – |
| S Green | **–** | – | **–** | – | **–** | – | **–** | – |
| EP Liechti | **30 547 000** | 33 297 000 | **–** | – | **–** | – | **250 000** | 250 000 |
| PJ Schutte[1] | **–** | 35 447 000 | **–** | – | **–** | – | **–** | 312 500 |
| N Winde | **–** | – | **–** | – | **–** | – | **–** | – |
| **Total** | **97 229 676** | 138 888 300 | **21 950 200** | 21 950 200 | **–** | – | **82 750 000** | 83 062 500 |

** Appointed 16 January 2017*
*** 82 000 000 shares held by New Seasons Investment Holdings Proprietary Limited; not by individual directors*
*[1] Resigned 31 May 2017*

As at the date of preparation of this report, none of the directors or prescribed officers have disposed of any of the shares held by them as at 28 February 2018.

The current EmployeeCo and ManCo share ownership schemes do not involve direct ownership in Insimbi by management or employees as none of the shares have vested.

## DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

Emoluments paid to directors and prescribed officers of the group are set out below:

| | Fees 2018 R'000 | Salary 2018 R'000 | Expense allow-ances* 2018 R'000 | Pension fund contri-butions 2018 R'000 | Incentive bonus 2018 R'000 | Share-based payments 2018 R'000 | Total 2018 R'000 | Total 2017 R'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | | |
| F Botha | – | 3 180 | 523 | – | – | – | 3 703 | 2 467 |
| C Coombs[1] | – | 2 075 | 121 | – | 797 | – | 2 993 | 328 |
| A de Wet[2] | – | 683 | – | – | – | – | 683 | – |
| **Total executive** | – | 5 938 | 644 | – | 797 | – | 7 379 | 2 795 |
| **Non-executive** | | | | | | | | |
| B Craig[3] | 749 | – | – | – | – | – | 749 | 98 |
| RI Dickerson | 383 | – | – | – | – | – | 383 | 20 |
| IP Mogotlane | 459 | – | – | – | – | – | 459 | 122 |
| N Mwale | 470 | – | – | – | – | – | 470 | 122 |
| C Ntshingila (previously Shiceka) | 346 | – | – | – | – | – | 346 | 163 |
| L Okeo[4] | – | – | – | – | – | – | – | 179 |
| **Total non-executive** | 2 407 | – | – | – | – | – | 2 407 | 704 |
| **Prescribed officers** | | | | | | | | |
| CF Botha[5] | – | 1 970 | 504 | – | – | – | 2 474 | 2 467 |
| D de Beer | – | 1 392 | 83 | 151 | – | 144 | 1 770 | 1 509 |
| B Fetting[6] | | 591 | 165 | 34 | – | 3 | 793 | – |
| S Green | – | 980 | 151 | 108 | 50 | 188 | 1 477 | 1 222 |
| EP Liechti[5] | – | 2 229 | 267 | – | – | – | 2 496 | 2 467 |
| CM Lindeque[7] | | 398 | 52 | | 150 | | 600 | – |
| S Roberts[8] | – | – | – | – | – | – | – | 349 |
| S Rugbur[9] | – | 74 | 14 | 7 | – | 14 | 109 | 1 230 |
| PJ Schutte[10] | – | 1 806 | 162 | – | – | – | 1 968 | 2 522 |
| N Winde | – | 893 | 21 | 93 | – | 72 | 1 079 | 835 |
| **Total prescribed officers[11]** | – | 10 333 | 1 419 | 393 | 200 | 421 | 12 766 | 12 601 |
| **Total** | 2 407 | 16 271 | 2 063 | 393 | 997 | 421 | 22 552 | 16 100 |

* *Includes medical aid and travel allowances*
[1] *Appointed as director on 16 January 2017*
[2] *Appointed 16 October 2017*
[3] *Resigned 15 December 2017*
[4] *Resigned 31 January 2017*
[5] *Resigned as director on 31 May 2017*
[6] *Appointed as part of management committee on 1 June 2017*
[7] *Appointed as part of management committee on 1 July 2017*
[8] *Resigned 30 June 2016*
[9] *Resigned 31 March 2017*
[10] *Resigned 30 November 2017*
[11] *Paid by the relevant subsidiary*

# DIRECTORS' REPORT CONTINUED

## AUDITORS

PricewaterhouseCoopers Inc. continued as auditors for the year under review.

## COMPANY SECRETARY

Ms SK Saunders resigned on 30 November 2017. Mr A de Wet, who joined the company on 16 October 2017 was appointed as the interim Company Secretary on 30 November 2017, Mr TN Kgari was subsequently appointed on 1 April 2018.

## GOING CONCERN

The directors have reviewed the group's cash flow forecast for the year to 30 April 2019 and, in light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors are of the view that Insimbi is a going concern.

## ADDRESSES:

**Physical address**

Stand 359
Crocker Road
Wadeville
Extension 4
Germiston
1407
Gauteng

**Postal address**

PO Box 14676
Wadeville
Germiston
1422
Gauteng

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Insimbi Refractory and Alloy Supplies Limited

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

## OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Insimbi Refractory and Alloy Supplies Limited ("the Company") and its subsidiaries ("together the Group") as at 28 February 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

**What we have audited**

Insimbi Refractory and Alloy Supplies Limited's consolidated and separate financial statements set out on pages 56 to 102 comprise:

- the group and company statements of financial position as at 28 February 2018;
- the group and company statements of profit and loss and other comprehensive income for the year then ended;
- the group and company statements of changes in equity for the year then ended;
- the group and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies. .

## 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 and separate financial statements section of our report.

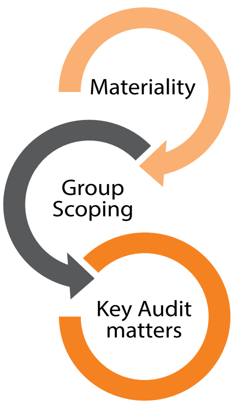
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

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).

## OUR AUDIT APPROACH

**Overview**




Overall group materiality

- Overall group materiality: R4 496 000, which represents 4,5% of consolidated profit before tax.

Group audit scope

- The group comprises 21 components. Full scope audits were performed at 6 financially significant components and further audit and analytical review procedures were performed over the remaining balances and the consolidation process in order to gain sufficient evidence over the consolidated numbers.

Key audit matters

- Impairment consideration of non-current assets and significant investments

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

# INDEPENDENT AUDITOR'S REPORT CONTINUED

## OUR AUDIT APPROACH CONTINUED

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| Overall group materiality | R4 496 000 |
| How we determined it | 4,5% of consolidated profit before tax |
| Rationale for the materiality benchmark applied | We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 4,5% based on our professional judgement, after consideration of the range of quantitative materiality thresholds used for profit-oriented companies in this sector and taking into account the levels of debt within the Group. |

**How we tailored our group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises of 21 components organised across four operating segments, namely Non-ferrous, Ferrous, Refractory and Plastics.

The audits undertaken for Group reporting purposes are in respect of the key components of the Group, equating to full scope audit procedures being performed at six components due to their financial significance and specified audit procedures on five components as a result of significant account balances and transactions within these components. In addition, the group engagement team performed further analytical review procedures over the remaining balances and performed testing procedures over the consolidation process in order to gain sufficient evidence over the consolidated numbers. All audit work was performed by the centralised engagement team (group engagement team) and did not require involvement of component auditors.

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS CONTINUED

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment assessment of non-current assets and significant investments** | |
| As at 28 February 2018 the Group's consolidated statement of financial position included property, plant and equipment amounting to R271 million. The Group's net assets also include goodwill amounting to R108 million which arose from business combinations entered into by the Group and which is allocated to the cash-generating units (CGU's) as indicated in note 4 to the consolidated financial statements.<br><br>An impairment assessment of non-current assets is required to be performed by management when there is an indication that these assets may be impaired.<br><br>Assets that are not amortised, such as goodwill and indefinite life intangible assets are required to be assessed for impairment annually even if there is no impairment indicator.<br><br>Management performed annual impairment assessments on the cash-generating units (CGUs) to which goodwill has been allocated based on value-in-use calculations.<br><br>This area was considered to be a matter of most significance to the current year audit due to the fact that the assessment performed by management required judgement in the preparation of future cash flow forecasts and the determination of key assumptions and future market conditions, particularly in relation to:<br>• Gross margin;<br>• Growth rate; and<br>• Discount rate<br><br>Management has additionally considered the recoverable amount of the investments in subsidiaries held in the separate financial statements of the Company.<br><br>Based on the results of the impairment assessments, management did not recognise an impairment charge in respect of the Group or Company during the year ended 28 February 2018. | We assessed whether there has been any impairment indicators for all non-financial assets by considering the following indicators:<br>• Actual versus budgeted performance;<br>• Entities that are in a loss making position; and<br>• Other factors that are expected to negatively impact the future operations of the entity e.g. difficult trading conditions or closure of operations.<br><br>We obtained management's impairment models, tested the mathematical accuracy of the calculations, which included recalculating the recoverable amount for each respective CGU, and compared this to the relevant respective net carrying values in the consolidated and separate financial statements.<br><br>We obtained and assessed audit evidence in relation to management's key assumptions and inputs used in the impairment models (future cash flow forecasts, gross margin, growth rate and discount rate) as follows:<br>• We made use of our valuation expertise to assess the principles and integrity of the Group's discounted cash flow models. We found these to be in line with generally accepted valuation methodology and the applicable requirements of IAS 36: Impairment of Assets;<br>• We utilised our valuation expertise to independently calculate the discount rates used in performing the impairment assessments. This included using relevant third party sources and data such as the cost of debt, risk-free rates in the market, market risk premiums, debt/equity ratios, the beta of comparable companies, as well as the impact of economic and industry factors in which each of the CGU's are located. In cases where discount rates determined by us differed from that used by management we assessed the impact on the impairment assessment;<br>• We assessed the reasonableness of management's future forecasts of revenue growth and gross margins included in the cash flow forecasts by comparing them to current and historical operational results and to board approved budgets. In respect of the budgeting process, we compared the current year actual results with the budgeted results for the year ended 28 February 2018 and obtained an understanding of variances where noted. In cases where we considered the revenue growth rates or gross margins to be either optimistic or conservative we assessed the impact on the impairment assessment; and<br>• Based on the results of our independently performed calculations, we accepted management's conclusions. |

# INDEPENDENT AUDITOR'S REPORT CONTINUED

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Insimbi Integrated Annual Report 2018, which includes the Directors' Report, the Audit and Risk Committee Report and the Certificate by Company Secretary as required by the Companies Act of South Africa. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, 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 AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company'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 and/or the Company or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 and separate 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 and separate 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 and the Company'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 and the Company'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 and separate 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 and / or Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 and separate 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 PricewaterhouseCoopers Inc. has been the auditor of Insimbi Refractory and Alloy Supplies Limited for nine years.

PricewaterhouseCoopers Inc.

**PricewaterhouseCoopers Inc.**
**Director: Jean-Pierre van Staden**
Registered Auditor
Johannesburg
29 May 2018

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**for the year ended 28 February 2018**

| | Note | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY (Restated) 2017 R'000 |
|---|---|---|---|---|---|
| Revenue | 22 | **3 491 803** | 1 342 526 | **24 858** | 12 850# |
| Cost of sales | 23 | **(3 146 379)** | (1 156 693) | **–** | – |
| **Gross profit** | | **345 424** | 185 833 | **24 858** | 12 850 |
| Other operating income | 24 | **1 195** | 841 | **–** | – |
| Other operating gains/(losses) | 25 | **(1 989)** | 508 | **(1)** | – |
| Other operating expenses | | **(216 799)** | (132 749) | **(12 962)** | (1 328) |
| **Operating profit/(loss)** | 26 | **127 831** | 54 433 | **11 895** | 11 522 |
| Investment revenue | 27 | **402** | 266 | **–** | – |
| Finance costs | 28 | **(30 836)** | (16 355) | **–** | – |
| Income from equity-accounted investments | | **2 532** | 543 | **–** | – |
| **Profit before taxation** | | **99 929** | 38 887 | **11 895** | 11 522 |
| Taxation | 29 | **(28 769)** | (9 440) | **(54)** | (138) |
| **Profit for the year** | | **71 160** | 29 447 | **11 841** | 11 384 |
| **Items that will not be reclassified to profit or loss:** | | | | | |
| Gains on property revaluation (net of taxation) | | **23 316** | | | |
| Total comprehensive income for the year | | **94 476** | 29 447 | **11 841** | 11 384 |
| **Profit attributable to:** | | | | | |
| Owners of the parent | | **71 467** | 29 571 | **11 841** | 11 384 |
| Non-controlling interest | | **(307)** | (124) | **–** | – |
| | | **71 160** | 29 447 | **11 841** | 11 384 |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the parent | | **94 783** | 29 571 | **11 841** | 11 384 |
| Non-controlling interest | | **(307)** | (124) | **–** | – |
| | | **94 476** | 29 447 | **11 841** | 11 384 |
| Basic earnings per share | 40 | **18,45** | 11,01 | **–** | – |
| Diluted earnings per share | 40 | **17,73** | 10,37 | **–** | – |

*# Restated. Please refer to note 22 on page 87*

The notes on pages 60 to 102 form an integral part of the annual financial statements.

# STATEMENTS OF FINANCIAL POSITION

as at 28 February 2018

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | | (Restated) | | (Restated) |
| | | 2018 | 2017 | 2018 | 2017 |
| | Note | R'000 | R'000 | R'000 | R'000 |
| **Assets** | | | | | |
| ***Non-current assets*** | | | | | |
| Property, plant and equipment | 3 | **270 514** | 239 095 | **–** | – |
| Goodwill | 4 | **107 591** | 107 591* | **–** | – |
| Intangible assets | 5 | **11 525** | 11 836 | **–** | – |
| Investments in subsidiaries | 6 | **–** | – | **97 671** | 97 893* |
| Investments in joint ventures | 7 | **577** | 670 | **–** | – |
| Deferred taxation | 11 | **3 388** | 7 609 | **752** | 53 |
| | | **393 595** | 366 801 | **98 423** | 97 946 |
| ***Current assets*** | | | | | |
| Inventories | 13 | **147 944** | 152 546 | **–** | – |
| Loans to group companies | 8 | **–** | – | **59 164** | 56 139 |
| Trade and other receivables | 14 | **293 643** | 275 792 | **559** | – |
| Current taxation receivable | | **5 312** | 3 166 | **98** | 326 |
| Cash and cash resources | 15 | **32 408** | 29 848 | **–** | 397 |
| | | **479 307** | 461 352 | **59 821** | 56 862 |
| **Total assets** | | **872 902** | 828 153 | **158 244** | 154 808 |
| **Equity and liabilities** | | | | | |
| **Equity** | | | | | |
| ***Equity attributable to equity holders of parent*** | | | | | |
| Share capital | 16 | **196 704** | 196 704* | **196 704** | 196 704* |
| Treasury shares | 16 | **(19 399)** | (18 215) | **–** | – |
| Reserves | | **47 108** | 22 483 | **2 289** | 980 |
| Retained earnings/(accumulated loss) | | **174 454** | 116 579 | **(43 723)** | (43 281) |
| | | **398 867** | 317 551 | **155 270** | 154 403 |
| Non-controlling interest | | **(565)** | (258) | **–** | – |
| | | **398 302** | 317 293 | **155 270** | 154 403 |
| **Liabilities** | | | | | |
| ***Non-current liabilities*** | | | | | |
| Loans from shareholders | 9 | **2 275** | 2 491 | **–** | – |
| Other financial liabilities – at amortised cost | 19 | **166 202** | 210 811 | **–** | – |
| Deferred taxation | 11 | **28 966** | 26 083 | **–** | – |
| | | **197 443** | 239 385 | **–** | – |
| ***Current liabilities*** | | | | | |
| Other financial liabilities – at amortised cost | 19 | **72 295** | 74 214 | **–** | – |
| Trade and other payables | 20 | **192 055** | 162 111 | **2 974** | 405 |
| Other financial liabilities – at fair value through profit and loss | 19 | **2 697** | 2 823 | **–** | – |
| Bank overdraft | 15 | **10 110** | 32 327 | **–** | – |
| | | **277 157** | 271 475 | **2 974** | 405 |
| **Total liabilities** | | **474 600** | 510 860 | **2 974** | 405 |
| **Total equity and liabilities** | | **872 902** | 828 153 | **158 244** | 154 808 |

** Restated. Please refer to note 38 on page 94.*

The notes on pages 60 to 102 form an integral part of the annual financial statements.

# STATEMENTS OF CHANGES IN EQUITY

**for the year ended 28 February 2018**

| | Share capital R'000 | Share premium R'000 | Treasury shares R'000 | Revaluation reserve R'000 | Share-based payment reserve R'000 | Retained income/ accumulated loss R'000 | Non-controlling interest R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|---|---|
| **GROUP** | | | | | | | | |
| Balance at 1 March 2016 | – | 44 442 | (14 159) | 21 503 | – | 100 251 | (2 248) | 149 789 |
| Profit for the year | – | – | – | – | 980 | 28 591 | (124) | 29 447 |
| Total other comprehensive income for the year | – | – | – | – | – | – | – | – |
| Transactions with non-controlling interest | – | – | – | – | – | (2 114) | 2 114 | – |
| Shares issued* | – | 152 262* | – | – | – | – | – | 152 262 |
| Purchase of own/treasury shares | – | – | (4 056) | – | – | – | – | (4 056) |
| Dividends | – | – | – | – | – | (10 149) | | (10 149) |
| Total changes | – | 152 262 | (4 056) | – | 980 | 16 328 | 1 990 | 167 504 |
| Balance at 28 February 2017 | – | 196 704* | (18 215) | 21 503 | 980 | 116 579 | (258) | 317 293 |
| Profit for the year | **–** | **–** | **–** | **–** | **1 309** | **70 158** | **(307)** | **71 160** |
| Total other comprehensive income for the year | **–** | **–** | **–** | **23 316** | **–** | **–** | **–** | **23 316** |
| Shares issued | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Purchase of own/treasury shares | **–** | **–** | **(1 184)** | **–** | **–** | **–** | **–** | **(1 184)** |
| Dividends | **–** | **–** | **–** | **–** | **–** | **(12 283)** | **–** | **(12 283)** |
| **Total changes** | **–** | **–** | **(1 184)** | **23 316** | **1 309** | **57 875** | **(307)** | **81 009** |
| **Balance at 28 February 2018** | **–** | **196 704** | **(19 399)** | **44 819** | **2 289** | **174 454** | **(565)** | **398 202** |
| **COMPANY** | | | | | | | | |
| Balance at 1 March 2016 | – | 44 442 | – | – | | (44 516) | – | (74) |
| Changes in equity | – | – | – | – | – | – | – | – |
| Profit for the year | – | – | – | – | 980 | 11 384 | – | 12 364 |
| Shares issued* | – | 152 262 | – | – | – | – | – | 152 262 |
| Dividends | – | – | – | – | | (10 149) | – | (10 149) |
| Total changes | – | 152 262 | – | – | 980 | 1 235 | – | 154 477 |
| Balance at 28 February 2017 | – | 196 704 | – | – | 980 | (43 281) | – | 154 403 |
| Changes in equity | | | | | | | | **–** |
| Profit for the year | **–** | **–** | **–** | **–** | **1 309** | **11 841** | **–** | **13 150** |
| Dividends | **–** | **–** | **–** | **–** | | **(12 283)** | **–** | **(12 283)** |
| **Total changes** | **–** | **–** | **–** | **–** | **1 309** | **(442)** | **–** | **867** |
| **Balance at 28 February 2018** | **–** | **196 704** | **–** | **–** | **2 289** | **(43 723)** | **–** | **155 270** |
| Notes | 16 | 16 | 16 | 18 | 17 | | | |

** Restated. Please refer to note 38 on page 94*

The notes on pages 60 to 102 form an integral part of the annual financial statements.

# STATEMENTS OF CASH FLOWS

for the year ended 28 February 2018

| | Note | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Cash generated from operations | 30 | **164 377** | 88 928 | **2 407** | 1 707 |
| Interest income | | **402** | 266 | **–** | – |
| Finance costs | | **(30 836)** | (16 355) | **–** | – |
| Tax paid | 31 | **(32 064)** | (11 244) | **221** | (825) |
| **Net cash from operating activities** | | **101 879** | 61 595 | **2 628** | 882 |
| **Cash flow from investing activities** | | | | | |
| Purchase of property, plant and equipment | 3 | **(1 613)** | (10 373) | – | – |
| Sale of property, plant and equipment | 3 | **559** | 1 430 | **–** | – |
| Purchase of intangible assets | 5 | **–** | (922) | **–** | – |
| Business combinations | 34 | **–** | (230 546) | **–** | – |
| Investment in subsidiaries | | **–** | – | **–** | (17 339) |
| Dividend from investment in joint venture | | **2 636** | – | **–** | – |
| Loans advanced to group companies | | **–** | – | **(3 025)** | (50 752) |
| Dividends received | | **–** | – | **12 283** | 10 149 |
| **Net cash from investing activities** | | **1 582** | (240 411) | **9 258** | (57 942) |
| **Cash flow from financing activities** | | | | | |
| Purchase of treasury shares | 16 | **(1 184)** | (4 056) | **–** | – |
| Proceeds from share issue | 16 | **–** | 96 262 | **–** | 96 262 |
| Proceeds from other financial liabilities | | **4 500** | 95 613 | **–** | – |
| Repayment of other financial liabilities | | **(69 772)** | (6 672) | **–** | – |
| Repayment of shareholder's loan | | **(216)** | (1 169) | **–** | – |
| Proceeds from shareholder's loan | | **–** | 296 | **–** | – |
| Loans from group companies repaid | | | – | **–** | (28 702) |
| Dividends paid | 32 | **(12 283)** | (10 149) | **(12 283)** | (10 149) |
| **Net cash from financing activities** | | **(78 955)** | 170 125 | **(12 283)** | 57 411 |
| **Total cash movement for the year** | | **24 506** | (8 691) | **(397)** | 351 |
| Cash at the beginning of the year | | **(2 479)** | 10 220 | **397** | 46 |
| Effect of exchange rate movement on cash balances | | **271** | (4 008) | **–** | – |
| **Total cash at the end of the year** | 15 | **22 298** | (2 479) | **–** | 397 |

The notes on pages 60 to 102 form an integral part of the annual financial statements.

# ACCOUNTING POLICIES

**for the year ended 28 February 2018**

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") interpretations issued by the IFRS Interpretations Committee, and the Companies Act 71 of 2008. The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial assets and financial liabilities (including derivative financial instruments) that are shown at fair value and land and buildings that are shown at revalued cost, and incorporate the principal accounting policies set out below. They are presented in South African Rand.

### 1.1 Consolidation

***Basis of consolidation***

The consolidated annual financial statements reflect the financial results of the group. All the financial results are consolidated with similar items on a line by line basis.

The results of subsidiaries are included in the consolidated annual financial statements from the effective date of acquisition to the effective date of disposal.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

***Business combinations***

The group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not effected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3: Business combinations are recognised at their fair values at acquisition date.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the group assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for group purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interests arising from a business combination, which are present ownership interests, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured either at the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in the note for business combinations. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRS.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree. Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS CONTINUED

### 1.2 Significant judgements and sources of estimation uncertainty continued

***Trade receivables, loans and receivables***

The group assesses its trade receivables, loans and receivables for impairment at the end of each reporting period. For further detail please refer to note 1.7 – Financial instruments and note 14 – Trade and other receivables. In determining whether an impairment loss should be recorded in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

***Allowance for slow moving, damaged and obsolete stock***

An allowance for stock to write stock down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write-down is included in the costs of sales. Provision is made for stock older than 365 days.

***Fair value estimation***

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate (prime rate at 10,25%).

***Impairment testing***

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. For further details please refer to note 4 – Goodwill and note 5 – Intangible assets.

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

***Expected manner of realisation for deferred tax***

The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted. Refer to note 11 – Deferred taxation on pages 78 and 79.

***Intangible assets with indefinite useful lives***

Key factors taken into consideration in determining that the regulatory permit has an indefinite useful life are as follows:

- The products manufactured will continue as long as steel is manufactured. The majority of the products are used as deoxidants into the steel industry. The steel industry is well established in South Africa and production methods in the steel industry are consistent and use our products on an ongoing basis;
- No significant capital expenditure is required for the plant. We expect the plant to be maintained through regular ongoing maintenance;
- The asset is well controlled as the group owns both the site to which the asset refers as well as all of the manufacturing equipment;
- The asset is site specific and the group owns the property to which the asset has been allocated;
- There are no technological barriers for the group but there are significant cost barriers for competitors to enter the market, such as the cost of environmental and regulatory permits and the cost of establishing the plant;
- The group has considerable expertise and management skills related specifically to the aluminium industry; and
- The asset is the only secondary aluminium smelter in the Western Cape.

The useful life of regulatory permit is considered indefinite. It is not bound by any expiry period as there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the group. The permit endures in perpetuity provided that the company complies with changes in legislation as they occur.

# ACCOUNTING POLICIES CONTINUED

**for the year ended 28 February 2018**

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS CONTINUED

### 1.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Land and buildings are carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When land and buildings are revalued, any accumulated depreciation at the date or revaluation is eliminated against the gross carrying amount and the net amount is restated to the revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited to other comprehensive income and accumulated in the revaluation surplus in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current period. The decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the revaluation surplus in equity.

Increases as a result of revaluation are accumulated in the revaluation surplus in equity until the asset is sold, after which the revaluation surplus is transferred to retained earnings.

Land is not depreciated. Other items of property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Useful lives |
|---|---|
| Buildings | 25 years |
| Plant and machinery | 3 – 20 years |
| Furniture and fixtures | 20 years |
| Motor vehicles | 10 years |
| IT equipment | 5 years |

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in profit or loss.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS CONTINUED

### 1.4 Goodwill

Goodwill is initially measured at cost. Subsequently goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment.

For the purpose of impairment testing, goodwill is allocated to those cash-generating units or groups of cash-generating units expected to benefit from the synergies of the combination in which the goodwill arose, identified according to operating segment. If the recoverable amount of the cash-generating unit 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 other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised on goodwill is not reversed in a subsequent period.

Gains and losses on disposal of a cash-generating unit include the carrying amount of goodwill allocated to the entity sold.

### 1.5 Intangible assets

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any impairment losses and accumulated amortisation.

| Item | Useful life |
|---|---|
| Patents, trademarks and other rights | 20 years |
| Regulatory permit | Indefinite |

For further details refer to note 5 on page 74.

### 1.6 Investments in subsidiaries

***Group annual financial statements***

The group annual financial statements include those of the holding company and its subsidiaries. The results of the subsidiaries are consolidated from the date on which control is transferred to the group up until the date that control ceases.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Intra-group transactions and balances. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the group.

***Company annual financial statements***

In the company's separate annual financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- any costs directly attributable to the purchase of the subsidiary; plus
- changes in consideration arising from contingent consideration amendments.

# ACCOUNTING POLICIES CONTINUED

**for the year ended 28 February 2018**

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS CONTINUED

### 1.7 Financial instruments

***Classification***

The group classifies financial assets and financial liabilities into the following categories:

- Loans and receivables;
- Financial liabilities at fair value through profit or loss – held for trading; and
- Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition.

***Initial recognition and measurement***

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

***Subsequent measurement***

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

***Loans to/(from) group companies***

These include loans to and from holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost.

***Trade and other receivables***

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

***Trade and other payables***

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

***Cash and cash resources***

Cash and cash resources comprise cash on hand and demand deposits. These are initially and subsequently recorded at fair value.

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS CONTINUED

### 1.7 Financial instruments continued

***Bank overdraft and borrowings***

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

***Derivatives***

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts, are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise. Derivatives are classified as financial assets at fair value through profit or loss – held for trading.

### 1.8 Tax

***Current tax assets and liabilities***

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities/(assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

***Deferred tax assets and liabilities***

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

***Tax expenses***

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income; or
- a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same period, to other comprehensive income.

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

***Operating leases – lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred. Refer to note 35 - Commitments on page 91.

### 1.10 Inventories

Inventories are measured at the lower of cost and net realisable value on the first-in-first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

# ACCOUNTING POLICIES CONTINUED

**for the year ended 28 February 2018**

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS CONTINUED

### 1.11 Impairment of non-financial assets

The group assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the group also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period; and
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

The group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

### 1.12 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. When any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

### 1.13 Employee benefits

***Short-term employee benefits***

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

***Defined contribution plans***

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS CONTINUED

### 1.14 Provisions and contingencies

Provisions are recognised when:

- the group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

### 1.15 Revenue

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, estimated returns, rebates, discounts and value added tax after eliminating sales within the group. Revenue is recognised as follows:

***Sale of goods***

Sale of goods is recognised when a group entity has delivered products to the customer, the customer has accepted the products and all risks and rewards associated with them, there is no further group management involvement in the products and collectability of the related receivables is reasonably assured. Products are often sold with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

***Rendering of services (commission income)***

Commission income is recognised in the accounting period in which the services are rendered. This is the period in which the sale of products under the commission agreement takes place.

***Rental income***

Rental income of properties is recognised on a straight-line basis over the lease term. Rental income is recognised in other operating income.

### 1.16 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

# ACCOUNTING POLICIES CONTINUED

**for the year ended 28 February 2018**

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS CONTINUED

### 1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings; and
- weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Translation of foreign currencies

***Functional and presentation currency***

Items included in the annual financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

The consolidated annual financial statements are presented in Rand, which is the group functional and presentation currency.

***Foreign currency transactions***

A foreign currency transaction is recorded, on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

### 1.19 Investment revenue

Interest is recognised, in profit and loss, using the effective interest rate.

Dividends are recognised in profit and loss when the company's right to receive payment has been established.

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS CONTINUED

### 1.20 Joint agreement

A joint agreement is 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. A joint arrangement is either a joint venture or a joint operation. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations relating to the arrangement.

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated balance sheet.

Subsequent to initial recognition, the group recognises its share of the profit or loss until the date on which control ceases.

### 1.21 Share-based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or as the services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction.

For equity-settled share-based payment transactions the goods or services received and the corresponding increase in equity are measured, directly, at the fair value of the goods or services received.

Vesting conditions which are not market related are not taken into consideration when determining the fair value of the equity instruments granted. Instead, vesting conditions which are not market related shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. There are no market-related vesting conditions.

The share-based payments do not vest until the employee completes a specified period of service, therefore the group accounts for those services as they are rendered on a straight-line basis over the vesting period.

## 2. NEW STANDARDS AND INTERPRETATIONS

### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

| International Financial Reporting Standards and amendments issued and not yet effective | | | |
|---|---|---|---|
| Number | Effective date | Executive summary | Applicable to Insimbi |
| Amendment to IAS 7: Cash flow statements | Annual periods beginning on or after 1 January 2017 (published February 2016) | In January 2016, the International Accounting Standards Board ("IASB") issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.<br>The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities. | Yes. The relevant disclosure has been added in note 33 on page 90. |

# ACCOUNTING POLICIES CONTINUED

**for the year ended 28 February 2018**

## 2. NEW STANDARDS AND INTERPRETATIONS CONTINUED

### 2.1 Standards and interpretations effective and adopted in the current year continued

International Financial Reporting Standards and amendments issued and not yet effective

| Number | Effective date | Executive summary | Applicable to Insimbi |
|---|---|---|---|
| Amendment to IAS 12: Income taxes<br><br>Recognition of deferred tax assets for unrealised losses. | Annual periods beginning on or after 1 January 2017 | The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses.<br><br>The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. | Yes, but as no companies in the group have unrealised losses, there is no impact on the current year. |
| Annual improvements 2014 – 2016 (part) | Annual periods beginning on or after 1 January 2017 | These amendments impact three standards, one being effective from 1 January 2017.<br>• IFRS 12: 'Disclosure of interests in other entities regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirements of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). | Yes, but no impact in current period, as there are no interests classified as held for sale. |

### 2.2 Standards and interpretations not yet effective

International Financial Reporting Standards, interpretations and amendments issued but not effective for 28 February 2018 year-end

| Number | Effective date | Executive summary | Expected impact |
|---|---|---|---|
| IFRS 9: Financial instruments (2009 and 2010)<br>• Financial liabilities<br>• Derecognition of financial instruments<br>• Financial assets<br>• General hedge accounting | Annual periods beginning on or after 1 January 2018 | It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. | Financial liabilities are carried at amortised cost, with no requirement to change the recognition or presentation. Therefor there is no expected impact.<br><br>Impairment requirement might result in earlier recognition of credit losses, although it is not expected to be material.<br><br>The group does not apply hedge accounting, therefore no expected impact. |
| IFRS 15: Revenue from contracts with customers. | Annual periods beginning on or after 1 January 2018 | The standard prescribes a comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. | As the group does not receive any revenue from contracts, there is no expected impact. |
| IFRS 16: Leases | Annual periods beginning on or after 1 January 2019 | FRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts<br><br>For lessors, the accounting stays almost the same. | The group does not have any material leases, therefore no material impact is expected. |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2018

## 3. PROPERTY, PLANT AND EQUIPMENT

| | 2018 Cost or revaluation R'000 | 2018 Accumulated depreciation R'000 | 2018 Carrying value R'000 | 2017 Cost or revaluation R'000 | 2017 Accumulated depreciation R'000 | 2017 Carrying value R'000 |
|---|---|---|---|---|---|---|
| **GROUP** | | | | | | |
| Land | **36 130** | **–** | **36 130** | 30 537 | – | 30 537 |
| Buildings | **113 576** | **(670)** | **112 906** | 109 775 | (117 831) | 91 945 |
| Plant and machinery | **143 944** | **(62 412)** | **81 532** | 144 114 | (60 469) | 83 645 |
| Furniture and fixtures | **12 125** | **(5 463)** | **6 662** | 7 641 | (4 463) | 3 178 |
| Motor vehicles | **58 739** | **(28 195)** | **30 544** | 51 369 | (23 309) | 28 060 |
| IT equipment | **8 529** | **(6 149)** | **2 380** | 7 867 | (6 136) | 1 730 |
| **Total** | **373 043** | **(102 889)** | **270 514** | 351 303 | (212 208) | 239 095 |

**Reconciliation of property, plant and equipment**

| | Opening balance R'000 | Additions R'000 | Disposals R'000 | Revaluations R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **GROUP** | | | | | | |
| **2018** | | | | | | |
| Land | **30 537** | **–** | **–** | **5 593** | **–** | **36 130** |
| Buildings | **91 945** | **–** | **–** | **26 093** | **(5 132)** | **112 906** |
| Plant and machinery | **83 645** | **5 134** | **(42)** | **–** | **(7 205)** | **81 532** |
| Furniture and fixtures | **3 178** | **4 199** | **–** | **–** | **(715)** | **6 662** |
| Motor vehicles | **28 060** | **9 430** | **(364)** | **–** | **(6 582)** | **30 544** |
| IT equipment | **1 730** | **1 594** | **(15)** | **–** | **(929)** | **2 380** |
| | **239 095** | **20 357** | **(421)** | **31 686** | **(20 563)** | **270 154** |

| | Opening balance R'000 | Additions R'000 | Additions through business combinations R'000 | Disposals R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Land | 18 443 | – | 12 094 | – | – | 30 537 |
| Buildings | 52 740 | 5 241 | 37 006 | – | (4 462) | 91 945 |
| Plant and machinery | 40 164 | 8 560 | 39 676 | (293) | (5 189) | 83 645 |
| Furniture and fixtures | 1 165 | 1 169 | 1 306 | (8) | (454) | 3 178 |
| Motor vehicles | 3 304 | 1 372 | 26 295 | (611) | (2 300) | 28 060 |
| IT equipment | 842 | 389 | 1 021 | (10) | (512) | 1 730 |
| | 116 658 | 16 731 | 117 398 | (922) | (10 770) | 239 095 |

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company. The property is pledged as security for the term loan (note 19).

Additions include plant and machinery, and vehicles through instalment sales of R18,7 million (2017: R9,88 million) and cash additions of R1,6 million (2017: R10,37 million).

**for the year ended 28 February 2018**

## 3. PROPERTY, PLANT AND EQUIPMENT CONTINUED

**Revaluations**

***Revaluation of land and buildings***

The effective date of the last revaluations was Thursday, 28 February 2018. Revaluations were performed by independent valuer, Mr Michael Gibbons, MRCIS, MIV (SA), of MillsFitchet, who are not connected to the group. The valuer is a professional valuer registered without restriction in terms of section 19 of the Property Valuers Professional Act 47 of 2000.

Land and buildings are revalued independently every five years. The next revaluation will be performed on 28 February 2023.

The carrying amount of the land and buildings under the cost model would have been R23 799 135 (2017: R25 995 995).

The valuation was performed using the capitalisation of net income method, and applying a capitalisation rate to the resultant net income indicative of the property and covenant of the tenant. A capitalisation rate of 9,25% was used, as well as market-related rentals for similar properties in similar areas. A revaluation surplus of R31 686 350 less deferred tax of R8 370 016 has been recognised in other comprehensive income. This assumption was based on market conditions at the time.

## 4. GOODWILL

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Cost R'000** | **Accumulated impairment R'000** | **Carrying value R'000** | Cost R'000 | Accumulated impairment R'000 | Carrying value R'000 |
| **GROUP** | | | | | | |
| Goodwill | **111 891** | **(4 300)** | **107 591** | 111 891 | (4 300) | 107 591 |

**Reconciliation of goodwill**

| | **Opening balance R'000** | **Total R'000** |
|---|---|---|
| **GROUP** | | |
| **2018** | | |
| Goodwill | **107 591** | **107 591** |

| | Opening balance R'000 | Additions through business combinations R'000 | Prior period error* R'000 | Total R'000 |
|---|---|---|---|---|
| **2017** | | | | |
| Goodwill | 44 560 | 57,031 | 6,000 | 107,591 |

** Prior period error Please refer to note 38 on page 94 for details.*

## 4. GOODWILL CONTINUED

**Impairment test for goodwill**

The impairment test for goodwill identifies the recoverable amount of a cash-generating unit and is determined based on value-in-use calculations.

Management reviews business performance based on the market segments in which the group operates. The following is a summary of the goodwill allocation to each operating segment:

| | Opening balance R'000 | Additions (impairments) R'000 | Closing balance R'000 |
|---|---|---|---|
| **Allocation of goodwill by segment** | | | |
| Non-ferrous | **76 228** | – | **76 228** |
| Ferrous | **18 001** | – | **18 001** |
| Refractory | **4 424** | – | **4 424** |
| Plastics | **8 938** | – | **8 938** |
| | **107 591** | – | **107 591** |

Value-in-use calculations use cash flow projections based on financial budgets approved by management and cover a five-year period. The estimated growth rates applied are in line with that of the industry in which the company operates and are materially similar to assumptions of external market sources. The cash-generating unit's recoverable amount is most sensitive to the assumptions detailed below. Growth rates for impairment testing purposes beyond five years were assumed to be 3%. Assumptions were based on management's past experience and best estimates regarding forecasts. Management determined budgeted gross margin based on past performance and its expectation of market developments. The discount rates used reflect the appropriate risk associated with the industry and its respective businesses.

The key assumptions used for the value-in-use calculations are as follows:

| | **2018** | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| **Key assumptions** | **Non-ferrous %** | **Ferrous %** | **Refractory %** | **Plastics %** | Non-ferrous % | Ferrous % | Refractory % | Plastics % |
| Gross margin – budgeted | **9,60** | **9,01** | **12,70** | **37,80** | 8,80 | 13,00 | 16,00 | 35,10 |
| Growth rate – nominal | **3,00** | **3,00** | **3,00** | **3,00** | 3,00 | 3,00 | 3,00 | 3,00 |
| Discount rate – nominal (post-tax) | **23,26** | **20,86** | **20,86** | **16,03** | 23,26 | 21,54 | 21,54 | 18,47 |

Gross margin – budgeted gross margin as per 2018/9 budget
Growth rate – minimum growth rate used to extrapolate cash flows beyond the budget period
Discount rate – pre-tax discount rate applied to the cash flow projections

Management has determined budgeted gross margin based on past performance and its expectations of the market development. The minimum growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

**Sensitivity analysis**

An increase or decrease in the assumed growth rate, discount rate or budgeted gross margin of 1% will not result in any impairment to the group. The sensitivity analysis has been performed at a segment as well as a group level, and there is sufficient headroom in all instances.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 28 February 2018

| | 2018 Cost/ valuation R'000 | 2018 Accumulated amortisation R'000 | 2018 Carrying value R'000 | 2017 Cost/ valuation R'000 | 2017 Accumulated amortisation R'000 | 2017 Carrying value R'000 |
|---|---|---|---|---|---|---|
| **5. INTANGIBLE ASSETS** | | | | | | |
| **GROUP** | | | | | | |
| Regulatory permit | **2 500** | **–** | **2 500** | 2 500 | – | 2 500 |
| Intangible assets under development | **–** | **–** | **–** | 9 336 | – | 9 336 |
| Intangible assets | **9 336** | **(311)** | **9 025** | – | – | – |
| **Total** | **11 836** | **(311)** | **11 525** | 11 836 | – | 11 836 |

**Reconciliation of intangible assets**

| | Opening balance R'000 | Additions R'000 | Borrowing cost capitalised R'000 | Amortisation R'000 | Total R'000 |
|---|---|---|---|---|---|
| **GROUP** | | | | | |
| **2018** | | | | | |
| Regulatory permit | **2 500** | **–** | **–** | **–** | **2 500** |
| Intangible assets under development | **9 336** | **(9 336)** | **–** | **–** | **–** |
| Intangible assets | **–** | **9 336** | **–** | **(311)** | **9 025** |
| | **11 836** | **–** | **–** | **(311)** | **11 525** |
| **2017** | | | | | |
| Regulatory permit | 2 500 | – | – | – | 2 500 |
| Intangible assets under development | 8 113 | 922 | 301 | – | 9 336 |
| | 10 613 | 922 | 301 | – | 11 836 |

**Borrowing costs capitalised**

Borrowing costs capitalised are from general borrowings and represented a weighted average capitalisation rate of 3,27% in 2017.

**Other information**

The useful life of regulatory permit is considered indefinite. It is not bound by any expiry period as there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the group. The permit endures in perpetuity provided that the company complies with changes in legislation as they occur. This is included within the non-ferrous operating segment value-in-use calculation.

The impairment test for this intangible asset identifies the recoverable amount of the cash-generating unit determined based on value-in-use. A discount rate of 23,26% has been used. Refer to note 12 for significant estimate and judgement information.

| | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|
| **Allocation of intangible assets with indefinite lives to cash-generating units** | | | | |
| Non-ferrous | **2 500** | 2 500 | **–** | – |
| Ferrous | **–** | – | **–** | – |
| Refractory | **–** | – | **–** | – |
| Plastics | **–** | – | **–** | – |
| | **2 500** | 2 500 | **–** | – |
| **Intangible assets:** | | | | |
| Insimbi Nano Milling Technology | **9 025** | 9 336 | **–** | – |

The investment in Nano Milling Technology was conceived to introduce the concept of nano sizing of a range of products to the South African industry. Nano sizing is the reduction of particle size with sophisticated equipment to extremely fine submicron sizes.

## 6. INVESTMENT IN SUBSIDIARIES

### GROUP AND COMPANY

| Name of company | Held by | Holding 2018 % | Holding 2017 % | Carrying amount 2018 R'000 | Carrying amount 2017 R'000 |
|---|---|---|---|---|---|
| Insimbi Alloy Properties Proprietary Limited | Insimbi Refractory and Alloy Supplies Limited | **100,00** | 100,00 | **–** | – |
| Insimbi Alloy Supplies Proprietary Limited | Insimbi Refractory and Alloy Supplies Limited | **100,00** | 100,00 | **23 574** | 23 574 |
| Insimbi Refractory and Alloy Supplies Proprietary Limited Zambia | Insimbi Alloy Supplies Proprietary Limited | **90,00** | 90,00 | **–** | – |
| Insimbi Refractory and Alloy Supplies Proprietary Limited Zambia | Insimbi Refractory and Alloy Supplies Limited | **10,00** | 10,00 | **–** | – |
| Insimbi Modular Plastics Proprietary Limited | Insimbi Alloy Supplies Proprietary Limited | **60,00** | 60,00 | **–** | – |
| Insimbi Aluminium Alloys Proprietary Limited | Insimbi Alloy Supplies Proprietary Limited | **100,00** | 100,00 | **–** | – |
| Insimbi Thermal Insulation Proprietary Limited | Insimbi Alloy Supplies Proprietary Limited | **100,00** | 100,00 | **–** | – |
| Metlite Alloys Proprietary Limited | Insimbi Alloy Supplies Proprietary Limited | **100,00** | 100,00 | **–** | – |
| Metlite Alloy Properties Proprietary Limited | Insimbi Alloy Properties Proprietary Limited | **100,00** | 100,00 | **–** | – |
| Insimbi Nano Milling Proprietary Limited | Insimbi Alloy Supplies Proprietary Limited | **100,00** | 100,00 | **–** | – |
| TP Hentiq 6064 Proprietary Limited | Insimbi Alloy Supplies Proprietary Limited | **100,00** | 100,00 | **–** | – |
| Polydrum Proprietary Limited | Insimbi Alloy Supplies Proprietary Limited | **87,50** | 87,50 | **–** | – |
| Insimbi EmployeeCo Proprietary Limited* | Insimbi Refractory and Alloy Supplies Limited | **0,01** | 0,01 | **10 832** | 10 960 |
| Insimbi Manco Proprietary Limited* | Insimbi Refractory and Alloy Supplies Limited | **0,02** | 0,02 | **7 265** | 7 359 |
| Amalgamated Metals Group Holdings Proprietary Limited | Insimbi Refractory and Alloy Supplies Limited | **23,31** | 23,31 | **56 000** | 56 000** |
| Amalgamated Metals Group Holdings Proprietary Limited | Insimbi Alloy Supplies Proprietary Limited | **76,69** | 76,69 | **–** | – |
| | | | | **97 671** | 97 893 |

* *Special purpose entities under the control of the group.*

** *Restated. Refer note 38 on page 94*

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

**for the year ended 28 February 2018**

## 7. JOINT VENTURES

The following table lists all of the joint ventures in the group:

| Name of company | Held by | **Ownership interest 2018 %** | Ownership interest 2017 % | **Carrying amount 2018 R'000** | Carrying amount 2017 R'000 |
|---|---|---|---|---|---|
| **GROUP** | | | | | |
| Cronimet Two Joint Venture | Amalgamated Metals Group Holdings | **6,75** | 6,75 | **577** | 670 |

The joint venture is incorporated in South Africa and the other parties are entities in the metal recycling industry. The joint venture was started to encourage recyclers to offer stainless steel to local markets, before offering the product to export markets.

In accordance with the terms of the contractual agreement in place, the group is entitled to 8,11% of the net assets of Cronimet Two Joint Venture and has 20% of the voting rights in the joint venture. The total net assets of Cronimet Two Joint Venture as at 28 February 2018 amounted to R7 111 424 (2017: R8 260 662).

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **8. LOANS TO/(FROM) GROUP COMPANIES** | | | | |
| **Subsidiaries** | | | | |
| Insimbi EmployeeCo Proprietary Limited<br>*The loan is unsecured, interest free and has no fixed terms of repayment.* | **–** | – | **1** | 1 |
| Metlite Alloys Proprietary Limited<br>*The loan is unsecured, interest free and has no fixed terms of repayment.* | **–** | – | **2** | – |
| Insimbi ManCo Proprietary Limited<br>*The loan is unsecured, interest free and has no fixed terms of repayment.* | **–** | – | **1** | 1 |
| Insimbi Alloy Supplies Proprietary Limited<br>*The loan is unsecured, interest free and has no fixed terms of repayment.* | **–** | – | **53 702** | 50 704 |
| Polydrum Proprietary Limited<br>*The loan is unsecured, interest free and has no fixed terms of repayment.* | **–** | – | **2** | – |
| Insimbi Alloy Properties Proprietary Limited<br>*The loan is unsecured, interest free and has no fixed terms of repayment.* | **–** | – | **5 456** | 5 435 |
| | | | **59 164** | 56 139 |
| Non-current assets | **–** | – | **–** | – |
| Current assets | **–** | – | **59 164** | 56 139 |
| Current liabilities | **–** | – | **–** | – |
| | **–** | – | **59 164** | 56 139 |

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The group does not hold any collateral as security.

| | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|
| **8. LOANS TO/(FROM) GROUP COMPANIES CONTINUED** | | | | |
| **Fair value of loans to and from group companies** | | | | |
| Loan owed by Insimbi Alloy Properties Proprietary Limited | **–** | – | **5 456** | 5 421 |
| Loan owed by Insimbi Alloy Supplies Proprietary Limited | **–** | – | **53 702** | 45 784 |

The fair values of the loans to group companies are based on discounted cash flows, using the prime lending rate of 10,25% (2017: 10,5%).

The fair values are within level 3 of the fair value hierarchy.

| | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|
| **9. LOANS TO/(FROM) SHAREHOLDERS** | | | | |
| Modular Dock Proprietary Limited<br>*The loan is unsecured, interest free and has no fixed terms of repayment.* | **(593)** | (296) | **–** | – |
| B Fetting<br>*The loan is unsecured, interest free and has no fixed terms of repayment.* | **(1 682)** | (2 195) | **–** | – |
| | **(2 275)** | (2 491) | **–** | – |

The loans will only become repayable once the companies the loans relate to, become profitable.

## 10. FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

| | Loans and receivables R'000 | Total R'000 |
|---|---|---|
| **GROUP** | | |
| **2018** | | |
| Trade and other receivables* | **290 421** | **290 421** |
| Cash and cash equivalents | **32 408** | **32 408** |
| | **332 829** | **332 829** |
| **2017** | | |
| Trade and other receivables* | 263 719 | 263 719 |
| Cash and cash equivalents | 29 848 | 29 848 |
| | 293 567 | 293 567 |
| **COMPANY** | | |
| **2018** | | |
| Loans to group companies | **59 164** | **59 164** |
| Trade and other receivables* | **559** | **559** |
| | **59 723** | **59 723** |
| **2017** | | |
| Loans to group companies | 56 141 | 56 141 |
| Cash and cash equivalents | 397 | 397 |
| | 56 538 | 56 538 |

** Pre-payments and VAT receivable are excluded from trade and other receivables*

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 28 February 2018

## 11. DEFERRED TAXATION

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | (Restated) 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **Deferred tax liability** | | | | |
| Accelerated tax depreciation | **–** | (474) | **–** | – |
| Revaluation of property, plant and equipment | **(15 242)** | (6 872)* | **–** | – |
| Fair value uplift on property, plant and equipment through business combination | **(16 445)** | (20 744)* | **–** | – |
| Prepayment | **(271)** | – | **(10)** | – |
| **Total deferred tax liability** | **(31 958)** | (28 090) | **(10)** | – |
| **Deferred tax assets** | | | | |
| Provisions | **3 313** | 2 984 | **762** | – |
| Tax losses available for offset against future taxable income | **912** | 4 830 | **–** | 53 |
| Other | **2 155** | 1 802 | **–** | – |
| **Total deferred tax asset** | **6 380** | 9 616 | **762** | 53 |
| **Total net deferred tax** | **(25 578)** | (18 474) | **752** | 53 |
| Disclosed as net deferred tax asset | **3 388** | 7 609 | **752** | 53 |
| Disclosed as net deferred tax liability | **(28 966)** | (26 083) | **–** | – |
| **The gross movement on the deferred tax income account is as follows:** | | | | |
| Opening balance | **(18 474)** | (4 858) | **53** | 437 |
| (Credited)/charged to the income statement | **1 266** | 1 446 | **699** | (384) |
| (Credited) to other comprehensive income | **(8 370)** | – | **–** | – |
| Acquisition of subsidiary | **–** | (15 062) | **–** | – |
| **Closing balances** | **(25 578)** | (18 474) | **752** | 53 |

** Restated for improved disclosure*

| | Provisions R'000 | Tax losses available for set-off R'000 | Other R'000 | Total assets R'000 |
|---|---|---|---|---|
| **GROUP** | | | | |
| The movement in deferred tax assets during the year is as follows: | | | | |
| At 1 March 2016 | 1 218 | 5 727 | 1 804 | 8 749 |
| Charged/(credited) to the income statement | 1 766 | (1 289) | (2) | 475 |
| Charged/(credited)to other comprehensive income | – | – | – | – |
| Acquisition of subsidiary | – | 392 | – | 392 |
| At 28 February 2017 | 2 984 | 4 830 | 1 802 | 9 616 |
| **Charged/(credited) to the income statement** | **329** | **(3 918)** | **353** | **(3 236)** |
| **Charged/(credited) to other comprehensive income** | **–** | **–** | **–** | **–** |
| **Acquisition of subsidiary** | **–** | **–** | **–** | **–** |
| **At 28 February 2018** | **3 313** | **912** | **2 155** | **6 380** |

## 11. DEFERRED TAXATION CONTINUED

| | Accelerated tax depreciation R'000 | Revaluation of property, plant and equipment R'000 | Fair value gains through business combination R'000 | Pre-payments R'000 | Total liabilities R'000 |
|---|---|---|---|---|---|
| **GROUP** | | | | | |
| The movement in deferred tax liabilities during the year is as follows: | | | | | |
| At 1 March 2016 | (1 439) | (6 872) | (5 290) | (6) | (13 607) |
| Charged/(credited) to the income statement | 965 | – | – | 6 | 971 |
| Charged/(credited) to other comprehensive income | – | – | – | – | – |
| Acquisition of subsidiary | – | – | (15 454) | – | (15 454) |
| At 28 February 2017 | (474) | (6 872) | (20 744) | – | (28 090) |
| **(Credited)/charged to the income statement** | **474** | **–** | **4 299** | **(271)** | **4 502** |
| **(Credited)/charged to other comprehensive income** | **–** | **(8 370)** | **–** | **–** | **(8 370)** |
| **At 28 February 2018** | **–** | **(15 242)** | **(16 445)** | **(271)** | **(31 958)** |

| | Tax losses R'000 | Provisions R'000 | Total assets R'000 |
|---|---|---|---|
| **COMPANY** | | | |
| The movement in deferred tax assets and liabilities during the year is as follows: | | | |
| At 1 March 2016 | 437 | – | 437 |
| (Credited)/charged to the income statement | (384) | – | (384) |
| (Credited)/charged to other comprehensive income | – | – | – |
| At 28 February 2017 | 53 | – | 53 |
| **(Credited)/charged to the income statement** | **(53)** | **762** | **709** |
| **(Credited)/charged to other comprehensive income** | **–** | **–** | **–** |
| **At 28 February 2018** | **–** | **762** | **762** |

| | **Pre-payments** | **Total laibilities** |
|---|---|---|
| At 1 March 2017 | **–** | **–** |
| (Credited)/charged to the income statement | **(10)** | **(10)** |
| (Credited)/charged to other comprehensive income | **–** | **–** |
| At 28 February 2018 | **(10)** | **(10)** |

## 12. RETIREMENT BENEFITS

**Defined contribution plan**

The employees of the group are members of a defined contribution plan, which is administered by Alexander Forbes Retirement Fund. The fund is governed by the Pension Fund Act of 1956.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as and expensed when they are due. The expense recognised during the year was R3 725 547 (2017: R3 455 315).

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

**for the year ended 28 February 2018**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **13. INVENTORIES** | | | | |
| Raw materials, components | **111 354** | 135 806 | **–** | – |
| Finished goods | **3 103** | 2 466 | **–** | – |
| Goods in transit | **34 417** | 15 777 | **–** | – |
| | **148 874** | 154 049 | **–** | – |
| Inventories (write-downs)* | **(930)** | (1 503) | **–** | – |
| | **147 944** | 152 546 | **–** | – |

** Relates to raw materials and components*

The total inventory write-down for the year was included in the cost of sales.

The inventory balances do not include any spare parts.

| | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|
| **14. TRADE AND OTHER RECEIVABLES** | | | | |
| Trade receivables | **290 087** | 265 858 | **–** | – |
| Provision for impairment | **(3 853)** | (4 346) | **–** | – |
| Prepayments | **1 981** | 7 537 | **34** | – |
| Deposits | **605** | 604 | **–** | – |
| VAT | **1 241** | 4 536 | **–** | – |
| Sundry debtors | **3 582** | 1 603 | **525** | – |
| | **293 643** | 275 792 | **559** | – |

**Credit quality of trade and other receivables**
Credit insurance has been taken out on selected debtors to reduce credit risk, which is why a large amount of debtors past due has not been impaired. Insurance is taken on an invoice basis, and fluctuates throughout the year.

**Trade and other receivables past due but not impaired**
Trade and other receivables which are less than 60 days past due are not considered to be impaired. At 28 February 2018, R13 201 361 (2017: R14 794 000) was past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|
| 60 days past due | **5 761** | 3 320 | **–** | – |
| 90 days past due | **6 073** | 2 158 | **–** | – |
| 120 days past due | **1 367** | 9 316 | **–** | – |

**Trade and other receivables impaired**
As of 28 February 2018, trade and other receivables of R3 852 445 (2017: R4 346 000) were impaired and provided for.

The amount of the provision was R3 852 445 as of 28 February 2018 (2017: R4 346 000).

**Reconciliation of provision for impairment of trade and other receivables**

| | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|
| Opening balance | **(4 346)** | (3 477) | **–** | – |
| Provision for impairment | **(693)** | (869) | | |
| Amounts written off as uncollectable | **1 186** | – | **–** | – |
| | **(3 853)** | (4 346) | **–** | – |

## 14. TRADE AND OTHER RECEIVABLES CONTINUED

The creation and release of provision for impaired receivables have been included in operating expenses in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The group does not hold any collateral as security.

In the current year trade receivables of R1,19 million (2017: R9,96 million, not provided for previously) have been impaired. The amount has been included in other operating expenses.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **15. CASH AND CASH RESOURCES** | | | | |
| Cash and cash equivalents consist of: | | | | |
| Cash on hand | **1 374** | 1 657 | **–** | – |
| Bank balances | **31 034** | 28 191 | **–** | 397 |
| Bank overdraft | **(10 110)** | (32 327) | **–** | – |
| | **22 298** | (2 479) | **–** | 397 |
| **16. SHARE CAPITAL** | | | | |
| **Authorised** | | | | |
| 12 000 000 000 ordinary shares of 0,000025 cents each | **3** | 3 | **3** | 3 |
| **Reconciliation of number of shares issued ('000):** | | | | |
| Treasury shares/held by subsidiaries | **24 105** | 23 106 | **24 105** | 23 106 |
| Ordinary shares held | **385 895** | 386 894 | **385 895** | 386 894 |
| | **410 000** | 410 000 | **410 000** | 410 000 |

Unissued ordinary shares are under the control of the directors in terms of a resolution of members passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

999 705 (2017: 392 235) ordinary shares were repurchased from the market for an amount of R1 184 884 (2017: R4 056 000).

| | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|
| **Issued (R'000)** | | | | |
| Share premium (restated) | **205 322*** | 205 322* | **205 322*** | 205 322* |
| Share issue costs written off against share premium | **(8 618)** | (8 618) | **(8 618)** | (8 618) |
| Treasury shares/held by subsidiaries | **(19 399)** | (18 215) | **–** | – |
| | **177 305** | 178 489 | **196 704** | 196 704 |

** For details on the prior period restatement, please refer to note 38 on page 94*

Shares repurchased by a subsidiary and held in treasury amounted to R19 399 734 (2017: R18 214 850) at year-end which are disclosed as a reduction of equity in the statement of changes in equity.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

**for the year ended 28 February 2018**

## 17. SHARE-BASED PAYMENTS

In the 2017 financial year Insimbi entered into agreements for the implementation of an employee share participation transaction and a management share participation transaction in terms of which eligible employees of Insimbi (other than directors and prescribed officers of the group) collectively obtained an approximate 8,78% indirect shareholding interest in Insimbi Refractory and Alloy Supplies Limited. The exercise price of the granted option is R1,14 and the value is R0,78 on the date of the grant. Options are conditional on the employee completing five years' service (the vesting period), whereafter the options may be exercised in three one-year tranches (years six, seven and eight). The group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding, and their related weighted average exercise price are as follows:

| Share option group | Number | Option value | Total value |
|---|---|---|---|
| Outstanding at the beginning of the year | 22 835 887 | R0,78 | R17 814 059 |
| Outstanding at the end of the year | 22 835 887 | R0,78 | R17 814 059 |

Weighted average share price at exercise date of options was R1 (2017: R1).

**Information on options granted**

The weighted fair value was determined using the Black-Scholes valuation model. The following inputs were used:

- Weighted average share price – R1,00
- Exercise price – R1,14
- Expected volatility – 67,9%
- Option life – 8 years
- Expected dividends – 7,26%
- The risk-free interest rate – 8,52%
- Volatility has been determined by considering the historical volatility of the Insimbi Refractory and Alloy Supplies Limited share, calculated as the annualised standard deviation of the continuously compounded daily returns of the underlying share under the assumption that the share price is log-normally distributed. This is calculated over a period commensurate with the term of each tranche.

Total expenses of R1 309 620 (2017: R979 524) related to equity-settled share-based payments transactions were recognised in 2018 and 2017 respectively.

## 18. REVALUATION RESERVE

In 2013 the group changed its accounting policy for the treatment of land and buildings to the revaluation method in terms of IAS 16: Property, plant and equipment. The group has revalued its land and buildings under the revaluation model and the effect was as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| Surplus on revaluation of land and buildings | **60 061** | 28 375 | **–** | – |
| Deferred taxation | **(15 242)** | (6 872) | **–** | – |
| | **44 819** | 21 503 | **–** | – |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **19. OTHER FINANCIAL LIABILITIES** | | | | |
| **At fair value through profit or loss** | | | | |
| Foreign exchange contract | **2 697** | 2 823 | **–** | – |
| The fair value of the foreign currency exchange contracts is determined by using the relevant exchange spot rates at the balance sheet date. | | | | |
| The derivative instruments are held at fair value and have significant inputs other than quoted prices that are either directly or indirectly observable for the instruments. This results in the fair value measure of these instruments being classified as level 2 in the fair value ranking. No other financial instruments are held at fair value. | | | | |
| **Held at amortised cost** | | | | |
| FirstRand Bank Limited – leveraged finance | **10 093** | 13 560 | **–** | – |
| Absa Bank Limited – term loan | **61 267** | 80 000 | **–** | – |
| FirstRand Bank Limited – mortgage bonds | **53 131** | 57 839 | **–** | – |
| FirstRand Bank Limited – overdraft | **37 981** | 49 500 | **–** | – |
| Casterly Rock Investments Proprietary Limited* | **16 806** | 16 804 | **–** | – |
| Crimson Clover Investments Proprietary Limited* | **16 406** | 16 404 | **–** | – |
| Golden Griffin Investments Proprietary Limited* | **16 806** | 16 804 | **–** | – |
| Loans from previous owners | **–** | 13 605 | **–** | – |
| Instalment sales | **26 007** | 20 509 | **–** | – |
| | **238 497** | 285 025 | **–** | – |
| **Total other financial liabilities** | **241 194** | 287 848 | **–** | – |
| **Non-current liabilities** | | | | |
| FirstRand Bank Limited – leveraged finance | **6 627** | 10 094 | **–** | – |
| Absa Bank Limited – term loan | **45 267** | 64 000 | **–** | – |
| FirstRand Bank Limited – mortgage bonds | **48 680** | 53 387 | **–** | – |
| Casterly Rock Investments Proprietary Limited* | **16 806** | 16 804 | **–** | – |
| Crimson Clover Investments Proprietary Limited* | **16 406** | 16 404 | **–** | – |
| Golden Griffin Investments Proprietary Limited* | **16 806** | 16 804 | **–** | – |
| Instalment sales | **15 610** | 17 318 | **–** | – |
| | **166 202** | 210 811 | **–** | – |
| **Current liabilities** | | | | |
| FirstRand Bank Limited – leveraged finance | **3 466** | 3 466 | **–** | – |
| Absa Bank Limited – term loan | **16 000** | 16 000 | **–** | – |
| FirstRand Bank Limited – mortgage bonds | **4 451** | 4 451 | **–** | – |
| FirstRand Bank Limited – overdraft | **37 981** | 49 500 | **–** | – |
| Loans from previous owners | **–** | 13 605 | **–** | – |
| Foreign exchange contract | **2 697** | 2 823 | **–** | – |
| Instalment sales | **10 397** | 3 192 | **–** | – |
| | **74 992** | 77 037 | **–** | – |
| | **241 194** | 287 848 | **–** | – |

** Related parties of the group.*

The fair value of all borrowings approximates the carrying value of the borrowings, and the impact of discounting is not significant.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

**for the year ended 28 February 2018**

## 19. OTHER FINANCIAL LIABILITIES CONTINUED

**FirstRand Bank Limited – mortgage bond**

Interest rate – prime less 0,25%. The monthly repayment is R445 205,77. The loan is secured by the property held in Atlantis, Western Cape, the property held in Teakwood Road, Jacobs, KwaZulu-Natal, as well as the property acquired in Crocker Road, Wadeville. The interest rate at year-end was 10%. The last repayment falls due on 1 July 2025.

**FirstRand Bank Limited – leveraged finance**

Interest rate – prime. The monthly repayment is R387 483,28. The loan is secured by the property acquired in Atlantis, Western Cape, as well as the shareholding in Polydrum Proprietary Limited. The interest rate at year-end was 10,25%. The last repayment falls due on 7 August 2020.

**Absa Bank Limited – term loan**

Interest rate – JIBAR + 300. The monthly repayment is R1 333 333 The loan is secured by the shareholdings in Amalgamated Metals Group Holdings Proprietary Limited, a limited guarantee of R80 000 000 by Amalgamated Metals Group Holdings Proprietary Limited, a limited guarantee of R20 000 000 by Insimbi Alloy Supplies Proprietary Limited and a limited guarantee of R20 000 000 by Insimbi Refractory and Alloy Supplies Limited. The interest rate at year-end was 9,9%. The last repayment falls due on 11 January 2022.

**Absa Bank Limited – overdraft**

Interest rate – prime. The maximum amount that is permitted is R40 000 000. The balance varies from month to month, however at year-end none of the facility was in use. The interest rate at year-end was 10,25%.

**FirstRand Bank Limited – overdraft**

Interest rate – prime less 0,5%. The maximum amount that is permitted is R68 000 000 (2017: R63 500 000). The balance varies from month to month depending on the cash flow of the group and the company and there are no fixed repayment terms. The interest rate at year-end was 10%.

**Casterly Rock Investments Proprietary Limited**

Interest rate – prime plus 2%. Interest is paid bi-annually, while the capital amount can be repaid at any time, but no later than the final repayment date, which falls due on 25 December 2019.

**Crimson Clover Investments Proprietary Limited**

Interest rate – prime plus 2%. Interest is paid bi-annually, while the capital amount can be repaid at any time, but no later than the final repayment date, which falls due on 25 December 2019.

**Golden Griffin Investments Proprietary Limited**

Interest rate – prime plus 2%. Interest is paid bi-annually, while the capital amount can be repaid at any time, but no later than the final repayment date, which falls due on 25 December 2019.

**Loans from previous owners**

The loans carry no interest and have no fixed repayment terms.

**Instalment sale agreements**

Interest rate – prime linked at 10,25% (2017: 10,5%). The agreements are secured by motor vehicles and plant and equipment with a net book value of R11 688 247 (2017: R32 284 997) and repayable in monthly instalments of R1 746 186 (2017: R283 958).

**Security**

All the facilities are secured by a general notarial bond of R40 million (2017: R40 million) over inventories, plant and equipment, a mortgage bond for R34 million (2017: R34 million) over the properties in Atlantis, the property 174 Teakwood Road, Jacobs, Durban; and the property 360 Crocker Road, Wadeville.

The fire insurance policy entered into between the company and Alexander Forbes Risk Services has been endorsed in favour of FirstRand Bank Limited's interest in regard to the general notarial covering bond of R40 million.

## 19. OTHER FINANCIAL LIABILITIES CONTINUED

**Security continued**

Insimbi Alloy Supplies Proprietary Limted, Insimbi Aluminium Alloys Proprietary Limted, Metlite Alloys Proprietary Limted and Insimbi Refractory and Alloy Supllies Limited signed a deed of cession whereby all of its rights, title and interest in and to debtors are ceded to FirstRand Bank Limited as security.

Insimbi Refractory and Alloy Supplies Limited, Insimbi Alloy Supplies Proprietary Limted, Insimbi Aluminium Alloys Proprietary Limited, Insimbi Alloy Properties Proprietary Limited, Metlite Alloy Properties Proprietary Limited, Metlite Alloys Proprietary Limited, Insimbi Modular Plastics Proprietary Limted, Insimbi Nano Milling Proprietary Limted and Insimbi Thermal Insulations Proprietary Limted have signed a cross deed of suretyship whereby each company bound themselves jointly and severally as surety and co-principle debtor to FirstRand Bank Limited.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **The carrying amount of assets pledged as security is detailed as follows:** | | | | |
| Property, plant and equipment | **270 514** | 239 095 | **–** | – |
| Inventories | **147 944** | 152 546 | **–** | – |
| Trade receivables | **290 421** | 263 719 | **–** | – |
| | **708 879** | 655 360 | **–** | – |

**Covenants**

The group has certain covenants to comply with in terms of its borrowing agreements with FirstRand Bank Limited and Absa Bank. These covenants include gearing ratio, interest cover, asset to debt ratio and senior debt service ratio. The group complies with the covenants in terms of the agreements with FirstRand Bank Limited and Absa Bank Limited.

**Borrowing powers**

In terms of the memorandum of incorporation, article 61, the borrowing powers of the company are unlimited.

**Borrowing facilities**

The group has drawn R135,35 million from its total facilities of R258,53 million (2017: R163,57 million of its total facilities of R251,03 million):

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **20. TRADE AND OTHER PAYABLES** | | | | |
| Trade payables | **173 553** | 147 518 | **246** | 2 |
| VAT | **4 856** | 2 933 | **3** | 85 |
| Accrued leave pay | **1 150** | 1 650 | **–** | – |
| Accrued bonus | **7 542** | 6 422 | **2 250** | – |
| Audit fees | **2 647** | 1 836 | **472** | 131 |
| Other accrued expenses | **2 307** | 1 752 | **3** | 187 |
| | **192 055** | 162 111 | **2 974** | 405 |

**Fair value of trade and other payables**

The group has financial risk management policies in place to ensure that all payables are paid within the credit time frame, which is generally 30 days in respect of local suppliers and 90 to 180 days in respect of foreign suppliers.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

**for the year ended 28 February 2018**

## 21. FINANCIAL LIABILITIES BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below.

| | Financial liabilities at fair value through profit and loss R'000 | Financial liabilities at amortised cost R'000 | Total R'000 |
|---|---|---|---|
| **GROUP** | | | |
| **2018** | | | |
| Loans from shareholders | – | **2 275** | **2 275** |
| FirstRand Bank Limited – leveraged finance | – | **10 093** | **10 093** |
| Absa Bank Limited – term loan | – | **61 267** | **61 267** |
| FirstRand Bank Limited – mortgage bonds | – | **53 131** | **53 131** |
| FirstRand Bank Limited – overdraft | – | **37 981** | **37 981** |
| Casterly Rock Investments Proprietary Limited | – | **16 806** | **16 806** |
| Crimson Clover Investments Proprietary Limited | – | **16 406** | **16 406** |
| Golden Griffin Investments Proprietary Limited | – | **16 806** | **16 806** |
| Instalment sales | – | **26 007** | **26 007** |
| Trade and other payables* | – | **173 553** | **173 553** |
| Bank overdraft | – | **10 110** | **10 110** |
| Foreign exchange contracts | **2 698** | – | **2 698** |
| | **2 698** | **424 435** | **427 133** |
| **2017** | | | |
| Loans from shareholders | – | 2 491 | 2 491 |
| FirstRand Bank Limited – leveraged finance | – | 13 560 | 13 560 |
| Absa Bank Limited – term loan | – | 80 000 | 80 000 |
| FirstRand Bank Limited – mortgage bonds | – | 57 839 | 57 839 |
| FirstRand Bank Limited – overdraft | – | 49 500 | 49 500 |
| Casterly Rock Investments Proprietary Limited | – | 16 804 | 16 804 |
| Crimson Clover Investments Proprietary Limited | – | 16 404 | 16 404 |
| Golden Griffin Investments Proprietary Limited | – | 16 804 | 16 804 |
| Loans from previous owners | – | 13 605 | 13 605 |
| Instalment sales | – | 20 509 | 20 509 |
| Trade and other payables* | – | 147 518 | 147 518 |
| Bank overdraft | – | 32 327 | 32 327 |
| Foreign exchange contracts | 2 823 | – | 2 823 |
| | 2 823 | 467 361 | 470 184 |
| **COMPANY** | | | |
| **2018** | | | |
| Trade and other payables* | – | **246** | **246** |
| **2017** | | | |
| Loans from group companies | – | 28 702 | 28 702 |
| Trade and other payables* | – | 189 | 189 |
| | – | 28 891 | 28 891 |

** Trade and other payables excludes VAT and accruals, other than accruals that will be settled in cash*

Management has assessed the fair value of the group's financial liabilities, which it has equated to the cost of the financial liabilities.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | | | | (Restated) |
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **22. REVENUE** | | | | |
| Sale of goods | **3 487 610** | 1 337 722 | **–** | – |
| Rendering of services | **4 193** | 4 804 | **–** | – |
| Management fees received | **–** | – | **12 575** | 2 701 |
| Dividend revenue – Local | **–** | – | **12 283** | 10 149 |
| | **3 491 803** | 1 342 526 | **24 858** | 12 850 |

**Restatement**

Paragraph 7 of IAS 18 Revenue, defines revenue as beeing the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity. During the year the company reconsidered the definision in the context of the company not engaging directly in any operating activities itself. The company concluded that items such as dividends and management fees received should be regarded as revenue for the company. The following prior year financial statement lines have been updated to reflect the new disclosure.

| | COMPANY | | |
|---|---|---|---|
| | Previously reported R'000 | **Change R'000** | Restated R'000 |
| Revenue | – | **12 850** | 12 850 |
| Management fees received | 2 701 | **(2 701)** | – |
| Dividend revenue – Local | 10 149 | **(10 149)** | – |
| | 12 850 | **–** | 12 850 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **23. COST OF SALES** | | | | |
| Sale of goods | **3 146 379** | 1 156 693 | **–** | – |
| **24. OTHER OPERATING INCOME** | | | | |
| Other rental income | **949** | 841 | **–** | – |
| Other income | **246** | – | **–** | – |
| | **1 195** | 841 | **–** | – |
| **25. OTHER OPERATING GAINS/(LOSSES)** | | | | |
| **Gains on disposals, scrappings and settlements** | | | | |
| Property, plant and equipment | **138** | 508 | **–** | – |
| **Foreign exchange (losses)/gains** | | | | |
| Net foreign exchange loss | **(2 127)** | – | **(1)** | – |
| **Total other operating (losses)/gains** | **(1 989)** | 508 | **(1)** | – |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

**for the year ended 28 February 2018**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **26. OPERATING PROFIT/(LOSS)** | | | | |
| Operating profit/(loss) for the year is stated after charging/(crediting) the following, amongst others: | | | | |
| Audit fees | **3 278** | 2 639 | **1 054** | 166 |
| Occupancy costs | **14 343** | 18 772 | **380** | – |
| Repairs and maintenance | **9 913** | 4 781 | **–** | – |
| Motor vehicle expenses | **22 375** | 19 650 | **–** | – |
| Professional fees | **8 508** | 7 250 | **3 969** | 428 |
| **Employee costs** | | | | |
| Salaries and wages | **87 734** | 50 472 | **4 199** | 644 |
| Motor vehicle allowance | **2 319** | 2 613 | **302** | – |
| Medical aid contribution | **3 273** | 2 009 | **110** | – |
| Bonus and 13th cheque | **7 421** | 6 244 | **250** | – |
| Staff welfare | **1 339** | 810 | **–** | – |
| Retirement benefit plans: defined contribution expense | **3 726** | 3 455 | **69** | – |
| Skills development levy | **484** | 419 | **44** | 3 |
| UIF | **7 368** | 2 358 | **5** | 2 |
| Share-based compensation expense | **1 310** | 980 | **–** | – |
| **Total employee costs** | **114 974** | 69 360 | **4 979** | 649 |
| **Depreciation and amortisation** | | | | |
| Depreciation of property, plant and equipment | **20 563** | 10 770 | **–** | – |
| Amortisation of intangible assets | **311** | – | **–** | – |
| **Total depreciation and amortisation** | **20 874** | 10 770 | **–** | – |
| **27. INVESTMENT INCOME** | | | | |
| **Interest income** | | | | |
| **From investments in financial assets:** | | | | |
| Bank and other cash | **402** | 266 | **–** | – |
| **Total investment income** | **402** | 266 | **–** | – |
| **28. FINANCE COSTS** | | | | |
| **Total finance costs** | **30 836** | 16 656 | **–** | – |
| *Less*: Capitalised to qualifying assets | **–** | (301) | **–** | – |
| **Total finance costs expensed** | **30 836** | 16 355 | **–** | – |
| **29. TAXATION** | | | | |
| **Major components of the tax expense** | | | | |
| **Current** | | | | |
| Local income tax – current period | **29 918** | 8 532 | **753** | 138 |
| **Deferred** | | | | |
| Originating and reversing temporary differences | **(1 265)** | 1 447 | **(699)** | – |
| Charged to other comprehensive income | **8 370** | – | **–** | – |
| | **37 023** | 9 979 | **54** | 138 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **%** | % | **%** | % |
| **29. TAXATION CONTINUED** | | | | |
| **Reconciliation between applicable tax rate and effective tax rate:** | | | | |
| Applicable tax rate | **28,00** | 28,00 | **28,00** | 28,00 |
| **Tax effects of:** | | | | |
| Tax loss used | **(0,88)** | (3,92) | **(0,45)** | – |
| Tax loss for which a deferred tax asset was not raised | **0,18** | – | **–** | – |
| Exempt income | **–** | – | **(27,10)** | (28,00) |
| Disallowed expenditure* | **1,49** | 2,30 | **–** | – |
| Adjustment in respect of prior year | **–** | (0,71) | **–** | – |
| Tax charge | **28,79** | 25,67 | **0,45** | – |

** Relates to non-deductable interest and expenses of a capital nature*

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **30. CASH GENERATED FROM OPERATIONS** | | | | |
| Profit before tax | **99 929** | 38 887 | **11 895** | 11 522 |
| **Adjustments for:** | | | | |
| Depreciation | **20 874** | 10 770 | **–** | – |
| Profit on sale of assets | **(138)** | (508) | **–** | – |
| Fair value on foreign exchange contracts | **(125)** | 3 307 | **–** | – |
| Foreign exchange (loss)/gain on cash | **(271)** | 4 008 | **–** | – |
| Share-based payments | **1 309** | 980 | **–** | – |
| Interest received | **(402)** | (266) | **–** | – |
| Finance costs | **30 836** | 16 355 | **–** | – |
| Bad debt provision | **693** | 818 | **–** | – |
| Dividend received | | – | **(12 283)** | (10 149) |
| Income from equity accounted investments | **(2 543)** | (543) | **–** | – |
| Other non-cash | **(1 787)** | (1 097) | **785** | – |
| **Changes in working capital** | | | | |
| Inventories | **4 602** | 1 618 | **–** | – |
| Trade and other receivables | **(18 544)** | 6 261 | **(559)** | 59 |
| Trade and other payables | **29 944** | 8 338 | **2 569** | (447) |
| | **164 377** | 88 928 | **2 407** | 1 707 |
| **31. TAX PAID** | | | | |
| Balance at beginning of the year | **3 166** | (83) | **(326)** | 23 |
| Current tax for the year recognised profit and loss | **(28 769)** | (9 440) | **(54)** | (138) |
| Deferred tax movement | **(1 149)** | 1 445 | **699** | (384) |
| Balance at the end of the year | **(5 312)** | (3 166) | **(98)** | (326) |
| | **(32 064)** | (11 244) | **221** | (825) |
| **32. DIVIDENDS PAID** | | | | |
| Dividends | **(12 283)** | (10 149) | **(12 283)** | (10 149) |

An interim dividend of 3,0 cents (2017: 1,5 cents) per share was declared for 2018 financial year. No final dividend was declared for 2017 financial year.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

**for the year ended 28 February 2018**

| | Overdraft R'000 | Other financial liabilities – at amortised cost R'000 | Other financial liabilities – at fair value through profit and loss R'000 |
|---|---|---|---|
| **33. MOVEMENTS IN FINANCIAL LIABILITIES** | | | |
| Balance as at 1 March 2017 | 32 327 | 285 025 | 2 823 |
| Cash received from new borrowings | – | 4 500 | – |
| New borrowings to acquire assets | – | 18 744 | – |
| Loan repayments | (22 217) | (69 772) | – |
| Fair value changes | – | – | (125) |
| **Balance as at 28 February 2018** | 10 110 | 238 497 | 2 698 |

## 34. BUSINESS COMBINATIONS

**Amalgamated Metals Group Holdings Proprietary Limited**

On 13 December 2016 the group acquired 100% of the voting equity interest of Amalgamated Metals Group Holdings Proprietary Limited which resulted in the group obtaining control over Amalgamated Metals Group Holdings Proprietary Limited. Amalgamated Metals Group Holdings Proprietary Limited is principally involved in the metals recycling industry. As a result of the acquisition, the group is a leading provider of recycled ferrous and non-ferrous metal products in those markets.

Goodwill of R63 031 000 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the entities, as well as from intangible assets which did not qualify for separate recognition. Goodwill is not deductible for income tax purposes.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **Fair value of assets acquired and liabilities assumed** | | | | |
| Property, plant and equipment | – | 117 398 | – | – |
| Investments in joint ventures | – | 1 217 | – | – |
| Inventories | – | 66 237 | – | – |
| Trade and other receivables | – | 133 982 | – | – |
| Cash and cash resources | – | 3 454 | – | – |
| Other financial liabilities | – | (79 484) | – | – |
| Deferred taxation | – | (15 061) | – | – |
| Trade and other payables | – | (774) | – | – |
| Total identifiable net tangible assets | – | 226 969 | – | – |
| Goodwill | – | 63 031* | – | – |
| Additions through business combinations | – | 48 531 | – | – |
| Goodwill acquired in business combination | – | 8 500 | – | – |
| Prior period restatement* | – | 6 000 | – | – |
| | – | 290 000 | – | – |
| **Acquisition date fair value of consideration paid** | | | | |
| Cash | – | (234 000) | – | – |
| Equity – 50 million shares in group | – | (56 000)* | – | – |
| | – | (290 000) | – | – |

** Restated. Please refer to note 38 on page 94*

**Equity issued as part of consideration paid**

The fair value of 50 000 000 ordinary shares issued as part of the consideration for the business combination was determined as the trading price on date of issue.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **35. COMMITMENTS** | | | | |
| **Operating leases – as lessee (expense)** | | | | |
| **Minimum lease payments due** | | | | |
| – in second to fifth year inclusive | **–** | 822 | **–** | – |
| | **–** | 822 | **–** | – |
| Operating lease payments represent rentals payable by the group for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. | | | | |
| The lease with JLL Properties Proprietary Limited was ceded to Serobe Health CC and expires on 28 February 2018, but there is an option to renew for a further 10-year period. The option was exercised after year end. | | | | |
| **Operating leases – as lessor (income)** | | | | |
| **Minimum lease payments due** | | | | |
| – within one year | **1 024** | 385 | **–** | – |
| – in second to fifth year inclusive | **4 987** | 408 | **–** | – |
| | **6 011** | 793 | **–** | – |
| **Finance leases – as lessee (expense)** | | | | |
| **Minimum lease payments due** | | | | |
| – within one year | **2 738** | 3 191 | **–** | – |
| – in second to fifth year inclusive | **23 269** | 17 318 | **–** | – |
| | **26 007** | 20 509 | **–** | – |

## 36. RELATED PARTIES

**Relationships**

| | |
|---|---|
| Ultimate holding company | Insimbi Refractory and Alloy Supplies Limited |
| Subsidiaries | Refer to note 6 |
| Members of key management | Directors of the group as per the directors' report meet the definition of key management personnel. |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **Related party balances** | | | | |
| ***Loan accounts – Owing (to)/by related parties**** | | | | |
| Insimbi Alloy Properties Proprietary Limited | **–** | – | **5 456** | 5 435 |
| Insimbi Alloy Supplies Proprietary Limited | **–** | – | **51 702** | 50 704 |
| Polydrum Proprietary Limited | **–** | – | **2** | – |
| Metlite Alloys Proprietary Limited | **–** | – | **2** | – |
| Casterly Rock Investments Proprietary Limited* | **(16 806)** | (16 804) | **–** | – |
| Crimson Clover Investments Proprietary Limited* | **(16 406)** | (16 404) | **–** | – |
| Golden Griffin Investments Proprietary Limited* | **(16 806)** | (16 804) | **–** | – |
| Insimbi EmployeeCo Proprietary Limited | **–** | – | **1** | 1 |
| Insimbi ManCo Proprietary Limited | **–** | – | **1** | 1 |
| **Related party transactions** | | | | |
| ***Administration fees paid to/(received from) related parties*** | | | | |
| Insimbi Alloy Supplies Proprietary Limited – 100% subsidiary | **–** | – | **10 575** | 2 701 |
| ***Dividends paid to/(received from) related parties*** | | | | |
| Insimbi Alloy Supplies Proprietary Limited – 100% subsidiary | **–** | – | **(12 283)** | (10 149) |
| ***Purchases from related parties*** | | | | |
| Honeydew Metals Recycling Proprietary Limited# | **11 865** | – | **–** | – |

** Related parties, as they hold shares in Insimbi Refractory and Alloy Supplies Limited. Please refer to shareholder analysis on page 103*
*# Related parties, close family member of key management*

## 37. DIRECTORS' EMOLUMENTS

Emoluments paid to directors and prescribed officers of the group are as set out below:

| | Fees 2018 R'000 | Salary 2018 R'000 | Expense allow-ances* 2018 R'000 | Pension fund contri-butions 2018 R'000 | Incentive bonus 2018 R'000 | Share-based payments 2018 R'000 | Total 2018 R'000 | Total 2017 R'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | | |
| F Botha | – | 3 180 | 523 | – | – | – | 3 703 | 2 467 |
| C Coombs[1] | – | 2 075 | 121 | – | 797 | – | 2 993 | 328 |
| A de Wet[2] | – | 683 | – | – | – | – | 683 | – |
| **Total executive** | – | 5 938 | 644 | – | 797 | – | 7 379 | 2 795 |
| **Non-executive** | | | | | | | | |
| B Craig[3] | 749 | – | – | – | – | – | 749 | 98 |
| RI Dickerson | 383 | – | – | – | – | – | 383 | 20 |
| IP Mogotlane | 459 | – | – | – | – | – | 459 | 122 |
| N Mwale | 470 | – | – | – | – | – | 470 | 122 |
| C Ntshingila (previously Shiceka) | 346 | – | – | – | – | – | 346 | 163 |
| L Okeo[4] | – | – | – | – | – | – | – | 179 |
| **Total non-executive** | 2 407 | – | – | – | – | – | 2 407 | 704 |
| **Prescribed officers** | | | | | | | | |
| CF Botha[5] | – | 1 970 | 504 | – | – | – | 2 474 | 2 467 |
| D de Beer | – | 1 392 | 83 | 151 | – | 144 | 1 770 | 1 509 |
| B Fetting[6] | | 591 | 165 | 34 | – | 3 | 793 | – |
| S Green | – | 980 | 151 | 108 | 50 | 188 | 1 477 | 1 222 |
| EP Liechti[5] | – | 2 229 | 267 | – | – | – | 2 496 | 2 467 |
| CM Lindeque[7] | | 398 | 52 | | 150 | | 600 | – |
| S Roberts[8] | – | – | – | – | – | – | – | 349 |
| S Rugbur[9] | – | 74 | 14 | 7 | – | 14 | 109 | 1 230 |
| PJ Schutte[10] | – | 1 806 | 162 | – | – | – | 1 968 | 2 522 |
| N Winde | – | 893 | 21 | 93 | – | 72 | 1 079 | 835 |
| **Total prescribed officers[11]** | – | 10 333 | 1 419 | 393 | 200 | 421 | 12 766 | 12 601 |
| **Total** | 2 407 | 16 271 | 2 063 | 393 | 997 | 421 | 22 552 | 16 100 |

* *Includes medical aid and travel allowances*

1 *Appointed as director on 16 January 2017*

2 *Appointed 16 October 2017*

3 *Resigned 15 December 2017*

4 *Resigned 31 January 2017*

5 *Resigned as director on 31 May 2017*

6 *Appointed as part of management committee on 1 June 2017*

7 *Appointed as part of management committee on 1 July 2017*

8 *Resigned 30 June 2016*

9 *Resigned 31 March 2017*

10 *Resigned 30 November 2017*

11 *Paid by the relevant subsidiary*

## 38. PRIOR PERIOD ERROR

Due to a misinterpretation of the terms and conditions of the contract, consideration paid for the acquisition of AMR was understated by R6 000 000. The shares issued to vendors were recorded at the same value as the shares issued into the market for the cash element of the transaction. The share price however increased by the time the transaction had been concluded. The error also had the effect of understating share premium and goodwill for the year ended 28 February 2017. The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

| | 28 Feb 2017 as previously reported R'000 | Increase/ (decrease) R'000 | 28 Feb 2017 Restated R'000 |
|---|---|---|---|
| **GROUP** | | | |
| **Balance sheet** | | | |
| Goodwill | 101 591 | 6 000 | 107 591 |
| Share premium | 190 704 | 6 000 | 196 704 |
| **COMPANY** | | | |
| **Balance sheet** | | | |
| Investment in subsidiaries | 91 893 | 6 000 | 97 893 |
| Share premium | 190 704 | 6 000 | 196 704 |

The impact on the goodwill allocation to segments is:

| | 28 Feb 2017 as previously reported R'000 | Increase/ (decrease) R'000 | 28 Feb 2017 Restated R'000 |
|---|---|---|---|
| **Balance sheet** | | | |
| Non-ferrous | 70 812 | 5 416 | 76 228 |
| Ferrous | 17 419 | 582 | 18 001 |
| Refractory | 4 424 | – | 4 424 |
| Plastics | 8 936 | 2 | 8 938 |

This error was identified by the JSE as part of their proactive monitoring process.

## 39. RISK MANAGEMENT

### Capital risk management

The group and company's objectives when managing capital are to safeguard the group and company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the group consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 8, 9 and 19 cash and cash equivalents disclosed in note 15, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There have been no changes to what the entity manages as capital or the strategy for capital maintenance. There are no externally imposed capital requirements by FirstRand Bank.

| | Notes | GROUP 2018 R'000 | GROUP 2017 R'000 | COMPANY 2018 R'000 | COMPANY 2017 R'000 |
|---|---|---|---|---|---|
| **39. RISK MANAGEMENT CONTINUED** | | | | | |
| **Capital risk management continued** | | | | | |
| ***Total borrowings*** | | | | | |
| Loans to/(from) shareholders | 9 | **2 275** | 2 491 | **–** | – |
| Total borrowings | 19 | **238 497** | 285 025 | **–** | – |
| | | **240 772** | 287 516 | **–** | – |
| *Less:* Cash and cash equivalents | 15 | **22 298** | (2 479) | **–** | – |
| Net debt | | **218 474** | 289 995 | **–** | – |
| Total equity | | **398 302** | 317 293 | **–** | – |
| Gearing ratio | | **55%** | 91% | **–** | – |

The company finances its operations from the cash generated from normal operations and loans from group companies, which is sufficient for the current level of funding required.

**Financial risk management**

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

There have been no substantive changes to the group's exposure to financial instruments risks, its objectives, policies and processes for managing those risks or the methods used to measure them from the previous periods unless otherwise stated in this note. Information disclosed has been disaggregated where the financial information used by the company has different economic characteristics and market conditions.

***Principal financial instruments:***

The principal financial instruments used by the group, from which financial risk arises, are as follows:

- Trade and other receivables;
- Cash and cash equivalents;
- Forward exchange assets;
- Loan receivables;
- Long-term borrowings;
- Variable rate instalment liabilities; and
- Trade and certain payables.

***Procedures for mitigating risk include:***

- Performing credit checks on potential customers;
- The preparation of cash flow forecasts and budgets and measurement against these projections;
- Forward exchange contracts entered into with reputable financial institutions to minimise exposure to exchange rate fluctuations. Such contracts are taken out for both import of raw materials and exports to customers and are reviewed on a regular basis.

## 39. RISK MANAGEMENT CONTINUED

### Financial risk management continued

When a customer is identified as having cash flow problems the credit manager will take the following steps:

- Confirm the situation with the customer;
- Advise the divisional director of the situation during the monthly meeting at which outstanding debtors balances are reviewed; and
- Place customer on hold, request customer be changed to a cash on delivery basis and request owner or directors of customer to agree to sign a surety for amount due.

### Procedures for avoiding excessive concentration of risk

Procedures for avoiding excessive concentration of risk include:

- Maintaining a wide customer base;
- Offering a wide range of material to the market;
- Continually looking for opportunities to expand both customer and material base;
- Identifying opportunities to invest in other companies; and
- Reviewing current material base in order to identify any product line which does not result in margins which are not in line with budgets and plans.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, management maintains flexibility in funding by maintaining availability under committed credit lines.

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities and the group's policy is to ensure that it will always have sufficient cash to allow it to meet its obligations when they fall due.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored, and the group maintains agreed facilities with reputable financial institutions. There have been no defaults or breaches on long-term loans, instalment sale liabilities and trade payables during the course of the financial year. Furthermore, security has been provided for long-term loans and instalment sale liabilities.

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year R'000 | Between 1 and 5 years R'000 | More than 5 years R'000 |
|---|---|---|---|
| **GROUP** | | | |
| At 28 February 2018 | | | |
| Borrowings | **52 326** | **176 300** | **38 909** |
| Trade and other payables* | **173 553** | **–** | **–** |
| At 28 February 2017 | | | |
| Borrowings | 98 143 | 215 683 | 51 852 |
| Trade and other payables* | 147 518 | – | – |

** Trade and other payables exclude VAT, accruals and audit fees*

At year-end the group had R123,18 million (2017: R87,46 million) available in the form of unutilised facilities. This amount can be utilised to settle trade payables should customers not settle their debts. This facility can also be utilised for future expansion of the business.

## 39. RISK MANAGEMENT CONTINUED

### Liquidity risk continued

***Management of liquidity risk in regard to financial liabilities***

Regular meetings are held with the group's bankers to discuss facilities required to meet the group's financial obligations and where agreed overdraft and loan facilities are amended. Summaries of the group's and company's bank accounts are prepared daily which are reviewed and based on these summaries decisions are made to transfer excess funds from the main current account to other facilities in order to reduce the interest cost to the group and company. The group monitors the maturity date of all open forward exchange contracts.

Management has assessed the fair value of the group's financial liabilities which it has equated to the cost of financial liabilities.

### Interest rate risk

The group's interest rate risk arises from the use of variable interest rate instalment sale liabilities and fixed and variable short- and long-term borrowings and bank accounts that are carried at amortised cost. Future changes to prime lending rates will have a direct impact on the future cash payments towards the settlement of the financial obligations. The risk remains unhedged at the reporting date. Exposure to interest rate risk is monitored month to month and on a case-by-case basis, which includes consideration of fixed versus floating interest rates.

Certain interest rates at year-end were linked to the prime overdraft rates. The prime overdraft rate at year-end was 10,25% (2017: 10,5%).

### Sensitivity analysis

The group is sensitive to the movements in the ZAR interest rates which are the primary interest rates to which the group is exposed. The group has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income of an instantaneous increase or decrease, as detailed below, in market interest rates on financial liabilities from the applicable rate as at year-end, for each class of financial instrument with all other variables remaining constant. It has been established by management that interest rate fluctuations on cash denominated in British Pounds and Euro are immaterial. The calculations were determined with reference to the outstanding financial liability and financial asset balances. This represents no change from the prior period in the method and assumptions used.

At 28 February 2018, if interest rates on Rand-denominated borrowings had been 2% higher/lower with all other variables held constant, post-tax profit for the year would have been R4 332 082 (2017: R3 115 277) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The above sensitivity analysis is for illustrative purposes only and represents management's best estimate of reasonably possible changes in interest rates.

### Credit risk

Credit risk is managed on a group basis.

Credit risk consists mainly of cash deposits, cash equivalents, and trade debtors. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. The age analysis is reviewed monthly by management with the objective of minimising the group's exposure to bad debt.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties. Should the need arise it is the group's policy to take collateral. To date no collateral has been obtained. Trade receivables that are neither past due nor impaired are considered to be of acceptable credit quality accompanied by an insignificant default rate.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

**for the year ended 28 February 2018**

## 39. RISK MANAGEMENT CONTINUED

### Credit risk continued

At each statement of financial position date, the group determines on a case-by-case basis whether there is objective evidence of an impairment loss. The following factors are considered in determining whether an impairment loss should be provided for:

- The number of days that the debt is in arrears;
- Whether the debtor has been liquidated or has closed down the business;
- If provisional liquidation has been sought against the debtor;
- Any litigation proceedings against the debtor and the likely outcomes;
- Any communication from the debtor indicating an inability to pay within the agreed credit terms;
- Any evidence of liquidity difficulties experienced by the debtor; and/or
- Adverse credit reports.

### Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Management has set up a policy that requires group companies to manage their foreign exchange risk against their functional currency. All group companies are required to hedge their foreign commitments in excess of their foreign currency export proceeds, maximising the effect of their internal hedge. This function is handled at group financial director level.

***Sensitivity analysis – currency risk:***

The group has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income on an immediate strengthening or weakening of the Rand, against the group's major trading currencies as detailed in the table below, based on the foreign currency balances outstanding at the year-end, for each class of financial instruments, all other variables remaining constant. The assumptions used are consistent with the prior year and represent management's best estimate of potential fluctuations in exchange rates. The table is inserted for illustrative purposes only.

| | After tax effect on profit and loss arising from US Dollar | | After tax effect on profit and loss arising from Euro | |
|---|---|---|---|---|
| | 5% increase R'000 | 5% decrease R'000 | 5% increase R'000 | 5% decrease R'000 |
| **GROUP** | | | | |
| **2018** | | | | |
| Foreign trade payables | **(1 475)** | **1 475** | **(1 480)** | **1 480** |
| Foreign trade receivables | **340** | **(340)** | **51** | **(51)** |
| Foreign bank | **109** | **(109)** | **43** | **(43)** |
| **2017** | | | | |
| Foreign trade payables | (185) | 185 | (765) | 765 |
| Foreign trade receivables | 388 | (388) | – | – |
| Foreign bank | 94 | (94) | 22 | (22) |

***Sensitivity analysis – forward exchange contracts***

Fair value risk arises on the mark to market of forward exchange contracts. The effect of this risk is shown below. The major risk lies in exposure to the US Dollar and Euro. The assumptions used are consistent with the prior year and represent management's best estimate of potential fluctuations in exchange rates.

The group reviews its foreign exchange exposure, including commissions, on an ongoing basis. The notional principal amounts of the outstanding forward exchange rate contracts at 28 February 2018 were R64 261 266 (2016: R71 897 697) and are expected to mature within the next 12 months.

## 40. EARNINGS AND HEADLINE EARNINGS PER SHARE

**Basic earnings per share**

Basic earnings per share is determined by dividing profit or loss attributable to the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

| | GROUP | |
|---|---|---|
| | **2018** | 2017 |
| **Basic earnings/(loss) per share (cents)** | | |
| From continuing operations (cents per share) | **18,47** | 11,01 |
| | **18,47** | 11,01 |
| Basic earnings per share was based on earnings of R71,5 million (2017: R29,57 million) and a weighted average number of shares of 386 888 449 (2017: 268 681 707). | | |
| **Reconciliation of profit or loss for the year to basic earnings (R'000)** | | |
| Profit for the year | **71 160** | 29 447 |
| Loss for the year attributable to non-controlling interest | **307** | 124 |
| Profit for the year attributable to equity holders | **71 467** | 29 571 |
| **Reconciliation of weighted average number of shares ('000)** | | |
| Number of shares in issue at the end of the year | **410 000** | 291 644 |
| *Less:* Weighted number of treasury shares held in a subsidiary | **(23 112)** | (22 962) |
| | **386 888** | 268 682 |

**Headline earnings per share**

Headline earnings is determined by adjusting basic earnings by excluding separately identifiable remeasurement items. Headline earnings is presented after tax and non-controlling interest.

| | GROUP | |
|---|---|---|
| | **2018 cents** | 2017 cents |
| Headline earnings per share (cents) | **18,45** | 10,87 |
| | **18,45** | 10,87 |

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Gross R'000** | **Net R'000** | Gross R'000 | Net R'000 |
| **Reconciliation between earnings and headline earnings** | | | | |
| Basic earnings | | **71 467** | | 29 571 |
| **Adjusted for:** | | | | |
| Profit on sale/scrapping of assets | **(138)** | **(99)** | (508) | (365) |
| Headline earnings | | **71 368** | | 29 206 |

**Diluted earnings per share**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has potentially dilutive share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the options.

## 40. EARNINGS AND HEADLINE EARNINGS PER SHARE CONTINUED

| | GROUP | |
|---|---|---|
| | **2018** | 2017 |
| | **'000** | '000 |
| **Weighted average number of ordinary shares in issue ('000)** | **386 888** | 268 682 |
| Adjusted for: Share options ('000) | **16 173** | 16 406 |
| **Weighted average number of ordinary shares for diluted earnings per share ('000)** | **403 061** | 285 088 |
| | **cents** | cents |
| Diluted earnings per share (cents) | **17,73** | 10,37 |
| Diluted headline earnings per share (cents) | **17,71** | 10,24 |

# SEGMENTAL REPORT

The management Executive Committee is the group's chief operations decision making unit.

Management considered a combination of factors, including geographical, product types and managerial structure, to determine the operating and reporting segments. Management has determined the operating segments based on the reports reviewed and this is supported by management reporting disciplines, which include monthly variance reporting. The management Executive Committee assesses the performance of the operating segments based on sales and gross profit margin.

The main industries serviced by the Insimbi group are the foundry, steel, plastics and refractory industries. The segments have been aggregated as such, as they operate in the same economic environment, the products are similar and are governed by the same principles in terms of pricing and management structures. The operations in each of the group's reportable segments are as follows:

**Non-ferrous** – Consists of the divisions which service the foundry and non-ferrous industry, both automotive and heavy, aluminium industry (mainly deoxidation market) and the powder coating industry. This now also includes the supply of various non-ferrous recycled metals.

**Refractory** – Consists of the divisions that service the steel and cement industry's refractory requirements as well as the supply of industrial heat resistant textiles.

**Ferrous** – This segment supplies both steel and polypropylene fibres, services the welding and optical industries and supplies in the steel industry's raw material requirements. This now also includes the supply of various ferrous-based recycled metals.

**Plastics** – Consists of the divisions that service the plastic packaging industry, including chemical, agricultural and food industries.

The segments reported on in the annual report are identical to the operating segments identified and management is satisfied that the operating segments are appropriately aggregated.

| | Non-ferrous R'000 | Ferrous R'000 | Refractory R'000 | Plastics R'000 | Total R'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Revenue** | | | | | |
| Sale of goods | 2 878 575 | 431 902 | 104 600 | 72 533 | 3 487 610 |
| Rendering of services | 65 | – | 4 128 | – | 4 193 |
| | 2 878 640 | 431 902 | 108 728 | 72 533 | 3 491 803 |
| **Cost of sales** | 2 612 114 | 390 126 | 94 610 | 49 529 | 3 146 379 |
| **Gross profit** | 266 526 | 41 776 | 14 118 | 23 004 | 345 424 |
| Other income | 1 195 | – | – | – | 1 195 |
| **Profit before operating and administration expenses** | 267 721 | 41 776 | 14 118 | 23 004 | 346 619 |
| ***Operating and administration expenses and operating losses*** | | | | | |
| Communication | 2 178 | 139 | 38 | 126 | 2 481 |
| Employee cost | 94 025 | 8 958 | 1 784 | 11 420 | 116 187 |
| Motor vehicle expenses | 16 848 | 4 415 | 147 | 965 | 22 375 |
| Other expenses* | 45 963 | 1 834 | 474 | 5 217 | 53 488 |
| Occupancy | 15 870 | 2 464 | – | 5 923 | 24 257 |
| | 174 884 | 17 810 | 2 443 | 23 651 | 218 788 |
| **Operating profit before finance income from continuing operations** | 92 837 | 23 966 | 11 675 | (647) | 127 831 |

** Includes depreciation, repairs and maintenance and other operating expenses*

# SEGMENTAL REPORT CONTINUED

| | Non-ferrous R'000 | Ferrous R'000 | Refractory R'000 | Plastics R'000 | Total R'000 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| **Revenue** | | | | | |
| Sale of goods | 1 002 402 | 174 818 | 109 694 | 50 808 | 1 337 722 |
| Rendering of services | 36 | – | 4 768 | – | 4 804 |
| | 1 002 438 | 174 818 | 114 462 | 50 808 | 1 342 526 |
| **Cost of sales** | 867 900 | 153 903 | 100 454 | 34 436 | 1 156 693 |
| **Gross profit** | 134 538 | 20 915 | 14 008 | 16 372 | 185 833 |
| Other income | 1 349 | – | – | – | 1 349 |
| **Profit before operating and administration expenses** | 135 887 | 20 915 | 14 008 | 16 372 | 187 182 |
| ***Operating and administration expenses*** | | | | | |
| Communication | 1 244 | 93 | 50 | 147 | 1 534 |
| Employee cost | 49 925 | 3 624 | 2 744 | 8 144 | 64 437 |
| Motor vehicle expenses | 4 422 | 578 | 187 | 765 | 5 952 |
| Other expenses* | 39 960 | 1 054 | 206 | 2 816 | 44 036 |
| Occupancy | 12 105 | 143 | 19 | 4 523 | 16 790 |
| | 107 656 | 5 492 | 3 206 | 16 395 | 132 749 |
| **Operating profit before finance income from continuing operations** | 28 231 | 15 423 | 10 802 | (23) | 54 433 |

** Includes depreciation, repairs and maintenance and other operating expenses.*

## GEOGRAPHICAL INFORMATION

Revenues from external customers by country, based on the destination of the customer

| | **2018 R'000** | 2017 R'000 |
|---|---|---|
| Africa | **30 398** | 34 755 |
| Asia | **182 215** | 156 625 |
| Australia | **3 217** | 756 |
| Europe | **45 905** | 16 450 |
| North and South America | **208 907** | 61 671 |
| South Africa | **3 021 161** | 1 072 269 |
| | **3 491 803** | 1 342 526 |

# SHAREHOLDER ANALYSIS

**as at 28 February 2018**

| | Number of shareholdings | % | Number of shares | % |
|---|---|---|---|---|
| **Shareholder spread** | | | | |
| 1 – 5 000 shares | 648 | 57,91 | 882 451 | 0,22 |
| 5 001 – 50 000 shares | 351 | 31,37 | 6 261 869 | 1,53 |
| 50 001 – 100 000 shares | 32 | 2,86 | 2 512 074 | 0,61 |
| 100 001 – 250 000 shares | 37 | 3,31 | 5 832 460 | 1,42 |
| 250 001 – 500 000 shares | 18 | 1,61 | 5 971 258 | 1,46 |
| 500 001 – 1 000 000 shares | 6 | 0,54 | 4 637 000 | 1,13 |
| 1 000 001 shares and over | 27 | 2,41 | 383 902 888 | 93,63 |
| **Totals** | **1 119** | **100,00** | **410 000 000** | **100,00** |
| **Distribution of shareholders** | | | | |
| Banks/brokers | 10 | 0,89 | 57 225 882 | 13,96 |
| Close corporations | 8 | 0,71 | 587 192 | 0,14 |
| Endowment funds | 2 | 0,18 | 167 400 | 0,04 |
| Individuals | 1 016 | 90,80 | 143 800 716 | 35,07 |
| Mutual funds | 2 | 0,18 | 33 010 000 | 8,05 |
| Other corporations | 5 | 0,45 | 427 962 | 0,10 |
| Private companies | 35 | 3,13 | 170 604 464 | 41,61 |
| Public company | 2 | 0,18 | 270 000 | 0,07 |
| Treasury shares | 1 | 0,09 | 1 136 795 | 0,28 |
| Trusts | 38 | 3,40 | 2 769 589 | 0,68 |
| **Totals** | **1 119** | **100,00** | **410 000 000** | **100,00** |
| **Public/non-public shareholders** | | | | |
| ***Non-public shareholders*** | **20** | **1,79** | **267 119 986** | **65,15** |
| Directors and associates of the company | 6 | 0,54 | 97 229 676 | 23,71 |
| Strategic holder (more than 10%) | 1 | 0,09 | 82 000 000 | 20,00 |
| Treasury shares | 1 | 0,09 | 1 136 795 | 0,28 |
| Employee and management schemes | 2 | 0,18 | 22 968 015 | 5,60 |
| Related holdings | 10 | 0,89 | 63 785 500 | 15,56 |
| ***Public shareholders*** | **1 099** | **98,21** | **142 880 014** | **34,85** |
| **Totals** | **1 119** | **100,00** | **410 000 000** | **100,00** |
| **Beneficial shareholders including those holding 5% or more** | | | | |
| New Seasons Investment Holdings Proprietary Limited | | | 82 000 000 | 20,00 |
| F Botha | | | 37 135 676 | 9,06 |
| PJ Schutte | | | 22 021 407 | 5,37 |
| EP Liechti | | | 30 547 000 | 7,45 |
| CF Botha | | | 29 547 000 | 7,21 |
| C Coombs | | | 21 950 200 | 5,35 |
| Golden Griffin Investments Proprietary Limited | | | 21 950 200 | 5,35 |
| Crimson Clover Investment Proprietary Limited | | | 21 065 200 | 5,14 |
| Casterly Rock Investments Proprietary Limited | | | 20 770 100 | 5,07 |
| Pruta Securities | | | 30 000 000 | 7,32 |
| Absa | | | 20 000 000 | 4,88 |
| **Totals** | | | **336 986 803** | **82,20** |

# NOTICE OF ANNUAL GENERAL MEETING

**INSIMBI REFRACTORY AND ALLOY SUPPLIES LIMITED**
**(Incorporated in the Republic of South Africa)**
**(Registration number 2002/029821/06)**
**Share code: ISB ISIN: ZAE000116828**
**("Insimbi" or "the company")**

Notice is hereby given that the eleventh annual general meeting of Insimbi Refractory and Alloy Supplies Limited will be held at Insimbi's offices at Stand 359 Crocker Road, Wadeville, Extension 4, Germiston on Tuesday, 3 July 2018 at 10:00.

All terms defined in the 2018 Integrated Annual Report, to which this notice of annual general meeting is attached, shall bear the same meanings when used in this notice of annual general meeting ("AGM").

For purposes of the holding of AGMs, the Companies Act 71 of 2008 ("the Act") requires that a record date be determined by the directors to establish those shareholders of the company that are entitled to receive this notice. The record date for purposes of determining which shareholders of the company are entitled to receive this notice of AGM is Friday, 18 May 2018.

The Act also requires that a record date be determined by the directors to establish those shareholders who are entitled to attend and vote at the AGM. The record date for purposes of determining which shareholders of the company are entitled to attend and vote at the AGM is Friday, 22 June 2018 with the last day to trade in the shares of the company on the JSE Limited being close of business on Tuesday, 19 June 2018.

**Electronic participation at the AGM (section 61(10) of the Companies Act)**

1. Shareholders wishing to participate electronically at the meeting are required to deliver written notice to the Company Secretary, with a copy to the transfer secretary, by no later than 48 hours before the meeting (i.e. by 10:00 on Friday, 29 June 2018), stating that they wish to participate via electronic communication at the meeting ("the electronic notice").
2. Note that shareholders will merely be able to participate, but not vote, via electronic communication.
3. In order for the electronic notice to be valid it must contain:
   - 3.1. If the shareholder is an individual, a certified copy of his/her identity document and/or passport;
   - 3.2. If the shareholder is not an individual, a certified copy of a resolution by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution. The relevant resolution must set out which individual from the relevant entity is authorised to represent the relevant entity at the AGM via electronic communication; and
   - 3.3. A valid email address and/or facsimile number ("the contact address/number").
4. The company shall use its reasonable endeavours to communicate with each shareholder who/which has delivered a valid electronic notice by notifying such shareholder at its contact address/number of the relevant details through which the shareholder may participate via electronic communication.
5. The company reserves the right not to provide for electronic participation at the meeting in the event that it proves impractical to do so. The costs of accessing any means of electronic participation provided by the company will be borne by the shareholder accessing the electronic participation.

**This document is important; please read the notes at the end of this notice, which contain important information regarding shareholders' participation at the AGM.**

The purpose of the AGM and the business to be transacted thereat is detailed below.

## ORDINARY RESOLUTIONS

Unless otherwise indicated, in order for each of the ordinary resolutions to be adopted, the support of more than 50% of the voting rights exercised on the resolution by shareholders, present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution, is required.

The purpose of the AGM is to consider and, if deemed fit, pass the following resolutions with or without modification as ordinary resolutions:

## ORDINARY RESOLUTIONS CONTINUED

**Adoption of the annual financial statements**

The audited annual financial statements for the year ended 28 February 2018, as set out in the annual report and which can be found on the company's website at www.insimbi-iras.co.za, will be presented to the shareholders.

***Ordinary resolution number one***

"Resolved that the audited group and company annual financial statements for the year ended 28 February 2018, including the reports of the directors, the auditors and the Audit and Risk Committee, be and are hereby received."

Confirmation and re-election of directors

The company's memorandum of incorporation (MoI) stipulates that:

- The appointment of any director to fill a vacancy or as an addition to the board must be confirmed at the next AGM;
- At each AGM at least one third of the non-executive directors shall retire from office, the directors so retiring being those who have been longest in office since their last election; and
- The retiring directors shall be eligible for re-election.

The board has considered the performance of the directors standing for re-election and found them suitable for re-appointment.

Ordinary resolutions two to six are accordingly proposed in respect of:

- The re-appointment of the only other non-executive director who retires by rotation in accordance with the MoI, being Ms IP Mogotlane, but who has made herself available for re-election; and
- The confirmation of the appointment of Mr A de Wet.

Brief résumés of Ms IP Mogotlane and Mr A de Wet appear on pages 25 and 26 of the report to which this AGM notice is attached.

***Ordinary resolution number two***

"Resolved that Ms IP Mogotlane, who retires by rotation in terms of the company's MoI, and, being eligible, offers herself for re-election, be and is hereby re-elected as non-executive director of the company."

**Ordinary reso*lution number three***

"Resolved that the appointment of Mr A de Wet, who was appointed as a director of the company with effect from 16 October 2017, be and is hereby confirmed."

**Appointment of Audit and Risk Committee**

Section 94 of the Act requires that at each AGM shareholders of the company elect an Audit and Risk Committee comprising at least three members, all of whom must be non-executive directors. The board has considered the performance of the following Audit and Risk Committee members standing for re-election and has found them suitable for appointment:

- Mr RI Dickerson
- Ms IP Mogotlane
- Ms CS Ntshingila

Mr RI Dickerson is also Chairman of the board and, notwithstanding the principles of the King Report on Corporate Governance in South Africa ("King IV"), is appointed a member of the Audit and Risk Committee, as permitted by the JSE Limited Listings Requirements ("the Listings Requirements"). His financial and business experience over a number of years and across a number of industries is invaluable to the committee.

Ordinary resolutions numbers three to five are accordingly proposed in respect of the appointment of Mr RI Dickerson, Ms IP Mogotlane, Ms CS Ntshingila as members of the Audit and Risk Committee for the ensuing year. Brief résumés of Ms CS Ntshingila, Ms IP Mogotlane and Mr RI Dickerson appear on pages 25 to 27 of the report to which this notice of AGM is attached.

***Ordinary resolution number four***

"Resolved that Mr RI Dickerson be and is hereby elected as a member of the Audit and Risk Committee in terms of the Act, to remain in office until the conclusion of the next AGM."

## ORDINARY RESOLUTIONS CONTINUED

***Ordinary resolution number five***

"Resolved that Ms IP Mogotlane be and is hereby elected as a member of the Audit and Risk Committee in terms of the Act, to remain in office until the conclusion of the next AGM."

***Ordinary resolution number six***

"Resolved that Ms CS Ntshingila be and is hereby elected as a member and Chairperson of the Audit and Risk Committee in terms of the Act, to remain in office until the conclusion of the next AGM."

**Appointment of auditors**

The Audit and Risk Committee has considered the performance, independence and suitability of PricewaterhouseCoopers Inc ("PwC") and has recommended them for reappointment as independent external auditors of the group, Mr JP van Staden has served as the designated auditor from the current year.

***Ordinary resolution number seven***

"Resolved that, on recommendation of the Audit and Risk Committee, PwC be and are hereby appointed as external auditors of the company for the financial year ending 28 February 2019, to remain in office until the conclusion of the next AGM, with Mr JP van Staden as the designated auditor."

**Indemnification of directors**

Section 78 of the Act allows for the company to indemnify directors, subject to the provisions of the company's MoI, except as may be prohibited by law.

***Ordinary resolution number eight***

"Resolved that the company hereby indemnifies each of the directors and officers of the group from time to time from any cost, damage, fine or loss of whatsoever nature which they may incur whilst acting *bona fide* in the course and scope of their duties, save to the extent that such indemnification is prohibited by the Act or any other law."

**General authority to issue shares/convertible shares or options for cash**

***Ordinary resolution number nine***

"Resolved that the directors of the company be and are hereby authorised by way of a general authority to issue all or any of the authorised but unissued shares in the capital of the company, including options shares, as and when they in their discretion deem fit, subject to the Act, the MoI and the Listings Requirements, provided that such issues for cash may not, in the aggregate, in any 1 (one) financial year, exceed 10% (ten percent) of the number of shares of the relevant class of shares issued prior to such issue."

Additional requirements imposed by the JSE Listings Requirements

The company may only make an issue of shares (as defined in the Listings Requirements) for cash under the above general authority if the following Listings Requirements are met:

a) The shares, which are the subject of the issue for cash, must be of a class already in issue, or where this is not the case, must be limited to such equity shares or rights that are convertible into a class already in issue;
b) The general authority shall only be valid until the company's next annual general meeting or for 15 (fifteen) months from the date of passing of this ordinary resolution, whichever period is shorter;
c) That issues in the aggregate in any 1 (one) financial year may not exceed 10% (ten percent) of the number of the shares of the company in issue of that class of shares before such issue, taking into account the dilution effect of convertible equity shares and options in accordance with the Listings Requirements;
d) In determining the price at which an issue of shares may be made in terms of this general authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares measured over the 30 (thirty) business days prior to the date that the price of the issue is agreed to between the company and the party/ies subscribing for the shares; and
e) Any issue will only be made to "public shareholders" as defined by the JSE Listings Requirements and not to related parties.

Notwithstanding that this is an ordinary resolution, the minimum percentage of voting rights that is required for this resolution to be adopted is 75% (seventy-five percent) of the voting rights to be cast on the resolution.

## ORDINARY RESOLUTIONS CONTINUED

**Non-binding advisory vote – remuneration policy**

King Codes on Corporate Governance recommend that the company's remuneration policy be tabled for a non-binding advisory vote by shareholders at every AGM, thus providing the shareholders with an opportunity to express their views on the company's remuneration policies. The report of the Remuneration Committee is set out on pages 38 to 40 of the report to which this notice of AGM is attached.

**Non-binding advisory vote 1 – remuneration policy**

"Resolved that the company's remuneration policy, as set out in the annual integrated report, be and is hereby endorsed by way of a non-binding advisory vote."

**Non-binding advisory vote 2 – implementation report**

"Resolved that the company's implementation report, as set out in the annual integrated report, be and is hereby endorsed by way of a non-binding advisory vote."

There is currently no minimum percentage of voting rights that is required in respect of this advisory votes and the votes are not binding on the group.

## SPECIAL RESOLUTIONS

Unless otherwise indicated, in order for each of the special resolutions to be adopted, the support of at least 75% of the voting rights exercised on the resolution by shareholders, present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution, is required.

The purpose of the AGM is to consider and, if deemed fit, pass the following resolutions with or without modification as special resolutions:

**Non-executive directors' fees for the year ending 28 February 2019**

The Act requires that prior shareholder approval be obtained in respect of fees payable to directors. The annual fees payable to non-executive directors for the forthcoming year have been substantially reviewed in 2017 to bring them in line with the changes in the size and complexity of the business. The board had proposed that these fees remain unaltered for the ensuing year.

***Special resolution number one***

"Resolved as a special resolution that the payment of the following fees to the non-executive directors for their services to the company for the year 1 March 2018 to 28 February 2019 be and is hereby approved:

| | Retainer fee (pa) R | Per meeting attended R |
|---|---|---|
| **Board or committee** | | |
| Board member | 150 000 | 15 000 |
| Audcom member | 40 000 | 7 000 |
| Remcom/Nomcom member | 25 000 | 7 000 |
| SECcom member | 20 000 | 7 000 |
| Investcom member | 40 000 | 7 000 |
| **Additional amount payable to Chairperson of the board/committee** | | |
| Chairperson of board | 100 000 | 12 000 |
| Audcom Chairperson | 25 000 | 5 000 |
| Remcom/Nomcom Chairperson | 25 000 | 5 000 |
| SECcom Chairperson | 25 000 | 5 000 |
| Investcom/Audcom Chairperson | 25 000 | 5 000 |
| **Consultancy** | | 3 000 per hour |

## SPECIAL RESOLUTIONS CONTINUED

**General approval to repurchase company shares**

Special resolution number two is proposed to authorise the acquisition by the company or any of its subsidiaries of shares issued by the company. The board's intention is for the shareholders to pass a special resolution granting the company or its subsidiaries general authority to acquire ordinary shares issued by the company, subject to the requirements of the Act, the Listings Requirements and the company's MoI, should the board consider that it would be in the interest of the company or its subsidiaries to acquire such shares while the general authority subsists.

***Special resolution number two***

"Resolved that, subject to compliance with the Listings Requirements, the Act and the MoI, the directors be authorised at their discretion to instruct the company or its subsidiaries to acquire or repurchase ordinary shares issued by the company, provided that:

- The number of ordinary shares acquired in any one financial year shall not exceed 3% of the ordinary shares in issue at the date on which this resolution is passed;
- Such acquisitions may only be effected through the order book operated by the JSE trading system and done without any understanding or arrangement between the company and the counterparty;
- This authority will lapse on the earlier of the date of the next AGM or 15 months after the date on which this resolution is passed; and
- The price paid per ordinary share may not be greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the purchase is made."

The directors of the company undertake that they will not implement the repurchase as contemplated in this special resolution while this general authority is valid, unless:

- After any such repurchase the company passes the solvency and liquidity test as contained in section 4 of the Act and that from the time the solvency and liquidity test is done, there will be no material changes to the financial position of the group;
- The consolidated assets of the company and the group, fairly valued in accordance with International Financial Reporting Standards and in accordance with the accounting policies used in the company and group annual financial statements for the year ending 28 February 2018, will exceed the consolidated liabilities of the company and group immediately following such purchase or 12 months after the date of the AGM, whichever is the later;
- The company and the group will be able to pay their debts as they become due in the ordinary course of business for a period of 12 months after the date of the notice of the AGM, or a period of 12 months after the date on which the board considers that the purchase will satisfy the immediately preceding requirement and this requirement, whichever is the later;
- The issued share capital and reserves of the company and the group will be adequate for the purposes of the business of the company and the group for a period of 12 months after the date of the notice of the AGM;
- The company and the group will have adequate working capital for ordinary business purposes for a period of 12 months after the date of the notice of the AGM;
- A resolution is passed by the board that it has authorised the repurchase, that the company and its subsidiaries have passed the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the group;
- The requirements contained in the Listings Requirements are complied with;
- The company or its subsidiaries will not repurchase securities during a prohibited period as defined in paragraph 3.67 of the Listings Requirements, unless the company has a repurchase programme in place where the dates and quantities of securities to be traded during the relevant prohibited period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement on SENS prior to commencement of the prohibited period; and
- The company undertakes that it will not enter the market to repurchase its own shares until the company's sponsor has provided written confirmation to the JSE in accordance with the Listings Requirements.

Further explanatory notes to special resolution number two:

Information required in terms of the Listings Requirements with regard to the general authority for the company or any of its subsidiaries to repurchase the company's securities (special resolution number two) appears in the annual financial statements, available on www.insimbi-iras.co.za as indicated below:

- Directors and management: pages 25 to 28 of the integrated report;
- Major shareholders: page 103 of the annual financial statements;
- Directors' and prescribed officers' interests in securities: page 48 of the annual financial statements; and
- Share capital of the company: page 81 of the annual financial statements.

## SPECIAL RESOLUTIONS CONTINUED

***Special resolution number two continued***

Further explanatory notes to special resolution number two continued:

The directors, whose names are given on pages 25 to 28 of the integrated report, collectively and individually accept full responsibility for the accuracy of the information given in this notice and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the integrated report and this notice contains all information required by law and the Listings Requirements. No material change in the financial or trading position of the company and its subsidiaries has occurred since 28 February 2018.

**Loans or financial assistance to subsidiaries and related or inter-related companies**

The Act requires that a company obtain approval from its shareholders by way of a special resolution passed in the last two years if the company is to provide financial assistance to any subsidiary, associate or holding company.

***Special resolution number three***

"Resolved as a special resolution, in accordance with sections 45 (2) and 45(3) of the Act, that the directors of the company be and they are hereby authorised to provide direct or indirect financial assistance to a related or inter-related company or corporation, or to a member of a related or inter-related corporation, subject to subsections (3) and (4) of the Act and the Listings Requirements".

## ACTION REQUIRED

**Certificated shareholders and "own name" dematerialised shareholders**

If you are unable to attend the AGM of the company to be held at Insimbi's offices at 359 Crocker Road, Wadeville, Extension 4, Germiston on 3 July 2018 at 10:00, and wish to be represented thereat, you must complete and return the attached form of proxy in accordance with the instructions contained therein and lodge it with, or post it to, the transfer secretaries, namely Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 (PO Box 61051, Marshalltown, 2107), so as to be received by them by no later than 10:00 on Friday, 29 June 2018.

**Dematerialised shareholders**

If you hold dematerialised shares in the company through a Central Securities Depository Participant ("CSDP") or broker and do not have an "own name" registration, you must timeously advise your CSDP or broker of your intention to attend and vote at the general meeting or be represented by proxy thereat in order for your CSDP or broker to provide you with the necessary authorisation to do so, or should you not wish to attend the AGM in person but wish to be represented thereat, you must timeously provide your CSDP or broker with your voting instructions in order for the CSDP or broker to vote in accordance with your instruction at the AGM.

The shareholders are entitled to vote on all the resolutions set out above. All voting will be by way of a poll and every shareholder who is present in person or by proxy at the AGM will have one vote for every ordinary share held or represented. In terms of section 63(1) of the Act, any person attending or participating in the AGM must present reasonably satisfactory identification, and the person presiding at the AGM must be reasonably satisfied that the right of any person to participate and vote, whether as a shareholder or as a proxy for a shareholder, has been reasonably verified. Acceptable forms of identification include valid identity documents, drivers' licences and passports.

A form of proxy, which sets out the relevant instructions for use, is attached for those members who wish to be represented at the annual general meeting of members. Duly completed forms of proxy must be lodged with the transfer secretaries of the company, namely Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Ave, Rosebank, Johannesburg, 2196 (PO Box 61051, Marshalltown, 2017), to be received by not later than 10:00 on Friday, 29 June 2018.

**TN Kgari**
Company Secretary
Johannesburg
29 May 2018

# SHAREHOLDERS' DIARY

| | |
|---|---|
| Record date to receive notice of AGM | Friday, 18 May 2018 |
| Anticipated release of the results on SENS | Tuesday, 29 May 2018 |
| Publication of annual reports and paid advert (mailed to shareholders) | Wednesday, 30 May 2018 |
| Last day to trade in order to be eligible to participate and vote at the AGM | Tuesday, 19 June 2018 |
| Record date for voting purposes | Friday, 22 June 2018 |
| Proxy date and time | Friday, 29 June 2018 at 10:00 |
| **Annual general meeting** | **Tuesday, 3 July 2018 at 10:00** |
| Financial year-end | Last day of February |
| Half year | Last day of August |

**Notes:**

The above dates and times are subject to change. Any changes will be released on SENS.

# FORM OF PROXY

**INSIMBI REFRACTORY AND ALLOY SUPPLIES LIMITED**
**(Incorporated in the Republic of South Africa)**
**(Registration number 2002/029821/06) Share code: ISB ISIN: ZAE000116828**

**(For use by certificated shareholders and own name dematerialised shareholders)**
Form of proxy for the annual general meeting of Insimbi to be held at their offices at Stand 359 Crocker Road, Wadeville, Extension 4, Germiston on Tuesday, 3 July 2018 at 10:00 ("annual general meeting").

This form of proxy is not to be used by beneficial owners of shares who have dematerialised their shares ("dematerialised shares") through a Central Securities Depository Participant ("CSDP") or broker, as the case may be, unless you are recorded on the sub-register as an "own name" dematerialised shareholder. Generally, you will not be an own name dematerialised shareholder unless you have specifically requested your CSDP to record you as the holder of the shares in your own name in the company's subregister.

This form of proxy is only for use by certificated, "own name" dematerialised shareholders and CSDPs or brokers (or their nominees) registered in the company's subregister as the holder of dematerialised ordinary shares.

**Each shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy (who need not be a shareholder of the company) to attend, participate in and speak and vote in place of that shareholder at the annual general meeting, and at any adjournment thereafter.**

Please note the following:
- The appointment of your proxy may be suspended at any time to the extent that you choose to act directly and in person in the exercise of your rights as a shareholder at the annual general meeting;
- The appointment of the proxy is revocable; and
- You may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy, and to the company.

Please note that any shareholder of the company that is a company may authorise any person to act as its representative at the annual general meeting. Please also note that section 63(1) of the Companies Act 71 of 2008 requires that persons wishing to participate in the annual general meeting (including the aforementioned representative) provide satisfactory identification before they may so participate.

**Note that voting will be performed by way of a poll so each member present or represented by way of proxy will be entitled to one vote in respect of every share held or represented.**

I/We (name in block letters) ______________________________

of (address) ______________________________

Telephone: Work (     ) ____________ Telephone: Home (     ) ____________ Cellphone number ____________

being the holder/s of ______________________ ordinary shares in the company, hereby appoint (refer to note 1)

1. ______________________________ or failing him/her

2. ______________________________ or failing him/her

the Chairperson of the annual general meeting

as my/our proxy to attend, speak, vote and act for me/us on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing the resolutions to be proposed thereat and at any adjournment thereof and to vote for or against such resolutions or to abstain from voting in respect of the shares in the issued capital of the company registered in my/our name/s, in accordance with the following instructions (refer to note 2).

My/our proxy may delegate to another person his/her authority to act on my/our behalf at the annual general meeting, provided that my/our proxy:
- Must provide written notification to the transfer secretaries of the company, namely Computershare Investor Services Proprietary Limited, of the delegation by my/our proxy of his/her authority to act on my/our behalf at the general meeting by no later than 10:00 on Friday, 29 June 2018, being 48 (forty-eight) hours before the general meeting to be held at 10:00 on Tuesday, 3 July 2018; and
- Must provide to his/her proxy with a copy of his/her authority to delegate his/her authority to act on my/our behalf at the general meeting.

| | Number of votes on a poll (one vote per ordinary share) | | |
|---|---|---|---|
| | **In favour** | **Against** | **Abstain** |
| **Ordinary resolutions** | | | |
| 1. Adoption of annual financial statements | | | |
| ***Confirmation and re-election of directors*** | | | |
| 2. Confirmation of appointment of Ms IP Mogotlane | | | |
| 3. Confirmation of appointment of Mr A de Wet | | | |
| ***Appointment of Audit and Risk Committee*** | | | |
| 4. Appointment of Mr RI Dickerson to the Audit and Risk Committee | | | |
| 5. Appointment of Ms IP Mogotlane to the Audit and Risk Committee | | | |
| 6. Appointment of Ms CS Ntshingila to the Audit and Risk Committee | | | |
| 7. Appointment of PwC as external auditors | | | |
| 8. Indemnification of directors | | | |
| 9. General authority to issue shares or options for cash | | | |
| **Non-binding advisory vote** | | | |
| 1. Remuneration policy | | | |
| 2. Implementation report | | | |
| **Special resolutions** | | | |
| 1. Approval of non-executive directors' fees | | | |
| 2. General approval to repurchase company shares | | | |
| 3. Loans or financial assistance to subsidiaries and related or inter-related companies | | | |

Signed at ______________________________ on ____________ 2018

Signature ______________________________
(Authority of signatory to be attached if applicable – see note 7)

Assisted by me (where applicable – see note 9) ______________________________

Please also read the notes overleaf.

# NOTES TO THE FORM OF PROXY

1. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as a proxy to the exclusion of those whose names follow thereafter.
2. If no proxy is inserted in the spaces provided, then the Chairperson shall be deemed to be appointed as the proxy to vote or abstain as the Chairperson deems fit.
3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the proxy form will be deemed to authorise the proxy to vote, or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat.
4. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy. A proxy shall be entitled to demand that voting take place on a poll.
5. Proxy forms must be lodged with or posted to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg 2196 (PO Box 61051, Marshalltown 2107, South Africa).
6. Forms of proxy must be received or lodged by no later than 10:00 on Friday, 29 June 2018, being no later than 48 (forty-eight) hours before the annual general meeting to be held at 10:00 on Tuesday, 3 July 2018.
7. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form, unless previously recorded by the Company Secretary or waived by the Chairperson of the annual general meeting. CSDPs or brokers registered in the company's subregister voting on instructions from beneficial owners of shares registered in the company's sub-register, are requested that they identify the beneficial owner in the subregister on whose behalf they are voting and return a copy of the instruction from such owner to the Company Secretary or to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg 2196 (PO Box 61051, Marshalltown 2107, South Africa), together with this form of proxy.
8. Any alteration or correction made to this proxy form must be initialled by the signatory/ies, but may not be accepted by the Chairperson.
9. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Company Secretary.

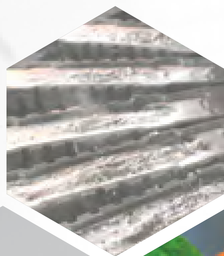
**SUMMARY OF SHAREHOLDERS' RIGHTS IN RESPECT OF PROXY APPOINTMENTS AS CONTAINED IN SECTION 58 OF THE COMPANIES ACT, 71 OF 2008**

Please note that in terms of section 58 of the Act:

- This proxy form must be dated and signed by the shareholder appointing the proxy;
- You may appoint an individual as a proxy, including an individual who is not a shareholder of the company, to participate in and speak and vote at a shareholders' meeting on your behalf;
- Your proxy may delegate his/her authority to act on your behalf to another person, subject to any restriction set out in this proxy form;
- This proxy form must be delivered to the company or to the transfer secretaries of the company namely Computershare Investor Services Proprietary Limited, before your proxy exercises any of your rights as a shareholder at the annual general meeting;
- The appointment of your proxy or proxies will be suspended at any time to the extent that you choose to act directly and in person in the exercise of any of your rights as a shareholder at the annual general meeting;
- The appointment of your proxy is revocable unless you expressly state otherwise in this proxy form;
- As the appointment of your proxy is revocable, you may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy and (ii) delivering a copy of the revocation instrument to the proxy and to the company. Please note the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on your behalf as of the later of (i) the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the company and the proxy as aforesaid;
- If this proxy form has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Act, or the company's memorandum of incorporation, to be delivered by the company to you will be delivered by the company to you or your proxy or proxies, if you have directed the company to do so, in writing, and paid any reasonable fee charged by the company for doing so;
- Your proxy is entitled to exercise, or abstain from exercising, any voting right of yours at the annual general meeting, but only as directed by you on this proxy form; and
- The appointment of your proxy remains valid only until the end of the annual general meeting or any adjournment or postponement thereof or for a period of six months, whichever is shorter, unless it is revoked by you before then on the basis set out above.

# ADMINISTRATION

| | |
|---|---|
| **DIRECTORS** | F Botha<br>C Coombs<br>A de Wet<br>RI Dickerson<br>IP Mogotlane<br>N Mwale<br>CS Ntshingila |
| **REGISTERED OFFICE** | 359 Crocker Road<br>Wadeville, Extension 4<br>Germiston<br>1407<br>Gauteng |
| **BUSINESS ADDRESS** | 359 Crocker Road<br>Wadeville, Extension 4<br>Germiston<br>1407<br>Gauteng |
| **POSTAL ADDRESS** | PO Box 14676<br>Wadeville<br>Germiston<br>1422<br>Gauteng |
| **BANKERS** | First National Bank |
| **AUDITORS** | PricewaterhouseCoopers Inc.<br>Registered Auditors |
| **SPONSOR** | Bridge Capital Advisors Proprietary Limited<br>(Registration number 1998/016302/07) |
| **COMPANY SECRETARY** | TN Kgari |
| **COMPANY REGISTRATION NUMBER** | 2002/029821/06 |
| **TAX REFERENCE NUMBER** | 9078/488/15/3 |
| **PUBLISHED** | 29 May 2018 |

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