Balanced Sustainable Return on Invested Capital (BS ROIC)

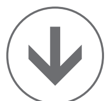
TAX
INTEREST
PROFIT
WAGES
SALARIES
DIVIDENDS
TURNOVER
CASH
CSI SPEND
CAPITAL
PENSIONS

Stakeholder Requirements

Metair **at a glance**

METAIR INVESTMENTS LIMITED

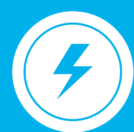
(Listed on the Johannesburg Stock Exchange)



Metair Investments Limited holds manufacturing operations in South Africa, Turkey, Romania, Kenya and Germany. The company consists of two verticals – an energy storage vertical and an automotive components vertical.

The energy storage vertical makes and sells energy storage solutions, mainly to automotive original equipment manufacturers (OEMs) and the automotive aftermarket, and in 2018 produced more than nine Gigawatt hours.

The automotive components vertical makes and sells components mainly to OEMs in South Africa to make cars and light commercial vehicles. In 2018, we produced more than 10.6 million parts.



ENERGY STORAGE VERTICAL

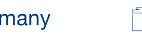
- Automotive and industrial batteries
- Solar systems
- Back-up systems
- Standby systems
- Charging systems
- Battery distribution networks
- Lithium-ion batteries and mining cap lamps

AFTERMARKET RETAIL CUSTOMERS:

- South Africa
- Turkey
- Romania
- Russia
- United Kingdom
- Middle East
- North Africa
- Germany
- East Africa

ORIGINAL EQUIPMENT MANUFACTURERS:

- South Africa
- Turkey
- Romania
- Russia
- United Kingdom
- Middle East
- North Africa
- Germany



Key: Automotive components Energy storage solutions

AUTOMOTIVE COMPONENTS VERTICAL

- Air-conditioning and climate control systems, cooling modules, washer systems, charge air coolers and reserve tanks
- Radiators
- Air cleaners
- Wiper systems
- Electronic control units
- Starter motors
- Hydraulics, brake pads, brake discs and brake shoes
- Coil springs, leaf springs, stabiliser and torsion bars
- Headlights, tail lights and reflectors
- Plastic injection mouldings, plastic bins/storage and chrome plating on plastics
- Automotive cable, automotive wire and wiring harnesses
- Combination meter/instrument clusters
- Front-end modules, shock absorbers, struts and track control arms

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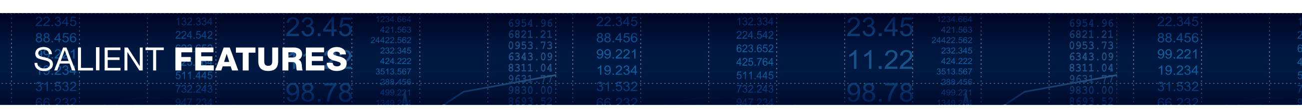
STRATEGY LEGS – Refer to page 25

Theme of the 2018
Integrated Annual Report

Each year we pick a theme for Metair's integrated annual report that encapsulates the current focus of the company and where it is going. This is introduced to operations at the annual managing directors' conference in November and shapes the context in which our strategy is executed during the year ahead.

This year's theme is 'Stakeholder Requirements' which are best addressed through delivering a balanced sustainable return on invested capital (ROIC). The cover graphic shows the group's manufacturing facilities in the automotive component and energy storage verticals, which represent the company's manufacturing capital. The work we do at these manufacturing facilities is converted into the financial capital flows which create a profitable business to meet many, but not always all, stakeholder needs. These flows include salaries, wages and pensions for employees, dividends and share buybacks to return capital to shareholders, interest for providers of finance, corporate social investment initiatives in local communities and the tax we pay to government.

The differing requirements of our various stakeholder groups challenge us to allocate capital in a transparent and responsible way. 2018 saw extensive engagement with two stakeholder groups in particular – shareholders and employees – and we recognise the challenge of balancing the needs of all stakeholders in a way that supports sustainable long-term value creation.



SALIENT **FEATURES**

REVENUE
increased 8% to
R10.28b

Consolidated group assessed at
B-BBEE Level 3
and most South African subsidiaries at Level 4 or better

DIVIDEND PER SHARE OF
100c
declared in 2019 in respect of the 2018 financial year

EBITDA
improved
9.3%

Excellent progress
on delivery of the group strategy

GROUP SCOPE 1 and 2
carbon emissions per person hour worked improved
6.2%

HEPS
increased
16% to 327c
per share

LTIFR
increased to
1.15
in 2018 from 0.97 in 2017

Invested in a
35% stake in Prime Motors
as an incubator and research and development centre for lithium-ion battery development

Continued strong operational results

About **this report**

This integrated annual report is prepared primarily for current and prospective shareholders as well as other providers of finance. However, Metair's commitment to integrated thinking means that the disclosures in this report also include those relevant to the material interests of our other stakeholder groups.

The report provides a comprehensive overview of the company's strategy and business model, operating context, material risks and opportunities, stakeholder groups and their interests, governance, operational performance and prospects. It covers the period 1 January to 31 December 2018 and includes information up to the date of publication of this report where this is relevant to stakeholders.

Disclosures in this report are framed by the matters that most materially impact Metair's ability to create value over the long term. These are shown on the right of this page, contextualised in the table on page 36 and discussed in more detail throughout this report. As in prior years, material matters have been identified and prioritised from a combination of the risk assessment process, stakeholder inputs and a review of regulations, guidelines, media and peer reports.

Financial information in this report includes all Metair subsidiaries and associates in accordance with International Financial Reporting Standards (IFRS). Non-financial sustainability information, such as human resources statistics and environmental performance, does not include information for Associated Battery Manufacturers (East Africa) Limited (ABM), MOLL or Prime Motors. This exclusion is not considered to have a material effect on the group's reported non-financial performance at present.

Transformation information provided on pages 58 and 59 covers all South African subsidiaries and their material holdings, but excludes the non-South African operations: Rombat, Mutlu Akü, Dynamic, ABM, MOLL and Prime Motors. Hesto is reported in the annual financial statements as a managed associate, but is included fully in the non-financial reporting as Metair is responsible for the day-to-day management of the company.

No significant changes to Metair's business occurred during the year that affect comparability against the 2017 report and no material restatements of information provided in previous reports have been made.

REPORTING GUIDELINES AND REGULATORY REQUIREMENTS

The integrated reporting process and the contents of this report follow the principles and requirements of the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework as it applies to our business, the King IV Report on Corporate Governance for South Africa, 2016 (King IV™), IFRS, the JSE Listing Requirements and the Companies Act, No. 71 of 2008 (as amended). Sustainability information presented aligns with the GRI Sustainability Reporting Standards reporting guidelines although Metair does not report in accordance with the Standards. A copy of Metair's Sustainability Data Transparency Index report is available on our website, https://www.metair.co.za/sustainability/policies-and-reports/

ASSURANCE

The group has a combined assurance model that monitors key strategic risks, internal controls and other material areas. Various internal and external assessments support the integrity of the management, monitoring and reporting of data. External assurance of material information in this report includes:

- The consolidated and separate annual financial statements for the year ended 31 December 2018, which have been audited by PricewaterhouseCoopers Inc. Their report appears on page 135.
- Sustainability information has been externally assured by Integrated Reporting & Assurance Services (refer to their report on page 117).
- External verification of B-BBEE performance is performed at a consolidated group level as well as at subsidiary level for the South African operations by Empowerlogic. The Metair group B-BBEE certificate and B-BBEE statutory report are available on our website at https://www.metair.co.za/sustainability/policies-and-reports

All targets, intentions and forecasts stated in this report are accurate based on the information available to Metair at the time of writing. These may be invalidated should conditions change significantly and we will report on progress in the next integrated annual report.

APPROVAL OF THE INTEGRATED ANNUAL REPORT

The Metair board acknowledges its responsibility to ensure the integrity of the integrated annual report. The board confirms that it has applied its collective mind to the preparation and presentation of this report, and believes that all material matters, the integrated performance of the company and its impact on the environment and stakeholders are fairly presented.

For further information regarding this report, please contact the company secretary, Sanet Vermaak:

- **Telephone: +27 11 646 3011**
- **Fax: +27 11 646 3102**
- **Email: sanet@metair.co.za**

METAIR'S MOST MATERIAL MATTERS

- Competitiveness
- Macro-economic and geo-political factors
- Balanced business
- Business partnerships
- Human capital
- The natural environment
- Technology and innovation

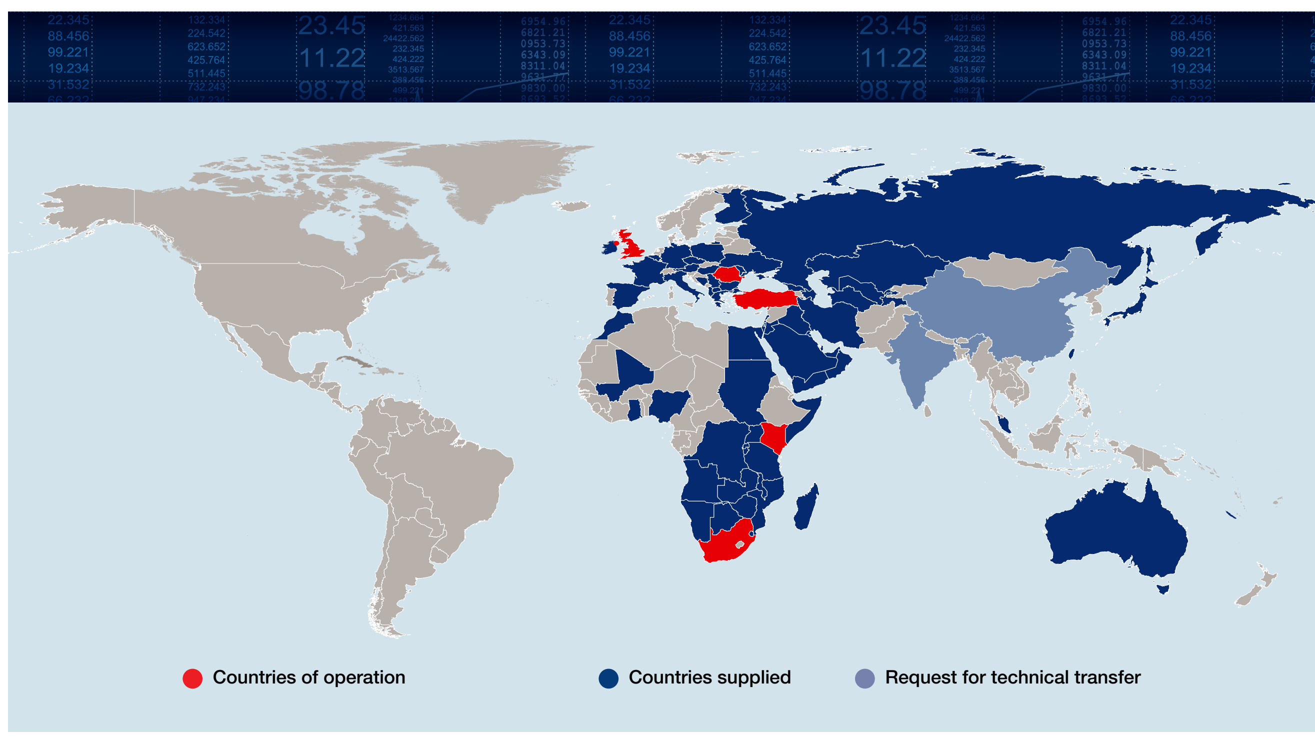
Who **we are**

Metair Investments Limited is listed on the Johannesburg Securities Exchange (JSE) and headquartered in Johannesburg. The company holds investments and manages 11 South African and six international operations within two distinct business verticals. The businesses manufacture, assemble, distribute and retail energy storage solutions and automotive components in Africa, Europe, the Middle East, Turkey and Russia.

The energy storage vertical manufactures batteries for use in the automotive, telecoms, utility, mining, retail and materials/products handling sectors. Automotive batteries are supplied to automotive original equipment manufacturers (OEMs) and also to the aftermarket through our unique aftermarket distribution channels and franchised retail networks. We supply batteries to all major OEMs in South Africa, Europe, Romania, Turkey and Russia through subsidiaries in Romania (Rombat), Turkey (Mutlu Akü) and South Africa (First National Battery), and through our associate, MOLL, in Germany. Most of our batteries are lead-acid based technology, but we have been producing lithium-ion cap lamps since 2013 and lithium-ion automotive starter batteries in Turkey since 2017. Our latest investment in Prime Motors establishes an incubator and research and development centre for lithium-ion battery development.

Aftermarket products are exported to approximately 46 destinations across Africa, Europe, the Middle East, Turkey and Russia. Non-automotive products are mainly sold into sub-Saharan Africa and Turkey.

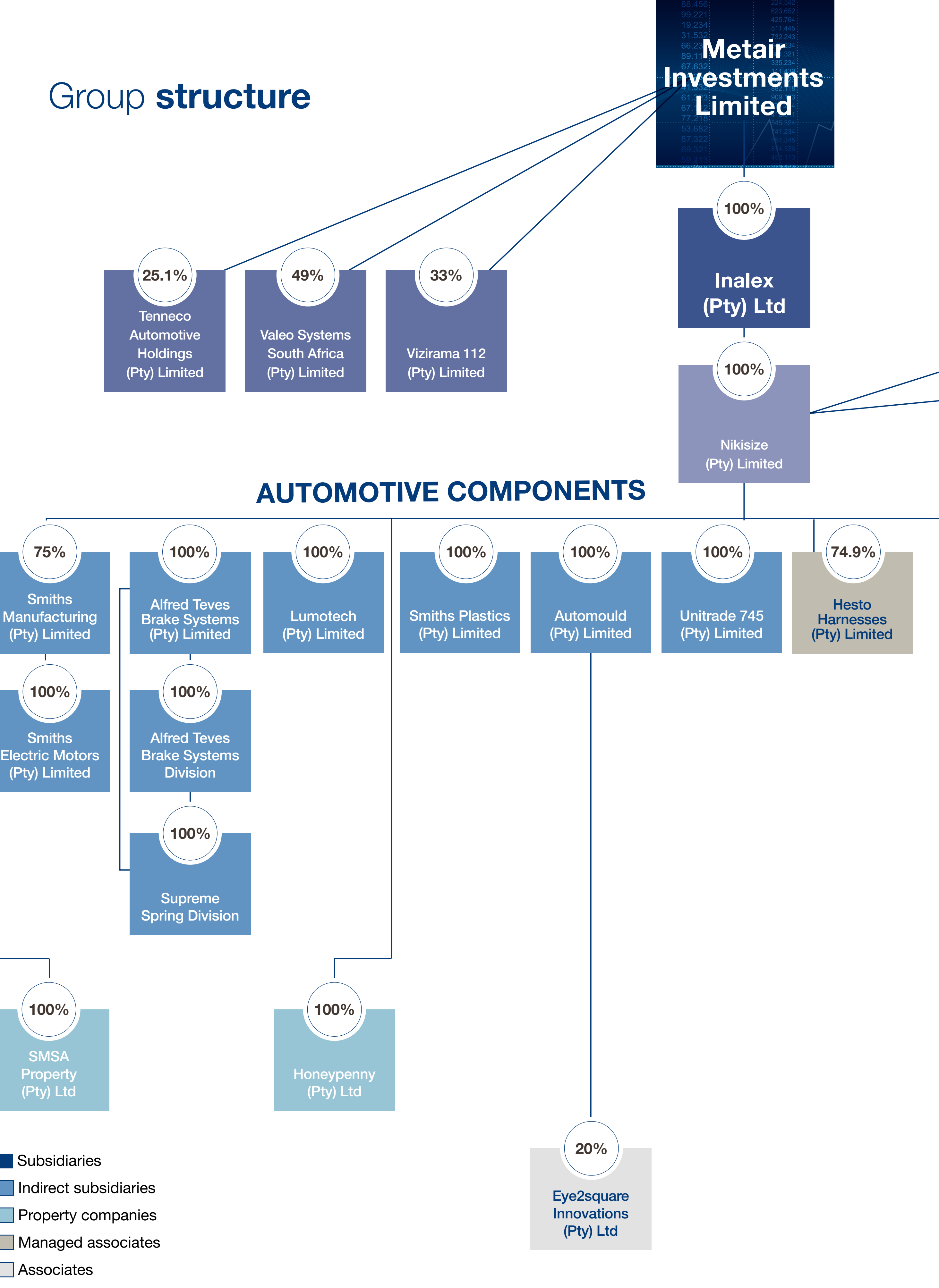
The automotive components vertical produces original equipment (OE) components used in the assembly of new vehicles by OEMs in South Africa, as well as spare parts and other products used in the South African automotive aftermarket. These include brake pads, shock absorbers, lights, radiators and air-conditioners. The group also produces generic aftermarket products for use in the increasing number of imported vehicles.

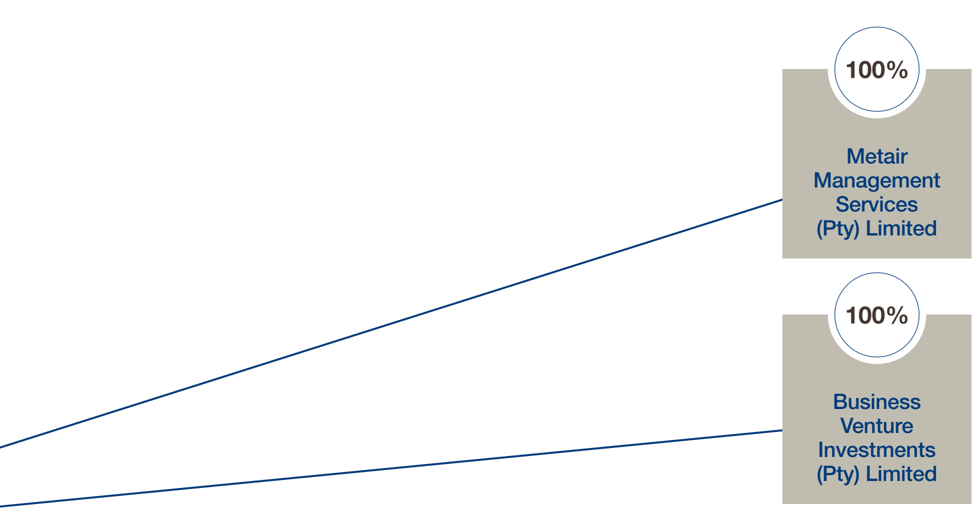


Key **businesses**

COMPANY	OWNERSHIP	KEY BUSINESS AREA AND PRODUCTS	IP IN PRODUCT DEVELOPMENT	MANUFACTURING PARTNERSHIPS	KEY OE RELATIONSHIPS
ENERGY STORAGE VERTICAL					
Mutlu Akü	100.0%	Batteries, solar systems, backup systems, standby systems, charging systems	✓		
First National Battery	100.0%	Batteries, solar systems, backup systems, standby systems, charging systems, Battery Centre franchise	✓		
Rombat	99.4%	Batteries, solar systems, backup systems, standby systems	✓		
Dynamic Battery Services	100.0%	National and international distribution of key battery group products			
Prime Motors	35%	Lithium battery production for electric vehicles and electric energy storage. Development of new lithium battery technologies	✓		
Akkumulatorenfabrik MOLL GmbH & Co. KG	25.1%	Starter batteries to the automotive industry and aftermarket, stationary batteries, solar systems, components	✓		
Associated Battery Manufacturers (East Africa)	25.0%	Automotive and solar batteries		✓	
AUTOMOTIVE COMPONENTS VERTICAL					
Smiths Manufacturing	75.0%	Air-conditioning and climate control systems, air cleaners, radiators, wiper systems, engine control units, washer systems, charge air coolers, reserve tanks, starter motors and compressors		✓	
Hesto Harnesses	74.9%	Wiring harnesses, instrument cluster/combination meters, moulded parts		✓	
Lumotech	100.0%	Headlights, tail lights, reflectors and plastic injection mouldings	✓	✓	
Supreme Spring	100.0%	Coil springs, leaf springs, stabiliser bars, torsion bars	✓		
Automould	100.0%	Plastic injection moulding		✓	
Smiths Plastics	100.0%	Plastic injection moulding, chrome plating, body colour painting and assembly		✓	
Unitrade	100.0%	Automotive cable, automotive wire	✓		
ATE	100.0%	Brake pads, brake discs, brake shoes, hydraulics and other braking components	✓		
Valeo SA	49.0%	Front end modules		✓	
Tenneco Automotive	25.1%	Shock absorbers, struts, track control arms		✓	

Group structure





ENERGY STORAGE

100%
Metindustrial (Pty) Limited First National Battery Division

100%
First National Battery Retail (Pty) Limited

100%
Tlangi Investments (Pty) Limited

100%
NETHERLANDS
Metair International Holdings Cooperatief U.A.

99.43%
ROMANIA
Rombat SA

100%
UNITED KINGDOM
Dynamic Battery Services Limited

100%
NETHERLANDS
Metair Energy Solutions B.V.

100%
TURKEY
Metair Akü Holding Anonim Şirketi (MAH)

100%
TURKEY
Mutlu Holding Anonim Şirketi (MH)

25.11%
GERMANY
MOLL Beteiligungs-geselisch aft GmbH (MOLL Beteiligungs)

25.09%
GERMANY
MOLL Grundbesitz GmbH (MOLL Grundbesitz)

25%
KENYA
Associated Battery Manufacturers (East Africa) Limited

35%
ROMANIA
Prime Motors Industry Sri

25.11%
GERMANY
Akkumulatoren-fabrik MOLL GmbH & Co. KG (MOLL)

25.09%
GERMANY
MOLL Grundstücks-und Vermögensver waltungs GmbH & Co. KG (MOLL Property)

100%
TURKEY
Mutlu Akü ve Malzemeleri Sanayii Anonim Şirketi
Directly 100% (MH)

100%
TURKEY
Metropol Motorlu Tasitlar Kiralama Anonim Şirketi
Directly 99.1% (MH)
Indirectly 0.1% (MAH)

100%
TURKEY
Mutlu Plastik ve Ambalaji Sanayi Anonim Şirketi
Directly 54.99% (MH)
Indirectly 45.01% (MAH)

What **we do**

Material operations and market segments

THE INFORMATION ON THE PAGES THAT FOLLOW SHOWS THE MAJOR OPERATIONS, REVENUE CONTRIBUTION, REVENUE SPLIT AND THE PERCENTAGE OF METAIR'S HOLDING IN THE SUBSIDIARIES/ASSOCIATES.

ENERGY STORAGE VERTICAL

LOCAL AUTOMOTIVE

LOCAL INDUSTRIAL

EXPORT

MUTLU AKÜ

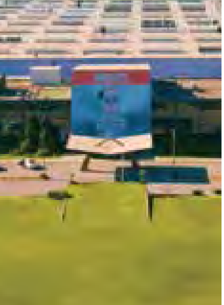
100%

26% GROUP REVENUE CONTRIBUTION

PRODUCTS
Automotive and industrial batteries

LOCATIONS
Istanbul and Gediz, Turkey

7%
26%
67%



MUTLU HOLDINGS

100%

ABOUT
Owns 100% of Mutlu Akü and responsible for the management of the Mutlu group.

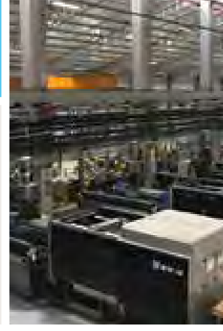
LOCATION
Istanbul, Turkey

MUTLU PLASTIC

100%

PRODUCTS
Plastic parts of batteries. covers and lids

LOCATION
Istanbul, Turkey



METINDUSTRIAL
First National Battery division

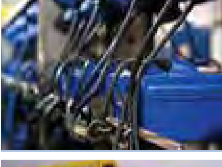
100%

18% GROUP REVENUE CONTRIBUTION

PRODUCTS
Batteries, solar systems, back-up systems, standby systems, charging systems, Battery Centre franchise.

LOCATIONS
East London, Cape Town, Durban, Carletonville, Benoni and Rustenburg, South Africa

15%
22%
63%



ROMBAT

99.4%

11% GROUP REVENUE CONTRIBUTION

PRODUCTS
Batteries, battery distribution networks

LOCATIONS
Bistrita and Copsa Mica, Romania

1%
59%
40%

REVENUE SPLIT BY BUSINESS UNIT

DYNAMIC BATTERY

100%

1% GROUP REVENUE CONTRIBUTION

PRODUCTS
Battery distribution networks

LOCATIONS
Lancashire, Wiltshire and Leicestershire, United Kingdom

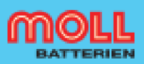
100%

PRIME MOTORS

35%

PRODUCTS
Lithium batteries, research and development and technology incubator

LOCATIONS
Bucharest, Romania



AKKUMULATORENFABRIK MOLL GmbH & Co. KG

25.1%

PRODUCTS
Batteries.

LOCATIONS
Bad Staffelstein, Germany

ASSOCIATED BATTERY MANUFACTURERS (East Africa) Limited

25%

PRODUCTS
Automotive and solar batteries

LOCATIONS
Kenya

What **we do**

Material operations and market segments (continued)

AUTOMOTIVE COMPONENTS VERTICAL

LOCAL AUTOMOTIVE	LOCAL AUTOMOTIVE	LOCAL INDUSTRIAL	EXPORT

SMITHS MANUFACTURING

75.1%

16% GROUP REVENUE CONTRIBUTION

PRODUCTS
Air-conditioning and climate control systems, washer systems, reserve tanks, charge air coolers, radiators, air cleaners, wiper systems, electronic control units, starter motors and compressors

LOCATION
New Germany, South Africa

1%
11%
88%

HESTO

74.9%

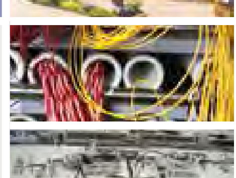
10% GROUP REVENUE CONTRIBUTION

PRODUCTS
Wiring harnesses, combination meter/instrument clusters, moulded parts

LOCATIONS
Kwadukuza, South Africa

3%
97%

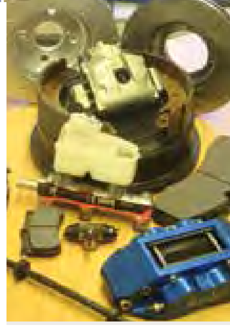
REVENUE SPLIT BY BUSINESS UNIT



ALFRED TEVES BRAKE SYSTEMS
including Supreme Spring

100%

1% GROUP REVENUE CONTRIBUTION



PRODUCTS
Brake pads, brake discs, brake shoes, hydraulics, and other braking components

LOCATIONS
Boksburg and Nigel, South Africa

2%
98%

SUPREME SPRING

5% GROUP REVENUE CONTRIBUTION

PRODUCTS
Coil springs, leaf springs, stabiliser bars and torsion bars

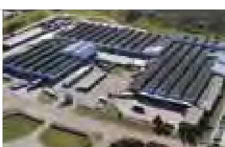
LOCATIONS
Boksburg and Nigel, South Africa

2%
3%
95%

LUMOTECH

100%

5% GROUP REVENUE CONTRIBUTION



PRODUCTS
Headlights, tail lights, reflectors and plastic injection mouldings

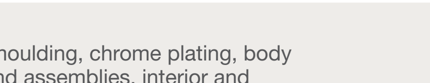
LOCATIONS
Uitenhage, South Africa

REVENUE SPLIT BY BUSINESS UNIT: 1% | 11% | 88%

SMITHS PLASTICS and Automould

100%

1% GROUP REVENUE CONTRIBUTION



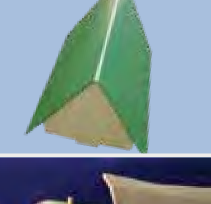
PRODUCTS
Plastic injection moulding, chrome plating, body colour painting and assemblies, interior and exterior trim, instrument panel assemblies, 2K moulding technology, side injection technology, engine components and cooling systems, plastic bins, crates and storage solutions, green energy systems

LOCATION
New Germany, Westmead and East London, South Africa

REVENUE SPLIT BY BUSINESS UNIT: 2% | 8% | 90%

AUTOMOULD

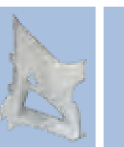
4% GROUP REVENUE CONTRIBUTION



PRODUCTS
Plastic injection moulding, chrome plating, body colour painting and assemblies, interior and exterior trim, instrument panel assemblies, 2K moulding technology, side injection technology, engine components and cooling systems, plastic bins, crates and storage solutions, green energy systems

LOCATION
New Germany, Westmead and East London, South Africa

REVENUE SPLIT BY BUSINESS UNIT: 5% | 95%



UNITRADE

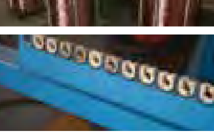
100%

1% GROUP REVENUE CONTRIBUTION

PRODUCTS
Automotive cable, Automotive wire

LOCATIONS
Kwadukuza, South Africa

REVENUE SPLIT BY BUSINESS UNIT: 11% | 89%

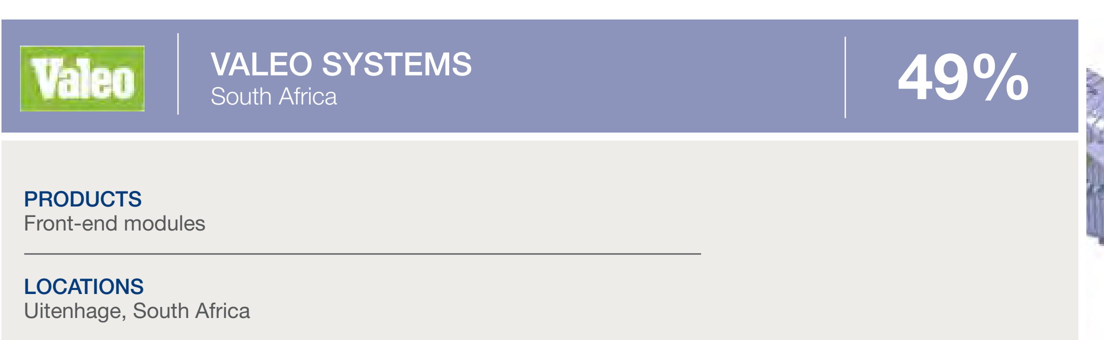


What **we do**

Material operations and market segments (continued)

AUTOMOTIVE COMPONENT VERTICAL

LOCAL AUTOMOTIVE | LOCAL AUTOMOTIVE | LOCAL INDUSTRIAL | EXPORT

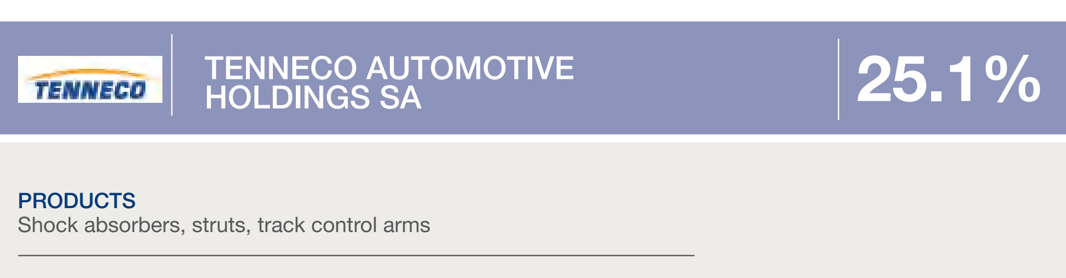


VALEO SYSTEMS
South Africa

49%

PRODUCTS
Front-end modules

LOCATIONS
Uitenhage, South Africa

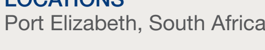


TENNECO AUTOMOTIVE HOLDINGS SA

25.1%

PRODUCTS
Shock absorbers, struts, track control arms

LOCATIONS
Port Elizabeth, South Africa



CLASSIC CAR CONVERSION

As major European cities move towards introducing measures to reduce the use of fossil-fuel powered cars, classic car conversions to e-vehicles are gaining in popularity. These unique and stylish conversions offer owners a classic look with increased reliability, improved torque, silent running and zero emissions.

Prime Motors is currently developing a lithium-ion battery powered electric drivetrain for use in these conversions.

Our **business model**

CAPITAL **INPUTS**

MANUFACTURING INPUTS

- Steel
- Aluminium
- Copper
- Lead
- Polymers
- Alloys
- Rubber
- Tooling
- Parts
- Chemicals
- Gas
- Electricity
- Water
- Labour

FINANCIAL CAPITAL

R4.3 billion equity
R1.8 billion borrowings

MANUFACTURED CAPITAL

The buildings, physical and IT infrastructure, machinery and tooling at our sixteen operations in six countries.

HUMAN CAPITAL

9 301 employees and contractors. Our culture of manufacturing excellence and custodianship. The skills, experience and commitment of Metair's leadership, management and employees.

INTELLECTUAL CAPITAL

Our brands and the skill and experience of the technical experts in the group.

SOCIAL AND RELATIONSHIP CAPITAL

Our commitment to custodianship and ethical business practices, which we demonstrate in our relationships with stakeholders.

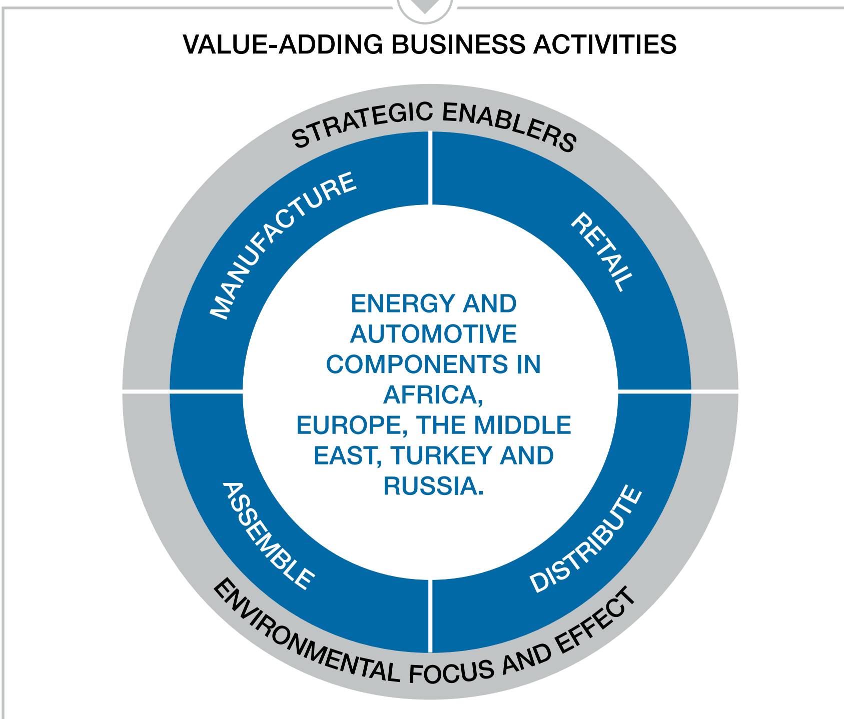
NATURAL CAPITAL

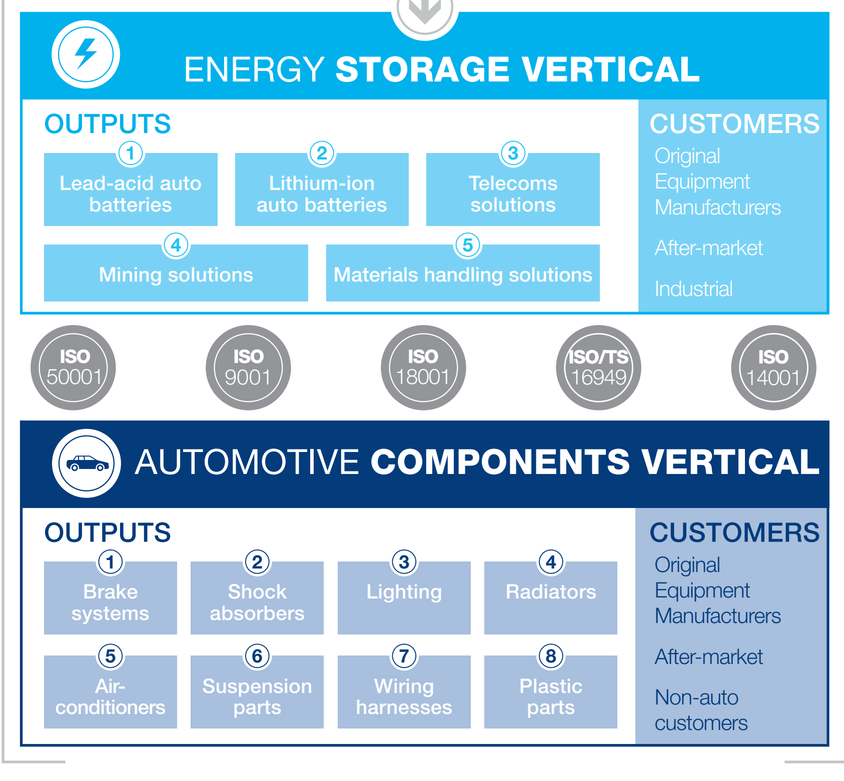
The land on which our facilities stand, the air around us and key inputs such as water, raw materials and energy.

OUR **MISSION**

Generate value for all stakeholders by managing and controlling businesses in the mobility and energy sectors that **deliver quality and cost-competitive products**

VALUE-ADDING BUSINESS ACTIVITIES





TRADE-OFFS IN 2018

- Effective allocation of **financial capital** to achieve a sustainable return on invested capital is essential for achieving the group's strategic goals and a key stakeholder concern. Capital investments are necessary to improve cost efficiencies, grow the group's operational footprint and product range, and further expand through the energy storage business.
- R16 million allocated to **intellectual capital** through our investment in Prime Motors, which will serve as the research and development centre for lithium-ion battery development, electrical vehicle technology and autonomous driving.
- R212 million allocated to **manufactured capital** in a state of the art lithium-ion coating and cell assembly manufacturing line to be installed in our facilities in Romania. This facility will also increase **intellectual capital** regarding lithium-ion battery production.
- **Human capital invested** in several lithium-ion projects with OEMs that could spearhead Metair's entrance into the lithium-ion market in the future.
- Engagements with shareholders strengthened **social and relationship capital** with a key stakeholder group and led to R104 million allocated to share buybacks.
- Strikes in the automotive industry (including at First National Battery) eroded **social and relationship capital** between companies and labour, affected customers' perception of Metair's reliability as a supplier and reduced the profitability of the business.
- Investments of **financial capital** in **manufactured capital** improved efficiency and reduced the use of **natural capital** and production of waste.

CAPITAL OUTCOMES

FINANCIAL CAPITAL

- R3 160 million in wealth created for stakeholders
- R1 806 million in remuneration paid to employees
- R104 million share buyback
- Dividend of 100 cents per share declared

MANUFACTURED CAPITAL

- R305 million increase in manufacturing capital through capital expenditure
- Wear and tear on manufacturing equipment

HUMAN CAPITAL

- Group LTIFR increased to 1.15
- Absenteeism increased to 3.6%
- Staff attrition improved to 8.9%
- R23 million invested in skills development
- 90.7% employees deemed HDSA
- 32.4% female representation

INTELLECTUAL CAPITAL

- R35 million invested in research and development in 2018, of which R32.7 million relates to Mutlu Akü in Turkey
- Improved technical skill and experience in the group
- Focus on succession planning to develop the next generation of leadership and technical expertise
- Development of lithium-ion batteries for automotive and industrial use underway

SOCIAL AND RELATIONSHIP CAPITAL

- R11.2 million invested in CSI projects
- Consolidated group B-BBEE Level 3 achieved
- Relationship with UWC to develop intellectual capital around lithium-ion technology

NATURAL CAPITAL

- ±64 400 tonnes of lead recycled
- 2018 carbon footprint 594 198 tCO_2e
- 15 250 tonnes of non-hazardous waste produced, of which 59% was recycled

Directors and **officers of the company**

SG PRETORIUS (71)

Independent non-executive chairman

M Comm (Business Economics)

Appointed to the board in 2014

NOMCO SAEC 5

Mr Pretorius holds an M Com Business Economics from the University of the Free State and served as managing director of Toyota SA Marketing and then as chief executive officer of McCarthy Ltd. He retired as an executive director of McCarthy and its controlling shareholder, Bidvest, on 1 March 2011.

He has received numerous national marketing and leadership awards including Marketing Person of the Year and Boss of the Year. He holds honorary professorships at the University of Johannesburg, University of Pretoria and University of the Free State, and honorary doctorates in marketing from the Durban University of Technology and the Central University of Technology. Brand is a Fellow in Leadership at the Gordon Institute of Business Science and serves on the boards of trustees of the READ Educational Trust, Partners for Possibility and the business incubator InvoTech. Mr Pretorius serves as non-executive director on the boards of Tongaat Hulett, Reunert, Agrinet and Italtile Ltd. Mr Pretorius was appointed as an independent non-executive director to the Metair board in January 2014 and as chairman on 1 July 2015. He was appointed to the social and ethics committee with effect from 14 June 2018 and the nomination committee with effect from 27 September 2018.

CT LOOCK (54)

Managing director

B Eng (Industrial)

Appointed to the board in 2006

SAEC 13

Mr Loock is a professional industrial engineer with supplementary business and economic studies. He obtained his engineering degree from the University of Pretoria in 1986.

His 30 years of mining and manufacturing experience started at Dorbyl Automotive Technologies and SASOL Coal. The listing of two family businesses on the local securities exchange gave him insight into managing and growing publicly owned businesses. His career path as trainee engineer, planning manager, production manager and general manager at Dorbyl Engineering and Sasol Mining prepared him for various executive director roles in Scharrighuisen Mining Limited, Scharrighuisen Industrial Holdings Limited, Dorbyl Limited and Trident Steel (Pty) Limited. Growing and expanding listed businesses on the JSE in the role as CEO built his deal making, mergers and acquisitions expertise and deeper financial experience. He was appointed as the CEO of Metair in May 2006. He serves as the chairman of all local and international Metair subsidiaries.

S DOUWENGA (39)

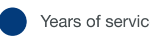
Finance director

B Comm (Hons) CA(SA)

Appointed to the board in 2014

IC 6

Mr Douwenga qualified as a Chartered Accountant in 2003 after completing his articles with PwC, and then spent approximately eight years in PwC's deals division where he gained extensive experience in acquisitions across various sectors within Africa and Europe. Mr Douwenga first started working with Metair in 2011 during the Rombat acquisition, and was subsequently appointment as business development director at First National Battery during 2013 where he was primarily involved in operational and financial evaluation and execution of new acquisitions, most notably Mutlu Akü in Turkey. He was subsequently appointed as chief financial officer in 2014. Mr Douwenga resigned from the social and ethics committee with effect from 31 December 2018.



Years of service

AC	Audit and risk committee	REMCOM	Remuneration committee	IC	Investment committee
		SAEC	Social and ethics committee	NOMCO	Nomination committee
■	Committee Chairperson	■	Executive directors	■	Non-executive director

JG BEST (70)

Independent non-executive director

ACMA ACIS MBA

Appointed to the board in 2009

AC IC NOMCO 10

Mr Best has spent most of his career in the mining industry in various senior financial and managing roles. When he retired in July 2005 he was an executive director and chief financial officer of AngloGold Ashanti. He has served on a number of boards as a non-executive director and is currently a non-executive director of Polymetal International (plc) (a company listed on the London Stock Exchange) where he is chairman of the audit committee and a member of the remuneration committee. Mr Best's qualifications and associations include: associate of the Chartered Institute of Management Accountants, associate of the Institute of Chartered Secretaries and Administrators, and an MBA from the University of Witwatersrand. Mr Best was appointed to the Metair board as an independent non-executive director in February 2009. He is also the chairman of the Metair audit and risk committee and the investment committee. In adhering to good corporate governance procedure, as it relates to the recommendations set forth in the King IV Report on Corporate Governance for South Africa, 2016 ('King IV'), Mr Best was appointed as lead independent director of the company with effect from 30 November 2017. He was appointed to the nomination committee with effect from 27 September 2018. Mr Best retires as a director from the board, in accordance with the provisions of the company's Memorandum of Incorporation and informed the board that he will not offer himself for re-election and will accordingly retire as a director of the company at the annual general meeting on 2 May 2019.

TN MGODUSO (62)

Independent non-executive director

MA (Clinical Psychology)

Appointed to the board in 2016

REMCOM NOMCO 3

Ms Mgoduso started her career as a clinical psychologist, during which time she lectured at universities and practiced both in South Africa and abroad. She served as group HR executive at Transnet SOC Ltd and then as chief executive officer of freight dynamics. She later joined Imperial Logistics as group transformation executive. She left Imperial Logistics to serve as managing director of Ayavuna Women's Investments. After her time at Ayavuna, she spent time in strategic consulting and infrastructural development. She is currently on the boards of Tongaat Hulett Ltd, BIOSS Southern Africa, Ayavuna Trust, Assore Ltd, SAA SOC and Zimplats, where she also chairs the remuneration committee. She is the chairman of Jojose Investments and a commissioner on the Independent Commission for the Remuneration of Public Office Bearers. She is the chairman of the remuneration committee at the Competition Commission. Ms Mgoduso was appointed to the Metair board on 1 March 2016 and serves as chairperson of the remuneration committee. She was appointed to the nomination committee with effect from 27 September 2018.

PPJ DERBY (48)

Independent non-executive director

BSc (Hons) (Economics), MBA

Appointed to the board in 2016

SAEC IC REMCOM 3

Ms Derby's wide range of expertise has been shaped by her experience as an entrepreneur as well as senior strategic positions held in government over a period of 20 years. She served as chief operating officer of Trade and Investment South Africa, chief operating officer in the Department of Trade and Industry and as the director-general of the Department of Public Enterprises. She served as an executive director at Aurecon (2016-2019), where she remains as a non-executive director. She is a co-founder and an executive of Ubu Investment Holdings (2010-present), a company focusing on advisory and project development in infrastructure, investment in advanced manufacturing and strategic advice in the development of key economic infrastructure and strategic sectors in Africa. She serves on the board of Ubu Investment Holdings and is the chairperson at Open Saldanha NPC. In October 2018 she was appointed to the board of SAFCOL, a state-owned forestry company. Ms Derby was appointed to the Metair board on 1 March 2016 and was appointed chairperson of the social and ethics committee with effect from 20 October 2016. She was appointed to the remuneration committee with effect from 31 December 2018. She has served as a member of the National Executive Committee of NAACAM since 1 September 2017.

HG MOTAU (44)

Independent non-executive director

CA(SA), MPhil Development Finance

Appointed to the board in 2016

2

Ms Motau is a Chartered Accountant and also holds an MPhil in Development Finance from the University of Stellenbosch. She currently serves as an independent non-executive director on various boards including Afrocentric Investment Corporation Limited and Merafe Resources Limited. She also serves as a non-executive credit committee member of FirstRand Wholesale Credit Committee and an audit committee member of the Auditor General of South Africa. She previously worked as an Audit Partner at KPMG's Energy and Natural Resources' Division until March 2015. Furthermore, Ms Motau has held various management and advisory roles at organisations that include Blue IQ Investments, the National Treasury of South Africa and the Industrial Development Corporation. She was appointed to the Metair board on 1 November 2016 and is a member of the audit and risk committee and the investment committee.

B MAWASHA (41)

Independent non-executive director

BSc (Eng), ADP, MDP, GCC

Appointed to the board in 2018

REMCOM | AC

Mr Mawasha was the Richards Bay managing director and Rio Tinto Country head for South Africa until September 2018. Prior to that, he was the executive head of operations and integration at Kumba Iron Ore (an Anglo American Company). He previously worked for the De Beers Group and AngloGold Ashanti in South Africa and Ghana in leadership, operational and technical roles. Mr Mawasha is passionate about education and the development of others. He is a member of the Wits Mining School Industry Advisory Council. In 2017, he was selected as a Young Global Leader of the World Economic Forum. Mr Mawasha was appointed to the Metair board and the audit and risk committee on 1 March 2018. He was appointed to the remuneration committee with effect from 31 December 2018. Mr Mawasha will resign from the remuneration committee on 2 May 2019. He will be appointed as chairman of the investment committee and member of the nominations committee on the same date.

RS BROADLEY (86)

Independent non-executive director

Advanced Technical Certificate (Engineering)

Appointed to the board in 2001

REMCOM | SAEC | IC

After completing 21 years of service with Ford Motor Company, Mr Broadley joined Toyota South Africa in 1972 as director in charge of assembly and manufacturing. He retired as managing director of the manufacturing arm of Toyota South Africa in 1997 having served in that capacity since 1988. After retirement he continued as a consultant to the company until 2002. He served on the main board of Toyota South Africa from 1984 to 2002. He was appointed to the Metair board as a non-executive director in April 2001 and was classified as an independent non-executive director. He was a member of the investment committee, remuneration committee and the social and ethics committee. Mr Broadley retired from the board with effect from 31 December 2018.

L SOANES (82)*

Independent non-executive director

National Certificate of Engineering

** British*

Appointed to the board in 1999

Mr Soanes was managing director of Armstrong Hydraulics (Pty) Ltd from February 1979 to February 1999. He retired from Armstrong in March 1999 and was appointed as non-executive director of Metair in May 1999. He is classified as an independent non-executive director of Metair. He was a member of the Metair social and ethics committee and remuneration committee. He resigned as member of the audit and risk committee on 1 March 2018. Mr Soanes retired from the board with effect from 31 December 2018.

CMD FLEMMING (62)

Independent non-executive director

B Comm, Bachelor of Law, B Prok, AMP Harvard

Appointed to the board in 2019

Mr Flemming joined African Oxygen Limited in the gases division in 1985 as the Financial Systems Manager for the Witwatersrand. He was appointed as the financial executive for the healthcare division of African Oxygen Limited in 1994 and as general business manager in 1997. Following the merger with the listed entity Presmed, the merged company was listed on the Johannesburg stock exchange in 1999. Mr Flemming was appointed CEO of Afrox Healthcare in 2002. The company was taken private in 2005 and relisted in 2010 as Life Healthcare and Mr Flemming served as CEO until his retirement in 2014. He is currently an operating partner with Advent International LLC and serves as a non-executive director on the board of Medicover AB, an unlisted healthcare service company operating in Eastern Europe, the UK and India. He was appointed to the Metair board on 1 March 2019 and will be appointed as the chairman of the audit and risk committee on 2 May 2019 pending shareholder approval.

S SITHOLE (46)

Independent non-executive director

BAcc (Hons), CA(SA), ACA, CA(Z)

Appointed to the board in 2019

Mr Sithole is the CEO and Co-Founder of Value Capital Partners Pty Limited (VCP). Prior to starting VCP, he was at Brait for more than eight years as the financial director of the Brait Group and later as executive director – Capital & Treasury. Prior to Brait, Mr Sithole was a partner at Deloitte, where he spent six years as an audit partner and departed the firm as group leader for the Financial Services Audit Practice in Johannesburg. He currently also holds directorships, among others, in Altron, Adcorp, African Phoenix and Sun International. Mr Sithole was appointed to the Metair board on 1 March 2019 and will be appointed to the remuneration and nominations committees on 2 May 2019.

TP MOEKETSI (35)

Independent non-executive director

BComm (Hons) CA(SA)

Appointed to the board in 2019

Mr Moeketsi has a wealth of experience in private equity and investments and joined Value Capital Partners in October 2017 as an Investment director. Prior to joining VCP, Mr Moeketsi was a Principal at Medu Capital, a leading mid-market private equity firm, where he spent eight years as a deal executive responsible for deal sourcing, deal execution and portfolio management. During his time at Medu Capital, he led and concluded a number of transactions, valued at over R1 billion, and served on various boards of companies. Prior to joining Medu Capital, Mr Moeketsi was a consultant at Investec Corporate Finance, where he gained valuable experience in all aspects of corporate finance, including mergers and acquisitions, disposals, JSE listings and BEE transactions. Mr Moeketsi completed his articles in the Financial Services of KPMG Inc, where he served as a member of the Treasury Advisory Group as well as Derivative Valuations Specialist. Mr Moeketsi was appointed to the Metair board on 1 March 2019 and will be appointed to the investment committee on 2 May 2019.

SM VERMAAK (53)

Company secretary

B Comm (Fin M) AIRMSA

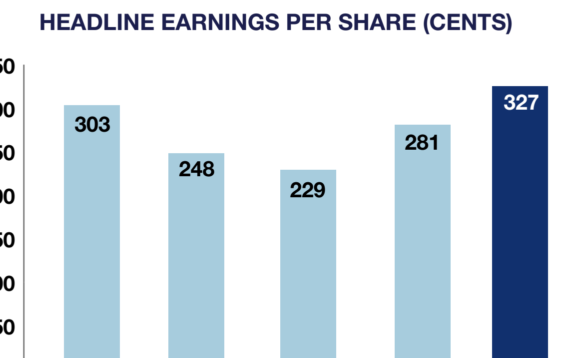
Mrs Vermaak joined the company in August 1998 and was appointed as company secretary in March 2001 and group finance manager in July 2003. From 1 April 2015, she shifted focus from finance and was appointed as group risk and compliance manager. She completed her B Comm Financial Management degree (cum laude) in 2005 on a part time basis and has more than 14 years' experience in the listed company environment.

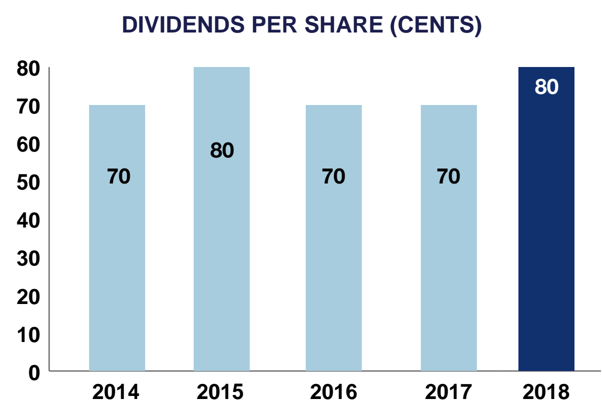
Financial **highlights**

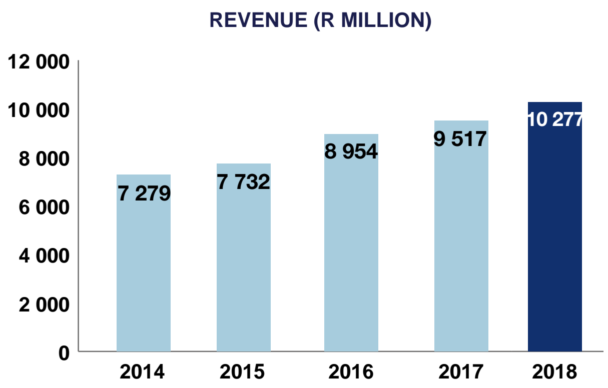
	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000
Revenue	10 276 966	9 516 657	8 953 710	7 732 479	7 278 815
Profit before taxation	899 329	775 814	606 492	744 738	803 150
Impairment charges	1 031		1 122		
Interest paid	210 056	200 867	187 905	136 277	118 935
Preference dividend	59 206	92 107	102 583	91 934	29 609
Profit attributable to ordinary shareholders	667 377	556 182	447 930	527 423	601 460
Total equity	4 287 721	4 195 537	4 179 573	4 974 544	4 238 631
Borrowings	1 841 794	1 801 495	1 897 565	1 964 972	1 739 845
Property, plant and equipment	2 538 145	2 605 737	2 857 131	3 327 427	2 855 286
Current assets	4 493 253	4 071 600	3 780 361	4 114 699	3 540 982
Total assets	8 422 000	8 105 218	8 031 150	9 040 460	7 934 651
Number of shares in issue	198 986	198 986	198 986	198 986	198 986
Weighted average number of shares in issue	197 284	197 987	197 784	197 216	195 434
Net asset value per share (cents)*	2 167	2 059	2 059	2 468	2 102
Basic earnings per share (cents)	338	281	227	267	308
Headline earnings per share (cents)	327	281	229	248	303
Dividend per share (cents) declared and paid	80	70	70	80	70
Dividend cover (times) (calculated on headline earnings on prior year)	3.5	3.3	3.5	3.8	3.1
Return on invested capital after net profit as a % of average total shareholders' funds (ROIC)	13.0	11.8	9.1	10.4	13.0
Net profit as a % of average total shareholders' funds (ROE)	16.5	12.3	10.2	12.3	15.8
Total shareholders' funds as a % of total assets	50.9	51.8	52.0	55.1	53.4
Interest cover (times)	5	4	4	6	7
Staff complement**	6 089	5 968	5 955	5 526	5 651

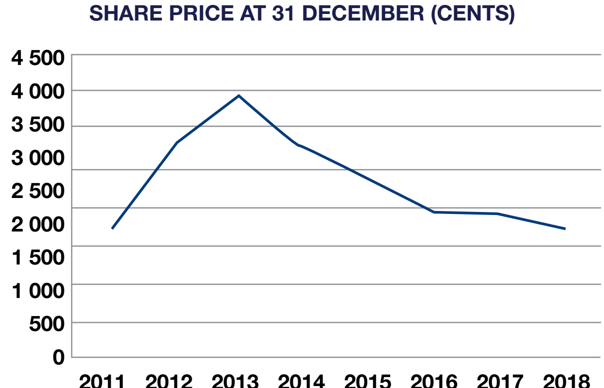
* *Calculated on ordinary shareholders' equity and number of shares in issue excluding treasury shares.*

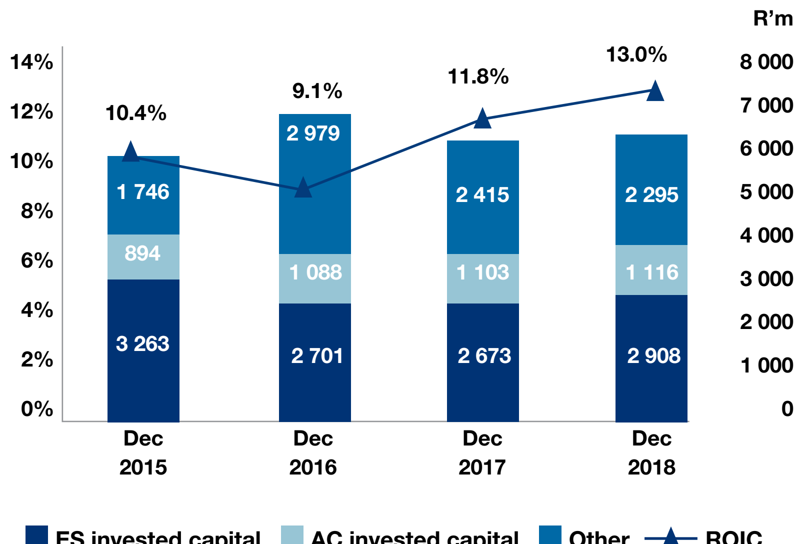
** *Excludes Hesto.*


HEADLINE EARNINGS PER SHARE (CENTS)
350
300
250
200
150
100
50
0
303
248
229
281
327
2014
2015
2016
2017
2018


DIVIDENDS PER SHARE (CENTS)
80
70
60
50
40
30
20
10
0
70
80
70
70
80
2014
2015
2016
2017
2018


REVENUE (R MILLION)
12 000
10 000
8 000
6 000
4 000
2 000
0
7 279
7 732
8 954
9 517
10 277
2014
2015
2016
2017
2018


SHARE PRICE AT 31 DECEMBER (CENTS)
4 500
4 000
3 500
3 000
2 500
2 000
1 500
1 000
500
0
2011
2012
2013
2014
2015
2016
2017
2018


METAIR INVESTED CAPITAL AND ROIC
R'm
14%
12%
10%
8%
6%
4%
2%
0%
8 000
7 000
6 000
5 000
4 000
3 000
2 000
1 000
0
10.4%
9.1%
11.8%
13.0%
1 746
894
3 263
2 979
1 088
2 701
2 415
1 103
2 673
2 295
1 116
2 908
Dec 2015
Dec 2016
Dec 2017
Dec 2018
ES invested capital
AC invested capital
Other
ROIC

Awards

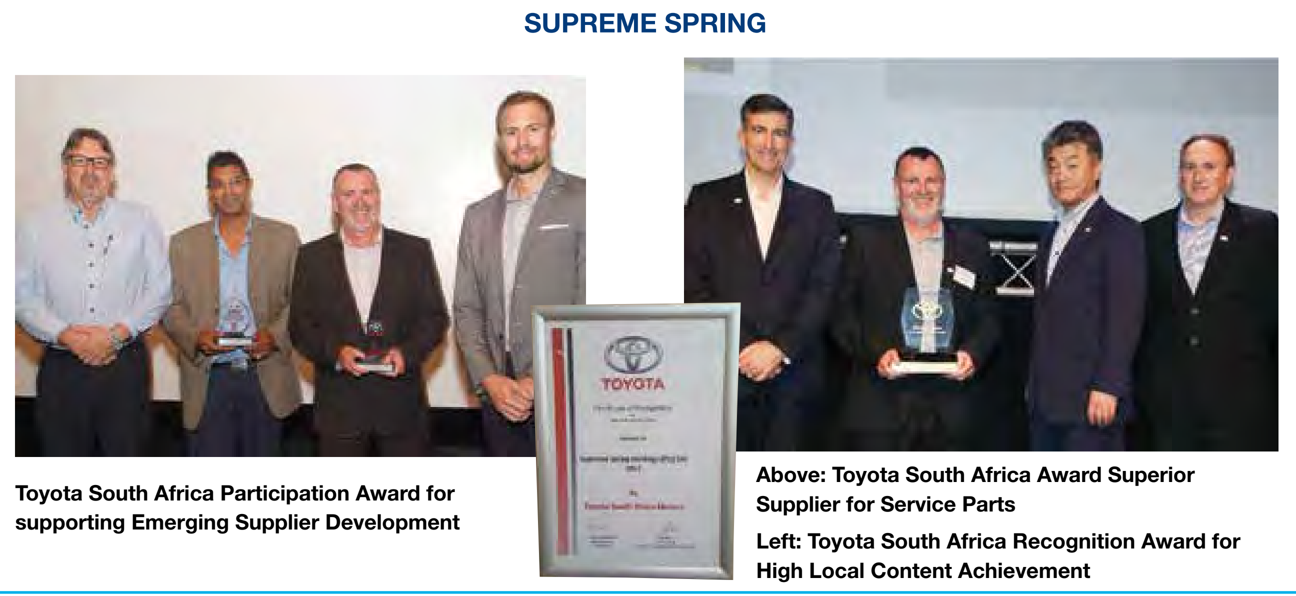
FIRST NATIONAL BATTERY

Toyota South Africa – Safety Awards

METAIR GROUP

Toyota South Africa – Transformation Award

SUPREME SPRING



Toyota South Africa Participation Award for supporting Emerging Supplier Development

Above: Toyota South Africa Award Superior Supplier for Service Parts

Left: Toyota South Africa Recognition Award for High Local Content Achievement

HESTO

Toyota South Africa Superior Award – Safety

Toyota South Africa Superior Award – Stable production

Toyota South Africa Recognition Award – Cost management

Toyota South Africa Recognition Award – Value analysis/Value engineering

LUMOTECH

Toyota South Africa Superior Award – Quality management (Runner up)

Haldan Consulting Award of Excellence in recognition of achieving outstanding results using the AutoEDI system, and the Haldan Management Execution System (Overall Equipment Efficiency)

Toyota South Africa Supplier Achievement Award – Stable production

SMITHS MANUFACTURING

Toyota/DENSO – Global Contribution Award

Toyota South Africa Supplier Achievement Award – Parts and accessories

Toyota South Africa Supplier Achievement Award – Stable production

General Motors Supplier Merit Award – Supplier Quality Excellence

Toyota South Africa Supplier Achievement Award – Value analysis/Cost management

Awards (continued)

MUTLU AKÜ

Social Brands Data Analytics Award
Automobile Spare Parts – Winner 2018 by BoomSonar

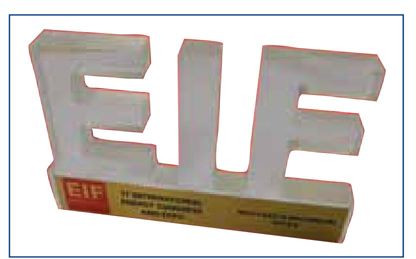
Plaque of Appreciation – Shell Eco Marathon

Plaque of Appreciation – Energy Congress and Expo

Istanbul Chamber of Commerce – Certificate of Appreciation for Corporate Tax Payment Performance in 2016

Istanbul Chamber of Commerce Gold Plaque – High Level Corporate Tax Payment in 2016 (Mutlu Akü)

Istanbul Chamber of Commerce Bronze Plaque – High Level Corporate Tax Payment in 2016 (Mutlu Holding)



ROMBAT

Romanian Chamber of Commerce and Industry Award – First Place Industry, Large enterprises, Battery plants

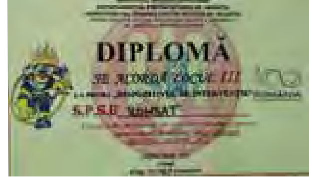
Bistrita Nasaud Chamber of Commerce and Industry Award – First Place Battery manufacturing, Large enterprises

Bistrita Nasaud Chamber of Commerce and Industry Award – Creativity award

Bistrita Nasaud Chamber of Commerce and Industry Award – Export award

Ministry of Internal Affairs, Emergency Situations Department – Professional Competition of Voluntary and Private Services for Emergency Situations (County stage) – Third Place (General Ranking)

Ministry of Internal Affairs, Emergency Situations Department – Professional Competition of Voluntary and Private Services for Emergency Situations (County stage) – Third Place (Intervention Device)



Strategic **review**

METAIR'S VISION

OUR MISSION IS TO GENERATE VALUE FOR ALL STAKEHOLDERS BY MANAGING AND CONTROLLING BUSINESSES IN THE MOBILITY AND ENERGY SECTORS THAT DELIVER QUALITY AND COST-COMPETITIVE PRODUCTS THROUGH MANUFACTURING, MARKETING AND LOGISTICAL EXCELLENCE WHERE TECHNOLOGY-DRIVEN INNOVATION IS KEY.

RESPONSIBILITY FOR THE STRATEGY

Metair's management is responsible for developing, refining and executing the strategy. The board reviews and approves the strategy and oversees its implementation to ensure that it achieves the company's core purpose and aligns with our values. It also approves the policies and processes through which the strategy is implemented and monitors ongoing performance.

The strategy is assessed against the expectations of key stakeholders, its impact on the six capitals defined by the IIRC's <IR> Framework (see page 122), the risks and opportunities facing the company and its ability to support long-term sustainability.

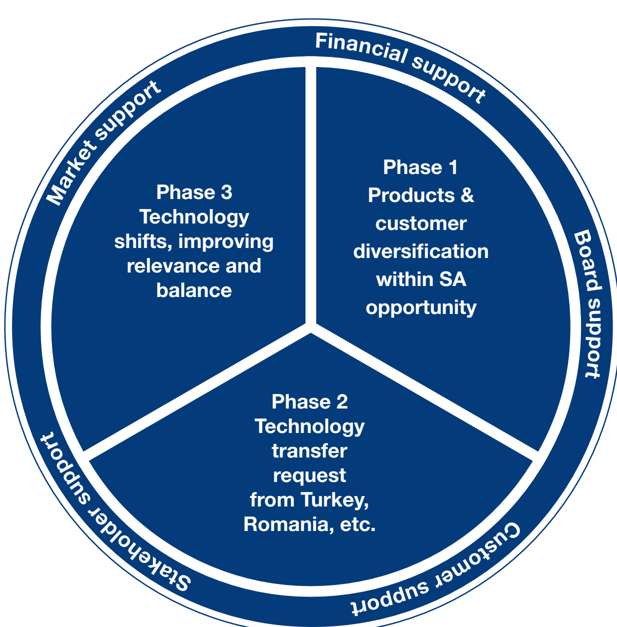
Since 2005, the company's long-term strategy (more than five years) has been defined by medium-term 'three by five' strategies that provide the two- to five-year focus and context for the company. Short-term strategy (12 to 24 months) is driven by annual KPIs that are agreed and followed up on at the annual MD conferences.

Phase I Local relevance 2005 – 2010	Phase II Internationalisation 2011 – 2015	Phase III International relevance 2016 – 2025
– R5 billion turnover ✓ – R500 million PBIT ✓ – Customer and product diversification ✓	– 50% aftermarket ✓ – 50% OE ✓ – 50% from batteries ✓ – Aftermarket product expansion ✓	– 5 continents – under review – 50 million batteries – under review – Diversified Gigafactory and mega parts producer

Our strategy is executed through nine key strategic focus points, which are discussed on page 25. Subsidiary and group key performance indicators (refer to page 43) that align with the strategy are agreed at the annual managing directors' conference for the year ahead.

HISTORICAL CONTEXT

Metair began as a supplier of products to Toyota SA and for most of the 70 years since then, the majority of our business has been with a few Original Equipment Manufacturers (OEMs). Since 2005, we followed a deliberate strategy of bringing more balance to the group to improve the sustainability of the business. This balance included diversifying our client base, product lines and the geographies in which we operate.



Strategic enablers

- Metair's intellectual property in Start/Stop technology
- Successful industrialisation of Start/Stop technology
- The global carbon emission reduction drive
- Reduction of all types of pollution coming from mobility options
- Customers' need for alternative suppliers
- Requests for technology transfer
- Our global energy solution focus
- The continuous increase in energy demand in mobility
- Accelerated introduction of electric vehicles
- Lithium-ion battery technology expansion

Strategic **review** (continued)

Our automotive component vertical now does business with all seven OEMs in South Africa and offers a far broader range of OE products. We are focused on further diversifying the business by growing our automotive aftermarket and non-automotive businesses. Our aftermarket business services the growing total vehicle parc in South Africa with annuity products, most notably batteries, but also products such as brakes, filters, spark plugs and heat-exchange-product spares. The non-automotive business includes products for the telecommunications, utility, mining, retail and materials/products handling sectors.

Direct exports consist mainly of aftermarket and OE products exported to Europe, Russia, the Middle East and the rest of Africa.

Our strategy has always been customer, market and technology driven and, starting in 2012, we expanded into Romania and Turkey to get closer to the home markets of some of our biggest customers and access leading technologies. This proximity has provided exposure to the latest developments in the current seismic shifts in the automotive industry.

Phase III of our strategy started in 2016 with a goal to grow into five continents in five years and produce 50 million batteries to become a diversified Gigafactory in our energy vertical and a mega parts supplier in our automotive components vertical. We aim to meet the energy needs of the full spectrum of mobility and industrial options, and will continue to work closely with OEMs and other key customers to ensure that we supply energy in the way and with the technologies they require.

Metair has access to markets in Africa, Western and Eastern Europe and the Middle East through our production facilities in South Africa, Turkey, Romania and Kenya, as well as a presence in the UK and Germany. Our shareholding in MOLL gives us micro-access to the Chinese market through their agreement with Chaowei.

In the second half of 2018 it became clear that the shift towards full electric vehicles (EV) is likely to happen even faster than we anticipated a year ago. Our target market now includes leading technology applications like lithium-ion across all product ranges in electrical and all systems in all forms of mobility. We are fortunate to have access to the latest developments in lithium-ion battery technology through our investment in Prime Motors, relationships with various tertiary research institutions and close interactions with OEMs to develop the next generation energy solutions.

At the same time, the existing lead acid automotive battery technology will remain relevant in the medium-term in the vehicles currently on the road, and Start/Stop battery storage solutions remain the gateway technology in the pathway to full EV technology.

Our strategy was therefore refined to become:

- Energy storage vertical: To become a world class diversified multiple location Gigafactory in the supply of energy source products used in control and energy solutions across the full spectrum of mobility options.
- Automotive components vertical: To nurture our automotive components business with participation in selected growth opportunities and to be a mega parts supplier in the South African environment.

During 2018 we investigated the acquisition of TAB, a Slovenian battery manufacturer, which would have moved Metair substantially closer to achieving the current phase of our strategy. Unfortunately, the potential acquisition leaked into the market while South Africa was recovering from some of the biggest corporate failures in its history. In Metair's own trading environment the threat of a pending trade war between the US and Turkey led to a dramatic devaluation of the Turkish Lira. Against this backdrop, we were unable to secure broad shareholder support and the transaction was abandoned.

Our non-executive directors engaged with shareholders to improve our understanding of their needs and concerns as most shareholders in South Africa have become extremely risk averse and particularly critical of business ventures in foreign jurisdictions. Corporate failures and disappointments like Steinhoff, EOH, Ascendis Health, Woolworths and others mobilised shareholders to become more engaged and challenging of independent board members on corporate governance issues and company strategies. The outcome of the engagements with shareholders resulted in us implementing a process to strengthen the Metair board and review our strategy. Metair kicked off the strategy review process on 28 January 2019 facilitated by consultancies Modularity and Scientrix.

The model followed is based on the architecture designed by Roger Martin for strategy development whereby five critical questions must be answered by the board when they develop a company's strategy.

The five questions are:

- What are Metair's winning aspirations?
- Where are the markets we want to be in?
- How do we win in those markets?
- What capabilities and capacities do we require to win?
- How do we manage and control the process?

Metair and the Metair board are currently in the process of finalising the review of our strategy and will conclude the review by the end of March 2019 and cascade it down to our invested subsidiaries by the end of November 2019.

Our winning aspirations for the group can be classified into four major themes:

- Sustaining relevance in a fast-changing competitive world;
- Delivering above-average, balanced and sustainable returns to our shareholders;
- Operating at the highest standards when it comes to people, the environment, health and safety; and
- Being an ethical, value-driven and responsible organisation.

We will finalise and deliver our winning strategy around these themes over the next few months. Until then, our short-term strategy remains focused on the following items for 2019:

METAIR'S STRATEGIC FOCUS POINTS

1. Balance business by building and expanding the energy storage vertical

Building the energy storage vertical improves balance in the business as Metair moves with the technological requirements of the shift to electric vehicles and lithium-ion technology.

2. Nurture the original equipment (OE) business in South Africa and expand the original equipment manufacturer (OEM) customer base

Technical cooperation with OEMs enhances our manufacturing expertise and the long OE product lifecycles create relatively predictable production volumes and revenue outlooks. The next generation of energy storage solutions will be developed in close collaboration with OEM customers and it is important to maintain strong relationships with our customers.

3. Focus intently on cost

Cost competitiveness is the primary consideration in tendering for contracts with OE customers and production efficiencies must be managed extremely closely to ensure that we can win business at a reasonable economic return.

4. Secure and grow the aftermarket product range

Metair's aftermarket business produces spare parts and other products needed to keep vehicles on the road, including generic parts for the increasing pool of imported vehicles.

5. Grow our Africa footprint

Africa represents an attractive energy storage and automotive aftermarket opportunity that will continue to grow. We already have a presence in East Africa through ABM and continue to investigate further opportunities for growth on the continent.

6. Response to disruptive technologies

The automotive and energy storage industries are changing at an extremely rapid rate and we need to understand the likely impact of new technologies on our business model so that we can decide how to participate. We are prioritising the design and production of lithium-ion energy storage solutions in close collaboration with OEM customers.

7. To establish the principle of being an exemplary custodian within every employee that underpins the group's core social and ethical values

The principle of custodianship defines Metair's approach to business and sustainability, and forms the basis for the group social and ethics framework.

8. Globalise the company by way of overlaying the energy solutions offering across the full mobility spectrum in both developed and emerging economies

Through our relationships with Prime Motors, MOLL and Chaowei, Metair has broad entry into many developed and developing markets across the range of mobility options, from full electric vehicles to electric locomotives and e-bikes.

9. Develop and deploy leading technology for niche applications into new and existing markets

Establish and nurture partnerships with leading companies in our field of applicable technologies ranging from wiring harnesses, heat exchangers, lighting solutions, plastic parts, ride control and lithium-ion technologies to be applied in the markets that we operate in.

Chairman's **statement**

> The greatest danger in times of turbulence is not the turbulence: it is to act with yesterday's logic.
>
> **PETER DRUCKER**

Our level of confidence in the quality of political leadership in South Africa has improved over the last year thanks primarily to the efforts of President Ramaphosa. We see evidence of constructive action being taken to root out corruption, deal with state capture and get the economy moving. Unfortunately business confidence remains at low levels with the debate around land reform and the independence of the Reserve Bank negatively affecting local and international investment sentiment towards South Africa.

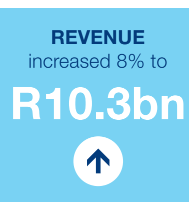
The Steinhoff debacle and ongoing revelations of private and public sector corruption have had a profound impact on corporate South Africa. There has been a serious erosion in the trust and belief in government and business, and shareholder activism and risk aversion have understandably hit new highs. Shareholders require boards to remain fiercely independent and vigilant, highly engaged in strategy formulation and focused on effective and responsible allocation of capital. Corporate governance is under the spotlight and a more inclusive and transparent approach to governance and business is a necessity.

Organised labour, a crucial stakeholder group, appears to be taking a more confrontational and politicised stance than in the past. There were violent strikes across the plastic industry as well as stoppages at First National Battery and at some of our customers during 2018. It is probable that this trend will accelerate during the run-up to the national election in May, which is regrettable considering the fragility of our socio-economic environment.

> A commitment to good governance, ethical principles and values, serve as moorings and provide the foundation for sustainable success, particularly in times of uncertainty.
>
> **BRAND PRETORIUS** – Chairman

GROUP B-BBEE **Level 3**

REVENUE increased 8% to **R10.3bn**



DIVIDEND PER SHARE OF 100c declared in 2019 in respect of the 2018 financial year

Successful execution of Metair's long-term strategy is only possible with shareholder support. We investigated an investment in TAB, a Slovenian energy storage business, in the first half of 2018. Regrettably some information about this potential transaction leaked out prematurely, resulting in speculation and misunderstandings. While this transaction would have taken Metair substantially closer to concluding the third and final leg of our 3x5 strategy to achieve production of 50 million batteries, some major shareholders were unwilling to support the acquisition and the investment was abandoned.

Metair's non-executive directors subsequently conducted a series of one-on-one engagements with its major shareholders during August 2018. Focus areas identified by shareholders included the current strategy in the context of the TAB transaction, capital allocation decisions, the structure of long-term executive incentives, succession planning, the undervaluation of the company's share price, the competence of the board and other governance concerns.

These engagements gave us some valuable input to our deliberations and the current turbulent times provided the impetus for a full review of our strategy in January 2019. There were also movements in the company's shareholding structure during the year and we welcome these new shareholders to the company while reiterating the board's commitment to ensuring that the interests of all shareholders and other stakeholders continue to be considered and protected.

INNOVATION AND ACCELERATING CHANGES IN TECHNOLOGY

Winning organisations have an embedded culture of innovation, low resistance to change and a bias for action. These attributes are particularly important in the automotive industry, where the pace of technological development has accelerated vastly. In addition to the strengthening trend towards electric vehicles we commented on in last year's report, the focus for automotive energy storage solutions appears to be shifting strongly in favour of lithium-ion battery technology.

Metair's investment in Prime Motors and our lithium-ion production line at Rombat represent the first pre-emptive investment the group has made into technologies ahead of contracted business with original equipment manufacturer (OEM) customers. These cost-effective investments are essential to advance our understanding of the technology and to ensure that we are well-positioned to participate as the shift to lithium-ion technology materialises.

While lithium-ion technology appears to be the future of automotive energy storage solutions, lead acid batteries will remain the primary energy storage technology in most markets for at least a decade and probably far longer in developing countries. We are well positioned to supply both the OEM and aftermarket for many years to come.

A CREDITABLE TRADING PERFORMANCE IN DIFFICULT CONDITIONS

In South Africa, economic growth turned positive in the third quarter of 2018 after two quarters of contraction, but remained subdued, ending 2018 at 0.8% growth year on year. Vehicle sales decreased 1% to 552 190, although exports increased 3.9% to a record of 351 154. Vehicle production reached 583 800, a 3.5% increase on 2017.

The Department of Trade and Industry released the South African Automotive Masterplan 2035 towards the end of 2018 after extensive consultation with the automotive industry. The document maps out government's plans for the industry and extends the Automotive Production and Development Plan (APDP) to 2035, creating a more certain policy environment for OEMs for their next two to three new model ranges to be produced locally.

The ambitious production goals and increased local content requirements are positive for the South African automotive component industry. Metair is also well-placed as a result of the more stringent transformation targets, as most of our South African operations are already at or above the minimum requirement of B-BBEE Level 4.

While the global geopolitical environment stabilised in 2018, international trade dynamics deteriorated. This had a direct effect on where OEMs chose to manufacture for export and increased their focus on the positioning of their global supply chains, including localising supply of strategic componentry, particularly for electric vehicles. Metair's proximity to the major European markets, where several significant customers are headquartered, through Mutlu Akü and Rombat is strategically important.

Regional geopolitical conditions in Turkey improved, but the Turkish Lira devalued 28% against the Dollar during the period under review. Inflation remains at high levels, domestic vehicle sales halved and exports fell sharply. Mutlu Akü delivered excellent in-country operating results despite the extremely challenging operating context and was yet again able to offset the currency depreciation to show an increase in profit in Rands. I salute the team at Mutlu Akü on a remarkable performance.

At group level Metair delivered an excellent financial performance during 2018, with the automotive component vertical benefiting from improved volumes and stability in production. In the energy storage vertical Rombat continued to trade very well, but although First National Battery showed a good turnaround in the first half of the year, labour disruptions in the second half affected the full year performance. Initiatives to improve performance at First National Battery during 2018 included the strengthening of the management team and engagements to address pricing structures in the operation's OEM business. In overall terms our results exceeded expectations and I am very proud of our achievements.

Chairman's **statement** (continued)

GOVERNANCE AND SUSTAINABILITY

Governance at Metair is the system by which we direct, grow and control our business and ensure accountability, transparency and honesty with a balanced focus on performance and conformance, taking into account the interests of all stakeholders. Good governance is therefore a critical part of everything we do and represents the basis of how we create value. Our revised strategy emphasises the importance of understanding and considering the impacts of, and trade-offs between, all six capitals while taking into account the requirements of all stakeholders in the business.

Particularly in times of uncertainty, a commitment to good governance, ethical principles and values serve as moorings and provide the foundation for sustainable success. During 2018 we made a number of refinements to our governance structures in order to improve governance, representation and transformation. These included changes to the board and board committees as well as establishing a nominations committee and an information technology steering committee to govern IT strategy and risk, and to align with the requirements of King IV.

Our two longest serving directors, Ralph Broadley and Les Soanes, stepped down from the board as non-executive directors at the end of the year. Their contribution over the years has been invaluable, particularly their technical ability and experience at operational level in the companies in the group. Words are insufficient to express our appreciation for the exemplary standard they set from every point of view. Our very best wishes accompany them into the future.

Human capital in the form of the knowledge, skills and competence of our people represents a critical resource. The difference between good and great talent is an order of magnitude in terms of performance and contribution. High quality human capital provides a powerful competitive advantage and we therefore aim to attract, develop and retain outstanding talent. Succession planning is a key focus and has been institutionalised across the group through HR conferences and group HR function.

Our remuneration practices, which are discussed in more detail on page 94, are structured to ensure that long-term performance incentives align with stakeholder interests and particularly shareholder interests. Our approach applies a professional stance, based on world best practice that is progressive and sensitive to all stakeholder requirements.

OUTLOOK

The current high levels of political uncertainty, policy confusion and labour volatility in South Africa are likely to continue until after the general elections in May 2019. We expect conditions for our automotive component business to be favourable in the short to medium term, based on the increased stability and certainty created by the extension of the APDP. Vehicle exports are expected to reach record levels. However, low levels of consumer confidence and labour volatility remain concerns in the short term. Some of our businesses, particularly Hesto and Lumotech, are well positioned to benefit from the shift towards increased connectivity, innovation and full electric vehicles.

Our energy storage businesses should benefit over the medium term from the swing to electric vehicles emerging in the global vehicle market. We will continue to focus on improving the performance of First National Battery in the South African market. Should conditions in Turkey remain stable and exchange rate volatility diminish, another strong performance by Mutlu Akü would deliver real growth in Rands, rather than offsetting depreciation in the exchange rate as it has to date.

ACKNOWLEDGEMENTS

The many serious challenges we had to deal with in 2018 demanded a lot from the Metair board. I would like to thank my fellow board members for their diligence and commitment, which is also evident in their stellar board and committee meeting attendance. Their wise counsel made my leadership task much easier.

The Metair executive team under the capable leadership of Theo Loock, the management of our subsidiary companies and the group's entire workforce have my sincere gratitude for their dedication and resilience in what has been another volatile and challenging year.

We engaged extensively with shareholders during the year and we thank them for their valuable input and ongoing support. We are grateful to our customers for their much appreciated patronage and regard the opportunity to work with them in the spirit of true partnership as a privilege.

Although our operating environment over the next year is likely to be volatile, unpredictable and complex, we are facing the future with confidence.

Brand Pretorius

CASE **STUDY**

LITHIUM-ION PRODUCTION LINE

To support Metair's drive to gain expertise in the next generation of motor vehicle energy storage solutions our partner, Prime Motors, sourced the components for a state of the art lithium-ion coating and cell assembly manufacturing line. The total cost of the refurbished line is approximately 60% of a new equivalent and avoids the two-year waiting period on similar machines. The line arrived in Romania in January 2019 and is being installed in Bucharest at our Prime Motors facilities. At full production, the line will be able to produce 50 to 90 megawatt hours of energy per month in nickel manganese cobalt oxide (NMC) or lithium iron phosphate (LFP) cells. The project is supported by a manufacturing incentive from the Romanian government and is scheduled for commissioning by December 2019.

Chief **executive officer's report**

> Management resilience, market responsiveness and excellent cost management executed by a focused team proved invaluable.
>
> **THEO LOOCK** – CEO

2018 will be remembered in corporate South Africa as a particularly turbulent, challenging and transformative year. Within this context, Metair faced its own challenges but was nevertheless able to achieve a good trading result that resulted in a 16% growth in headline earnings per share to 327 cents per share. The year saw a strong contribution from our overseas acquisitions in the energy storage vertical, particularly Mutlu Akü in Turkey which managed to outperform the Turkish Lira currency weakness for a fifth year in a row, and Rombat in Romania which operated at full capacity in the second half. Metair's automotive component business in South Africa supported the result with good volume throughput.

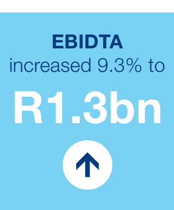
Group revenue increased 8% to R10.28 billion, operating profit grew 19% and group margin expanded to 9.8% (2017: 8.9%) supported by a 16% improvement in operating profit from the Automotive Components Vertical and a 17% improvement in the Energy Storage Vertical. Group earnings before interest, tax, depreciation and amortisation (EBITDA) including equity earnings increased 9.3% to R1.33 billion and headline earnings rose 16.2% to R646 million. Metair's net debt/equity ratio of 30.3% is appropriately conservative and group borrowings from third parties increased to R1.84 billion.

ENERGY STORAGE VERTICAL

While much of corporate South Africa reported poor performances from their overseas operations, Metair was fortunate that the in-country performance of Mutlu Akü continued to be resilient with a 27% increase in turnover and 55% increase in profitability. During the trading period, the Turkish Lira was very volatile with a low of 2.07 and a high of 3.13 to the Rand. The currency returned to some stability at the end of the year, but still ended the year 17% weaker than at the end of 2017.

The 55% growth in Turkey managed to offset this currency weakness and Mutlu Akü consequently sustained its performance despite the challenging global political and trade conditions.

The continued pressure on performance did however take its toll on human capital and Metair secured a highly capable new CEO for our Turkish operations when the incumbent CEO took early retirement. We are very pleased with the support we received from our independent board members in Turkey as well as the good performance and focus of our new CEO.



CONTINUED STRONG OPERATIONAL RESULTS

Rombat performed well, with an in-country increase in profit of 29% translating into an operating profit contribution in Rand that increased 33% to R108 million.

The turnaround at First National Battery is continuing according to plan and the business delivered improvements in manufacturing and marketing efficiencies, while investing in promoting the First National Battery brand and retail network, combined with customer-focused improvement plans to increase localisation. First National Battery delivered a good financial performance in the first half of the year, but the second half was negatively impacted by labour instability brought about by the bi-annual wage negotiations.

The energy vertical reported a combined growth in revenue of 3% to R6 384 million, increased profit by 17% to R692 million and sold nine Gigawatt hours of our total installed capacity of 12.4 Gigawatt hours. Exports improved significantly, in line with our long-term strategy, through two automotive supply contracts with strategic aftermarket customers.

AUTOMOTIVE COMPONENTS VERTICAL (INCLUDING HESTO)

Turnover from the automotive components businesses increased 16% to R5.1 billion as volumes improved, supported by positive sentiment and exports, especially in the light commercial vehicle market, combined with some customer passenger vehicle export programmes. Volumes were also supported by the continued expansion and deepening of localisation, and efficiencies improved at all of our businesses, leading to an increased PBIT contribution from R437 million to R509 million.

SUSTAINABILITY PERFORMANCE

The group showed good progress in our environmental, social and governance (ESG) focus areas although I am disappointed that safety performance declined, with the lost-time injury frequency rate increasing to 1.15.

Metair regards transformation as a moral, strategic and business imperative, which is becoming even more significant as local content requirements increase in the South African automotive environment. Our commitment in this area is evident in the fact that the group achieved a Level 3 consolidated assessment and most of the South African operations are at or above the minimum B-BBEE Level 4. Identifying and retaining candidates with the required skills and experience to meaningfully advance transformation in management continues to be a challenge. Manufacturing remains one of the rare areas in which a motivated and talented candidate can rise from the shop floor to top management with few impediments.

Our focus on continually improving efficiencies includes an emphasis on reducing consumption of raw materials, energy and water, increasing recycling and minimising and responsibly managing waste and emissions. The increase in electricity per person per hour worked (PHW) was limited to 0.5% and water use per PHW decreased 0.1% in 2018. We also refreshed our product line to remove lead and halogen from wiring, and increased the use of environmentally responsible packaging.

INCREASING STAKEHOLDER REQUIREMENTS

The challenges we experienced in Turkey mirror those experienced in South Africa and are reflected in the image we chose for Metair's 2018 Integrated Annual Report cover. Stakeholder requirements increased dramatically during the year, particularly with regards to shareholders and employees.

Shareholder engagement increased significantly with a heightened focus on corporate governance, remuneration, capital allocation and strategy. Metair welcomes these developments as they bring shareholders and the company closer together and help to ensure the necessary alignment. This process also led to the entry of an engaged shareholder, Value Capital Partners, onto the Metair share register.

Metair supports the appointment of shareholder representatives to the board to ensure shareholder alignment in strategy and capital allocation while still maintaining good corporate governance with independent board members and an ongoing awareness of the requirements of the broader shareholder base.

Improved shareholder engagement during the year saw Metair enter into its first share buyback programme and at year-end had bought 3% of the shares in issue, representing 5 969 577 shares at an average price of R17.48 per share. These repurchased shares will not be cancelled and will remain listed as they will be held in treasury.

Increasing employee remuneration expectations were another common theme across the countries in which we operate. High inflation and socio-political uncertainty in Turkey and the ease of movement across the EU for Romanian workers are driving wage expectations in these countries. The South African labour environment continued to be volatile and is likely to remain so in the lead up to the 2019 election, with three wage agreements up for negotiation in the automotive industry in 2019.

METAIR'S STRATEGIC INDICATORS ARE SHIFTING

Metair's strategy over the last 10 years has always been customer, market and technology centred, but the pace and scale of execution is determined by the status of the six capitals of the <IR> Framework, as well as shareholder support and preference. Our operations in Romania, Turkey and Germany align with our customers' geographic requirements and supply their current technology need for lead acid Start/Stop batteries.

The third and final stage of Metair's strategy was to target 10% of global battery production, or 50 million equivalent automotive lead acid battery manufacturing capacity, and was

Chief **executive officer's report** (continued)

based on entrenching relevance in our current technology lead acid based energy vertical business.

Metair was fortunate during 2018 to consider a major foreign acquisition that would have materially seen the conclusion of the strategy. Unfortunately the opportunity presented itself in difficult market conditions and Metair failed to gain broad-based shareholder support for the transaction.

In the rapidly evolving mobility space, which features automotive trends such as connectivity, autonomous driving, shared ownership and electric vehicles, major market, customer and technology shifts are becoming evident and other opportunities for Metair to maintain and gain relevance are presenting themselves. In particular, the latest customer requests show an urgency and desire for lithium-ion battery cells manufactured in Europe.

Metair's strategy of gaining relevance in our current lead acid technology base has to date been through acquisitions and technology transfers in largely developing markets that will continue to use this technology the longest. The focus on these markets has however added significant currency volatility to our earnings base, especially in Turkey and South Africa. Even our South African automotive components business struggled to maintain forex neutrality in 2018. The strong growth in our Turkish operations over the last four years has largely offset currency weakness rather than achieving strong Rand earnings growth.

In the absence of shareholder appetite and support for large overseas acquisitions, Metair's strategy is best served by fully utilising our current lead acid base energy storage vertical businesses while engineering a cost-efficient way of gaining relevance with alternative lithium-ion technology product solutions. The benefit of such a technology-focused strategy is that it is possible to gain customer take off and investment support agreements prior to any major capital commitments in new technology manufacturing facilities. It also aligns with European customers' call for dual technology solution providers.

Metair's understanding of the technology indicators grew steeply during the period with our investment in lithium-ion solutions business Prime Motors in Romania and our investment in MOLL opening the door for a better understanding of our customers' future technology requirements. This culminated in our investment in lithium-ion battery cell manufacturing with the purchase of a lithium-ion cell manufacturing, assembly and formation line. The line, which has a capacity of 50-90 MWh per month, will be installed at Rombat in Romania and will be commissioned by December 2019. Product development of 12-, 24- and 48-Volt lithium-ion batteries for the automotive and standby industries will continue in the meantime. The first solution options produced with in-house manufactured lithium-ion cells are targeted for the first quarter of 2020.

This investment represents, we believe, an intelligent and cost-effective entry into lithium-ion technology that allows the group to gain relevance in the developed European energy market while maintaining and optimising our presence in the older lead acid technology.

OUTLOOK

Our main areas of focus in the year ahead include successfully commissioning the new lithium-ion production line, making progress on the development of 12 Volt and 48 Volt solutions and continuing the stabilisation of First National Battery.

In the prevailing market conditions where world trade dynamics and technology choices are constantly shifting, selling the group's spare lead acid battery capacity has proved to be a continuous process. In this environment OEM customers required flexibility and demand shifts have become unpredictable. The group will therefore focus more on expanding our aftermarket lead acid battery export customer base including production of customer branded aftermarket product requirements.

The stability in the South African automotive outlook for the next three years' projects good production volumes at our main OEM customers, which should support a sound performance in the automotive component vertical. The energy storage businesses are well-placed to deliver solid performances and, barring significant foreign exchange rate volatility and labour disruptions, the group performance should be positive.

APPRECIATION

I would like to thank our Chairman and the board for their direction and diligence in applying their minds to the oversight of the business. A special word of thanks to Ralph Broadley and Les Soanes who have served the Metair board with distinction for nearly two decades. Their experience and technical insight has been much appreciated.

I am grateful to our workforce for their resilience in handling the rapid changes and disruption of the past year, and commend the new talent identified in the group who rose to the challenges presented to them and met them with distinction. The small Metair management team has once again excelled, particularly in the areas of financial reporting and business intelligence, and I thank them for their efforts.

CT Loock
Chief executive officer

Stakeholder **relations**

Metair defines its stakeholders as those individuals or groups that are impacted by our business, or who have an impact on our business, and who play a role in our ability to deliver on our strategic objectives. Integrated thinking includes an appreciation of the benefits of a stakeholder-inclusive approach and we recognise the critical interdependence between the needs, interests and expectations of our stakeholders and the group's ability to create sustainable value in the long term.

The board is responsible for stakeholder engagement and sets the direction for stakeholder engagement in the company, while delegating its implementation to the management team. Stakeholder engagement is a standing item on the board agenda and is discussed at every board meeting to ensure that the directors are kept informed of all material engagements and their outcomes.

Stakeholder concerns are addressed by the function to which they most closely relate and stakeholders are engaged as necessary and kept appraised of progress in resolving any issues. The group stakeholder engagement policy and Metair's code of conduct apply to all group companies and emphasise equitable treatment of all stakeholders.

KEY STAKEHOLDER GROUPS

Our stakeholders can be classified into four groups – internal stakeholders, stakeholders with whom we have direct interactions on a day-to-day basis, industry stakeholders and the broader society.

Regular interactions with our stakeholders provide input into strategy, help to determine and prioritise material matters and key risks, and assist us to refine company policies and governance structures. We welcome and appreciate stakeholder input and are committed to ensuring that the trade-offs between the interests of various stakeholder groups, as well as the trade-offs with the long-term interests of the company, remain key considerations.

A table showing Metair's key stakeholder groupings, their chief concerns, how these are addressed and the channels through which we engage with them, is available in Appendix I to this report.

STAKEHOLDER ENGAGEMENT IN 2018

2018 saw a significant increase in stakeholder expectations of corporates, prompting us to choose 'Stakeholder Requirements' as the theme for this report. The expectations of shareholders and employees in particular had a material impact on the business during the year.

Engagements with shareholders

Metair's strategy has always been customer, market and technology driven. This year, it became clear that we no longer have broad shareholder support for major international acquisitions and, as such, the execution of our stated strategy.

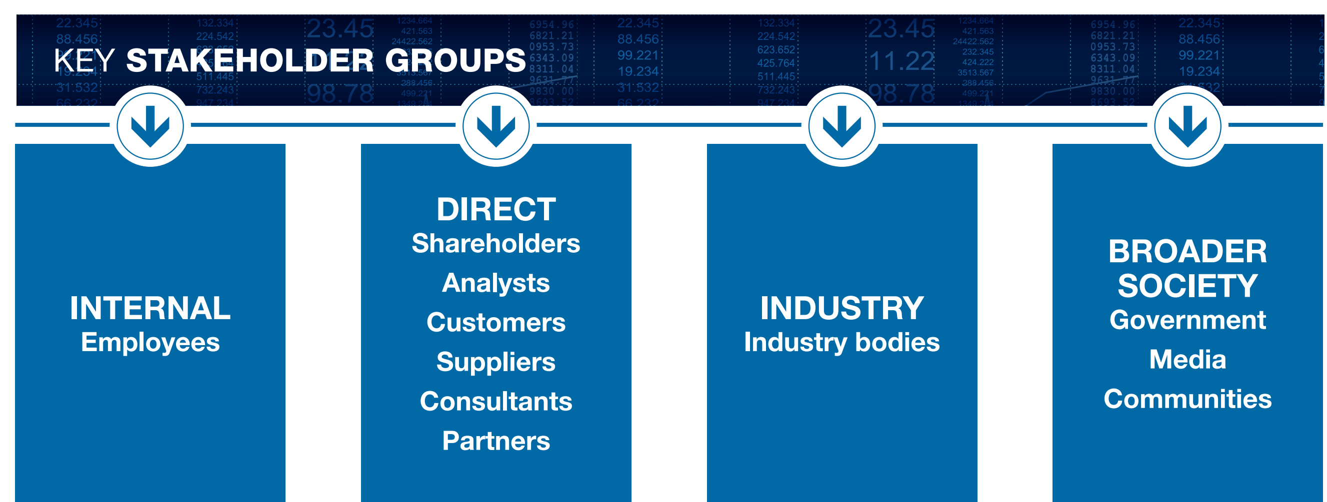
Our non-executive board members held one-on-one meetings with major shareholders to understand strategic concerns and other expectations. The main items addressed were the direction of Metair's strategy, capital allocation principles, the structure of long-term executive incentives, succession planning, the performance of First National Battery, the continued undervaluation of the company's share price and other governance concerns.

During Metair's annual strategy review, the strategy was adjusted to ensure shareholder alignment and support while balancing the requirements of all stakeholder groups. Metair's risk report recognises shareholder alignment as the number two risk currently facing the group.

We welcome the increased level of engagement as it improves understanding and alignment between the company and shareholders, and we plan to make these non-executive director engagements an annual event. Metair is committed to strengthening the trust and belief of our shareholder base, which we believe will in turn support the share price.

The year also saw the entry of an engaged shareholder, Value Capital Partners, onto the Metair share register.

As a way of addressing the undervaluation of the share price, Metair initiated a share buyback programme that by year-end had bought back 3% of the company's shares at a cost of R104 million. We are also planning to include a technology



Stakeholder **relations** (continued)

presentation as part of the results presentation to share the latest developments in the automotive and energy storage industries.

It is important that the trade-offs between the expectations of shareholders are considered and balanced against those of other stakeholder groups. This is also true of the balance between the expectations and intentions of different shareholder groupings. Allocating capital to a share buyback reduces the financial capital available for other initiatives and stakeholders. However, if it contributes to a revaluation of the share price, it could strengthen our relationship with shareholders and would improve our ability to raise capital for transformative acquisitions.

Labour expectations

Labour demands have also become more urgent and the expectations for significant wage increases have risen significantly in all of our major manufacturing countries. The socio-political environment in Turkey includes consumer price inflation of above 20% a year and workers are under extreme pressure. In Romania, an estimated 3.6 million people, or 16% of the population, have left the country since it joined the EU in 2007, which has led to wage inflation.

In South Africa, wage negotiations have become increasingly militant and politicised. There were strikes across the plastics industry during the year as well as strikes at several of our customers. First National Battery was affected by a two-week strike that ended with an above-inflation wage settlement.

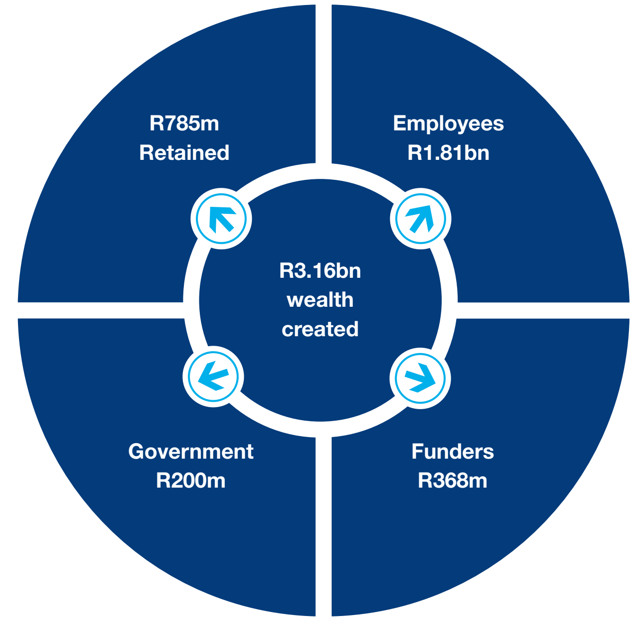
Wage increases that are not matched by similar improvements in productivity threaten the viability of businesses and will ultimately lead to a loss of jobs should these businesses close down or switch strongly to automated manufacturing. Violent strikes affect the relationship between employers and labour, as well as the relationship between customers and the business. There are three wage agreements up for negotiation in the automotive industry in 2019 and a high likelihood of labour disruptions in the context of the general elections due in May 2019.

Industry engagements

Metair engaged extensively with the automotive industry and government around the Automotive Production and Development Plan (APDP) review and the development of the South Africa Automotive Masterplan 2035. These engagements occurred directly and through our membership of the National Association of Automotive Component and Allied Manufacturers (NAACAM). Metair is represented on NAACAM's National Executive Committee by non-executive director, Portia Derby, and Supreme Spring managing director, Mark Barley.

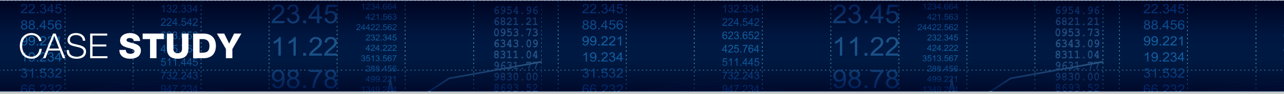
VALUE CREATED FOR OUR STAKEHOLDERS

Metair created R3.16 billion in value in 2018 (2017: R2.96 billion). R1.81 billion of this was paid to employees as salaries, wages and other benefits (2017: R1.72 billion) and we invested R28.2 million in training initiatives to further develop our human capital (2017: R27.3 million). R210 million was distributed to providers of finance (2017: R201 million) and R200 million was paid to governments as tax (2017: R188 million). Shareholders received dividends of R158 million (2017: R139 million) and R785 million was retained in the group for maintenance and expansion (2017: R715 million). R11.2 million was invested in local communities through our CSI initiatives (2017: R10.1 million).



The fundamental undervaluation of the Metair share price has led to a disappointing five-year total return for shareholders (share price and dividends received). A shareholder buying on 31 December 2013 and reinvesting dividends received would have earned a -11% five-year compound annual return to 31 December 2018. Metair's comparative peer market multiple used for valuation purposes is set at 6 to 6.5 times EBITDA. Therefore Metair's current market multiple of 4 to 4.5 times is seen to be under-valued by around two times on 2018 EBITDA.

We continue to engage with shareholders and investors to ensure that our strategy will be successful in unlocking the value in the share price.



CASE **STUDY**

DEMONSTRATING RELEVANCE IN LITHIUM-ION TECHNOLOGY

The move towards full electric vehicles (EV) has accelerated along with the shift to lithium-ion battery technology which will power this trend. While lead-acid batteries will still be needed for the aftermarket and are likely to play a role in EVs, it is important that Metair continues to grow its understanding of, experience with and expertise in with lithium-ion technology.

Metair has experience with lithium-ion technology used in the mining cap lamps we have been producing for the South African mining industry since 2013 and Mutlu Akü is producing a lithium-ion starter battery in Turkey.

During 2017, Metair established research partnerships with government agencies and universities in South Africa, Turkey, Romania and the US. Our agreement with the University of the Western Cape provides exposure to the only pilot scale lithium-ion battery cell assembly facility in Africa. Metair's investment will help pilot the prototype lithium production project, improve equipment and sponsor one local post-doctoral fellow to be trained and work at Argonne National Laboratory in the USA. Production will focus on mining cap lamp cells, 12 Volt lithium-ion automotive batteries and 48 Volt lithium-ion batteries for energy storage applications and solar panels.

In December 2017 we announced the completion of the conversion of a vehicle from internal combustion engine to full electric vehicle using in-house lithium-ion battery technology. This project was done in cooperation with Prime Motors in Romania to showcase our understanding of the challenges involved in EV production and to demonstrate our expertise in this area.

In February 2018 we took a 35% stake in Prime Motors to be Metair's incubator and research and development centre for lithium-ion battery development. Prime Motors is also running an Artificial Intelligence (AI) project with the University of Bucharest to develop autonomous driving learning.

Six months later, Prime Motors completed a full electric conversion on a Dacia Logan, Romania's best-selling car, and delivered it to Rombat. The conversion retains all of the elements of the original car except for the engine, cooling system and evacuation system. The car is fully homologated and can be driven on public roads.

Prime Motors has secured a state of the art lithium-ion coating and cell assembly manufacturing line that will be installed at our facilities in Romania and leased to Prime Motors.

Metair and Prime Motors are involved in several lithium-ion projects with OEMs that have the potential to spearhead Metair's entrance into the lithium-ion market in the near future.

Our **most material matters**

We define our material matters as those challenges and opportunities that have the highest potential impact on the long-term sustainability of the group or its stakeholders. These matters affect both deliberations on our strategy as well as its implementation, and inform what we discuss in this report.

Material matters are identified from a range of internal and external sources, including:

- The risks identified in Metair's risk assessment process. This process consolidates operational registers of key risks into a group risk register and includes a review of economic, environmental and social impacts, risks and opportunities.
- Engagements with our key stakeholders.
- Developments in relevant legislation and regulation.
- Sustainability and integrated reporting guidelines and best practice.
- Review of local and international media reports on the automotive and other target industries.
- Peer reports and industry benchmarks.

The matters identified are then ranked according to their impact and reviewed against our combined assurance model to ensure that they are subject to an appropriate level of assurance.

The group's top-ranked material matters are shown in the table below, along with the stakeholders that these affect, how we manage the matters, where these matters are discussed in this report and how our combined assurance model supports them. The strategy symbols in the title bar link each material aspect to the strategy focus area they affect most directly.

During the 2018 review of material matters, we removed 'Successful integration of acquisitions' since Rombat and Mutlu Akü are now fully integrated into the group. The slow economic recovery in Europe is no longer relevant and was removed as a material matter. 'Changing global dynamics' and 'Shareholder relationships' were added as material matters.

Metair does not currently reference the UN Sustainable Development Goals (SDGs) in its sustainability programmes and reporting, but many of our initiatives align with the goals explicit in the SDGs and we have included reference to the SDGs in the table where these are relevant.

<table>
<tr><th colspan="3">1. COMPETITIVENESS</th></tr>
<tr><td>• Competition from low-cost countries
• Country competitiveness of South Africa
• Entry of international competitors
• Competing with subsidised imported products
• Labour
• Unreliable energy and water supply
• Raw materials supply
• Product quality
• Technology
• Flexibility and adaptability

Stakeholders primarily affected: All</td><td>Multinational OEMs have a choice of energy storage and automotive component suppliers from a number of countries, many of which have more attractive government incentives, lower costs and higher labour efficiency than South Africa. While the revised APDP provides policy certainty for OEMs, Metair's ability to earn a return is reliant on producing quality products in a cost effective manner.

The automotive aftermarket, including batteries, is highly competitive and includes low cost imports supported by foreign government export incentives.

Manufacturing in South Africa faces multiple challenges including a volatile political and labour environment, policy uncertainty and interruptions to essential inputs in the manufacturing process such as energy, water and raw materials. These characteristics make it challenging to achieve the required production efficiencies to match or outperform competitors and attract long-term OEM investment. Manufacturing volatility also impacts on product quality, which may increase the number of product recalls.

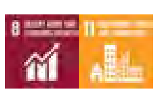
The pace of change in automotive components and energy storage solutions is accelerating and the arena is becoming increasingly technical. Meeting this challenge requires access to highly specialised technical skills and substantial investment in both research and development as well as product design resources in order to meet the rapidly evolving needs of OEMs.</td><td>Read more: Chief executive officer's report (page 30), Performance review (page 40), Human capital (page 55).</td></tr>
<tr><td colspan="3">Governance and combined assurance: The board and executive committee monitor efficiencies. Combined assurance through policies and procedures, internal controls, risk management function, regular management reviews, internal audit, OE supplier quality reviews, external accreditation (ISO 9001, SABS, SANS, VCA, ISO/TS 16949, ISO 14001, ISO 50001 etc.).</td></tr>
<tr><td colspan="3">GRI Standards: GRI 201: Economic Performance </td></tr>
</table>

2. MACROECONOMIC AND GEOPOLITICAL FACTORS

• Currency volatility • Socio-economic stability in key markets • Changing global trade dynamics (political, trade, etc.) • Continuity of supply **Stakeholders primarily affected:** All	Given the global nature of the automotive industry, Metair is affected by international economic and political developments which impact OEM investment and purchase decisions. Current global trade dynamics have led OEMs to reassess their global supply chains and move strategic components closer to their home markets in order to secure supply, particularly for electric vehicle components. Exchange rate volatility affects margin recovery on long-term contracts, makes budgeting and forecasting challenging and has a significant impact on reported financial performance. Political and social challenges in Metair's locations of operation – particularly South Africa and Turkey – affect investor confidence in the group's ability to realise its strategy and raise capital for further acquisitions.	**Read more:** Chairman's statement (page 26), Chief executive officer's report (page 30), Chief financial officer's report (page 46), Performance review (page 40) and Group risk management (page 77).

Governance and combined assurance: The board and executive committee develop and execute strategies to respond to international developments and business interruptions. Combined assurance through policies and procedures, internal controls, risk management function and regular management reviews.

GRI Standards: GRI 201: Economic Performance

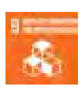


3. BALANCED BUSINESS

• Balance across customers, OEMs and aftermarket, industries, geographies and between customer requirements and the need to earn a sustainable economic return **Stakeholders primarily affected:** Shareholders, analysts, customers (existing and potential), government, employees and trade unions.	Diversification across customers, products, geographies and technologies helps to mitigate risk and supports the sustainability of the company. This includes our industrial and lithium-ion battery solutions and our research to assess the impact of disruptive technologies and the impact on our business from electric vehicles.	**Read more:** Chief executive officer's report (page 30), Strategic review (page 23), Chief financial officer's report (page 46), Natural environment (page 61).

Governance and combined assurance: The board and executive committee monitor, balance, develop and execute strategies to balance the business. Combined assurance through operational reviews, risk management function, internal audit, external assurance of financial information.

GRI Standards: GRI 201: Economic Performance



Our **most material matters** (continued)

4. BUSINESS PARTNERSHIPS

- International business partners
- Customer relationships
- Shareholder relationships
- Government relationships
- Supply chain relationships
- Governance
- Finding suitable long-term empowerment shareholders

Stakeholders primarily affected: Customers (existing and potential), suppliers and trading partners, shareholders, government, employees and trade unions, regulatory bodies, industry bodies (NAACAM, NAAMSA) and the media.

Strong relationships with our key stakeholder groups are essential to the success of the company. Strategy execution is only possible with broad shareholder support. We work closely with our technology partners and key customers through long-term contractual engagements.

Government is an important industry stakeholder in that it offers support by means of automotive and industrial programmes such as the South African Automotive Masterplan 2035 and the APDP. Government also offers protection to local markets from foreign government subsidised imports.

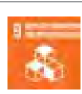
Bilateral trade agreements such as AGOA and special trade agreements secure access to potential export markets and form part of government's business platform staging.

Metair is in the process of identifying suitable long-term empowerment shareholders.

Read more: Chairman's statement (page 26), Stakeholder relations (page 33), Corporate governance report (page 67).

Governance and combined assurance: The board and executive committee manage relationships with key stakeholders. Combined assurance through regular management review, risk management function, internal audit, policies and procedures.

GRI Standards: GRI 201: Economic Performance



5. HUMAN CAPITAL

- Labour productivity and efficiency
- Labour cost
- Health and safety
- Skills retention and staff development
- Management retention and succession planning
- Management acumen
- Talent management and training
- Representative board, management, shareholding and workforce
- Corporate social investment

Stakeholders primarily affected: Customers (existing and potential), suppliers and trading partners, government, employees and trade unions, regulatory bodies, industry bodies (NAACAM, NAAMSA), media, consultants and service providers.

Metair's human capital is a key asset of the company. This comprises the leadership, management and employees. Our business is highly technical and the development and retention of key skills and experience in the group is an important consideration. The automotive industry has become increasingly changeable and managers have had to become far more agile and resilient.

Responsible management of labour costs and improving productivity are essential to sustain cost efficiencies and manufacturing competitiveness.

Metair is committed to transformation and believes that in a competitive market, strong B-BBEE performance can be a competitive advantage. Improving representivity at board and management level, and transforming the workforce is a moral imperative, a customer requirement and good business practice.

Read more: Chief executive officer's report (page 30), Corporate governance report (page 67), Human capital (page 55).

Governance and combined assurance: The remuneration committee, nomination committee, board and executive committees develop the human capital strategy, manage key relationships and monitor progress against stated KPIs and targets. Employment equity and transformation committees develop strategies and measure progress against stated targets. Combined assurance through regular management review, policies and procedures, risk management function, internal audit, external verification of B-BBEE information and OE supplier reviews, external accreditation (OHSAS 18001, ISO 14001) and external assurance of sustainability information.

GRI Standards: GRI 201, 203, 204, 401, 402, 403, 404, 405, 406, 407

6. THE NATURAL ENVIRONMENT

- Energy consumption
- Carbon footprint
- Waste management
- Water
- Environmentally friendly products
- Environmental impacts

Stakeholders primarily affected: Strategic shareholders, minority shareholders and analysts, customers (existing and potential), suppliers and trading partners, government, employees and trade unions, regulatory bodies, industry bodies (NAACAM, NAAMSA), media, consultants and service providers.

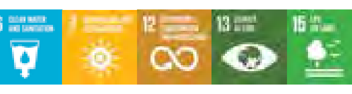
Metair's guiding principle of custodianship includes a focus on active management of our impact on the environment by reducing the use of scarce resources including energy, water and raw materials. We prioritise recycling of water, raw materials and waste, wherever possible, and limit emissions.

Many of the new technologies under development in Metair's energy storage vertical have a positive environmental benefit, including solar energy solutions and essential components for the next generation of low-emission and full electric motor vehicles.

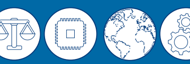
Read more: The natural environment (page 61)

Governance and combined assurance: The board and executive committees develop environmental strategy and monitor progress against targets. Combined assurance through regular management review, risk management function, internal audit, policies and procedures, external accreditation (ISO 14001, ISO 50001), external preparation of carbon footprint data, external assurance of sustainability information.

GRI Standards: GRI 302, 303, 305, 306, 307



7. TECHNOLOGY AND INNOVATION



- Technology shifts
- Customer relationships
- Products
- Raw material suppliers
- Business partnerships

Stakeholders primarily affected: All

The industries we operate in are changing very rapidly. Metair needs to ensure that our research and product development meet the technology needs and fulfil the energy (watt-hour) and automotive component (parts) requirements of our international customer base.

We continue to build our capacity and relationships to ensure that we can deliver the requirements for the future technology trends such as electric vehicles, autonomous driving, increased vehicle connectivity and artificial intelligence.

In 2018 we purchased a state of the art lithium-ion cell manufacturing, assembly and formation line to ensure that we continue to develop our understanding of lithium-ion technology and are able to respond to customer demand.

The board received training from an external specialist on the legal, disciplinary and reputational risks of social media to improve our appreciation of the trends and consequences around this evolving technology.

Read more: Chief executive officer's report (page 30), Chairman's statement (page 26)

Governance and combined assurance: Board and executive committees develop technology and innovation strategy and monitor progress against targets. Combined assurance through regular management review, risk management function, internal audit, policies and procedures, external accreditation (ISO 14001, ISO 50001), external preparation of carbon footprint data, external assurance of sustainability information.

GRI Standards: GRI 201: Economic Performance

Performance **review**

OPERATING CONTEXT

Global and local geopolitical developments

Metair is affected by changing geopolitical dynamics that influence economic growth or consumer sentiment as these feed through into vehicle sales in our local and export markets. More than half of the South African motor vehicle production is exported, mainly to Europe, the US and Japan. Exports are equally important profit contributors for our operations in Turkey and Romania, which are closely linked to the Western and Eastern European vehicle markets.

The deterioration in global trade conditions since the election of President Trump in the US and concerns regarding Brexit have affected sentiment in many markets and caused OEMs to reassess the strategic exposure in their global supply chains. This development influenced Metair's decision to pursue lithium-ion battery manufacture in our Romanian operation to bring production of this essential component of electric vehicles closer to European OEMs.

While the political situation in Turkey appears to have stabilised, currency devaluation and high inflation rates have created severe pressure on consumers, which has fed into increased wage demands. Domestic sales of motor vehicles have halved and one of the major OEMs moved half of their US export volumes out of Turkey due to the antagonism between Presidents Trump and Erdogan.

South Africa slipped into a recession in the first half of 2018 and local vehicle sales decreased 1% for the full year. Total vehicle production in South Africa increased 3.5% as exports reached a record. The South African Automotive Masterplan (SAAM) 2035 was concluded towards the end of 2018 and extends the APDP for another 16 years. While SAAM sets an ambitious vehicle production goal of 1.4 million vehicles for 2035, we are forecasting local vehicle production of around 650 000 to 700 000 units per year in the medium term.

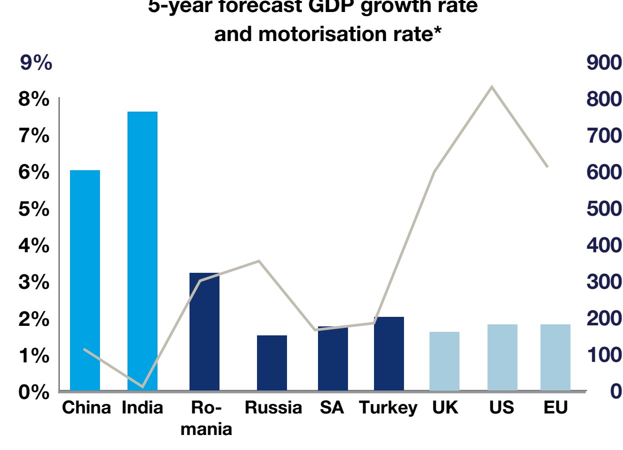
South African GDP growth vs vehicle sales

Sales growth passenger and LCV | GDP growth (RHS)

We aim to be represented in significant markets showing GDP growth above 2% to 3% percent. Developing markets, where vehicle penetration rates tend to be lower, are likely to show mobility growth above GDP growth as vehicle penetration rises. GDP growth rates in the developing markets we currently serve are forecast to increase between 1.5% to 3.2% over the next five years, which implies that vehicle production should remain strong. Growth rates in India and China, two potential future markets for our products, are forecast to be 8% and 6% respectively.

While growth rates in the EU and the US are forecast to be below 2% over the next five years, these are significant vehicle markets and even relatively low sales growth rates translate into substantial production quantities.

5-year forecast GDP growth rate and motorisation rate*

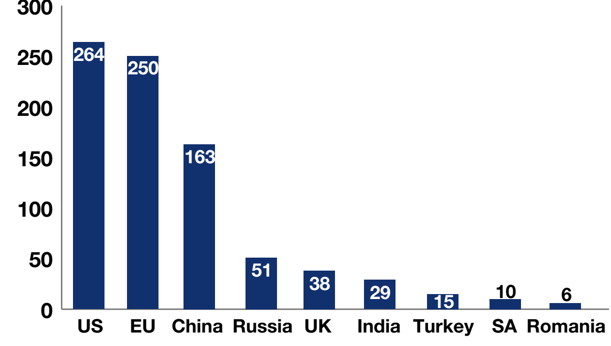


GDP – Potential future markets
GDP – Current emerging market served
GDP – Current developed markets served
Motorisation rate ** vehicles per 1 000 inhabitants*

VEHICLES IN USE (VEHICLE PARC)

The size of the market for aftermarket automotive spares and batteries in a country or region is defined by the total number of vehicles in use. Metair's operations in Turkey and Romania positions it near key Western and Eastern European markets, which together comprise a significant opportunity for aftermarket batteries.

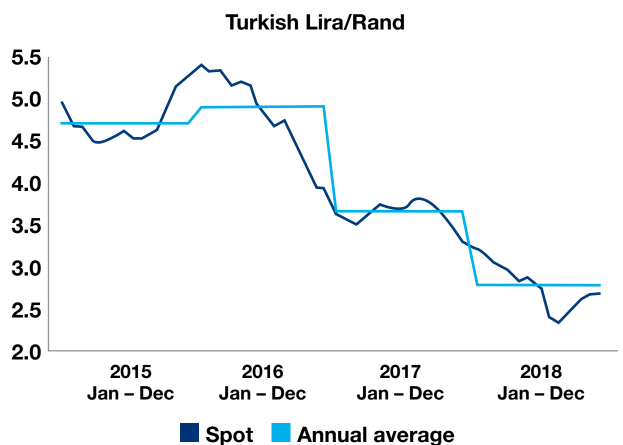
Total vehicles in use (million)

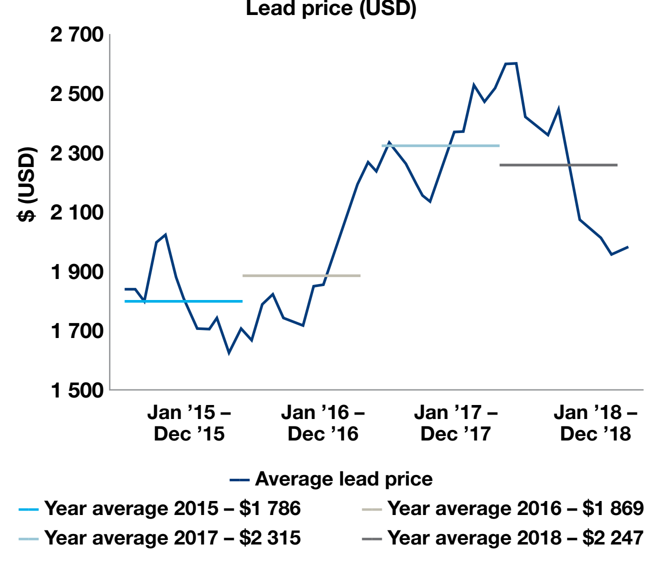


CURRENCY VOLATILITY

Currency volatility affecting the Rand, Romanian Lei and the Turkish Lira makes planning and forecasting challenging. The Lira in particular has weakened significantly against the Rand since the start of 2016 and the impact of this on Metair's reported results is discussed in the CFO report on page 46. In the short term, currency devaluation negatively affects reported profit from foreign operations when converted into

Rand, increases the input cost of imported materials and commodities and impacts local market demand. Operations can recover the rising input costs by increasing prices, but with a lag, which leads to margin compression. Over the long term, a weaker currency improves competitiveness in export markets and makes imported product less competitive in the local market.





RAW MATERIAL COSTS

Foreign exchange fluctuations also affect the cost of raw materials as commodities are generally priced in US Dollars. Lead is a key input in our energy storage vertical. The lead price has retreated from the highs of 2017 and currently trades around $2 000 per tonne. While the price of lead was 15% lower at the end of 2018 than a year before, the average price over 2018 was only 3% lower.

PERFORMANCE AGAINST OUR STRATEGIC FOCUS AREAS

Performance against 2018 Key Performance Indicators

Short-term (12 to 24 months) strategy implementation is driven by Key Performance Indicators (KPIs) developed at the managing directors' conference every year. Progress against these goals is discussed at the next MD's conference, which builds accountability and creates a bridge between the five-year strategic vision, the nine strategic focus areas and the short-term goals at both operational and group levels.

2018 KEY PERFORMANCE INDICATORS		STRATEGY LEG
1.	Monitor disruptive technology opportunities by strengthening relationships with government/university lithium-ion developmental facilities already constructed in Turkey, Romania and South Africa. Become electric vehicle (EV) development partners to at least two OEMs and build/convert our first lithium-ion vehicle as proof of understanding and our ability to adapt to disruptive technology.	
	We have established strong relationships with the University of the Western Cape in South Africa and the University of Bucharest in Romania to deepen our involvement in changing automotive trends. Conversion of an internal combustion engine vehicle to full electric vehicle using in-house lithium-ion battery technology was completed in December 2018. We have acquired a lithium-ion production line that will be installed at our Rombat facility in 2019. The pace of lithium-ion technology introduction by the OEMs is accelerating and the focus of our research and development activities has shifted to these technologies.	
2.	Continue expansion of the energy vertical business by evaluating new and existing technology investments in Europe, India, China and Russia.	
	In February 2018, Metair invested in a 35% shareholding in Prime Motors for R16 million. Prime Motors is a lithium-ion start-up business in Romania that will be Metair's incubator and research and development centre for lithium-ion battery development. Other potential investments have been cancelled or postponed pending the strategy review and broader shareholder support for further energy vertical acquisitions.	

Performance **review** (continued)

	2018 KEY PERFORMANCE INDICATORS	STRATEGY LEG
3.	Ensure improved First National Battery performance to R200 million PBIT.	
	A profit improvement plan was developed for First National Battery and is being implemented. While margins recovered in the first half of the year, the business was impacted by a two week strike during wage negotiations in August. The disruption during the two weeks and the consequent recovery period reversed some of the positive momentum. As a result, First National Battery margins remained flat for 2018.	
4.	Expand South African automotive business. Aftermarket and Africa business to exceed R400 million turnover.	
	Ongoing focus area. A potential Africa-focused joint venture is under consideration	
5.	Drive effective use of invested capital by focusing on working capital, capital expenditure and cash generation supported by beating minimum ROIC target of 11%.	
	Full year achievement was challenging due to the continued weakening in our major trading currencies, but ROIC target achieved.	
6.	Manage optimal repayment/refinancing of R560 million of preference share debt.	
	Negotiations were successfully concluded during 2018 for the extension of the full R840 million of outstanding preference share debt to 2021 at a marginally increased dividend rate of 70% of prime.	
7.	Continued evaluation of effectiveness of current forex policies. Ensure recovery of forex cost increases from customers and market. Limit total operational forex losses to below R20 million.	
	The weakness of the Rand and Turkish Lira focused attention on customer forex recovery policies. We continued to engage with customers regarding special event adjustments and amended policies to reset exchange rates more frequently.	
8.	Ensure sufficient management capacity and technical talent across the group to execute and integrate acquisitions, transfer technology and know-how, and execute strategy. Identify one Metair star and two back-up stars from the energy vertical.	
	Group technical directors were appointed for both lithium-ion development and lead-acid technologies. The group human resource function played a pivotal role in putting succession plans in place for each of the group companies. Establishing a group competence center situated at MOLL is under consideration.	
9.	Adopt a progressive human capital and talent management programme. Formalised mentoring, career management, succession and retention plan. Execute hybrid group HR development structure.	
	An HR conference focusing on developing a talent management programme was held during the year, and a succession plan was developed and presented to the remuneration committee. A group human resource function was established and this contributed to greater collaboration between companies and wider sharing of HR best practices and policies. This has reduced industrial relations-related risk and supported employee stability.	
10.	Improve health, safety and environmental awareness and standards in the group. Focus on continued product quality control and enhancement as per the sustainability goals in the table below.	
	Good progress has been made at all subsidiaries in this regard. KPIs are in place and measured every month.	
11.	Make further meaningful progress in terms of B-BBEE. Achieve group consolidated Level 4.	
	Metair's achieved a consolidated Level 3 assessment and subsidiary B-BBEE ratings support the achievement of this target. It remains a major focus for the subsidiaries.	
12.	Implement structured employee engagement and customer satisfaction surveys, where applicable. Establish base lines for these surveys.	
	All companies executed surveys via different approaches. Metair is in the process of studying the different approaches and their outcomes.	

2019 Key Performance Indicators

1. Enhance shareholder value to net asset value.
2. Complete share buy-back to the value of R150 million.
3. Optimise Metair strategy. Review the strategy and appropriate structure.
4. Deepen capital allocation control including a five-year plan for earnings per share improvement.
5. Improve First National Battery performance to 10% PBIT margin and appoint a suitable successor for the managing director.
6. Sustain the contribution of Mutlu Akü in Rand – 5% growth on 2018.
7. Explore and strategise on group company synergies/collaboration/communication/competency centre.
8. Develop a business plan including standard operating procedures for lithium batteries including target costs.
9. Improve the management control element on the B-BBEE scorecards.
10. Enhance customer forex recovery policies.
11. Ensure compliance of individual companies with the EU General Data Protection Regulation.
12. Ensure sufficient management capacity and technical talent across the group to execute and integrate acquisitions, transfer technology and know-how and execute strategy. Identify one Metair star and two back-up stars from the energy vertical.

Performance against 2018 sustainability goals and new goals for 2019

GOALS FOR 2018	PERFORMANCE IN 2018	GOALS FOR 2019	STRATEGY LEG
All companies to target achievement of ISO 50001 accreditation by the end of 2018	ATE, Rombat, Unitrade, Lumotech, Smiths Manufacturing and Smiths Plastics are in the process of implementing ISO 50001 with accreditation planned for 2019. All other operations are accredited	Remaining companies to achieve ISO 50001 accreditation by the end of 2019	
Zero fatalities and reduce LTIFR to below 1 across all companies	Zero fatalities but LTIFR is above 1 at ATE, First National Battery, Unitrade and Mutlu Akü, and group LTIFR increased to 1.15	Zero fatalities and reduce LTIFR to below 1 across all companies	
Group absenteeism rate to average below 3% across all companies (excluding contractors)	Six operations had an absenteeism rate above 3% and group absenteeism increased to 3.6%	Group absenteeism rate to average below 3% across all companies (excluding contractors)	
Maintain and improve our Level 4 B-BBEE target going forward on the new codes and target two companies to be on Level 2	Group consolidated assessment at Level 3. All companies but one are at Level 4 or below. One company is at Level 2 and one at Level 1	Maintain and improve our Level 4 B-BBEE target going forward on the new codes	
Maintain group training spend at R20 million	Group training spend of R28.2 million	Maintain group training spend at a minimum of R20 million	
Continue involvement in offering of learnership programmes to 300 learners group wide	346 learnerships across the group	At least 300 learnerships across the group	
1% of net profit spent on CSI projects	1.6% of net profit	1% of net profit spent on CSI projects	
No specific goals set		Target zero new cases of blood lead levels above 40µg per 100ml (early warning cases).	

Performance **review** (continued)

GOALS FOR 2018	PERFORMANCE IN 2018	GOALS FOR 2019	STRATEGY LEG
Target 1% improvement on site specific production scrap percentages across all companies	Two operations achieved a 1% improvement in scrap	1% improvement on site specific production scrap percentages across all companies	
Energy storage businesses to catch up the backlog to 2% and improve yield at recycling facilities by 2% especially at lead recycling facilities	Yield improved at all energy storage businesses, but by less than the targeted 4%	Energy storage businesses to improve yield by 2% at recycling facilities	
Target a 2% improvement in consumption of water per person hour worked (PHW) across all companies	Six operations achieved a 2% improvement in water consumption per PHW. Group consumption per PHW remained stable year on year	Improve water consumption per PHW by 2% across all companies	
Reduce total energy consumption by reducing electricity per PHW by 5% by December 2018	Group electricity consumption per PHW increased by 0.5%. Four operations achieved savings of 5% or greater	Reduce total energy consumption by reducing electricity consumption per PHW by 5% by December 2019	
Reduce Scope 1 and 2 emissions per PHW to below 10kg CO_2e/PHW	Scope 1 and 2 emissions per PHW decreased to 9.7kg CO_2e	Sustain Scope 1 and 2 emissions below 10kg CO_2e/PHW	

CASE **STUDY**

BATTERY CENTRE REBRANDING

As part of our focus on marketing excellence, First National Battery reviewed its aftermarket battery brand strategy based on extensive market research and stakeholder input. This culminated in a relaunch of the Battery Centre brand – First National Battery's franchised distribution outlet – in July 2018. The rebranding aims to revitalise the chain in the minds of consumers and remind them that Battery Centre continues to offer outstanding service, free battery tests and a nationwide warranty that motorists can trust and depend on.

The brand message was improved to be crisp and clean and refined to position Battery Centre as the Trusted Battery Specialists, building on its long history as a family and heritage brand synonymous with great service and specialist understanding of the market. Trust represents the core deliverable of a Battery Centre to its customers.

The new branding aligns with the First National Battery brand message of being 'World Class' and the new corporate identity incorporates the Raylite name – First National Battery's industry-leading automotive batteries – to increase product awareness and leverage off the strength of the Battery Centre name in the market. The Mr Sparky logo also received a makeover to revitalise and refresh the symbol while retaining its essential welcoming familiarity.

The look and feel of the franchised outlets were refreshed to improve visual and procedural brand consistency with an overall strategy of being customer centric at every touchpoint. Rebranded franchises include a 'Chill Zone' waiting area for customers to improve convenience and create a great customer experience.

The brand was launched with targeted marketing activities across a range of channels to drive brand awareness and sales, including a TV commercial, outdoor marketing, rewards campaign, influencer marketing and an online marketing campaign.

The rebrand includes a strong social media component as well as a new Battery Centre website which will be launched in April 2019. Feedback on the newly rebranded franchises has been very positive from customers and franchisees alike.

Chief **Financial Officer's report**

> We take a broader approach to business, considering the important and legitimate interests of all stakeholders and the longer term and sustainable interests of the business while carefully assessing and mitigating social and environmental impacts.

SJOERD DOUWENGA – CFO

The Metair group delivered a solid performance overall for 2018 and successfully navigated turbulent markets and geo-political concerns in Turkey, our second biggest market. Both the automotive component vertical and energy storage vertical performed well, growing operating profit by 16% and 17% respectively.

The group's performance exceeded our short-term financial targets and return on invested capital increased to 13.0%. This exceeds our cost of capital for the first time since the major strategic and operational capital investments of the past three to four years. Our medium- and long-term financial targets are to achieve sustainable total shareholder returns in the upper quartile of our peer group, and to generate returns on invested capital that are three to four percent above Metair's cost of capital.

We continuously re-evaluate our capital allocation priorities to ensure we make the appropriate investments to achieve these performance targets.

This report discusses the financial position and performance of the group for 2018, including the segmental results and other salient features. The report also addresses capital allocation, returns on capital invested, balance sheet strength, funding structures and strategy and should be considered together with the financial statements and the integrated report as a whole.

We take a broader approach to business considering the important and legitimate interests of all stakeholders and the longer term and sustainable interests of the business while carefully assessing and mitigating social and environmental impacts. The group value-added statement is shown on page 51 and shows how the value created during 2018 was distributed to stakeholders or reinvested.

RESULTS

Group revenue increased 8.0% to R10.28 billion in 2018 (2017: R9 517 million) largely due to strong manufacturing volumes in the automotive components vertical, which improved revenues by R718 million.

Group operating profit (PBIT) improved by 19% to R1 009 million (2017: R848 million) at an operating margin of 9.8% (2017: 8.9%).

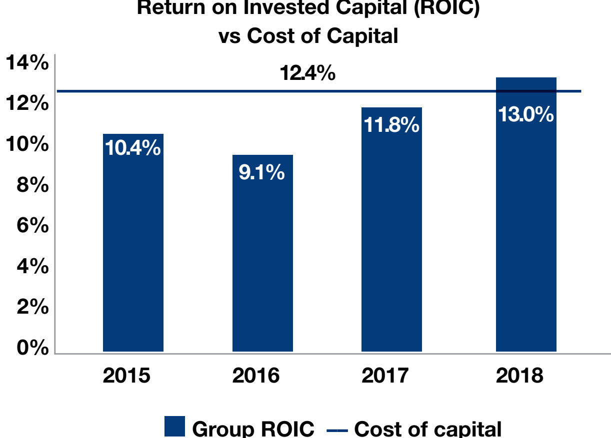
The automotive components business benefited from good volumes and stable production as South African OEM production volumes increased to 583 800 units on the back of record exports. But more importantly, Metair's major customers' volumes improved by 14% which contributed to the operating profit improvement of 16%. Emerging Market currency weakness and volatility resulted in some lost margin expansion opportunity due to the timing of currency recovery from customers. As a result, margins remained flat at around 10%.

The energy storage business achieved a PBIT of R692 million, supported by good margin expansion at Mutlu Akü (albeit on softer volumes), good volume growth and margin expansion at Rombat, and First National Battery had a fair performance despite the impact of strike action.

Group EBITDA (including equity earnings) increased 9.3% to R1 330 million (2017: R1 216 million) and the EBITDA margin improved slightly to 12.9% (2017: 12.8%).

Group net debt increased to R1 262 million (2017: R1 204 million) while net finance expenses increased to R186 million (2017: R175 million), largely due to increased funding costs in Turkey. On average, interest rates in Turkey increased by around 10ppt during 2018.

The 16.2% increase in headline earnings to R646 million (2017: R556 million) translated into a 16.4% increase in headline earnings per share to 327 cents per share (2017: 281 cents). The weighted average number of shares declined by 703 000 shares due to a share repurchase programme which commenced in October 2018. In total, 5 969 577 shares were repurchased at an average price of R17.48 by 31 December 2018.



Group return on invested capital (ROIC) improved to 13.0% (2017: 11.8%), largely due to the improvement in headline earnings and the continuation of strict capital allocation principles.

SEGMENTAL REVIEW

Note: The turnover and profit figures quoted in this section include the group's managed associate, Hesto, which aligns with the presentation in the segmental review on page 145.

Metair operates through two business verticals – automotive components and energy storage. Both verticals supply products to local markets (South Africa, Romania and Turkey) and also export to customers in other markets (mainly Europe, the Middle East, sub-Saharan Africa and Russia).

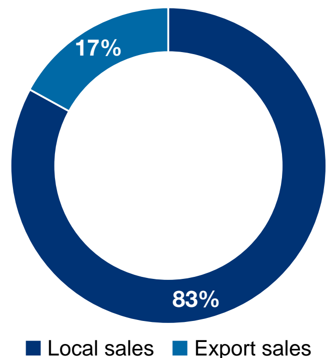
The energy storage segment contributed 56% to group turnover in 2018 and the automotive component segment 44% (2017: 41% automotive component and 59% energy storage).

Revenue* (R million)

	2014	2015	2016	2017	2018
	4 602	4 928	5 853	6 221	6 384
	3 492	3 625	4 143	4 360	5 073

** includes Hesto*

Group local and export sales 2018



ENERGY STORAGE VERTICAL

Turnover increased by 3% to R6 384 million (2017: R6 221 million) despite automotive battery sales volume declining 2% (186 000 units). Price increases offset the 23.6% weakening of the Turkish Lira against the Rand. The Romanian Lei was largely flat against the Rand.

Energy storage vertical improved operating margins to 10.8% (from 9.5%) despite higher commodity prices, a weaker Turkish Lira, delivering operating profit of R692 million (2017: R592 million). Group OEM volume proportions marginally up to 27.9% from 27% in 2017.

Chief **Financial Officer's report** (continued)

Mutlu Akü in Turkey performed well in difficult trading conditions, improving local currency PBIT by 55% due to a strong export performance, supported by resilient aftermarket and OEM volumes in-country. Mutlu Akü managed to negate the negative 23.6% currency translation impact from the deterioration in the value of the Turkish Lira. In Rand terms, Mutlu Akü's PBIT improved from R362 million to R428 million.

While First National Battery margins recovered in the first half of 2018, the business was impacted by a two week strike during wage negotiations in August. The disruption during the two weeks and the consequential recovery period reversed some of the positive momentum. As a result, First National Battery's margins returned to 2017 levels by year-end, but operating profit improved by 6% to R162 million.

Rombat in Romania improved operating profit by 33% to R108 million, due to a 6% improvement in volumes combined with good cost management and margin recovery.

Sales of industrial batteries contributed R693 million to revenue (2017: R685 million), with the decrease largely as a result of a fire disruption experienced at Mutlu Akü which led to lost sales.

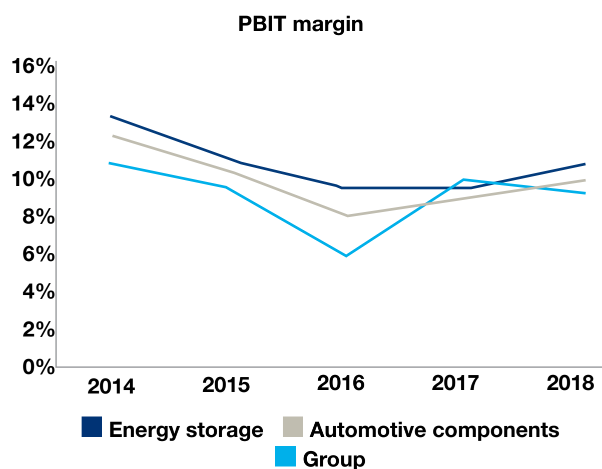
Return on invested capital for the segment improved to 19% (2017: 15.7%).

AUTOMOTIVE COMPONENTS

The automotive components contributed R5 073 million (2017: R4 360 million) to revenue, an increase of 16.4%. This increase was supported by better than budgeted volumes at our customers, mainly due to strong export demand, and production stability.

Operating profit increased to R509 million (2017: R437 million) and the operating margin remained stable at 10% (2017: 10%) as the businesses achieved manufacturing and volume stability.

Return on invested capital for the automotive component segment was 32.9% (2017: 28.5%).



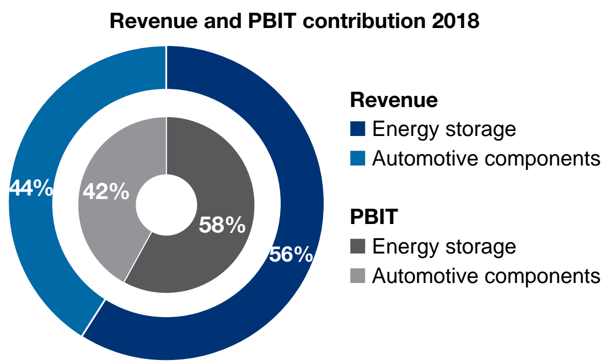
CURRENCY IMPACTS

The group has a strict foreign exchange risk management policy in place and hedges foreign currency exposures on raw materials, components and capital equipment except where these exposures are offset by natural hedges.

Our four international investments – Mutlu Akü (Turkish Lira), Rombat (Romanian Lei), Dynamic (British Pound) and ABM (Kenyan Shilling) – operate in their local currencies and their results disclosed in this report are affected by changes in exchange rates between these currencies and the Rand. Mutlu Akü and Rombat together contributed 42% of group revenue and 53% of PBIT in 2018, and significant exchange rate fluctuations have a marked impact on group results.

The average Turkish Lira/Rand conversion over 2018 weakened by 24%, and the year-end rate was 17% weaker than at 31 December 2017. Earnings of our foreign operations are translated into Rand at the average rate for the period and while Mutlu Akü reported a 55% increase in operating profit in Turkish Lira, this translated into a 24% decline when translated into Rand, purely on currency. The average Romanian Lei exchange rate for 2018 appreciated 2% against the Rand, which supported earnings reported by Rombat.

The net asset values of foreign subsidiaries are translated into Rand at the ruling exchange rate at year-end for inclusion in the financial reports. The devaluation of foreign currency spot rates (mainly the Turkish Lira) resulted in net foreign exchange translation losses of R313 million (2017: R444 million loss) being recognised in other comprehensive losses in 2018. While a depreciating local currency reduces the investment's contribution to the group, it also creates opportunities as it improves the price competitiveness of exports from that location. Approximately 33% of Mutlu Akü's sales volumes are exported to aftermarket and OEM customers.



Currency movements also impact the cost of imported raw materials and components. For the energy storage vertical, these are mainly denominated in US Dollars and Euros, and the currencies most relevant for the automotive components vertical are the US Dollar, Euro and Japanese Yen. Foreign exchange movement recoveries on these input costs are achieved through various contractual arrangements with customers.

Currency fluctuations also affect the energy storage business through their impact on sales and receivables in export markets.

FINANCIAL POSITION

Group net asset value per share increased to 2 167 cents per share (2017: 2 059 cents per share). Net working capital increased by R229 million mainly due to higher lead prices, increased OE stock holding ES and tooling projects for a local auto customer.

Cash generated from operations decreased to R888 million (2017: R905 million), representing a cash conversion ratio to EBITDA of 68%. Cash and cash equivalents decreased to R580 million from R597 million in 2017, mainly impacted by the devaluation in the Turkish Lira. Net debt (borrowings less cash and cash equivalents) increased to R1.3 billion at year-end (2017: R1.2 billion).

The group's net debt/equity ratio was consistent at 30.3% (2017: 29.5%). Metair's capital structure remains relatively conservative and in compliance with all of our lenders' covenants. Net debt to EBITDA was 0.95 times (2017: 0.99 times).

As at 31 December 2018, Metair had access to unutilised facilities of approximately R554 million, US$70 million, TL84 million, €22 million and revolving credit facilities of R536 million. Note 14 in the financial statements provides detailed information on the group's borrowing facilities. The group has sufficient short-term borrowing facilities, including overdraft facilities, which are renewable annually. The group also secured an additional five-year revolving credit facility to the value of R525 million during January 2018.

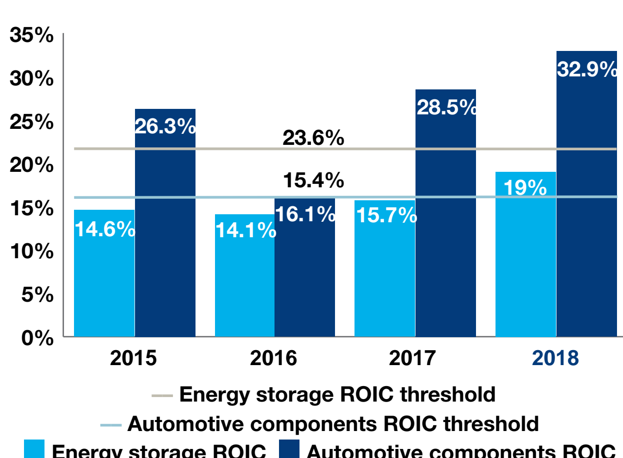
During 2018, the remaining R840 million tranche of preference share funding raised for the Mutlu Akü acquisition, R560 million of which was due to mature in September 2018, was refinanced and maturity was extended to 2021. The dividend rate increased marginally to 70% of the ruling South African prime interest rate calculated on a nominal annual monthly compounded basis. During 2019, the group will start the process of separating group funding structures into geographically distinct South African and European ring-fenced funding structures.

CAPITAL ALLOCATION

Metair assesses capital allocation in three areas. These are operational, strategic (both internal) and shareholder capital (external).

Allocation of capital to operating assets (maintenance and new business) and strategic investments (acquisitions) uses return on invested capital (ROIC) as the primary financial return criteria, supplemented by return on assets, internal rate of return and cash generation. ROIC targets and investment thresholds have been established for the group as well as each individual business unit. Capital allocated, with the exception of key strategic spend, is required to exceed its cost of capital within two to three years of the investment being made. New investments are also required to achieve a target of 4% above the cost of capital over the project duration. It is Metair's obligation, as the holding company, to source, allocate and control capital to achieve these objectives. The long-term return hurdle rates for the group are as follows:

METAIR WACC	ENERGY STORAGE ROIC THRESHOLD	AUTOMOTIVE COMPONENTS ROIC THRESHOLD
12.4%	15.5%	23.6%



Metair made significant capital investments into both verticals from 2014 to 2017. Since 2017 we have limited overall investment to the most meaningful projects with the highest probability of success to support the group's required return on invested capital. Metair's capital expenditure policy also includes a focus on cash flow management, in particular free cash flow generation, to support our ability to pay down our future debt repayment obligations, without constricting growth capital.

Total capital expenditure (including intangible assets) for 2018 was R305 million (2017: R220 million), with R109 million allocated to maintenance, R145 million to expansion capex and R51 million allocated to health and safety, improving the group's competitive position and efficiency.

2019 CAPITAL COMMITMENTS (INCLUDING HESTO)

(R'000)	MAINTENANCE AND GENERAL	EFFICIENCY AND EXPANSION EFFICIENCY	HEALTH, SAFETY AND ENVIRONMENT	TOTAL
Automotive components	47 807	131 587	4 629	184 023
Energy storage	118 586	194 091	43 527	356 204
Total commitments	**166 393**	**325 678**	**48 156**	**540 227**

Chief **Financial Officer's report** (continued)

Capital expenditure for 2019 will be limited to focus on upgrading structural health and safety requirements and investing in initiatives to improve efficiency and expansion.

External capital allocation refers to the use of profits and cash flow in excess of internal operating capital requirements. Here we consider our priorities in returning capital to funders of debt and equity, but constantly re-evaluate these objectives. As such, we initiated a share buyback programme in 2018 and by 31 December 2018 had bought back 5 969 577 shares at a cost of R104.4 million.

INTANGIBLE ASSETS

Intangible assets reported on Metair's balance sheet primarily relate to goodwill, trademarks, licences, brands, customer relationships, capitalised development costs and software. Intangible assets decreased to R707 million in 2018 (2017: R835 million) mainly due to the foreign exchange translation effects of Mutlu Akü.

Goodwill arises on the acquisition of subsidiaries and represents the excess in the consideration paid by the group over the acquiree's fair value of the identifiable net assets. Goodwill and the Mutlu Akü indefinite useful life brand are not subject to amortisation, but are tested annually for impairment.

We have concluded, based on value-in-use calculations, that the recoverable amount of all cash generating units (CGUs), including goodwill, exceeds their carrying amounts (refer to note 8 of the AFS).

During 2018, the group expensed R16 million in research and capitalised R19 million of development costs. Development costs capitalised relate to various new product and technology development projects at Mutlu/MIB.

CHANGES IN ACCOUNTING POLICIES

The major changes to the group's accounting policies, is the adoption of IFRS 15 *Revenue recognition* and IFRS 9 *Financial Instruments* from 1 January 2018. The effect of initially applying these standards, is earlier recognition of revenue from 'made to order' automotive parts supplied to OEM customers (revenue recognised 'over-time' as opposed to at a 'point in time'), variable consideration adjustment for certain aftermarket distributor sales, OEM customer renewal options that provides a material right (life-time price reductions), and an increase in impairment losses on trade receivables under IFRS 9, due to the earlier recognition using an 'expected credit loss' approach.

Apart from changes to disclosure and balance sheet classification, mainly between inventory and contract assets, the net impact of the adoption of the new standards have not been material.

A detailed explanation of the changes and impact resulting from the new standards can be found in section 28.1 (IFRS 15) and 28.2 (IFRS 9) of these financial statements.

ACQUISITIONS AND INVESTMENTS

In February 2018, Metair invested in a 35% shareholding in Prime Motors for R16 million. Prime Motors is a lithium-ion start-up business in Romania that will be Metair's incubator and research and development centre for lithium-ion battery development.

TAX STRATEGY AND RESPONSIBILITY

We take a responsible approach to the planning and payment of taxes. This supports our principles of transparency and active and constructive engagement with our stakeholders to deliver long-term sustainable value.

We strive to act responsibly in relation to all tax compliance matters, respecting the laws of each country in which we operate. We only undertake transactions that we are prepared to fully disclose and are based on strong underlying commercial motivation, and which are not (or appear to be) artificial or contrived.

We believe it is a fundamental part of our corporate and social responsibility, and is aligned with the group's code of conduct and the long-term business strategy.

DIVIDEND

A cash dividend of 100 cents per ordinary share (2017: 80 cents per share) has been declared, which represents a three times dividend cover, in line with our dividend policy of between two and four times cover.

S Douwenga
Finance director

Value added **statement**

The value added statement discloses the value created by the company during the year and how this is distributed to stakeholders or reinvested in the business. In 2018, Metair created wealth of R3.16 billion and 57% was distributed to employees in the form of remuneration and benefits, 6% was distributed to government as taxes and 12% to providers of capital. R785 million was retained in the group, of which R541 million was allocated to future expansion.

			GROUP 2018 R'000	GROUP 2017 R'000
WEALTH CREATED				
Revenue			**10 276 966**	9 516 657
Less: Net cost of products and services			**(7 217 783)**	(6 684 041)
Value added			**3 059 183**	2 832 616
Add: Income from investments			**100 715**	129 168
Wealth created			**3 159 898**	2 961 784
WEALTH DISTRIBUTION	**% 2018**	**% 2017**		
Employees				
Salaries, wages and other benefits (note 1)	57	58	**1 806 013**	1 719 324
Providers of capital	12	12	**368 401**	339 457
Interest on borrowings	7	7	**210 056**	200 867
Dividends to shareholders	5	5	**158 345**	138 590
Government taxation (note 3)	6	6	**200 049**	188 242
Retained in the group	25	24	**785 435**	714 761
To provide for the maintenance of capital	8	9	**244 500**	265 779
To provide for expansion	17	15	**540 935**	448 982
	100	100	**3 159 898**	2 961 784
1) Salaries, wages and other benefits			**1 806 013**	1 719 324
Wages and salaries			**1 587 987**	1 487 098
Share based payment expenses			**17 151**	18 199
Termination benefits			**1 167**	1 269
Social security costs			**113 928**	129 149
Pension costs – defined contribution plans			**78 652**	74 438
Defined benefit plans			**3 617**	3 420
Post-employment medical aid benefits			**3 511**	5 751
2) Value added ratios				
Total number of employees at year-end			**6 089**	5 968
Hourly			**3 883**	3 783
Monthly			**2 206**	2 185
Revenue per employee			**1 688**	1 595
Value added per employee			**502**	475
Wealth created per employee			**519**	496
3) Monetary exchanges with governments				
SA normal Tax /Income tax			**200 049**	188 242
South Africa			**148 055**	125 535
The Netherlands			**658**	11 769
Romania			**16 021**	13 893
Turkey			**35 315**	37 045

CASE **STUDY**

ELECTRIC LOCOMOTIVES

While rail only accounts for a small percentage of global greenhouse gas emissions, diesel locomotive engines still contribute significantly to air pollution in many cities and towns through their emissions of nitrogen oxides, sulphur dioxide and particulate matter.

Prime Motors is developing a lithium-ion battery pack for the traction system of electric locomotives used at industrial sites that require manoeuvring of heavy weights. Development includes the lithium cells, battery module concept (thermal management and battery management system) and integration into the battery pack architecture compliant with the required standards for railway systems.

These locomotives will reduce environmental impact by reducing carbon emissions. They are also quieter than diesel locomotives, so they decrease noise pollution and can be used for longer periods during the day and night with minimal impact on their surroundings.

Sustainability

Metair's commitment to custodianship and ethical business practices guides our approach to sustainability. We aspire to be exemplary custodians of the environment and societies around us as we pursue financial returns and create value for our stakeholders.

We take a precautionary approach when considering our impacts on the environment and the communities around us. The principle of sustainability is integrated into our strategy and designed into the way we do business. Sustainable practices demonstrate the health of our business and support the resilience and longevity of the organisation.

The foundation of our business is our core values and principles, which anchor us and guide us through challenging times. These define our mission and values, which guide our actions as we manufacture and distribute our products and services. Metair's ethics and social responsibilities remind us to embody our values in our day to day actions.

The health of our business is supported by the four pillars of entrepreneurial strategy, human capital, financial capital and the environment.

Transport accounts for a significant percentage of greenhouse gas emissions and the global focus on climate change and reducing carbon emissions has over the past decade sharpened the focus on the automotive industry to reduce emissions and lead the way in responsible business practices.

Companies such as Metair, that form part of the global automotive supply chain, are expected to demonstrate a similar commitment to sustainability. As trends such as Green Manufacturing, Industry 4.0 and the move to the circular economy gather pace, ethical and sustainable business practices become a competitive advantage. New environmentally-friendly technologies such as electric vehicles provide opportunities to participate in new product lines.

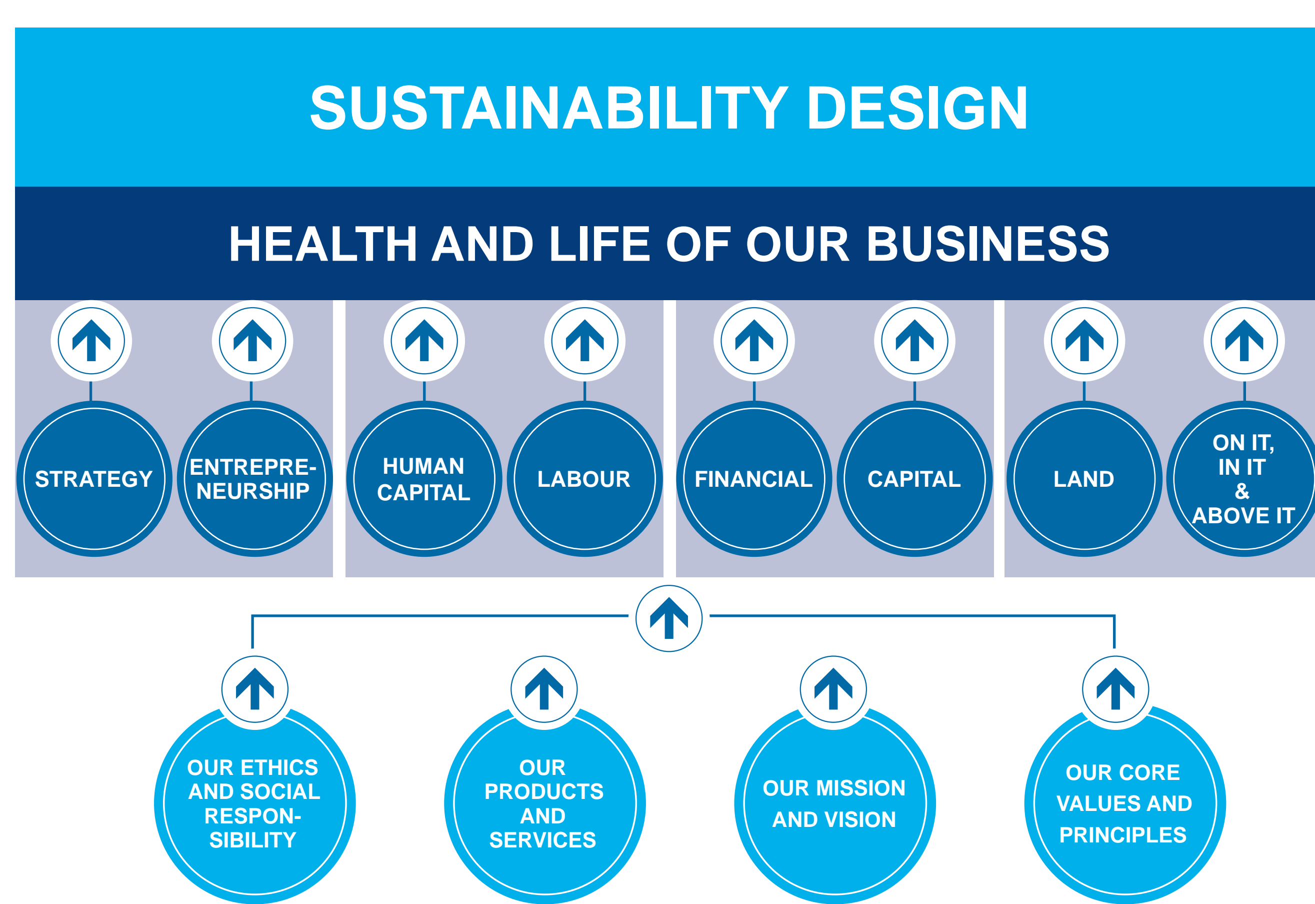
HOW WE MANAGE SUSTAINABILITY

The board is responsible for sustainability and has delegated the management and monitoring of sustainability in the company to the social and ethics committee. The social and ethics framework defines and guides our approach to integrating sustainability into our strategy and operations.

Social, ethics and environmental risks are incorporated in our risk processes because sustainability issues, if not effectively managed, ultimately become financial risks.

Our approach to sustainability has been guided by local and international legislation and frameworks including:

- King IV;
- the JSE Listings Requirements;
- the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework;
- the UN Global Compact; and
- the Global Reporting Initiative.



Sustainability (continued)

Sustainability policies and principles are set at group level and applied at operations. Operations complete a sustainability template that includes non-financial narrative information every quarter and this information is consolidated and presented to the social and ethics committee. The template is integrated into the Cognos IT reporting system and information is captured directly onto the system.

The quarterly reporting includes a social and ethics register that reports compliance and non-compliance to the social and ethics functions, disciplinary action status, Corporate Social Investment (CSI) initiatives, risks and opportunities, responsible persons and general comments. Targets are set and progress against targets is monitored on a continuous basis. A social and ethics risk dashboard has been developed to improve reporting and performance assessment going forward.

Ethics performance and progress on rolling out ethics initiatives are monitored by the social and ethics committee through a self-evaluation questionnaire that is completed by all subsidiaries.

Sustainability performance is supported by environmental, social and governance (ESG) targets set by the social and ethics committee for operations. Performance is assessed each quarter and underperformance is indicated by the issue of a yellow card. Companies are required to submit action plans detailing how they plan to address the underperformance and the yellow card can only be returned once the issue has been rectified.

The ESG targets have also been incorporated in the subsidiary key performance measures, influencing their short-term incentives.

The targets set in 2018 focused on quality measures, blood lead level early warning cases (for the energy storage operations) and lost-time injury frequency rate (for the automotive component manufacturers). Progress was measured against the targets in June and December. While some of the operations that were outside the targets showed improvement, others remain outside the limits and the focus on improving quality and safety performance continues. ESG penalty clauses for underperformance in health and safety, preferential procurement and transformation are included in the long-term incentive structure for senior executives.

The non-financial sustainability information disclosed in this report has been externally assured, which included site visits to various operations and an assessment of data collection techniques and controls. The report of the external assurance provider is available on page 117 of this report. The social and ethics committee approved the internal audit scope for the next three years to include audits of the whistleblowing facility and reports, policy and implementation reviews and ethics training. Risk audits are being done by Marsh to identify health and safety hazards.

Human **capital**

HUMAN CAPITAL AT A GLANCE	
Key features	**2018 performance**
• Headcount 9 301 (+2%) • 36 502 person days lost to strikes • Absenteeism 3.6% ✗ • Normalised staff turnover 8.9% ✗ • 266 bursars supported • Improved B-BBEE performance at all subsidiaries	• Zero fatalities ✓ • LTIFR 1.15 ✗ • Training spend R28.2m ✓ • 346 learnerships ✓ • Group B-BBEE Level 3 ✓
Key: ✓ 2018 target achieved ✗ 2018 target not achieved	

We operate in highly technical industries and the skills and experience of our workforce – our human capital – is a key asset of the company. Metair's human capital policies and practices therefore aim to attract, develop and retain the skills we need to execute our strategy, while building the skills and experience of the next generation of leaders and technical experts.

Our commitment to custodianship includes ensuring that procedures are in place to support safe working conditions, providing facilities to help employees manage their health and wellness, and promoting transformation and gender equality.

Metair's human resources (HR) policies incorporate the company's commitment to transformation, which is monitored by the employment equity and transformation committees, which report to the board.

Metair appointed a group HR co-ordinator in 2018 which created greater collaboration regarding ideas, policy and governance. The improved collaboration reduces risks in matters related to industrial relations and supports the advancement of HR best practices across the subsidiaries to enhance employee stability.

Two HR strategy sessions were held to focus the group on various issues such as talent management, stakeholder engagement, culture and succession planning, and standardisation of HR policies and procedures as far as possible. These sessions identified key initiatives to be rolled out to all Metair subsidiaries after a reflection of strategic opportunities.

One of these initiatives was the adoption of a talent management strategy that forms part of the subsidiary key performance areas for 2019. The talent management strategy is directly linked to organisational transformation and geared towards structures that support future leadership and increased technology while achieving gender and demographic transformation. Transformation targets for 2019 were set for all subsidiaries.

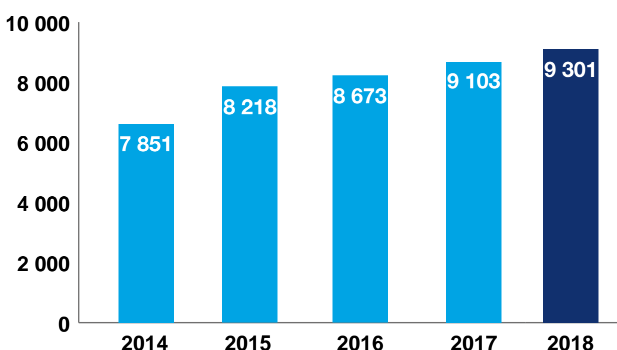
Leadership competences were defined to support the talent management strategy. Future leaders and professionals will be assessed against these competences to inform individual development plans that will create career paths and succession for our future leaders and professionals.

A standardised performance management model was developed and training is being rolled out to subsidiaries on effective performance management.

We also developed internal audit dashboards to critically evaluate subsidiary status as employers of choice and our level of employee engagement.

An external employee satisfaction survey was piloted at one of the subsidiaries and we plan to roll surveys out to the other subsidiaries in 2019 setting objective targets for employee satisfaction using a specified standard and benchmark.

Staff complement (including Hesto)



Metair's total staff complement (including contractors) increased 2.2% to 9 301. South Africa comprised 78% of the workforce at year-end, Turkey 13% and Romania 9%. Contractors comprised 11.5% of the total staff complement in 2018 (2017: 9.5%). Employment numbers vary during the course of the year linked to model changes, seasonal volume adjustments and strikes.

Note that the headcount figures reported in this section include Hesto employees as Metair is responsible for the day-to-day management of this associate. Since Hesto is not a subsidiary in terms of IFRS 10, employees are excluded from the headcount figures reported in the value added statement on page 51.

Hesto employs 24% of the group workforce, and the three battery manufacturers – First National Battery, Mutlu Akü and Rombat – together employ 40%. Historically Disadvantaged South Africans (HDSA) represent 91% of the South African workforce (2017: 90%) and women comprise 32% of the total group workforce (2017: 32%).

LABOUR RELATIONS

Metair aims to maintain constructive relationships with unions and respects the rights of employees to freedom of association. Recognition agreements are in place and take place at national, provincial and company level. Most South African operations fall under Chapter III of the motor industry bargaining council, but First National Battery is covered at

Human **capital** (continued)

plant level. At year-end, 70% of employees across the group belonged to a union (2017: 70%).

Metair lost 36 502 person days to industrial action in 2018 (2017: 9 601) primarily due to a two-week strike at First National Battery.

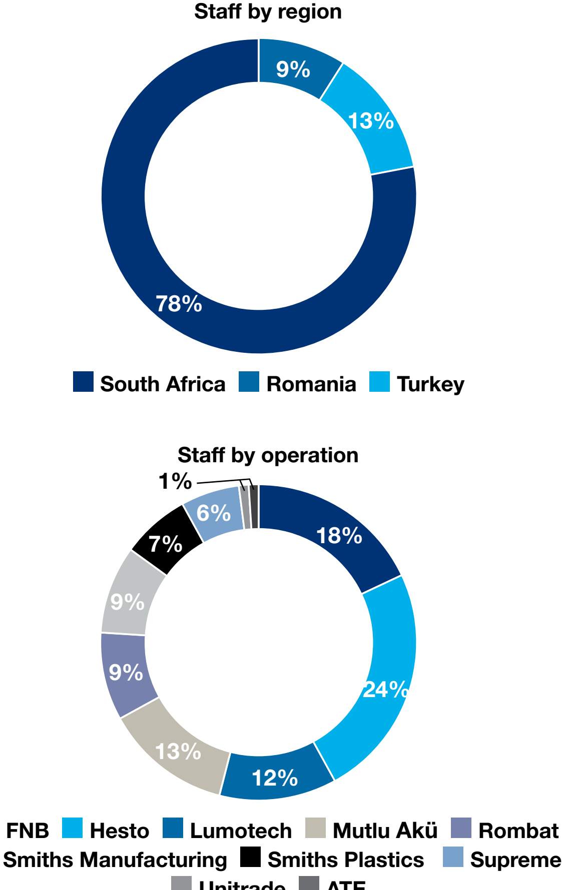
There were 76 retrenchments in the group during 2018 (2017: 99), most of which occurred at Hesto.

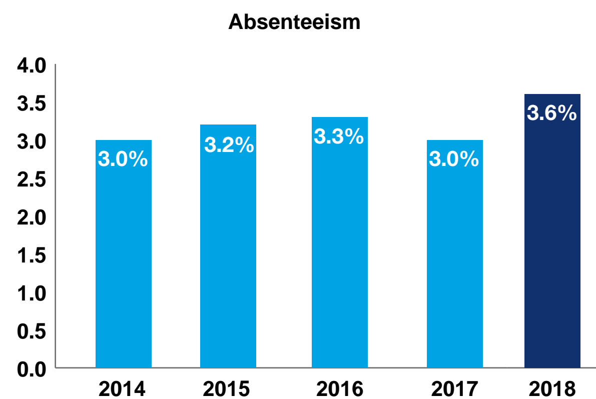
ATTRACTION, RETENTION AND DEVELOPMENT

Our goal is to be the employer of choice in our industry to ensure that we can attract and retain talented employees with the scarce technical and engineering skills we require. Metair's employee value proposition includes competitive remuneration packages, quality training programmes, practical learning opportunities and the potential for career opportunities and broader experience across the group and in our international operations.

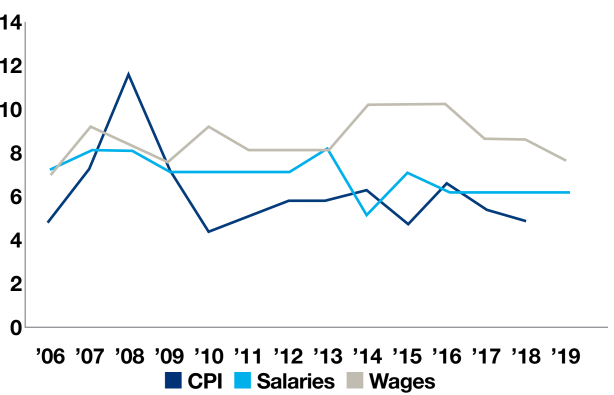
Succession planning, talent identification and talent development continue to be focus areas to ensure that the next generation of leaders and technical experts have been identified and are being developed.

Permanent staff turnover decreased to 8.9% in 2018 (2017: 11.5%) while absenteeism increased to 3.6%, above our target of 3.0% (2017: 3.0%).





Metair is committed to fair and competitive remuneration and we regularly benchmark remuneration levels to stay abreast of market trends. More information on this exercise is available on page 97. Metair has consistently increased hourly wages faster than salaried pay to help to narrow the pay gap between salaried employees and wage earners. While the average wage increase for 2019 across the group was 7.5%, the increase at First National Battery was 8% as that operation does plant level bargaining.



SKILLS DEVELOPMENT

Metair invested R23.0 million in skills development programmes in 2018 (2017: R13.9 million) and R28.2 million in total for training, which represents 1.6% of net profit after tax (2017: 1.7%). Training spend per permanent employee increased to R3 792 from R3 308 in 2017, across 26 632 training interventions. 78% of training spend in South Africa was directed to HDSA candidates in 2018.

Practical learning programmes are offered to qualifying candidates to develop a skills pipeline for future potential employment. These programmes include learnerships, apprenticeships, candidate technician internships, candidate engineers' programmes and graduate-in-training programmes. Hesto has a training school that runs an accelerated artisan training programme in collaboration with the Department of Labour and the Manufacturing, Engineering and Related Services SETA (MERSETA), and the school is accredited with MERSETA. Various operations also

run adult education and training (AET) courses and Lumotech provides for permanent employees to further their studies at a recognised college or university.

270 learners participated in non-artisan learnerships in the group in 2018 (2017: 227), 54% of whom were women. 76 new recruits participated in Metair's artisan apprenticeship programmes, including 15 women. Metair supported 266 promising students with bursaries to study in the engineering, finance and technical fields (2017: 102) at a cost of R3.0 million.

HEALTH AND SAFETY

The group safety, health and environmental (SHE) policy outlines the management of health and safety in the group and subsidiary SHE policies align. Metair's health and safety policies align with the relevant legal frameworks, including the Occupational Health and Safety Act, No. 85 of 1993.

Ten of our operations are accredited in terms of OHSAS 18001 or ISO 45001, the international health and safety standards.

Benchmark lost-time injury frequency rates (LTIFR) are set against which each subsidiary is measured. Lost-time injuries are workplace injuries that prevent an employee from returning to work the next day. Our target is zero fatalities, disabling injuries and 1.0 incidents per 200 000 person hours for lost-time incidents.

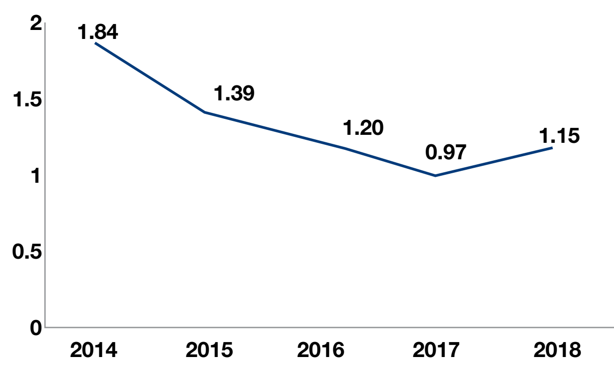
There were no fatalities at group operations in 2018 and lost time injuries increased to 107 (2017: 86). While the LTIFR has been on an improving trend over the last five years, 2018 saw an increase to 1.15 per 200 000 person hours (2017: 0.97), above our target of 1.0. The increase is mainly due to a rise in lost time injuries at First National Battery. During 2018, First National Battery delivered awareness training to safety, health and environment (SHE) representatives, conducted hazard identification and risk awareness training, introduced near miss reporting and provided ISO14001/ISO45001 awareness training.

Hesto, our largest operation by number of employees, achieved zero lost-time injuries for the second year in a row.

Common workplace injuries in the group operations include cuts, bruises, back and muscle strains and burns.

The graph on the right contextualises Metair's LTIFR against the latest reported LTIFRs of several manufacturing peers listed on the JSE.

LTIFR per 200 000 person hours



Latest reported LTIFR

Company	LTIFR
enX	2.36
Howden	0.13
Hudaco	2.46
Hulamin	0.22
Master Drilling	2.31
Metair	1.15

HAZARDOUS SUBSTANCES

Some of our manufacturing processes use potentially dangerous substances and standard health and safety procedures are applied around each such substance. These procedures comply with both local country regulations and the standards governing our OE customers in other jurisdictions.

Lead is used for the manufacture of batteries at our First National Battery, Mutlu Akü, Rombat, ABM and MOLL facilities. EU directive 2000/53/EC classifies lead as a banned substance and manufacturers are required to limit these substances in new vehicles.

Baseline blood lead level tests are performed on employees when they join companies where they might be exposed to lead. Ongoing exposure is measured through regular retesting. Blood lead above benchmark levels results in counselling for the employee and they are removed from areas where there is a chance of further exposure until their blood lead levels return to within the acceptable limits.

Maximum exposure limits to lead are set in the relevant occupational health and safety regulations in the country of operation. In South Africa, these stipulate that male employees with blood lead levels above 60 µg per 100ml, female employees above 40 µg/100ml and pregnant women must be removed from areas where they may be exposed to lead. Incidents where an employee tests above 60 µg/100ml twice must be reported to the Department of Labour. Limits in Romania, Turkey and Germany are set at 40 µg/100ml for men and 30 µg/100ml for women.

No women are employed in lead areas in any of our operations. We have set a limit of 40 µg/100ml as an 'early warning' indicator and remove employees from lead areas if they reach a blood lead level of 35 µg/100ml. At the start of 2018, there were 40 employees who tested with blood lead levels of above 40 µg/100ml and 88 new cases were identified during the year. During 2018, 115 of these cases were returned to below 40 µg/100ml and there were 13 employees with blood lead levels of 40 µg/100ml or above at year-end.

Metair's social and ethics committee has set a goal of registering no new cases above 40µg/100ml for 2019.

Human **capital** (continued)

Initiatives implemented during 2018 to improve performance include improved extraction to reduce airborne lead dust, increased training and use of personal protective equipment.

HIV/AIDS

Voluntary counselling and testing (VCT) for HIV/Aids is offered at Metair's major South African operations through company clinics. 540 employees and contractors received counselling for HIV/Aids in 2018 (2017: 408) and 882 were tested (2017: 809). Estimated HIV/Aids prevalence rates at our South African operations remain around 3%.

Several of our operations provided nutritional supplementation and vitamins for HIV positive employees. Employees who require ARVs are referred to government clinics and employees who participate in the group's medical aid programmes have access to Aids management programmes. HIV/Aids awareness campaigns include competitions, promotions, banners, speeches on wellness days and World Aids Awareness Day activities.

HUMAN RIGHTS

Metair respects the rights of our employees and those of our suppliers to freedom of association. We support the elimination of child labour, forced and compulsory labour and select our suppliers carefully to ensure that they share these ideals. We subscribe to the 10 principles of the United Nations Global Compact, which include provisions relating to human rights, the rights of labour and a commitment to working against corruption.

These principles are applied to our international operations to ensure that the rights of employees are protected at all our operations. Metair takes incidents of unfair discrimination in the company extremely seriously and these are subject to the normal disciplinary procedures, which include dismissal.

TRANSFORMATION

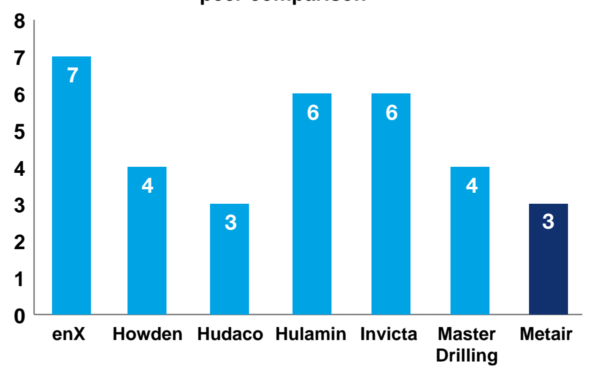
Metair appreciates the benefits of diversity and we are committed to the principles of transformation. In South Africa, a strong B-BBEE performance is a potential competitive advantage when bidding for new business and ensures relevance with suppliers, government and communities. Realising the full benefit of government support through the revised APDP will require Level 4 B-BBEE status from 2021.

The main diversity focus at Mutlu Akü and Rombat is on improving gender representation.

Metair's approach to transformation is defined in the group transformation policy and equal opportunity policy, and implementation is monitored and managed by the remuneration committee. Progress is measured using the Department of Trade and Industry B-BBEE Codes of Good Practice (dti CoGP). Executive variable remuneration includes a weighting for progress on achieving the group's B-BBEE targets.

In 2018, the Metair group was externally assessed at a Level 3 B-BBEE status on a consolidated basis. Apart from ATE, all South African operations are at or above Level 4, with two operations at Level 3, Hesto at Level 2 and Supreme Spring at Level 1.

Metair's B-BBEE performance compares favourably with that of manufacturing industry peers and Toyota South Africa recognised our progress with their 2017 Transformation award. Metair's externally verified B-BBEE certificate is available on the company website at https://www.metair.co.za



ELEMENT	TARGET	SCORE 2018	SCORE 2017	SCORE 2016	SUB-MINIMA ACHIEVED
Ownership	25	23.00	22.23	22.23	✓
Management control	19	11.29	8.47	8.48	✓
Skills development	20	20.79	17.53	19.42	✓
Enterprise and supplier development	40	34.59	35.75	30.55	✓
Socio-economic development	5	5.00	5.00	5.00	✓
Overall score	109	94.67	89.98	85.68	
BEE Contributor Level		3	4		

The main areas to improve our score are the management control and enterprise and supplier development categories. Our talent management and succession planning programmes aim to improve transformation at management level by identifying and developing promising candidates in the subsidiary companies. Enterprise and supplier development initiatives focus on developing raw material suppliers, suppliers of consumables, services and consultancy services.

OWNERSHIP

Metair benefits from the holding of the company's original empowerment shareholder partner Royal Bafokeng Holdings (RBH), who sold out of the company in 2015, through the sale/loss of share principle. We continue to assess suitable long-term empowerment partners.

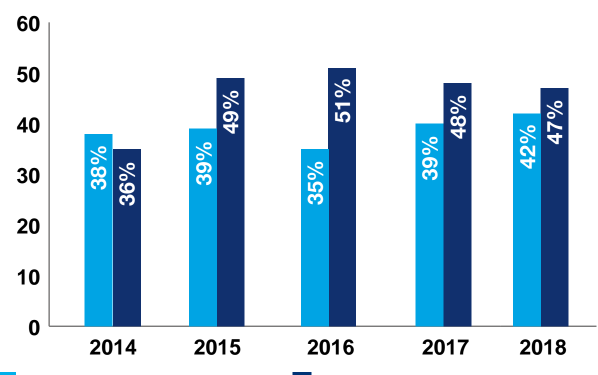
MANAGEMENT CONTROL

The remuneration committee of the board is responsible for monitoring and measuring transformation in the workforce of South African operations. Five-year employment equity plans are in place and annual employment equity reports are submitted in accordance with the Employment Equity Act. A group transformation masterplan has been developed to measure transformation against national demographics.

Transformation is supported by accelerated skills development programmes, learnerships and targeted internal and external training programmes.

Historically disadvantaged South Africans (HDSAs) comprised 91% of the total permanent workforce (excluding Mutlu Akü, Rombat and Dynamic) at the end of 2018. HDSAs in top management increased to 42% in 2018 (2017: 39%) and HDSAs in senior management reduced to 47% (2017: 48%).

HDSA in workforce (SA operations only)



SKILLS DEVELOPMENT

78% of Metair's investment in training was directed to HDSA candidates in 2018. Our skills development initiatives and metrics are discussed on page 56.

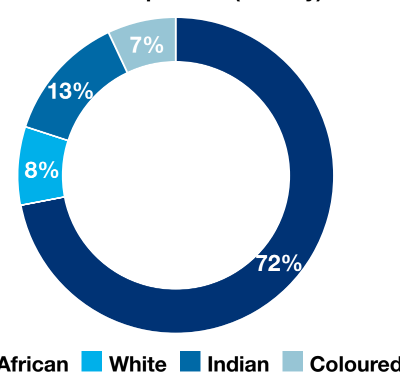
SOCIO-ECONOMIC DEVELOPMENT

Metair invested R11.2 million in socio-economic development/ corporate social investment projects in 2018 (2017: R10.1 million). Corporate social investment is discussed on page 65.

ENTERPRISE AND SUPPLIER DEVELOPMENT

Metair's South African operations support the development of black-owned businesses through specific enterprise development projects. A group procurement policy was drafted and approved by the board in 2018 and senior executive incentive calculations include preferential procurement targets.

Staff composition (SA only)



Total group preferential procurement spend in the South African operations was R1 213 million in 2018 (2017: R886 million), which represents 48.6% of total discretionary procurement spend.

Enterprise and supplier development initiatives include:

- First National Battery provides discounts to support three black-owned Battery Centres.
- Unitrade assisted a local black woman-owned supplier specialising in cleaning services by providing the company with cleaning equipment and steel materials.
- Hesto onboarded a small local black business, Mngoyiya Projects, that was manufacturing burglar guards on the side of the road. Hesto provided training, raw materials and access to tools and equipment. This enterprise graduated from our enterprise development programme to become a supplier in March 2018.
- Hesto supported a black woman-owned cleaning company, PCS Cleaning Services (PCS), to take over the cleaning at our facilities. Hesto provided training, cleaning equipment, cleaning materials and protective equipment, as well as a grant to assist with operational costs. As a result, the business has grown from 4 to 26 employees. PCS graduated into a supplier in July 2018.
- Supreme Spring supported Sigwili Projects with a separate work area and facilities. Sigwili repairs wooden pallets and liners, and manufactures work and rest benches for the change rooms and factory. Chemev is another emerging business that manufactures general and specialised paint that is being supported to open a small operation on site.
- Supreme Spring is working with Toyota to mentor Naickers Engineering and improve their facilities in line with ISO standards. Naickers manufactures steel clips for Supreme's leaf spring factory.
- In 2016, Lumotech outsourced its training function to 3D Consulting, which is run by a former employee. 3D Consulting is majority woman-owned and provides training services to both automotive and non-automotive companies. It is in the process of expanding its business to include B-BBEE consulting. It started off as an enterprise development initiative with three employees and graduated to a supplier in January 2017 and now has six employees.

Human **capital** (continued)

- ATE works with Ukuzinza business developer to support the development of two suppliers by providing laptops and training in accounting, bookkeeping and other business skills. Favourite Brands supplies ATE with cleaning products and Diepsloot Foundation is a non-profit organisation that develops young entrepreneurs with carpentry skills. These carpenters make furniture out of old wooden pallets and renovate second-hand pallets that ATE uses for in their distribution activities.
- ATE also provided Makitso Auto Services with a workshop fitted with vehicle lifts and tools to the value of R450 000. The area is currently being used for vehicle repairs for clients and to date has created three jobs. Their vision is to develop the area into a training facility for mechanics from previously disadvantaged groups. The founders have had great success with a similar model at Kgabo Cars in Garankuwa, which has been running for more than six years.
- Smiths Plastics provides free rental space to two supplier development initiatives – Vulituba (cleaning services) and Dhoda (transportation). We also support Umbono Corporate Branding Services (UCBS), a manufacturer of protective clothing. UCBS currently runs an outsourced model, but Smiths Plastics has provided funds for an embroidery machine to bring manufacture in-house, employ two to three people and improve their competitive position.
- Smiths Manufacturing identified a black supplier – Enermous – as an enterprise development project. Enermous was at the time not supplying Smiths Manufacturing, but was seen to have potential. We worked with the supplier for six months in line with Toyota Production System principles and then introduced them to Toyota South Africa. Toyota set up a joint initiative with Smiths Manufacturing and the Automotive Supply Chain Competitiveness Initiative (ASCCI). Toyota and ASCCI provided financial support while Smiths Manufacturing and ASCCI provided process improvement support. Enermous was approved by Toyota to supply Smiths Manufacturing with foam seals for parts produced for Toyota and graduated to become a supplier. Toyota South Africa awarded Smiths Manufacturing with their 2018 Enterprise Development Supplier Award in recognition of this project.
- Metair group supports the initiatives driven by the component industry representative body, the National Association of Automotive Component and Allied Manufacturers (NAACAM). Metair is engaging with NAACAM on ways to develop a new black supplier base outside of the activities already in progress at the various Metair subsidiary companies.

2019 HUMAN CAPITAL TARGETS

- Zero fatalities and reduce LTIFR to 1 or below across all companies.
- Group absenteeism to average below 3.0% (excluding contractors) across all companies.
- Maintain group training spend at a minimum of R20 million.
- At least 300 learnerships across the group.
- Maintain and improve our Level 4 B-BBEE target going forward on the new codes.
- Target zero new cases of blood lead levels above 40µg per 100ml (early warning cases).

PROGRESS AGAINST 2018 HUMAN CAPITAL TARGETS

2018 HUMAN CAPITAL TARGETS	PROGRESS IN 2018
Zero fatalities and reduce LTIFR to 1.0 or below across all companies.	Zero fatalities. Group LTIFR increased to 1.15, above our target of 1.0 for the year. Apart from ATE, First National Battery, Unitrade and Mutlu Akü, all operations achieved an LTIFR of below 1.0 and Hesto achieved two consecutive years without a lost time injury.
Absenteeism and staff attrition rate for the group to average below 3.0% (excluding contractors) across all companies.	Group absenteeism increased to 3.6%. Absenteeism at Dynamic, Hesto, Mutlu Akü, Rombat, Smiths Manufacturing and Supreme Spring exceeded 3.0%. Group staff attrition improved to 8.9% but none of the operations achieved an attrition rate below 3.0%.
Maintain group training spend at a minimum of R20 million.	Training spend for 2018 was R28.2 million.
Continue involvement in offering of learnership programmes to 300 learners group wide.	There were 346 learners across the group in 2018.
Maintain and improve our Level 4 B-BBEE target going forward on the new codes and target two companies to achieve Level 2.	Group consolidated assessment at Level 3. All companies except ATE were at Level 4 or below with Hesto achieving Level 2 and Supreme Spring achieving Level 1.

The **natural environment**

ENVIRONMENT AT A GLANCE	
Features	**2018 performance**
• Carbon footprint 594 198 tCO_2e (-6.9%)	• ISO 50001 accreditation in process ✗
• Electricity consumption 212 156 MWh (+5.4%)	• 0.1% decrease in water consumption per PHW ✗
• Water consumption 650 727m³ (+4.7%)	• 0.5% increase in energy consumption per PHW ✗
• 59% of non-hazardous waste recycled	• Two operations achieved 1% improvement in scrap ✗
• ± 64 400 tonnes of lead recycled	• Energy storage businesses improve yield by < 4% ✗
	• Scope 1 and 2 carbon emissions per PHW reduce to 9.7kgs/CO_2e ✓
PHW – Person hour worked	
Key: ✓ 2018 target achieved ✗ 2018 target not achieved	

The concept of custodianship shapes Metair's responsible approach to managing its impact on the natural environment. Our commitment to manufacturing excellence includes a focus on optimising the efficient use of scarce natural resources, minimising waste and maximising recycling, particularly the use of recycled lead which ensures that lead is managed responsibly through the battery lifecycle.

The board has mandated the social and ethics committee to monitor and report on environmental issues. At an operational level, environmental issues are managed by the safety, health and environment (SHE) departments. All subsidiaries are accredited under ISO 14001 (environmental management) and are in the process of implementing ISO 50001 (energy management).

Metair's most significant impacts on natural capital and the environment are:

- carbon emissions;
- energy consumption;
- water consumption; and
- waste produced in our manufacturing activities and recycling facilities.

CLIMATE CHANGE

Metair is committed to making a positive contribution to addressing the challenges posed by climate change. The potential direct impacts of climate change on our business include the effect of extreme weather events on distribution chains, increased risk of tooling for new projects being lost while shipped due to severe storms and increased energy costs in cooling manufacturing processes.

Greenhouse gas (GHG) emissions from transportation are a major contributor to total GHG emissions and motor vehicle emission regulations have become more restrictive, impacting the decisions and strategies of the automotive industry and our OE customers.

The lead-acid Start/Stop battery technology produced by our energy storage vertical has an important role in the short to medium term to reduce automotive emissions. Metair is currently working closely with OEMs, tertiary institutions and other stakeholders to develop the next generation of automotive energy storage technology, including lithium-ion systems, to meet the needs of OEMs as they ramp up electric vehicle production. Metair's products also include energy storage solutions for alternative power solutions including solar energy.

These products also have implications for the environment since the manufacture of energy storage solutions is energy intensive and uses substantial quantities of water. The lead in lead-acid batteries can have a significant environmental and social impact if not managed responsibly.

CARBON TAX

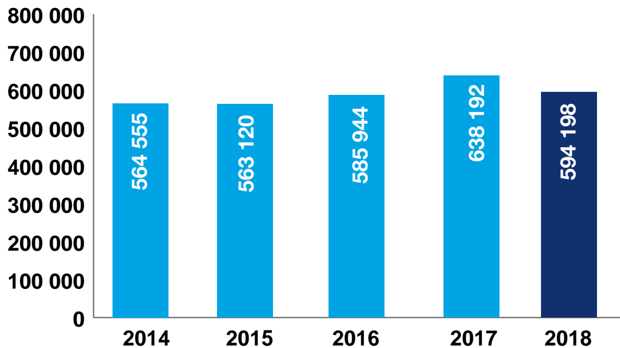
South Africa's carbon tax is scheduled to be implemented in 2019. Metair's production facilities are below the threshold emission levels in the current draft legislation, however raw material suppliers may be affected and could pass through the carbon tax to customers, and ultimately the consumer. Based on the draft legislation, we do not anticipate these pass-through cost increases to be material for the group.

CARBON FOOTPRINT

Metair's total carbon footprint decreased 6.9% to 594 198 tCO_2e in 2018 (2017: 638 192 tCO_2e). Emissions embedded in raw materials accounted for 59% of the group's total carbon footprint and electricity for 23%.

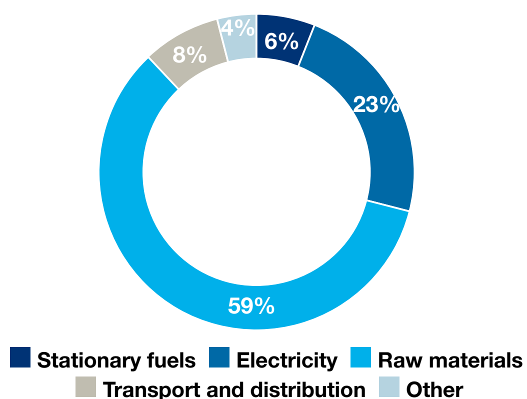
	2018	2017	2016
Scope 1 (direct emissions)	44 081	44 603	43 468
Scope 2 (indirect emissions from electricity)	135 546	138 134	141 376
Scope 3	414 571	455 455	398 100
Total	**594 198**	**638 192**	**585 944**

Total carbon emissions (tCO_2e)



The **natural environment** (continued)

2018 Carbon footprint by source



The three battery manufacturing operations – First National Battery, Rombat and Mutlu Akü – together contribute 66% to the group's total carbon footprint. This is attributable to the carbon dense materials used in manufacture and the energy intensive process.

88% of the group's carbon footprint is attributable to the consumption of raw materials, stationary fuels and electricity. Our focus on manufacturing efficiencies, including energy use and reducing the use of raw materials, is therefore the most effective means for reducing our carbon footprint.

Scope 1 and 2 emissions per person hour worked reduced 6.2% to 9.7 $kgCO_2e$ in 2018.

Metair does not currently participate in the CDP project, but we follow its guidance and may consider participating in the future.

ENERGY CONSUMPTION

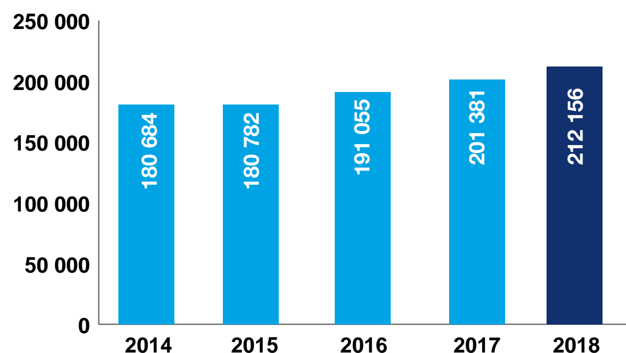
Our operations consume energy in the form of fuels, such as petrol and diesel, gases and electricity. Electricity use is monitored as a key input in both our manufacturing processes and our costings.

Recent initiatives at our operations to improve energy efficiency include:

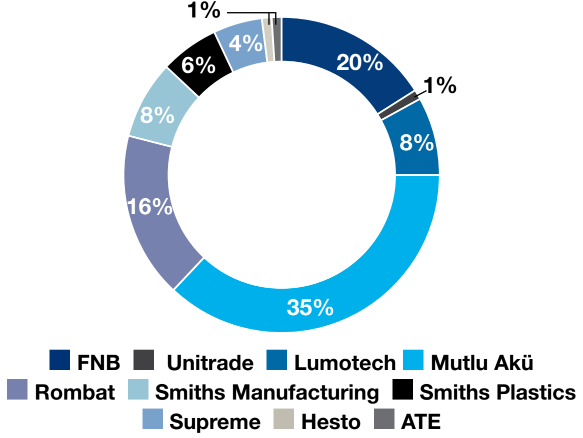
- Installing more efficient variable speed drives.
- Energy efficient lighting, increased natural lighting, daylight sensors and proximity sensors.
- Replacing cooling fans, dryers and pumps with more energy efficient alternatives.
- Resizing electrical motors.
- Installing effective metering and supporting software.
- Down-gauging of air-conditioning systems.
- Insulating injection moulding machines, cooling tanks, pipes and pumps.
- Training and awareness of staff.
- Implementation of ISO 50001 energy management systems across operations.

Total electricity consumed by the group increased 5.4% to 212 156 MWh or 763 763 Gigajoules (2017: 201 381 MWh or 724 970 GJ). Electricity consumption per person hour worked increased 0.5% to 11.42 kWh (2017: 11.36 kWh). Mutlu Akü is the largest consumer of electricity in the group, accounting for 35% of total consumption. The three battery manufacturing operations together consumed 71% of total group electricity. However, since batteries are charged before they leave the factory, around 40% of the electricity purchased by these operations is being sold in the battery, rather than used. The battery operations are therefore reporting electricity purchased, rather than electricity consumed.

Electricity consumption (MWh)



Electricity consumption by operation



Note that electricity consumption reported in this section is based on 12-month consumption data, while electricity consumption in the carbon footprint calculation may include estimates for some months and therefore may not tie back to the figures disclosed above.

We targeted implementation of the ISO 50001 energy management system across all operations in 2018. By the end of the year ATE, Rombat, Unitrade, Lumotech and Smiths Plastics were still in the process of implementing ISO 50001 with accreditation scheduled for 2019. The other operations have implemented ISO 50001.

WASTE MANAGEMENT

We aim to minimise waste from production processes as part of our efficiency initiatives and scrap reduction targets are set at each subsidiary for primary and secondary materials. The yield on lead recycling and plastic recycling percentage are tracked as measurement criteria for waste management.

We prioritise reuse or recycling wherever possible. Waste that cannot be reused or recycled is disposed of in a responsible manner and in compliance with the relevant legislation. Waste separation programmes are in place at most operations. Hazardous waste is disposed of using registered disposal companies.

The group recycled 59% of total non-hazardous waste (8 995 tonnes) in 2018, compared to 72% in 2017 (8 635 tonnes). Recycled waste was mainly in the form of externally recycled plastic and metal, wooden pallets, cardboard and internal recycling of plastics. We also recycled 52 424 litres of used oil during the year.

First National Battery is installing a pallet crusher to recycle pallets in house into combustible material for the furnace. First National Battery also started re-using crates made by Smiths Plastics instead of cardboard and realised a 60% saving in packaging per month. Other operations are engaging with customers to reduce the amount of packaging shipped with our products.

Lumotech has an initiative in place to granulate regrind material from scrap components for reuse in production as well as for sale to local and international buyers. The income generated through these sales covers the cost of the initiative and other waste management projects.

BATTERIES AND RECYCLING

Lead-acid batteries contain lead and other potentially harmful substances and these must be responsibly managed throughout the lifecycle of these products. Lead-acid batteries are nearly 100% recyclable and customers are incentivised to return old batteries when buying new ones. Each of our battery manufacturers has a recycling plant and the yield on lead recycling has a material impact on profitability at these operations given the high price of virgin lead. Recycled lead is not only cheaper to access, it also saves energy and reduces emissions as it uses around a third of the energy needed to produce virgin lead from ore.

Lead is extracted from the battery plates and terminals of old batteries, refined and blended to produce high-quality lead alloys for new batteries. Plastic from the battery casings is recycled into new battery casings and the battery acid is neutralised and processed through an effluent plant. During 2018 the group recycled around 64 400 (2017: 67 000) tonnes of lead.

We are currently redesigning our range of batteries to reduce the amount of lead used while retaining performance, which will lead to substantial savings.

WATER CONSUMPTION

Water is a scarce and precious resource, particularly in South Africa, and we aim to improve the efficiency with which we use water. The battery formation process requires large quantities of water and the battery manufacturing operations account for 73% of total group withdrawal. In 2018, total water withdrawal increased 4.7% to 650 727m^3 (2017: 621 330 m^3). Group water consumption per person hour worked reduced slightly to 35.0 litres (2017: 35.1 litres).

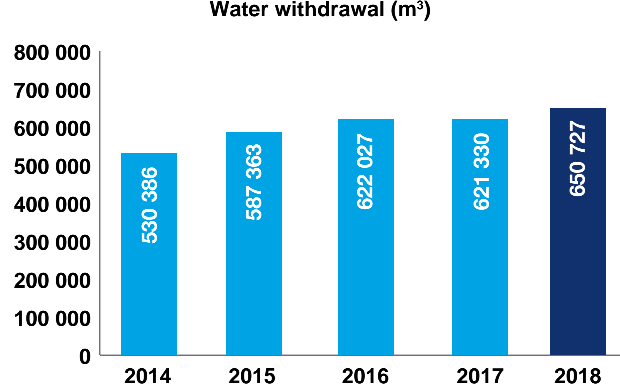
Water is withdrawn from municipal sources and boreholes. Municipally supplied water is measured from municipal meter readings, corroborated by readings from internal meters where these have been installed. Borehole water is measured through internal meter readings.

Various water saving initiatives are in place at operations including:

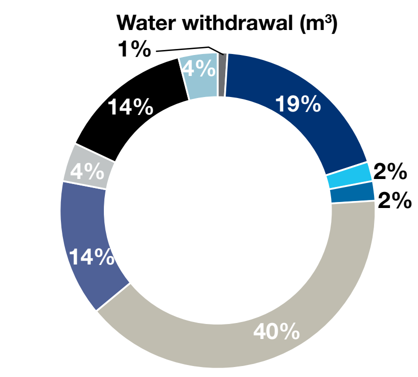
- Rainwater harvesting at First National Battery, Smiths Manufacturing and Lumotech.
- Smiths Manufacturing uses a reverse osmosis water purification plant to recycle and recover 90% of the water used in the wet fluxing and evaporation coating processes.
- Supreme Spring installed a new effluent treatment system which significantly improved the quality of treated water and generated water savings.
- Lumotech started collecting used water from their cooling tower during monthly services for reuse.
- Leak identification and repair.
- Training and awareness initiatives.

Metair does not currently participate in the CDP water programme, but does follow its guidance.

Water withdrawal (m^3)



The **natural environment** (continued)



ENVIRONMENTAL COMPLIANCE AND IMPACT

Environmental policies and processes are in place at our operations to ensure compliance to local environmental requirements. The stringent environmental laws in Europe and Japan that apply to our OEM customers also apply to the components we manufacture that are used to make their vehicles. We therefore have to ensure that we clearly understand and closely monitor the material makeup and environmental impact of our products and their constituents. Industry initiatives such as the Global Automotive Stakeholder Group focus attention on the environmental impacts of substances in automotive parts.

End of vehicle life regulations, such as the end-of-life vehicles directive in the EU and similar legislation in Japan, the US and other countries, are driving the reduction of waste arising from end-of-life vehicles. Metair has limited ability to reclaim products or packaging from end users because our OE products end up as components in vehicles that may be manufactured in, or exported to, other countries.

Environmental protection expenditure totalled R6.6 million in 2017 and 2018.

	2018	2017	2016	2015
Waste disposal, emissions treatment and remediation costs	R5.6m	R4.4m	R1.4m	R5.9m
Prevention and environmental management costs	R1.0m	R2.2m	R3.0m	R0.4m

2019 ENVIRONMENTAL TARGETS

- All companies to target achievement of ISO 50001 accreditation by the end of 2019.
- Target a 2% improvement in the consumption of water per person hour worked (PHW) across all companies.
- Reduce total energy consumption by reducing electricity consumption per PHW by 5% by December 2019.
- Target 1% improvement on site specific production scrap percentages across all companies.
- Energy storage businesses to improve yield at recycling facilities by 2%, especially at lead recycling facilities.
- Sustain Scope 1 and 2 emissions per PHW worked below 10 kgs CO_2e/PHW.

PROGRESS ON 2018 ENVIRONMENTAL TARGETS

2018 ENVIRONMENTAL TARGETS	PROGRESS IN 2018
All companies to target achievement of ISO 50001 accreditation (energy management) by the end of 2018.	ATE, Rombat, Unitrade, Lumotech and Smiths Plastics are in the process of implementing ISO 50001 with accreditation planned for 2019. All other operations are accredited.
Target a 2% improvement in consumption of water per person hour worked (PHW) across all companies.	Group water consumption per PHW remained stable year on year. Six operations achieved a 2% improvement.
Reduce total energy consumption by reducing electricity consumption per PHW by 5% by December 2018.	Group electricity consumption increased 0.5% per PHW. Four operations achieved savings of 5% or greater.
Target 1% improvement on site specific production scrap percentages across all companies.	Two operations achieved a 1% improvement in scrap.
Energy storage businesses to catch up backlog in yield improvement to 2% and improve yield at recycling facilities by 2% especially at lead recycling facilities.	Yield improved at all energy storage businesses, but by less than the targeted 4%.
Reduce Scope 1 and 2 emissions per PHW to below 10 kgs CO_2e/PHW.	Scope 1 and 2 emissions per PHW decreased to 9.7 kgs CO_2e.

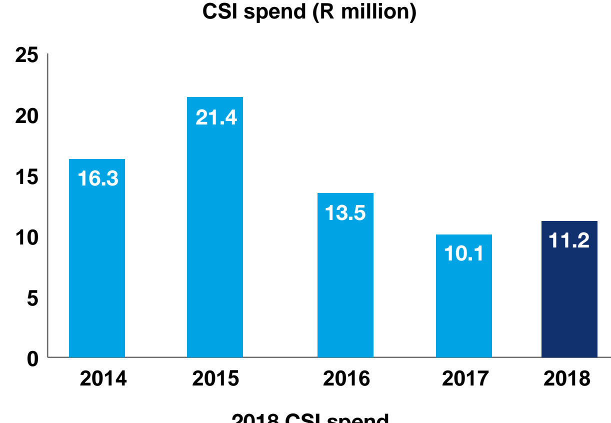
Corporate **social investment**

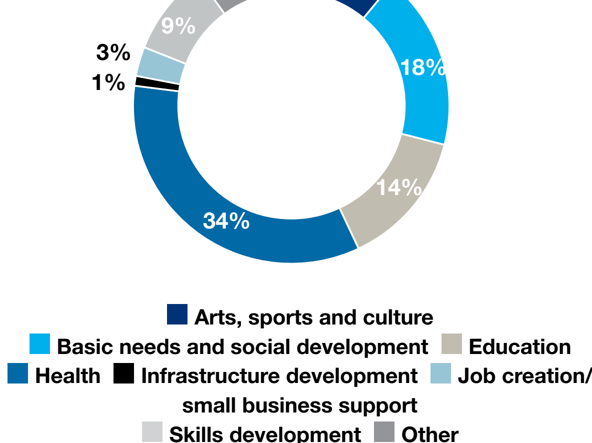
Metair contributes to the upliftment of society through its corporate social investment programmes, which contribute to the socio-economic development of the communities around our operations. Each operating company allocates 1% of net profit after tax to various initiatives in their host communities. At group level, a further 1% of group net profit after tax is allocated to community projects.

The projects we support aim to develop and uplift community members, and to increase skills in local communities, with an emphasis on addressing pressing health issues and improving facilities and tuition at schools.

Corporate social investment increased 10.9% to R11.2 million in 2018. Initiatives supported during the year included:

- First National Battery supported ITEC, which addresses the literacy gap within the pre-school, foundation and intermediate phases of schooling as well as adults. ITEC reached 235 adults and 7 087 children during 2018.
- First National Battery also supported the Read Education Trust which provides reading material to ten rural schools in Butterworth.
- First National Battery made a donation to Masithethe Counselling Services towards the refurbishment of two additional counselling rooms.
- First National Battery assisted RoundAbout Water Solution with the maintenance of "PlayPump" water pumps at schools in rural areas. Many of the schools have used the water to establish vegetable gardens to improve nutrition in the school children and improve school attendance.
- ATE supports Oliver's House to provide education and food to pre-school boys and girls. The company also donated funds to S.A.M.E, which assists African female learners focussing on Maths and Science for girls from Grade 10.
- ATE supplied tooling, equipment and mentorship to Makitso Cars, a training facility for young African mechanics.
- Unitrade provided extra classes in Maths and Physical Science to 20 Grade 10 learners from two local schools.
- Hesto donated a computer centre to Nkosi Albert Luthuli Secondary School and supported community and governing body participation. The matric pass rate at the school improved by over 40% in 2018.
- Hesto also donated wheelchairs to disabled residents of KwaDukuza at a Mayoral event.
- Supreme Springs has adopted Tandi Eleanor Sibeko Secondary School and assisted them with classroom furniture in 2018.
- Lumotech supported We Care, a feeding scheme, Unity for Africa, an educational programme and sponsored a psychologist for Jubilee Park School.
- Smiths Manufacturing supported 13 NPOs in healthcare, caregiving and feeding schemes. Approximately 434 students from Grade R to Grade 3 at Oceanview Primary in Chatsworth benefited from a library programme.
- Smiths Manufacturing provided a new science laboratory to Mariannpark Primary School, benefitting approximately 1 306 school children.
- Metair head office sponsored one of our directors to run the Comrades Marathon with the money raised going to fund aspiring Chartered Accountants from previously disadvantaged backgrounds.





Employees from various operations volunteer their time to support local community programmes, either as part of the Mandela Day initiative or on an ad-hoc basis. On Mandela Day 2018, Hesto staff organised a party for the children of Othandweni Children care centre, Supreme Springs staff celebrated with the senior citizens of the Duduza-Tshwaranang Old Age and Day Care Centre, and the Smiths Manufacturing CSI Committee and executive members made and delivered sandwiches to two old age homes.

Progress on 2018 CSI target:

2018 CSI TARGET	PROGRESS IN 2018
1% of net profit spent on CSI projects. Within our targeted spend we would like to increase our focus on education and reading improvement projects.	R11.2 million was invested in CSI initiatives during 2018, which is 1.6% of net profit. Health initiatives comprised 34% of total CSI spend and education projects 14%.

2019 CSI TARGET

- 1% of net profit spent on CSI projects. Within our targeted spend we would like to increase our focus on projects that benefit people living with disabilities.

SMITHS **MANUFACTURING**

Smiths Manufacturing supports the University of KwaZulu Natal's Disability Support Unit, which improves access for students with disabilities. This support includes assistance to move around campus, providing study aids that facilitate the learning process, including translating books into braille or voice recording books. The unit also ensures that special learning areas are made available that are designed for people with disabilities so that they do not have to compete for facilities in the learning areas for abled students.

The Disability Support Unit at UKZN supports more than 700 students with diverse disabilities at the institution, including around 250 visually impaired people, of whom nearly 40 are totally blind.

In 2018, Smiths Manufacturing donated innovative assistive technologies to support access and social inclusion for visually impaired persons, including Smart Canes and improvements to the computer lab. The Smart Cane is a mobility aid for people with visual impairments that supports the greater independence and safety of visually impaired persons both on and off campus. It fits onto a standard white cane and detects above-knee height obstacles that cannot usually be detected with a cane by using ultrasonic sensors and providing information on distance to users through distinctive vibratory patterns.

Smiths Manufacturing has a programme to improve opportunities for hearing impaired people. The assembly lines at our operations provide an environment that poses minimal safety risk for hearing impaired employees and specific safe evacuation procedures have been created in the event of an emergency.

There are currently six hearing impaired employees in the company, all of whom are black and two of whom are women. Smiths Manufacturing has partnered with eDeaf, a training company that supports the social and economic empowerment of the deaf community, to prepare these employees for higher responsibility by providing enhanced education through the adult education and training (AET) programme. These employees completed AET level 1 and 2 in previous years, and completed level 3 in 2018. Completion of the training programme opens up opportunities for promotion into positions in warehousing, linefeeding, quality and mechanical settings.

As part of the programme, learnerships were offered to 10 unemployed deaf learners, all of whom are black and eight of whom are women. Completion of the programme provides the learners with the minimum qualifications required to enter Smiths Manufacturing as operators.

ROMBAT

Since 2002, Rombat has supported Fundatia Bucurie (The Joy Foundation) in Bistrita, Romania. Fundatia Bucurie is a non-profit, non-governmental foundation that provides psychological counseling, daytime accommodation and community reintegration for young people between 18 and 26 years with disabilities. The foundation currently supports ten children and Rombat's donation provides a meal for the children every weekday.

Governance

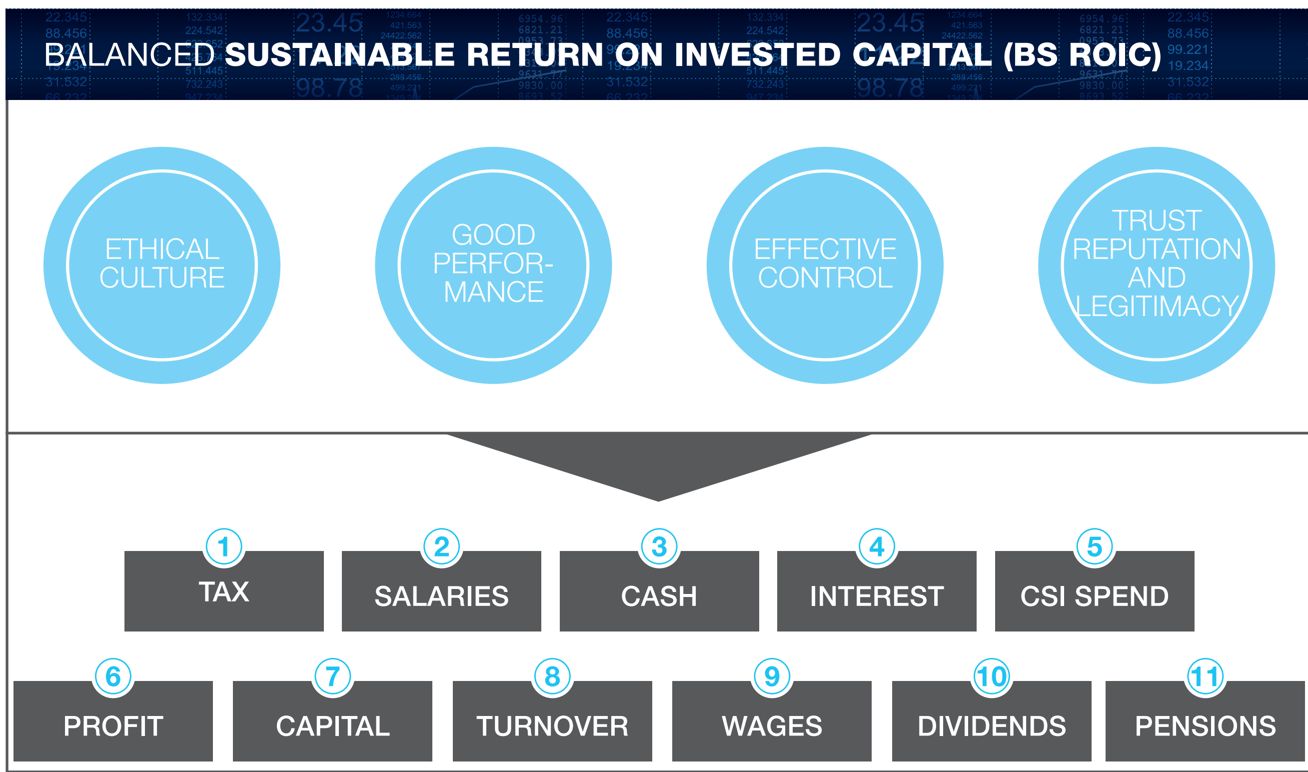
GOVERNANCE REPORT

To achieve a balanced sustainable return on invested capital (BS ROIC) as this year's theme indicates, Metair and the board of directors (board) base the business and decision making on exceptional leadership and good governance to provide sound oversight for running, growing, guiding and controlling the business. A full description of the cover image and the theme can be found on page 2.

CORPORATE GOVERNANCE OUTCOMES

The following outcomes are interlinked and referred to throughout this integrated annual report:

ETHICAL AND EFFECTIVE LEADERSHIP AND CORPORATE CITIZENSHIP



The board is ultimately responsible for leading the group in an ethical and effective manner. The board members perform their duties by collectively and individually applying integrity, competence, responsibility, accountability, fairness and transparency to provide strategic direction. This results in the achievement of the group's strategic objectives and positive outcomes (refer to the strategy section on page 23). The board charter sets out the board's roles and responsibilities, the requirements for its composition and meeting procedures, and aims to ensure the board performs its role of ensuring proper and efficient performance of the company's functions within an environment of sound corporate governance. A copy of the board charter can be found on the company's website, http://www.metair.co.za/sustainability/policies-and-reports/

In a very challenging environment, two requirements remain constant – sound business principles and competent motivated people. More specifically, challenging conditions call for quality, motivated leadership and an organisational focus on leadership development and talent management. The foundation of Metair's business is not only built by design, but also on principles that include respect for people and the environment, and ethical and effective leadership. We operate in a fast and continually changing environment, and our strong roots in sound principles align with a culture that stimulates creativity and innovation to ensure that we can adapt quickly and align with new trends, requirements and expectations.

The board continues to provide effective leadership based on a foundation of high ethical standards. Our golden rule is always to reflect the truth in all oral and written communications. The group is committed to a policy of fair dealing and integrity in the conduct of its business, based on our fundamental belief that business should be conducted honestly, fairly, legally and transparently. All employees are required to share the group's commitment to high moral and ethical standards, and to adhere to all legal requirements. The core principle of the group's code of conduct is the ethical culture that exhorts all employees to be exemplary custodians in their areas of responsibility in their workplace, home, community, country and the world. A copy of the code of conduct can be found on the company's website, http://www.metair.co.za/sustainability/policies-and-reports/

Governance (continued)

The group has an anonymous whistleblowing programme, covering all subsidiaries, through which employees can report any unethical behaviour without fear of being victimised.

The board and management recognise that the group is not only an economic entity but also a corporate citizen and, as such, it has social and moral responsibilities to society. The group's code of conduct incorporates corporate citizenship and ethical leadership policies. The board, assisted by the social and ethics committee and subsidiary management, oversees and monitors the operations and activities of the group to ensure that the companies remain good corporate citizens. This integrated annual report details the group's progress against sustainability targets in all the capitals. The group is involved in a number of corporate social investment projects which are discussed in the corporate social investment section of this integrated annual report.

The board ensures that the company's ethics are managed effectively. Training, awareness programmes and procurement workshops were held during the year to enhance the company's ethics management.

The core principle of the social and ethics framework is custodianship and the core values are unity, harmony, equality, respect for human dignity and doing what is right, fair, reasonable, lawful and just.

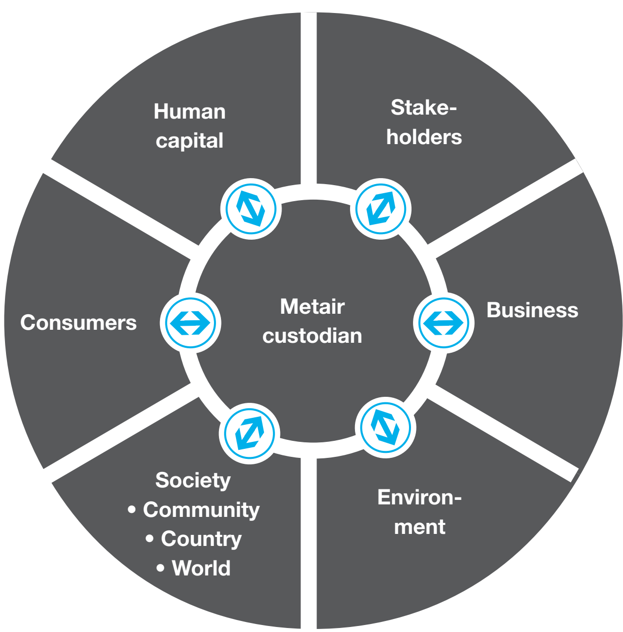
The word custodian comes from the Latin word 'Custos' meaning a 'guardian'. Being a custodian refers to a person who is responsible for taking care of, protecting and looking after something. The aim is to inspire all employees to strive to be exemplary custodians in their area of responsibility at the workplace, in their home, community, country and world. This applies to all levels of the organisation from the least skilled employee to the chief executive officer, each making a different but invaluable contribution to the success of the business.

Being a custodian has the built-in notion that as individuals we have an important role to play in a bigger longer-term plan and that it is not the size of the role that matters but rather how well one performs one's role.

Custodianship encompasses the key elements of long-term sustainability and continuity. It elevates the focus beyond

individual or personal interests to build a sustainable legacy while recognising the broad responsibilities we have as corporate citizens to our stakeholders, and in so doing contributes to the development of our society.

Metair's social and ethics framework is therefore designed around the concept of being an excellent guardian of:



The responsibility arising from being a custodian also requires accountability, and thus evaluation against the measures set for attaining excellence.

Metair's social and ethics framework is the soft thread that runs through the business that is intertwined with the hard threads associated with manufacturing, marketing and financial performance. Reporting on these annually, we are guided by the group's corporate image and theme.

Past themes of the annual reports include:

- Transformation
- Transparency
- Balance
- Measure
- Adjust
- Reflection
- Growing an international footprint
- Excellence through brands
- Creativity and innovation
- Our people
- Our environment

These themes and the 2018 theme focusing on balanced sustainable return on invested capital (BS ROIC), based on the increasing expectations of shareholders and balancing all stakeholder requirements, provide the specific focal points for the social and ethics framework going forward.

Refer to the social and ethics committee section of this integrated annual report for more information.

GOVERNANCE FRAMEWORK

The board is the principal decision maker, supported by the various committees and executive management. The board is responsible for the strategic direction of the group, assisted by the chief executive officer and the chief financial officer, who set the strategy in conjunction with the board. The chief executive officer and the chief financial officer are responsible for leading the implementation and execution of the approved strategy, policy and operational planning, and serve as the principal link between management and the board.

Both the chief executive officer and the chief financial officer report to the board. Executive management is responsible for the day-to-day management of the company, assisted by executive management teams for each of the autonomously run subsidiaries. The board is accountable to all stakeholders. The board also appreciates that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

The main focus areas of the group's governance framework are:

- Metair's vision and strategy
- Corporate responsibility and ethics
- Risk management
- Sustainability
- Cost, delivery, quality and competitiveness
- Health, safety and the environment
- Finance – budgets and forecasts
- Wellness of employees
- Being a supplier of choice

The board is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities.

METAIR GOVERNANCE STATEMENT

Metair defines governance as the system we designed to direct, grow and control our business. We continuously challenge our approach, design and application in this area. This requires a balanced focus on performance and conformance, bearing all stakeholder interests in mind.

CORPORATE GOVERNANCE COMPLIANCE

The audit and risk committee performs an annual review to ensure that the group applies the principles and recommended practices of the King IV Report on Corporate Governance for South Africa, 2016 (King IV™) and that it complies with the highest standards of corporate governance. This review identifies areas for improvement or ways in which our governance practices could be enhanced.

The group complied with the principles of King IV™ during the 2018 financial year and continues to strive to improve on the application of the recommended practices in our governance systems, processes and procedures.

The group ensures that it complies with all applicable laws and regulations in each jurisdiction in which it operates, including, where applicable, non-binding rules, codes and standards. The group complies with the JSE Limited Listings Requirements (JSE Listings Requirements) by fulfilling its obligations such as advising the JSE and publishing on SENS, inter alia, the resignation and appointment of directors, any share dealings by directors, details of corporate actions that may lead to a material movement in the share price and publishing interim and annual reports. The company secretary and sponsor are responsible for assisting the board in monitoring compliance with relevant legislation including the JSE Listings Requirements. The company's sponsor is One Capital Sponsor Services (Pty) Limited (One Capital).

Compliance reports were compiled during the year and these were included in the meeting packs for the audit and risk committee as well as the social and ethics committee meetings. These reports also included changes and developments in various matters in the compliance sphere. The aim of these reports is to keep the committee members abreast of developments in legislation, the JSE Listings Requirements and general compliance trends in the industry. The key legal compliance risks identified this year were laws relating to competition, safety, health and the environment, and these will form part of management's focus in the ensuing year.

THE BOARD

The board functions in accordance with a formal charter and its responsibilities and duties as provided in the company's memorandum of incorporation. The charter is reviewed annually to ensure relevance and is updated if necessary. The board is satisfied that it discharged its duties and responsibilities in relation to its charter during the year. The key roles and responsibilities as set out in the charter are to:

- Act as the focal point for, and custodian of, corporate governance;
- Comply with King IV™ except to the extent agreed to by the board;
- Steer and set strategic direction with regards to the company's strategy;
- Approve policy and planning that gives effect to the strategy and set the direction of the company;

Design principles

Collective system	Autonomous subsidiaries	Annual MD's conference	Inputs	Outputs	
• Group marketing conference – Interpretation of the market and market excellence • Group finance conference – Financial and commercial drivers • Group technical conference – Technology shifts • Group manufacturing conference – Manufacturing excellence • Group HR conference – Human capital optimisation • Group purchasing conference – Sourcing strategies	• KPIs • Budgets • Forecasts	• All MDs • Metair board • Specialists	• Shareholder expectations • Operational overviews • Strategic overviews • Technology trends • Proposed budget • Proposed KPIs • Proposed capital expenditure • Proposed return matrix	• Final KPIs • Budgets • Targets • Capital expenditure • Group objectives • Annual performance expectation letters	**Institutionalised system (bigger than any one person)**

- Ensure accountability for the company's performance by means of, among others, reporting and disclosure;
- Oversee and monitor implementation and execution of strategic and operational plans by management against agreed performance measurements and targets;
- Appreciate that strategy, risk and opportunity, the business model, performance and sustainable development are inseparable to the value creation process and to give effect to this;
- Be alert to the general viability of the company with regard to its reliance and effects on the capitals, its solvency and liquidity, and its status as an ongoing concern;
- Provide ethical and effective leadership to achieve an ethical culture, good performance, effective control and legitimacy;
- Ensure that the company is and is seen to be a responsible corporate citizen;
- Ensure that the company's ethics are managed effectively to establish an ethical culture;
- Ensure that reports issued by the company enable stakeholders to make informed assessments of the company's performance and its short-, medium- and long-term prospects;
- Ensure that the company has an effective and independent audit and risk committee;
- Be responsible for the governance of risk to support the company in setting and achieving its strategic objectives;
- Be responsible for technology and information governance that supports the company in setting and achieving its strategic objectives;
- Ensure that, in the countries in which the company operates, the company complies with applicable laws and considers adherence to non-binding rules and standards;
- Ensure that the company has an effective and compliant remuneration committee;
- Ensure that the company remunerates fairly, responsibly and transparently;
- Ensure that the execution of the remuneration policy achieves its objectives;
- Ensure that the company has an effective and compliant social and ethics committee;
- Appreciate that stakeholders' perceptions affect the company's reputation, and adopt a stakeholder-inclusive approach;
- Ensure that the company has an effective stakeholder management framework;
- Set direction on how reporting will be approached and conducted;
- Act in the best interests of the company at all times;
- Commence business rescue proceedings as soon as the company is financially distressed;
- Elect a chairman of the board that is an independent non-executive director; and
- Appoint and evaluate the performance of the chief executive officer.

As at 31 December 2018, the board comprised eight directors, of whom two were executive directors (the chief executive officer and the chief financial officer) and six were independent non-executive directors (one being the chairman). In terms of the memorandum of incorporation, the board shall consist of a minimum of five directors and a maximum of 15 directors depending on the proper constitution of the board and all committees. The average age of directors is 53.6 years and the average length of service is 5.1 years. No employees aside from the executive directors are deemed to be prescribed officers. Mr JG Best was appointed as lead independent director on 30 November 2018 and will act in this capacity until 2 May 2019.

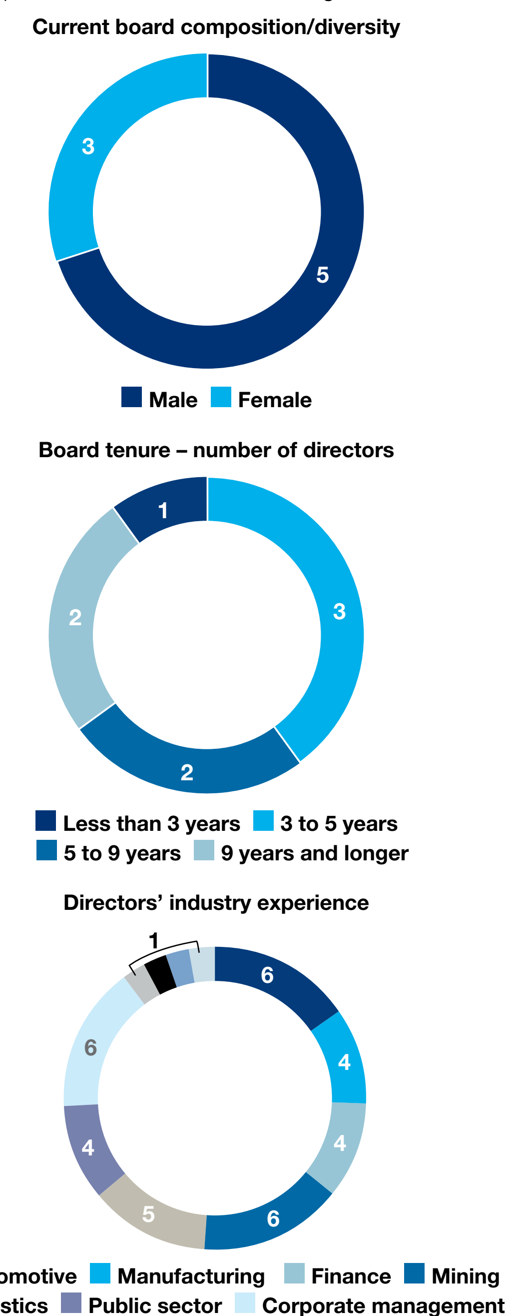
Messrs Broadley and Soanes retired from the board, with effect from 31 December 2018. Mr Best retires as a director from the board, in accordance with the provisions of the company's Memorandum of Incorporation, and informed the board that he will not offer himself for re-election and will accordingly retire as a director of the company at the annual general meeting on 2 May 2019, as a result of relocating to Ireland. The nominations committee is currently performing a recruitment exercise to balance the board's knowledge, skills and experience with a special focus on manufacturing expertise. Some appointments were made to the board and its committees in March 2019, and the newly appointed board members will accordingly retire and offer themselves for re-election by the shareholders at the annual general meeting. Mr S Sithole was appointed as an independent non-executive director to the board with effect from 1 March 2019 and a member of the remuneration and nominations committees with effect from 2 May 2019. Mr CMD Flemming was appointed as an independent non-executive director to the board, with effect from 1 March 2019 and the chairman of the audit and risk committee, with effect from the conclusion of the annual general meeting, replacing Mr Best. Mr Flemming's appointment as chairman of the audit and risk committee is subject to shareholder approval at the annual general meeting. Mr TP Moeketsi was appointed as an independent non-executive director to the board with effect from 1 March 2019 and member of the investment committee with effect from 2 May 2019. Mr B Mawasha, an independent non-executive director, will serve as chairman of the investment committee and member of the nominations committee and will no longer serve on the remuneration committee with effect from 2 May 2019. A board member with manufacturing expertise is still sought. The chairman will appoint a lead independent director in due course.

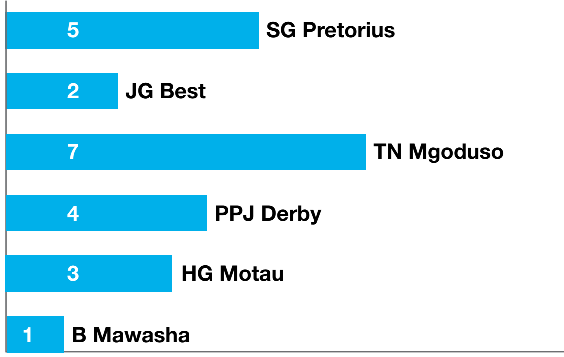
The process of nomination, election and ultimately the appointment of directors is conducted in a formal and transparent manner and ethical standards are always adhered to. All candidates identified as possible board members are requested to provide the board with details of their current professional commitments and a statement that confirms that the candidate has sufficient time available to fulfil the responsibilities of a non-executive director.

In terms of the memorandum of incorporation, all new directors appointed to the board since the previous annual general meeting, as well as one-third of the existing non-executive directors, are required to retire, but may offer themselves for re-election. Nominations for re-election are considered by taking into account the director's performance, including attendance at board and committee meetings. The board supports the re-election of board members as contained in the notice of the annual general meeting and brief curriculum vitae are

included in the directors and officers section of this integrated annual report.

When appointing new directors, the board takes into account gender and racial representation to address the historical imbalances at this level. The diverse composition of the board enhances the knowledge, skills, experience, independence, diversity and effectiveness of the board, as well as ensuring that the board reflects the context in which the company operates. The policy to encourage and foster gender and racial diversity at board level includes the intention of the company to have at least three female board members and one third of the board members being black people (as defined in the Broad-Based Black Economic Empowerment Act, No. 53 of 2003), wherever possible. Metair achieved this target in 2018.





Metair believes that the board composition creates an environment which supports executives in executing their roles while remaining motivated, thus ensuring Metair's sustainability.

The board meets at least once a quarter and is responsible for strategic direction, policy decisions and control of the company, through, among other activities, the approval of budgets and the monitoring of group performance. Meeting dates are communicated to the board on a meeting plan and are normally agreed to by the end of the preceding year or at the beginning of the current year. Agenda items for each meeting are carefully planned and put together by the company secretary in conjunction with the chairman and the executive directors. Other non-executive directors also have an opportunity to add to the agenda. Detailed meeting packs are prepared and sent out to the board at least one week before meeting dates to enable board members to prepare for the meeting.

The independent board members meet at least once per annum for a non-executive directors' meeting to discuss matters without executive management being present. Non-executive directors can request documentation from or set up meetings with management as required.

The self-evaluation process was revised and improved during the year and is coordinated by the company secretary. The results of the self-evaluation were noted at the board meeting in November 2018. A full discussion of the results will be held at the next board meeting in March 2019. The results indicate that the board is functioning well with some areas that require improvement. The self-evaluation process is coordinated and repeated annually to assess the functioning of the board and to track progress on areas requiring improvement. The independent board was also individually evaluated by the chairman and the chairman was evaluated by the lead independent director as discussed on page 87. Executive directors are evaluated through a detailed performance assessment process. The results indicate that the board is properly constituted. Individual independent board assessments were done in addition to the board self-evaluation process and will be repeated on a bi-annual basis. Executives are evaluated annually.

An externally facilitated performance evaluation was not performed this year as the board decided to first appoint new

board members as a result of the retirement of Messrs Broadley and Soanes and the resignation of Mr Best with effect from the annual general meeting in May 2019. Thereafter the newly appointed board members will be given time to settle in before the evaluation is performed. The external board evaluation is therefore planned for the latter part of 2019. Going forward, we plan to conduct an externally facilitated board evaluation of individual board members once every two years.

Feedback on areas that the board identified last year that required improvement during 2018:

AREAS IDENTIFIED THAT REQUIRED IMPROVEMENT	ACTION TAKEN AND FEEDBACK
Succession planning.	Significant emphasis has been placed on succession planning during the year. A group-wide human resource (HR) conference was held in May 2018 with a follow up in July 2018 to focus the group on various issues such as talent management, stakeholder engagement, culture and succession planning, and looking at standardisation where possible. A group HR representative has been appointed to lead the group with the implementation of everything that has been identified.
More informal interaction with the next level of potential young executives.	This item is included in the group HR division's interaction and focus items with subsidiaries.
Managing the timing of board discussions to ensure sufficient time, attention and effort is afforded to key topics.	The chairman directs board discussions and timing, and continuously strives to improve.
Dedicating sufficient time to matters of strategic importance.	A separate strategy conference was held on 28 January 2019 facilitated by Modularity.
Board evaluation – the chairman to evaluate other board members in addition to the normal self-evaluation process.	Individual board assessments were conducted in February 2019.

The board identified the following areas that require improvement and these items have been put on the action list for 2019:

- Further independent board interaction with the market and shareholders.
- Standalone strategy sessions.
- Robust discussion on the effectiveness of sub-committees.
- Ensure capital expenditure meets budget objectives.

The chairman reviewed the chief executive officer's performance against agreed performance measures and targets, and this was discussed by the board at the November 2018 board meeting. The board confirmed that they were satisfied that the chief executive officer carried out his duties with due care, skill and diligence. The board expressed their sincere appreciation and support for the dedication, commitment and high quality of work delivered by the chief executive officer and his management team.

The board is satisfied that the evaluation process supports continued improvement in the company's performance and effectiveness.

The board reviews and approves the board charter annually. The charter was approved at the November 2018 board meeting. The company also has a policy that evidences a clear division of responsibilities at board level to ensure balance of power and authority which includes the roles and functions of the chairman and the chief executive officer. A copy of the policy can be found on the company's website. In line with King IV™, the chief executive officer may not become the chair of the board until three complete years have passed after the end of his tenure as executive.

Board members are required to regularly declare any shareholding and any interest they might have in transactions with the group. Board members are also required to declare any conflict of interest in respect of any matters on the agenda at board or committee meetings. The board, together with the chief executive officer, will agree on whether the chief executive officer may take up additional professional positions, including membership of other governing bodies, outside of Metair. Time constraints and potential conflicts of interest will be considered and balanced against the opportunity for professional development.

The board confirmed the independence of the non-executive directors and specifically reviewed the independence of the director whose tenure is nine years or longer, Mr Best. The board is of the view that Mr Best is still independent despite his tenure being in excess of nine years.

Directors' attendance at board and committee meetings during the year are shown in the table on page 74.

The chief executive officer's employment contract stipulates a two-month notice period.

Metair executive directors participated in the Metair Investments Limited 2009 Share Plan during the year. Proceeds on the vesting of the shares are disclosed in note 3 of the annual financial statements and further details on allocations to the Metair executive directors are disclosed in note 26.1 of the annual financial statements.

Governance (continued)

Board training is scheduled annually on topical subjects by external and internal trainers. During 2018 the following training programmes were delivered:

TRAINING PROVIDER	TRAINING TOPIC
EQinAction – Avril Kidd	Self-awareness
KPMG – Anton de Bruyn and Satardien Fawaaz	Anti-competitive behaviour and how it should be enforced and handled from a board perspective
The Digital Law Company – Emma Sadleir	Legal, disciplinary and reputational risks of social media

An independent board shareholder roadshow was held in August 2018 in Johannesburg and Cape Town. The shareholder concerns that were raised during the roadshow are addressed throughout the integrated annual report.

SUBSIDIARY AND DIVISIONAL BOARDS

In line with the decentralised nature of the group's operations, subsidiary and divisional boards manage their day-to-day affairs within their areas of responsibility, according to Metair board-approved authority limits. The Metair board remuneration committee approves and the Metair board ratifies appointments to the boards of major subsidiaries. A governance framework, including strategic objectives of the framework, has been agreed between the group and its subsidiary boards.

	BOARD	AUDIT AND RISK COMMITTEE	SOCIAL AND ETHICS COMMITTEE	REMUNERATION COMMITTEE	INVESTMENT COMMITTEE	IT STEERING COMMITTEE	OVERALL ATTENDANCE#
Number of meetings	**6**	**4**	**3**	**6**	**2**	**1**	
SG Pretorius (Chairman)	6		1[*#]				88%
CT Loock	6		3				100%
S Douwenga	6		3		2	1	100%
JG Best	6	4			2		100%
RS Broadley	6		3	6	2		100%
L Soanes	6		1[*#]	6	2		94%
TN Mgoduso	4[*]			6			83%
PPJ Derby	5[*]		3		2		91%
HG Motau	5[*]	4			2		92%
B Mawasha	6	2[*]					89%
J Gressel[>]			2[#]				100%
C Mahlanu[>]			2[#]				100%
P Govind[>]						1	100%
J Smith[>]						1	100%
H Demir[>]						1	100%
U Reddy[>]						1	100%
Overall director attendance#	93%	83%	90%	100%	100%	100%	

[#] *Attendance percentage calculated on board attendance during the tenure of appointment. Executive directors attend all committee meetings.*

[*] *Apologies tendered. The following directors were conflicted and could not attend the board meeting held on 13 June 2018: TN Mgoduso, PPJ Derby and HG Motau.*

[>] *Subsidiary representatives on the social and ethics committee and IT steering committee. These are not directors of Metair Investments Limited.*

COMMITTEES

The following committees have been established to assist the board with the effective discharge of its duties:

- Investment committee
- Audit and risk committee
- Technology and information steering committee (IT steering committee) – reporting into the audit and risk committee
- Social and ethics committee
- Nominations committee
- Remuneration committee

The committees are appropriately constituted to promote independent judgement and assist with the balance of power. The board appoints the members of the committees and ensures the correct composition except for the audit and risk committee members who are nominated by the board and elected by shareholders. Executive directors, management and external advisors attend committee meetings by invitation except for the social and ethics committee where the chief executive officer and the chief financial officer are members, and the investment committee where the chief financial officer is a member. The chief financial officer resigned from the social and ethics committee with effect from 31 December 2018. The IT steering committee reports into the audit and risk committee, and members are appointed by the chairman in his capacity as executive director of Metair.

The board reviews and approves all committee charters and terms of reference annually. All charters were updated and approved at the September and November 2018 board meetings.

Self-evaluations were done for all committees and the board is satisfied that the evaluation processes supports continued improvement in the company's performance and effectiveness.

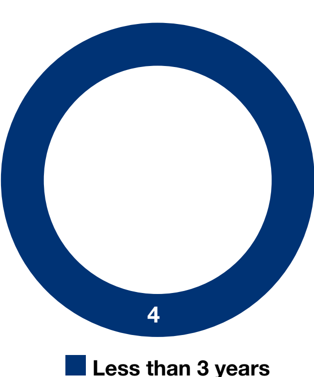
Refer to the specific committee disclosures for more information.

The board applies its mind to the information and results provided to it by its committees as delegation to a committee does not discharge the board of its accountability.

INVESTMENT COMMITTEE

The board established its investment committee in November 2016.

The committee comprises three independent non-executive directors, namely, Mr JG Best, Ms PPJ Derby and Ms HG Motau, as well as executive director Mr S. Douwenga, chief financial officer of the company. Mr Broadley was appointed to the committee on 29 May 2018 and resigned on 31 December 2018 upon his retirement. The main aim of the committee is to review in detail investment opportunities brought to the board by executive management before they are submitted to the board for a final decision.



Purpose and mandate of the committee:
The objective of the committee is to optimise capital allocation, in accordance with Metair's primary objective, to serve the company and to create stakeholder value on a sustainable basis. The committee weighs and evaluates capital proposals required for operational capital, strategic capital and shareholder capital, and includes the review of overall capital levels, individual capital projects, investment and divestment opportunities as well as financing proposals.

The committee has an independent role, operating as an overseer with accountability to the board. It is empowered to make recommendations to the board for consideration and approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors and other members of senior management. In the execution of their duties, committee members must apply the standards of conduct of directors as set out in section 76 of the Companies Act 71 of 2008 (the Act) and director's personal financial interests as set out in section 75 of the Act.

The duties and responsibilities of the members of the committee as set below are in addition to those duties and responsibilities that they have as members of the board. The deliberations of the committee do not reduce the individual and collective responsibilities of board members in regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgement in accordance with their legal obligations.

The roles and responsibilities of the committee are to:

- Satisfy itself that Metair's project and investment evaluation guidelines are consistently and appropriately applied;
- Review and evaluate all investments, disinvestments, corporate structuring and financing proposals which exceed the delegated authority levels of the executive committee and which require prior approval of the board;
- Carry out post-completion reviews of projects;
- Review and evaluate all capital investment and disposal requests submitted by management;
- Report to the board;
- Review operational, strategic and shareholder capital allocations;
- Review activities of the group's corporate finance function;

- Review the group's project evaluation guidelines;
- Monitor investment and disposal decisions by the executive committee; and
- Perform such other duties as may be assigned by the board.

Shareholder interaction during the year focussed on capital allocation principles and shareholder requests are addressed in this integrated annual report. Metair applies rigorous capital allocation principles for all capital allocation decisions. Operational and strategic capital allocations are evaluated against the Metair authority matrix, which includes specific capital allocation authority levels, as well as formal investment evaluation guidelines. The guidelines include hurdle rates for returns on invested capital, cash generation, internal rates of return, return on assets and margins as well as assessing whether the capital allocations support the achievement of the Metair strategy. All investments are subjected to regular post investment reviews.

The committee performed an annual self-evaluation of its effectiveness. The results of the self-evaluation confirmed that the committee is functioning well and that the information presented to the investment committee is satisfactory.

The committee identified the following areas that require improvement in 2019:

- Appropriate investment policies and limits to be reviewed and updated regularly; and
- Revisiting project and investment evaluation guidelines in light of any changes in the Metair strategy.

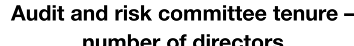
Two meetings were held during the year as indicated in the table on page 74. The chairman reported to the board after each meeting.

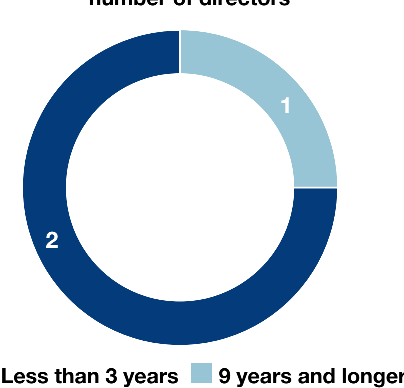
The investment committee confirmed that it has discharged its roles and responsibilities for the year as per the agreed terms of reference.

AUDIT AND RISK COMMITTEE

The board established its audit and risk committee on 3 November 2003. The committee is constituted as a statutory committee of Metair in respect of its statutory duties in terms of section 94(7) of the Act, JSE Listings Requirements and in line with the recommendations of King IV™ as a committee of the board in respect of all other duties assigned to it by the board including those normally performed by an audit and risk committee.

The committee comprises three independent non-executive directors, namely Mr JG Best (audit and risk committee chairman), Mr B Mawasha and Ms HG Motau. Mr B Mawasha was appointed to the audit and risk committee on 1 March 2018 to replace Mr L Soanes who resigned on the same day. For details of the experience and qualifications of the audit and risk committee members, refer to the directors and officers of the company section in this report for brief write-ups on the audit and risk committee members.





The executive directors, external auditors and internal auditors attend all the meetings by invitation.

The committee functions according to board-approved terms of reference as contained in the audit and risk committee charter. The committee reviews the charter on an annual basis to ensure it remains current and updated. A copy of the charter is available on the company's website. The committee also performs an annual self-evaluation of its effectiveness. The results of the self-evaluation confirmed that the committee is functioning well and that the information presented to the audit and risk committee is satisfactory. The committee oversees the management of financial and other risks that affect the integrity of external reports issued by the company.

During the year the committee clarified and/or approved various policies which were recommended to the board for final approval where required:

- Accounting policies

These policy changes were all based on refinements and continuous improvements as well as new International Financial Reporting Standards (IFRS).

The committee has an independent role with accountability to both the board and shareholders. The primary objective of the committee is to assist the board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the risk management process and the organisation's process for monitoring compliance with laws and regulations and the code of conduct.

The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

The role of the committee is to:

- Oversee integrated reporting;
- Oversee the functions of the compliance officer;
- Oversee the effectiveness of the company's assurance functions and services;
- Oversee the internal audit function plan and activities;
- Ensure that the company implements an effective risk

management policy and process that will enhance its ability to achieve its strategic objectives;
- Ensure that the JSE's most recent report back on proactive monitoring of financial statements, and where necessary those of previous periods, have been assessed and appropriate action taken where necessary to respond to the findings as highlighted in the JSE report when preparing the annual financial statements; and
- Assess the suitability for reappointment and recommend the appointment of the external auditor and oversee the external audit process.

The audit and risk committee has specific responsibilities relating to:
- The preparation of accurate financial reporting and financial statements in accordance with IFRS;
- Integrated reporting;
- Combined assurance;
- Internal audit;
- Risk management, including identifying the significant risks facing the group and formulating the risk response thereto; and
- External audit.

The audit and risk committee confirmed that they have discharged their roles and responsibilities for the year as per the agreed audit and risk committee charter.

The audit and risk committee is satisfied that appropriate financial reporting procedures have been established and are operating.

The group reviews its combined assurance model annually based on identified key risks and the committee confirmed that all areas are adequately covered by either/or external audit, internal audit, management, specialist consultants, government or insurance. Key strategic risks are included in the combined assurance model. Management assurance on the combined assurance model includes a control self-assessment questionnaire that has been signed by all subsidiaries to confirm that assurance was done. A regulatory universe, set up by subsidiary companies, is being monitored and compliance affirmed by the relevant responsible person on a regular basis. The regulatory universe is updated regularly to include the latest legislation. The board delegated the oversight of assurance to the audit and risk committee.

The competence of the finance function was evaluated and approved by the committee as being sound. The committee and the board have satisfied themselves that Mr S Douwenga, the chief financial officer, has the appropriate expertise and experience to meet the responsibilities of his appointed position.

The committee reviewed the interim results, annual financial statements, trading statements and the integrated report, and recommended them to the board for approval.

It nominates, for approval by the board and shareholders, a registered auditor who complies with independence requirements, and determines the fee structure for audit fees.

In this respect the committee, after performing an effectiveness review, confirms that it is satisfied with the performance of PricewaterhouseCoopers Incorporated and that PricewaterhouseCoopers Incorporated met the test of independence. PricewaterhouseCoopers Incorporated rotates partners every five years and has been the company's lead auditors since 1998. Mr L de Wet was appointed as designated audit partner in June 2017. The audit and risk committee has reviewed and assessed the external auditor and the designated individual partner in terms of the JSE Listings Requirements and confirms the suitability of their reappointment at the annual general meeting.

The committee also sets the policy for the provision of non-audit services. Non-audit services are reviewed and approved at each audit and risk committee meeting.

For the purpose of determining the effectiveness of management systems and internal controls during the course of the year, the committee reviewed the internal and external audit scope, plans and the resultant findings as well as management reports.

KPMG is appointed to perform the function of internal audit and the committee is satisfied with the company and the performance of the head of internal audit (chief audit executive) following an effectiveness review and that they meet the test of independence. KPMG, an external company, performs Metair's internal audit function, and this ensures that internal audit functions independently from management. Internal audit reports directly to the audit and risk committee regarding matters relating to internal audit and has the necessary authority to carry out its duties independent from executive management. Internal audit reports to executive management regarding administrative and other matters.

Internal audits were performed at most subsidiaries during the past year and no significant breakdowns in internal controls were identified. Internal audit takes a risk-based approach to audit planning. The written internal audit assessment to the board and audit and risk committee on the overall internal control environment confirms that the group has a good control framework in place and there were no material breakdowns in internal controls.

Four meetings were held during the year as indicated in the table on page 74. The chairman reported to the board after each meeting. External and internal auditors meet with the audit and risk committee separately at least once per annum in order to discuss matters without the executives being present. Significant issues and key audit matters pertaining to the annual financial statements are discussed with the external auditors at the audit and risk committee meetings in October/November and March, and also informally as and when required.

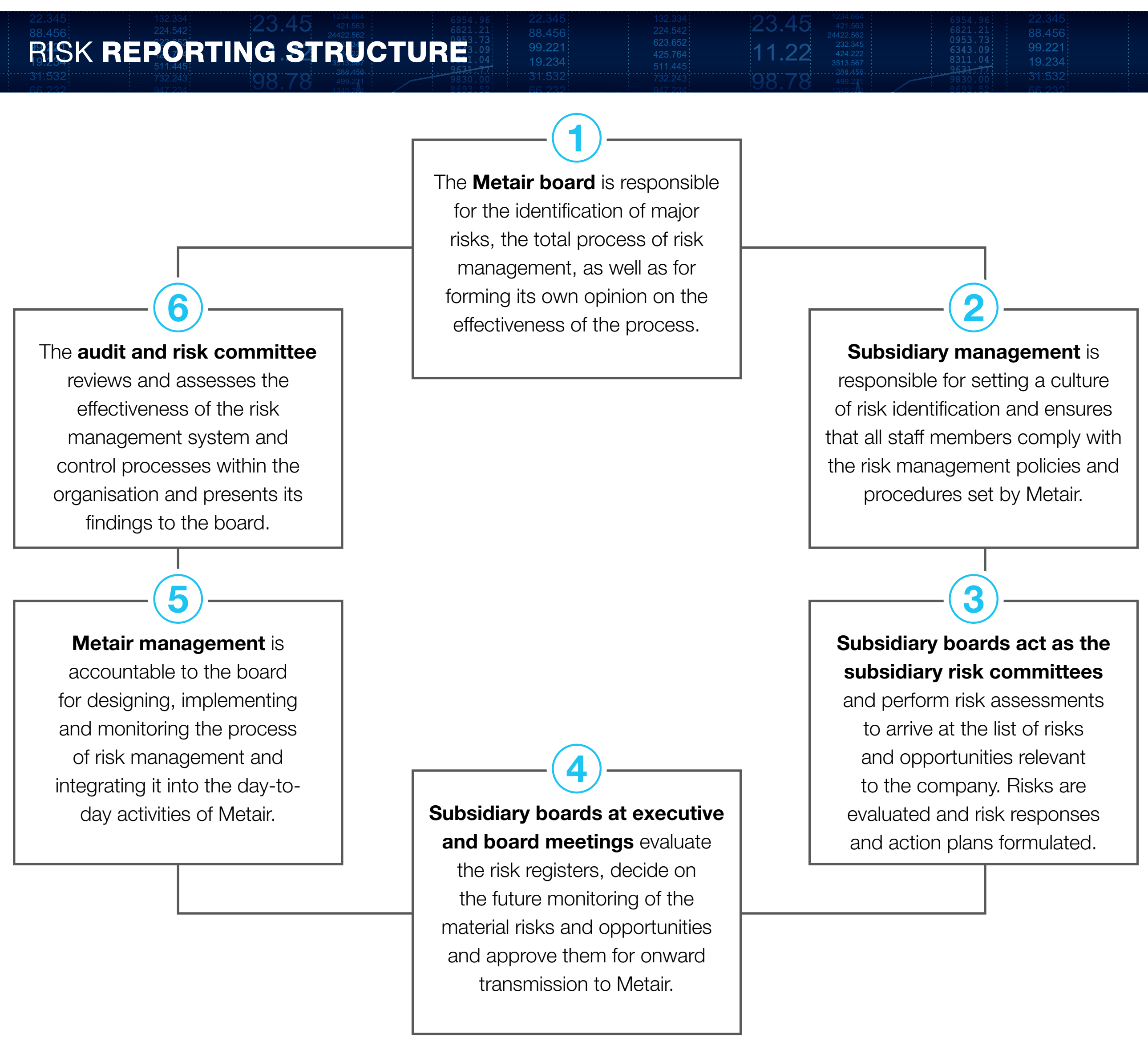
The first meeting of 2019 was held in March. For audit and risk committee attendance, refer to page 74.

GROUP RISK MANAGEMENT

Risk management is the responsibility of the board with the reporting and monitoring function being delegated to the board audit and risk committee. An enterprise-wide risk management policy framework forms part of the audit and risk committee charter which is available on the company's website.

Governance (continued)

RISK **REPORTING STRUCTURE**



The risk reporting structure is illustrated above.

The audit and risk committee is responsible for ensuring that the primary objectives and functions with respect to risk, as set out below, are adequately and effectively achieved. The board is responsible for ensuring that the actions recommended by the committee are addressed and that management allocates the appropriate resources.

The audit and risk committee reviews and assesses the effectiveness of the risk management system and control processes within the organisation and presents its findings to the board.

The main functions of the committee relating to risk are to:

- Identify and agree to the risk profile of the group;
- Establish and maintain a common understanding of the risk universe that needs to be addressed to achieve corporate objectives;
- Ensure that management has effectively identified the key business risks and incorporated them into their activities;
- Assess the appropriateness of management responses to significant risks;
- Consider the control environment directed towards the proper management of risk;
- Co-ordinate the group's assurance efforts to avoid duplication, ensure adequate coverage of the risks and decide on appropriate assurance efforts;
- Assess the adequacy of the assurance provided by management, internal audit, external audit, specialist consultants, government and insurance (as and when used);
- Keep abreast of all changes to the risk management and control system and ensure that the risk profile and common understanding are updated, where appropriate;
- Report to the board on the work undertaken to establish and maintain the understanding of the risks that need to be managed and the adequacy of action taken by management to address identified areas for improvement;

- Satisfy the corporate governance reporting requirements; and
- Use AAA rated insurance underwriters as a lead to insure against major incidents and losses.

The board is committed to a process of risk management that is aligned to the principles of King IV™ and uses a well-structured and tested risk rating methodology.

The realisation of the group strategy depends on being able to manage risks in a manner that does not jeopardise the interests of stakeholders. Sound management of risk enables the group to anticipate and respond to changes in the environment, as well as to make informed decisions under conditions of uncertainty to ensure a sustainable future. An enterprise-wide approach to risk management has been adopted, which means that every key risk in each part of Metair is included in a structured and systematic process of risk management. All key risks are managed within a unitary framework that is aligned to Metair's corporate governance responsibilities. Metair also links all the risks to its strategy which can be seen in the risk table.

Each subsidiary as well as the Metair corporate office completes a risk identification process. Risks and opportunities are then assessed and proper risk handling and monitoring are put in place. At a group level the major risks of the subsidiaries together with the Metair corporate level risks are combined to arrive at a Metair group risk matrix. Mitigating controls have been applied to these inherent risks to arrive at residual risks. Compliance with laws, rules, codes and standards form an integral part of the company's risk management process. Risks are continuously reviewed by management to ensure that responses to risk remain current and dynamic. The audit and risk committee reviews the risks bi-annually. The control effectiveness element of the risk assessment differentiates between direct and indirect control. This aspect was further developed and expanded to include measures that are in place for direct control effectiveness.

Risk and IT governance is included as an agenda item at all subsidiary board meetings and is continuously monitored.

Metair addresses risks through avoidance, capital investment, systems, processes, people, insurance and assurance and/or a combination of these, and believes that risk must always be reflected in business planning and be evident in budgets. A risk management plan is in place and updated annually.

The group has identified an overall group financial risk tolerance level as well as individual tolerance levels per risk. During the year a risk dashboard was prepared which indicates the inherent and residual risk exposure of each risk as well as a graph to indicate where the group consolidated tolerance level falls. The top three risks on the risk assessment for the 2018 financial year were political, social and economic stability in Turkey, disruptive technology and anti-competitive behaviour. In 2019 the top three risks are First National Battery performance, shareholder alignment and Turkey political, emerging market and economic sentiment combined with the required management resilience.

The table below and on the next page sets out the top 10 risks of the group:

Previous rank	Rank	Move	Risk name	Risk category	Residual vs inherent risk exposure Low High	Link to strategy	Material aspect affected
New	1	↑	First National Battery financial, marketing and manufacturing performance	Financial			Competitiveness, balanced business, technology and innovation
New	2	↑	Shareholder alignment	Strategic/ Financial			Competitiveness, balanced business, business partnerships
1	3	↓	Turkey political, emerging market and economic sentiment combined with required management resilience	Strategic			Competitiveness, macroeconomic and geopolitical factors, human capital
New	4	↑	High inflationary wage demands from labour due to political and economic pressures resulting in strike action	Continuity of supply			Competitiveness, macroeconomic and geopolitical factors, business partnerships, human capital
New	5	↑	Insurance cover risk	Financial/ Continuity of supply			Macroeconomic and geopolitical factors, business partnerships

Governance (continued)

Previous rank	Rank	Move	Risk name	Risk category	Residual vs inherent risk exposure Low High	Link to strategy	Material aspect affected
9	6	↑	Natural disasters, explosions and conflagrations	Continuity of supply	◆ ◆		Competitiveness, balanced business
2	7	↓	Disruptive technology developments relating to our products and services, especially introduction of EVs	Technical complexity	◆ ◆		Competitiveness, technology and innovation
3	8	↓	Compliance with local and global competition regulations such as anti-competitive behaviour	Financial	◆ ◆		Competitiveness, business partnerships, human capital
4	9	↓	Policies aimed at managing and controlling currency volatility including alignment with customer requirements and views	Financial	◆ ◆		Competitiveness, business partnership, macro-economic and geopolitical factors
New	10	↑	Metair market capitalisation persistently below peer valuation	Financial	◆ ◆		Balanced business, business partnerships

◆ *Residual risk* ◆ *Inherent risk*

Risk 1 – First National Battery financial, marketing and manufacturing performance

Risk indicators	Individual risk tolerance levels
PBIT margin	8%
Aftermarket share	40%
Number of lossmaking product categories	Zero
Number of batteries sold	95% of budget

Opportunity	Outcome
To improve First National Battery performance all round including marketing and manufacturing excellence, and a focused brand preference and image improvement programme.	Continue the manufacturing and market improvement in line with the three year strategic plan to achieve 12% PBIT by 2020. Finalise roll-out of the rebranding of Battery Centre and launch new technology product in 2019.

Action plans	Target date	Actual end date
Rebranding	January 2018	April 2019
AGM battery export contract	January 2018	April 2019
Major customer AGM battery localisation	January 2018	January 2019
OEM margin correction	January 2018	April 2019
Improved automisation	January 2018	December 2019
Product rationalisation feasibility study	January 2018	June 2019
Aftermarket automotive product range redesign	January 2018	December 2019

First National Battery was the focus of many shareholder interactions during the year and major emphasis was placed on the company to improve performance and maximise profits. A turnaround recovery plan was put in place and marketing and manufacturing excellence programmes are being embarked upon and reported on in the board meetings. The company was rebranded successfully during the year as part of the marketing excellence programme. The group manufacturing expert, Mr Jean Esterhuizen, is looking at improving manufacturing

processes at First National Battery. In addition to this, the First National Battery management team was strengthened by recruiting Mr Murray Long as managing director for logistics, sales and marketing.

Risk 2 – Shareholder alignment

Risk indicators	Individual risk tolerance levels
Share price	>R25
Consensus market share price expectation	>R22

Opportunity	Outcome
Roll out of formalised shareholder engagement programme including independent board/ shareholder interaction aimed at improved shareholder perception and support.	Supportive shareholders with a long-term investment view that support company execution of strategic objectives.

Action plans	Target date	Actual end date
Structured shareholder engagement	July 2018	Ongoing
Annual independent board / shareholder interaction	July 2018	Ongoing
Consistent and concise shareholder messaging	July 2018	Ongoing
Continued improved financial performance	July 2018	Ongoing

Shareholder engagement increased significantly during the year with an increased focus on corporate governance, remuneration, capital allocation and strategy. Metair welcomes these developments as they bring shareholders and the company closer together and help to ensure the necessary alignment. This process also led to the entry of an engaged shareholder, Value Capital Partners, onto the Metair share register.

Improved shareholder engagement during the year saw Metair enter into its first share buyback programme and at year-end Metair had bought 3% of Metair's shares, representing 5 969 577 shares at an average price of R17.48 per share.

Risk 3 – Turkey political, emerging market and economic sentiment combined with required management resilience

Risk indicators	Individual risk tolerance levels
Exchange rates TL vs USD	Below TL6 to USD
Exchange rates ZAR to TL	Above R2.50 to TL
Published central bank interest rate	Below published rate
Actual Turkey bank interest rate	Less than 5% above the published rate
New export customers	>0
Export volume to new regions	>0
Export volume - general	95% of budget
Aftermarket share	40%
Aftermarket volumes	95% of budget
Senior management separation	Zero

Opportunity	Outcome
Review Mutlu Akü business design using competitive market position to improve market share. Improved management structure and style to overcome challenges.	Continued improved performance from Mutlu Akü that challenges the devaluation of the TL on a continued basis and adaption to changing operating environment.

Action plans	Target date	Actual end date
Proactive monitoring of changing government policies and macro-economic indicators	Ongoing	Ongoing
Maintain economic, social and political relevance	Ongoing	Ongoing
Focus on export contracts and opportunities	Ongoing	Ongoing
Monitor management and general employee satisfaction	Ongoing	Ongoing

The Turkish government has ended the nationwide state of emergency that was imposed in July 2016 after a failed coup attempt, however, there remains the risk of further unrest. The trade war between Turkey and the USA resulted in a major decline in the Turkish currency. This could affect Metair by making operating conditions more challenging, sterilising investment and affecting our ability to execute our strategy in the region. Geopolitical developments across the region also pose a risk to the regional economy.

Mutlu Akü contributes 26% to group revenue and is a key strategic asset, providing access to key markets in Europe, North Africa and Russia. Disruptions to our operations in

Governance (continued)

Turkey or deteriorating relationships with key European markets could impact the expansion of the energy storage vertical, limit our ability to supply regional OEMs cost effectively and affect our research and development facility, which could affect the group's ability to develop the necessary battery technology to remain relevant in the energy storage space.

Controls include ensuring relationships with government remain constructive and keeping abreast of the evolving social, political and economic context. Senior management proactively monitors changing government policies and macroeconomic indicators while maintaining the company's economic, social and political relevance. The investment in MOLL GmbH & Co. KG provides direct access to Germany and includes the establishment of a centre of excellence with a research and development facility.

There is an opportunity to strengthen our position in the Turkish, regional and European markets by taking market share, provided we can weather the local challenges better than our competitors.

Risk 4 – High inflationary wage demands from labour due to political and economic pressures resulting in strike action

Risk indicators	Individual risk tolerance levels
% wage increase awarded in SA	6%
Attrition rate in SA	less than 3%
Number of wage disputes in SA	Zero
Number of work stoppages in days in SA	Zero
% wage increase awarded in Turkey	20%
Attrition rate in Turkey	less than 1.5%
Number of wage disputes in Turkey	Zero
Number of work stoppages in days in Turkey	Zero

Opportunity	Outcome
Industry-wide focus on improved working conditions and overall labour environment. Partnering with labour as a real stakeholder in the business to focus on ESG quality and delivery, competitiveness and overall trading position.	Cost effective and liveable wage reward to a very important stakeholder in the overall business with improved social and corporate responsibility focus.

Action plans	Target date	Actual end date
Improvement and overall employee engagement structure	Ongoing	Ongoing
Monthly and quarterly employee feedback	Ongoing	Ongoing
Managing directors' direct engagement with employees	Ongoing	Ongoing

Increasing employee remuneration expectations were one of the common themes across the countries in which we operate. High inflation and socio-political uncertainty in Turkey and the ease of movement across the EU for Romanian workers are driving wage expectations in these countries. The South African labour environment remains volatile and is likely to remain so in the lead up to the 2019 election, with three wage agreements up for negotiation in the automotive industry in 2019.

Risk 5 – Insurance cover risk

Risk indicators	Individual risk tolerance levels
Outstanding risk findings	Zero
Insurance incidents (excluding motor)	Zero
Reportable incidents (excluding motor)	Zero

Opportunity	Outcome
Opportunity to improve all systems and management processes aimed at mitigating risk and ensuring manufacturing excellence with a focus on all ESG aspects.	Reduction in inherent risk relating to these elements. Long-term sustainability in the risk management process with improved risk cover appetite from insurers.

Action plans	Target date	Actual end date
Annual risk review	June 2018	October 2018
Quarterly risk tracing progress reports	Ongoing	Ongoing
Pre-renewal formal insurance engagements structured	July 2019	July 2019

Heightened sensitivity from insurers and underwriters in relation to losses suffered as a consequence of global exposure to hurricanes, floods, fires etc. as well as specific exposures to the global automotive industry and recent Metair incidents will impact insurance renewal negotiations, premiums, deductibles as well as risk monitoring and mitigation requirements.

Risk 6 – Natural disasters, explosions and conflagrations

Risk indicators	Individual risk tolerance levels
Number of natural disasters	Zero
Number of production days lost	Zero
Safety incidents	Zero
Environmental incidents	Zero

Opportunity	Outcome
Dedicated focus on infrastructure and health and safety standards reduces risk of supply stoppages and creates an opportunity for insurance savings. Present opportunity for innovation.	Continued focus on new areas of risk and improvements of current risks. Implemented a risk identification and management plan with external assurance providers. Overall improvement in contingency plans.

Action plans	Target date	Actual end date
Earthquake insurance in Istanbul for Mutlu increased to 100% cover	October 2017	October 2017
Infrastructure capex approval to strengthen buildings	October 2018	October 2018
Adequate insurance cover for natural disasters	October 2018	October 2018

Fires, explosions and natural disasters such as flooding and earthquakes could affect production, leading to a failure to meet contracted supply levels, resulting in a loss of revenue, increased costs and potentially affecting our reputation with customers. We aim to manage this risk through a formalised risk identification and management plan, and mitigate the cost of the damage by carrying comprehensive insurance.

Risk 7 – Disruptive technology developments relating to our products and services, especially introduction of EVs

Risk indicators	Individual risk tolerance levels
Number of rejections in relation to requests for new technology project participation by OEMs	Zero

Opportunity	Outcome
Automotive components segment – increased relevance between all Metair product lines. Energy storage segment – increased electrical requirement, lead acid batteries still required for two, or even four, electrical systems. Disruptive technology focus development of alternative products and solutions and create R & D and training opportunities. Investment into first lithium-ion coating and assembly line.	Metair has the opportunity to participate in various interesting lithium-ion and new technology projects with customers and international technology partners. Production of first electric public transport solutions, namely trains and buses in Romania and the launch of an autonomous level 3 electric vehicle supported by the Romanian government.

Action plans	Target date	Actual end date
Production of first lithium-ion cells in progress in SA, Romania and Turkey	January 2018	December 2018
Establish strong relationships with government/university lithium-ion development facilities already constructed in Turkey, Romania and SA	January 2018	December 2018
Sponsor two post doctorates at Argonne Institute in the USA	January 2018	December 2018
Develop electric train and bus in Romania	January 2018	December 2018
Invest in first lithium-ion coating and assembly line	January 2018	December 2018

Recent commitments from governments, multinationals and OEMs seem to indicate that the switch to electric vehicles (EVs) is set to happen earlier than previously anticipated. The technology required to produce practical and cost-effective EVs is disruptive for companies in the automotive value chain. Many of the core components of current internal combustion engine vehicles will become obsolete in a 100% EV future.

Controls include keeping up to date with developing technology and assessing the impact of disruptive technology on our current business model. Our current automotive component businesses remain very relevant in EVs and energy storage is critical as batteries increase in importance. Metair has established relationships with government institutions, universities and other companies at the forefront of lithium-ion battery technology and its practical implementation. Through MOLL and Chaowei, Metair has access to a rich pool of intellectual capital and close relationships with leading OEMs that are looking to partner in deriving and delivering EV-relevant energy technology.

Governance (continued)

Risk 8 – Compliance with local and global competition regulations such as anti-competitive behaviour

Risk indicators	Individual risk tolerance levels
Open number of investigations into alleged anti-competitive behaviour	Zero
Internal findings of potential anti-competitive market practices to be resolved	Zero

Opportunity	Outcome
Increased focus on all marketing practices aimed at eliminating any possible anti-competitive business practices in all trading regions that could lead to increased focus by all players in the industry. Opportunity to review and learn from past practices.	Ongoing training of management and staff, issuing of a specific internal manual containing information and regulations to guide behaviour in such a way as not to breach any competition regulations. Cooperation with all relevant authorities relating to all aspects that might be investigated from time to time.

Action plans	Target date	Actual end date
External consultant reviews on current market practices	December 2018	December 2018
Dawn raid readiness training	Commenced in August 2016	Continuous
Continuous review of training programmes	Ongoing	Ongoing

The automotive industry is under constant review from global competition authorities and Metair's operations in South Africa, Turkey, Romania and European Union are engaging with local regulators to discuss competition investigations. International and local competition regulations are becoming increasingly complex and apply in different ways depending on considerations including market share. As our operations grow, we need to remain aware of the changing requirements of competition regulations. Contravening competition laws, even inadvertently, risks fines, limitations on operations and reputational damage.

Metair is committed to ethical business practices and has implemented ongoing training programmes to ensure management and employees have the required training to support compliance. We engage proactively with competition authorities to understand our exposure in our countries of operation as our businesses develop.

Risk 9 – Policies aimed at managing and controlling currency volatility including alignment with customer requirements and views

Risk indicators	Individual risk tolerance levels
Budgeted Rand exchange rate against key currencies (US Dollar, Euro, Turkish Lira, Yen, Thai Bhat and Romanian Lei)	Budgeted quarterly average exchange rates

Opportunity	Outcome
Increase exports to hard currency destinations with improved local competitiveness. Improve time frame for contractual currency recovery from customers.	Adherence to Metair currency risk management policy. Continued evaluation of effectiveness of current forex policies. Ensure recovery of forex cost increases from customers and market.

Action plans	Target date	Actual end date
Monitor exchange rate fluctuations and forex cover positions	Ongoing	Ongoing
Negotiate significant event adjustments with customers	Ongoing	Ongoing
Negotiate new forex policy with customers to increase frequency of forex adjustments	April 2019	Ongoing
Ensure recovery of forex cost increases from customers and market	Ongoing	Ongoing

Metair reports earnings in Rands but has significant operations in Turkey and Romania and our operations purchase raw materials and components that are priced in US Dollars, Euros and Yen. Long-term customer contracts may be priced in foreign currencies and exports add to foreign currency exchange risk.

Short-term currency volatility makes forecasting and cash flow planning difficult and increases the risk of under-recovery on supplier and customer contracts priced in foreign currency. The translation of earnings and closing balances from our foreign operations are affected by exchange movements and impact earnings reported in Rands.

Metair has a currency risk management policy in place and we constantly monitor exchange rate fluctuations and forward exchange cover positions, and assess the effectiveness of foreign exchange policies. Customer contracts include foreign exchange recovery policies and where these are not effective or significant event adjustments are required, management will engage with customers to renegotiate. Our goal is to achieve

foreign exchange neutrality in customer contracts and we consequently negotiate with key customers to increase the frequency of foreign exchange adjustments.

Group companies manage foreign currency exchange risk by hedging long-term customer tenders or orders in a foreign currency through forward exchange contracts to minimise the potential volatility of the cash flows from these transactions (supplier and customer sides).

Risk 10 – Metair market capitalisation persistently below peer valuation

Risk indicators	Individual risk tolerance levels
Market capitalisation	R5 billion
Peer analysis (EV/EBITDA)	6.5 times EV / EBITDA
Concerned shareholder engagements (share price)	Zero

Opportunity	Outcome
To correct market valuation in line with peer and general market multiples and expectation.	Stable and happy shareholder base supporting company and management actions. Protection against a possible hostile takeover. Stable platform to launch strategic execution from. Rigorous capital allocation process.

Action plans	Target date	Actual end date
Share buyback	October 2018	April 2019
Capital allocation	November 2018	Ongoing
Budgets/HEPS	November 2018	Ongoing
Shareholder engagement	Ongoing	Ongoing

Negative market sentiment in regards to the TAB transaction resulted in a drop in Metair market capitalisation.

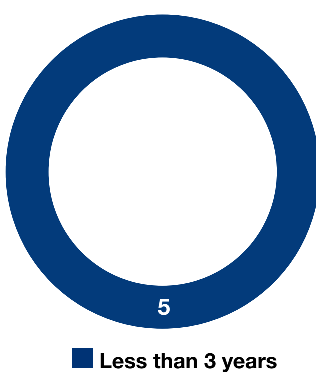
Improved shareholder engagement during the year saw Metair enter into its first share buyback programme and at year-end Metair had bought 3% of Metair's shares, representing 5 969 577 shares at an average price of R17.48 per share. These repurchased shares will not be cancelled and will remain listed as they will be held in treasury.

TECHNOLOGY AND INFORMATION STEERING COMMITTEE

A Technology and Information (IT) steering committee was constituted in 2013 and reformed in 2018. The primary purpose of this committee is to improve alignment between IT and business strategy, and create accountability for IT decisions in five critical areas: investments, projects, risk, services, data and value generation through ongoing evaluation of IT value and performance of IT services. This ensures that Metair's technology and information initiatives and proposed projects help the organisation achieve its strategic goals and objectives by identifying, prioritising and proposing tactical and strategic technology and information initiatives leading to faster decision making, and better quality decisions and outcomes. The committee will focus on risk and strategic matters as these relate to the use of technology and information across the business and will not be involved in operational technology and information issues.

The committee comprises one executive director, Mr S Douwenga, and four subsidiary representatives, Ms P Govind (Smiths Manufacturing), Ms J Smiths (Supreme), Messrs H Demir (Mutlu) and U Reddy (First National Battery) all formally appointed at the board meeting on 30 November 2018.

IT Steering committee tenure – number of members



The committee functions according to board-approved terms of reference as contained in the IT steering committee terms of reference. The committee, in conjunction with the audit and risk committee, reviews the terms of reference on an annual basis to ensure it remains current and updated. A copy of the terms of reference is available on the company's website. The committee will perform an annual self-evaluation of its effectiveness going forward.

Responsibility and functions in terms of Technology and Information Governance:

- Approval of technology and information policies and standards as required – significant guidance frameworks/policies. Minimum functional and service level requirements;
- Review and guidance of significant strategic projects as aligned to the technology and information strategy/goals/objectives as well as monitoring for benefits realisation;
- Monitor ethical and responsible use of technology and information;
- Monitor compliance with relevant laws including data privacy and information security;
- Monitor and assess key technology and information projects in terms of progress (scope, cost, quality) and whether they have achieved their stated objectives;
- Review of the strategic and operational technology and information risks utilising a global IT risk register and development of appropriate remediation controls and activities;
- Assess that appropriate technology and information disaster recovery processes and backup systems are in place;

Governance (continued)

- Review the performance of and risks associated with third party and outsourced service providers; and
- Responsible disposal of obsolete technology and information (environmental impact and information security).

IT internal audit reviews were performed and key findings discussed at the committee meeting. An initial IT governance framework was approved which will be refined after the strategy process is completed. The main focus area during this and next year is the formalisation of IT strategies and plans for all subsidiaries including group. These are currently in the process of either being updated or formalised. Some subsidiary audits in this regard have been completed and the others are in the process to be finalised in the first half of 2019. The group strategy will be formalised once all subsidiaries are finalised. An IT reporting dashboard has been compiled to ensure reporting standardisation across the group.

The board is ultimately responsible for the governance of information and technology and in terms of King IV™ the board should govern it in a way that supports the company setting and achieving its objectives. The committee reports to the audit and risk committee which reports to the board.

The first committee meeting was held on 24 October 2018 and was attended by all subsidiaries. Refer to page 74 for IT steering committee meeting attendance.

The chairperson reported to the audit and risk committee after the meeting that was held in October and will report after each meeting to be held going forward.

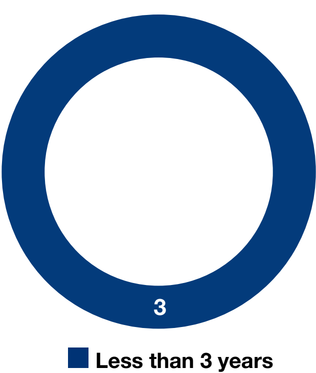
The committee is scheduled to meet at least three times a year and IT governance and compliance is a standard item on the audit and risk committee agenda throughout the year that is reported to the board at every board meeting.

NOMINATIONS COMMITTEE

The board established the committee on 29 March 2011 but it was decided that the full Metair board would act as the nominations committee for board appointments and the remuneration committee would serve as the nominations committee for subsidiary directors. The committee was re-established as a separate committee in 2018 whereby the committee would be responsible for board appointments. No formal meetings were held during the year. However, there were extensive informal interactions in the board's endeavours to find additional board members to replace Messrs Broadley and Soanes.

The committee comprises three independent non-executive directors, namely Messrs SG Pretorius, JG Best and Ms TN Mgoduso. These members were formally appointed on 26 September 2018. The main aim of the committee is to make recommendations to the board on the appointment of executive and non-executive directors to the board, ensure succession planning at board level, review the structure, size and composition of the board and its committees, and evaluate the performance of the board, its committees, its chairman and its individual members.

Nominations committee tenure – number of directors



Purpose and mandate of the committee:

- The committee has an independent role and will make recommendations to the board for its consideration and final approval; and
- The duties and responsibilities of the members of the committee as set out below are in addition to those duties and responsibilities that they have as members of the board. The deliberations of the committee do not reduce the individual and collective responsibilities of board members in regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgement in accordance with their legal obligations.

The roles and responsibilities of the committee are to:

- Make recommendations to the board on the appointment of new executive and non-executive directors, including making recommendations on the composition of the board generally and the balance between executive and non-executive directors appointed to the board and its committees;
- Make recommendations to the board regarding the policy on race and gender diversity, and report on progress in respect thereof against agreed voluntary targets;
- Develop a pool of potential directorial candidates for consideration in the event of a vacancy on the board of directors, including nominees recommended by shareholders;
- Ensure the establishment of a formal process for the appointment of directors, including:
  – identification of suitable members of the board;
  – verification of qualifications and performance of reference and background checks of candidates prior to nomination; and
  – formalising the appointment of directors through an agreement between the company and the director.
- Regularly review the board and committee structures, size and composition and make recommendations to the board with regards to any adjustments that are deemed necessary;
- Ensure that formal succession plans, in emergency situations and succession over the longer term, for the board, chief executive officer and Metair senior executive management appointments are developed and implemented, and be responsible for identifying and nominating candidates for the approval of the board to fill vacancies as and when they arise;
- Oversee the development of a formal induction programme for new directors and ensure that inexperienced directors

are developed through a mentorship programme, as well as overseeing the development and implementation of continuing professional development programmes for directors;
- Assist the board in evaluating the performance of the board, its committees, its chairman and its individual members. Recommend to the board the appointment of a non-executive director to lead the evaluation of the chairman of the board's performance in the absence of a lead independent director;
- Make recommendations to the board for the continuation (or not) in service of any executive director that has reached the age of 65, and any non-executive director that has reached the age of 75;
- Recommend directors that are retiring by rotation for re-election; and
- To consider any other matters that may be referred to the committee by the board.

The non-executive chairman conducted face-to-face performance evaluations of all the non-executive directors in February 2019. Specific criteria which were discussed include the director's performance regarding the following:

- Custodian of the Metair values.
- Preparation for board meetings.
- Strategic insight, understanding and knowledge of the sectors in which Metair is competing.
- Quality and value of contribution at board meetings, including communication skills.
- Role in terms of board dynamics and team spirit.
- Level of involvement in Metair and perceived commitment.
- Attendance record: Board and committee meetings.

An integral part of the discussions was the identification of areas for personal development. Discussions were cordial and constructive, and the chairman is confident that the impact on board effectiveness will be positive.

The performance of the non-executive chairman was evaluated by the lead independent director regarding his performance in terms of leadership, communication and execution of duties. The review concluded that the non-executive chairman's industry experience, high personal ethical standards, commitment to good corporate governance and strong interpersonal skills contributed positively to the company.

The committee will perform the first annual self-evaluation of its effectiveness at the end of 2019.

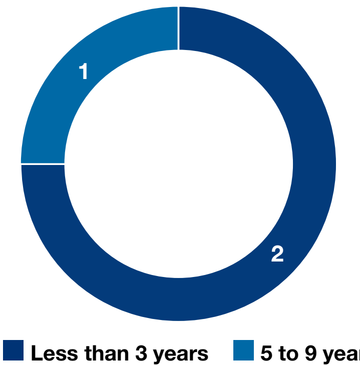
The nominations committee confirmed that it has discharged its roles and responsibilities for the year as per the agreed terms of reference.

SOCIAL AND ETHICS COMMITTEE

The board established a social and ethics committee on 30 April 2012.

As at the end of 2018, the committee comprises two independent non-executive directors, Ms PPJ Derby (chairperson) and Mr SG Pretorius (appointed 14 June 2018), as well as one executive director, Mr CT Loock. Mr L Soanes was appointed to the committee on 14 June 2018. He resigned from the committee on 31 December 2018 along with Mr Broadley when they retired from the board. Mr S Douwenga resigned on the same day to ensure that the committee remained properly constituted. Subsidiary representatives will in future only attend meetings as attendees and will not be formal members of the committee. This year the subsidiary representatives were Ms J Gressel from Supreme Spring and Mr MC Mahlanu from First National Battery, who resigned formally from the committee on 25 July 2018. For 2019, the subsidiary representatives will be Mr MC Mahlanu from First National Battery and Mr L Stoltz from Lumotech. The reason for the rotation is to enhance awareness and implementation of the social and ethics programme across the group as well as to use the subsidiary from which the representatives come as an incubator for testing new ideas before these are rolled out to all the group's subsidiaries.

Social and ethics committee tenure – number of members



The committee functions according to its terms of reference included in the social and ethics committee charter, which has been approved by the board. The charter is reviewed on an annual basis. The committee performs a self-evaluation of its effectiveness every year. The results of the self-evaluation confirmed that the committee is functioning well and that the information presented to the social and ethics committee is satisfactory. A representative has been appointed at each of the subsidiaries with specific responsibility for social and ethics, governance and sustainability matters.

Currently the committee assesses ethics performance across the group through a self-evaluation questionnaire that is completed by all subsidiaries to verify the roll out of ethics initiatives and the adequacy thereof. A sustainability template including non-financial narrative information is also completed on a quarterly basis by the subsidiaries, which is consolidated and presented to the social and ethics committee. This template has been integrated into the Cognos IT reporting system into which the information is captured directly. A social and ethics register forms part of the quarterly reporting and includes reporting on compliance and non-compliance to the social and ethics functions, as well as disciplinary action status, Corporate Social Investment (CSI) initiatives, risks and opportunities, responsible persons and general comments. Targets are set and progress against targets is monitored on a continuous basis. A yellow card system has been implemented

where the committee identified various environmental, social and governance (ESG) targets, which have also been incorporated into the subsidiary key performance measures, influencing executive short-term incentives. Refer to the sustainability section on page 53 for more details.

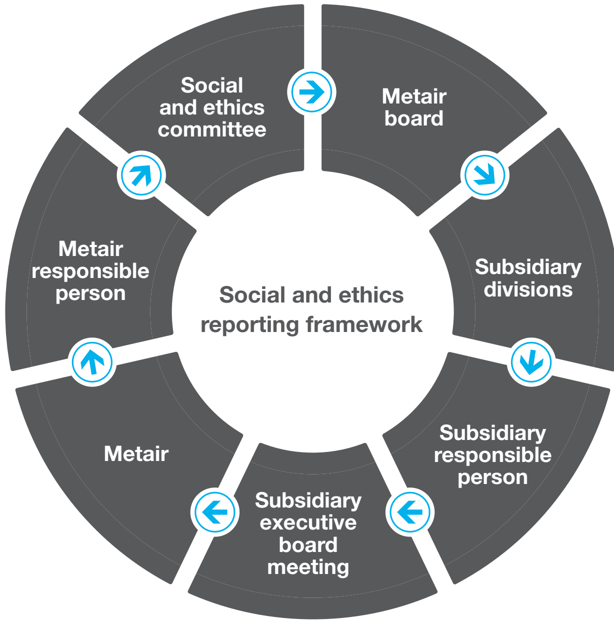
The material social and ethics issues relating to the strategy of the company were agreed. The focus will be to effectively manage the issues highlighted in bold and ensure legal compliance for the rest going forward:

- **Sustaining our client base**
- Sustained intermediary base
- **Sustained supplier base**
- **Ethical culture and managing fraud**
- Solutions for social environmental needs
- **Human capital**
- Influence for the benefit of society
- **Transformation**
- **Responsible investment**
- **Managing the impact on the environment**

A consolidated Broad-Based Black Economic Empowerment (B-BBEE) scorecard is kept to monitor subsidiary performance. Subsidiaries have access to scorecard data to enable them to manage their performance. Stakeholder interactions are reported at every meeting. A King IV™ gap analysis is performed annually, the principles relating to social and ethics matters are considered to ensure that the company is compliant, to identify areas of weakness and to put action plans in place where gaps are found. Feedback on the annual work plan is used to ensure that all actions indicated on the work plan are implemented. All outcomes set on the 2018 work plan have been achieved. The social and ethics committee self-evaluation is also used by the committee to assess the standard and performance of the social and ethics programme in the company. The committee approved the internal audit scope for 2018 to 2020 with year 1 audits focussing on whistleblowing and year 2 and 3 on policy and implementation reviews and ethics training. Risk audits are being done by Marsh to identify health and safety hazards.

A social and ethics risk dashboard has been developed to enhance reporting and performance assessment going forward.

The social and ethics reporting framework is as follows:



The committee has an independent monitoring role and makes recommendations to the board for its consideration.

The specific functions of the committee are to:

- Ensure that the company adopts an enterprise-wide social responsibility and ethics management process;
- Monitor the company's activities, having regard for the Constitution (including the Bill of Rights), any relevant legislation, other legal requirements or prevailing codes of best practise, the company's own code of conduct and policies, with regard to matters relating to:
  - Ethics
  - Social and economic development
  - Good and responsible corporate citizenship
  - The environment, health and public safety, pollution, waste disposal and protection of biodiversity
  - Stakeholder and consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws
  - Labour and employment
- Bring matters within its mandate to the attention of the board;
- Report, through one of its members, to the shareholders at the company's annual general meeting on matters within its mandate; and
- Ensure that the internal audit function is responsible for assessing the ethical culture of the company as well as the adequacy and effectiveness of the ethics programme of the company.

The social and ethics committee confirmed that they have discharged their responsibilities for the year as per the agreed social and ethics committee charter.

The company should be seen as a good corporate citizen in all environments.

The following stakeholder engagements were noted:
- Independent board/shareholder roadshow and interaction
- Subsidiary employee engagements

The code of conduct has been rolled out to all subsidiaries. The code of conduct forms part of the induction process for all new employees and adherence thereto is included in their appointment letters. The company's code of conduct is available on the Metair website, http://www.metair.co.za/sustainability/policies-and-reports/,and is translated into the major languages in the group.

The committee did not approve any new policies during the year, however, all current policies are reviewed, updated and resubmitted to the board for approval on an annual basis.

A procurement workshop was held in April 2018 where the final procurement direction was given to subsidiaries. The outcome from the workshop was a group procurement policy. This policy defines standards and guidelines in relation to Metair's commitment to ensuring that the group's procurement activities, including the sourcing of suppliers, are conducted in accordance with best practices. All employees conducting or supporting procurement activities in the group are to act in a professional, transparent and ethical manner at all times.

The theme for the 2019 financial year is health and safety and group workshops will be arranged to ensure that this area complies with best practice standards.

The company subscribes to an external anonymous Tip Offs line through Deloitte. This initiative has been extended to all subsidiaries in the group, including the offshore subsidiaries. General areas were introduced at subsidiaries where employees have access to computers with some standard applications loaded to access the Tip Offs website and other personal services for workers' convenience, for example to allow employees to access their banking websites. 42 tip offs were received during 2018. All tip off reports received were investigated, resolved or are in the process of being resolved, and where applicable, action was taken and reported back to Deloitte for feedback to the whistle blower.

The first meeting of the committee in 2018 was held in March. Refer to page 74 for the social and ethics committee meeting attendance.

The chairperson reported to the board after each meeting held in 2018.

The committee is scheduled to meet at least twice a year and social and ethics is a standard item on the board agenda throughout the year.

SOCIAL AND ETHICS PLAN AND FRAMEWORK

The board is responsible and accountable for directing and monitoring Metair's social and ethics management performance within a structured framework.

The ethics monitoring and reporting framework is done according to the environments shown on the next page.

Arising from the committee's terms of reference, a social and ethics plan and procedure is drawn up, which forms the basis of the work of the committee and the platform around which the social and ethics work plan is implemented within the business operations.

INSIDER TRADING

No employee (directors and officers included) may trade directly or indirectly in the shares of the company during a closed period or a prohibited period. Closed periods are imposed from 31 December and 30 June until the publication of the respective financial results. Where appropriate, a prohibited period is also imposed on certain employees during periods when they are in possession of undisclosed price-sensitive information.

EMPLOYMENT EQUITY AND TRANSFORMATION

The group, through each of its subsidiaries, has:
- Submitted the relevant employment equity reports (in October 2018), after thorough consultation with staff and union representatives;
- Through the employment equity and transformation committees monitored and measured performance against the five-year employment equity plan and instituted corrective action where necessary; and
- Addressed barriers such as skills shortages among previously disadvantaged groups, through accelerated skills development programmes, learnership programmes, and intensive internal and external training.

The group consequently complies with all the requirements of the Employment Equity Act No 55 of 1998. Refer to the transformation section on page 58 of this report.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

B-BBEE verification procedures and schedules were standardised during 2018. The group's focus is on management control, procurement and enterprise and supplier development. Management control was addressed at a conference held on 27 August 2018. A procurement conference held on 16 April 2018 finalised the group direction given on procurement and the finalisation of the group procurement policy. The appointment of a B-BBEE partner will be investigated again in 2019.

Metair's score improved to 23 points for the ownership element on the generic Broad-Based Black Economic Empowerment scorecard (2017: 22.23) as a result of new specific rules on multi-nationals, statement 100, paragraph 10.1 and 10.2. The transfer of these points to the subsidiaries results in all subsidiary companies being compliant during the period. All subsidiaries reported against the new codes. All subsidiaries achieved their goal of being a level 4 contributor with the exception of one subsidiary that is on a level 7. We are pleased to report that one of our subsidiaries achieved a Level 2 and one achieved a Level 1 for the reporting period.

MARKET PLACE (ECONOMY)

- Economic development
- Regulatory universe
- United Nations Global Compact principles
- Fraud and corruption prevention
- B-BBEE
- Procurement
- Responsible and transparent tax practices
- Risks and opportunities
- Internal audits
- Sustainability and ESG
- Compliance and non-compliance

WORKPLACE

- Labour and employment
- Employment equity*
- Decent work and conditions
- Employee safety and health
- Employee relations
- Industrial relations i.e. strikes, disciplinary action
- etc.
- Education of employees*
- Fair remuneration
- Organisational ethics
- Culture and staff satisfaction

Social and ethics key performance indicators

** Moved to the remuneration committee*

CORPORATE **RESPONSIBILITY/CITIZENSHIP**

NATURAL ENVIRONMENT

- Environmental impact and protection
- Carbon footprint
- Pollution
- Waste disposal
- Lead usage
- Biodiversity
- Water consumption

SOCIAL ENVIRONMENT

- Community development
- Donations and sponsorships
- CSI projects
- Public health and safety
- Advertising
- Customer protection
- Customer relations
- Stakeholder relations
- Human rights

COMPANY SECRETARY

Ms SM Vermaak has filled the position of company secretary since 2001 and provides professional corporate governance services to the company. Ms Vermaak is not a director of the company and whilst she has direct access to the chairman, the board is satisfied that an arm's-length relationship has been maintained between the board and the company secretary. The company secretary reports to the board via the chairman on all statutory duties and functions performed in connection to the board. All other duties and administrative matters are reported to the chief executive officer and/or chief financial officer. The board assessed her competence, qualifications and experience during the year and found her to be competent and suitably qualified to act as the company secretary.

The board approved the appointment, including employment contract and remuneration of the company secretary as recommended through the remuneration committee. The board also have the primary responsibility for the removal of the company secretary.

All directors have access to the advice and services of the company secretary to enable them to perform their duties and responsibilities and for the board to function effectively. The company secretary fulfils the duties as set out in section 88 of the Companies Act 71 of 2008, and is also responsible for ensuring compliance with the JSE Listings Requirements.

SPONSOR

One Capital acts as sponsor to the company in compliance with the JSE Listings Requirements.

KING IV COMPLIANCE

Metair applied the principles and recommended practices of King IV™ and reported on their application in this integrated annual report.

Board **audit and risk committee report**

The audit committee is constituted as a statutory committee of Metair Investments Limited in respect of its statutory duties in terms of section 94(7) of the Companies Act, 71 of 2008 (the Act) and as a committee of the board in respect of all other duties assigned to it by the board. The committee has complied with its legal and regulatory responsibilities for the 2018 financial year.

NAMES AND QUALIFICATIONS OF COMMITTEE MEMBERS

JG Best (Chairman)	ACMA, ACIS, MBA
B Mawasha	BSc, Electrical Engineering
HG Motau	CA(SA), MPhil Development Finance

TERMS OF REFERENCE

The committee has adopted formal terms of reference approved by the board. These terms of reference are reviewed on an annual basis and updated where necessary. During the past year, the committee has executed its duties in accordance with the terms of reference. The terms of reference can be found on the company's website, http://www.metair.co.za/sustainability/policies-and-reports/

INTERNAL AUDIT TERMS OF REFERENCE

The committee has considered and approved the internal audit terms of reference.

COMPOSITION

The committee comprised three independent non-executive directors. The governance of risk forms part of the audit and risk committee's duties. All members of the committee are suitably skilled and experienced. The chairman of the board is not eligible to be the chairman or a member of the audit and risk committee.

MEETINGS

Four meetings were held during the year. Except for Mr Mawasha who attended two of the meetings, the remaining members attended all four meetings.

STATUTORY DUTIES

The following statutory duties were executed by the committee in terms of the Act:

- Nominated and re-appointed PricewaterhouseCoopers Inc. (PwC) as external auditors and Mr L de Wet as the individual auditor, after confirmation of their independence;
- The committee confirmed that PwC and the designated auditor are approved by the JSE;
- The external auditor's fees, as per note 3 of the annual financial statements, and their terms of engagement were approved;
- All non-audit services provided by PwC were reviewed and approved;
- Meetings were held with PwC after the audit and risk committee meetings, without executive management present, and no matters of concern were raised;
- No reportable irregularities were noted by PwC;
- The role of the committee is set out in the audit and risk committee section on page 76 of this report;
- The committee reviewed the annual financial statements, integrated annual report and the interim report during the year with the external auditors present before recommending these to the board for approval;
- Ensured that the JSE's most recent report back on proactive monitoring of financial statements, and where necessary those of previous periods, was assessed and appropriate action taken where necessary to respond to the findings as highlighted in the JSE's report when preparing the annual financial statements; and
- All trading statements were reviewed by the audit and risk committee before recommending them to the board for approval.

RISK MANAGEMENT

The board has assigned oversight of the risk management function to the audit and risk committee.

The committee satisfied itself that the process and procedures followed in terms of identifying, managing and reporting on risk are adequate and that the following areas have been appropriately addressed:

- Financial reporting risks
- Internal financial controls
- Fraud risk relating to financial reporting
- IT risk as it relates to financial reporting

The committee mandate and enterprise-wide risk management policy framework are in place.

INTERNAL FINANCIAL CONTROLS

For the purpose of determining the effectiveness of management systems and internal controls during the course of the year, the committee reviewed the internal and external audit scope, plans and the resultant findings to determine the effectiveness of management systems and internal controls. Assurance was received from management, internal and external audit and, based on this combined assurance, the committee is satisfied that the internal controls of the group are adequate and that there was no material breakdown in internal controls.

REGULATORY COMPLIANCE

The group complied with all relevant laws and regulations and considers adherence to non-binding rules, codes and standards. Compliance forms an integral part of the company's risk management process.

EXTERNAL AUDIT

Following an effectiveness review the committee has no concerns regarding the external auditor's performance or independence and PwC has been recommended to the board and shareholders for reappointment. Refer to note 3 of the annual financial statements for audit fees paid. The audit and risk committee has reviewed and assessed the external auditor and designated individual partner in terms of the JSE Listings Requirements and confirms the suitability of their reappointment at the annual general meeting. All non-audit services have been reviewed and approved by the committee and the independence of the auditors confirmed.

Board **audit and risk committee report**

INTERNAL AUDIT

The committee is responsible for overseeing internal audit. The committee:

- Approved the re-appointment of KPMG as internal auditor;
- Approved the internal audit plan; and
- Ensured that KPMG is subject to an independent quality review, as and when the committee determines it appropriate.

The committee has a good working relationship with KPMG.

CHIEF FINANCIAL OFFICER REVIEW

The committee has reviewed the performance, appropriateness and expertise of the chief financial officer, Mr S Douwenga, and confirms his suitability in terms of the JSE Listings Requirements.

INTEGRATED ANNUAL REPORT

The committee has reviewed the annual financial statements of Metair Investments Limited and the group for the year ended 31 December 2018 and, based on the information provided to the committee, considers that the group complies in all material respects with the requirements of the Act and International Financial Reporting Standards. The committee has reviewed the integrated annual report and the committee recommends the report to the board and shareholders for approval.

On behalf of the board audit and risk committee,

JG Best
Audit and risk committee chairman

13 March 2019

Social **and ethics committee report**

The board established a social and ethics committee with effect from 30 April 2012.

The social and ethics committee is constituted as a statutory committee of Metair Investments Limited in respect of its statutory duties in terms of the Companies Act, 71 of 2008 and as a committee of the board in respect of all other duties assigned to it by the board. The committee assists the board in providing effective leadership and being a good corporate citizen. The committee has complied with its statutory duties and other duties assigned to it by the board for the 2018 financial year.

NAMES AND QUALIFICATIONS OF COMMITTEE MEMBERS

PPJ Derby (Chairperson)	Bachelor of Science Honours (Economics), MBA
SG Pretorius	M Comm (Business economics)
CT Loock	B Eng (Industrial)

TERMS OF REFERENCE

The committee has adopted formal terms of reference approved by the board. These terms of reference are reviewed on an annual basis and updated where necessary. During the past year, the committee has executed its duties in accordance with the terms of reference. The terms of reference can be found on the company's website, http://www.metair.co.za/sustainability/policies-and-reports/

The committee has an independent role and makes recommendations to the board for its consideration.

The specific functions of the committee are to:

- Ensure that the company adopts an enterprise-wide social responsibility and ethics management process;
- Monitor the company's activities, having regard to the Constitution (including the Bill of Rights), any relevant legislation, other legal requirements or prevailing codes of best practise, the company's own code of conduct and policies, with regard to matters relating to:
  - Ethics
  - Social and economic development
  - Good and responsible corporate citizenship
  - The environment, health and public safety, pollution, waste disposal and protection of biodiversity
  - Stakeholder and consumer relationships, including the company's advertising, public relations and compliance with consumer protection laws
  - Labour and employment
- Draw matters within its mandate to the attention of the board;
- Report, through one of its members, to the shareholders at the company's annual general meeting on matters within its mandate; and
- Ensure that the internal audit function is responsible for assessing the ethical culture of the company as well as the adequacy and effectiveness of the ethics programme of the company.

COMPOSITION

The committee comprises two independent non-executive directors, namely Ms PPJ Derby (chairperson) and Mr SG Pretorius, and one executive director, namely Mr CT Loock.

Mr Pretorius joined the committee with effect from 14 June 2018. Mr Soanes, along with Mr Broadley, then resigned from the committee again on 31 December 2018, both as a result of retirement from the board. Ms Gressel and Mr Mahlanu resigned from the committee on 25 July 2018 and Mr Douwenga on 31 December 2018 to ensure that the composition of the committee remains properly constituted.

MEETINGS

Three meetings were held during the year and these were attended by all members, except for one meeting where Messrs Pretorius and Soanes excused themselves.

No material non-compliance with legislation or best practice, relating to the areas within the committee's mandate, has been brought to the attention of the committee. Based on its monitoring activities to date, the committee has no reason to believe that such non-compliance has occurred.

The group incurred no material penalties, fines or convictions during the year.

On behalf of the social and ethics committee,

PPJ Derby
Social and ethics committee chairperson

13 March 2019

Remuneration **report**

BACKGROUND STATEMENT

The group complied with the principles of the King IV Report on Corporate Governance for South Africa, 2016 (King IV) during the 2018 financial year and continues to strive to improve on the application and disclosure of the recommended practices in the remuneration report in ensuring a balanced sustainable company.

Remuneration and reward systems remain sensitive matters in the group, especially in the socio-political environment currently prevailing in South Africa. We believe our approach to remuneration aligns with the principles underlying the group's corporate governance philosophy – fairness, justice, transparency, responsibility and accountability. In our view, these are the key factors influencing remuneration.

Metair Investments Limited is a 70-year old listed company on the JSE Limited (JSE) and is invested in 11 operations in South Africa and six international operations covering two distinct business verticals. The energy vertical operates locally and internationally while the automotive components vertical operates in South Africa only. It is imperative that the group is able to attract, reward, motivate, develop and retain the skills that the company needs to execute its strategy, while building the skills and experience of the next generation of leaders and experts. In order to deliver manufacturing excellence, meet our customers' quality standards and ensure cost competitive production, our people's skills, diligence and commitment are essential.

This remuneration report aims to provide the group's stakeholders with business intelligence that demonstrates a professional management approach. We maintain a world best practice remuneration system to provide context for this sensitive and sometimes emotive subject. The group uses the Towers Watson global grading system (GGS) to evaluate each position, combined with the Exsys scorecard system to manage the 21 different grade levels in the group. Metair uses the local median as the targeted remuneration level to ensure sustainability. PE Corporate Services SA (Pty) Limited (PE Corporate Services) was used to do the global grading as well as the executive remuneration benchmarking exercise for the markets in which Metair operates. The remuneration committee was satisfied that PE Corporate Services was independent and objective.

The future requirement for a binding shareholder vote on executive remuneration heightens the responsibility for all stakeholders to apply their minds to this subject, particularly executives, shareholders and remuneration committees.

Executives can no longer only take a self-serving approach and shareholders can no longer automatically vote 'No' in the first instance according to some general principle. The most common general principle used by the investor community to justify a 'No vote' arises from shareholders objecting to the issue of shares to executives. This approach cements the 'against' vote as the general norm and creates an unresolvable long-term disparity that will threaten sustainability.

Companies, through their remuneration committees, have to do everything they can to ensure that acceptable and exemplary remuneration policies are in place, to bridge the divide between all stakeholders by ensuring that awards are capped and subject to clawback. Metair will continue to engage with shareholders on important issues relating to remuneration.

In line with the recommendations of King IV, the remuneration policy as well as the implementation report will be tabled for separate non-binding advisory votes by shareholders at our next annual general meeting to be held on Thursday, 2 May 2019.

The results of the non-binding advisory voting on the 2018 remuneration policy and implementation report and measures taken in response thereto based on King IV and the JSE Limited Listings Requirements (Listings Requirements) will be disclosed in the 2019 integrated annual report. The approval of the non-binding advisory resolutions on the 2017 remuneration policy and implementation report and the approval of non-executive directors' remuneration was obtained at the annual general meeting held on Wednesday, 2 May 2018 from the requisite majority of shareholders present or represented by proxy and the voting results are as indicated below. A copy of the annual general meeting minutes is available on the company's website, http://www.metair.co.za/wp-content/uploads/2019/02/AGM_MINUTES.pdf

Ordinary resolution number 8(a): Approval of the company's remuneration policy

Shares voted	Abstained	For	Against
171 846 864			
86.36%	0.01%	80.18%	19.82%

The company's aim is always to comfortably exceed the 75% non-binding approval rate where possible. Continuous shareholder engagement will be followed in this regard. During the year, shareholder interaction revealed that there needs to be clearer alignment between executives and shareholders in regards to executives holding shares in their personal capacity. Executive holdings are disclosed on page 105.

Ordinary resolution number 8(b): Approval of the company's implementation report

Shares voted	Abstained	For	Against
171 847 436			
86.36%	0.01%	79.44%	20.56%

Special resolution number 1: Approval of non-executive directors' remuneration

Shares voted	Abstained	For	Against
169 931 008			
85.40%	0.98%	100.0%	0.00%

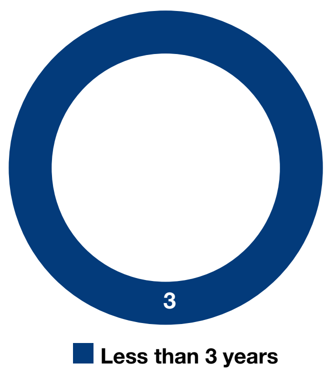
BOARD REMUNERATION COMMITTEE (COMMITTEE)

The Metair board of directors (board) has delegated its remuneration responsibilities to the committee. The committee is established to assist the board in fulfilling its oversight responsibilities. The main role of the committee is to assist and advise the board on matters relating to the remuneration of the

board members and senior management. Furthermore it aims to motivate and retain executives and ensure that the company is able to attract the best talent in the market in order to maximise shareholder value.

The committee comprises three independent non-executive directors: Ms TN Mgoduso, who is also the chairman, Mr B Mawasha and Ms PPJ Derby. Mr Mawasha and Ms Derby were appointed to the committee on 31 December 2018 replacing Messrs Broadley and Soanes who resigned from the committee on the same day as a result of retirement.

Remuneration committee tenure – number of directors



The committee functions in terms of a charter which is approved and reconfirmed by the board annually. A copy of the charter is available on the company's website, http://www.metair.co.za/sustainability/policies-and-reports/

The committee also performs an annual self-evaluation of its effectiveness. The results of the 2018 self-evaluation confirmed that the committee is functioning well and no major concerns were noted. Areas identified for improvement are management stock ownership policies/plans and succession planning. These areas are both being attended to.

The key focus areas of the committee are as follows:

- Review the remuneration policy and implementation report annually for presentation at the annual general meeting for separate non-binding advisory votes;
- Review and approve executive remuneration packages, short- and long-term incentives to ensure these are fair and appropriate to ensure the long-term sustainability of the company;
- Review and improve succession planning to ensure the achievement of strategic objectives;
- Monitor performance appraisal and assessment improvements to enhance talent management development;
- Monitor employment equity reports and adherence to the Metair masterplan; and
- Establish a fully-fledged human capital division.

For more information and other roles and responsibilities, refer to the committee charter on the company's website, http://www.metair.co.za/sustainability/policies-and-reports/

SUCCESSION PLANNING

The Metair nominations committee was re-established during the year and is actively engaged in addressing succession planning at board and board committee level. Shareholder interaction identified Metair executive management succession as a concern during non-executive board interaction, after which the board put a specific approach in place to mitigate this risk. In summary, our three tier approach to succession planning is as follows:

- Three external candidates have been identified from the market;
- Internally, a possible replacement for the CEO has been identified; and
- Recruit or identify individuals at subsidiary level, who can succeed Metair's executive management.

Succession planning has also been highlighted as an important leadership issue. The group human resource (HR) function played a pivotal role in putting succession plans in place for each of the group companies. Succession planning will remain a key focus area in terms of updates as well as the HR function evolving continuously. A talent management strategy was adopted which forms part of subsidiary key performance indicators for 2019. This strategy is directly linked to organisational transformation and geared towards structures that will support future leadership and the shifts in technology, while achieving gender and demographic transformation. The talent management model is as follows:

In 2017, performance assessments were performed on the group managing and finance directors. Individual development plans were put in place and are being fulfilled.

Self-awareness was identified as an area for improvement in last year's performance assessment and a self-awareness programme was implemented during 2018. EQinAction developed brain talent and style profiles for the group

managing and finance directors as well as the board. The aim of the exercise was to identify key competencies to assist individuals in improving their self-awareness and emotional intelligence for sustainable success. Group dashboards were also created to enable the company to have insight into the average emotional intelligence of the group. The committee was satisfied that EQinAction was independent and objective.

MANAGEMENT SHARE OWNERSHIP

Management share ownership was identified as an area requiring improvement during shareholder interactions. This was also identified by the board and committee at its meetings throughout the year.

Metair's target is for executives to hold three times their cost to company (CTC) in vested and unvested shares to address shareholder concerns. Retention shares were designed to partly address this objective.

The following table shows the current personal holdings of the executive directors calculated at the Metair closing price of R19.50 as at 31 December 2018:

	Personal holdings	Unvested retention shares	Total	Times CTC
CEO	231 006	800 000	1 031 006	3.0
CFO	130 000*		130 000	0.6

* *Restricted vesting – 120 000 shares sold for tax purposes*

More details on retention shares can be found in the implementation report on page 105.

PERFORMANCE APPRAISALS

The committee reviewed performance appraisals for group executive management and for management at the subsidiaries.

Performance appraisals are based on a generic assessment which includes the following key performance areas:

- Leadership competencies
- Management competencies
- Interpersonal competencies
- Business competencies in terms of the subsidiary company
- Business competencies in terms of Metair

Appraisals also include assessments of specific shareholder objectives, which include company and individual specific key performance areas. The results of the performance appraisals are moderated by Metair and the committee, and are taken into account when salary increases are determined.

As part of the group HR function, performance appraisals are being redesigned to align with HR best practices and these will be rolled out during 2019.

The Metair CEO's performance appraisal was reviewed by the chairman and board.

EMPLOYMENT EQUITY (EE)

Great emphasis has been placed on EE with the remuneration committee assuming the oversight role of this function. An initiative has been implemented where subsidiaries have to identify at least two EE candidates to shadow executives on the board. The executives will spend time with the identified candidates mentoring and training them to ultimately assume an executive role on the board. Elevating these candidates creates space for other employees to be promoted to management level in the subsidiaries to replace them. These candidates also provide succession possibilities for executives. This intervention is ongoing.

Management control on the B-BBEE scorecard has also been identified as an area of focus and the group has put specific plans in place to effectively improve the scores in this regard.

In Turkey and Romania, the subsidiaries are focussing on improving diversity in terms of gender representation, especially at executive and board level.

Diversity management has also been linked to the short-term incentive plan as one of the parameters to stress its importance.

ESTABLISHMENT OF A HUMAN CAPITAL DIVISION

A group matrix style HR function was established during the year which contributed to greater collaboration between companies with wider sharing of HR best practices and policies. Greater collaboration has enhanced Metair's ability to avoid risk in matters related to industrial relations as well as supporting employee stability and sharing leading practices across the group.

An HR strategy conference was held in May 2018 attended by Metair and all subsidiaries which set the foundation in terms of professionalising HR within the group. A follow up conference was held in July 2018 to ensure action plans are in place and another conference is planned for 2019.

Individual subsidiary interaction will continue during 2019 between the group HR co-ordinator and the chairman of the committee to further assist HR professionals in the group.

EMPLOYMENT CONTRACTS

Employment contracts with executive directors are reviewed and reconfirmed on an annual basis and service contracts are in place for all non-executive directors. The contracts of executive directors do not contain termination packages or excessive notice periods. An executive director may, subject to the provisions of the Companies Act No 71 of 2008 and the Listings Requirements, be appointed as such by contract for such period as the board may determine, but not exceeding seven years. Executive directors shall not be subject to retirement by rotation or be taken into account in determining the rotation by retirement of directors during the period of any such contract; provided that the number of executive directors so appointed shall at all times be less than one-half

of the number of directors in office. An executive director shall be eligible for reappointment at the expiry of any period of his appointment. Subject to the terms of his contract, he shall be subject to the same provisions as to removal as the other directors and if he ceases to hold the office of director from any cause, he shall ipso facto cease to be an executive director.

MEETINGS

Six meetings were held during the year and were attended by all members of the committee. Please refer to page 74 for more details on meeting attendance. The quorum for transacting business as per the committee terms of reference is that at least two members need to be present. The chairman reported to the board after each meeting.

The first meeting in 2019 was held in February 2019.

The committee was satisfied that it achieved its stated objectives during the period under review.

Future focus areas for the committee include the following:

- Continue to strive to improve on the application and disclosure of the recommended practices of King IV in the remuneration policy in ensuring the sustainability of the company; and
- Ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short-, medium- and long-term, in the best interest of all stakeholders.

REMUNERATION POLICY

Remuneration strategy

Metair recognises that the group's reward strategy has a direct impact on operational expenditure, group culture, employee behaviour and ultimately, with correct alignment, on the group's ongoing strategic balanced sustainability. Metair aims to reward its employees in a way that reflects the dynamics of the market and the context in which the company operates. All components of the group's reward strategy, including fixed pay, variable pay and performance management, are aligned to the strategic direction and business-specific value drivers of Metair and its subsidiaries.

The remuneration policy was developed from an understanding of all stakeholders' requirements, guided by an approach that sets the framework for the policy and, in the final analysis, delivered a designed remuneration structure. This remuneration structure formulates the implementation and resulting financial remuneration. The remuneration policy articulates and gives effect to the company's direction of fair, responsible and transparent remuneration, has been approved by the board, and demonstrates the application of the company's ethical standards and processes.

The main roles and responsibilities of the committee relating to the remuneration policy are as follows:

- Discharge the responsibilities of the board relating to all compensation, including share-based compensation of the group executives;
- Establish and administer the agreed group executive remuneration policy with the broad objectives of:
  - aligning executive remuneration with the group strategy, company performance and shareholder interests;
  - aligning the remuneration policy to promote the achievement of strategic objectives within the company's risk appetite;
  - setting remuneration standards which attract, retain and motivate a competent executive team;
  - evaluating compensation of executives, including approval of salary, share-based and other incentive-based awards; and
  - ensuring that executive remuneration is fair and responsible in the context of overall employee remuneration to promote positive outcomes, an ethical culture and responsible corporate citizenship.
- Ensure that the remuneration policy describes all elements of remuneration that are offered in the company;
- Consider the remuneration policy and set strategic objectives for remuneration management within the company's operations and ensure that it gives effect in its direction to fair, responsible and transparent remuneration;
- Support the board to oversee that the implementation and execution of the remuneration policy achieves the stated objectives;
- Submit the remuneration policy to the board for approval;
- Ensure that the remuneration policy records the measures that the board commits to take in the event that either the remuneration policy or the implementation report, or both, have been voted against by 25% or more of the voting rights exercised; and
- Engage with shareholders to address objections and concerns relating to the remuneration policy as and when required.

Shareholder voting

In the event of shareholders voting against the remuneration policy and/or the implementation report with 25% or more of the voting rights exercised at the annual general meeting, the committee will take the following steps in good faith and with best reasonable effort:

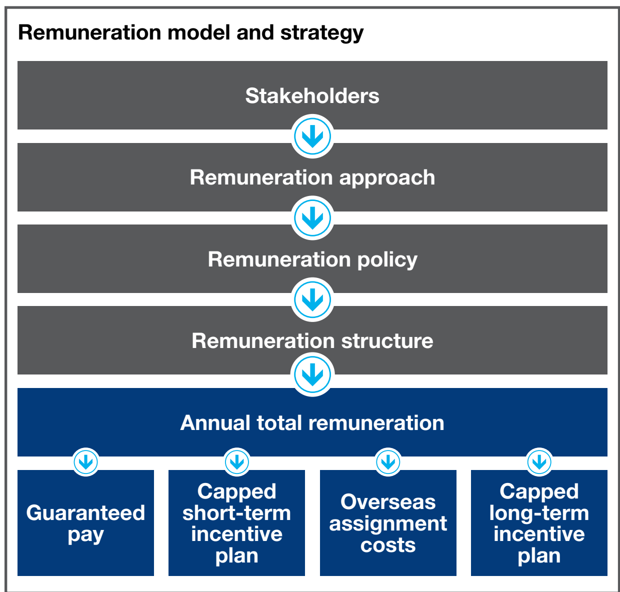
- Engage with shareholders to ascertain the reasons for the dissenting votes;
- Address legitimate and reasonable objections and concerns raised; and
- Take action where appropriate to amend the remuneration policy, clarify or adjust remuneration governance and/or processes.

The following information will be disclosed in the background statement of the remuneration report succeeding the voting:

- The parties with whom the company engaged and the manner and form of engagement to ascertain the reasons for dissenting votes; and
- The nature of steps taken to address legitimate and reasonable objections and concerns.

Metair's approach and elements of executive management remuneration

Due to sensitivities around the subject of remuneration, Metair believes that the only responsible approach is to apply a professional stance based on world best practice that is progressive and sensitive to all stakeholder requirements,



including shareholders. Total annual remuneration in the group is designed around a remuneration counter system consisting of four pay elements:

a. Guaranteed pay – Count 1
b. Capped short-term incentive – Count 2
c. Overseas assignments – Count 3
d. Capped long-term incentive – Count 4

For guaranteed pay, the approach starts by evaluating, understanding, comparing, measuring and grading every position in the group.

The group's approach has three main elements:

1. Job grading and ranking system
2. Position relative to market
3. Pay structure
   - Guaranteed
   - Short-term incentive plan (STIP)
   - Special assignments
   - Retention and long-term incentives

The principles applied to guaranteed pay and short-term incentives form part of the budgeted expenses of the business. Any incentive payment is subject to a self-funding requirement to ensure that targeted earnings attributable to shareholders are grossed up by the incentive payment amount and earned above target before pay-out.

Architecture of the long-term incentive structure

The long-term incentive structure was designed by an independent third party with high integrity as well as local and international recognition. Like the STIP, it is based on the cost to company of the participant to ensure fairness, justness and to have an automatic built-in protection against exorbitant reward.

Share appreciation rights vest in year three, four and five and therefore have a three-year waiting and total five-year retention period. Performance shares have a three-year waiting period before vesting, and therefore have a three-year retention period.

Share appreciation rights

The board recognised the requirement for the committee to have a claw back right on the vesting of share appreciation rights, therefore vesting of any number of shares is always subject to committee approval at the time of vesting.

In addition to the claw back, the board added some penalty clauses linked to four environmental, social and governance (ESG) elements. For 2018 the targets were as follows:

- Health and safety – Lost-time injury frequency rate – target of below 1.0;
- Health and safety – Blood lead – target <40 µg per 100 ml for battery businesses;
- Broad-Based Black Economic Empowerment (B-BBEE) focus – Procurement – target 10% local content from enterprise developed businesses/black-owned businesses; and
- Transformation – Increase in management control score on the new B-BBEE scorecard – a minimum of 77 points to be obtained for this element on the scorecard on a consolidated basis per South African manufacturing subsidiary. Develop 20 EE candidates on a group basis in the core of the business at executive committee (exco) level.

Each element can reduce the vesting amount by 5% for a total of 20% if the performance on these elements is below target or if they cause the company to suffer reputational, brand or sustainability damage.

The final number of shares allocated to the participant at vesting of the share appreciation rights is based on the growth in share price for the number of shares allocated divided by the share price at vesting.

Performance shares

Metair's return measurements are based on return on invested capital (ROIC) combined with total shareholders' return (TSR). 50% of the Metair executives' vesting criteria is linked to meeting the ROIC target and the other 50% is based on Metair's TSR performance compared to its peer group of mid-tier industrial and trading companies.

ROIC

Metair's definition of ROIC, in the final analysis is compared to the weighted average cost of capital defined as follows:

$$\text{ROIC} = \frac{\text{(A) Operating Income (t)} \times (1 - \text{tax rate})}{\text{(B) Book Value of Invested Capital (t-1)}}$$

Where:

(A) After-tax operating income =

a. Profit after tax.
b. Add back interest expenses (1 – tax rate).
c. Adjusted for headline earnings per share (HEPS) adjustments (1 – tax rate).

(B) Book value of invested capital at the start of the period (t-1) =

a. Opening book value (BV) of interest-bearing debt plus the opening BV of equity.
b. Plus the weighted average BV of debt + BV of equity for the acquisition of new businesses.
c. Adjusted for the weighted average BV of debt repaid during a year.
d. Adjusted for the foreign currency translation reserve (FCTR) effect associated with intangible assets that arose on acquisition of subsidiaries.

Targets

During Metair's growth and technology balance phase, while Metair is still expanding and building the energy vertical through acquisitions:

- ROIC upper target = weighted average cost of capital (WACC) + 3%.
- ROIC lower threshold = 90% of WACC.

After the growth and technology balance phase, that is once acquisitions to expand the energy vertical are complete and the company has had three years to deliver targeted ROIC at company level:

- ROIC upper target = WACC + 4%.
- ROIC lower threshold = 100% of WACC.

Long-term incentive plan (LTIP) participation threshold and multipliers

1. At 90% of WACC – 0.5 times.
2. At WACC – 1 time.
3. From WACC to target – 1 to 3 times (straight line).
4. Above target ROIC – 3 times.

Determination of WACC

The committee will appoint a third party corporate finance specialist to determine the WACC for Metair, individual companies and segments at the start of each financial year.

Total shareholder return (TSR)

TSR is measured against a benchmark of mid-tier industrial and trading companies which are determined with each performance share award. While very few can be considered direct competitors, collectively they can be deemed to be an alternative investment portfolio for Metair's shareholders.

a. Definition

TSR is defined as the increase in the value of a portfolio of shares on the assumption that any dividends accruing to shareholders are immediately invested in additional shares in the portfolio.

For a single share, TSR can be calculated mathematically as the increase (or decrease) in share price plus dividends reinvested over the performance period, expressed as an annual rate of return.

A relatively strict approach in adopting the above formula is as follows:

- Starting share price is the average of the middle market closing prices of the share taken from the stock exchange over the three-month period ending on the business day before the start of the performance period.
- Ending share price is the average of the middle market closing prices of the share taken from the stock exchange over the three-month period ending on the last business day of the performance period.
- Cumulative dividend yield is the aggregate distributions to shareholders paid over the performance period divided by the middle market closing price of a share taken from the stock exchange on the relevant ex-dividend date.

The starting and ending share prices are averaged over a period – in this case three months – to reduce the sensitivity of the three-year TSR calculations to short-term share price volatility. TSR is a well-established metric, understood by and relevant to institutional shareholders, and can be obtained on request from sponsors or any financial institution.

b. Peer group

The peer group of companies will be considered and reviewed with each new award. The peer group should represent an alternative investment destination for shareholders.

c. Targets (Metair TSR relative to the peer group)

1. For TSR performance below the median for the peer group, none of the TSR-related maximum award will vest.
2. At the median, 33.3% will vest.
3. Between the median and upper-quartile the gradient will be from 33.3% to 100% vesting.
4. At or above the upper quartile 100% of the maximum TSR-related award will vest.

Retention shares

The final retention element is a specific retention award aimed at attracting, retaining and extending employment contracts with key talent within Metair. Retention awards will be made in the form of performance shares, the quantum of which will depend on what incentive would be required to retain that specific individual for at least a five-year forward period. The Metair Investments Limited 2009 Share Plan will be revised to include a five-year period to eliminate the additional agreements to retain shares for another two years upon vesting after the current three-year vesting period.

All candidates recommended for inclusion in the scheme must be approved by the committee before being submitted to the board for final sign off.

Retention shares from the company's perspective

Performance shares will vest on the third anniversary of their award to the extent that the specified performance criteria over the intervening period have been met, in line with the Metair Investments Limited 2009 Share Plan, but from a retention point of view, a contract to hold the shares for a further two years while still employed by the company will be entered into

between the company and the executive. This contract will ensure a minimum retention period of five years from date of award, with the proviso that, in the case of hardship in meeting tax obligations at the time of the shares vesting, the committee can be approached to allow for the sale of some of these shares to pay part or all of the tax.

Any decision by the committee will be made with the shareholder requirement in mind to hold three times the individuals cost to company (CTC) in shares (see paragraph below), but will view any tax hardship in a sympathetic manner. Should the individual leave the company before the five-year period ends the retention of the shares will depend on the circumstances of the termination.

During the year, the committee met specifically on the executive management's retention share awards for purposes of clarifying interpretation and drafting issues especially relating to the restraint clause and fault and no-fault termination interpretation. The matter was attended to at the committee meeting in February 2019.

Retention shares from the shareholders' perspective

Shareholders expect Metair executives to show commitment and confidence in the company by holding unvested and vested shares. The board supports this view and has targeted a value of approximately three times annual CTC in total share exposure, but also recognises that sufficient time needs to be allowed to accumulate this shareholding as it is a significant number.

Architecture of the short-term incentive structure

The design architecture for the STIP is based on a below-market comparative position as set out on the next page:

	Maximum capped theoretical % CTC participation	
Specific elements	**Chief executive officer (CEO)**	**Chief financial officer (CFO)**
Actual HEPS* vs budgeted HEPS	45	39
Annual specific performance KPIs**	10	5
ROIC*** vs target	13	6
Actual HEPS vs target	22	10
Strategic execution targets	10	10
Total maximum theoretical participation	**100**	**70**
Comparable market position	100 – 150	80 – 100

** HEPS – Headline earnings per share*
*** KPIs – Key performance indicators*
**** ROIC – Return on invested capital*

Metair's approach to non-executive director remuneration

Non-executive directors are paid a fixed fee for their services but are entitled to claim travelling and other expenses incurred in carrying out their duties. Non-executive directors do not participate in the STIP or LTIP.

Service contracts are in place for all non-executive directors that explain, among other things, their appointment, roles and responsibilities and fees.

PE Corporate Services did a non-executive remuneration benchmarking exercise to align Metair's non-executive director remuneration with the market, which resulted in fees being adjusted in 2019.

The South African Revenue Service (SARS) issued two binding rulings relating to the tax treatment of non-executive directors' fees – Binding General Ruling (Income Tax) 40 and Binding General Ruling (VAT) 41 with an effective date of 1 June 2017. Where if non-executive directors receive fees in excess of R1 million, they are obliged to register for VAT. In order to determine if fees in aggregate of the R1 million are received, non-executive directors have to aggregate all director fees, committee fees and other income they receive from all companies in which they hold office. If the non-executive director is an independent contractor and would like to charge VAT out of their own company, all income in that company must be added together for VAT purposes. In this regard, the company took a decision that approved fees are exclusive of VAT. Non-executive directors have to invoice the company to pay over the director fees, adding VAT on top of the current fees received, where applicable. This VAT then has to be paid over to SARS. The company on the other hand will now have to pay an additional 15% on top of the director fees, which cannot be claimed as a deduction or reclaimed for VAT.

IMPLEMENTATION REPORT

1. Job grading and ranking system for guaranteed pay – Count 1

The benefit of using an objective international job grading system is that it allows stakeholders to compare positions and grades across all companies in the industry. This reporting period grading for the top positions at Metair graded the CEO position at 21 points and the group CFO at 18 points. These rankings allow stakeholders to make peer comparisons and evaluate the correctness and fairness – equal work for equal pay – of the group's remuneration practices. This ensures that pay is capped at the relevant graded level. The group uses the Exsys job and evaluation system to determine the ranking across the 21 graded positions in the group.

This year's generalised outcome on the Towers Watson and Exsys system is summarised in the table on the next page.

Global grade	Industry benchmark positions	Equivalent Metair positions
21	Group CEO	Metair CEO
18	Group level CFO, company levels MDs	Metair CFO, large company MDs
17, 16, 15, 14	Company level MDs, directors, senior managers, specialised group and company level	Small company MDs, directors, senior exco members, senior specialists, Metair group finance executive and Metair company secretary
13, 12, 11, 10	Junior managers, engineers, accountants	Junior exco members, managers, engineers, accountants and Metair group finance manager
9, 8, 7	Team leaders, line managers	Company team leaders, junior staff and clerks, technicians
6, 5, 4	Indirect workers, production support staff	Company quality controllers, logistics staff, administrative staff
3, 2, 1	Unionised and non-union workers	Direct labour

An income gap analysis has been compiled to depict the employee category/band ratios relative to each other. In 2018, the average guaranteed package for top management employees (global grades 15 and above) was 8.74 times higher than the average guaranteed package for clerical/administration/semi-skilled employees (global grades 4 – 7).

Employee Category	2014	2015	2016	2017	2018
Ratio of top management (GG 15+) to clerical/administration/semi-skilled (GG 4 – 7)			8.93	8.78	8.74
Ratio of professionally qualified and subject matter expert/middle management (GG 12 – 14) to clerical/administration/semi-skilled (GG 4 – 7)	4.10	4.21	4.25	4.09	4.08
Professionally qualified and subject matter expert/middle management (GG 12 – 14) to skilled technical and academically qualified and junior management (GG 8 – 11)	2.21	2.17	2.19	2.19	2.18

Employee Category	2014	2015	2016	2017	2018
Skilled technical and academically qualified and junior management (GG 8 – 11) to clerical/administration/semi-skilled (GG 4 – 7)	1.85	1.94	1.94	1.87	1.87
GG – Global grade					

The Metair income gap analysis depicting the employee category/band ratios relative to the CEO's salary showed that in 2018, the CEO earned 3.73 times higher than the average guaranteed package for top management employees (global grades 15 and above, excluding CEOs and CFOs).

Employee Category	2016	2017	2018
CEO (GG 21) to CFO (GG18)	1.63	1.63	1.63
CEO (GG 21) to top management (GG 15 and above excluding CEO and CFO	3.88	3.80	3.73
CEO (GG 21) to professionally qualified and subject matter expert/middle management (Global Grades 12 – 14)	7.45	7.42	7.26
CEO (GG 21) to skilled technical and academically qualified and junior management (Global Grades 8 – 11)	16.31	16.21	15.83
CEO (GG 21) to clerical/administration/semi-skilled (Global Grades 4 – 7)	31.68	30.30	29.63

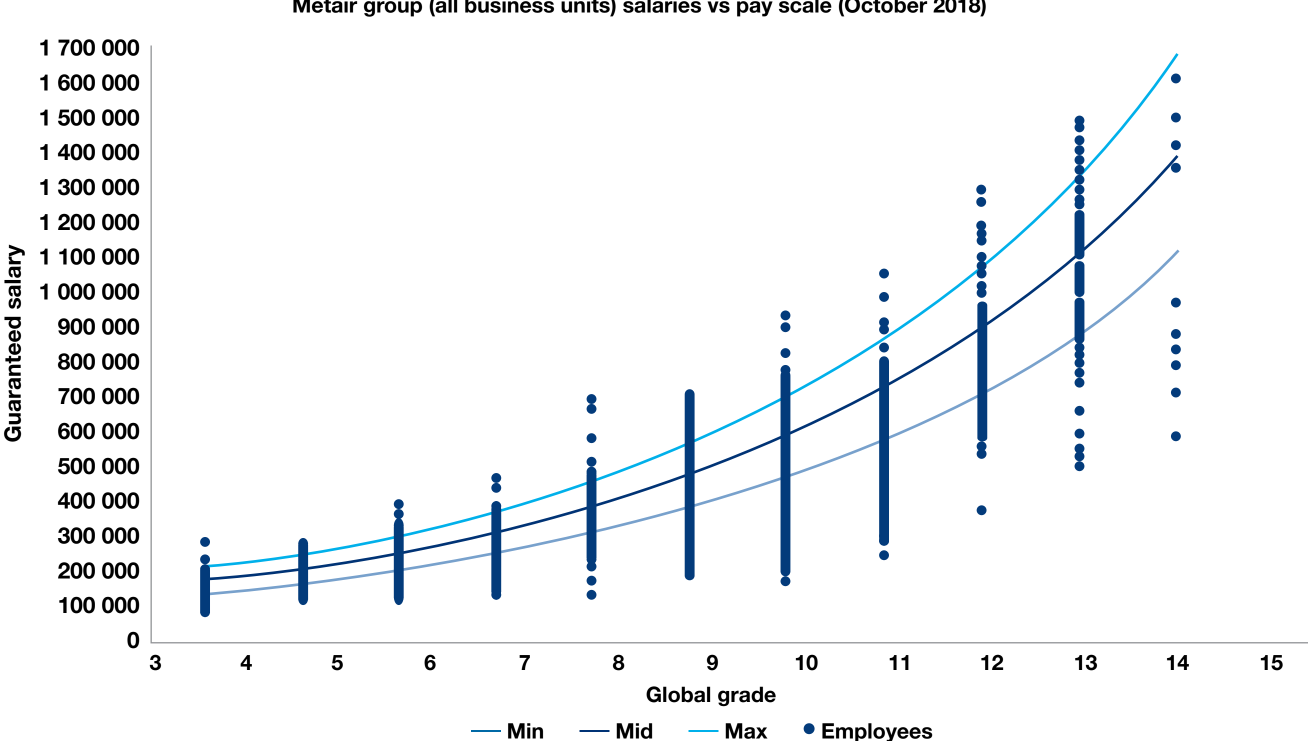
2. Market position cap

The second element of Metair's approach plots remuneration for each position relative to the market and Metair's peers. The pay scale graph below shows the results of benchmarking group salaries for job grades 4 to 15 for 2018.

The remuneration gap for Grades 8 to 11 was addressed in 2018 and will be addressed again in 2019 in terms of competitiveness and an improvement can already be seen for these employees. An upliftment parameter of 8% instead of 6% was recommended for these grades and managing directors had the prerogative to distinguish between their employees and apply a suitable increase in the range of 6% to 8%.

This market comparison is performed by an independent third party that benchmarks Metair against global peers in other manufacturing businesses. The comparison is used to determine where the group should remunerate within a three-tier grading across the lower quartile, the median or the upper quartile of the global peer group.

Remuneration **report** (continued)



Metair uses the global median as the targeted remuneration level to ensure sustainability. The median level is at 50% of the market, meaning that 50% of the market is still above the level of remuneration set at Metair.

The table on the next page (Count 1 – Guaranteed pay) shows the lower quartile, median and upper quartile position for the guaranteed pay of the CEO and CFO in terms of their 2018 guaranteed packages, excluding short-term incentives. As can be seen from the table, the group CEO is at 92% of the global median and the group CFO is at 97% of the median.

The related market surveys and published reports on remuneration for 2019 indicated a 6% increase for executive remuneration. The group decided to recommend a 6% salary increase for 2019, except for pay grade levels 8 to 11, where an increase of 8% was recommended in line with the agreed increase negotiated with union members. This increase should remedy our below-market competitiveness in these areas.

In order to ensure fair and competitive remuneration for all workers, the percentage annual increase in hourly wages has exceeded the increase in salaried pay to help narrow the pay gap between salaried employees and wage earners for the last decade. Refer to the human capital section on page 55 for more information.

3. Pay structure

Annual guaranteed pay

The guaranteed pay structure for the group is on a cost to company (CTC) basis, where all employee costs are accounted for as remuneration. The level of pay is derived from the job grading and ranking. Pay performance against the median can be influenced over time by employee performance, retention and years of service. At Metair this is Count 1 of four counts used to derive total remuneration.

Annual performance assessments are used to adjust recommended base increases up or down.

Even in the case of above-normal performance appraisals for the group CEO and CFO, the group increase of 6% was applied/recommended for 2018. The 2019 increases took account of increased foreign assignment requirements and board appointment fees paid in the Netherlands for the executives. An additional 2% salary increase was approved to neutralise the tax effect on the individuals. The CEO's actual fees paid in the Netherlands was taken on a salary sacrifice basis and his South African salary was only increased to neutralise the tax effect and came to 8.3%. The CFO's Netherlands board fees increased his CTC, which effectively increased 15% even though his South African CTC only shows a 3.5% increase.

The table on the next page (Count 1 – Guaranteed pay) shows group CEO and CFO remuneration for 2018.

Annual variable pay

Variable pay in the group consists of two elements – the short-term incentive programme (STIP) (Count 2 of total pay) and the long-term incentive programme (LTIP) (Count 4 of total pay).

Capped short-term incentive programme (STIP) – Count 2

Metair undertook a complete overhaul of its STIP this year to ensure total alignment with company and shareholder requirements driven by specific performance outcome objectives and long-term strategy support.

Count 1 - Guaranteed Pay

Position	Market Data June 2019				Actual earnings as % of market level		
	Current Earnings (R)	Lower quartile (R)	Median (R)	Upper quartile (R)	Lower quartile	Median	Upper quartile
CEO	6 770 542	6 270 262	7 376 779	8 483 296	108%	92%	80%
CFO	4 169 712	3 714 475	4 369 971	5 025 466	112%	95%	83%

The table below (Count 2 – Short-term incentive) compares the CEO and CFO short-term incentive participation for 2018 to the market:

The application of International Financial Reporting Standards (IFRS) results in a disconnect in the timing in which short-term incentives show in financial accounts since these incentives are paid and reflect in the company accounts in the year following the achieved and audited results on which the incentive is based. In this instance, the short-term incentives reflected in the annual financial statements, note 3, are based on the performance delivered against the 2017 financials and key performance indicator (KPI). However, the short-term incentives reflected in the table below are based on performance and KPIs delivered in 2018 but accrued in the annual financial statements of 2018 to be paid in 2019.

The CEO can participate at a theoretical capped maximum of 100% of CTC and the CFO at 70% where the actual capped percentage achieved for 2018 was at 86% for the CEO and 59% for the CFO.

The table on the next page shows the actual performance elements for the 2018 STIP structure.

Count 3 – Overseas assignments

The group is in the process of establishing and expanding its energy vertical internationally. The refunding of costs related to temporary overseas assignments also reflect in the accounts as remuneration, although these are reimbursements.

Assignment costs consist of three elements and is the third count in total remuneration:

- Living costs;
- Housing allowance and security; and
- Government and country legislated taxes and levies.

Count 2 – Short-term incentive programme

Position	Actual % of CTC	Short-term incentive (R)	Market Data June 2019			Actual earnings as % of market level		
			Lower quartile (R)	Median (R)	Upper quartile (R)	Lower quartile	Median	Upper quartile
CEO	84%	5 659 475	3 434 561	4 040 660	4 646 759	165%	140%	122%
CFO	58%	2 437 313	1 627 886	1 915 160	2 202 434	150%	127%	111%

Remuneration **report** (continued)

2018 STIP specific elements	Capped % CTC participation – CEO	Capped % CTC participation – CFO	Actual % CTC participation – CEO	Actual % CTC participation – CFO
Actual HEPS vs budgeted HEPS				
Incentive will be paid on a straight-line basis starting from 90% of budgeted HEPS	**45%**	**39%**	**45%**	**39%**
Annual specific performance KPIs:				
– Ensure improved Mutlu Akü performance to TL5 million PBIT over budget	2%	1%	2%	1%
– Ensure improved First National Battery performance to R200 million PBIT	2%	1%	0%	0%
– Manage optimal repayment/refinancing of R560 million of preference share debt	2%	1%	2%	1%
– Successful execution of hybrid group HR development strategy	2%	1%	2%	1%
– Identify1 Metair star and 2 back-up stars from the Energy Vertical	2%	1%	2%	1%
Total	**10%**	**5%**	**8%**	**4%**
ROIC vs target				
Incentive will be earned on a straight line basis between an ROIC of 11% and 15.5% for 2018	**13%**	**6%**	**6%**	**3%**
Over-performance Level 1 - Budgeted HEPS vs targeted HEPS for 2018				
Additional incentive paid on a straight line basis between HEPS of 272 – 300 cps	**22%**	**10%**	**22%**	**10%**
Board specific KPIs: Performance against strategic execution targets				
– TAB acquisition	4%	4%	0%	0%
– Other acquisition	3%	3%	0%	0%
– Become lithium-ion battery development partner	1.50%	1.50%	1.50%	1.50%
– Add a German OEM customer	1.50%	1.50%	1.50%	1.50%
Total	**10%**	**10%**	**3%**	**3%**
Maximum potential on budget	**100%**	**70%**	**84%**	**59%**

HEPS history (cents per share):

	2018	2017	2016	2015
Target	Additional incentive paid on a straight line basis between 272 – 300	Additional incentive paid on a straight line basis between 238 – 262	Additional incentive paid on a straight line basis between 230 – 248 and, 248 – 255 and, 255 – 285	Additional incentive paid on a straight line basis between 260 – 290 and 290 – 310
Actual	327	281	229	248

Total Count 1 and 2 – Guaranteed pay and short-term incentive

		Market Data June 2019			Actual earnings as % of market level		
Position	Current Earnings (R)	Lower quartile (R)	Median (R)	Upper quartile (R)	Lower quartile	Median	Upper quartile
CEO	12 430 017	9 693 003	11 403 533	13 114 063	128%	109%	95%
CFO	6 607 025	5 237 021	6 161 201	7 085 381	126%	107%	93%

In order to execute the Mutlu Akü acquisition and identify future expansion opportunities, the group CEO was assigned an expatriate assignment in Turkey which ended at the end of April 2018. The final assignment cost payment to the CEO was R1 092 783. This assigned cost is included in the remuneration of the CEO in addition to his normal remuneration and included in the total annual remuneration – Count 4.

The energy vertical head-office is based in the Netherlands. Metair executive directors have also received director fees in the Netherlands from January 2019 which will reflect in their total annual remuneration for the 2019 financial year.

Total Count 3 of annual remuneration (excluding LTIP)
The third count of annual remuneration excluding LTIP participation for the group executives therefore consists of three elements:

- Guaranteed pay (Count 1);
- Capped annual short-term incentive (Count 2); and
- Overseas assignment costs (Count 3).

The final and more complex element of Metair's executive remuneration policy is participation in the long-term incentive programme.

Count 4 – Retention and the capped LTIP
The aim of the LTIP is to obtain, retain and extend the services of executive management of Metair. However, where required, the LTIP can be expanded to include certain high potential subsidiary senior executives with scarce and critical skills or key employees, even if they are not executives. All candidates recommended for inclusion in the scheme must be approved by the committee before being submitted to the board for final sign off.

Metair's long-term incentive structure is highly skewed towards performance as the system awards annual performance shares and share appreciation rights to participants.

The table below indicates the percentage of CTC that is used to calculate the number of share appreciation rights and performance shares that were awarded in 2018 to the CEO and CFO. The percentage of CTC allocation is applied on an annual basis.

The table below contains more detail on the awards for 2018:

Share appreciation rights	
Metair CEO	152 663
Metair CFO	75 110
Total group allocation	1 270 834
Allocation date	27 November 2018
Allocation price	R17.70
Vesting date	From 27 November 2021 in three equal portions annually
Performance shares	
Metair CEO	55 805
Metair CFO	27 275
Total group allocation	582 904
Allocation date	3 April 2018
Vesting date	3 April 2021

For the period under review, 250 000 retention shares awarded to the CFO in 2015 vested. Retention shares are awarded to secure the services of executives. An additional term of restraint is that the shares will not be disposed of for an additional two years after vesting, thus totalling a five-year period.

In response to the shareholder requirement for the Metair executives to hold three times CTC in vested and unvested shares, the following table shows the current holdings by way of personal holdings calculated at the Metair closing price of R19.50:

	Personal holdings	Unvested retention shares	Total	Times
CEO	231 006	800 000	1 031 006	3.0
CFO	130 000*		130 000	0.6

* *Restricted vesting - 120 000 shares sold for tax purposes*

The retention bonus shares awarded to the CFO in 2017 have not been included in the total annual remuneration – total Count 4 – as it has claw back performance criteria attached to it which have to be achieved before vesting of the shares.

The only shares that vested during the year relate to the CFO retention shares as mentioned above. 250 000 shares vested of which 120 000 shares were sold for tax purposes and as these are the only unrestricted shares, they are the only shares shown below. The vesting as indicated on the next page, with further details provided in note 14 to the annual financial statements, relate to previously approved allocations.

	Share appreciation rights				Performance shares			
Position	% of CTC	Value (R)	No. of shares	At share value R/c	% of CTC	Deemed value (R)	No. of shares	At deemed share value R/c
CEO	40%	2 702 135	152 663	17.70	19%	1 283 515	55 805	23.00
CFO	32%	1 329 447	75 110	17.70	15%	627 325	27 275	23.00

Remuneration **report** (continued)

Bonus shares	
Metair CFO	120 000
Allocation date	26 October 2015
Vesting price	R15.24
Deemed value	R1 828 800
Vesting date	26 October 2018
Share appreciation rights	
Share appreciation rights allocated in November 2012 lapsed in 2018.	
Other share appreciation rights were not exercised as there was no appreciation from the grant price. The exercise of all thirds of the shares allocated on 26 November 2013, the first and second third of shares allocated on 2 April 2014, the first and second third of shares allocated on 26 November 2014 as well as the first third of shares allocated on 26 November 2015 were rolled to next year.	
Performance shares	
Performance shares granted on 2 April 2015 did not vest as the performance criteria were not met.	

Total Annual Remuneration – Total Count 4

Total Annual Remuneration for the group CEO and CFO consisting of all four pay counters for 2018 is shown in the table below.

The application of IFRS results in a disconnect in the timing in which short-term incentives show in financial accounts since these incentives are paid and reflected in the year following the achieved and audited results on which the incentive is based. In this instance, the short-term incentives reflected in the annual financial statements, note 3, are based on the performance delivered against the 2017 financials and 2018 key performance indicator (KPI) performance. However, the short-term incentive reflected in the table below is based on performance and key performance indicators (KPIs) delivered in 2018 but accrued in the annual financial statements of 2018 to be paid in 2019 along with the subsistence allowances.

Awards not yet vested

Details of awards that have not yet vested including awards made in 2018 are included in the table below.

Fair value is based on the higher of the intrinsic value or the originally determined value in terms of IFRS2. The intrinsic value is based on the market value of the Metair share of R19.50 on 31 December 2018 and assumes that all performance criteria have been met.

For more details on CEO and CFO emoluments, refer to note 3 in the annual financial statements. The long-term incentive structure is further detailed in note 26 of the annual financial statements.

Total count 4

Position	Count 1 Guaranteed	Count 2 Short-term incentive	Count 3 Assignments	Count 4 Long-term incentive	Total
CEO	6 770 542	5 659 475	1 092 783		13 522 800
CFO	4 169 712	2 437 313		1 828 800	8 435 825
The CFO retained 130,000 shares of the 250,000 shares that vested, with 120,000 shares sold for tax purposes. The balance of the shares remain restricted and invested in Metair shares, as per his agreement with the company.					

Reconciliation between executive remuneration shown in the annual financial statements and the above:

Position	Count 1 Guaranteed	Subsistence allowance	Count 2 Short-term incentive prior year	Count 3 Assignments	Count 4 Long-term incentive	Total
CEO	6 770 542	124 797	5 783 819	1 092 783		13 771 941
CFO	4 169 712	113 839	2 576 319		1 828 800	8 688 670

Position	Type of awards	Grant date	Maturity date	Grant price	Number of awards	Fair value at grant date	Market value at 31 December 2018	Fair value as at 31 December 2018
CEO	Bonus shares	01-Apr-16	01-Apr-19	R0.00	800 000	R17.83	R15 600 000	R15 600 000
	Performance shares	01-Apr-16	01-Apr-19	R0.00	57 693	R10.78	R1 125 014	R1 125 014
		03-Apr-17	03-Apr-20	R0.00	47 766	R20.22	R931 437	R965 829
		03-Apr-18	03-Apr-21	R0.00	55 805	R17.21	R1 088 198	R1 088 198
	Share appreciation rights	26-Nov-13	26-Nov-18	R37.33	800 000	R22.03		R17 624 000
		02-Apr-14	03-Apr-19	R42.77	34 744	R13.04		R453 052
		26-Nov-14	26-Nov-19	R37.35	49 732	R9.50		R472 454
		26-Nov-15	26-Nov-20	R28.30	77 253	R8.04		R621 114
		25-Nov-16	26-Nov-21	R20.02	120 124	R6.75		R810 837
		27-Nov-17	27-Nov-22	R19.12	133 326	R5.85	R50 664	R779 957
		27-Nov-18	27-Nov-23	R17.70	152 663	R6.21	R274 793	R948 037
Total					**2 329 106**		**19 070 105**	**40 488 502**
CFO	Bonus shares	19-Jun-17	19-Jun-20	R0.00	250 000	R0*	R0*	R0*
	Performance shares	01-Apr-16	01-Apr-19	R0.00	28 061	R10.78	R547 190	R547 190
		03-Apr-17	03-Apr-20	R0.00	23 346	R20.22	R455 247	R472 056
		03-Apr-18	03-Apr-21	R0.00	27 275	R17.21	R531 863	R531 863
	Share appreciation rights	26-Nov-14	26-Nov-19	R37.35	250 000	R11.17		R2 792 500
		02-Apr-14	03-Apr-19	R42.77	22 252	R13.04		R290 166
		26-Nov-14	26-Nov-19	R37.35	22 493	R9.50		R213 684
		26-Nov-15	26-Nov-20	R28.30	28 834	R8.04		R231 825
		25-Nov-16	26-Nov-21	R20.02	59 101	R6.75		R398 932
		27-Nov-17	27-Nov-22	R19.12	65 596	R5.85	R24 926	R383 737
		27-Nov-18	27-Nov-23	R17.70	75 110	R6.21	R135 198	R466 433
Total					**852 068**		**6 569 423**	**11 203 385**

** Fair value and market value adjusted to zero after clarification of interpretation by the remuneration committee*

Remuneration **report** (continued)

TOP THREE EXECUTIVES' REMUNERATION

The remuneration of the top three executives of the group, excluding Metair's holding company executives, is as follows:

Executive emoluments	Executive 1 R'000	Executive 2 R'000	Executive 3 R'000
Salaries and allowances	3 365	2 923	2 275
Performance bonuses	1 316	814	1 198
Pension and provident fund contributions	53	392	274
Company contributions	222	45	82
Total	**4 957**	**4 174**	**3 829**

NON-EXECUTIVE DIRECTORS' REMUNERATION

PE Corporate Services was engaged to conduct a benchmarking exercise for the non-executive directors' fees.

An increase of 8% on non-executive directors' fees was recommended to take account of increased non-executive directors' responsibilities and also to align with market related fees and will be presented for approval by shareholders at the 2019 annual general meeting. directors' fees proposed for 2019 are exclusive of VAT and are as follows:

Board chairman	R648 000 per annum
Non-executive directors	R324 000 per annum
Audit and risk committee chairman	R38 880 per meeting
Audit and risk committee member	R23 760 per meeting
Remuneration committee chairman	R28 836 per meeting
Remuneration committee member	R18 036 per meeting
Nominations committee chairman	R28 836 per meeting
Nominations committee member	R18 036 per meeting
Social and ethics committee chairperson	R25 272 per meeting
Social and ethics committee member	R12 960 per meeting
Investment committee chairman	R25 272 per meeting
Investment committee member	R12 960 per meeting

Refer to note 3 in the annual financial statements for details on actual non-executive director emoluments.

The committee was satisfied that it complied with the remuneration policy during the period under review.

Shareholder **analysis**

Company: Metair Investments Limited
Register date: 28 December 2018
Issued Share Capital: 198 985 886

SHAREHOLDER SPREAD	No of Shareholdings	%	No of Shares	%
1 – 1 000 shares	1 578	50.56	561 205	0.28
1 001 – 10 000 shares	1 034	33.13	3 432 470	1.73
10 001 – 100 000 shares	323	10.35	11 120 763	5.59
100 001 – 1 000 000 shares	143	4.58	47 738 869	23.99
1 000 001 shares and over	43	1.38	136 132 579	68.41
Totals	**3 121**	**100.00**	**198 985 886**	**100.00**

DISTRIBUTION OF SHAREHOLDERS	No of Shareholdings	%	No of Shares	%
Banks/Brokers	71	2.28	39 108 935	19.65
Close Corporations	25	0.80	225 340	0.11
Endowment Funds	17	0.55	578 205	0.29
Individuals	2 391	76.61	7 782 846	3.91
Insurance Companies	38	1.22	6 157 335	3.09
Investment Companies	2	0.06	37 331	0.02
Medical Schemes	5	0.16	284 351	0.14
Mutual Funds	164	5.25	80 978 957	40.70
Other Corporations	23	0.74	58 992	0.03
Private Companies	77	2.47	1 328 165	0.67
Public Companies	1	0.03	50	0.00
Retirement Funds	89	2.85	53 637 431	26.96
Treasury Stock	2	0.06	6 702 399	3.37
Trusts	216	6.92	2 105 549	1.06
Totals	**3 121**	**100.00**	**198 985 886**	**100.00**

PUBLIC / NON–PUBLIC SHAREHOLDERS	No of Shareholdings	%	No of Shares	%
Non-Public Shareholders	6	0.19	7 183 405	3.61
Directors and Associates of the company	4	0.13	481 006	0.24
Treasury Stock	2	0.06	6 702 399	3.37
Public Shareholders	3 115	99.81	191 802 481	96.39
Totals	**3 121**	**100.00**	**198 985 886**	**100.00**

BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE			No of Shares	%
Government Employees Pension Fund			18 913 964	9.51
Value Capital Partners			17 720 608	8.91
Foord			13 327 057	6.70
Alexander Forbes Investments			11 128 598	5.59
Somerset Capital Management			9 671 214	4.86
Investec			8 706 580	4.38
Standard Bank Group Retirement Funds			7 341 542	3.69
Allan Gray			6 703 297	3.37
Business Venture Investments No 1217			6 702 399	3.37
Vanguard			6 109 895	3.07
Totals			**106 325 154**	**53.43**

Shareholder **analysis** (continued)

INSTITUTIONAL SHAREHOLDING 3% OR MORE	No of Shares	%
Foord Asset Management	25 840 686	12.99
Value Capital Partners	22 162 331	11.14
Kagiso Asset Management	16 662 991	8.37
Investec Asset Management	15 316 302	7.70
Public Investment Corporation	15 259 123	7.67
Somerset Capital Management	10 937 260	5.50
Sentio Capital Management	7 257 417	3.65
Allan Gray Asset Management	6 996 461	3.52
Absa Asset Management	6 454 016	3.24
Dimensional Fund Advisors	6 247 300	3.14
Vanguard	6 109 895	3.07
Totals	**139 243 782**	**69.98**

BREAKDOWN OF NON-PUBLIC HOLDINGS		
Directors	**No of Shares**	**%**
Douwenga, S	**130 000**	**0.07**
Soanes, L	**120 000**	**0.06**
Loock, CT	**231 006**	**0.11**
Loock, CT	227 145	0.11
Loock, CT	3 861	0.00
Totals	**481 006**	**0.24**
Treasury Stock	**No of Shares**	**%**
Business Venture Investments No.1217	6 519 577	3.28
Business Venture Investments No.1217	182 822	0.09
Totals	**6 702 399**	**3.37**

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE		
Beneficial Shareholders Holding 3% or more	**No of Shares**	**%**
Government Employees Pension Fund	**18 913 964**	**9.51**
Government Employees Pension Fund – Public Investment Corporation	13 664 163	6.87
Government Employees Pension Fund – Sentio Capital Management	4 167 885	2.09
Government Employees Pension Fund – Mianzo Asset Management	469 073	0.24
Government Employees Pension Fund – LEGACY AFRICA Fund Managers	347 813	0.17
Government Employees Pension Fund – Public Investment Corporation	265 030	0.13
Value Capital Partners	**17 720 608**	**8.91**
Value Active PFP H4 QI Hedge Fund	17 720 608	8.91
Foord	**13 327 057**	**6.70**
Foord Balanced Fund	7 296 341	3.67
Foord Equity Fund	5 689 483	2.86
Foord Domestic Balanced Fund	341 233	0.17

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE (continued)		
Beneficial Shareholders Holding 3% or more (continued)	**No of Shares**	**%**
Alexander Forbes Investments	**11 128 598**	**5.59**
Alexander Forbes Investments Fully Discretionary Local	4 489 399	2.26
Alexander Forbes Investments Funds – Equity	2 767 564	1.39
Alexander Forbes Investments Institutional Equity Unit Trust	855 841	0.43
Alexander Forbes Investments Funds	598 481	0.30
Alexander Forbes Investments Funds	563 922	0.28
Alexander Forbes Investments Funds – Absolute Return	428 673	0.22
Alexander Forbes Investments Fully Discretionary Local	233 385	0.12
Alexander Forbes Investments Funds	227 105	0.11
Alexander Forbes Investments Funds – Low Equity Conserver	214 486	0.11
Alexander Forbes Investments Funds – Capped SWIX Tracker	143 370	0.07
Alexander Forbes Investments – Shariah Equity	120 058	0.06
Alexander Forbes Investments Funds – Conserver	115 000	0.06
Alexander Forbes Investments Funds	93 024	0.05
Alexander Forbes Investments Funds – Local Balanced	76 117	0.04
Alexander Forbes Investments Institutional Equity Unit Trust	46 153	0.02
Alexander Forbes Investments Funds	39 680	0.02
Alexander Forbes Investments Real Return Focus Fund	37 000	0.02
Alexander Forbes Investments Funds – Institutional Equity	30 718	0.02
Alexander Forbes Investments Funds – Performer Balanced	25 790	0.01
Alexander Forbes Investments – Aggressive Equity	22 832	0.01
Somerset Capital Management	**9 671 214**	**4.86**
PFS Somerset Emerging Markets Small Cap Fund	7 972 151	4.01
PFS Somerset Emerging Markets Small Cap Fund	1 699 063	0.85
Investec	**8 706 580**	**4.38**
Investec Value Fund	2 054 452	1.03
Investec Cautious Managed Fund	1 679 175	0.84
Investec Emerging Companies Fund	1 558 413	0.78
Investec Special Focus Fund	1 238 605	0.62
Investec Securities - Proprietary STRATE A/C No 2	786 943	0.40
Investec Absolute Balanced Fund	694 862	0.35
Investec Wealth & Investment BCI Dynamic Equity Fund	225 000	0.11
Investec Opportunity Fund	214 302	0.11
Investec SA Value Fund	208 797	0.10
Investec SA Cautious Managed Fund	46 031	0.02
Standard Bank Group Retirement Funds	**7 341 542**	**3.69**
Standard Bank Group Retirement Funds	4 133 137	2.08
Standard Bank Group Retirement Funds	1 736 997	0.87
Standard Bank Group Retirement Funds	1 471 408	0.74
Vanguard	**6 109 895**	**3.07**
Vanguard Total International Stock Index Fund	2 786 307	1.40
Vanguard Emerging Markets Stock Index Fund	2 697 746	1.36
Vanguard FTSE All-World ex-US Small-Cap Index Fund	520 139	0.26
Vanguard Total World Stock Index Fund	105 703	0.05

Shareholder **analysis** (continued)

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE (continued)		
Beneficial Shareholders Holding 3% or more (continued)	**No of Shares**	**%**
Allan Gray	**6 703 297**	**3.37**
Allan Gray Stable Fund	5 055 977	2.54
Allan Gray Global Stable Portfolio	760 306	0.38
Allan Gray Optimal Fund	329 897	0.17
Allan Gray Domestic Stable Medical Scheme Portfolio	241 997	0.12
Allan Gray Domestic Stable Portfolio	210 990	0.11
Allan Gray Domestic Optimal Portfolio	98 730	0.05
Allan Gray Namibia Stable Fund	5 400	0.00
Totals	**99 622 755**	**50.07**

BREAKDOWN OF INSTITUTIONAL SHAREHOLDERS HOLDING 3% OR MORE		
Institutional Shareholders Holding 3% or more	**No of Shares**	**%**
Foord Asset Management	**25 840 686**	**12.99**
Foord Balanced Fund	7 296 341	3.67
Foord Equity Fund	5 689 483	2.86
Alexander Forbes Investments Fully Discretionary Local	**4 489 399**	**2.26**
Alexander Forbes Investments Funds – Equity	2 767 564	1.39
Nedgroup Investments Value Fund	1 256 041	0.63
Momentum Macro Value Fund	1 190 691	0.60
Alexander Forbes Investments Funds	598 481	0.30
Swaziland Public Service Pension Fund	572 549	0.29
Post Office Retirement Fund	474 623	0.24
Foord Domestic Balanced Fund	341 233	0.17
Lesotho Public Officers Defined Contribution Pension Fund	260 431	0.13
Momentum Funds	216 484	0.11
MM Family Trust	120 680	0.06
Cape Medical Plan	109 500	0.06
SMMI Positive Return Fund 4	90 000	0.05
Maize Trust Investment No 3	76 861	0.04
Ashely, HH	50 000	0.03
Oil & Protein Seeds Development Trust	34 700	0.02
Hulamin Defined Benefit Pension Fund	34 374	0.02
Heather Trust	30 917	0.02
SA BIAS Retirement Fund	30 766	0.02
Alexander Forbes Investments Funds – Institutional Equity	30 718	0.02
Alexander Forbes Investments Funds – Performer Balanced	25 790	0.01
Fraser, AE	19 500	0.01
EA Roberts Trust	16 000	0.01
Mouton, RV	10 000	0.01
Margaret, AM	7 560	0.00
Value Capital Partners	**22 162 331**	**11.14**
Value Active PFP H4 QI Hedge Fund	17 720 608	8.91
Sentinel Mining Industry Retirement Fund	4 441 723	2.23

BREAKDOWN OF INSTITUTIONAL SHAREHOLDERS HOLDING 3% OR MORE (continued)		
Institutional Shareholders Holding 3% or more (continued)	**No of Shares**	**%**
Kagiso Asset Management	**16 662 991**	**8.37**
Post Office Retirement Fund	1 754 951	0.88
Standard Bank Group Retirement Fund	1 736 997	0.87
Metal Industries Provident Fund	1 648 910	0.83
Engineering Industries Pension Fund	1 562 354	0.79
Mineworkers Provident Fund	1 343 246	0.68
Kagiso Islamic Equity Fund	1 084 172	0.54
Kagiso Islamic Balanced Fund	1 048 034	0.53
Transnet Pension Fund	929 167	0.47
Eskom Pension & Provident Fund	747 029	0.38
Auto Workers Provident Fund	739 748	0.37
Motor Industry Provident Fund	703 881	0.35
Sentinel Mining Industry Retirement Fund	568 216	0.29
Kagiso Balanced Fund	474 623	0.24
Kagiso Equity Alpha Fund	371 847	0.19
Political Office-Bearers Pension Fund	302 436	0.15
University of South Africa Retirement Fund	270 843	0.14
Metropolitan Life Ltd	248 084	0.12
Bosele National Provident Fund	202 779	0.10
Kagiso Stable Fund	184 774	0.09
Transnet Retirement Fund	123 484	0.06
Alexander Forbes Investments – Shariah Equity	120 058	0.06
Leather Industry Provident Fund	119 920	0.06
Altron Group Pension Fund	103 486	0.05
Iscor Employees Umbrella Provident Fund	87 914	0.04
Alexander Forbes Investments Funds – Local Balanced	76 117	0.04
Kagiso Protector Fund	55 918	0.03
Transnet Retirement Fund	54 003	0.03
Investec Asset Management	**15 316 302**	**7.70**
Standard Bank Group Retirement Fund	4 133 137	2.08
Investec Value Fund	2 054 452	1.03
Investec Cautious Managed Fund	1 679 175	0.84
Investec Emerging Companies Fund	1 558 413	0.78
Investec Special Focus Fund	1 238 605	0.62
Investec Absolute Balanced Fund	694 862	0.35
SMMI General Equity Fund 2	444 858	0.22
SAB Staff Provident Fund	431 929	0.22
Auto Workers Provident Fund	422 487	0.21
Motor Industry Provident Fund	332 001	0.17
Absa Multi-Managed Equity Fund	326 691	0.16
Alexander Forbes Investments Funds	227 105	0.11
Alexander Forbes Investments Funds – Low Equity Conserver	214 486	0.11
Investec Opportunity Fund	214 302	0.11
Investec SA Value Fund	208 797	0.10

Shareholder **analysis** (continued)

BREAKDOWN OF INSTITUTIONAL SHAREHOLDERS HOLDING 3% OR MORE (continued)		
Institutional Shareholders Holding 3% or more (continued)	**No of Shares**	**%**
PPS Institutional Multi Asset Low Equity Fund	176 626	0.09
Social Security Commission	164 025	0.08
Bonitas Medical Fund	142 811	0.07
AVBOB Mutual Assurance Society – Corporate	116 190	0.06
Eskom Pension & Provident Fund	114 735	0.06
Motor Industry Pension Fund	99 514	0.05
AVBOB Mutual Assurance Society – Corporate	73 903	0.04
De Beers Pension Fund	72 247	0.04
STANLIB Multi-Manager Defensive Balanced Fund	64 575	0.03
Phumula Retirement Fund	64 345	0.03
Investec SA Cautious Managed Fund	46 031	0.02
Public Investment Corporation	15 259 123	7.67
Government Employees Pension Fund	13 664 163	6.87
Unemployment Insurance Fund	1 329 930	0.67
Government Employees Pension Fund	265 030	0.13
Somerset Capital Management	**10 937 260**	**5.50**
PFS Somerset Emerging Markets Small Cap Fund	7 972 151	4.01
PFS Somerset Emerging Markets Small Cap Fund	1 699 063	0.85
Church Commissioners for England	1 266 046	0.64
Sentio Capital Management	**7 257 417**	**3.65**
Government Employees Pension Fund	4 167 885	2.09
Unemployment Insurance Fund	709 037	0.36
Old Mutual Multi-Managers Satellite Equity Fund	427 374	0.21
Momentum Funds	324 896	0.16
Momentum Real Growth Equity Fund	292 952	0.15
Transnet Retirement Fund	284 631	0.14
Momentum SA Defensive Growth Fund	258 028	0.13
Sanlam Select Optimised Equity Fund	167 566	0.08
Telkom Retirement Fund	154 931	0.08
Sentio SCI HIKMA Shariah General Equity Fund	135 237	0.07
Private Security Sector Provident Fund	109 165	0.05
Nautilus Managed Account Platform – Map 301	81 612	0.04
Sentio SCI HIKMA Shariah Balanced Fund	49 826	0.03
Momentum Funds	38 077	0.02
Alexander Forbes Investments – Aggressive Equity	22 832	0.01
Sygnia Life	20 757	0.01
Sentio SCI General Equity Fund	9 179	0.00
Sentio SCI Balanced Fund	3 432	0.00
Vanguard	**6 109 895**	**3.07**
Vanguard Total International Stock Index Fund	2 786 307	1.40
Vanguard Emerging Markets Stock Index Fund	2 697 746	1.36
Vanguard FTSE All-World ex-US Small-Cap Index Fund	520 139	0.26
Vanguard Total World Stock Index Fund	105 703	0.05

BREAKDOWN OF INSTITUTIONAL SHAREHOLDERS HOLDING 3% OR MORE (continued)		
Institutional Shareholders Holding 3% or more (continued)	**No of Shares**	**%**
Allan Gray Asset Management	**6 996 461**	**3.52**
Allan Gray Stable Fund	5 055 977	2.54
Allan Gray Global Stable Portfolio	760 306	0.38
Allan Gray Optimal Fund	329 897	0.17
Allan Gray Domestic Stable Medical Scheme Portfolio	241 997	0.12
Allan Gray Domestic Stable Portfolio	210 990	0.11
Margaret Jack Trust	130 694	0.07
Allan Gray Domestic Optimal Portfolio	98 730	0.05
Gail Day Family Trust	63 821	0.03
Transnet Pension Fund	33 500	0.02
University of Stellenbosch Retirement Fund	21 532	0.01
Bidvest SA Pension Fund	15 543	0.01
University of Free State Trust Fund	14 266	0.01
Bidvest SA Provident Fund	13 808	0.01
Allan Gray Namibia Stable Fund	5 400	0.00
Absa Asset Management	**6 454 016**	**3.24**
Absa Absolute Fund	1 250 000	0.63
Absa Group Pension Fund	1 058 207	0.53
Absa Institutional Fiduciary Flexible Growth Fund	935 000	0.47
Absa Balanced Fund	706 683	0.36
Absa Select Equity Fund	456 124	0.23
Alexander Forbes Investments Funds – Absolute Return	428 673	0.22
Alexander Forbes Investments Fully Discretionary Local	233 385	0.12
Absa Group Pension Fund	220 000	0.11
Absa Multi Managed Accumulation Fund	215 000	0.11
Post Office Retirement Fund	151 407	0.08
Absa Group Pension Fund	130 000	0.07
Alexander Forbes Investments Funds – Conserver	115 000	0.06
Momentum Real Return Core Fund	110 000	0.06
Absa Multi Managed Growth Fund	97 453	0.05
Absa Multi Managed Core Preserver Fund	80 000	0.04
Absa Multi-Managed Absolute Return Prudential Fund	60 000	0.03
Absa Managed Fund	41 462	0.02
Alexander Forbes Investments Funds	39 680	0.02
Alexander Forbes Investments Real Return Focus Fund	37 000	0.02
Momentum Funds – Absolute	30 000	0.02
Absa Life Ltd – Disability Absolute Return Fund	22 000	0.01
Swaziland Royal Insurance Corporation	14 500	0.01
Absa Multi Managed Passive Growth Fund	13 594	0.01
Absa Multi Managed Accumulation Fund	5 689	0.00
Absa Multi Managed Passive Preserver Fund	3 159	0.00

Shareholder **analysis** (continued)

BREAKDOWN OF INSTITUTIONAL SHAREHOLDERS HOLDING 3% OR MORE (continued)		
Institutional Shareholders Holding 3% or more (continued)	**No of Shares**	**%**
Dimensional Fund Advisors	**6 247 300**	**3.14**
Dimensional Emerging Markets Value Fund	1 582 904	0.80
Emerging Markets Small Cap Series	1 479 029	0.74
DFA Emerging Market Core Equity Portfolio	1 240 521	0.62
Dimensional Funds Plc – Emerging Markets Value Fund	267 612	0.13
City of New York Group Trust	193 792	0.10
Dimensional Funds II Plc	124 633	0.06
City of New York Group Trust	123 450	0.06
DFA Emerging Market Core Equity Fund	117 331	0.06
DFA Emerging Markets Social Core Portfolio	111 669	0.06
TA World Ex US Core Equity Portfolio	98 252	0.05
Queensland Investment Corporation	71 550	0.04
John Hancock Funds II Emerging Markets Fund	71 247	0.04
People's Bank of China	69 310	0.03
TA World Ex US Core Equity Portfolio	67 467	0.03
Los Angeles City Employees' Retirement System	65 344	0.03
DFA World Ex US Targeted Value Portfolio	62 566	0.03
John Hancock Variable Insurance Trust Emerging Markets Value Trust	62 185	0.03
Dimensional Emerging Markets Trust	62 107	0.03
City of New York Group Trust	59 514	0.03
Alaska Permanent Fund	55 259	0.03
Manulife Emerging Markets Value Fund	50 063	0.03
Florida Retirement System	47 955	0.02
Los Angeles Fire & Police Pension Plan	32 665	0.02
DFA International Core Equity Fund	26 091	0.01
Oregon Public Employees Retirement System	23 619	0.01
Dimensional Emerging Markets Targeted Value Fund	23 222	0.01
Old Westbury Global Small & Mid Cap Fund	22 537	0.01
Teacher Retirement System of Texas	22 527	0.01
MGI Funds	12 879	0.01
Totals	**139 243 782**	**69.98**

Independent **assurance statement**

To the Board and stakeholders of Metair Investments Limited (Metair):

Integrated Reporting & Assurance Services (IRAS) was commissioned by Metair to provide independent third-party assurance (ITPA) over the sustainability content within Metair's 2018 Integrated Annual Report (hereafter, referred to as 'the Report'), covering the period 01 January to 31 December 2018. For the purposes of this statement, 'the Report' refers to the printed report, and downloadable/online version, and all relevant supplemental information made available via the web at https:/www.metair.co.za.

The assurance team consisted of Michael H. Rea, a Lead Certified Sustainability Assurance Practitioner with 20 years' experience in environmental and social performance measurement, including sustainability reporting and assurance.

ACCOUNTABILITY AA1000S (REVISED, 2008)

To the best of our ability, this assurance engagement has been managed in accordance with AccountAbility's AA1000AS (2008) assurance standard, where the format of the engagement was structured to meet the AA1000AS Type II (Moderate) requirements.

INDEPENDENCE

IRAS was not responsible for the preparation of any part of the Report and has not undertaken any commissions for Metair in the reporting period that would impede our independence. IRAS has, however, conducted assurance engagements for Metair's 2011 through 2017 Reports, including the identification of reporting gaps that ultimately have been incorporated into their reporting processes. From 2014, assurance has included assurance site visits to the following selected sites:

- 2018 First National Batteries, Lumotech and Supreme Spring
- 2017 Mutlu Akü (Turkey) and Rombat (Romania)
- 2016 ATE and Unitrade
- 2015 Lumotech, Smiths Manufacturing and Supreme Spring
- 2014 First National Batteries, Hesto Harnesses and Smiths Plastics

Moreover, our engagements have expanded to provide guidance – as a product of our assurance investigations – over effective sustainability data collection, collation and reporting, inclusive of Metair's Group Sustainability Definitions and internal audit procedures. However, this work has not compromised our ability to afford ITPA over the sustainability content within Metair's IAR.

IRAS's responsibility in performing its assurance activities is to the management of Metair alone and in accordance with the terms of reference agreed with them.

The cost of this assurance engagement was R369 050 (exclusive of VAT and expenses), with no portion of these fees assigned to tasks deemed "advisory services".

ASSURANCE OBJECTIVES

The objectives of the assurance process were to…

- Assess the extent to which group policies and procedures for sustainability data collection, collation and reporting are effectively applied at the following operations: First National Batteries, Lumotech and Supreme Spring. This includes testing the accuracy, consistency, completeness and reliability of reported data, relative to a set of selected sustainability indictors, as tested at the selected sites.
- Assess Metair's ability to provide transparent disclosure of quantitative comparable sustainability data (also referred to as "Environmental, Social and Governance", or "ESG" data).
- Assess the extent to which the IAR adheres to reasonable local and international expectations for effective reporting, including guidance provided by the International Integrated Reporting Committee (IIRC) recommendations for integrated reporting (the <IR> Framework).

SCOPE OF

The process used in arriving at this assurance statement is based on AccountAbility's AA1000AS (2008) guidance, as well as other best practices in assurance. Our approach to assurance included the following:

- An "internal materiality assessment" review of Board and Committee packs to identify the material issues discussed at the highest levels of governance within the company;
- A review of sustainability measurement and reporting procedures at Metair's head offices, via management interviews with the reporting team, as well as through desktop research;
- A review of data collection, collation and reporting procedures at the selected operational sites, with specific reference to the 18 selected sustainability performance indicators (below);
- Reviews of drafts of the Report for any significant errors and/or anomalies, inclusive of any lapses in the reporting of material issues identified during our internal and external materiality assessments;
- Reviews of drafts of the Report to test for reasonable adherence to reasonable reporting expectations; and,
- A series of interviews with the individuals responsible for collating and writing various parts of the Report in order to ensure sustainability performance assertions could be duly substantiated.

It should be noted that due to the scope and nature of this AA1000AS (Type II, Moderate) assurance engagement, the site visits were designed to test the authenticity of data at the primary source of collection and collation, and this report has been assessed at the point of data aggregation for accuracy of reporting.

The selected sustainability performance indicators are as follows:

1. Total Employees – Total number of full time/permanent, temporary, and fixed contract employees, as per dti Codes of Good Practice definitions.
2. Disabled Employees – Total number of employees

Independent **assurance statement** (continued)

with recognised – or “scheduled” – disabilities (e.g., deafness, blindness, restricted mobility and/or paralysis, etc.). This also included an assessment of the status of preparedness for facilitating the recruitment of additional disabled persons.

3. Females in Management – Number of women in management level roles.
4. Absenteeism – Total number of person days lost due to all forms of absenteeism (i.e., sick, abscond, etc.), excluding formal/annual leave.
5. Employee Turnover – Percentage of employees that left the employ of Metair during the year for all reasons (e.g., End of Contract, Dismissal, Retirement, Death, Permanent Disability/Medical Boarding, End of Contract, etc.), relative to total employee headcount as at the last day of the reporting period.
6. Persons Trained – Total number of persons who participated in one or more training sessions during the year, inclusive of “awareness”, “mandatory” and “skills development” training.
7. Disabled Persons Trained – Total number of persons with recognised – or “scheduled” – disabilities who participated in one or more training sessions during the year.
8. PHW – Total number of Person Hours Worked (PHW) for all employees and contractors.
9. FIFR – Fatal Injury Frequency Rate (FIFR), calculated as the total number of fatal injuries (FIs) per 200 000 PHW – for employees and contractors.
10. LTIFR – Lost Time Injury Frequency Rate (LTIFR), calculated as the total number of lost time injuries (LTIs) per 200 000 PHW – for employees and contractors.
11. TIFR – Total Injury Frequency Rate (TIFR), calculated as the total number of injuries – inclusive of FIs, LTIs, Medical Treatment Cases (MTCs) and First Aid Cases (FACs) per 200 000 PHW – for employees and contractors.
12. Electricity – Total direct and indirect consumption of electricity for primary purposes.
13. Petrol – Total direct and indirect consumption of petrol for primary purposes.
14. Diesel – Total direct and indirect consumption of diesel for primary purposes.
15. Water – Total volume of water consumed – from all sources (i.e., municipal sources, boreholes, etc.) – for primary purposes.
16. Waste – Total volume of generated waste – non-hazardous and hazardous – that is sent to landfill.
17. Waste Recycled – Total volume of waste generated that is either recycled within process or sent for recycling at an appropriate hazardous waste disposal site.
18. Environmental Spend – Rand value of all expenditures to improve energy, water and/or waste management efficiencies within the organisation, such as the cost of installing solar panels to reduce Eskom-supplied electricity, the cost of installing/improving water re-use, or the purchase of equipment to assist in the sorting and/or compaction of recyclable materials.

NOTE: The data reviewed and confirmed for inclusion within the IAR can be found in Appendix III of the report, with the shaded rows specifying which indicators were assured as per this engagement.

FINDINGS & RECOMMENDATIONS

In general, Metair’s sustainability reporting processes continue to improve towards measured excellence, noting that the Report reasonably reflects an accurate accounting of Metair’s performance, including the review of data collected, collated and reported by the selected sites.

It is important to note that assurance site visits for the 2018 reporting period represent the first opportunity to re-visit sites that were visited during prior cycles of assurance. This provided IRAS the opportunity to test for site-specific improvements of policies, procedures, systems and controls since the prior site visit.

AA1000AS (TYPE II)

- As per management assertions, Metair engages key stakeholders, as defined within this Report, based on the evidence reviewed, thus meeting the requirements of Inclusivity.
- The content of the Report does not differ, in any significant way, from an analysis of the material issues discussed within Metair, or within its sphere of influence, as per our internal and external materiality scans. Adequate systems and controls are in place to identify and prioritise the company’s “most material issues”, thereby meeting reasonable Materiality expectations.
- Metair adequately demonstrated appropriate systems and controls are in place to report back to stakeholders on matters that are deemed “most material” to the business, in the context of those issues that are deemed “material to stakeholders”, thereby meeting reasonable Responsiveness expectations.

SUSTAINABILITY DATA PERFORMANCE

- Metair continues to refine its systems for data collection, collation and reporting, at both the Group and operation level, through the further development of enhanced sustainability data policies, procedures, systems and controls. During the year under review, Metair continued to improve the quality and appropriate application of a Group-wide sustainability data management system, further improving the quantity (completeness) and quality (accuracy, consistency and reliability) of reported ESG data.
- Aside from the following exceptions, the tested site-specific data was found to be reasonably accurate and/or reliable, although process improvements at some sites may still be required with respect to the implementation of internal control procedures for data accuracy and reliability. Exceptions:
  - A situation of under-reporting of the Total Number of Persons with Disabilities and/or the Number of Persons with Disabilities Trained is due to a combination of factors, including employee hesitation of declaring a disability (a historical issue in South Africa due to perceptions of fear of discrimination which appears unfounded within the Metair context) and lack of clarity over what is/is not deemed a “disability” (i.e., whether or not chronic medical conditions such as Diabetes, Hypertension, Heart Disease and Obesity can be classified as a “disability”.

NOTE: Metair should ensure that improved systems and/or controls are implemented throughout the Group to improve the quality of Disability data to reduce the risk of under-reporting the true number of disabled persons employed and/or (at least one company within the Group) over-reporting. Moreover, where improvements have not already been made, Metair should ensure that its companies are aware of the Group's targets for increasing the number of employment opportunities for persons with disabilities (where workplace conditions permit).

– A situation of under-reporting of Absenteeism is possible due to a combination of unclear Group definitions and uncertainty over whether or not 'Absenteeism due to Late Arrivals' should or should not be included within the calculation of Days Lost Due to Absenteeism at some operations.

NOTE: Metair should ensure that improved systems and/or controls are implemented to ensure that all Group companies reporting absenteeism and a consistent and complete manner.

– Systems to collect and collate Training data at some sites were deemed more than adequate to provide correct performance data. However, a break-down of procedures to report final year data to Metair frequently results in confusing the "Number of Persons Trained" with the "Number of Training Interventions". This tends to lead to the potential for over-reporting the number of persons trained, and the under-reporting of the number of training interventions, and thus decreasing the comparability of this data within Metair and against other companies. It should also be noted that the Total Number of Persons Trained exceeds the Total Number of Employees by roughly 9% due to Training that occurs for Fixed Term Contract and/or Seasonal Employees, as well as Training for Contractor Employees.

NOTE: Metair should ensure that improved systems and/or controls are implemented throughout the Group to improve the quality of Training data to reduce the risk of multiple counting of individuals who are trained more than once. Also, systems and controls should be improved to increase the accuracy of the Awareness, Mandatory and Skills Development training data.

The significant year-on-year increase in the Number of Training Interventions (from 15 288 in 2017 to 26 546 in 2018, as per the data contained within Appendix III) is due to improvements in the reporting by most companies within the Group. While that number does not represent the total number of persons trained for new skills (a significantly lower number), it does demonstrate how the systems to track Human Resource Development performance are improving.

– Application of Group safety definitions by Occupational Health Practitioners contracted by Metair companies continues to be inconsistent in some cases, leading to over-prescription of lost time for injuries that may not otherwise be reasonably deemed a "Lost Time Injury". Additional effort is required to ensure that understanding and applying safety definitions by all persons involved in injury on duty management is consistent throughout the Group to ensure that data is truly comparable within the Metair Group and between other companies. Metair's overall LTIFR has been deemed 'over-reported' due to several instances where injuries were deemed to have resulted in the unnecessary prescription of "Lost Time".

– A situation of under-reporting of Environmental Efficiency Improvement Spend is due to a combination of unclear Group definitions and uncertainty over what should/should not be included as appropriate spend.

NOTE: Metair should ensure that all Group companies are sufficiently informed – by no less than improved definitions – of what constitutes "Environmental Efficiency Spend", inclusive of investments in improving energy and/or water efficiency, reducing waste sent to landfill, and increasing the volumes of waste recycled.

- Through a process of continuous improvement, Metair companies – particularly First National Batteries, Lumotech and Supreme Spring – have been able to demonstrate both visible and measurable improvement in their management of key sustainability performance indicators.
- Through the effective use of a supplemental sustainability data table (Appendix III), coupled with effective inclusion of key data within the body of the IAR, Metair continues to demonstrate leadership relative to public disclosure of the ESG data.

CONCLUSIONS

Based on the information reviewed, **IRAS** is confident that this Report provides a comprehensive and balanced account of the environmental, safety and social performance of Metair during the period under review. The data presented is based on a systematic process and we are satisfied that, aside from the exceptions stated above, the reported performance data accurately represents the current environmental, safety and social performance of Metair, while meeting the AA1000AS (2008) principles of Inclusivity, Materiality and Responsiveness. Moreover, and although the quality or quantity of data of can be improved, this Report demonstrates effective leadership with respect to sustainability data transparency.

Integrated Reporting & Assurance Services (IRAS)

Johannesburg
13 March 2019

Supplementary **schedules**
Glossary

ABM	Associated Battery Manufacturers (East Africa) Limited
AET	Adult Education and Training
AGM	Absorbed Glass Mat AGM batteries are classified as a valve regulated lead acid (VRLA) battery. These batteries immobilise the acid in the battery using fibreglass separators between the battery plates and provide the superior performance required in higher-specification Start/Stop systems. AGM batteries are suitable for regenerative braking systems, have more power and longer lives than other types of batteries.
AGOA	Africa Growth and Opportunity Act. US legislation to support the development of Sub-Saharan countries
AI	Artificial Intelligence
APDP	Automotive Production and Development Programme. A government support programme for the South African automotive industry
B-BBEE	Broad-based black economic empowerment
BSROIC	Balanced sustainable return on invested capital
BV	Book value
CDP	Carbon Disclosure Project
CEO	Chief executive officer
CFO	Chief financial officer
CSDP	Central Securities Depository Participant
CSI	Corporate social investment
CTC	Cost to company
EBITDA	Earnings before interest, tax, depreciation and amortisation
ESG	Environmental, social and governance
EU	European Union
EV	Electric vehicle
FCTR	Foreign currency translation reserve
FMCG	Fast-moving consumer goods
FNB	First National Battery
GDP	Gross domestic product
GG	Global grade
GHG	Greenhouse gas
GJ	Gigajoules
GRI	Global Reporting Initiative
HDSA	Historically disadvantaged South African
HEPS	Headline earnings per share
HR	Human resources
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IP	Intellectual property
ISO	The International Organisation for Standardization

IT	Information Technology
JSE	Johannesburg Stock Exchange
KPI	Key Performance Indicator
LCV	Light commercial vehicle
LIP	Lithium Iron Phosphate
LTIFR	Lost time injury frequency rate
LTIP	Long-term incentive plan
MD	Managing director
MERSETA	Manufacturing, Engineering and Related Services SETA
MIB	Metair International Battery Metair's battery marketing organisation
MOI	Memorandum of Incorporation
MWh	Megawatt hours
NAACAM	National Association of Automotive Component and Allied Manufacturers of South Africa
NAAMSA	National Association of Automobile Manufacturers South Africa
NMC	Nickel Manganese Cobalt Oxide
OE	Original Equipment
OEM	Original Equipment Manufacturer
OHSAS	Occupational Health and Safety Assessment Series
PBIT	Profit before interest and tax
PHW	Person-hours worked
RBH	Royal Bafokeng Holdings
ROE	Return on equity
ROIC	Return on invested capital
SAAM	South African Automotive Masterplan 2035
SABS	South African Bureau of Standards
SANS	South African National Accreditation System
SARS	South African Revenue Service
SENS	Stock Exchange News Service
SETA	Sector Education and Training Authority Skills development institutions established by the Skills Development Act in South Africa
SHE	Safety, health and environment
STIP	Short-term incentive plan
TS	ISO Technical Specification
TSR	Total shareholders return
VCA	Vehicle Certification Agency
VCT	Voluntary counselling and testing
WACC	Weighted average cost of capital

Appendix I – **Key stakeholders**

Shareholders		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Acceptable return on invested capital, capital allocation, strategy, sustainability of the business, total shareholder returns and unlocking share value.	• Regular management engagement to stay aware of shareholder expectations. • Annual non-executive director engagements with major shareholders. • Well-defined return targets. • Delivery on our strategy supports returns and the sustainability of the business.	• Sustainability information • Results commentaries • The abridged report • Annual general meeting • Annual and interim results presentations • One-on-one meetings • Investor perception surveys • Site visits • Website • Pre- and post-results feedback • Pre-close period meetings • SENS announcements • Press releases • Analyst reports • Ad hoc meetings (as requested)
Analysts		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Acceptable return on invested capital, sustainability of the business, access to management.	• Regular engagement to understand their needs and meet their disclosure requirements where possible.	• Participation in industry forums. • One-on-one meetings • Site visits • Website • Research papers
Customers (existing and potential)		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Product quality, delivery standards, cost competitiveness, brand strength, sustainability of our business, B-BBEE, transformation and innovation.	• Our strategic focus on manufacturing excellence, marketing excellence and cost efficiencies aligns the company with customers' needs. • We are committed to delivering flawless model launches, zero quality incidents and to continue to produce innovative products. • We participate in industry forums to better understand our customers' needs and to represent the interests of automotive component and energy storage manufacturers. • Our strategy includes effective management of ESG concerns, transformation and quality production. • External verification of sustainability reporting, B-BBEE status and ISO 9001 and ISO/TS 16949 accreditation.	• Contract negotiations • Ongoing interactions in the ordinary course of business • Quality reviews • Performance reviews • Industry forums • Trade shows and exhibits • Customer reward systems • Customer visits

Suppliers and trading partners		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Fair payment terms, fair treatment and sustainability.	• Metair takes an ethical approach to doing business and our payment terms align with industry norms. • Participation in industry forums to better understand the concerns of suppliers.	• Ongoing interactions in the ordinary course of business • Supplier audits • Service level agreement negotiations • Industry forums • Trade shows and exhibits • Annual meetings
Business partners (JVs and associates)		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Financial performance, fair treatment and quality of management.	• We are committed to ethical business practices and respect the interests of our business partners. • Implementation of strategy.	• Ongoing interactions in the ordinary course of business
Government regulators		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Transformation, health and safety, environmental responsibility, regulatory compliance, sustainable employment, corporate social responsibility.	• Metair's commitment to custodianship and ethical business practices supports social and environmental responsibility. • We invest in employee development and take a responsible and sensitive approach where adjustments are required to employment levels in line with all regulatory requirements. • Our CSI projects promote socio-economic development in our host communities. • Policies and procedures are in place to ensure compliance with all relevant regulations.	• Engagements on specific policy issues • Representation on industry bodies • Regular regulatory submissions • Interactions as required

Appendix I – **Key stakeholders** (continued)

Employees		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Equal work/equal pay demands, health and safety, transformation, shareholding participation expectation, banning of labour brokers, preferred procurement from BEE accredited parties, education, training and skills development, company involvement in secondary and tertiary education in communities, rural area economic development, deliverable and sustainable corporate social investment programmes, anti-internationalisation and globalisation demands for South African businesses.	• Metair's ethical approach to doing business includes fair treatment and remuneration of our workers and a focus on health and safety standards and procedures. • Operations ensure that working conditions are acceptable, including work stations, canteen facilities, ablution facilities and meeting areas. • We invest substantially in skills development and aim to maintain good relationships with unions as representatives of our employees. • Remuneration benchmarking and formal job grading and evaluation provide objective measures of fair remuneration. • We are committed to transformation and have implemented initiatives to improve transformation performance at both group and operational levels. • CSI projects focus on rural and company-specific areas of support for schools, clinics, NGOs and any other feasible projects or entities. • Internationalisation and globalisation driven by local sustainability needs to retain or gain international supply contracts and business opportunities.	• Operational performance reviews • Feedback sessions • CEO site visits • Electronic communication • Anonymous Tip Offs hotline • Company website • Union interactions as required • Induction programmes • Job grading systems • Job specification requirements • Training and skills development
Industry bodies (NAACAM, NAAMSA)		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Good corporate conduct, support in engaging government and regulators on industry matters.	• We take an ethical approach to doing business and engage with regulators and government to further the interests of the company and broader industry.	• Representation on industry bodies • Member of the South African Battery • Manufacturers Association • Member of and represented on the National Executive Committee of NAACAM
Media		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Access to management	• Management aims to be appropriately accessible within operational constraints. • Press releases. • Website.	• Interactions as requested
Consultants and service providers		
Primary concerns	**How we address these concerns**	**Engagement channels include**
Fair payment terms, fair treatment and fair contractual responsibility.	• Metair takes an ethical approach to doing business and our payment terms align with industry norms.	• Ongoing engagements in the normal course of business

Appendix II – **Accreditation**

	Environ-mental	Health and Safety	Quality (non-auto)	Quality (auto)	Energy Manage-ment	Quality (OEM)	Quality (OEM)	Quality (OEM)	Quality (EU)	Quality (SA)
Subsidiaries	**ISO 14001**	**OHSAS 18001/ ISO 45001**	**ISO 9001**	**ISO/TS 16949**	**ISO 50001**	**Q1 Ford**	**QSB GM**	**Formal Q**	**VCA**	**SABS SANS**
First National Battery Division	✓	✓	✓	✓	✓	✓	✓	✓	N/A	N/A
Smiths Manufacturing (Pty) Ltd	✓	✓	✓	✓	✓	N/A	✓	N/A	N/A	N/A
Hesto Harnesses (Pty) Ltd	✓	✓	✓	✓	✓	N/A	✓	N/A	N/A	N/A
Smiths Plastics (Pty) Ltd and Automould (Pty) Ltd	✓	✓	✓	✓	Planned for 2019	In planning	N/A	N/A	N/A	N/A
Supreme Spring Division	✓	✓	✓	✓	✓	✓	✓	✓	N/A	N/A
Alfred Teves Brake Systems (Pty) Ltd	✓	✓	✓	N/A	Planned for 2019	N/A	N/A	N/A	✓	N/A
Lumotech (Pty) Ltd	✓	Planned for 2019	✓	✓	Planned for 2019	✓	N/A	✓	✓	✓
Tenneco Automotive Holdings (Pty) Ltd	✓	✓	✓	✓	✓	✓	✓	✓	N/A	N/A
Valeo Systems South Africa (Pty) Ltd			✓	✓		N/A	N/A	N/A	N/A	N/A
Unitrade 745 (Pty) Ltd	✓	✓	✓	✓	Planned for 2019	N/A	N/A	N/A	N/A	N/A
Rombat	✓	✓	✓	✓	Planned for 2019	N/A	N/A	N/A	N/A	N/A
Mutlu Akü	✓	✓	✓	✓	✓	✓			N/A	N/A
ABM	ABM Site Only		✓	Planned for 2019		N/A	N/A	N/A	N/A	N/A
MOLL	✓	N/A	✓	✓	✓	N/A	N/A	✓	N/A	N/A

Appendix III – **Sustainability data table**

The light blue shaded rows highlight the indicators that have been reviewed by the third party assurance provider.

		FY2018	FY2017	FY2016	FY2015	FY2014
Labour						
Total number of permanent employees	Number	7 439	7 432	7 028	6 801	6 607
Total number of temporary employees	Number	788	810	1153	849	655
Total number of contractors	Number	1 074	861	492	568	589
Total employees (including contractors)	Number	9 301	9 103	8 673	8 218	7 851
Percentage of employees who are deemed 'HDSA' (South Africa only)	%	90.7%	90.3%	90.9%	92.0%	92.0%
Percentage of employees who are women	%	32.4%	32.3%	32.8%	33.3%	31.4%
Percentage of employees who are permanent	%	90.4%	81.6%	81.0%	82.8%	84.2%
Percentage of employees who belong to a trade union	%	70.4%	69.7%	72.8%	58.5%	67.3%
Total number of employee terminations	Number	2 052	1 875	2 096	1 619	1 399
Employee turnover rate (excludes end of contract terminations)	%	8.9%	11.5%	8.4%	8.2%	10.0%
Total number of person hours worked – all employees and contractors	Number	18 572 407	17 721 822	18 160 037	16 518 238	15 733 797
Total number of person days lost due to absenteeism	Number	76 074	61 797	69 699	60 501	59 105
Absenteeism rate	%	3.6%	3.0%	3.3%	3.2%	3.0%
Total number of person days lost due to industrial action	Number	36 502	9 601	4 287	7 407	-
Industrial action rate	%	1.7%	0.4%	0.2%	0.4%	0.0%
Total number of employees trained	Number	8 867	7 593	8 590	6 122	5 021
Total number of training interventions	Number	26 632	15 288	17 592	30 633	16 834
Rand value of employee training spend	R (million)	28.2	27.3	30.9	15.0	13.6
Rand value of research and development spend	R (million)	35.0	38.6	59.8	74.7	22.5
Health and Safety (all employees and contractors)						
Total number of lost time injuries	Number	107	86	109	115	145
Total number of medical treatment cases	Number	156	87	156	243	146
Total number of first aid cases	Number	771	875	582	661	389
Total number of recordable injuries	Number	263	173	265	358	291
Fatal injury frequency rate	Rate	0.00	0.00	0.00	0.00	0.00
Lost time injury frequency rate	Rate	1.15	0.97	1.20	1.39	1.84
Total recordable injury frequency rate	Rate	2.83	1.95	2.92	4.33	3.69
Total injury frequency rate	Rate	11.13	11.83	9.33	12.34	8.63
Total number of employees and contractors receiving Voluntary Counselling and Testing (VCT) for HIV/Aids (i.e. counselled)	Number	540	408	501	772	1002
Total number of employees and contractors tested for HIV/Aids	Number	882	809	902	902	972
Environmental						
Carbon footprint						
– Scope 1	tCO_2e	44 081	44 603	46 468	46 353	50 747
– Scope 2	tCO_2e	135 546	138 134	141 376	146 046	149 015
– Scope 3	tCO_2e	414 571	455 455	398 100	370 722	364 793

		FY2018	FY2017	FY2016	FY2015	FY2014
– Total	tCO_2e	594 198	638 192	585 944	563 120	564 555
Energy						
Total electricity consumption	MWh	212 156	201 381	191 055	180 782	180 684
Total petrol consumption	litres	270 015	288 285	303 528	290 229	322 608
Total diesel consumption	litres	757 849	1 430 114	690 653	651 778	607 066
Water						
Total water consumption	m^3	650 727	621 330	622 027	587 363	530 438
Total volume of water discharged	m^3	194 061	192 909	180 595	191 948	1 769 450
Non-hazardous waste						
Total volume of non-hazardous waste sent to landfill	kgs	6 254 820	3 359 479	3 457 811	5 841 258	2 241 700
Total volume of paper recycled	kgs	386 865	802 564	660 000	369 592	337 024
Total volume of cardboard recycled	kgs	1 552 227	902 285	867 985	854 426	849 805
Total volume of plastic recycled (internal and external)	kgs	3 780 586	3 647 220	4 142 133	2 728 303	1 653 402
Total volume of glass recycled	kgs	870	450	490	1 045	360
Total volume of metal recycled (including tin cans) (internal and external)	kgs	1 572 258	1 752 462	1 799 905	1 323 514	1 034 515
Total volume of biodegradable wet waste recycled	kgs	525 110	423 458	350 855	409 980	591 330
Total volume of other waste recycled (e-waste, wood, polystyrene, packaging foil etc.)	kgs	1 177 002	1 106 516	544 963	312 594	3 826
Total volume of non-hazardous waste recycled	kgs	8 994 897	8 634 955	8 366 331	5 999 454	4 470 262
Hazardous waste						
Total volume of hazardous waste sent to appropriate disposal sites	kgs	20 362 268	22 187 270	17 838 510	1 9274 878	6 620 470
Total volume of lead recycled	Tonnes	±64 400	±67 000	±75 000	±68 000	±60 000

Appendix III – **Sustainability data table** (continued)

		FY2018	FY2017	FY2016	FY2015	FY2014
Total volume of oils recycled	litres	52 424	37 276	66 701	58 098	66 690
CSI/SED Expenditures						
Rand value of Corporate Social Investment (CSI)/ Socioeconomic Development (SED) expenditures	R (million)	11.2	10.1	13.6	21.4	16.3
Rand value of CSI/SED spend on education	R (million)	1.6	1.9	2.9	8.6	9.1
Rand value of CSI/SED spend on skills development, including Adult Basic Education & Training (ABET)	R (million)	1.0	0.9	1.2	2.9	2.1
Rand value of CSI/SED spend on health, including HIV/AIDS	R (million)	3.8	2.5	2.3	2.1	1.6
Rand value of CSI/SED spend on basic needs and social development, including nutrition and/or feeding programmes	R (million)	2.0	1.3	2.2	2.0	2.0
Rand value of CSI/SED spend on infrastructure development	R (million)	0.1	0.8	0.4	0.2	0.2
Rand value of CSI/SED spend on arts, sports and culture	R (million)	1.2	1.2	1.4	0.2	0.3
Rand value of CSI/SED spend on other	R (million)	1.1	1.0	2.4	3.5	0.9
Rand value of CSI/SED spend on environmental projects	R (million)	0.0	0.3	-	0.0	
Rand value of CSI/SED spend on job creation/ small business support	R (million)	0.3	0.2	0.7	1.9	0.1
Enterprise development (support for small business development)						
Rand value of enterprise development spend	R (million)	14.2	20.9	21.5	27.3	28.6
Preferential procurement (South African operations only)						
Rand value of total discretionary procurement spend	R (million)	2 498.9	2 231.5	3 416.3	2 241.4	2 755.7
Rand value of HDSA procurement spend	R (million)	1 213.3	886.0	1 732.5	1 377.9	324.0
Preferential procurement spend rate	%	48.6%	39.7%	50.7%	61.5%	11.8%

Appendix IV – **Human capital**

Total headcount	**Male**	**Female**	**Total**
South Africa			
Permanent	3 497	2 260	5 757
Temporary*	208	256	464
Contractors			1 041
Total	**3 705**	**2 516**	**7 262**
Romania			
Permanent	599	95	694
Temporary	55	3	58
Contractors			33
Total	**654**	**98**	**785**
Turkey			
Permanent	890	85	975
Temporary	266	0	266
Total	**1 156**	**85**	**1 241**
UK			
Permanent	13	0	13
Total	**13**	**0**	**13**
Group	**5 528**	**2 699**	**9 301**

** Metair subsidiaries do not make use of labour brokers.*

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LEVEL OF ASSURANCE

These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

PREPARER

The annual financial statements were prepared under the supervision of Mr S Douwenga (Finance director) B Comm (Hons), CA(SA).

PUBLISHED

13 March 2019

Statement **of responsibility**

By the board of directors

The directors are responsible for maintaining proper accounting records and the preparation, integrity, and fair presentation of the financial statements of Metair Investments Limited (Metair) and its subsidiaries. The accounting records disclose with reasonable accuracy the financial position of the group and company.

The directors acknowledge that they are ultimately responsible for the system of internal controls established by the group and place considerable importance on maintaining a strong control environment. The directors are of the opinion, based on the information and explanations given by management and the internal auditor's that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements.

The directors are of the opinion that the group and the company have adequate resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis.

The auditor is responsible for reporting on whether the group annual financial statements and the annual financial statements of the company are fairly presented in accordance with the applicable reporting framework.

The consolidated annual financial statements are stated in South African Rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) in issue and effective for the group at 31 December 2018 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

They are based on appropriate accounting policies which have been applied consistently and are supported by reasonable and prudent judgements and estimates. The directors also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the annual financial statements. The annual financial statements have been audited by the independent auditors,

PricewaterhouseCoopers Incorporated (PwC), who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The group annual financial statements and the annual financial statements of the company for the year ended 31 December 2018, set out on pages 132 to 231, were approved by the board of directors and signed on its behalf by:

SG Pretorius
Chairman

CT Loock
Managing director

Johannesburg
13 March 2019

The audit report of PricewaterhouseCoopers Incorporated is presented on page 135.

Certificate **by company secretary**

In my capacity as company secretary, I hereby confirm, in terms of section 33(1) of the Companies Act of South Africa, that for the year ended 31 December 2018, the company has lodged with the Companies and Intellectual Property Commission (CIPC) all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

SM Vermaak

13 March 2019

Directors' **report**

The directors have pleasure in submitting their report for the year ended 31 December 2018.

GENERAL REVIEW

The main business of the group is the manufacture and supply of motor vehicle components and energy storage solutions such as automotive and industrial batteries. The group also manufactures non-automotive products. The annual financial statements on pages 139 to 231 set out fully the financial position, results of operations and cash flows of the group and company for the financial year.

FINANCIAL RESULTS

The consolidated net profit for the year attributable to equity holders of the company was R667.4 million (2017: R556.2 million).

DIVIDENDS

The following dividends were declared for ordinary shares:

Declared and paid – 31 December 2017
Ordinary dividend - 80 cents per share

A dividend of R1 per share was declared on 13 March 2019 in respect of the year ended 31 December 2018.

STATED CAPITAL

Full details on the present position of the company's stated capital are set out in the notes to the financial statements.

There were no changes to stated capital for the year under review. The group acquired (through a wholly owned subsidiary, Business Venture Investments Proprietary Limited), an additional 5 969 577 shares for R105 million as part of its share buyback programme. The shares were held in treasury. Share incentive scheme particulars relating to options awards under the share plan are given in note 26.1 to the annual financial statements.

CHANGES IN NON-CURRENT ASSETS

The main changes to the property, plant and equipment of the group were as follows:

	R'000
Additions	271 730

The main changes to the intangible assets of the group were as follows:

	R'000
Additions	33 705

Details can be found in note 7 and note 8 of the annual financial statements.

DIRECTORS

The composition of the board of directors is set out on pages 16 and 17.

SG Pretorius (appointed January 2014)
CT Loock (appointed March 2006)
S Douwenga (appointed March 2014)
L Soanes (appointed May 1999 and resigned December 2018)
RS Broadley (appointed April 2001 and resigned December 2018)
JG Best (appointed February 2009)
TN Mgoduso (appointed March 2016)
PPJ Derby (appointed March 2016)
G Motau (appointed November 2016)
B Mawasha (appointed March 2018)
CMD Flemming (appointed March 2019)
S Sithole (appointed March 2019)
TP Moeketsi (appointed March 2019)

SECRETARY

SM Vermaak

Business address
10 Anerley Road, Parktown, Johannesburg, 2193

Postal address
PO Box 2077, Saxonwold, 2132

INTEREST OF DIRECTORS

Interest of directors in the company's stated capital are disclosed in note 26 of the annual financial statements.

The directors have no material interest in contracts with the group.

SUBSIDIARIES

Details of the company's investments in its subsidiaries are disclosed on page 229 and note 9 to the annual financial statements.

HOLDING COMPANY

The company has no holding company.

AUDITORS

PricewaterhouseCoopers Incorporated are the current appointed auditors in accordance with section 90(6) of the Companies Act of South Africa.

RESOLUTIONS

The following special resolutions, the nature of which might be significant to members in their appreciation of the state of affairs of the group, were passed at a general meeting held on 2 May 2018:

Special resolution number 1

Resolved as a special resolution in terms of section 66(9) of the Companies Act, that the remuneration of the non-executive directors with effect from 1 January 2018 to 31 December 2018 be and is hereby approved.

The reason for and effect of special resolution number 1 is to approve, to the extent required, the remuneration for non-executive directors for the period commencing 1 January 2018 and ending 31 December 2018.

Special resolution number 2

Resolved as a special resolution in accordance with section 45 of the Companies Act, that the board be and is hereby authorised, by way of a general authority to, at any time and from time to time during the period of two years commencing on the date of passing of this special resolution to provide, any direct or indirect financial assistance limited to related and inter-related companies which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share), (but subject to the provisions of the MOI and section 45(1) of the Companies Act) in such amount and in any form including, but not limited to, by way of loan (on an interest-free or a market-related interest basis), guarantee, the provision of security or otherwise) to any of its present or future subsidiaries and/or any juristic person that the company directly or indirectly controls from time to time (collectively hereinafter referred to as the 'Metair group') and being on such terms and conditions as the Board in its discretion deems fit, for any purpose whether in the normal course of business of the Metair group or of a transactional nature, subject thereto that the board will, before making such financial assistance available, satisfy itself that:

(i) immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test as prescribed in section 4 of the Companies Act; and

(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

The effect of the special resolution and the reason therefore is that such special resolution is required in terms of section 45 of the Companies Act to grant the directors the authority to allow the company to provide financial assistance by way of loan, guarantee, the provision of security or otherwise, to any company which is related or inter-related to the company or any other juristic person that the company directly or indirectly controls.

The special resolution does not authorise Metair to provide financial assistance to a director or prescribed officer of the company.

In accordance with section 45(5) of the Companies Act, the Board hereby gives notice to its shareholders of the fact that no financial assistance has been provided to subsidiaries during the 2017 financial year.

Special resolution number 3

Resolved as a special resolution in accordance with section 44 of the Companies Act, that the Board be and is hereby authorised, by way of a authority to, at any time and from time to time during the period of two years commencing on the date of passing of this special resolution to provide, any direct or indirect financial assistance to any related or inter-related companies in which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share) for the purpose of or in connection with the subscription of any option, or any securities, issued or to be issued by Metair or any related or inter-related companies in which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share), (but subject to the provisions of the MOI and section 44 of the Companies Act) in such amount an in any form (including, but not limited to, by way of loan (on an interest-free or a market-related interest basis), guarantee, the provision of security or otherwise) whether in the normal course of business or of a transactional nature, subject thereto that the Board will, before making such financial assistance available, satisfy itself that:

(i) immediately after providing the financial assistance, Metair will satisfy the solvency and liquidity test as prescribed in section 4 of the Companies Act; and
(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to Metair.

The effect of the special resolution and the reason therefore is that such special resolution is required in terms of section 44 of the Companies Act to grant the directors the authority to allow Metair to provide financial assistance by way of loan, guarantee, the provision of security or otherwise, to any related or inter-related company in which Metair, directly or indirectly, holds a controlling interest for the purpose of or in connection with the subscription of any option, or any securities, issued or to be issued by Metair or any related or inter-related company which Metair, directly or indirectly, holds a controlling interest, or for the purchase of any securities in Metair or any related or inter-related company in which Metair, directly or indirectly, holds a controlling interest.

Furthermore, this special resolution specifically makes provision for Metair to provide financial assistance in respect of the issuance of preference shares by members of the Metair group, as part of the group's tax efficient funding strategy.

The special resolution does not authorise Metair to provide financial assistance to a director or prescribed officer of Metair.

Special resolution number 4

Resolved as a special resolution in terms of the Companies Act and the Listing Requirements of the JSE Limited ('JSE'), that the authorisation granted to the company in terms of Article 13 of its MOI to acquire the company's own securities by way of a general approval, upon such terms and conditions and in such amounts as the directors may from time to time decide, subject only to the provisions of the Companies Act and the JSE Listings Requirements, be and is hereby approved, subject to the following terms and conditions:

(i) any repurchase of securities must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and any counterparty;

(ii) this general authority shall be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;

(iii) repurchases may not be made at a price greater than 10% above the weighted average of the market value of the securities for the five business days immediately preceding the date on which the repurchase will be effected;

(iv) at any point in time, the company may only appoint one agent to effect repurchases on the company's behalf;

(v) an announcement shall be published as soon as the company has cumulatively repurchased 3% of the initial number (being the number of that class of shares in issue at the time that the general authority was granted) of the relevant class of securities and for each 3% in aggregate of the initial number of that class acquired thereafter, containing the details as required by paragraph 11.27 of the JSE Listings Requirements;

(vi) repurchases shall not, in the aggregate, in any one financial year exceed 5% of the company's issued share capital of that class;

(vii) acquisitions by the subsidiaries of the company may not result in a subsidiary, together with all other subsidiaries of the company holding more than 10% of the relevant class of the issued share capital of the company from time to time;

(viii) repurchases may not be made by the company and/or its subsidiaries during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed and approved by the JSE prior to the prohibited period;
With regard to the above, the company must instruct an independent third party, which makes its investment decisions in relation to the company's securities independently of, and uninfluenced by, the company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;

(ix) the intention of the board is that the repurchase of the company's securities will be effected within the parameters laid down by this resolution as well as by the Companies Act, the JSE Listings Requirements and the board, as and when the directors of the company deem such repurchases to be appropriate, having regard for prevailing market and business conditions; and

(x) the directors will ensure that the requisite prior resolution of the board has been taken authorising such repurchases, confirming that the company and its subsidiaries engaged in such repurchases have passed the solvency and liquidity test envisaged in the Companies Act and confirming that, since such tests were performed, there have been no material changes to the financial position of the Metair group.

The directors shall not make any repurchases under this general authority unless they are of the opinion that, after considering the effect of the maximum number of shares to be repurchased and for a period of 12 months after the date of the notice of the annual general meeting:

a) the company and the Metair group will be able, in the ordinary course of business, to pay their debts;

b) the assets of the company and the Metair group will be in excess of the liabilities of the company and the Metair group, the assets and liabilities being recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements;

c) the share capital and reserves of the company and the Metair group are adequate for the ordinary business purposes of the company and the Metair group; and

d) the working capital of the company and the Metair group will be adequate for ordinary business purposes.

The effect of the special resolution and the reason therefore is to renew the general authority given to the directors in terms of the Companies Act, the MOI and the JSE Listings Requirements for the acquisition by the company and/or its subsidiaries of the company's securities, which authority may be used at the directors' discretion during the course of the period authorised.

POST-BALANCE SHEET EVENTS

There were no significant post-balance sheet events.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors have approved the annual financial statements on pages 139 to 231 which are signed on their behalf by:

SG Pretorius
Chairman

CT Loock
Managing director

Johannesburg
13 March 2019

Independent **auditor's report**

To the shareholders of Metair Investments 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 Metair Investments Limited (the company) and its subsidiaries (together the group) as at 31 December 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

Metair Investments Limited's consolidated and separate financial statements set out on pages 139 to 231 comprise:

- the consolidated and separate balance sheets as at 31 December 2018;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended;
- the notes to the annual financial statements;
- the accounting policies; and
- the investments in subsidiaries and associates.

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: R38 033 000, which represents 5% of the average consolidated profit before tax for the 2018, 2017 and 2016 financial years.
- Group audit scope:
  - We have performed full scope audits over 11 components and review procedures over 1 component.
  - The group engagement team performed analytical review procedures on components not in audit or review scope.
- Key audit matters:
  - Impairment assessment of goodwill and indefinite life intangible asset relating to Mutlu.
  - Measurement and reclassification of intercompany loan receivable from Inalex (Pty) Ltd.

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.

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 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: R38 033 000

How we determined it: 5% of average consolidated profit before tax for the 2018, 2017 and 2016 financial years.

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. Average consolidated profit before tax is relevant to the industry as a result of vehicle model changes by a customer leading to inconsistent or fluctuating profits over the cycle. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-orientated companies in this sector.

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.

Every component that contributes significantly to the consolidated revenue, consolidated profit before tax and consolidated total assets of the group was subject to a full scope audit. We performed full scope audits over 11 components and review procedures over 1 component based on the risk associated with the component and considerations relating to aggregation risk within the group. In order to obtain audit evidence in respect of other components not part of the audit or review scope, the group engagement team performed analytical review procedures on these components.

Where the work was performed by component auditors, we determined the level of involvement necessary in the audit work at those components to be able to conclude whether sufficient

appropriate audit evidence has been obtained as a basis for our opinion on the group financial statements as a whole.

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. We communicate the key audit matter that relate to the audit of the consolidated financial statements of the current period below.

Key audit matter: Impairment assessment of goodwill and indefinite life intangible asset relating to Mutlu

This key audit matter relates to the consolidated financial statements

As at 31 December 2018 the group's consolidated balance sheet included goodwill relating to Mutlu with a closing net book value of R250 million and the Mutlu brand with a closing net book value of R188 million, classified as an indefinite life intangible asset. The Mutlu factory and business operations are based in Turkey and have been exposed to heightened economic and political uncertainty during the 2018 financial year, resulting in an increase in discount rates used in impairment assessments.

Assets that are not subject to amortisation, such as goodwill and indefinite life intangible assets are required to be assessed for impairment annually, irrespective of whether any impairment indicators exist in accordance with *IAS 36 - Impairment of assets*.

Refer to the accounting policies for Intangibles and Impairment of non-financial assets and to note 8 - Intangible Assets.

Management performed its annual impairment assessment of the Mutlu cash-generating unit (CGU) to which the goodwill relating to Mutlu and the Mutlu brand were allocated and based their assessment on value-in-use calculations using a discounted cash flow model.

In determining the value-in-use of the CGUs, management makes assumptions and applies judgement to the key assumptions and future market conditions, in particular:

- discount rate;
- long-term growth rate;
- compound annual volume growth rate; and
- the period (years).

The value in use calculation is sensitive to changes in future cash flows included in the model, and changes in the discount rate and long-term growth rate applied.

Future cash flows are estimated based on financial budgets and approved business plans covering a five-year period.

The impairment assessment of the goodwill and indefinite life intangible asset relating to Mutlu is considered to be a matter of most significance to the current year audit due to:

- the significant judgements made by management with regards to the discount rate, the terminal growth rate, future sales volume and cash flow forecasts that are included in the value-in-use calculation, and
- the magnitude of the goodwill and indefinite life intangible assets balance to the financial statements.

How our audit addressed the key audit matter:

We tested the mathematical accuracy of the value-in-use calculation and the discounted cash flow model prepared by management, noting no exceptions.

Our internal valuation experts assessed the valuation methodology applied by management in the model.
We performed stress testing on the value-in-use model which involved an assessment of management's cash flow forecasts and assumptions by comparison to actual results, our understanding of the industry, the entity specific circumstances and economic environment to determine the degree by which the key assumptions needed to change in order to trigger an impairment.
We recalculated a range of values and compared this to the value as calculated by management.

Management's cash flow forecasts were agreed to board approved budgets, noting no exceptions.

We assessed the reasonableness of the budgeting process by comparing current year actuals results with the prior year budgeted results. The working capital and growth projections applied by management were compared to historically achieved growth rates, margins and working capital rates. The Mutlu CGU has exceeded its budget for the past five years.

The terminal growth rate used by management was compared to long-term inflation rates obtained from independent sources by our internal valuation experts. The PwC determined rate was incorporated into our stress testing referred to above to assess the impact of any difference on the valuation results.

With the assistance of our internal valuation experts, we independently recalculated a weighted average cost of capital discount rate, taking into account independently obtained data such as the cost of debt, the risk-free rate in Turkey, market risk premiums, debt/equity ratios as well as the beta of comparable companies; which was compared to the discount rate used by management. While our range is, itself, subjective, the discount rate adopted by management was marginally higher than what we determined per our independent recalculation. The difference in rates was included in our stress testing to assess the impact on the valuation results.

Based on the evidence obtained we accepted management's conclusion that the key assumptions applied in the models were reasonable.

Key audit matter: Measurement and reclassification of intercompany loan receivable from Inalex (Pty) Ltd

This key audit matter relates to the separate financial statements

The company has adopted *IFRS 9 - Financial Instruments* (IFRS 9) for the first time in the 2018 reporting period (Previously *IAS 39 - Financial Instruments: Recognition and Measurement* was applied). As a result, the accounting policies applicable to financial instruments have been amended to align to IFRS 9.

Prior to the introduction of IFRS 9, *IAS 27 - Separate Financial Statements* provided that loan advances, that in substance represented capital contribution, were included as part of the net investment in the subsidiary.

The loan to Inalex (Pty) Ltd ("Inalex") is now classified as a short term loan to subsidiaries as a result of the adoption of IFRS 9, based on the IAS 32 classification of the loan by the subsidiary.

Refer to note 9 - Interest in Subsidiaries and note 28 - Changes in Accounting Policies.

IFRS 9 requires the recognition of expected credit losses (ECLs) on all financial assets within the scope of its impairment model.

The impairment assessment of the Inalex loan receivable was considered to be of most significance to the current year audit of the company separate financial statements due to the following:

- the magnitude of the loan receivable to the company financial statements, and
- the degree of judgement applied by management in determining the ECLs.

How our audit addressed the key audit matter:

We assessed the accounting policies relating to the impairment of financial assets and found these to be in accordance with the requirements of IFRS 9.

We tested the mathematical accuracy of the impairment model prepared by management, noting no exceptions.

We performed stress testing on the impairment model to recalculate a range of values and compared this to the value calculated by management and we assessed the reasonability of the inputs applied in the impairment model. Default rates used by management in the impairment model were agreed to the ratings published by the relevant rating agencies. While our range is, itself, subjective, management's range fell within what we determined per our independent recalculation.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Metair Integrated Annual Report 2018, which includes the Directors' report, the Board 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.

Independent **auditor's report** (continued)

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 Metair Investments Limited for 21 years.

PricewaterhouseCoopers Inc.
Director: L de Wet
Registered Auditor

Johannesburg
13 March 2019

Balance **sheets**

as at 31 December 2018

		GROUP		COMPANY	
	Notes	2018 R'000	2017 R'000	2018 R'000	2017 R'000
ASSETS					
Non-current assets		3 928 747	4 033 618	563 086	2 036 757
Property, plant and equipment	7	2 538 145	2 605 737		
Intangible assets	8	707 481	834 572		
Interest in subsidiaries	9			560 293	2 033 964
Investment in associates	10	674 296	580 440	2 793	2 793
Deferred taxation	15	8 825	12 869		
Current assets		4 493 253	4 071 600	1 620 647	439 417
Inventory	11	1 849 091	1 697 663		
Trade and other receivables	12	1 667 541	1 669 985		
Contract assets	1.2	288 770			
Taxation		8 955	32 985		
Short-term loans - subsidiaries	9			1 620 323	438 827
Derivative financial assets	19.4.1	6 944	314		
Cash and cash equivalents	13	671 952	670 653	324	590
Total assets		8 422 000	8 105 218	2 183 733	2 476 174
EQUITY AND LIABILITIES					
Capital and reserves					
Stated capital	26	1 497 931	1 497 931	1 497 931	1 497 931
Treasury shares	26	(112 510)	(10 152)		
Share-based payment reserve	27.1	125 656	115 797	66 598	53 257
Foreign currency translation reserve	27.2	(1 418 319)	(1 104 558)		
Equity accounted earnings	27.3	395 614	322 388		
Changes in ownership reserve	27.4	(21 197)	(21 197)		
Retained earnings	27.5	3 699 197	3 275 935	440 357	689 768
Ordinary shareholders equity		4 166 372	4 076 144	2 004 886	2 240 956
Non-controlling interests	27.6	121 349	119 393		
Total equity		4 287 721	4 195 537	2 004 886	2 240 956
Non-current liabilities		1 587 453	1 754 247		
Borrowings	14	983 762	1 148 806		
Post-employment benefits	22	76 943	78 724		
Deferred taxation	15	281 456	298 326		
Deferred grant income	16	187 507	175 440		
Provisions for liabilities and charges	17	57 785	52 951		
Current liabilities		2 546 826	2 155 434	178 847	235 218
Trade and other payables	16	1 444 018	1 235 708	585	592
Contract liabilities	1.2	846			
Borrowings	14	858 032	652 689		
Taxation		42 214	29 260		
Provisions for liabilities and charges	17	106 203	135 567		
Short-term loans - subsidiaries	9			178 262	234 626
Derivative financial liabilities	19.4.1	3 171	28 862		
Bank overdrafts	13	92 342	73 348		
Total liabilities		4 134 279	3 909 681	178 847	235 218
Total equity and liabilities		8 422 000	8 105 218	2 183 733	2 476 174

Income **statements**

for the year ended 31 December 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Revenue	1	**10 276 966**	9 516 657		
Cost of sales		**(8 377 612)**	(7 760 976)		
Gross profit		**1 899 354**	1 755 681		
Other operating income and dividend revenue	3	**211 965**	88 678		47 005
Distribution expenses		**(402 026)**	(395 405)		
Administrative and other operating expenses		**(696 485)**	(601 441)	**(2 110)**	(2 447)
Impairment (loss)/gain on financial assets		**(4 138)**		**36 485**	
Operating profit	3	**1 008 670**	847 513	**34 375**	44 558
Interest income	2	**24 208**	26 179	**3**	11
Interest expense	2	**(210 056)**	(200 867)		(1)
Share of results of associates	10	**76 507**	102 989		
Profit before taxation	3	**899 329**	775 814	**34 378**	44 568
Taxation	4	**(200 049)**	(188 242)	**(1)**	(3)
Profit for the year		**699 280**	587 572	**34 377**	44 565
Attributable to:					
Equity holders of the company		**667 377**	556 182	**34 377**	44 565
Non-controlling interests		**31 903**	31 390		
		699 280	587 572	**34 377**	44 565
Earnings per share					
Basic earnings per share (cents)	5	**338**	281		
Diluted earnings per share (cents)	5	**336**	279		

Statements **of comprehensive income**

for the year ended 31 December 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
Profit for the year		**699 280**	587 572	**34 377**	44 565
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
- Actuarial (losses)/gains recognised	22	**(5 405)**	7 116		
- Taxation effect	15	**1 089**	(1 546)		
		(4 316)	5 570		
Items that may be reclassified to profit or loss:					
- Net exchange losses arising on translation of foreign operations		**(313 341)**	(443 988)		
Other comprehensive loss for the year net of taxation		**(317 657)**	(438 418)		
Attributable to:					
Equity holders of the company		**(318 311)**	(438 536)		
- Actuarial (losses)/gains recognised		**(4 550)**	5 453		
- Net exchange losses arising on translation of foreign operations		**(313 761)**	(443 989)		
Non-controlling interests	27.6	**654**	118		
- Actuarial gains recognised		**234**	117		
- Exchange gains arising on translation of foreign operations		**420**	1		
Total comprehensive income for the year		**381 623**	149 154	**34 377**	44 565
Attributable to:					
Equity holders of the company		**349 066**	117 646	**34 377**	44 565
Non-controlling interests	27.6	**32 557**	31 508		

Statement **of changes in equity**

for the year ended 31 December 2018

		GROUP						
	Notes	Stated capital R'000	Treasury shares R'000	Other reserves R'000	Retained earnings R'000	Attribut-able to equity holders of the group R'000	Non-controlling interests R'000	Total equity R'000
Year ended 31 December 2018								
Balance as at 1 January 2018	26, 27	**1 497 931**	**(10 152)**	**(687 570)**	**3 275 935**	**4 076 144**	**119 393**	**4 195 537**
Opening adjustment on adoption of IFRS 15 & 9	28			**3 269**	**(8 222)**	**(4 953)**	**990**	**(3 963)**
Adjusted balances at 1 January 2019		**1 497 931**	**(10 152)**	**(684 301)**	**3 267 713**	**4 071 191**	**120 383**	**4 191 574**
Net profit for the year	27				**667 377**	**667 377**	**31 903**	**699 280**
Other comprehensive loss	27			**(313 761)**	**(4 550)**	**(318 311)**	**654**	**(317 657)**
Total comprehensive income for the year	27			**(313 761)**	**662 827**	**349 066**	**32 557**	**381 623**
Employee share option scheme	27.1			**9 859**		**9 859**		**9 859**
Treasury shares acquired	26		**(104 873)**			**(104 873)**		**(104 873)**
Vesting of share-based payment obligation	26, 27.1		**2 515**	**(3 041)**		**(526)**		**(526)**
Transfer of net vesting impact to retained earnings	27.1, 27.5			**3 041**	**(3 041)**			
Transfer of associate profit and dividend	27.3			**69 957**	**(69 957)**			
Dividend*	27.5				**(158 345)**	**(158 345)**	**(31 591)**	**(189 936)**
Balance as at 31 December 2018		**1 497 931**	**(112 510)**	**(918 246)**	**3 699 197**	**4 166 372**	**121 349**	**4 287 721**
Year ended 31 December 2017								
Balance as at 1 January 2017	26, 27	1 497 931	(10 481)	(315 316)	2 904 386	4 076 520	103 053	4 179 573
Net profit for the year	27				556 182	556 182	31 390	587 572
Other comprehensive loss	27			(443 989)	5 453	(438 536)	118	(438 418)
Total comprehensive income for the year	27			(443 989)	561 635	117 646	31 508	149 154
Employee share option scheme	27.1			20 683		20 683		20 683
Vesting of share-based payment obligation	26, 27.1		329	(444)		(115)		(115)
Transfer of net vesting impact to retained earnings	27.1, 27.5			444	(444)			
Transfer of associate profit and dividend	27.3			51 052	(51 052)			
Dividend**	27.5				(138 590)	(138 590)	(15 168)	(153 758)
Balance as at 31 December 2017		1 497 931	(10 152)	(687 570)	3 275 935	4 076 144	119 393	4 195 537

* An ordinary dividend of 80 cents per share was declared in respect of the year ended 31 December 2017.

** An ordinary dividend of 70 cents per share was declared in respect of the year ended 31 December 2016.

Statement **of changes in equity**

for the year ended 31 December 2018

	Notes	COMPANY Stated capital R'000	Treasury shares R'000	Share-based payment reserves R'000	Retained earnings R'000	Attributable to equity holders of the company R'000	Total equity R'000
Year ended 31 December 2018							
Balance as at 1 January 2018	26, 27	**1 497 931**		**53 257**	**689 768**	**2 240 956**	**2 240 956**
Opening adjustment on adoption of IFRS 9	28				**(124 657)**	**(124 657)**	**(124 657)**
Adjusted balances at 1 January 2019	27	**1 497 931**		**53 257**	**565 111**	**2 116 299**	**2 116 299**
Net profit for the year	27.5				**34 377**	**34 377**	**34 377**
Total comprehensive profit for the year					**34 377**	**34 377**	**34 377**
Employee share option scheme	27.1			**17 151**		**17 151**	**17 151**
Purchase of treasury shares	26		**(3 810)**			**(3 810)**	**(3 810)**
Settlement of share options	27.1		**3 810**	**(3 810)**			
Dividend*	27.5				**(159 131)**	**(159 131)**	**(159 131)**
Balance as at 31 December 2018		**1 497 931**		**66 598**	**440 357**	**2 004 886**	**2 004 886**
Year ended 31 December 2017							
Balance as at 1 January 2017	26, 27	1 497 931		35 309	784 948	2 318 188	2 318 188
Net profit for the year	27.5				44 565	44 565	44 565
Total comprehensive income for the year	27				44 565	44 565	44 565
Employee share option scheme	27.1			18 199		18 199	18 199
Purchase of treasury shares	26		(706)			(706)	(706)
Settlement of share options	27.1		706	(251)	(455)		
Dividend**	27.5				(139 290)	(139 290)	(139 290)
Balance as at 31 December 2017		1 497 931		53 257	689 768	2 240 956	2 240 956

* An ordinary dividend of 80 cents per share was declared in respect of the year ended 31 December 2017.

** An ordinary dividend of 70 cents per share was declared in respect of the year ended 31 December 2016.

Statements **of cash flows**

for the year ended 31 December 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from/(utilised in) operations	18.1	**887 748**	905 104	**(2 117)**	(2 402)
Interest paid	18.4	**(210 140)**	(207 912)		(1)
Taxation paid	18.2	**(148 295)**	(185 307)	**(1)**	(3)
Dividends paid	18.3	**(189 936)**	(153 758)	**(159 131)**	(139 290)
Dividends from associates	10	**6 550**	51 937		46 550
Net cash inflow/(outflow) from operating activities		**345 927**	410 064	**(161 249)**	(95 146)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment (excludes leased assets)	7	**(269 498)**	(165 429)		
Acquisition of intangible assets	8	**(33 705)**	(27 817)		
Acquisition of associate	10	**(16 061)**	(144 302)		
Advances repaid by subsidiaries	9			**217 344**	93 813
Interest received	2	**24 208**	26 179	**3**	11
Proceeds on disposal of property, plant and equipment	3, 7	**1 940**	11 318		
Proceeds on disposal of intangible assets	8		1 228		
Net cash (outflow)/inflow from investing activities		**(293 116)**	(298 823)	**217 347**	93 824
CASH FLOWS FROM FINANCING ACTIVITIES					
Preference shares repaid	18.5		(560 000)		
Revolving credit facility drawdown	18.5	**130 000**	296 000		
Revolving credit facility repaid	18.5	**(58 000)**			
Mutlu borrowings repaid	18.5	**(68 283)**	(56 502)		
Mutlu borrowings raised	18.5	**89 334**	244 569		
Lease payments	18.5	**(13 062)**	(12 456)		
Advances repaid to subsidiaries	9			**(56 364)**	
Acquisition of treasury shares	26	**(104 873)**			
Utilisation of treasury shares - CGT paid	27.1	**(526)**	(115)		
Net cash outflow from financing activities		**(25 410)**	(88 504)	**(56 364)**	
Net increase/(decrease) in cash and cash equivalents		**27 401**	22 737	**(266)**	(1 322)
Cash and cash equivalents at the beginning of the year		**597 305**	617 002	**590**	1 912
Exchange loss on cash and cash equivalents		**(45 096)**	(42 434)		
Cash and cash equivalents at end of the year	13	**579 610**	597 305	**324**	590

Notes **to the annual financial statements**

1. SEGMENT REPORT AND REVENUE	GROUP					
	2018			2017		
	Segment revenue R'000	% of total segment revenue	Segment PBIT R'000	Segment revenue R'000	% of total segment revenue	Segment PBIT R'000
1.1 SEGMENT REVIEW						
Energy storage						
Automotive						
Local	3 848 580	34	377 703	3 864 239	37	336 517
Direct exports	1 842 575	16	232 461	1 670 904	16	158 350
	5 691 155	50	610 164	5 535 143	53	494 867
Industrial						
Local	660 958	6	77 455	652 211	6	92 207
Direct exports	31 744		4 090	33 160		4 502
	692 702	6	81 545	685 371	6	96 709
Total energy storage	6 383 857	56	691 709	6 220 514	59	591 576
Automotive components						
Local						
Original equipment	4 516 489	39	420 440	3 832 194	36	357 277
Aftermarket	482 016	4	76 535	458 895	4	70 312
Non-auto	29 826		191	25 895		295
	5 028 331	43	497 166	4 316 984	40	427 884
Direct exports						
Original equipment	2 681		1 245	5 163		2 021
Aftermarket	41 607		10 331	37 784		6 966
	44 288	1	11 576	42 947	1	8 987
Total automotive components	5 072 619	44	508 742	4 359 931	41	436 871
Total segment results	11 456 476		1 200 451	10 580 445		1 028 447
Reconciling items:						
- Share of results of associates			76 507			102 989
- Managed associate*	(1 179 510)		(107 488)	(1 063 788)		(99 015)
Amortisation and depreciation on fair value uplift of assets arising from business acquisitions			(24 661)			(30 628)
Other reconciling items**			(59 632)			(51 291)
Total	10 276 966		1 085 177	9 516 657		950 502
Net finance costs			(185 848)			(174 688)
Profit before taxation			899 329			775 814
Included in the above:						
Depreciation and amortisation			(244 500)			(265 779)
- Energy storage***			(169 344)			(193 191)
- Automotive components****			(75 156)			(72 588)
Impairment charges			(1 031)			
- Automotive components			(1 031)			

* The full results of Hesto Harnesses Pty (Ltd) ('Hesto') have been included in the segment review as Metair has a 74.9% equity interest and is responsible for the operational management of this associate (refer to note 10).

** Other reconciling items relate to Metair head office companies.

*** Allocated to automotive R149.3 million (2017: R161.6 million) and industrial R20 million (2017: R31.6 million).

**** Allocated to original equipment R58.9 million (2017: R 55.9 million) and aftermarket and non-auto R16.3 million (2017: R16.7 million).

1. SEGMENT REPORT AND REVENUE (continued)

1.1 SEGMENT REVIEW (continued)

Segment information

Segment description and principal activities

The group manages an international portfolio of companies that manufacture and supply automotive components and energy storage solutions for local and export automotive and industrial markets. The group's manufacturing locations include South Africa, Romania and Turkey and the group also exports products directly from these locations into Africa, Middle East, Russia and Europe. The executive directors of the group and company are the chief operating decision makers ('CODMs'). In order to determine operating and reportable segments, management examines the group's performance from a product, market and geographic perspective and the reportable segments in the annual report are identical to the operating segments identified. The group's business is managed and analysed in two distinct verticals – the energy storage and automotive components business units. Following the acquisitions of Rombat and Mutlu, the impact of the energy storage businesses on the group results has become significant, and the evaluation and management of the group's businesses by the chief operating decision maker is therefore focused on energy storage and automotive components. The reportable segments of these businesses are identified as follows:

Energy storage vertical– automotive and industrial

The energy storage business consists of the automotive and industrial segments which manufacture products for local and export markets. FNB (South Africa), Mutlu (Turkey), Rombat (Romania) and Dynamic (United Kingdom) are included in energy storage results.

Automotive batteries are mainly supplied to the aftermarket through the group's unique distribution channels and retail networks in addition to the supply of batteries to the original equipment manufacturers (OEMs).

Industrial energy products relates to products sold in the telecoms, utility, mining, retail and materials/product handling sectors and are mainly sold into sub-Saharan Africa and Turkey.

Automotive components vertical, including exports – original equipment (OE), aftermarket and non-automotive

The traditional automotive component business comprises of the following segments which manufacture products for the local and export markets:

- OE;
- aftermarket; and
- non-automotive products.

OE involves the manufacture and distribution of components used in the assembly of new vehicles. Supply is linked to a particular vehicle model as the group benefits from long industry product lifecycles. Aftermarket involves the manufacture and distribution of components used to service vehicles produced by local OEMs as well as generic parts for imported vehicles. This creates the opportunity for the group to supply products to owners of vehicles throughout its life cycle. Non-automotive markets include manufacture and distribution of products mostly related to industrial and utility sectors.

Automotive components include coil and leaf springs, headlights, wiring harnesses and cable, air-conditioning, radiators, climate control systems, shock absorbers, plastic injection mouldings and brake pads. The group's 'non-battery' operating subsidiaries represents the automotive component business unit and these include the businesses of Smiths Manufacturing, Smiths Plastics and Automould, Supreme Spring and ATE, Lumotech, Unitrade and Hesto.

Basis of measurement

The executive directors assesses the performance of these operating segments based on operating profit, or profit before interest and tax (PBIT), which includes reported depreciation, amortisation as well as impairment charges. PBIT also includes the results of the managed associate (Hesto) but excludes the results of the share of other associates.

Interest income and expenses are not allocated to segments and amortisation of intangible assets arising from business combinations are also excluded. The amounts provided to the executive directors do not include regular measures of segment assets and liabilities and have therefore not been disclosed. The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the income statement. All segment revenues include those from external customers from the sales of goods.

1. SEGMENT REPORT AND REVENUE (continued)

1.1 SEGMENT REVIEW (continued)

Entity-wide information

Major customers

29% (2017: 27%) of total revenue results from sales to a single external customer of the group.

Geographical information

The group is domiciled in South Africa. The result of its revenue from South African operations is R7 105 million (2017: R6 224 million) and from Europe and the Middle East (EME) is R4 351 million (2017: R4 356 million), including managed associates. EME domiciled operations predominantly consists of Romania and Turkey.

Non-current assets (excluding deferred tax assets) amounted to R3 920 million (2017: R4 021 million) of which foreign operations amounted to R2 452 million (2017: R2 621 million). Goodwill of R298 million (2017: R368 million) is fully allocated to energy storage and arises out of the acquisition of Mutlu and Rombat. Goodwill is tested for impairment at the Mutlu and Rombat CGU level and no impairments were recorded in the current or prior years. Details can be found in note 8 – Intangible assets and impairment testing.

1.2 REVENUE

The group has applied IFRS 15 using the modified retrospective method. The comparative information has not been restated and continues to be reported under IAS 18. The effect of initially applying IFRS 15 on the group's revenue from contracts with customers, is fully explained in note 28.1 – IFRS 15 Revenue from Contracts with customers.

The group has also presented significant accounting polices related to revenue from contracts with customers within note 28.3, rather than together with other accounting policies. Critical accounting estimates and judgements relating to revenue are highlighted in note 24.

A. Revenue streams

The group generates revenue primarily from the sale of automotive components (car parts), automotive batteries and industrial products to its customers. The group currently has two distinct business verticals and the group's segment report (note 1.1 above) as well as pages 8 - 12 of the annual integrated report provides further information about the group's products, markets and revenue streams.

	GROUP	
	2018 R'000	**2017 R'000**
Revenue from contracts with customers	**10 276 966**	9 516 657

Notes **to the annual financial statements** (continued)

1. SEGMENT REPORT AND REVENUE (continued)

1.2 REVENUE (continued)

B. Disaggregation of revenue from contracts with customers

The group derives revenue from the transfer of goods and services over time and at a point in time. In the following tables, revenue is disaggregated by primary geographical region (domiciled sales), major products and markets as well as the timing of revenue recognition for the year ended 31 December 2018. The tables also includes a reconciliation of the disaggregated revenue with the group's reportable segments.

31 December 2018:	Revenue as reported R'000	Hesto (managed associate) exclusion R'000	Total segment revenue including Hesto R'000
Primary geographical markets			
South Africa	**5 925 214**	(1 179 510)	7 104 724
Turkey and UK	**3 022 186**		3 022 186
Romania	**1 329 566**		1 329 566
	10 276 966	**(1 179 510)**	**11 456 476**
Major product and service lines			
Automotive batteries	**5 691 155**		5 691 155
Automotive components and parts	**3 818 339**	(1 179 510)	4 997 849
Automotive customer tooling and related services	**44 944**		44 944
Industrial and non-automotive products	**722 528**		722 528
	10 276 966	**(1 179 510)**	**11 456 476**
Timing of revenue recognition			
Products transferred at a point in time	**6 748 672**		6 748 672
Products and services transferred over time	**3 528 294**	(1 179 510)	4 707 804
	10 276 966	**(1 179 510)**	**11 456 476**

		Reportable segments			
		Automotive		Industrial	
ENERGY STORAGE:	Total revenue R'000	Local R'000	Direct export R'000	Local R'000	Direct export R'000
Primary geographical markets					
South Africa	**2 032 105**	1 279 134	273 013	448 728	31 230
Turkey and UK	**3 022 186**	2 041 522	779 306	201 358	
Romania	**1 329 566**	527 924	790 256	10 872	514
	6 383 857	**3 848 580**	**1 842 575**	**660 958**	**31 744**
Major product and service lines					
Automotive batteries	**5 691 155**	3 848 580	1 842 575		
Industrial batteries	**692 702**			660 958	31 744
	6 383 857	**3 848 580**	**1 842 575**	**660 958**	**31 744**
Timing of revenue recognition					
Products transferred at a point in time	**6 383 857**	**3 848 580**	**1 842 575**	**660 958**	**31 744**

1. SEGMENT REPORT AND REVENUE (continued)

1.2 REVENUE (continued)

B. Disaggregation of revenue from contracts with customers (continued)

		Reportable segments			
		Local		Direct export	
AUTOMOTIVE COMPONENTS:	**Total revenue R'000**	**Original equipment R'000**	**Aftermarket / non-auto R'000**	**Original equipment R'000**	**Aftermarket R'000**
Primary geographical markets					
South Africa	**5 072 619**	4 516 489	511 842	2 681	41 607
	5 072 619	**4 516 489**	**511 842**	**2 681**	**41 607**
Major product and service lines					
Automotive components and parts	**4 997 849**	4 471 545	482 016	2 681	41 607
Customer tooling services	**44 944**	44 944			
Non-automotive products	**29 826**		29 826		
	5 072 619	**4 516 489**	**511 842**	**2 681**	**41 607**
Timing of revenue recognition					
Products transferred at a point in time	**364 815**		341 855		22 960
Products and services transferred over time	**4 707 804**	4 516 489	169 987	2 681	18 647
	5 072 619	**4 516 489**	**511 842**	**2 681**	**41 607**

C. Contract balances

The following section provides information about receivables, contract assets and contract liabilities:

	GROUP	
	31 Dec 2018 R'000	**1 Jan 2018** R'000**
Receivables, which are included in 'trade and other receivables' (note 12)	**1 431 619**	1 500 703
Contract assets*	**288 770**	223 843
Contract liabilities	**(846)**	(1 282)

* *Any unconditional rights to consideration is presented separately as a receivable. A right to consideration is 'unconditional' if only the passage of time is required before payment is due. Although the group has an enforceable right to payment for performance completed to date (i.e. Automotive parts completed but not delivered) it does not necessarily have a present unconditional right to consideration until goods are actually delivered and invoiced.*

*** As mentioned above, prior year results have not been restated.*

C.1 Significant changes in contract assets and liabilities

Contract assets relate primarily to the group's rights to consideration for work completed to date on automotive components and tooling, but not billed at the reporting date. The contract assets were not impaired (refer note 19. B). Theses contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the goods have been delivered and invoiced, upon acceptance by the customer. The associated finished goods, work in progress and materials have been de-recognised within cost of sales.

The contract liabilities primarily relate to the advance consideration received from customers for construction of tooling. The amount of R0.6 million recognised in contract liabilities at the beginning of the period has been reallocated to contract assets, on a contract by contract basis, and invoiced as per specific contractual arrangements.

Other accruals (still due to customers) include rebates and discounts payable for R11.3 million, as well as refund liabilities for R14 million which are included within trade and other payables (note 16).

Notes **to the annual financial statements** (continued)

1. SEGMENT REPORT AND REVENUE (continued)

1.2 REVENUE (continued)

C. Contract balances (continued)

The significant changes in the contract assets and the contract liabilities during the period are reconciled in the table below (the group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to opening retained earnings as at 1 January 2018):

	Contract assets R'000	Contract liabilities R'000
Opening balances (1 January 2018)	223 843	(1 282)
Tooling activities concluded	1 282	1 282
Increases due to cash received excluding amounts recognised as revenue during the period		(846)
Transfers from contract assets to receivables (manufactured goods now invoiced)	(225 125)	
Increases as a result of changes in the measure of progress during the year	288 770	
Closing balances at 31 December 2018	288 770	(846)

The major movements relate to revenue recognised from changes in the levels of finished goods, work in progress and materials in respect of automotive components for OEM customers.

C.2 Revenue recognised in relation to previous periods

Revenue of R12.5 million was recognised in the current year from performance obligations satisfied (or partially satisfied) in previous periods. These relate to our battery distributor arrangement in which entitlement to consideration is contingent on the occurrence or non-occurrence of a future event. As a result upon occurrence of the contingent event in the current year, the constraint was resolved (refer to note 28.1 for further information).

C.3 Transaction price allocated to remaining performance obligations

The group's performance obligations are short term in nature. Purchase orders are received for daily car builds and ordering commitments, from OEMs, don't exceed 3 months in general. Tooling contracts in progress have a duration of not more than one year at reporting date.

Therefore no information is provided about remaining performance obligations at 31 December 2018, that have an original expected duration of one year or less, as allowed by IFRS 15.

At 31 December 2018, an amount of R2.9 million was allocated to a customer material right, expiring in 2020 and relates to future potential discounts, which will be realised during 2019 and 2020. As a result of the battery distributor arrangement, revenue of R11.1 million has been deferred or constrained until 2019.

C.4 Contract costs

No such incremental costs were incurred that may qualify for capitalisation under IFRS 15. The group does incur training costs from time to time. These costs will be assessed for capitalisation, were applicable. Costs to fulfil contracts in progress form part of inventory. The group did not incur any nomination fee expenses or pre-production costs which could be potentially capitalised.

D. Performance obligations and revenue recognition policies

Revenue is measured by the group based on the consideration specified in a contract with a customer. The group recognises revenue when it transfers control over goods or services to a customer. The following tables only highlights the key considerations under IFRS 15, when compared to IAS 18, separated by business vertical, from which the group generates its revenue.

For an extended description of the nature and timing of the satisfaction of performance obligations in contracts with customers including our accounting policies and assessments regarding the timing of and methods adopted for revenue recognition, transaction price and variability, payment terms, warranties and significant judgements when applying IFRS 15, refer to note 28.3.

1. SEGMENT REPORT AND REVENUE (continued)

1.2 REVENUE (continued)

D. Performance obligations and revenue recognition policies (continued)

Automotive components	
Products and services	**Nature, timing of satisfaction of performance obligations and significant payment terms**
Automotive components for OEMs and OES	Under our arrangements with OEMs, the customers control all of the work in progress as the parts are being built. Revenue is recognised progressively (over time). For finished goods, revenue is recognised based on the 'right to invoice' method while for work in progress and specific materials, these are based on costs incurred to date plus an appropriate mark up. Payment terms are normally 30, 45 and 60 days from invoice following actual delivery of the part. The entitlement to consideration is recognised as a contract asset and transferred to receivables when the entitlement to payment becomes unconditional. Previously (in the comparative period), the group recognised revenue when risks and rewards of ownership were transferred to the customer, being when the customer took delivery of the parts and formally accepted them.
OEM customer tooling	Revenue for tooling services is recognised progressively based on costs incurred to date (input method). Revenue is recognised on a grossing up basis (as principal) even though the production of the tooling is normally outsourced to third party tool-makers. Payment terms are usually based on specified instalments over the duration of the contract or construction of the tool.
Customer options	Life-time price reductions for future goods, which result in a material right for a customer, are separated and a portion of revenue (the sales price) is only allocated when those future goods are transferred.
Other (non - OEM) products	Under other revenue streams other than OEMs, customers do not take control of the products until delivered. Revenue is recognised upon formal acceptance of the product, including risks and rewards of ownership. Payment is on 30 day terms.
Warranty	All contracts include standard warranty clauses to guarantee that products comply with agreed specifications. Warranty provisions are recognised by the group. There are no extended warranties.
Financing components	The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money

Energy Storage	
Products and services	**Nature, timing of satisfaction of performance obligations and significant payment terms**
Automotive batteries	The group recognises revenue when the customer takes possession of the battery. This usually occurs upon delivery to the customer's premises. For certain distributor arrangements, the amount of revenue recognised is adjusted for the expected refunds to be granted to the distributor, which are estimated based on the historical data for specific sale channels in which the goods are redirected. No cash refunds are made but credit notes are issued. These arrangements are treated as a sale with a right of return, a form of variable consideration. Export sales "inco" terms are usually free on board and recognised upon shipment of the batteries. Payments terms for sale of batteries varies according to sale channels and are up to 90 days for distributors, 45 to 60 days for OEMs and up to 90 days upon shipment for exports.
Industrial products	Under industrial revenue streams, customers do not take control for the product until they are completed. Revenue is recognised on formal acceptance by the customer (point in time), usually upon delivery to the customers premises. Payment terms are 60 and 90 days from delivery.
Warranty	All contracts include standard warranty clauses to guarantee that products comply with agreed specifications. Warranty provisions are recognised by the group. There are no extended warranties.
Financing components	The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money. Payment terms are within industry norms.

Notes **to the annual financial statements** (continued)

		GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
2.	**NET FINANCE COSTS**				
	Interest income				
	On bank deposits	20 120	22 033	3	11
	Other	4 088	4 146		
		24 208	26 179	3	11
	Interest expense				
	Bank borrowings and overdraft	(128 633)	(91 488)		(1)
	Finance leases and hire purchase	(4 018)	(4 124)		
	Dividend on redeemable preference shares	(59 206)	(92 107)		
	Defined benefits and other	(18 199)	(13 148)		
		(210 056)	(200 867)		(1)
	Net finance (expense)/income	(185 848)	(174 688)	3	10
3.	**OPERATING PROFIT**				
	Operating profit is stated after taking into account the following:				
	Other operating income and dividend revenue				
	Dividends from associates (unlisted)				46 550
	Distribution from subsidiaries				455
	Management fees received - external	7 759	11 842		
	Government grants	117 409	95 094		
	Bad debts recovered	375	115		
	Rent received	88	2 473		
	Derivatives at fair value through profit or loss:				
	- Fair value profit/(loss)	9 073	(33 634)		
	Insurance proceeds on fire**	60 657			
	Insurance proceeds - general	953	1 025		
	Sundry income	15 651	11 763		
		211 965	88 678		47 005
	Expenses by nature				
	Auditors' remuneration:				
	- Audit fees and disbursements	10 487	8 577	1 117	1 329
	- Non-audit assurance services	1 500	1 487		
	- Non-audit non-assurance services	10 787	1 486		
	Depreciation and amortisation (notes 7 and 8)	244 500	265 779		
	Impairment of property, plant and equipment	1 031			
	Property, plant and equipment destroyed in fire**	4 101			
	Operational losses on fire**	12 280			
	Loss/(profit) on disposal of property, plant and equipment	613	(800)		
	Operating lease charges:				
	- Property	12 368	13 661		
	- Plant and equipment	23 410	23 670		
	Impairment loss/(gain) on financial assets	4 138		(36 485)	
	Bad debt written off/impairment		106		
	Managerial, technical service fees and transaction costs paid to outside parties	47 710	42 327		
	Foreign exchange losses	39 022	6 097		
	Distribution costs	308 847	302 172		
	Raw materials, consumables used and other overheads	6 896 223	6 329 950		
	Employee benefit expense	1 806 013	1 719 324	314	312
	Other administrative and general expenses	57 231	43 986	679	806
	Total cost of sales, distribution expenses, administrative and other operating expenses	9 480 261	8 757 822	(34 375)	2 447

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
3. OPERATING PROFIT (continued)				
Employee benefit expense				
Wages and salaries	**1 587 987**	1 487 098	**314**	312
Share-based payment expenses	**17 151**	18 199		
Termination benefits	**1 167**	1 269		
Social security costs	**113 928**	129 149		
Pension costs - defined contribution plans	**78 652**	74 438		
Post-employment medical aid benefits (note 22.1)	**3 617**	3 420		
Other post-employment benefits (note 22.2)	**3 511**	5 751		
	1 806 013	1 719 324	**314**	312
Number of persons employed by the group at the end of the year				
Hourly	**3 883**	3 783		
Monthly	**2 206**	2 185		
	6 089	5 968		
Directors' emoluments				
Executive directors				
Salaries and allowances	**19 988**	17 412	**19 988**	17 412
Other benefits	**2 474**	669	**2 474**	669
	22 462	18 081	**22 462**	18 081
Paid by subsidiary companies	**(22 462)**	(18 081)	**(22 462)**	(18 081)
Non-executive directors	**314**	312	**314**	312
Fees	**3 743**	3 398	**3 743**	3 398
Paid by subsidiary company	**(3 429)**	(3 086)	**(3 429)**	(3 086)

3. OPERATING PROFIT (continued)

**** Fires and related insurance proceeds**

Mutlu fire (2018)

Included in other operating income and operating expenses are insurance proceeds, claims accrued and related costs in respect of the fire that occurred within the industrial plant.

During the year, a fire destroyed a portion of the industrial battery formation (charging) facility at Mutlu. The carrying value of property, plant and equipment was written off. Related operational losses includes inventory damaged by the fire and incidental expenses.

The business interruption claim is still progress and an estimate is included, a portion of which has been agreed and paid by the insurers. The plant and equipment claim is final and the cash has been received after year-end. Total proceeds of R46.3 million was recognised for the current year to date. R31.5 million of the claim was accrued for at year-end. Cash received was R14.8 million at balance sheet date and allocated to operating cash inflows.

Smiths Plastics fire (2018)

During the year under review, a fire partly destroyed Plant 2 of the plating line. Related operational losses have been recognised in profit or loss and includes inventory damaged by the fire as well as incidental expenses.

The insurance claim has been agreed with the insurers and a total net profit of R2.8 million was recognised. Proceeds of R14.3 million is still receivable at year-end.

The total gain recognised was allocated as follows:

	GROUP 2018 R'000	MUTLU 2018 R'000	SMITHS PLASTICS 2018 R'000
Gain on property, plant and equipment	29 582	27 483	2 099
Recovery on stock written off and business interruption expenses	14 694	13 955	739
Total profit for the year	44 276	41 438	2 838
Made up of:			
Total proceeds recognised as other income for the year	60 657	46 328	14 329
Less: Property, plant and equipment written off	(4 101)	(3 491)	(610)
Less: Stock written off and business interruption	(12 280)	(1 399)	(10 881)
Total profit for the year	44 276	41 438	2 838

3. OPERATING PROFIT (continued)

Directors' emoluments (continued)

	COMPANY 2018				
	CT Loock R'000	S Douwenga R'000	SG Pretorius R'000	RS Broadley R'000	L Soanes R'000
Executive directors					
Salaries and allowances	**7 613**	**4 015**			
Performance bonuses	**5 784**	**2 576**			
Pension and provident fund contributions	**337**	**205**			
Company contributions	**39**	**64**			
Gain on the exercise of share options*		**1 829**			
	13 773	**8 689**			
Paid by subsidiary companies	**(13 773)**	**(8 689)**			
Non-executive directors			**2**	**2**	**2**
Fees			**622**	**487**	**451**
Paid by subsidiary company			**(620)**	**(485)**	**(449)**
	B Mawasha R'000	JG Best R'000	TN Mgoduso R'000	PPJ Derby R'000	G Motau R'000
Non-executive directors	**2**	**300**	**2**	**2**	**2**
Fees	**355**	**501**	**499**	**406**	**422**
Paid by subsidiary company	**(353)**	**(201)**	**(497)**	**(404)**	**(420)**

	COMPANY 2017				
	CT Loock R'000	S Douwenga R'000	SG Pretorius R'000	RS Broadley R'000	L Soanes R'000
Executive directors					
Salaries and allowances	9 525	3 755			
Performance bonuses	2 627	1 505			
Pension and provident fund contributions	318	194			
Company contributions	38	47			
Gain on the exercise of share options	72				
	12 580	5 501			
Paid by subsidiary companies	(12 580)	(5 501)			
Non-executive directors			2	2	2
Fees			600	420	494
Paid by subsidiary company			(598)	(418)	(492)
		JG Best R'000	TN Mgoduso R'000	PPJ Derby R'000	G Motau R'000
Non-executive directors		300	2	2	2
Fees		574	434	418	458
Paid by subsidiary company		(274)	(432)	(416)	(456)

* Unrestricted portion.

Information regarding share awards/share options granted to executive directors of Metair Investments Limited can be found in note 26.1.

Notes **to the annual financial statements** (continued)

		GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
4.	**TAXATION**				
	Normal taxation	**199 391**	176 473	**1**	3
	Current:				
	- Current year	**188 762**	190 090	**1**	3
	- Prior years	**(1 283)**	(4 028)		
	Deferred:				
	- Current year	**10 475**	(12 271)		
	- Prior years	**1 437**	2 682		
	Dividend withholding/other taxes	**658**	11 769		
		200 049	188 242	**1**	3
		%	%	**%**	%
	Reconciliation of taxation rate:				
	Standard rate - South Africa	**28.0**	28.0	**28.0**	28.0
	Effect of change in taxation rate		0.1		
	Associates' results net of taxation	**(2.4)**	(3.7)		
	Prior year adjustment	**0.1**	(0.2)		
	- Current	**(0.1)**	(0.5)		
	- Deferred	**0.2**	0.3		
	Non-deductible expenses	**4.3**	5.2	**(28.0)**	1.5
	- Non-deductible expenses for preference dividends	**1.8**	3.7		
	- Non-deductible expenses for interest and fees	**1.1**			
	- Non-deductible expenses on corporate and legal costs	**0.6**		**(28.0)**	1.5
	- Non-deductible expenses	**0.8**	1.5		
	Dividend withholding/other taxes	**0.1**	1.5		
	Taxation losses for which no deferred taxation asset was recognised	**0.9**	1.1		
	Utilisation of previously unrecognised tax losses		(0.5)		
	Exempt income	**(0.1)**	(1.4)		(29.5)
	Research and development tax credits	**(0.8)**			
	Learnership allowances	**(0.3)**			
	Investment tax credit - Turkey (Mutlu)	**(4.0)**	(1.8)		
	Securities transfer tax		0.2		
	Foreign tax rate difference*	**(3.6)**	(4.2)		
	Effective rate	**22.2**	24.3		

* Mutlu and Rombat statutory taxation rates are 22% (2017: 20%) and 16% (2017: 16%) respectively.

The tax effects relating to items of other comprehensive income are disclosed in notes 15 and 27.

Deferred income taxation assets are recognised for assessable taxation losses to the extent that the realisation of the related taxation benefit through taxable profits is probable and is based primarily on the future forecasted profitability of the relevant entity. Factors considered include future profitability forecasts and internal reorganisations. Also see note 15 for information about recognised tax losses and assets.

The group did not recognise deferred income taxation assets of R44.6 million (2017: R40.7 million) in respect of estimated taxation losses amounting to R180.3 million (2017: R163.5 million) that can be carried forward against future taxable income. They can be carried forward indefinitely.

	GROUP 2018	2017
5. EARNINGS PER SHARE		
Basic earnings per share represents the income in cents attributable to equity holders of the company, based on the group's attributable profit or loss from ordinary activities divided by the weighted average number of shares in issue during the year, excluding treasury shares.	**338**	281
Headline earnings per share represents the income in cents attributable to equity holders of the company, based on the group's attributable profit or loss from ordinary activities, adjusted as required by SAICA Circular 4/2018, divided by the weighted average number of shares in issue during the year excluding, treasury shares.	**327**	281
Diluted earnings per share		
Diluted earnings per share (cents)	**336**	279
Diluted headline earnings per share (cents)	**325**	279

For the diluted earnings per share calculation, the weighted average number of ordinary shares outstanding is adjusted to take into account all dilutive potential ordinary shares.
The company has one category of potential dilutive ordinary shares: Share options.
The number of shares taken into account is determined by taking the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options and awards. This calculation is done to determine the 'purchased' shares to be added to the ordinary shares outstanding for the purpose of computing the dilution.

	GROUP			
	Earnings per share		Earnings per share	
	2018	2018	2017	2017
Reconciliation between basic earnings and headline earnings	**R'000**	**cents**	**R'000**	**cents**
Net profit attributable to ordinary shareholders	**667 377**	**338.3**	556 182	280.9
Loss/(profit) on disposal of property, plant and equipment	**534**	**0.3**	(595)	(0.3)
Gross amount	**613**		(800)	
Taxation effect	**(79)**		205	
Impairment of property, plant and equipment	**800**	**0.4**		
Gross amount	**1 031**			
Taxation effect	**(231)**			
Gain on insurance recovery on fire - property, plant and equipment	**(23 066)**	**(11.7)**		
Gross amount	**(29 582)**			
Taxation effect	**6 516**			
Headline earnings	**645 645**	**327.3**	555 587	280.6
Weighted average number of shares in issue ('000)	**197 284**		197 987	
Diluted earnings per share				
Net profit attributable to ordinary shareholders	**667 377**	**336.2**	556 182	279.4
Number of shares used for diluted earnings calculation ('000)	**198 530**		199 055	
Diluted headline earnings per share				
Headline earnings	**645 645**	**325.2**	555 587	279.1
Number of shares used for diluted earnings per share calculation ('000)	**198 530**		199 055	
Weighted average number of shares in issue ('000)	**(197 284)**		(197 987)	
Adjustment for dilutive share options ('000)	**1 246**		1 068	

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
6. DIVIDENDS				
A dividend of 80 cents (2017: 70 cents) per share in respect of the 2017 (2016) year declared on 14 March 2018 (22 March 2017) and paid on 23 April 2018 (24 April 2017).	**158 345**	138 590	**159 131**	139 290

	GROUP			
	Land and buildings R'000	Plant, machinery and equipment R'000	Vehicles and furniture and fittings R'000	Total R'000
7. PROPERTY, PLANT AND EQUIPMENT				
2018				
At cost	**1 032 933**	**2 835 573**	**181 990**	**4 050 496**
Less: Accumulated depreciation and impairment	**(116 575)**	**(1 279 179)**	**(116 597)**	**(1 512 351)**
	916 358	**1 556 394**	**65 393**	**2 538 145**
2017				
At cost	1 108 726	2 736 213	177 664	4 022 603
Less: Accumulated depreciation and impairment	(98 957)	(1 197 608)	(120 301)	(1 416 866)
	1 009 769	1 538 605	57 363	2 605 737
Reconciliation of movement:				
Year ended 31 December 2018				
Opening net book value	**1 009 769**	**1 538 605**	**57 363**	**2 605 737**
Transfers*	**11 798**	**(24 282)**	**8 506**	**(3 978)**
Additions	**4 276**	**246 671**	**20 783**	**271 730**
Disposals	**(8)**	**(6 264)**	**(382)**	**(6 654)**
Depreciation	**(15 528)**	**(186 687)**	**(14 808)**	**(217 023)**
Impairment		**(1 031)**		**(1 031)**
Currency adjustment	**(93 949)**	**(10 618)**	**(6 069)**	**(110 636)**
Closing net book value	**916 358**	**1 556 394**	**65 393**	**2 538 145**
Year ended 31 December 2017				
Opening net book value	1 137 024	1 660 764	59 343	2 857 131
Transfers	6 851	(14 260)	7 409	
Additions	11 594	167 781	13 222	192 597
Disposals	(5 367)	(4 838)	(313)	(10 518)
Depreciation	(20 378)	(200 098)	(15 215)	(235 691)
Currency adjustment	(119 955)	(70 744)	(7 083)	(197 782)
Closing net book value	1 009 769	1 538 605	57 363	2 605 737

* Transfers include reclassifications and work in progress transfers, R4m was transferred out of property, plant and equipment into intangible assets.

A register of land and buildings is available at the registered offices of the subsidiaries owning the respective properties.

Property, plant and equipment amounting to R115.7 million (2017: R102.5 million) are encumbered as security for bank overdrafts.

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Assets under construction are included as follows:

	GROUP 2018 R'000	GROUP 2017 R'000
Land and buildings	**5 386**	9 496
Plant and equipment	**104 828**	89 849

Depreciation expenses are included within cost of sales of R191.7 million (2017: R206.2 million); distribution costs of R3.6 million (2017: R3.5 million); and administrative expenses of R21.7 million (2017: R26.0 million) in the income statement.

Lease rentals amounting to R12.4 million (2017: R13.7 million) relating to property and R23.4 million (2017: R23.7 million) relating to plant and equipment are included in the income statement. The group leases various vehicles and machinery under non-cancellable finance lease and instalment sales agreements. The lease terms are up to a period of 5 years. The net book value of the assets leased amounts to R47.8 million (2017: R60.7 million).

	GROUP Goodwill R'000	Trade-marks R'000	Licences R'000	Brands R'000	Customer relation-ship R'000	Develop-ment costs and other R'000	Total R'000
8. INTANGIBLE ASSETS							
2018							
At cost	**316 222**	**52 585**	**34 909**	**239 576**	**126 967**	**85 495**	**855 754**
Less: Accumulated amortisation and impairment	**(17 797)**	**(20 662)**	**(21 650)**	**(18 662)**	**(46 863)**	**(22 639)**	**(148 273)**
	298 425	**31 923**	**13 259**	**220 914**	**80 104**	**62 856**	**707 481**
2017							
At cost	385 555	49 767	30 487	285 652	151 476	61 994	964 931
Less: Accumulated amortisation and impairment	(17 797)	(15 981)	(18 220)	(17 724)	(45 270)	(15 367)	(130 359)
	367 758	33 786	12 267	267 928	106 206	46 627	834 572
Reconciliation of movement:							
Year ended 31 December 2018							
Opening net book value	**367 758**	**33 786**	**12 267**	**267 928**	**106 206**	**46 627**	**834 572**
Transfers*						**3 978**	**3 978**
Additions			**4 617**			**29 088**	**33 705**
Amortisation		**(2 831)**	**(3 302)**	**(3 223)**	**(8 482)**	**(9 639)**	**(27 477)**
Currency adjustments	**(69 333)**	**968**	**(323)**	**(43 791)**	**(17 620)**	**(7 198)**	**(137 297)**
Closing net book value	**298 425**	**31 923**	**13 259**	**220 914**	**80 104**	**62 856**	**707 481**
Year ended 31 December 2017							
Opening net book value	451 049	38 279	14 593	322 332	138 734	36 474	1 001 461
Additions			1 273			26 544	27 817
Disposals						(1 228)	(1 228)
Amortisation		(2 779)	(3 378)	(4 076)	(11 442)	(8 413)	(30 088)
Currency adjustments	(83 291)	(1 714)	(221)	(50 328)	(21 086)	(6 750)	(163 390)
Closing net book value	367 758	33 786	12 267	267 928	106 206	46 627	834 572

* Transfers include reclassifications and work in progress transfers, R4m was transferred out of property, plant and equipment into intangible assets.

8. INTANGIBLE ASSETS (continued)

General

Goodwill, trademarks, brands and customer relationships are allocated to their respective underlying cash-generating units. The respective businesses acquired are defined as the underlying cash-generating units which support the valuation of the goodwill, trademarks, brands and customer relationships.

Significant trademarks and brands comprise Mutlu, Povver, Celik and Rombat.

Additions to intangible assets comprises predominantly of capitalised development costs within the Energy Storage vertical, licences and software.

Brands are recognised as indefinite useful life intangible assets when an analysis of the relevant underlying factors confirm that there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity. This assumption is further justified by the strong presence these brands have in their respective marketplace. The Mutlu brand has a track record of stability, is long established and has demonstrated the ability to survive changes in the economic environment. Factors considered include the market-leading position of the Mutlu brand in Turkey, its wide name-recognition and strong presence in the marketplace, management's intention to maintain advertising spend and to keep the brand indefinitely.

Amortisation on finite intangible assets of R16.5 million (2017: R20.3 million) is included within cost of sales and R11.0 million (2017: R9.8 million) within administration expenses in the income statement. Intangible assets recognised as defined life intangible assets are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the costs of these assets over their useful lives. Trademarks, brands and customer relationships are amortised over periods ranging from 5 to 25 years. There are no restrictions on title.

Goodwill and indefinite life intangible assets are allocated to the following cash-generating units ('CGUs'):

	Opening net book value R'000	Currency adjustments R'000	Closing net book value R'000
2018			
Goodwill			
- Rombat SA	**44 644**	**3 603**	**48 247**
- Mutlu group	**323 114**	**(72 936)**	**250 178**
Brands			
- Mutlu group	**225 561**	**(37 950)**	**187 611**
	593 319	**(107 283)**	**486 036**
2017			
Goodwill			
- Rombat SA	44 642	2	44 644
- Mutlu group	406 407	(83 293)	323 114
Brands			
- Mutlu group	268 900	(43 339)	225 561
	719 949	(126 630)	593 319

Impairment tests on goodwill and indefinite life intangible assets

The group's goodwill and indefinite life intangible assets arising in the CGUs, Mutlu and Rombat, belong to the energy storage vertical. The recoverable amount has been determined based on value-in-use calculations and is estimated using a discounted cash flow model ('DCF').

DCF calculations use cash flow projections based on financial budgets and five-year business plans approved by management and the board, which include assumptions on profit before interest and tax, depreciation, working capital movements and capital maintenance expenditure. Cash flows beyond a five-year period are extrapolated using the estimated growth rates stated below (terminal value). The estimated future cash flows used are pre-tax.

The perpetuity growth rate is consistent with long-term industry growth forecasts. The discount rate reflects specific risks relating to the cash-generating unit. No impairment was required in the current or prior year.

8. INTANGIBLE ASSETS (continued)

The summary of key assumptions used for value-in-use calculations are as follows:	ROMBAT %	MUTLU %
2018		
Compound annual volume growth rate*	**3.5**	**3.7**
Long-term growth rate**	**3.7**	**5.0**
Discount rate (WACC)***	**13.0**	**29.9**
Period (years)	**5.0**	**5.0**
2017		
Compound annual volume growth rate*	6.9	10.1
Long-term growth rate**	4.1	5.0
Discount rate (WACC)***	11.5	19.6
Period (years)	5.0	5.0

* Compound annual volume growth rate in the initial five-year period for automotive batteries.

** Long-term growth rate used to extrapolate cash flows beyond the five-year period.

*** Implied pre-tax discount rate applied to cash flow projections reflecting specific risks relating to the CGU and the country they operate in. The significant increase in the WACC for Mutlu is mainly due to an increase in the Turkish risk-free ('Rf') rate from 11.4% to 18.2%.

Raw material input costs: Lead constitutes approximately 60% of the material cost of batteries and therefore the group is exposed to commodity price risk in the quoted market price of lead which may impact on input costs. However this risk is mitigated by the following:

- Operations benefit from vertical integration of scrap battery recycling which also allows the group to meet its legal recycling obligations and acts as a key source of raw materials.
- Recovery of old batteries through the group's distribution network and recycling of its lead content allows the group to significantly reduce its costs, thus achieving strong operational efficiency and overall lower input costs when compared to LME (London Metals Exchange).
- A natural hedge exists for USD denominated lead price which is partially off-set through export sales denominated in foreign currency.
- Medium and long-term product pricing generally follow trends in USD and LME as battery prices are predominantly based on the USD exchange rate and the LME price of lead per tonne. USD2 200 USD/tonne (2017: USD2 300 USD/tonne) has been used in the forecast period costs for lead.

Implied pre-tax discount rate: The discount rate of each CGU is determined using a Weighted Average Cost of Capital ('WACC') approach. Risk adjusted discount rates are derived from risk-free rates based upon long-term government bonds in the territory, or territories, within which each CGU operates. We have taken the yield of the ten-year benchmark sovereign bond for Romania denominated in the CGUs domestic currency as a proxy for the risk-free rate for Rombat. For Turkey (Mutlu), we have used the 30-year US government bond and applied a 'build-up approach', including adjusting for an inflation differential between the Turkish Lira and US Dollar. A relative risk adjustment (or beta) has been applied to risk-free rates to reflect the risk inherent in each CGU relative to all other sectors on average, determined using an average of the betas of comparable listed companies, relevered. The discount rate is further adjusted (where applicable) for a small stock premium (SSP), a company specific risk premium (CSRP), forecasting risk ('alpha') and a market or equity risk premium (MRP). Since we have made use of domestic sovereign bonds as a measure of the risk-free rate for Rombat, no country risk premium has been applied. However, a country risk premium of 3.5% was applied to the risk-free rate determination of Mutlu. In determining the cost of debt we have used a 'build-up approach' considering each CGUs capacity to borrow on a standalone basis. A long-term target debt to equity ratio of 25% has been applied to arrive at a WACC.

Long-term growth rates: To forecast beyond the detailed cash flows into perpetuity, a long-term growth rate has been used. In each case, this approximates long-term industry and country forecasts in the territory where the CGU is primarily based.

Goodwill sensitivity analysis

The results of the group's impairment tests are dependent upon estimates and judgements made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to potential changes in key assumptions has therefore been reviewed.

The table below shows the discount rate and long-term growth rate assumptions used in the calculation of value-in-use and the amount by which each assumption must change in isolation in order for the estimated recoverable amount to approximate the carrying value.

Notes **to the annual financial statements** (continued)

8. INTANGIBLE ASSETS (continued)

Sensitivity analysis of assumptions used in the goodwill impairment test	ROMBAT	MUTLU
Change required for the carrying value to approximate the recoverable amount:		
2018		
Discount rate %	**13.0**	**29.9**
Percentage points change	**+2.7**	**+1.5**
Long-term growth rate %	**3.7**	**5.0**
Percentage points change	**-4.2**	**-3.1**
2017		
Discount rate %	11.5	19.6
Percentage points change	+3.0	+3.9
Long-term growth rate %	4.1	5.0
Percentage points change	-4.3	-6.6

9. INTEREST IN SUBSIDIARIES

	COMPANY	
	2018 R'000	2017 R'000
Unlisted		
Investments at cost	493 695	493 695
Non-current advances to subsidiary companies		1 487 012
Share-based payment costs	66 598	53 257
	560 293	2 033 964
Current advances to subsidiary companies, net of impairments	1 620 323	438 827
Current advances from subsidiary companies	(178 262)	(234 626)
	1 442 061	204 201
Total net investment interest and advances to/(from) related parties	2 002 354	2 238 165

In the prior year comparative, non-current advances are presented net of impairment provisions, have no fixed terms of repayment and regarded as part of the net investment interest in subsidiaries carried at cost. In the current year, these balances have been reclassified as part of current advances to subsidiary companies as a result of IFRS 9. Current advances are interest-free, unsecured and repayable on demand and to be settled in cash. These are presented as short-term loans to/(from) group subsidiary companies, net of impairment allowances. The gross carrying amount of loans, which represent the maximum exposure to loss, is R1 933 224 000. Further information on amounts advanced to/(from) subsidiary companies can be found on page 231.

The effect of initially applying IFRS 9 on the company is described in note 28.4. The group (and company) has taken an exemption not to restate comparative information for prior periods with respect to the classification and measurement (including impairment or loss allowances) requirements of IFRS 9. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9, are recognised in retained earnings of the company as at 1 January 2018. The total loss provision amounted to R312 901 000 at 31 December 2018 (at 1 January 2018: R349 386 000 and at 31 December 2017: R224 729 000). The loss allowance provision decreased as a result of repayment of Lumotech advances during the year. Further information on impairments can be found in note 19.2 B (financial instruments - credit risk). Related party loans receivable are classified within a “held-to-collect” business model as the company holds the loans with the objective to collect the contractual cash flows which solely relates to payments of the principle amount and therefore classified at amortised cost.

The interest of Metair Investments Ltd in the aggregate after tax income/(loss) of the subsidiaries was as follows:

	GROUP	
	2018 R'000	2017 R'000
Net income	1 218 576	1 458 483
Net losses	(52 021)	(46 022)

Details of subsidiaries of the group are disclosed on page 229. The group structure is available on page 6 of the integrated annual report.

All subsidiary undertakings are included in the consolidation. The total non-controlling interest for the period is R121.3 million (2017: R119.4 million) of which R117.2 million (2017: R115.5 million) is for Smiths Manufacturing. Smiths Manufacturing is situated in South Africa and is a conventional manufacturing company producing automotive products such as climate control and air-conditioning systems predominantly for the OE sector. Management has assessed the level of influence the group is able to exercise over Smiths Manufacturing and it has control over the company due to its voting and similar rights as well as the ability to direct the relevant activities.

9. INTEREST IN SUBSIDIARIES (continued)

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information, prepared in accordance with IFRS, for Smiths Manufacturing (Pty) Ltd (Smiths) (75% held) that has non-controlling interest that is material to the group. The amounts disclosed are based on those included in the consolidated financial statements before inter-company eliminations.

	2018 R'000	2017 R'000
Summarised balance sheet		
Non-controlling interest %	25	25
Current		
Assets	545 393	516 603
Liabilities	(259 467)	(247 108)
Total net current assets	285 926	269 495
Non-current		
Assets	271 260	250 570
Liabilities	(104 557)	(75 322)
Total net non-current assets	166 703	175 248
Net assets	452 629	444 743
Summarised results		
Revenue	1 810 102	1 463 224
Other comprehensive income	935	468
Profit attributable to non-controlling interest	31 401	31 009
Total comprehensive income allocated to non-controlling interest	31 635	31 126
Dividends paid to non-controlling interest	31 009	14 755
Accumulated non-controlling interest	117 205	115 536
Summarised cash flow		
Net cash inflow from operating activities	9 821	95 328
Net cash outflow from investing activities	(9 584)	(6 035)
Net cash inflow from financing activities		653

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
10. INVESTMENT IN ASSOCIATES				
Unlisted				
Investments at cost less impairment	285 143	269 082	2 793	2 793
Share of post-acquisition reserves included in equity accounted earnings	389 153	311 358		
Total carrying value	674 296	580 440	2 793	2 793
Reconciliation of movements:				
Balance at the beginning of the year	580 440	387 245	2 793	2 793
Adjustment on initial application of IFRS 15 and IFRS 9	3 269			
Acquisition of associate	16 061	144 302		
Share of equity accounted earnings	76 507	102 989		
Dividends received	(6 550)	(51 937)		
Foreign currency translation	4 569	(2 159)		
Investment in associates	674 296	580 440	2 793	2 793

Set out below are the associates of the group, which are accounted for on the equity method.
The associates have share capital consisting of ordinary shares and subscribed capital which are held directly by the group except, Valeo Systems SA and Tenneco Automotive Holdings SA that is held directly by the company.

Their principal place of business is the same as country of incorporation and the proportion of ownership is the same as the voting rights held.

10. INVESTMENT IN ASSOCIATES (continued)

Nature of investment in associates	Percentage holding %	Place of business/ country of incorporation	Group carrying amount R'000
2018			
Unlisted			
Hesto Harnesses (Pty) Ltd	**74.9**	**South Africa**	**246 181**
Valeo Systems SA (Pty) Ltd	**49.0**	**South Africa**	**74 286**
Tenneco Automotive Holdings SA (Pty) Ltd	**25.1**	**South Africa**	**57 985**
Associated Battery Manufacturers (East Africa) Limited ('ABM')	**25.0**	**Kenya**	**157 475**
MOLL	**25.1**	**Germany**	**122 302**
Prime Motors Industry Srl ('Prime')	**35.0**	**Romania**	**16 067**
Vizirama 12 (Pty) Ltd	**33.0**	**South Africa**	
Eye2square Innovations (Pty) Ltd	**20.0**	**South Africa**	
			674 296
2017			
Unlisted			
Hesto Harnesses (Pty) Ltd	74.9	South Africa	187 655
Valeo Systems SA (Pty) Ltd	49.0	South Africa	62 398
Tenneco Automotive Holdings SA (Pty) Ltd	25.1	South Africa	46 357
Associated Battery Manufacturers (East Africa) Limited	25.0	Kenya	139 728
MOLL	25.1	Germany	144 302
Vizirama 12 (Pty) Ltd	33.0	South Africa	
Eye2square Innovations (Pty) Ltd	20.0	South Africa	
			580 440

Details of the associates are disclosed on page 230. There are no significant restrictions on the ability of associates to transfer funds to the group. The group does not provide or has received guarantees or similar undertakings for financing facilities, except for a limited letter of support of R3.6 million (2017: R3.6 million) granted to Valeo for overdraft facilities. The risk of default is considered remote. The associate companies operate in the automotive component industry and manufacture automotive parts and batteries for OE and aftermarket segments.

The group's associates are private entities and there is no quoted market price available for shares.

The group owns 74.9%, of the majority of the voting rights in Hesto. However, the Shareholder's Agreement stipulates that unanimous consent is required for all decisions relating to the relevant activities of Hesto. The other shareholder also has a currently exercisable and substantive option (call option) that results in Metair accounting for the investment as an associate (also refer note 24).

Hesto manufactures and sells automotive wiring harnesses and related components in South Africa. Hesto is a strategic and specialist automotive component manufacturer giving the group OE product and market focus as well being a product differentiator. Hesto's results are also included in the group's segmental analysis, as a managed associate.

The group acquired 35% of Romanian lithium-ion ('Li-ion') battery maker, Prime for R16 million (EUR1 million). The acquisition establishes an incubation and research and development centre for Li-ion development and to accelerate production of Li-ion batteries for the European market.

In 2017, the group acquired a 25.1% equity interest in Akkumulatorenfabrik MOLL GmBH & Co. KG ('MOLL Opco') and MOLL Grundstücks-und Vermögensverwaltungs GmbH + Co. KG ('MOLL Propco'),Germany (together known as 'MOLL') for a total consideration of R144.3 million (approximately EUR9.2 million). MOLL is a renowned battery supplier for the automotive industry and for commercial vehicles. It manufactures exclusively at its site in Bad Staffelstein/Germany, and has been supplying European OEMs such as Audi, Daimler, Porsche, Lamborghini and VW. The acquisition strengthens our access to German OEMs as well as potential access to new markets such as China and technological transfer.

ABM owns the Chloride and Exide brands for the Kenyan as well as Tanzanian and Ugandan markets. The ABM group is purely aftermarket and represents significant potential for synergies and technology transfer in maintenance free batteries for automotive and lithium batteries for solar.

10. INVESTMENT IN ASSOCIATES (continued)

Summarised financial information for associates

Set out below are the summarised financial information for the associates, which are accounted for using the equity method. Hesto, ABM and MOLL are considered material and are disclosed individually, whilst the other associates are aggregated.

	2018			
	Hesto Harnesses R'000	ABM R'000	MOLL R'000	Other associates R'000
Summarised income statements				
Revenue	1 179 510	1 022 799	1 101 739	1 238 049
Profit/(loss) after taxation	73 774	78 928	(87 649)	73 740
Total comprehensive income/(loss)	73 774	78 928	(87 649)	70 596
Attributable to group	55 257	19 728	(22 000)	23 522
Dividends received from associates		(6 550)		
Post foreign currency translation		4 569		
Summarised balance sheets				
Current				
Assets	327 931	439 836	284 246	645 749
Liabilities	(183 904)	(115 085)	(244 929)	(212 488)
Non-current				
Assets	228 929	239 593	280 328	85 580
Liabilities	(44 277)	(92 388)	(109 224)	(3 369)
Net assets	328 679	471 956	210 421	515 472

	2017			
	Hesto Harnesses R'000	ABM R'000	MOLL R'000	Other associates R'000
Summarised income statements				
Revenue	1 063 788	904 085	1 218 035	1 341 258
Profit/(loss) after taxation	66 592	58 234	(676)	99 009
Total comprehensive income	66 592	49 598	(676)	99 009
Attributable to group	49 877	12 400		38 553
Dividends received from associates		(5 387)		(46 550)
Summarised balance sheets				
Current				
Assets	277 928	377 165	333 260	586 840
Liabilities	(227 833)	(110 579)	(195 702)	(247 320)
Non-current				
Assets	247 809	161 454	234 416	87 445
Liabilities	(47 364)	(69 996)	(107 697)	(2 351)
Net assets	250 540	358 044	264 277	424 614

The information above reflects the amounts presented in the financial statements of the associates (and not the group's share of those amounts) adjusted for differences in accounting policies between the group and the associates.

The statutory financial year-end of ABM is the end of February, however the results presented are at 31 December 2018 and equity accounted up to this date.

The goodwill arising on acquisition of MOLL Opco and MOLL Propco amounted to R8 million and R2 million respectively. The majority partner in MOLL Opco has a put option to sell their entire shareholding to the remaining shareholders of the entity. We have examined the terms of the option and have determined that the likelihood of the derivative option instrument arising is remote and the fair value of the option liability to be immaterial at year-end.

10. INVESTMENT IN ASSOCIATES (continued)

Reconciliation of summarised financial information

Reconciliation of summarised financial information for associates are presented in the table below:

	2018			
	Hesto Harnesses R'000	ABM R'000	MOLL R'000	Other associates R'000
Opening net assets 1 January	250 540	358 044	264 277	424 614
Profit/(loss) for the year	73 774	78 928	(87 649)	73 740
Dividends paid		(26 200)		
Net asset value of associates purchased				15 465
Foreign currency translation and other	4 365	61 184	33 793	1 653
Closing net assets	328 679	471 956	210 421	515 472
Shareholding	74.9%	25.0%	25.1%	Varying
Acquisition cost less impairment	1	121 986	144 302	18 854
Post equity accounted profits	246 180	35 489	(22 000)	129 484
Carrying amount	246 181	157 475	122 302	148 338

	2017			
	Hesto Harnesses R'000	ABM R'000	MOLL R'000	Other associates R'000
Opening net assets 1 January	183 948	383 566		420 605
Profit for the year	66 592	58 234		99 009
Dividends paid		(45 188)		(95 000)
Associates purchased*			144 302	
Foreign currency translation		(38 568)		
Closing net assets	250 540	358 044	144 302	424 614
Shareholding	74.9%	25.0%	25.1%	Varying
Acquisition cost less impairment	1	121 986	144 302	2 793
Post equity accounted profits	187 654	17 742		105 962
Carrying amount	187 655	139 728	144 302	108 755

* MOLL was acquired in June 2017. The closing net asset position at 31 December 2018 was R264 277 000.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
11. INVENTORY				
Raw material	758 600	704 607		
Work in progress	482 089	354 189		
Finished goods	601 520	638 867		
Right to recover returned goods	6 882			
	1 849 091	1 697 663		
Included in the above are inventories stated at net realisable value of	16 717	14 944		
The cost of inventories recognised as expense and included in cost of sales amounted to	7 496 647	6 946 507		
Inventory pledged as security for bank overdrafts amounting to:	5 300	7 029		

In 2018, inventory and related work in progress related to automotive components has reduced. On adoption of IFRS 15, revenue and the associated costs for these products are recognised over time and contract assets are recognised.

On adoption of IFRS 15, an asset for the right to recover returned goods is recognised in relation to batteries sold under certain distribution arrangements.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
12. TRADE AND OTHER RECEIVABLES				
Trade receivables	**1 480 946**	1 535 155		
Less: Provision for impairment of trade receivables	**(49 327)**	(34 452)		
	1 431 619	1 500 703		
Prepayments and deposits	**75 339**	37 033		
Tooling supplier prepayments	**13 516**	33 787		
Insurance proceeds and claims receivable	**45 856**			
Grant claim receivable	**3 853**	2 915		
VAT asset	**6 996**	9 153		
Rebates and discounts receivable	**58 487**	52 675		
Other receivables	**31 875**	33 719		
	1 667 541	1 669 985		

Trade receivables can be categorised in the following categories:

	Total R'000	Fully perfor-ming R'000	Past due and not impaired R'000	Impaired and provided for R'000
2018				
Original equipment	**437 118**	**376 989**	**60 002**	**127**
Exports	**340 470**	**245 672**	**65 875**	**28 923**
Aftermarket	**612 000**	**535 916**	**58 274**	**17 810**
Non-automotive	**91 358**	**44 212**	**44 679**	**2 467**
	1 480 946	**1 202 789**	**228 830**	**49 327**
2017				
Original equipment	439 764	386 446	53 221	97
Exports	327 841	265 643	41 422	20 776
Aftermarket	620 096	557 232	52 385	10 479
Non-automotive	147 454	78 543	65 811	3 100
	1 535 155	1 287 864	212 839	34 452

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

	GROUP	
	2018 R'000	2017 R'000
Rand	**718 261**	648 543
British Pound	**24 086**	19 698
Euro	**184 073**	125 265
US Dollar	**115 916**	155 631
Australian Dollar	**666**	1 393
Romanian Lei	**136 070**	133 030
Turkish Lira	**486 613**	586 425
Singapore Dollar	**1 856**	
	1 667 541	1 669 985

Notes **to the annual financial statements** (continued)

12. TRADE AND OTHER RECEIVABLES (continued)

The provision for impairment can be analysed as follows:

	Total R'000	Original equip-ment R'000	Export R'000	After-market R'000	Non-auto-motive R'000
2018					
At 1 January	**34 452**	**97**	**20 776**	**10 479**	**3 100**
Adjustment on initial application of IFRS 9	**11 226**	**74**	**4 758**	**6 267**	**127**
Balance at 1 January 2018 under IFRS 9	**45 678**	**171**	**25 534**	**16 746**	**3 227**
Net remeasurement of loss allowance	**4 138**	**(44)**	**729**	**2 610**	**843**
Amounts written off	**(4 223)**			**(2 620)**	**(1 603)**
Currency adjustments	**3 734**		**2 660**	**1 074**	
As at 31 December	**49 327**	**127**	**28 923**	**17 810**	**2 467**
2017					
At 1 January	34 627	91	22 237	9 226	3 073
Provisions for receivables impaired	2 050	80		1 917	53
Amounts written off	(1 263)		(1 025)	(212)	(26)
Unused amounts reversed	(718)	(74)	(437)	(207)	
Currency adjustments	(244)		1	(245)	
As at 31 December	34 452	97	20 776	10 479	3 100

The ageing profile of total trade receivables are presented below:

	Total R'000	Original equip-ment R'000	Export R'000	After-market R'000	Non-auto-motive R'000
2018					
Up to 3 months	**1 386 307**	**436 305**	**298 871**	**571 801**	**79 330**
3 to 6 months	**41 078**	**813**	**11 784**	**19 387**	**9 094**
Over 6 months	**53 561**		**29 815**	**20 812**	**2 934**
	1 480 946	**437 118**	**340 470**	**612 000**	**91 358**
2017					
Up to 3 months	1 461 242	438 650	296 307	583 847	142 438
3 to 6 months	34 342	1 080	8 323	22 833	2 106
Over 6 months	39 571	34	23 211	13 416	2 910
	1 535 155	439 764	327 841	620 096	147 454

The ageing profile of "past due and not impaired" trade receivables are presented below:

	Total R'000	Original equip-ment R'000	Export R'000	After-market R'000	Non-auto-motive R'000
2018					
Up to 3 months/Performing	**219 365**	**59 273**	**62 498**	**52 915**	**44 679**
3 to 6 months/Under performing	**7 504**	**729**	**3 168**	**3 607**	
Over 6 months/Non-performing	**1 961**		**209**	**1 752**	
	228 830	**60 002**	**65 875**	**58 274**	**44 679**
2017					
Up to 3 months/Performing	185 932	52 111	34 674	38 162	60 985
3 to 6 months/Under performing	9 086	1 076	2 557	3 347	2 106
Over 6 months/Non-performing	17 821	34	4 190	10 877	2 720
	212 839	53 221	41 421	52 386	65 811

12. TRADE AND OTHER RECEIVABLES (continued)

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

Mutlu has obtained security in the form of bank guarantees, deeds of undertaking, mortgages and bank letters of credit which can be called upon if the trade debtor is in default. The total value of coverage is at least R454 million (2017: R431 million), which represents approximately 74% (2017: 60%) of total Mutlu debtors outstanding at year end. Local aftermarket and export customers, in which the default risk is raised when compared to international OEM customers, are fully covered by collateral. Mutlu has a very low history of customer defaults and the collateral has been taken into account in determining the loss allowance under IFRS 9.

The effect of initially applying IFRS 15 and IFRS 9 is described in note 28. Receivables are classified within a "held-to-collect" business model as the group holds the trade receivables with the objective to collect the contractual cash flows. Further information about the group's exposure to credit risk and impairment losses for trade receivables are included in note 19.2B.

Trade receivables of R126.3 million (2017: R213.7 million) have been pledged as security for bank overdrafts.

	GROUP		COMPANY	
	2018 R'000	**2017 R'000**	**2018 R'000**	**2017 R'000**
13. CASH AND CASH EQUIVALENTS				
For the purposes of the cash flow statement, cash and cash equivalents consist of the following:				
Cash at bank and on hand	**671 952**	670 653	**324**	590
Bank overdrafts	**(92 342)**	(73 348)		
	579 610	597 305	**324**	590
The following bank rates applied at year-end:				
Interest rate on South African short-term bank deposits	**6.7%**	8.9%		
Interest rate on Turkish short-term bank deposits	**22.5%**	14.7%		
Interest rate on European short-term bank deposits	**1.8%**			
Interest rate on South African bank overdrafts	**9.6%**	9.3%		
Interest rate on European bank overdrafts	**6.9%**	1.1%		

Property, plant and equipment of R115.7 million (2017: R102.5 million), inventory of R5.3 million (2017: R7.0 million) and trade receivables of R126.3 million (2017: R213.7 million) have been pledged as security for bank overdrafts.

	GROUP		COMPANY	
	2018 R'000	**2017 R'000**	**2018 R'000**	**2017 R'000**
14. BORROWINGS				
Redeemable preference shares	**840 000**	840 000		
Bank borrowings	**964 044**	912 916		
Instalment sale liabilities	**33 367**	43 006		
Finance lease liabilities	**4 383**	5 573		
Total borrowings	**1 841 794**	1 801 495		
Current portion included in current liabilities	**(858 032)**	(652 689)		
Non-current portion	**983 762**	1 148 806		

Redeemable preference shares

An aggregate of 1 400 cumulative redeemable no par value preference shares were issued on 2 September 2014 and are mandatorily redeemable. The remaining obligation of R840 million is to be settled on 13 December 2021.

Preference dividends are to be paid on a semi-annual basis on 15 April and 15 October of each year during the term and carry a dividend rate of 69% (70% from 1 December 2018) of the ruling South African prime rate calculated on a nominal annual monthly compounded basis (NACM).

The preference shares are subject to covenant requirements (refer note 19.3) and these requirements have been complied with.

Notes **to the annual financial statements** (continued)

14. BORROWINGS (continued)

Bank borrowings

Bank borrowings includes term loans and call loans of R225 million (2017: R245.9 million) and revolving credit facilities (RCF) of R739 million (2017: R667 million).

The group has two RCF's for R750 million and R525 million provided by ABSA Bank Limited, Investec Bank and Standard Bank of South Africa Limited. Drawdowns amounted to R739 million (2017: R667 million) at balance sheet date. RCF 1 has a tenure of five years with a final maturity date of 13 August 2019. Interest is charged at 2.05% over the ruling JIBAR rate, determined either on a one, three or six month basis, as selected by the group (interest period). RCF 2 has a tenure of five years with a final maturity date of 23 August 2023. Interest is charged at 2.35%, over JIBAR. Interest accrues on a daily basis and is payable in arrears at the end of each interest period. Drawdowns are payable on a rolling basis at each interest period, but not later than the final maturity date. RCF 2 is classified as non-current liabilities at balance sheet date as a result of the rolling mechanism. RCF 1 is classified as current until repaid or re-financed. The RCF funding is guaranteed on a joint and several basis by certain subsidiaries within the group.

The secured term and call loans of R225 million (2017: R245.9 million of secured term loans), consist predominantly of TL82.8 million denominated borrowings arising in Mutlu (2017: TL75.2 million) with maturities ranging up to 2021. The interest rates range from an average of 14.2% to 25% per annum (2017: 13.1% to 15%). The short term capital portion is TL50.5 million (R137.2 million), while annual repayments approximate TL18.5 million (R50.2 million) and TL13.8 million (R37.6 million) for 2020 and 2021. The total long term portion of TL32.3 million (R87.8 million) is fixed at rates of 14.7% to 15.1%.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Maturity of non-current borrowings (excluding financed assets)				
Later than 1 year and not later than 2 years	890 197	1 007 345		
Later than 2 year and not later than 5 years	67 648	105 614		
	957 845	1 112 959		
The carrying amount of the total borrowings are denominated in the following currencies:				
Rand	1 616 744	1 555 573		
Turkish Lira	225 050	245 922		
	1 841 794	1 801 495		

The group had the following undrawn borrowing (including overdraft) facilities at year-end:
- RCF 1 of R41 million (2017: R83 million)
- RCF 2 of R495 million
- Other South African facilities of R554 million (2017: R587 million)
- US Dollar denominated facilities of USD70 million (2017: USD94.9 million)
- Turkish Lira denominated facilities of TL84 million (2017: TL151 million)
- Euro denominated facilities of EUR22 million (2017: EUR33 million)

Except for the RCF funding, all undrawn borrowing facilities are renewable annually. The borrowing powers of the company are unlimited in terms of its memorandum of incorporation.

Instalment sale liabilities

Assets acquired by instalment sale agreements are paid over an agreed time period. The title of the asset passes automatically, once the full amount has been paid. Payment obligations are effectively secured as the rights to the asset revert to the financer in the event of default. Instalment sale agreements are secured over vehicles and machinery with a book value of R43.1 million (2017: R47.3 million).

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
14. BORROWINGS (continued)				
Instalment sale liabilities - minimum payments:				
Within 1 year	**11 647**	13 653		
Later than 1 year and not later than 5 years	**24 487**	38 336		
Minimum instalments	**36 134**	51 989		
Future finance charges	**(2 767)**	(8 983)		
Present value of liabilities	**33 367**	43 006		
The present value of all instalment sale liabilities may be analysed as follows:				
Within 1 year	**10 237**	9 967		
Later than 1 years and not later than 2 years	**10 971**	10 130		
Later than 2 years and not later than 5 years	**12 159**	22 909		
Present value of liabilities	**33 367**	43 006		
Finance lease liabilities				
Lease rental obligations under financial lease arrangements are capitalised and lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.				
Capitalised finance leases are secured over vehicles and equipment with a book value of:	**4 639**	13 372		
Gross finance lease liabilities - minimum lease payments:				
Within 1 year	**1 705**	2 942		
Later than 1 year and not later than 5 years	**2 903**	2 947		
Minimum lease payments	**4 608**	5 889		
Future finance charges on finance leases	**(225)**	(316)		
Present value of finance lease liabilities	**4 383**	5 573		
The present value of all finance lease liabilities may be analysed as follows:				
Within 1 year	**1 596**	2 765		
Later than 1 years and not later than 2 years	**1 349**	560		
Later than 2 years and not later than 5 years	**1 438**	2 248		
	4 383	5 573		
All borrowings are interest-bearing and the approximate annual interest rates at year-end are as follows:	**%**	%		
Preference shares	**7.1**	7.1		
Bank borrowings				
- Revolving credit facility 1	***JIBAR+2.05**	*JIBAR+2.05		
- Revolving credit facility 2	***JIBAR+2.35**			
- Call and term loans (TL borrowings)	**14.2 - 25.0**	13.0 - 15.1		
Instalment sale liabilities	**10.0**	10.0		
Finance lease liabilities	**10.0**	10.0		

* Johannesburg inter-bank agreed rate.

Notes **to the annual financial statements** (continued)

		GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
15.	**DEFERRED TAXATION**				
	Deferred income taxation is calculated on all temporary differences under the liability method using a principal taxation rate of 28% (2017: 28%) for South Africa, 16% (2017: 16%) for Romania, 22% (2017: 22%) for Turkey and 19% (2017: 19%) for the United Kingdom.				
	The following amounts are shown in the consolidated balance sheet:				
	Deferred taxation assets	**(8 825)**	(12 869)		
	Deferred taxation liabilities	**281 456**	298 326		
		272 631	285 457		
	The movement as follows:				
	At the beginning of the year	**285 457**	331 443		
	Adjustments for IFRS 15 and IFRS 9	**(2 350)**			
	Income statement charge/(credit):				
	- Current year	**10 475**	(12 271)		
	- Prior year	**1 437**	2 682		
	Taxation (credited)/charged to other comprehensive income:				
	- Actuarial (losses)/gains	**(1 089)**	1 546		
	Taxation charged/(credited) to equity:				
	- Share-based payments	**7 292**	(2 484)		
	Currency adjustments	**(28 591)**	(35 459)		
	At the end of the year	**272 631**	285 457		
	Deferred taxation assets:				
	Deferred taxation asset to be recovered after more than 12 months	**(74 820)**	(71 131)		
	Deferred taxation asset to be recovered within 12 months	**(53 992)**	(37 584)		
		(128 812)	(108 715)		
	Deferred taxation liabilities:				
	Deferred taxation liability to be recovered after more than 12 months	**360 388**	366 752		
	Deferred taxation liability to be recovered within 12 months	**41 055**	27 420		
		401 443	394 172		
	Amounts aggregated:				
	Deferred taxation assets	**(128 812)**	(108 715)		
	Deferred taxation liabilities	**401 443**	394 172		
	Net deferred taxation liability	**272 631**	285 457		

15. DEFERRED TAXATION (continued)

Deferred taxation liabilities

	GROUP			
	Plant and equipment allowances R'000	Intangibles R'000	Claims and other receivables R'000	Total R'000
2018				
Opening balance	303 110	76 181	14 881	394 172
Adjustments for IFRS 15 and IFRS 9			163	163
Charged/(credited) to the income statement:				
- Current year	15 768	(9 528)	30 036	36 276
- Prior year	1 772	(22)	10	1 760
Currency adjustments	(19 647)	(11 188)	(93)	(30 928)
Closing balance	301 003	55 443	44 997	401 443
2017				
Opening balance	310 671	94 649	13 750	419 070
Reallocations			220	220
Charged/(credited) to the income statement:				
- Current year	14 114	(4 713)	920	10 321
- Prior year	3 246		25	3 271
Currency adjustments	(24 921)	(13 755)	(34)	(38 710)
Closing balance	303 110	76 181	14 881	394 172

Deferred taxation assets

	GROUP						
	Share-based payments R'000	Post-employment benefits R'000	Assessed losses set off R'000	Provision for doubtful debts R'000	Warranty claims R'000	Derivatives and other R'000	Total R'000
2018							
Opening balance	(6 857)	(21 136)	(3 623)	(3 212)	(16 398)	(57 489)	(108 715)
Adjustments for IFRS 15 and 9				(1 921)		(592)	(2 513)
Charged/(credited) to the income statement:							
- Current year	(1 975)	(1 211)	3 623	(78)	(460)	(25 700)	(25 801)
- Prior year	(49)					(274)	(323)
Charged/(credited) to other comprehensive income		(583)				(506)	(1 089)
Deferred taxation on share-based payment reserve*	7 292						7 292
Currency adjustments	(19)	2 018		(341)	405	274	2 337
Closing balance	(1 608)	(20 912)		(5 552)	(16 453)	(84 287)	(128 812)
2017							
Opening balance	(3 186)	(21 737)		(3 342)	(15 064)	(44 298)	(87 627)
Reallocations			(3 493)			3 273	(220)
Charged/(credited) to the income statement:							
- Current year	(1 188)	(3 769)	(130)	(388)	(1 775)	(15 342)	(22 592)
- Prior year				497		(1 086)	(589)
Charged/(credited) to other comprehensive income		2 198				(652)	1 546
Deferred taxation on share-based payment reserve*	(2 484)						(2 484)
Currency adjustments	1	2 172		21	441	616	3 251
Closing balance	(6 857)	(21 136)	(3 623)	(3 212)	(16 398)	(57 489)	(108 715)

* The measurement of the deductible expense on share-based payment reserve is based on the entity's share price at the balance sheet date.

15. DEFERRED TAXATION (continued)

Deferred tax assets have been recognised for the carry forward amount of unused tax losses relating to the group's operations where, among other things, taxation losses can be carried forward indefinitely and there is evidence that it is probable that sufficient taxable profits will be available in the future to utilise all tax losses carried forward.

Deferred tax assets have been recognised to the extent that it is probable that the entities will generate future taxable income against which these tax losses can be utilised. Currently there are no statutory limitations as to its usage.

Deferred tax liabilities are not recognised for the income tax effect that may arise on the remittance of unremitted earnings by subsidiaries. It is management's intention that, where there is no double taxation relief, these earnings will be permanently re-invested in the group.

Dividend withholding tax is payable at a rate of 20% (2017: 20%) on dividends distributed to shareholders. Dividends paid to companies and certain other institutions and certain individuals are not subject to this withholding tax. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the tax authorities on behalf of the shareholder. On receipt of a dividend, the company includes the dividend withholding tax on this dividend in its computation of the income tax expense in the period of such receipt.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
16. TRADE AND OTHER PAYABLES				
Trade creditors	1 005 329	830 340		
Accrual for leave pay	29 746	26 576		
Sundry creditors, advances received and other accruals	187 550	190 346	585	592
Deferred income on government grants	230 522	203 854		
Payroll and statutory accruals	75 131	70 342		
Royalties payable	27 137	24 860		
VAT and other indirect taxes	40 943	33 705		
Rebates and discounts payable	11 300	21 167		
Refund liabilities	13 993			
Preference share interest accrual	9 874	9 958		
	1 631 525	1 411 148	585	592
Non-current portion of deferred income on government grants included in non-current liabilities	(187 507)	(175 440)		
Current portion included in current liabilities	1 444 018	1 235 708	585	592
The carrying amounts of the group's trade and other payables are denominated in the following currencies:				
Rand	556 503	415 619	585	592
Yen	81 121	91 646		
US Dollar	445 761	406 582		
Euro	146 086	140 141		
British Pound	9 401	7 205		
Thai Baht	30 378	16 587		
Romanian Lei	190 658	179 940		
Turkish Lira	171 285	151 501		
Singapore Dollar	122	1 711		
Indian Rupee	210	216		
	1 631 525	1 411 148	585	592

17. PROVISIONS FOR LIABILITIES AND CHARGES

Warranty

Provision is made for the estimated liability on all products sold which are still under warranty including claims initiated, not yet settled. Claims are expected to be settled in the next financial year. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims would differ from historical amounts. Factors that could impact the estimated claims information include the success of the group's productivity and quality initiative, as well as parts and labour costs. Warranties are assurance based and cannot be separately purchased.

Executive bonuses

Executive bonuses are approved by the remuneration committee.

Environmental

A provision is recognised for the present value of costs that may be incurred for statutory environmental and similar matters arising from Rombat. The unwinding of discount is negligible.

Other provisions

Other provisions comprises predominantly of scrap battery recovery and recycling obligations and long service awards.
The provisions amounted to R1.1 million (2017: R26.4 million) and R23.0 million (2017: R20.4 million) respectively. The balance of R7.7 million (2017: R16.3 million) consists of legal and other provisions.

			GROUP		
	Executive bonus R'000	Warranty claims R'000	Environ-mental R'000	Other R'000	Total R'000
2018					
Balance at the beginning of the year	**42 433**	**67 470**	**15 556**	**63 059**	**188 518**
- Additional provision	**46 045**	**50 334**		**45 294**	**141 673**
- Unused amounts reversed	**(103)**	**(6 405)**		**(466)**	**(6 974)**
Utilised during the year	**(40 579)**	**(42 053)**		**(74 733)**	**(157 365)**
Currency adjustments	**(1 049)**	**(1 207)**	**1 737**	**(1 345)**	**(1 864)**
Balance at the end of the year	**46 747**	**68 139**	**17 293**	**31 809**	**163 988**
2017					
Balance at the beginning of the year	23 989	63 709	15 556	53 341	156 595
- Additional provision	43 317	54 469		98 518	196 304
- Unused amounts reversed	(3 656)	(7 971)		(5 500)	(17 127)
Utilised during the year	(19 865)	(40 645)		(81 226)	(141 736)
Currency adjustments	(1 352)	(2 092)		(2 074)	(5 518)
Balance at the end of the year	42 433	67 470	15 556	63 059	188 518

Analysis of total provisions:	2018 R'000	2017 R'000
Non-current	**57 785**	52 951
Current	**106 203**	135 567
	163 988	188 518

Notes **to the annual financial statements** (continued)

		GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
18.	**NOTES TO CASH FLOW STATEMENTS**				
18.1	**RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**				
	Profit before taxation	899 329	775 814	34 378	44 568
	Adjustment for:				
	Depreciation and amortisation	244 500	265 779		
	Impairment charge	1 031			
	Profit/(loss) on disposal of property, plant and equipment	613	(800)		
	Profit on insurance proceeds for property, plant and equipment	(29 582)			
	Other financial assets at fair value through profit or loss:				
	- Fair value (gain)/losses	(9 073)	33 634		
	Foreign exchange losses on operating activities	39 022	6 097		
	Share-based payment expenses	17 151	18 199		
	Net share-based payment effects				(455)
	Post-employment benefit - charge	11 723	14 904		
	Post-employment benefits - contributions paid	(8 937)	(6 628)		
	Share of equity accounted earnings/income from investments	(76 507)	(102 989)		(46 550)
	Interest income	(24 208)	(26 179)	(3)	(11)
	Interest expense	210 056	200 867		1
	(Decrease)/increase in provisions and derivatives	(56 956)	49 261	(36 485)	
	Operating cash generated/(utilised) before working capital changes	1 218 162	1 227 959	(2 110)	(2 447)
	Working capital changes (excluding the effect of exchange differences on consolidation):	(330 414)	(322 855)	(7)	45
	Changes in contract assets and liabilities	(65 363)			
	Increase in inventory	(474 890)	(137 481)		
	Decrease/(increase) in trade and other receivables	6 070	(426 306)		
	Increase/(decrease) in trade and other payables	203 769	240 932	(7)	45
	Cash generated from/(utilised in) operations	887 748	905 104	(2 117)	(2 402)
18.2	**TAXATION PAID**				
	Taxation paid is reconciled to the amount disclosed in the income statement as follows:				
	Amounts receivable at the beginning of the year	3 725	15 008		
	Income statement charge (note 4)	(188 137)	(197 831)	(1)	(3)
	Currency adjustment	2 857	1 241		
	Amounts unpaid/(receivable) at the end of the year	33 260	(3 725)		
		(148 295)	(185 307)	(1)	(3)
18.3	**DIVIDENDS PAID**				
	To shareholders	(158 345)	(138 590)	(159 131)	(139 290)
	To non-controlling interests	(31 591)	(15 168)		
		(189 936)	(153 758)	(159 131)	(139 290)
18.4	**INTEREST PAID**				
	Interest expense (note 2)	(210 056)	(200 867)		(1)
	Preference share interest accrual at the beginning of the year	(9 958)	(17 003)		
	Preference share interest accrual at the end of the year	9 874	9 958		
		(210 140)	(207 912)		(1)

18. NOTES TO CASH FLOW STATEMENTS (continued)

18.5 RECONCILIATION OF MOVEMENTS IN BORROWINGS (REFER NOTE 14) TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	GROUP			
	Redeemable preference shares R'000	Bank borrowings R'000	Instalment sale and finance lease liabilities R'000	Total R'000
2018				
Balance at the beginning of the year	**840 000**	**912 916**	**48 579**	**1 801 495**
Changes from financing cash flows:		**93 051**	**(13 062)**	**79 989**
Proceeds from RCF drawdowns		**130 000**		**130 000**
RCF repayments		**(58 000)**		**(58 000)**
Mutlu borrowings repaid - TL		**(68 283)**		**(68 283)**
Mutlu borrowings raised - TL		**89 334**		**89 334**
Lease repayments			**(13 062)**	**(13 062)**
New leases			**2 233**	**2 233**
Foreign exchange rate adjustments		**(41 923)**		**(41 923)**
Balance at the end of the year	**840 000**	**964 044**	**37 750**	**1 841 794**
2017				
Balance at the beginning of the year	1 400 000	463 698	33 867	1 897 565
Changes from financing cash flows:	(560 000)	484 067	(12 456)	(88 389)
Preference shares redeemed/repaid	(560 000)			(560 000)
Proceeds from RCF drawdowns		296 000		296 000
Mutlu borrowings repaid - USD and TL		(56 502)		(56 502)
Mutlu borrowings raised - TL		244 569		244 569
Lease repayments			(12 456)	(12 456)
New leases			27 168	27 168
Foreign exchange rate adjustments		(34 849)		(34 849)
Balance at the end of the year	840 000	912 916	48 579	1 801 495

Notes **to the annual financial statements** (continued)

19. FINANCIAL INSTRUMENTS

19.1 FINANCIAL INSTRUMENTS BY CATEGORY

The effect of initially applying IFRS 9 on the group's financial instruments is described in note 28.2. Due to the transition method adopted, comparative information has not been restated. The accounting policies for financial instruments have been applied to the line items below:

Classification of financial assets included in balance sheet

	GROUP		
	Financial assets at amortised cost R'000	Mandatorily at fair value through profit or loss R'000	Total R'000
2018			
Derivative financial instruments		**6 944**	**6 944**
Trade and other receivables*	**1 578 230**		**1 578 230**
Cash and cash equivalents	**671 952**		**671 952**
Total	**2 250 182**	**6 944**	**2 257 126**
2017* **			
Derivative financial instruments		314	314
Trade and other receivables*	1 595 265		1 595 265
Cash and cash equivalents	670 653		670 653
Total	2 265 918	314	2 266 232

Classification of financial liabilities included in balance sheet

	GROUP		
	Mandatorily at fair value through profit or loss R'000	Other financial liabilities at amortised cost R'000	Total R'000
2018			
Borrowings		**1 841 794**	**1 841 794**
Derivative financial instruments	**3 171**		**3 171**
Bank overdraft		**92 342**	**92 342**
Trade and other payables**		**1 288 659**	**1 288 659**
Total	**3 171**	**3 222 795**	**3 225 966**
2017* **			
Borrowings		1 801 495	1 801 495
Derivative financial instruments	28 862		28 862
Bank overdraft		73 348	73 348
Trade and other payables**		1 137 610	1 137 610
Total	28 862	3 012 453	3 041 315

* Prepayments and VAT receivables are excluded from the trade and other receivables balance.

** Leave pay, advances received, deferred income and other non-financial liabilities are excluded from trade and other payables balance.

*** In the comparative information, trade and other receivables and bank and cash were classified as 'loans and receivables'. As a result of IFRS 9 these are now classified as 'at amortised cost'. Derivative financial instruments are still classified at 'FVTPL' and together with other financial liabilities are essentially the same classification as previously reported.

19. FINANCIAL INSTRUMENTS (continued)

19.1 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Assets and liabilities as per balance sheet

	COMPANY		
	Financial assets at amortised cost R'000	Other financial liabilities at amortised cost R'000	Total R'000
2018			
Short-term loans to subsidiaries**	**1 620 323**		**1 620 323**
Cash and cash equivalents	**324**		**324**
Short-term loans from subsidiaries		**(178 262)**	**(178 262)**
Trade and other payables		**(584)**	**(584)**
Total	**1 620 647**	**(178 846)**	**1 441 801**
2017*			
Short-term loans to subsidiaries	438 827		438 827
Cash and cash equivalents	590		590
Short-term loans from subsidiaries		(234 626)	(234 626)
Trade and other payables		(592)	(592)
Total	439 417	(235 218)	204 199

* In the comparative period, short term loans to subsidiaries and bank and cash were classified as 'loans and receivables'. As a result of IFRS 9 these are now classified as 'at amortised cost'. Financial liabilities are essentially the same classification as previously reported.

** Refer to note 28.4 regarding the classification impact of loans that were previously regarded as net investment in subsidiaries under IAS 27. These net investment loans are classified as short term loans from subsidiaries in the current year.

19.2 FINANCIAL RISK MANAGEMENT

The group's activities expose it to financial risks: market risk (including foreign currency exchange rate risk and variable interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The risk management committee provides principles for overall risk management, as well as guidance containing specific areas such as foreign exchange currency risk.

A. Market risk

i. Foreign currency exchange rate risk (also refer 19.5)

The group exports and imports goods and is therefore exposed to exchange risk arising from various foreign currency exchange exposures. These consist primarily of exposures with respect to the Euro, US Dollar and Japanese Yen.

Management has set up policies to require group companies to manage their foreign currency exchange rate risk against their functional currency. When the business wins long-term customer tenders or orders that are in a foreign currency the group minimises the potential volatility of the cash flows from these transactions by 'hedging' either economically or through forward exchange contracts ('FECs'). At period end the group is required to market to market these FECs even though it has no intention of closing them out in advance of their maturity dates. The marked to mark value represents foreign notional amounts translated at the market forward rate at reporting date. These valuation adjustments are realised through profit and loss. Hedge accounting is not applied unless specifically designated as a cash flow hedge. Hedge accounting is usually applied in the case of foreign business acquisitions such as the 2013 Mutlu business combination. The group's current foreign exchange currency risk management policy is to 'cover' at least 50% of net exposures (including orders or firm commitments, where possible).

The group makes use of professional foreign currency management specialists to assist in administrating its foreign exchange exposures/contracts.

The company does not have any foreign currency exchange rate risk.

19. FINANCIAL INSTRUMENTS (continued)

19.2 FINANCIAL RISK MANAGEMENT (continued)

A. Market risk (continued)

Uncovered foreign currency exchange exposures at year-end can be analysed as follows:

	At balance sheet date				Purchase orders not yet reflected as liabilities in the balance sheet			
	2018		2017		2018		2017	
	Foreign amount outflow/ (inflow) '000	Rand equivalent outflow/ (inflow) R'000	Foreign amount outflow/ (inflow) '000	Rand equivalent outflow/ (inflow) R'000	Foreign amount '000	Rand equivalent R'000	Foreign amount '000	Rand equivalent R'000
US Dollars	16 553	236 709	7 188	88 625	9 042	131 404	4 687	50 130
Euros	(5 372)	(88 821)	(2 682)	(39 856)	3 892	63 724	1 643	21 477
Japanese Yen	249 978	33 986	(113 790)	(12 511)	417 696	54 579	368 821	40 551
Great British Pound	226	4 085	(13)	(222)	47	957	166	3 139
Thai Baht	21 640	9 585			141 384	62 844	33 612	10 536
Singapore Dollars	1 011	220	(1 085)	(189)	1 487	306	1 864	361
Indian Rupee	9	93			249	2 630	1 439	13 014
Total		195 857		35 847		316 444		139 208

Foreign exchange sensitivity analysis	Profit higher/(lower) 2018 R'000	2017 R'000
At 31 December 2018, if the Rand had weakened/strengthened by 10% in relation to the following currencies, with all other variables held constant, estimated post-taxation profit for the year would change for the following:		
- Mainly as a result of foreign exchange gains/(losses) on translating foreign denominated trade receivables, trade payables and the mark-to-market valuation of the group's forward exchange contracts:		
US Dollar	25 190	20 692
Euros	2 541	1 442
Japanese Yen	5 710	7 183
Great British Pound	304	109
Thai Baht	2 204	1 347

The following significant exchange rates against the Rand applied at year-end:

	Spot rate		Average rate	
	2018	2017	2018	2017
US Dollar	14.5	12.5	13.4	13.5
Euros	16.5	14.8	15.6	15.0
Japanese Yen (at inverted rate)	7.6	8.9	8.3	8.3
Turkish Lira - Mutlu - translation of results	2.7	3.3	2.8	3.7
Romanian Lei - Rombat - translation of results	3.5	3.2	3.4	3.3

19. FINANCIAL INSTRUMENTS (continued)

19.2 FINANCIAL RISK MANAGEMENT (continued)

A. Market risk (continued)

ii. Interest rate risk

The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. The group is exposed to variable interest rate risk as it borrows and places funds primarily at floating interest rates. These include the group's local RCF facility, bank overdrafts, Mutlu Turkish Lira borrowings and the group's local preference share funding (refer note 14).

Management evaluates the group's borrowings and exposures on a regular basis and utilise floating rates as it deems appropriate in order to optimise interest savings and reduce volatility in the debt related element of the group's cost of capital.

Interest rates on bank overdrafts are disclosed in note 13. Interest rates on other long and short-term borrowings are disclosed in note 14. Bank overdraft facilities are reviewed annually and the terms are normally market related. For borrowing exposures and related maturity dates refer note 14.

At 31 December 2018, if the average interest rates on borrowings had changed 1.0% point with all other variables held constant, post-taxation profit for the year would have changed by R8.8 million (2017: R9.8 million).

Changes in variable interest rates do not have a significant impact on the company as the company does not have any external borrowings or significant cash holdings.

Current advances to/from subsidiaries are interest free (refer note 9).

iii. Price risk

The company and group is not exposed to equity securities price risk as the group does not have investments in equities instruments.

B. Credit risk

Credit risk is the risk of financial loss to the group if a customer fails to pay their debt or a counterparty to a financial instrument fails to meet its contractual obligations i.e. recovering our cash from deposits held with banks. The group considers it has two types of credit risk; operational and financial.

Operational credit risk relates to non-performance by customers in respect of trade and other receivables. Financial credit risk relates to non-performance by banks and similar institutions in respect of cash and deposits, facilities and financial instrument contracts such as forward foreign exchange currency contracts.

Our credit risk arises principally from receivables due from customers.

Operational

The group supplies batteries and automotive parts predominantly to the automotive industry. Our debtor's book consist of OEM, aftermarket and export customers. As a supplier to automotive OEMs, the cash recovery ranges from 30, 45 and 60 days, however the group may have a concentration of amounts outstanding with a single or smaller grouping of customers at any one time. Group revenues consist of 32.5% (2017: 36%) from automotive component OEMs. The credit profiles of such OEMs are available from credit rating agencies. The insolvency of, damage to relations or commercial terms with a major customer could impact future results. In the aftermarket customer base there are a greater proportion of amounts receivable from small and medium sized customers including the group's independent distributor networks in our energy storage business. This indirectly provides an advantage in concentration to OEMs.

Net trade receivables of R1 432 million (2017: R1 501 million) comprises of R1 128 million (2017: R1 207 million) from the energy storage business and R304 million (2017: R294 million) from the automotive component business.

Note 12 includes further analysis of trade receivables, including, currency, type of customer/market and ageing profiles. Approximately 81% of open debtors were fully performing, while 16% were over-due but not impaired. The remaining 3% (R49.3 million) was fully provided for. Details of concentration in revenue are included in note 1.

Credit risk and customer relationships are managed in a number of ways within the group. The granting of credit is controlled by formal application processes and rigid account limits specific to each business unit. Credit evaluations are performed on the financial position of these debtors. This evaluation takes into account its financial position, past experience and other factors such as amounts overdue and credit limits. The group has extensive and regular dialogue with key customers and strong commercial and business relationships.

91% (2017: 95%) of the group's customers are long standing and have an established track record when transacting with the group. None of these customers' balances have been written off or are credit-impaired. An analysis of the group's credit quality can be found in the table below.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. In monitoring customer credit risk, customers are grouped according to their credit characteristics, industry and markets, trading history and existence of previous financial difficulties.

Trade receivables are presented net of the provision for impairment. Movements in the allowance for impairment of trade receivables, including IFRS 9 impact, can also be found in note 12.

19. FINANCIAL INSTRUMENTS (continued)

19.2 FINANCIAL RISK MANAGEMENT (continued)

B. Credit risk (continued)

Comparative information under IAS 39 – Impairments

Provisions for doubtful debts were determined based upon the customer's ability to pay and other factors in the group's relationship with the customer. A provision for impairment of trade receivables was established when there was objective evidence that the group will not collect the amount as per the original terms of the debt. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments were considered as indicators of possible impairment.

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired can be found in note 12.

Expected credit loss assessment using the 'simplified approach' under IFRS 9

IFRS 9 introduces a theoretic impairment model for financial assets (such as trade receivables and loans receivable) and replaces the 'incurred loss' model in IAS 39 with a forward looking 'expected credit loss' (ECL) model. This model focuses on the risk that a debtor will default rather than whether a loss has or will be incurred (objective evidence of impairment). Credit losses are recognised earlier in IFRS 9 than under IAS 39 because every loan and receivable 'has some risk of defaulting in the future' and has an 'expected' credit loss associated with it, from the moment of its origination or acquisition.

The group has adopted the 'simplified approach' to determine loss allowances for qualifying trade receivables and contract assets, as a practical expedient that is allowed by IFRS 9. For these shorter term receivables, without significant financing elements, the loss allowance is based on a 'provision matrix' for calculating ECLs over the lifetime of the trade receivable. Essentially we have revised our bad debt provisions by developing a 'provision matrix' to quantify forecasted risk in debtor collections.

IFRS 9 assumes there is a potential risk of loss for each invoice issued. This operationally may present a disconnect from an objective based incurred perspective under IAS 39. Furthermore, IFRSs such as these as well as IFRS 15, may lead to more volatility and complexity in understanding core operational profits going forward.

The matrix is a calculation of an impairment loss based on a default loss rate percentage applied over the life of a group of financial assets or receivables. We considered adjusting the historical loss rates for forward looking estimates if reasonable and supportable information was available without undue cost or effort. The impact of any future credit losses, forward looking, is considered to be immaterial.

The definition of 'default' is consistent with that used for our internal credit risk management. We've used an 'over 3 months' ageing bucket as the 'default' trigger point for OEMs and 6 months for the rest of our debtors. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there are no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make payments for a period of greater than 180 days past due. The group continues to engage in enforcement activity to attempt to recover amounts written off.

In developing our model for determining the loss allowance, we adopted the following approach:

- We utilised our existing disaggregated debtor's book, which is analysed by underlying markets and common credit characteristics – OEM, exports, aftermarket and non-auto
- OEMs have low default risk and very limited or no historical defaults/write-offs
- Exports and aftermarket may have a raised default risk due to the nature of customers (normally 'private' businesses) and have a different route to market when compared to OEMs
- We analysed the collection of invoices by time buckets separately for OEMs, aftermarket, exports and non-auto. We determined when the debtors paid and sorted them into 'buckets' based on the number of days from creation of invoice until collection of invoice
- The analysis of data (payment profiles) was performed over a period of one to two years. Our debtors profile has been relatively consistent over the past 5 years
- We then calculated the theoretic 'historical' credit loss or default exposure by using our default (or loss) 'trigger' divided by the amount unpaid (outstanding) at the end of each time bucket to arrive at the loss rate
- If and were practical to do so, we considered adjusting the rates by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and our view of economic conditions over the expected lives of the receivables
- We then applied the loss rates to the actual portfolio of debtors, at balance sheet date, to arrive at the IFRS 9 ECL impairment – at 1 January 2018 and 31 December 2018

19. FINANCIAL INSTRUMENTS (continued)

19.2 FINANCIAL RISK MANAGEMENT (continued)

B. Credit risk (continued)

The loss rates established at reporting date can be summarised as follows:

Loss rate:	Age analysis		
Type of debtor	**Up to 3 mths**	**3 - 6 mths**	**Over 6 mths**
OEM	0.02%	5.54%	100.00%
Export	0.09%	2.44%	100.00%
Aftermarket	0.06%	0.51%	100.00%
Non-Auto	0.47%	1.23%	100.00%

From a group point of view our ECL matrix and provision can be summarised as follows:

Ageing buckets - R'000	Amounts outstanding at year-end	Loss rate	Expected credit loss
OEM	**437 118**	**0.03%**	**127**
Up to 3 months	436 305	0.02%	82
3 to 6 months	813	5.54%	45
Export	**340 470**	**8.50%**	**28 923**
Up to 3 months	298 871	0.09%	261
3 to 6 months	11 784	2.44%	287
Over 6 months	29 815	95.17%	28 375
Aftermarket	**612 000**	**2.91%**	**17 810**
Up to 3 months	571 801	0.06%	350
3 to 6 months	19 387	0.51%	98
Over 6 months	20 812	83.42%	17 362
Non-Auto	**91 358**	**2.70%**	**2 467**
Up to 3 months	79 330	0.47%	370
3 to 6 months	9 094	1.23%	112
Over 6 months	2 934	67.66%	1 985
IFRS 9 lifetime ECL: year-end	**1 480 946**	**3.33%**	**49 327**

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2018:

31 December 2018	Average loss rate	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	0.0%	1 175 020	(370)	No
1 - 30 past due	(0.3%)	179 927	(583)	No
31 - 60 days past due	(0.4%)	26 586	(108)	No
61 - 90 days past due	0.0%	7 016	(1)	No
More than 90 days past due	(52.2%)	92 397	(48 265)	Yes
Total debtors book		**1 480 946**	**(49 327)**	

Contract assets are short term in nature and relates to OEM customers, being global automakers, of low default risk. No losses are expected. The main contributors to credit risk arises in the energy storage business, the majority of which arises in Rombat. These businesses are exposed to aftermarket and export customers and markets. Losses are minimised by collateral that the group has over certain receivables (31%), arising mainly in Mutlu. In certain instances goods are not shipped if amounts are past due and cash advances are requested.

Financial

Cash and cash equivalents

Credit risk is mitigated by placing cash with different financial institutions to minimise risk. In South Africa, this is usually limited to the ‘big 4’ retail banks and highly reputable financial institutions. In Turkey and Romania, this is usually limited to reputable financial institutions of strong international investment ratings. The maximum exposure to a single bank for deposits in South Africa is R189.7 million (2017: R107.3 million), whilst foreign deposits (held by foreign subsidiaries) varies amongst counterparties.

The group considers that its cash and cash equivalents have an immaterial credit risk. Deposits are readily convertible to cash and access is not restricted. There has been no historical losses and none is expected in the future.

Derivatives

The derivatives (predominantly FECs) are entered into with various banks and financial counterparties of strong investment grades.

19. FINANCIAL INSTRUMENTS (continued)

19.2 FINANCIAL RISK MANAGEMENT (continued)

B. Credit risk (continued)

Guarantees

Certain group companies have provided cross guarantees for the RCF funding provided to the group. The company has provided no guarantees to third parties.

The credit quality of financial assets is based on historical counterparty default rates:

	GROUP	
Analysis of credit quality	**2018 R'000**	**2017 R'000**
Trade receivables		
Counterparties are:		
Group 1 - new customers (less than 6 months).	**126 533**	75 679
Group 2 - existing customers (more than 6 months) with no defaults in the past.	**1 305 086**	1 424 893
Group 3 - existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.		131
	1 431 619	1 500 703
The group has different categories of customers and a period of six months has been used as the criteria in distinguishing between new and existing customers.		
Credit limits were within terms and management does not expect any losses from non-performance by these counterparties. The maximum exposure to credit risk is estimated to be the carrying amounts of the financial assets and the risk exposure may be minimised by collection of collateral held by Mutlu (refer note 12).		
Cash and cash equivalents		
Bank balances were held as follows:		
South African banks	**361 689**	318 675
European banks	**104 339**	74 471
Turkish banks	**205 924**	277 507
	671 952	670 653
Derivative financial assets		
Forward exchange contracts were held as follows:		
South African banks - net ZAR forward cover value notional outflow	**(348 325)**	(286 559)

The group does not expect any financial counterparties to fail to meet their obligations. Additional information on credit ratings can be found publicly on S&P Global, Fitch and Moody's Investor services. Moody's credit rating for South Africa was Baa3 (23/3/2018) with a stable outlook. The rating for Turkey and Romania as at 4/2/2019 was also Baa3.

	COMPANY	
Credit risk - company	**2018 R'000**	**2017 R'000**
Current advances to subsidiary		
- with no defualts in the past and not credit impaired / low credit risk	**1 471 357**	438 827
- with no defaults in the past but with raised default risk	**148 966**	
Bank balances with South African banks - fully performing	**324**	590

As at 31 December the company has a loss allowance of R167 451 000 (1 January 2018 and 31 December 2017: R167 451 000) for an impairment of unsecured advances to Smiths Plastics (Pty) Ltd. This related party had suffered financial losses in the past. The loan is subordinated in favour of other creditors by the company. Further information on interests in subsidiaries can be found in note 9.

19. FINANCIAL INSTRUMENTS (continued)

19.2 FINANCIAL RISK MANAGEMENT (continued)

B. Credit risk (continued)

Credit risk – company (continued)

Credit risk for the stand-alone company arises in the loans advanced to subsidiaries carried at amortised cost. These are subject to the expected credit loss model. The company needs to apply the general approach for loans advanced to subsidiaries because loans do not fall within the scope of the simplified approach, as applied for trade receivables and contracts assets.

Under this approach, the company needs to determine whether or not there has been a significant increase in credit risk since origination of the loans and, hence, whether its needs to provide for 12-month ECL or lifetime ECLs. At initial recognition (note these loans were not credit impaired at that time) the company recognises a loss allowance based on the portion of the lifetime ECLs associated with the PD ('probability of default') in the 12 months after reporting date. If there is a significant increase in credit risk, the company should recognise a loss allowance based on lifetime ECLs.

The general model requires recognising impairment losses in line with the stage in which the financial asset currently is. ECLs are recognised in three stages

1) For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that could result from default events that are possible within the next 12 months
2) When the credit risk of financial assets significantly increased and the resultant credit quality is not low risk, then credit losses are provided for over the remaining life of the exposure
3) When financial assets have already become credit impaired (or default events have occurred), a lifetime approach is adopted on the net amount less allowances. These are individually assessed.

In simple terms, under the general approach, if there is no significant increase in credit risk ('SICR'), the loss allowance is based on 12 months ECL, alternatively the loss allowance is based on lifetime ECL. ECLs are probability weighted averages of credit losses with the respective defaults occurring as the weights.

There are three elements to consider:

- PD is the percentage likelihood of that the borrower will not be able to repay its debt within some period
- LGD ('loss given default') is the percentage that could be lost in the event of a default by the borrower not paying its debt (principal and interest)
- EAD ('exposure at default') is the outstanding balance of the loan - how much the company is owed at balance sheet date

There is a rebuttable presumption that if a loan is more than 30 days past due, there has been a significant increase in credit risk.

The above may sound 'theoretically' clear, however there are practical challenges when it comes to intercompany loans that are repayable on demand or have no fixed repayment terms, unsecured and interest free, which are common in the nature of SA group situations:

- past due information would be limited if the loan is interest free and has no fixed repayment terms
- under the general approach, you need to apply the general 3-stage model for intercompany loans and not the simplified model.

This means you have to assess at which stage the loan is first and then perform the calculations

- it is difficult to get inputs into the calculations: loss given at default and probability of default, because intercompany loans (unlisted at least) are usually not credit rated like external loans with banks for example. Internal and external loans are not equal and would require judgemental adjustments
- you usually pay external loans first, and then only to your holding company or family (fellow subsidiaries)
- These loans are sometimes 'quasi equity' in substance, however the borrower does not have an unconditional right to defer payment unless agreed upon by the company

The company has therefore also considered qualitative factors when assessing whether or not there has been a SICR:

- Adverse forecasts for the subsidiaries' operating results
- Evidence of working capital deficiencies or liquidity problems in the subsidiaries, which could also be the result of financing or cash management decisions taken by the company (head office)
- Changes in credit spread in the automotive industry that may indicate an increase in credit risk or deterioration over time which may provide a general indicator of exposures to operating subsidiaries
- Changes in the enterprise values of the underlying operations and indicators of decline in values

A common feature of the group's loans to subsidiaries is that these have no fixed repayment terms, are interest free and therefore payable on demand. The company would allow subsidiaries a 'repayment over time' strategy to recover the loans due (as mentioned in note 28.4), as long as there is evidence that the subsidiary is able to raise the cash. If the loan is in stage 1 - a fully performing, healthy asset, then the loss allowance can be calculated at 12 month ECL.

Since the effective interest rate is 0%, and all strategies and qualitative factors indicate that the company would fully recover the outstanding balance of the loan, the impact of discounting has no effect. However, forward looking information still needs to be taken into account in estimating ECLs (refer to note 28.4 A for further information).

If there are indicators of a raised credit risk, or if this cannot be determined and if the subsidiary may not be able to repay the loan immediately, after considering all strategies to repay, the loan is considered to then be in stage 2. The loss allowance for the loan is then calculated on a lifetime ECL basis using a probability weighted analysis described above. In these cases, a 50% PD is applied since the subsidiary will either pay or not pay. The LGD applied is limited to the net deficit in the subsidiary.

19. FINANCIAL INSTRUMENTS (continued)

19.2 FINANCIAL RISK MANAGEMENT (continued)

B. Credit risk (continued)

Credit risk - company (continued)

The reconciliation for loss allowances (impairments) at 31 December 2018, under IFRS 9, are as follows:

	Loans to subsidiaries at amortised cost R'000
Opening loss allowance as at 1 January 2018 (refer note 28.4)	**(349 386)**
Loss allowance measured at:	
Lifetime ECL - increase in credit risk since recognition	**(20 793)**
Release of provision - repayment of Lumotech loan	**57 278**
Loss allowance as at 31 December 2018	**(312 901)**

C. Liquidity risk

The group is exposed to liquidity risk as part of its normal financing and operational cash cycles. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to ensure that sufficient liquidity is available to meet obligations as they fall due and to maintain sufficient flexibility in order to fund investment and acquisition objectives. The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

The group undertook a refinancing of borrowings and facilities in the form of R1 400 million in preference share funding and a revolving credit facility (RCF) for R750 million during 2014. Metair redeemed R560 million in maturing preference shares during 2017. The repayment of the remaining preference shares will be funded using a combination of new preference share subscriptions, available cash or existing unutilised credit facilities and is repayable in 2021.

During the year, the group secured an additional 5 year RCF, to the value of R525 million at a margin of 235 bps above 3 months JIBAR from our lenders. The additional facility requires no change to existing debt covenants or structures. The repayment of RCF 1 is due August 2019 and will be funded by a combination of cash and/or re-financing.

The group utilises the credit facilities of various banking institutions and has been able to operate within these facilities. This trend is expected to continue into the foreseeable future to fund growth in the group. Details of borrowing including available facilities are disclosed in note 14. Projected operational cash flows are expected to provide adequate support in liquidity levels.

Analysis of financial liabilities - maturities (group)

The table below analyses the group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Balance sheet carrying value R'000	Contractual cash flows R'000	Less than 1 year R'000	Between 1 and 2 years R'000	Between 2 and 5 years R'000
As at 31 December 2018					
Borrowings	**1 841 794**	**2 037 853**	**908 648**	**137 980**	**991 225**
Derivative financial liabilities	**3 171**	**3 171**	**3 171**		
Overdraft	**92 342**	**96 999**	**96 999**		
Trade and other payables	**1 288 659**	**1 288 659**	**1 288 659**		
As at 31 December 2017					
Borrowings	1 801 495	2 085 370	814 208	1 108 001	163 161
Derivative financial liabilities	28 862	28 862	28 862		
Overdraft	73 348	75 058	75 058		
Trade and other payables	1 137 610	1 137 610	1 137 610		

Analysis of financial liabilities - maturities (company)

Financial liabilities noted in 19.1 for R178.3 million (2017: R234.6 million) relate to current advances from a subsidiary. The projected recovery of advances granted to other subsidiaries as well as dividends received are expected to provide adequate liquidity to repay this obligation if required. The contractual cash flows approximate the carrying values.

Analysis of derivative financial instruments

Details of the outstanding foreign exchange contracts which will be settled on a gross basis follows in note 19.5.

19 FINANCIAL INSTRUMENTS (continued)

19.3 CAPITAL RISK MANAGEMENT

The group's objectives when managing capital are to safeguard the group'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 and maximise returns.

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/reduce capital investments. Capital allocations is limited to the most meaningful projects with the highest probability of success to support the group's required return on invested capital and free cash flow generation.

During the year, the group implemented a share buyback programme, details of which can be found in note 26.

The group monitors capital structure on the basis of net debt/equity. This ratio is calculated as net debt divided by ordinary shareholders' equity. Net debt is calculated as total interest bearing borrowings (including bank overdrafts) less cash and cash equivalents. Metair's capital structure remains relatively conservative and in compliance with all of our lender's covenants. Over time our target remains c. 25% debt:equity and the actual ratio may fluctuate over the short-term, taking into account the group's globalisation strategy for our Energy Storage Vertical and recent redesign phase. Overall the debt levels are targeted not to exceed 2.5 x EBITDA.

The ratios at 31 December were as follows:

	GROUP	
	2018 R'000	2017 R'000
Total borrowings including bank overdraft (notes 13 and 14)	1 934 136	1 874 843
Less: Cash and cash equivalents (note 13)	(671 952)	(670 653)
Net debt	1 262 184	1 204 190
Ordinary shareholders' equity	4 166 372	4 076 144
Total capital employed	5 428 556	5 280 334
Net debt/equity ratio %	30.3	29.5
Net debt:EBITDA	0.9	1.0
Net debt/Capital ratio %	23.3	22.8

Our debt and capital structures remains stable.

Debt covenants

The borrowings provided by lenders to the group are subject to covenant measures. Covenant measures at reporting date and in the prior year have been met.

The three covenant measures (as calculated per covenant requirements) are:
- Priority debt covenant not more than 1 times (achieved - 0.16 times)
- Interest cover ratio not less than 3.0 times (achieved 7.30 times)
- Net borrowings to 'adjusted EBITDA' ratio (as defined) shall not exceed 2.5 times (achieved 1.1 times)

The company is not subject to debt covenants.

19.4 FAIR VALUE ESTIMATION

The financial instruments that are measured subsequent to initial recognition at fair value are forward currency contracts. All of these financial instruments are classified as Level 2 fair value measurements, as defined by IFRS 13, being those derived from inputs other than quoted prices that are observable. Derivative financial instruments are discussed further below in note 19.5.

Financial instruments traded in active markets and based on market prices at reporting date as well as financial instruments in which inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) are classified as level 1 and level 3 respectively, as defined by IFRS 13. There are no such items applicable to the group at reporting date.

Bank overdrafts, other short-term bank borrowings, bank balances and cash and short-term bank deposits, trade receivables and payables approximate book value due to their short maturities.

For borrowings, the current contractual pricing of borrowings approximates the rates that would be available to the group. The fair value of the long term fixed rate borrowings in Mutlu amount to R79 million (TL29 million) (2017: R166 million (TL51 million).

19. FINANCIAL INSTRUMENTS (continued)

19.5 DERIVATIVE FINANCIAL INSTRUMENTS

The table below analyses financial instruments carried at fair value, by valuation method as defined in note 19.4

		GROUP			
		2018 R'000		2017 R'000	
At 31 December	**Level**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward exchange contracts and similar instruments - Mandatorily at fair value through profit/(loss)	2	**6 944**	**3 171**	314	28 862

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates (market observable/published rates) to terminate the contracts at the reporting date. The maximum exposure to credit risk at the balance sheet is the fair value of the derivative assets.

Derivatives are used as economic hedges and are classified as current assets or liabilities as the maturity of the hedged item is less than 12 months. Derivative instruments resulted in a gain of R9.1 million (2017: loss of R33.6 million) for the year.

Forward exchange contracts FECs)

Year-end forward exchange contracts can be analysed as follows:

	****Rand amount '000**	**Foreign notional amount '000**	**FEC rate - range**	**Derivative Asset/ Liability fair value Rand '000**	**Period to maturity**
Derivative financial assets					
Imports*					
US Dollar	113 404	8 010	13.69 - 14.49	3 357	11 January 2019 - 30 April 2019
Euro	79 758	4 859	15.73 - 16.98	1 458	11 January 2019 - 30 March 2019
Japanese Yen	48 783	383 903	7.58 - 8.14	1 817	31 January 2019 - 29 March 2019
Thai Baht	6 459	15 000	2.32 - 2.33	245	31 January 2019 - 28 February 2019
	248 404			6 877	
Exports*					
Great British Pound	1 818	96	18.97	56	31 January 2019
Australian Dollar	793	77	10.36	11	19 February 2019
	2 611			67	
Total derivative financial assets				**6 944**	
Derivative financial liabilities					
Imports*					
US Dollar	815	54	15.07-15.19	(34)	11 January 2019 - 8 March 2019
Euro	102 895	6 032	16.76-18.48	(2 814)	11 January 2019 - 31 May 2019
Thai Baht	4 684	10 000	2.14	(238)	7 January 2019
	108 394			(3 086)	
Exports*					
US Dollar	869	62	13.73-14.34	(24)	25 January 2019 - 29 January 2019
Euro	4 515	276	16.14-16.48	(53)	25 January 2019 - 19 February 2019
Great British Pound	477	26	18.16	(8)	28 February 2019
	5 862			(85)	
Total derivative financial liabilities				**(3 171)**	

* Includes forward exchange contracts that represent imports and exports being managed on a net basis.

** Forward cover value in ZAR terms, representing the foreign notional amount translated at the contracted rates.

		GROUP		COMPANY	
		2018	2017	2018	2017
		R'000	R'000	R'000	R'000
20.	**CONTINGENT LIABILITIES**				
	Letters of support in respect of overdrafts of associates				
	Valeo	3 675	3 675	3 675	3 675

The group has contingent liabilities in respect of performance guarantees, letters of credit, customs and excise and other related matters such as claims and disputes arising out of the ordinary cause of business of which the likelihood of loss is remote. Performance and related guarantees amounted to R122 million (2017: R82 million) at 31 December 2018.

Refer to note 23 for details on subordination agreements with subsidiaries. Certain group subsidiaries provided guarantees for funding provided to the group.

		GROUP 2018 R'000	GROUP 2017 R'000	COMPANY 2018 R'000	COMPANY 2017 R'000
21.	**COMMITMENTS**				
	Capital commitments	480 920	349 473		
	Contracted:				
	- Plant, machinery and equipment	53 458	53 524		
	Authorised by the directors, but not yet contracted:				
	- Plant, machinery and equipment	427 462	295 949		
	Unexpired portion of operating lease contracts	91 236	75 911		
	- Payable within 1 year	34 172	34 867		
	- Payable later than 1 year and not later than 5 years	57 064	41 044		
		572 156	425 384		

The above commitments will be financed mainly from internal resources as well as from facilities available.

The group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The group also leases various plant and machinery under cancellable and non-cancellable operating lease agreements. The group is required to give notice for the termination of these agreements based on the specific terms of agreement. The lease expenditure charged to the income statement during the year is disclosed in note 3.

Notes **to the annual financial statements** (continued)

22. POST-EMPLOYMENT BENEFITS

The group provides post-employment benefits for its employees.
Amounts included in the financial statements comprise of:

	GROUP	
	2018 R'000	**2017 R'000**
Balance sheet obligation for:		
Post-employment medical aid benefit (note 22.1)	**32 207**	32 108
Other post-employment benefits (note 22.2)	**44 736**	46 616
Liability in the balance sheet	**76 943**	78 724
Income statement charge:		
Post-employment medical aid benefits (note 22.1)	**3 617**	3 420
Other post-employment benefits (note 22.2)	**8 106**	11 484
	11 723	14 904
Remeasurements included in other comprehensive income for:		
Post-employment medical aid benefits (note 22.1) - gain	**(1 913)**	(2 004)
Other post-employment benefits (note 22.2) - loss/(gain)	**5 348**	(7 440)
Long service award	**1 970**	2 328
	5 405	(7 116)

22.1 POST-EMPLOYMENT MEDICAL AID BENEFITS

Certain of the companies in the group operated post-employment medical benefit schemes until 31 December 1996. Employees who joined the group after 1 January 1997 will not receive any co-payment subsidy from the group upon reaching retirement.

The scheme is unfunded. The present value of the obligation is based on the 'projected unit credit basis' using certain assumptions.

The amounts recognised in the income statement are as follows:

	GROUP	
	2018 R'000	**2017 R'000**
Current service costs	**592**	592
Interest costs	**3 025**	2 828
	3 617	3 420
Movement in the liability recognised in the balance sheet		
At the beginning of the year	**32 108**	32 324
Total expense per income statement	**3 617**	3 420
Contributions paid	**(1 605)**	(1 632)
Actuarial gain recognised in other comprehensive income	**(1 913)**	(2 004)
At the end of the year	**32 207**	32 108
The amounts recognised in equity are as follows:		
Recognised actuarial gain	**(1 913)**	(2 004)

The effect of a 1% movement in the assumed medical healthcare cost rate is as follows:

	Increase R'000	**Decrease R'000**
Effect on the aggregate of the current service cost and interest cost	**(3 085)**	**4 003**
Revised defined benefit obligation - net	**29 227**	**36 023**

Assumptions	**2018**	**2017**
The principal actuarial assumptions used were:		
- Discount rate for obligation	**10.0%**	10.0%
- Healthcare cost inflation	**7.0%**	7.0%
- Continuation of membership on retirement	**100%**	100%
- CPI inflation	**6.0%**	6.5%
- Post-retirement mortality	**PA (90)-1**	PA (90)-1
- Pre-retirement mortality	**SA 85-90**	SA 85-90

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience.

22. POST-EMPLOYMENT BENEFITS (continued)

22.2 OTHER POST-EMPLOYMENT BENEFITS

In accordance with Turkish social legislation, Mutlu is required to make lump sum payments to current employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such payments are calculated on the basis of 30 day pay limited to a salary cap of TL5 434 (2017: TL4 732) per year at 31 December, per year of employment at the rate of pay applicable at the date of retirement/termination.

In the annual financial statements, the group reflects a liability calculated using the projected unit credit method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds (or rates approved by the Turkish capital markets board). Severance payment liability is not subject to any legal funding.

The scheme is unfunded.

	GROUP	
	2018 R'000	**2017 R'000**
Current service costs	**3 511**	5 751
Interest costs	**4 595**	5 733
	8 106	11 484
Movement in the liability recognised in the balance sheet		
At the beginning of the year	**46 616**	56 587
Total expense per income statement	**8 106**	11 484
Contributions paid	**(7 332)**	(4 996)
Actuarial loss/(gain) recognised in other comprehensive income	**5 348**	(7 440)
Currency adjustment	**(8 002)**	(9 019)
At the end of the year	**44 736**	46 616
The amounts recognised in equity are as follows:		
Recognised actuarial loss/(gain)	**5 348**	(7 440)
The effect of a 1% movement in the discount rate is as follows:	**Increase R'000**	**Decrease R'000**
Revised defined benefit obligation	**43 566**	**50 060**
The principal actuarial assumptions used at balance sheet date are as follows (based on Turkish statistics):	**2018**	**2017**
Annual discount rate	**13.5%**	11.5%
Salary inflation rate	**7.0%**	6.0%
Average monthly earnings (Turkish Lira)	**4 365**	3 835
Mortality table	**CS080 F/M**	CS080 F/M

The principal assumption is that the maximum liability for each year of service will increase in line with inflation.

22.3 PENSION SCHEMES

The group operates defined contribution pension schemes and contributions are charged against the income statement. The group contributed R78.7 million (2017: R74.4 million) to the defined contribution schemes.

	GROUP		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
23. SUBORDINATION AGREEMENTS				
The company has subordinated a portion of loans receivable from the following subsidiaries in favour of, and for the benefit of, the other creditors of the subsidiaries to the extent that the aforementioned subsidiaries liabilities exceed total assets.				
Total loan amount receivable:				
Smiths Plastics (Pty) Ltd (Smiths Plastics)			167 451	167 451
Metair Management Services (Pty) Ltd (MMS)			279 466	438 827
			446 917	606 278

The company has also subordinated its claims against certain subsidiaries in respect of the revolving credit facility and preference share funding in favour of the lenders.

24. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The judgements, estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements includes the following:

Revenue recognition

- Timing of revenue recognition – Whether revenue from the supply of automotive components is recognised over time or at a point in time;
- Whether tooling supply arrangements result in separate performance obligations and should therefore be included within revenue, on a principal, rather than agent, basis.

Refer to notes 1.2 and 28.3 for further details.

Consolidation – Whether the group has 'de facto' control over Hesto

Metair owns 74.9% of Hesto, but accounts for Hesto as an associate (equity accounting). The shareholder's agreement stipulates that unanimous consent is required for all decisions relating to the relevant activities of Hesto (de facto majority vote). The other shareholder also has a currently exercisable and substantive option (call option) that results in Metair accounting for the investment as an associate.

The call option held would benefit the other shareholder through additional voting rights acquired from its exercise. The other shareholder currently holds 25.1% shareholding in Hesto and the option will allow an increase to either 50.1% or 100% shareholding. The unanimous consent required for decision-making is a clear indication that Metair does not control Hesto. Although unanimous consent usually indicates joint control, the impact of the call option results in the relationship being one of an associate. Metair therefore applies equity accounting to Hesto.

Refer to note 10 for the application of the disclosure requirements of IFRS 12, in respect of summarised information on associates.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 December 2018 that have a risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

Asset useful lives and residual values (refer note 7)

Property, plant and equipment are depreciated over its useful life taking into account residual values where appropriate. The actual useful lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset useful lives, factors such as technological innovation, product lifecycles/project life and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

24. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Goodwill impairment testing (refer note 8)
The group tests annually whether goodwill (including indefinite life intangibles) has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Key estimates include growth and discount rates (WACC) applied. Future cash flows (earnings) expected to be generated by Mutlu and Rombat (CGUs) are projected, taking into account factors such as market conditions and earnings growth. Sensitivity analyses are also performed.

IFRS 2 - Equity-settled schemes (refer note 26.1)
IFRS 2 charges, determined by reference to the fair value of options granted, are calculated in terms of the group's accounting policy and based on option pricing models for the share option scheme in operation. The charge is based on assumptions applied at grant date to the valuation models. These include, among others the risk-free interest rate, Metair share price volatility and dividend yields.

Fair value determination at grant date includes market performance conditions (such as share price), excludes the impact of any service and non-market performance vesting conditions (such as employment period conditions and profitability) and includes the impact of any non-vesting conditions.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Measurement of ECL (expected credit loss) allowance for trade receivables, contract assets and intercompany loans
(refer notes 12 and 19.2 B. Credit risk)
IFRS 9 allows a 'simplified approach' (one of the three approaches) to determine loss allowances and adopts a 'life-time' ECL for trade receivables (without significant financing components). Essentially IFRS 9 tells us how to create bad debt provisions for trade receivables using a 'provision matrix'.

Basically the calculation of an impairment loss is based on a default rate percentage applied over the life of a group of financial assets or receivables, from the moment of its origination or acquisition. The definition of 'default' should also be consistent with that used for internal credit risk management.

In using the simplified approach, certain assumptions in determining the weighted-average loss rate was applied. The group also 'disaggregated' its debtor's book into common credit characteristics as well as payment and risk profiles. Some of the assumptions applied included defining a default base, analysing historical credit losses and the practicalities of applying forward looking estimates.

The company applied the general approach to estimate expected credit losses for intercompany loans.

Revenue measurement in battery aftermarket arrangements – estimate of variable consideration (refer notes 1.2 and 28.3)
An entity shall include in revenue some or all of an amount of variable consideration, estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, when the uncertainty associated with the variable consideration is subsequently resolved.

In one of the group's businesses, a supply arrangement exists whereby some independent aftermarket franchises are requested to supply batteries to other customers. A credit-note (refund) is issued to the specific distributor or franchise for their stock that is utilised from their inventory holding.

Since the group has an option to redirect the batteries, initially sold to the distributor, a variable consideration constraint exists. Therefore, the amount of revenue recognised is adjusted for the expected credit notes to be issued, usually indicated by historical trends and sales forecasts.

Insurance proceeds relating to the subsidiary fires (refer note 3)
The basic assumptions applied by management in determining the amount to be claimed from insurance in respect of each aspect of the claim are as follows:

Inventory
Claims were based on adjusted value of stock destroyed in the fire taking into account salvageable materials and overheads.

Building
Claims were based on an elemental estimated cost as determined by two quantity surveyors to restore the building.

Business interruption
Claims were based on reduction of battery sales taking into account a gross profit margin adjusted for actual rather than standard cost. Cost incurred on replacing lost production has been included in this estimate.

25. RELATED PARTIES

The group and company entered into transactions with related parties. Transactions that are eliminated intra-group for consolidation purposes are not included.

Information on emoluments paid to executive and non-executive directors have been presented in note 3. Employees fulfilling the role of key management are all appointed to the board of directors.

Information on investments in subsidiaries and associates is presented in notes 9 and 10. Information on loans granted to subsidiaries has been presented in note 9. Dividends from subsidiaries has been presented in note 3. Directors' shareholding and share incentives granted have been presented in note 26.

Information on the Metair Investments Limited 2009 Share Plan can be found in note 26. The share-based payment expense for key management amounted to R6.8 million (2017: R10.5 million).

Information on the Metair group Pension Scheme can be found in note 22.3.

Information on shareholding of the company can be found on pages 108 to 111.

	GROUP	
	2018 R'000	**2017 R'000**
The group entered into the following transactions with its associates:		
Hesto		
Purchases from group companies	**132 555**	103 716
Sales to group companies	**18 518**	16 477
Management fees paid to group companies	**6 353**	730
Management fees received from group companies	**355**	335
Outstanding balance to group companies	**7 684**	6 192
Outstanding balance from group companies	**895**	1 062
Valeo		
Purchases from group companies	**58 737**	45 138
Management fees paid to group companies	**282**	265
Outstanding balance to group companies	**1 754**	1 615

The company has provided limited letters of support to certain subsidiaries within the group (refer note 23).

		GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
26.	**STATED CAPITAL AND TREASURY SHARES**				
	Authorised number of shares				
	400 000 000 ordinary shares at no par value	**400 000 000**	400 000 000	**400 000 000**	400 000 000
	Issued number of shares				
	Ordinary shares at beginning and end of the year	**198 985 886**	198 985 886	**198 985 886**	198 985 886
		198 985 886	198 985 886	**198 985 886**	198 985 886
	Issued				
	198 985 886 ordinary shares of no par value	**1 497 931**	1 497 931	**1 497 931**	1 497 931
		1 497 931	1 497 931	**1 497 931**	1 497 931
	Treasury shares				
	Balance at the beginning of the year	**(10 152)**	(10 481)		
	Shares acquired by Business Venture Investments	**(104 873)**			
	Shares disposed by Business Venture Investments No 1217 (Pty) Ltd (vesting utilisation)	**2 515**	329		
	Balance at the end of the year	**(112 510)**	(10 152)		
	Number of treasury shares are held as follows				
	Business Venture Investments No 1217 (Pty) Ltd	**6 702 399**	982 822		

Treasury shares are ordinary shares held, by Business Venture Investments no 1217 (Pty) Ltd, for the purpose of the Metair Investments Ltd 2009 share plan and share buyback programme. During the year an additional 5 969 577 ordinary shares were acquired for a total of R105 million (average price of R17.49 per share) as part of the group's share buyback programme.

26.1 THE METAIR INVESTMENTS LTD 2009 SHARE PLAN (EQUITY-SETTLED SHARE-BASED PAYMENT SCHEME)

The Metair Investments Ltd 2009 Share Plan is an equity-settled share-based payment scheme.

The Metair Investments Ltd 2009 Share Plan was approved by shareholders on 4 December 2009. Under the plan executives, senior managers and/or key employees of the group will annually be offered a combination of share appreciation rights, performance shares or bonus shares.

Annual allocations of share appreciation rights, awards of performance shares and grants of bonus shares are governed by Metair's remuneration policies.

If an employee ceases to be employed by the group by reason of no fault termination prior to the vesting and/or exercise of the share appreciation rights, performance shares or bonus shares, the share appreciation rights, performance shares or bonus shares available to vest and/or be exercised shall be deemed to have vested and been exercised and shall be settled to the employee in terms of the share plan with effect from the date of termination of employment.

All shares vested are exercised.

a) Share appreciation rights

Annual allocations of share appreciation rights will be made to executives and selected managers. They will be available to be settled, subject to any performance criteria that may have been stipulated at allocation in equal thirds on the third, fourth and fifth anniversaries but need not be exercised until the sixth anniversary, at which time they will be automatically settled.

On settlement, the value accruing to participants will be the appreciation of Metair's share price. The appreciation may be calculated as the full appreciation in the share price, or that appreciation over and above a prescribed hurdle rate which may have been stipulated at allocation.

26. STATED CAPITAL AND TREASURY SHARES (continued)

26.1 THE METAIR INVESTMENTS LTD 2009 SHARE PLAN (EQUITY-SETTLED SHARE-BASED PAYMENT SCHEME) (continued)

a) Share appreciation rights (continued)

Movements in the number of rights granted are as follows:

	2018		2017	
	Number of grants	Weighted average strike grant price R	Number of grants	Weighted average strike grant price R
Balance at the beginning of the year	4 338 085	27,93	3 581 592	30,19
Granted	1 270 834	17,70	1 088 651	19,12
Lapsed	(262 117)	(20,44)	(130 620)	(27,76)
Vested with appreciation			(25 347)	(20,61)
Vested with no appreciation	(229 805)	(30,79)	(176 191)	(20,61)
Balance at the end of the year	5 116 997	25,65	4 338 085	27,93
IFRS 2 share-based payment charge		R5 406 796		R7 122 939

Rights outstanding at the end of the year vest in the following years (performance period), subject to the fulfilment of performance conditions.

	2018 Number of rights	2017 Number of grants
Year ending 31 December:		
2018		1 715 445
2019	2 170 478	739 876
2020	751 400	835 985
2021	1 025 114	683 895
2022	746 393	362 884
2023	423 612	
	5 116 997	4 338 085

b) Performance shares

Annual conditional awards of performance shares will be made to participants with a zero strike price. Performance shares will vest on the third anniversary of their award to the extent that the specified performance criteria over the intervening period has been met.

The board dictates the performance criteria for each award. The performance conditions applied to the performance shares awarded from 2016 is as follows:

- Metair executives performance criteria will be group's return on invested capital ('ROIC') (50%) and total shareholder return ('TSR') (50%) being targeted. TSR will be measured against a benchmark of selected mid-tier industrial and trading companies. Metair's weighted average ROIC over the three year period will be referenced to weighted averaged cost of capital ('WACC').
- Subsidiary executives performance criteria will be group's ROIC (50%) and the subsidiaries own segmental ROIC (50%) being targeted.

26. STATED CAPITAL AND TREASURY SHARES (continued)

26.1 THE METAIR INVESTMENTS LTD 2009 SHARE PLAN (EQUITY-SETTLED SHARE-BASED PAYMENT SCHEME) (continued)

b) Performance shares (continued)

Movements in the number of shares awarded are as follows:

	2018 Number shares	2017 Number shares
Balance at the beginning of the year	1 226 056	1 033 854
Granted	582 904	518 593
Lapsed	(396 663)	(319 033)
Vested		(7 358)
Balance at the end of the year	1 412 297	1 226 056
Share awards outstanding at the end of the year vest in the following years, subject to the fulfilment of performance conditions.		
Year ending 31 December:		
2018		205 676
2019	461 307	523 726
2020	430 807	496 654
2021	520 183	
	1 412 297	1 226 056
IFRS 2 share-based payment charge*	R8 537 520	R5 230 839

* The calculation of the IFRS 2 charge for the year was adjusted for the number of options that are expected to vest at reporting date, based on the non-market vesting conditions.

c) Bonus shares

Special allocations of bonus shares awarded vest after three years conditional on continued employment. For a period of two years from the vesting date and provided continued employment of Metair, the shares may not be disposed, transferred or encumbered. Bonus shares are granted with a zero strike price.

Movements in the number of bonus shares awarded are as follows:

	2018 Number shares	2017 Number shares
Balance at the beginning of the year	1 350 000	1 100 000
Granted		250 000
Lapsed	(50 000)	
Vested	(250 000)	
Balance at the end of the year	1 050 000	1 350 000
IFRS 2 share-based payment charge	R3 206 767	R5 845 504
Share awards outstanding at the end of the year vest in the following years, subject to the fulfilment of performance conditions.		
Year ending 31 December:		
2018		300 000
2019	800 000	800 000
2020	250 000	250 000
	1 050 000	1 350 000

Notes **to the annual financial statements** (continued)

26. STATED CAPITAL AND TREASURY SHARES (continued)

26.1 THE METAIR INVESTMENTS LTD 2009 SHARE PLAN (EQUITY-SETTLED SHARE-BASED PAYMENT SCHEME) (continued)

d) Valuation of share incentive grants

The fair value of the share appreciation rights was determined using a modified binomial tree model. The performance and bonus shares granted in terms of the share plan are the economic equivalent of awarding a Metair share (without dividend rights for the period from grant date to vesting date) at zero strike. Therefore the value of each performance share and bonus share is equal to the share price on the grant date less the present value of future dividends expected over the vesting period.

The table below sets out the assumptions used to value the grants:

	Share appreciation rights	Performance shares	Bonus shares
2018			
Spot price	**R18.99**	**R23.00**	
Strike price (grant price)	**17.7%**	**Nil**	
Volatility*	**33.13%**	**N/A**	
Dividend yield	**4.4%**	**3.54%**	
Valuation (IFRS 2)	**R7 889 393**	**R11 705 397**	
Fair value per share at grant date	**R6.21**	**R20.67/R17.21**	
2017			
Spot price	R19.88	R24.20	R19.70
Strike price (grant price)	R19.12	Nil	Nil
Volatility*	29.09%	N/A	N/A
Dividend yield	4.44%	3.28%	3.28%
Valuation (IFRS 2)	R6 373 058	R16 075 218	R4 322 467
Fair value per share at grant date	R5.86	R21.93	R19.70

The total IFRS 2 employee share-based payment expense for the year was R17.2 million (2017: R18.2 million), including allocation to non-controlling interests. The cost of share-based expenses for the company is capitalised to the investment in subsidiaries. Metair's share price at 31 December 2018 was R19.50 (2017: R20.50).

* The volatility input to the pricing model is a measure of the expected price fluctuations of the Metair share price over the life of the option structure. Volatility is measured as the annualised standard deviation of the daily price changes in underlying shares.

26. STATED CAPITAL AND TREASURY SHARES (continued)

26.1 THE METAIR INVESTMENTS LIMITED 2009 SHARE PLAN (EQUITY-SETTLED SHARE-BASED PAYMENT SCHEME) (continued)

e) Share awards, options and other grants allocated to and exercised by Metair Investments Limited executive directors

	Share appreciation rights	Performance shares	Bonus shares	Total
Yearly award (number of shares):				
2018				
CT Loock	**152 663**	**55 805**		**208 468**
S Douwenga	**75 110**	**27 275**		**102 385**
2017				
CT Loock	133 326	47 766		181 092
S Douwenga	65 596	23 346	250 000	338 942
Lapsed (number of shares):				
2018				
CT Loock*	**(44 277)**	**(27 849)**		**(72 126)**
S Douwenga*		**(10 135)**		**(10 135)**
2017				
CT Loock*		(64 629)		(64 629)
S Douwenga*		(12 358)		(12 358)
Exercise (number of shares):				
2018				
S Douwenga			**(250 000)**	**(250 000)**
2017				
CT Loock	(26 631)			(26 631)
Cumulative (number of shares):				
2018				
CT Loock	**1 367 842**	**161 264**	**800 000**	**2 329 106**
S Douwenga	**523 386**	**78 682**	**250 000**	**852 068**
2017				
CT Loock	1 259 456	133 308	800 000	2 192 764
S Douwenga	448 276	61 542	500 000	1 009 818

* Included in performance shares lapsed is 37 984 (2017: 76 987) shares not vested by the remuneration committee in terms of the under fulfilment of certain performance conditions.

26.2 INTEREST OF DIRECTORS

At 31 December members of the board of directors had a direct beneficial interest in the company's ordinary stated capital as set out below (there has been no change since that date):

	2018 Beneficial Direct Number	%	2017 Beneficial Direct Number	%
Executive directors				
CT Loock	**231 006**	**0.11**	204 083	0.10
S Douwenga	**130 000**	**0.07**		
Independent non-executive directors				
L Soanes *	**120 000**	**0.06**	120 000	0.06
Total	**481 006**	**0.24**	324 083	0.16

* Retired in December 2018.

There is no indirect beneficial or non-beneficial interest by members of board of directors.

Notes **to the annual financial statements** (continued)

		GROUP		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
27.	**RESERVES**				
	Other reserves comprises the following:				
27.1	**SHARE-BASED PAYMENT RESERVE**				
	Balance at the beginning of the year	115 797	95 114	53 257	35 309
	Value of service provided	17 151	18 199	17 151	18 199
	Deferred taxation	(7 292)	2 484		
	Utilisation of treasury shares to settle obligation*	(2 515)	(329)	(3 810)	(251)
	Estimated taxation effect of utilisation of treasury shares	(526)	(115)		
	Transfer of net vesting impact to retained earnings	3 041	444		
	Balance at the end of the year	125 656	115 797	66 598	53 257
	* The market value of shares utilised to settle the obligation amounted to R3.8 million (2017: R0.7 million).				
27.2	**FOREIGN CURRENCY TRANSLATION RESERVE**				
	Balance at beginning of the year	(1 104 558)	(660 569)		
	Net exchange loss arising from translation of foreign operations	(313 761)	(443 989)		
	Balance at end of the year	(1 418 319)	(1 104 558)		
27.3	**EQUITY ACCOUNTED RESERVES**				
	Balance at the beginning of the year	322 388	271 336		
	Adjustments for impact of IFRS 15 and IFRS 9	3 269			
	Transfers from retained earnings	69 957	51 052		
	Balance at the end of the year	395 614	322 388		
	Transfer from retained earnings consists of:				
	- Share of results of associates	76 507	102 989		
	- Dividends received	(6 550)	(51 937)		
		69 957	51 052		
27.4	**CHANGE IN OWNERSHIP RESERVE - NON-CONTROLLING INTERESTS (NCI)**				
	The reserve relates to the premiums paid on purchases of and profit/loss on disposals to NCI without a change in degree of control. The reserve arose as a result of transactions with Mutlu NCI in previous years.				
	Balance at the end of the year	(21 197)	(21 197)		
	Total other reserves	(918 246)	(687 570)	66 598	53 257
27.5	**RETAINED EARNINGS**				
	Balance at the beginning of the year	3 275 935	2 904 386	689 768	784 948
	Adjustments for opening impact of IFRS 15 and IFRS 9	(8 222)		(124 657)	
	Net profit for the year	667 377	556 182	34 377	44 565
	Other comprehensive (loss)/income	(4 550)	5 453		
	Dividends paid	(158 345)	(138 590)	(159 131)	(139 290)
	Transfers to equity accounted reserves	(69 957)	(51 052)		
	Transfer of net vesting impact to retained earnings	(3 041)	(444)		(455)
	Balance at the end of the year	3 699 197	3 275 935	440 357	689 768
27.6	**NON-CONTROLLING INTERESTS**				
	Balance at the beginning of the year	119 393	103 053		
	Adjustments for IFRS 15 and IFRS 9	990			
	Net profit for the year - attributable to non-controlling interests	31 903	31 390		
	Other comprehensive income - attributable to non-controlling interests	654	118		
	Dividend	(31 591)	(15 168)		
	Balance at the end of the year	121 349	119 393		

28. CHANGES IN ACCOUNTING POLICIES

The group has initially applied IFRS 15 and IFRS 9 from 1 January 2018. Other new standards are also effective from 1 January 2018 but they do not have an effect on the group's financial statements.

Due to the transition methods chosen by the group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards. A detailed explanation of the changes and impact resulting from the new standards can be found in section 28.1 (IFRS 15) and 28.2 (IFRS 9) further below.

The effect of initially applying these standards, at 1 January 2018, is attributed to the following:
- Earlier recognition of revenue from 'made to order' automotive parts supplied to OEM customers ('over time'),
- Variable consideration adjustment for certain aftermarket distributor sales
- An OEM customer renewal option that's provides a material right (life-time price reductions),
- An increase in impairment losses on trade receivables under IFRS 9, due to the earlier recognition using an 'expected credit loss' approach

The following table summarises the impact, net of tax, of transition to IFRS 15 and IFRS 9 on retained earnings and NCI at 1 January 2018:

Retained earnings		Impact of adopting IFRS 15 and IFRS 9 at 1 January 2018 (loss)/gain	
		IFRS 9	**IFRS 15**
Made-to-order Auto parts recognised over time			7 042 000
Made-to-order Auto parts recognised over time - equity earnings share			3 269 000
Variable consideration constraints			(2 644 000)
Customer material rights			(3 948 000)
Non-controlling interests			1 043 000
Additional impairment recognised on trade receivables at 31 December 2017		(8 725 000)	
Net Impact, post tax, at 1 January 2018	**(3 963 000)**	(8 725 000)	4 762 000

28.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 establishes a comprehensive '5 step' framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The group has adopted IFRS 15 using the modified retrospective method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Under this transition method, the group applies IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application, with no restatement of the comparative period information.

Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The following tables summarise the impact of adopting IFRS 15 on the group's balance sheet as at 31 December 2018 and its income statement and for the year then ended. There was no material impact on the group's statement of cash flows for the year ended 31 December 2018.

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

Impact of changes in accounting policies on the consolidated balance sheet is as follows:

R'000	*Reference*	As reported	Adjust-ments	Amounts without adoption of IFRS 15
ASSETS				
Non current assets		**3 928 747**	**(209)**	**3 928 538**
Property, plant and equipment		2 538 145		2 538 145
Intangible assets		707 481		707 481
Investments in associates	a	674 296	(209)	674 087
Deferred taxation assets	c,d	8 825		8 825
Current assets		**4 493 253**	**(21 516)**	**4 471 737**
Inventories	a,c	1 849 091	251 018	2 100 109
Trade and other receivables	b	1 667 541	16 236	1 683 777
Contract assets	a,b	288 770	(288 770)	
Derivative financial assets		6 944		6 944
Taxation receivable		8 955		8 955
Cash and cash equivalents		671 952		671 952
Total assets		**8 422 000**	**(21 725)**	**8 400 275**
EQUITY AND LIABILITIES				
Total equity		**4 287 721**	**(8 595)**	**4 279 126**
Non current liabilities		**1 587 453**	**1 709**	**1 589 162**
Borrowings		983 762		983 762
Post employment benefits		76 943		76 943
Deferred taxation liabilities	a	281 456	1 709	283 165
Deferred grant income		187 507		187 507
Provisions for other liabilities and changes		57 785		57 785
Current liabilities		**2 546 826**	**(14 839)**	**2 531 987**
Trade and other payables	b,c,d	1 444 018	(13 993)	1 430 025
Contract liabilities	b	846	(846)	
Borrowings		858 032		858 032
Taxation		42 214		42 214
Provisions for other liabilities and changes		106 203		106 203
Derivative financial liabilities		3 171		3 171
Bank overdraft		92 342		92 342
Total liabilities		**4 134 279**	**(13 130)**	**4 121 149**
Total equity and liabilities		**8 422 000**	**(21 725)**	**8 400 275**

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

Impact of changes in accounting policies on the consolidated income statement is as follows:

R'000	*Reference*	As reported	Adjust-ments	Amounts without adoption of IFRS 15
Revenue	a,b,c,d	10 276 966	(184 189)	10 092 777
Cost of sales	a,b,c,d	(8 377 612)	179 156	(8 198 456)
Gross profit		**1 899 354**	**(5 033)**	**1 894 321**
Other operating income		211 965		211 965
Distribution costs. administrative and other operating expenses		(1 102 649)		(1 102 649)
Operating profit		**1 008 670**	**(5 033)**	**1 003 637**
Interest income		24 208		24 208
Interest expenses		(210 056)		(210 056)
Share of results of associates		76 507	133	76 640
Profit before tax		**899 329**	**(4 900)**	**904 229**
Taxation		(200 049)	1 067	(198 982)
Profit for the period		**699 280**	**(3 833)**	**695 447**

Details of the significant changes are summarised below:

a) Auto components - timing of revenue: Under IAS 18, revenue for automotive components supplied to OEMs was recognised when the parts were delivered to the customer's premises (customers took delivery of the product), which was taken to be the point in time at which the customer formally accepted the goods and the related risks and rewards of ownership transferred. Revenue was recognised at that point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing managerial involvement with the goods.

Under IFRS 15, revenue for automotive parts supplied to OEMs is recognised 'over time' – i.e. before the goods are delivered to the customers' premises because the parts are made exclusively, via purchase orders, for the OEM and creates an asset that the OEM controls, the parts have no alternative use for the group and the group has a right to payment for production to date. At the end of each reporting period, revenue will be recognised for parts that have been manufactured and therefore, revenue is recognised sooner under IFRS 15 than under IAS 18. The accelerated revenue that is booked is measured using a 'right to invoice method' for finished goods, which is based on current OEM system list prices for the parts. If applicable, revenue is adjusted for variable consideration (see d below).

On balance sheet, a 'contract asset' is recognised and inventories are derecognised. The contract assets are transferred to receivables when the rights become unconditional, usually when the parts ordered are delivered to and accepted by the customer.

b) OEM customer tooling – scope, revenue recognition and Principal vs Agent: In most instances, specifically during new vehicle model launches or major facelifts, automotive business units may engage in sourcing, procuring and/or assembly of customer tooling required for the specific parts to be manufactured for the OEM customers. Customer specific tooling are normally outsourced to third-party specialised tool-makers, approved by the OEM, and the costs are recovered with no mark up (we have limited pricing influence).

Previously, customer tooling was not accounted for within revenue. Depending on the contractual terms of the agreements, the group acted in capacity as agents for the production and delivery of tooling on the OEMs behalf. The cost of the tooling was accounted for on a net residual basis, within other operating income or expense, when the tool was delivered and approved.

Following detailed assessments of existing significant tooling contracts, tooling supply arrangements creates separate enforceable rights and performance obligations and is therefore within the scope of IFRS 15. This means that revenue should now be recognised for tooling sales and services.

Additionally, the group has also considered the various factors within IFRS 15 as to whether it still acts as an agent. The dominant factor is that the group is the primary party responsible for the delivery of the tool and the group controls the tool before the obligation is satisfied. The group will therefore account for these arrangements as principal and revenue will be recognised on a gross, as opposed to a net, basis under IFRS 15.

Revenue for the tool will be recognised progressively ('over time'). Costs incurred to fulfil the contract to date are effectively recognised immediately, since the revenue booked represents recovery of costs incurred, at zero profit margin. Tooling is normally short term in nature but can be significant in periods leading up to new vehicle model launches and major facelifts.

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

On balance sheet, a contract asset is recognised for the revenue booked. Cash advancements or progress payments received from customers are initially classified as contract liabilities and subsequently set-off against the contract asset, on a contract by contract basis. The net contract asset is then transferred to trade receivables upon invoicing to the customer.

c) Energy storage aftermarket distributor arrangements - variable consideration and constraints: The energy storage vertical manufactures automotive batteries for use by OEMs and aftermarket sale channels. Within one of the group's entities, a supply arrangement exists whereby a distributor could be requested to supply batteries, on the group entities behalf, to other external customers of the group entity. The distributor receives a handling (logistics) fee for this service. A credit-note (refund) is given to the independent distributor for their stock utilised.

Under IAS 18, the group recognised revenue when goods have been delivered and accepted, the risks of obsolescence and loss have been transferred, the group has a present right to payment and the customer accepted all the risks and rewards of ownership. These criteria remain largely the same under IFRS 15 and performance obligations for battery sales are recognised at a point in time, as no criteria for over time recognition is satisfied.

However, IFRS 15 introduces the concept of 'variable consideration', in which an amount of revenue recognised can vary because an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event (such as a refund, credit or right of return). An entity shall also recognise a refund liability if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer. Since the group is able to redirect the batteries initially sold to the distributor and issue a credit note, a variable consideration constraint exists. Revenue is therefore reduced or deferred and the cost of sale adjusted.

In comparison to the previous accounting, the difference here is that this constraint is applied at the first or initial sale where as previously the revenue was only reversed at time of sale to the other customers. Should the sale not occur to contractual customers but to third parties, the variability is resolved and the refund liability is released to revenue.

Although the above arrangement may display similarities to a consignment arrangement, a consignment sale differs from a sale with a right of return, as the distributor has control of the goods and can decide to sell all the batteries 'over the counter'.

For balance sheet purposes, the revenue related refund liability is included within trade and other payables. The right to recover the asset (right of return battery) is included within inventory. The handling fee remains an expense, as it is a distinct service provided to the group.

d) Other measurement and reclassification adjustments:

Variable consideration, including foreign exchange pricing adjustments:

During the ordinary course business, OEM customer pricing is negotiated and adjusted to take into account variability in manufacturing input costs. These include changes in material costs, commodity pricing such as lead and copper, foreign exchange rate fluctuations for imported material and other economic drivers such as labour and overheads.

These pricing changes result in variable consideration under IFRS 15 for the group. An entity shall include in revenue some or all of an amount of variable consideration, estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

To the extent that the new price relates only to parts that are to be delivered in the future, there is no variable consideration. This means that the revised price per unit will be applied to the parts to be supplied and would not affect the revenue recognised when the parts transfer to the customer.

When compared to IAS 18, there would be minimal impact if the pricing negotiations and settlement occur in the same reporting period and do not straddle over year-end.

Renewal rights and Life time price reductions ('LTRs'):

An arrangement with an OEM customer includes a volume linked 'life time price reduction' ('LTRs'). This is effective only for the first two years of model production. In terms of IFRS 15, purchase orders in years 1 and 2 will give rise to a material or renewal right and therefore a portion of revenue should be allocated to this right. This would result in a more consistent margin on parts supplied over the production or model life cycle, rather than over-recovering costs in the first 2 years and under-recovering costs later in the production and supply of the parts. The total revenues over the model life would however remain the same, when compared to IAS 18.

Effectively the new standard takes a view that where products sold are substantially the same and the customer is able to buy future units at a reduced price, a relatively consistent price should be applied to all sales. The impact is effectively deferring some revenue to units that that are sold in later years.

Lead scrap recovery - aftermarket customers:

For income statement purposes, the scrap price paid to customers is now netted off within revenue. Previously this was classified within cost of sales. There is no impact on profit or loss.

IFRS 15 did not have a significant impact on the group's accounting policies with respect to other revenue streams. For additional information about IFRS 15, including the group's accounting policies relating to revenue recognition, see note 1.2 and note 28.3.

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.2 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 introduces new requirements for the classification and measurement of financial instruments, new rules for hedge accounting and a new impairment model for financial assets.

The group has taken an exemption not to restate comparative information for prior periods with respect to the classification and measurement (including impairment of trade receivables) requirements of IFRS 9. Differences in the carrying amounts of financial assets, specifically trade receivables and contract assets, resulting from the adoption of IFRS 9, are recognised in retained earnings as at 1 January 2018.

However, as a result of the adoption of IFRS 9, the group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the income statement. Previously, the group included the impairment of trade receivables in administration costs.

A) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI (fair value through other comprehensive income) and FVTPL (fair value through profit or loss). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 did not have an effect on the group's accounting policies related to financial liabilities and derivative financial instruments. The group does not apply hedge accounting and derivative financial instruments (mainly foreign exchange contracts) continue to be carried at FVTPL. For an explanation of how the group classifies and measures financial instruments and accounts for related gains and losses, see Note 19.4. Our borrowings, (see Note 14) are not measured at fair value and continue to be carried at cost.

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets as at 1 January 2018. Classification has remained the same for financial liabilities at amortised cost.

R'000	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial asset				
Forward exchange contracts*	FVTPL	Mandatorily at FVTPL	314	314
Trade and other receivables	Loans and receivables	Amortised cost	1 595 265	1 584 039
Cash and cash equivalents	Loans and receivables	Amortised cost	670 653	670 653
Total financial assets			**2 266 232**	**2 255 006**

* *The group does not apply hedge accounting and all fair value movements are recognised through profit and loss*

Our trade receivables 'contractual cash flows' consists solely of principal and interest and the business model remains that of 'hold to collect'. Trade receivables continue to be held at amortised cost. The group doesn't hold debt or equity securities other than investments in associates. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates mainly to the new impairment requirements.

On transition to IFRS 9 an increase of R11.2 million in the allowance for impairment on receivables was recognised in opening retained earnings at 1 January 2018 (before tax). IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new model resulted in a total average default rate of 3.1% over total trade receivables, compared to 2.2% on the previous method. Contract assets were not impaired as these are very short term in nature and limited to reputed OEM customers with no past defaults. These become receivables once goods are collected by the OEM.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. Additional information on how the group measures the allowance for impairment is described in note 19.2B. There were no other classification or measurement adjustments to other financial assets.

B) Transition

The group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. There were no changes to the group's accounting for financial liabilities and derivative financial instruments. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

28. CHANGES IN ACCOUNTING POLICIES (continued)
28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES

D1. Automotive components
Type of product / service: Automotive parts, components and tooling services
Group revenue contribution: 38%

Nature and timing of satisfaction of performance obligations, including significant payment terms
The automotive components vertical produces original equipment (OE) components used in the assembly of new vehicles by OEMs (original equipment manufacturers) in South Africa. The group also produces generic and aftermarket products for use in imported vehicles as well as spare parts used in the South African automotive industry. Products include lights, wire harnesses, suspension springs, radiators and air conditioners and brakes. Majority of automotive component revenue streams arise from contracts with OEMs for new vehicle assembly, of which the vehicle model life can be up to 7 years.

OEM customers:
Scoping and identification of contracts and performance obligations (Steps 1 – 2)
The group provides parts to automakers (OEMs) in two product streams: these are through Original Equipment Manufacturers (OEM) and Original Equipment Service Parts (OES). OEM parts are used in new vehicle assembly and is manufactured using a combination of customer tooling and owned equipment, while OES parts are used as "Service" parts to repair vehicles that may have been damaged in an accident or vehicles on which the parts have failed. OES arrangements normally arise as a result of the OEM contract.

Our arrangements with OEMs, in general, are structured around central framework agreements (often referred to as Master Supply Agreements or MSAs) to determine standard terms and conditions of cooperation governing items such as warranty claims and payment terms. Framework agreements forms the basis for subsequent rolling production forecasts (normally issued 3 months in advance) and daily purchase orders for the supply of specific components.

OEMs normally award new business (linked to new vehicle model launches and production) via a letter of intent (LOI) or 'tender offer'. These confirm and contain information about the projects term, phases such as start of production, engineering, tools, estimated volumes or parts to be produced each period, prices per unit sold, as well as minimum and maximum production capacity requirements. However, minimum quantities of parts to be purchased or guarantee minimum contractual consideration is rarely specified.

Consideration needs to be given whether these documents gives rise to a contract under IFRS 15, or in addition, subsequent purchase orders will be combined with each other and be analysed together with the terms and conditions in the nomination letter and framework agreement, as a single unit of account or performance obligation.

Generally revenue can only be recognised from a contract once all of the following criteria are met:
- Collection of consideration is probable
- Contract has commercial substance
- Rights and payment terms are identified
- Approved and parties committed to obligations

We have analysed the various documents mentioned above and we have assessed that in our arrangements with OEMs, the framework agreements (and LOI) alone do not meet the contract existence criteria. It is the combination of all documents, including the purchase order (normally made up of monthly forecast rolling production plans and daily orders) that creates the enforceable rights and obligations with our customers and consequentially recognising revenue. Therefore, these documents together form the 'contract' for IFRS 15 purposes.

We have also determined when to recognise revenue and whether there are implicit or explicit promises that need to be considered when identifying performance obligations and determining the transaction price. This includes accessing whether the pricing of subsequent performance obligations includes material rights or variable consideration. Our assessments are discussed, in detail, further below.

A 'performance obligation' is the unit of account for revenue recognition. On contract inception, an entity evaluates the promised goods or services to determine which goods and services are distinct and therefore constitute a performance obligation. Our performance obligations identified comprise of:
1. The manufacture and supply of automotive parts – for OEM and OES (See A below) and
2. Procurement of tooling to manufacture these parts (see B below).

Even though tooling and parts supply 'go hand in hand', given the time delay between the purchase order for the tool, and the purchase order for the parts, the contracts cannot be combined. This is because they were not entered into "at or near the same time."

Revenue is recognised as or when "control" of the goods or services, underlying a performance obligation, is transferred to the customer. This control-based model differs from the risks-and-rewards model applied previously. The new rules requires us to first determine whether control is transferred over time. If not, it is transferred at a point in time. This is discussed, in detail, below.

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES (continued)

A - Parts production phase – (including determining and allocating transaction price as well as timing of revenue recognition steps 3-5)

A.1 OEMs

OEMs usually place binding purchase orders for serial production of parts. In accounting for the parts production phase we considered:

- Whether revenue is recognised at a point in time or over time; and
- Whether the series guidance applies if revenue is recognised over time; or
- When control over the parts is transferred to the OEM, if revenue is recognised at a point in time

A performance obligation is satisfied over time if either one of the following is met:

1. The customer simultaneously receives and consumes the benefits as the entity performs
2. The customer controls the asset as the entity creates or enhances it
3. The entities performance does not create an asset for which the entity has an alternative use; and there is a right to payment for performance to date (also serial production for built-to-order parts)

In simple terms, if any one of the above criteria are met then some of our production orders or services qualify for 'percentage of completion accounting' under IFRS 15.

The group has evaluated its contracts and criteria 2 (as well as 3) above are relevant. The group has determined that for 'made-to-order' automotive components, used in the assembly of new vehicles, the customer controls all of the work in progress as the parts are being manufactured exclusively and in most cases using the automakers tooling (assets).

Under those contracts, parts are made to the automakers specification and if a contract is terminated by the automaker, then the group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. The margin to which the group can be entitled to does not need to be equal to the contract margin, but is based on a reasonable proportion of the expected profit margin. The parts have no alternative use as there is no practical ability to use the parts for another purpose due to the design specifications that are unique to each automaker or OEM customer. On termination of the contract, the customer will obtain control of the completed parts, half completed parts and supplies purchased specifically for the manufacture of the part as these cannot be sold to another entity. Revenue is therefore recognised over time.

We also assessed whether our contracts for multiple units of similar parts or components meet the 'series' requirements. Each OEM customer parts contract contains promises to deliver a series of distinct parts that are substantially the same over vehicle model or project life. A series of distinct goods are accounted for as a single performance obligation if each the following criteria has been met for each OEM supply arrangement and goods:

- The parts are substantially the same,
- Each distinct part in the series is a performance obligation satisfied over time (as discussed above)
- The same method would be used to measure progress towards satisfaction of each distinct part in the series, i.e. each part is manufactured identically

The group meets the requirements above and the series guidance applies. Therefore, in respect of each non-cancellable purchase order (or rolling forecast) received from an OEM, the entire quantity of parts required are accounted for as a single performance obligation for which revenue is allocated and recognised over time.

The transaction price is the amount of consideration to which the group expects to be entitled in exchange for transferring promised goods or services to a customer (excluding amounts collected on behalf of third parties) and consists of both fixed and variable consideration. We have applied the 'right to invoice method' to allocate the transaction price, fully, to each completed part since these prices are fixed at the time of production and known by both parties. We also applied an input basis, on a costs increment to date model for semi completed goods and materials.

OEMs collect the parts manufactured from our operations, using their own dunnage (specialised packaging). Deliveries made by the group to the OEMs are exceptions. Invoices are issued according to contractual terms and are usually payable within 30-45-60 days after collection. If the group has recognised revenue but not issued an invoice, then the entitlement to consideration is recognised as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional, usually upon collection or delivery of the goods. Goods are often collected on a daily basis from our operations. There are currently no advance payments giving rise to financing arrangements. In any event, the period between payment and performance is less than one year and the group will apply the practical expedient available, in which interest is not recognised separately from revenue.

In simple terms, OEM inventory on hand (finished goods, work in progress and materials) are de-recognised and replaced by contract assets. An appropriate contract margin is included. Revenue is therefore recognised (as well as adjusting cost of goods sold) before goods are physically collected or delivered. The impact on the income statement, from the previous accounting, is essentially the movement in inventory opening to closing balances that relate to open commitments, including an appropriate margin allocation.

Price adjustments

Variable consideration encompasses any amount that is variable under a contract, including, for example, discounts, rebates, price adjustments and the customer's right to return products. Variable consideration is considered to be a component of the transaction price. It is part of the consideration to which an entity expects to be entitled in exchange for transferring promised

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES (continued)

goods or services and therefore should be estimated and included in the transaction price for revenue recognition purposes, but only to the extent that it is highly probable a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved (constraints or a 'hair-cut' should be applied).

Automotive suppliers and OEMs often negotiate the price of parts throughout the lifetime of a model or project. Our OEM pricing is adjusted during the year for variability in forex rates, engineering changes, and inflationary increases in materials as well as labour and production overheads ('economics') (commonly known as annual pricing reviews or 'APRs'). We have considered whether any of these of changes will result in contract modifications and/or variable consideration under IFRS 15.

Pricing to customers for parts are initially set out in the contract with OEMs and forms the 'fixed' price per part (forms the base price). The price is usually fixed at start of production and is included in the customer purchase order. Adjustments take place from this price. The transaction price for a rolled forecast is the sum of the parts to be delivered under the rolled forecast, multiplied by the price per unit.

In some instances both price and engineering changes are subject to negotiation and the changes will be applied prospectively once approved. In these instances, it has been determined that these may result in contract modifications applied prospectively under IFRS 15, rather than being a form of variable consideration. This will practically have no significant impact, as the accounting for these adjustments and changes under IFRS 15 is applied to future parts (prospectively).

Inflationary changes and engineering changes are only approved after negotiations with the OEMs have been finalised. Once the revised price has been negotiated and approved, a contract modification will exist. If the price negotiations will impact only the price of parts to be supplied after the approved negotiations (i.e. future performance), the price change is accounted for prospectively. If the price negotiations will impact the transaction price of the parts already supplied, then revenue should be adjusted for the revised price as a cumulative catch-up adjustment. In most cases modifications are applied to future purchase orders and parts to be supplied.

Forex adjustments are part of the original contract and changes in the price as a result of changes in the forex are not contract modifications. This is rather a form of variable consideration. To the extent that that forex adjustment is built into the per unit price for parts still to be delivered, the revised price will be applied to the undelivered goods and there is no adjustment for variable consideration. However, if the price negotiations impacts the per unit selling prices of parts already supplied, the variable consideration constraint is applied. Management estimates the amount of the transaction price that is not likely to reverse in the future and record that amount in revenue as a cumulative catch up adjustment, based on the amount that is most likely to be received.

In the cases were price revisions are protracted and if the effective date and the decision date (price agreement date) fall within the same reporting period (i.e. this does not straddle year-end or interim reporting period), the correction of the price would be known and updated before the reporting date. If the negotiations straddle over a reporting period or year-end, the group estimates the transaction price variability taking into account the variable consideration constraint.

Discounts, rebates and other similar incentives aren't applicable for OEMs, however, 'price reductions' apply in some instances (see below)

Pricing arrangements – customer options for lifetime price reductions (LTRs)

OEMs sometimes request a price reduction after a certain period or threshold of volumes. The price reductions allow OEMs to participate in suppliers increased efficiency and fall in learning curve costs ('efficiency savings'). These reductions may be contractually agreed and granted on a prospective or retrospective basis, or may result from periodic negotiations. Judgement is required to determine whether these reductions (or future discounts) provide customers with material rights that need to be accounted for, as a separate performance obligation, earlier.

The new standard requires that when an entity grants the customer an option to acquire additional goods or services, that option is a performance obligation under the contract if it provides a material right that the customer would otherwise not receive without entering into the contract. If the option provides the material right to the customer, the customer in effect pays the entity in advance for future goods or services, and the entity recognises revenue when those future goods or services are transferred or when the option expires.

Included in one of our OEM customer arrangements are LTRs (life time reductions). LTRs result in a percentage reduction in the price of all of the parts in years 2 and 3 of production. The LTR is included in the nomination agreement and gives the customer the right to acquire additional parts at a lower price in the future. Therefore all purchase orders in years 1 and 2 will give rise to a material right (ends in year 3), which represents a separate performance obligation. Revenue is therefore allocated or deferred to this performance obligation.

We have applied the practical expedient in IFRS 15 to calculate the impact, as an alternative to estimating the stand-alone selling price of this option, whereby if the goods and services that the customer has a material right to acquire are similar to the original goods in the contract – i.e. when the customer has an option to renew the contract, then an entity may allocate the transaction price to the optional goods or services with reference to the goods or services expected to be provided and the corresponding consideration expected to be received.

In simple terms 'unearned' revenue is deferred because we have promised price reductions giving rise to material rights. The adjustment is based on the anticipated sales over the LTR period (years 1 to 3) and may result in the margin of these specific

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES (continued)

parts being consistent over the production period, rather than over recovering costs in the first 2 years and under-recovering costs later in production.

Right of return and warranties

Customers in general, and specifically OEMs, do not have a right of return on the parts. The cases in which returns can occur is if there are latent defects in the parts which forms part of the group's warranty provision raised in terms of IAS 37 (see note 17). This warranty relates to latent defects that may occur on a part either on the production line (line return) or after the vehicle is built. Line returns seldom occurs and parts are replaced immediately.

The process for warranties on OEM parts is largely dependent on what the problem is with the vehicle. The OEM would need to assess vehicles with problems and on that basis determine which part caused the problem. The warranty provided to all customers cannot be purchased separately and the warranty does not provide customers with an additional service. This is because the warranty only provides assurance that the parts are functioning as expected and meet high quality standards.

A.2 OES

OES arrangements are, in general, similar to OEMs, (as described above) and based on similar standard terms and conditions. There are some variations, summarised as follows:

- The group is required to hold certain stock levels for certain periods of time, including post model life and depending on the OEMs requirements.
- Similar to OEMs, there is a right to payment for orders satisfied but this is normally restricted to a specific number of days' worth of stock holding on hand. There is no commitment to payment for excess parts they require to be maintained on hand and generally no compensation to hold stock.
- Packaging differs, which results in price differences compared to OEM parts.
- There are no LTRs in place, pricing is agreed upfront. Pricing adjustments described above are similar to OEMs.
- For one particular OEM customer, the group is required to make deliveries to the customer's warehouse. Therefore there is a promise to deliver the part in addition to manufacture the part. This results in a 'shipping service' which is a separate performance obligation. However we have assessed that the delivery portion is immaterial to the group, relates to one customer and lead times are infrequent.

Since the group is manufacturing, importing, and packaging parts that can only be used in a specific vehicle and the group a right to payment for the specified portion of days' worth of orders produced, revenue for the parts is recognised over time, as in OEM. This means that at the end of each reporting period, revenue is recognised for parts that have been manufactured regardless of whether or not the parts have been delivered, as long as there is right to payment. The right to invoice method is used as the transaction price per part produced, as price and units (volume) is readily available.

B. Tooling Sales/Services

Tooling arrangements are typically contracts between an OEM and automotive supplier in which the supplier 'builds' or receives a tool that is used for the production of customised parts ordered by the OEM. Typically these tools are unique to an OEM and cannot be used by any other customer. Such tooling arrangements can vary and need to be analysed on a case-by-case basis.

Our various business units will be engaged in sourcing, procuring and/or assembly of the tooling required for the specific parts to be manufactured for the customers. The group normally outsources customer tooling and is developed by a tooling subcontractor.

The OEM customer provides specific consideration for the tool, separate from the parts. In some cases, the tool maybe provided to us and/or developed in-house. The cost of the tool may also be recovered through the price charged for the parts that are subsequently ordered ('piece price'). Ownership normally vests with the OEM, having the substantive rights over the tool. Generally, the tool is used for its entire useful life and has no significant residual value as another supplier is unlikely to use the same tool in its production processes. Replacement tools are also sometimes required throughout the production process.

Previously, tooling supply arrangements was not considered to be revenue. We considered ourselves as acting as agents in the tooling arrangements. The tool belongs to the OEM, pricing is set by the OEM and no margin is made on the tool (limited pricing involvement and costs are 'pass-through') and the tooling is sub-contracted to specialised tool-makers in which we are reimbursed for paying the costs.

It should also be noted that tooling used in our wire-harnesses and battery businesses are generally not customer specific, meet the definition of PPE and is capitalised. The group normally develops and owns these tools for various production parts.

We have assessed our existing significant customer tooling arrangements to determine the scope, revenue recognition as well as principal versus agent considerations in terms of IFRS 15. We considered if:

- Arrangements may contain a lease;
- Arrangements are within the scope of IFRS 15 and if so, whether a tool supplied by us is transferred to the OEM (sale);
- If not transferred, then whether the cost of the tool may be capitalised as PPE (IAS 16).

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES (continued)

Judgement is required to determine the nature of a tooling arrangement, i.e. whether we are selling a tool to an OEM, leasing a tool to the OEM (or from OEM), or developing our own tool as an asset.

Our assessments indicated that the arrangements to manufacture and supply customer tooling are within the scope of IFRS 15, as the agreements creates enforceable rights and obligations for the transfer of goods or services (the tool). The supply of the tool is a separate performance obligation from the supply of parts. Revenue is recognised for the sale of the tool. The agreements don't give rise to a lease as the customer controls the tool, takes legal title / ownership of the tool, and access is given to the group to use the tool, for no consideration, in order to only produce parts for the specific OEM. The tool is returned or scrapped on behalf of the OEM at end of model life. The OEM can also provide the tool to another party to produce parts. The tool purchase agreement together with the LOI/nomination agreement constitutes a contract in terms of IFRS 15.

The cost of testing and/or developing the tools are not separate performance obligations as testing is integrated into the tool to ensure specifications are met and the tool is fully functioning as required.

Revenue for the tool is recognised over time (also refer to agent versus principal below). This is because the tool does not create an asset with alternative for the group because the group cannot use the tool to create its own inventory or use the tool to create parts for another OEM. The group has a right to payment for work done to date, although priced at effectively 'zero' margin. In the event of termination of the contract, the parties will enter negotiations for the business unit to recover the costs for the work done to date (recover the proportional transaction price), because the standard terms and conditions allow for compensation of investment made by the group.

An 'input' method is used to measure progress towards satisfying our performance obligation and is determined by the costs incurred to date. Therefore revenue recognised approximates costs incurred to date.

The transaction price for the tool is predetermined by the cost which the group incurs to procure the tool and stipulated either in the LOI, a tool purchase agreement and/or tool purchase order. The price sold is the actual cost incurred. If the tool costs more than the anticipated price, the practice is that the OEM would pay for the same amount actually incurred (excess is recovered). Normally there are insignificant variations between the amount on the LOI and the amount incurred because of the extensive time put in, in determining the price (it is similar to a fixed price). The price is paid by the OEM usually once we provide the invoices and can prove that we have paid the toolmakers.

Critical Judgement applied: Agent vs. Principal

IFRS 15 includes additional guidance and rules regarding principal vs. agent considerations. If acting as agent, revenue is recognised net and if acting as principal, revenue is recognised gross. Although this should not impact profit, in years leading up to major new vehicle launches or significant facelifts as well as major replacements, tooling can be material and could impact PBIT margins depending on the top line treatment.

Specific indicators are provided in IFRS 15 to assist in determining whether an entity is acting as an agent. It is also presumed that if an entity obtains control of the identified goods or services of the third party entity, before transfer to the customer, it is seen as a principal in the transaction.

As described above, customer tooling is sub-contracted to third parties for manufacturing, with the customer's permission. The group has reassessed whether we are still acting as agent or principal under IFRS 15. The arrangements are determined on a case by case basis, but currently are largely similar among OEMs. No single indicator identified in IFRS 15 is determinative or weighted more heavily than others.

The strongest evidence indicated that the group is the primary party responsible for providing the tool (as oppose to arranging the tool-makers to provide the tool). The group is the primary obligor and has promised to fulfil the obligations to the customer in the arrangement. The OEMs view the group as the party responsible for fulling the contract. The preponderance of evidence reflects that the group's performance obligation is providing a customer with a tool that can be used to manufacture specific car parts. Hence revenue should be recognised for the sale of the tool on a gross basis (revenue and cost of sales are effectively 'grossed up') as principal. Revenue is limited to cost incurred as there is no margin.

Our overall analysis of the indicators are as follows:

- Fulfilment: The respective auto business unit is responsible for providing the tool to the OEM customer.
- Inventory risk: While the tool is on the group's premises and while it is being designed and developed, the customer takes on the inventory risk. The customer requires that we explicitly identify the tool as the property of the customer and per the standard terms and conditions the customer can request delivery of the tool at any point. Therefore even though the group may have physical custody of the tool, the tool primary belongs to the customer and is recorded in the books of the customer. However since the performance obligation is the satisfaction of a service, this indicator is less relevant.
- Pricing: The price of the tool is quoted by the tool-maker and the final price is agreed between the OEM and the group. There is no margin on the tool. The group does not have price discretion in most cases – other than to recover costs.
- Form of consideration: The group recovers the actual cost of the tooling manufactured for the OEM, not a commission
- Credit risk: Credit risk exists as the group bears the risk of loss upon customer default, or if it must pay a tooling supplier regardless of whether payment is collected from the customer (although this is very rare).

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES (continued)

Executive view on differences between previous and new rules - in simple terms:
For the comparative period, the group recognised revenue for automotive (OE) customers when they took delivery of the products and formally accepted them, or in other cases when delivered to their premises (a point in time). The biggest change arises in the timing of revenue recognition which is now over time. As a customer purchase order is fulfilled and parts produced, revenue is booked even if the parts are not delivered. Treatment of pricing adjustments may vary, for example forex recoveries, but is largely the same if only applied to future parts supplied. Tooling is also now separately identified and accounted for within revenue (income statement) as principal rather than a balance sheet or agency recovery mechanism. Certain categories for discounting, or price reductions, result in revenue deferring to future periods, as the parts are supplied.

Aftermarket customers:
The group manufactures and sells standard parts in the aftermarket. Contracting is informal or non-existent in most cases, when compared to OEMs, and sales are made based on customer orders received for parts we have in stores.

Customers have full discretion over the channel and price to sell products and there is no unfulfilled obligation that could affect the customers' acceptance of the parts. Delivery occurs when the goods have been shipped to the specific location and the risk of obsolescence and loss have been transferred.

Customers obtain control of the parts when the goods are delivered to and have been accepted at their premises. Invoices are generated at that point in time. Invoices are usually payable within 30 days. No discounts are provided, but customers may earn rebate instead (volume discount / rebates).

The volume rebates are based on aggregate sales over a 12 month period. Revenue from these sales is recognised based on the price quoted to the customer, governed by internal pricing lists, net of estimated volume discounts. Volume discounts are accrued for during the year based on the most likely amount and is readily determinable at balance sheet date. No element of financing is deemed present, sales are consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

The group's obligation to provide refund for faulty products under standard warranty is recognised as a provision. Returned goods are exchanged only for new goods – i.e. no cash refunds are offered.

Executive view on differences between previous and new rules - in simple terms:
Independent aftermarket revenue streams remain largely the same under both standards.

Revenue recognition policy under IFRS 15 (applicable from 1 January 2018)

The group recognises revenue when (or as) a group entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.

Revenue and associated costs are recognised when control of the parts have transferred, on the following basis:

- Over time for OEM customers – i.e. before the parts have been delivered to the customers premises; and
- At the point in time for all other customers i.e. when the parts have been delivered and accepted by customers at their premises.

Revenue for OEM parts is recognised based on the right to invoice method, for parts fully completed. For partly manufactured parts as well as customer specific materials revenue is recognised based on the measure of progress being costs increment to date. For all other products, delivery occurs when the parts have been shipped to the specific location, the risk of obsolescence and loss have been transferred to the customers and the customers have accepted the goods in accordance with their corresponding purchase orders.

In the case of OEM customer tooling supplied, revenue is recognised over time, as the services are provided. The stage of completion to determine the amount of revenue to recognise is based on the cost to cost method. The related costs are recognised in profit or loss when they are incurred. Advances received are included in contract liabilities. Tooling arrangements can differ on a case by case basis.

The amount of revenue booked is based on the transaction price, which is the amount of consideration the group expects to be entitled to for supplying the products, including the fixed and variable (subject to constraints) components. Variable consideration is estimated based on the most likely amount to be received (or paid) and to the extent that it does not result in a significant reversal of revenue. Revenue is measured net of volume rebates, discounts, other incentives such as price reductions resulting in a material right, VAT and after intercompany sales have been eliminated for consolidation.

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES (continued)

A trade receivable is recognised when the goods are delivered, as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due. If the group has recognised revenue but not issued an invoice, then the entitlement to consideration is recognised as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional, usually upon collection or delivery of the goods and in the case of tooling, as agreed with the customer.

The group's obligation to provide for warranties is recognised as a provision (see note 17). The customer does not have the option to purchase the warranty separately. The estimated costs are recorded as a liability when the group transfers the product to the customer.

Financing components

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

Revenue recognition under IAS 18 (applicable before 1 January 2018)

Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue can be measured reliably. 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 comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value added tax, estimated returns, rebates and discounts and after intercompany sales have been eliminated.

Sales of goods are recognised when a group entity has delivered products to the customer and there is no unfulfilled obligations that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products and all risks and rewards associated with them, the acceptance provisions have lapsed or the group has objective evidence that all criteria for acceptance have been satisfied. The automotive products are sometimes sold with a right to return faulty products. Accumulated experience is used to estimate and provide for such returns at the time of sale. Sales are recorded at fair value based on the price specified in the sales contracts or agreed pricing.

D2. Energy storage
Type of product / service: Automotive and industrial batteries
Group revenue contribution: 62%

Nature and timing of satisfaction of performance obligations, including significant payment terms

The energy storage business vertical manufactures automotive batteries for supply to original equipment manufacturers (new vehicles manufactured) and also to the aftermarket (replacements) through our unique aftermarket distribution channels and independent franchised retail networks ('distributors'). Batteries are also exported to destinations across EMEA from our operations in South Africa, Turkey and Romania.

Scoping and identification of contracts and performance obligations (Steps 1 – 2)

A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations. For our OEM battery customers, generally a 'release overview' governs the quantities of parts to be required over a 3 month period. A scheduling agreement governs the pricing of the parts. These arrangements together with a formal purchase order from the OEM, as well as the supporting terms and conditions represent a 'contract' and creates the enforceable rights and obligations with OEM customers. For aftermarket customers, orders are placed when batteries are required. There are no formal framework agreements other than some distributor supply arrangements (see variable consideration constraint in aftermarket, further below below).

There are no minimum order quantities specified in any arrangements with customers. Distributors are independent and batteries supplied are generic. Aftermarket customers (distributors and retailers) have full discretion over the retail channel and the price to sell batteries. There is no unfulfilled obligation that could affect the customers' acceptance of the batteries.

Each battery is capable of being distinct because each battery can be used in a new vehicle manufactured or sold as spare parts. There is no integration of parts or highly interrelated with other promises within a contract. A promise to supply each battery, specified in a sales order received from the customer, results in the only performance obligation. Where applicable, delivery or transport elements are not a separate performance obligation as this is a fulfilment activity and costs are incurred as part of transferring the batteries to the customers.

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES (continued)

Under IFRS 15, revenue is recognised as or when "control" of the goods or services is transferred to the customer. This control-based model differs from the risks-and-rewards model applied previously in the group. Firstly we must determine whether control is transferred over time. If not, it is transferred at a point in time.

Our assessments are discussed in detail further below. We determined that revenue is still recognised at a point in time. We have also analysed our arrangements to determine whether there are any implicit or explicit promises that need to be considered when identifying performance obligations and determining the transaction price. This includes accessing whether the pricing of subsequent performance obligations includes material rights or variable consideration. These areas are also discussed in detail further below.

Determining the transaction price, allocation and timing of revenue (steps 3-5)

Using the same criteria listed in automotive components above, we determined the following:

- Criteria 1 is not met because the customer does not consume the benefit of the batteries as they are being manufactured.
- Criteria 2 is not met because the manufacture of the batteries does not create or enhance an asset that customer controls. This is because the batteries are not specific and partially completed or completed batteries can be sold to other customers at any time.
- Criteria 3 is not met because the batteries create an alternative use for the group. In other words, even though the batteries are manufactured to meet the requirements of the customers' purchase order, the batteries are not specific and the batteries that are still in the manufacturing process or those that have already been manufactured can be sold to another OEM customer, in the aftermarket or, as a last resort, recycled for lead. In addition, the group does not have a right to payment plus a reasonable margin for the batteries that are in process. The group only has a right to payment once the batteries are completed and customer takes possession.

Therefore, revenue on the sale of the batteries may not be recognised over time as the criteria are not met. Revenue is recognised at a point in time. The "point in time" when revenue must be recognised is when control of the batteries transfer to the customer. This control assessment is based on (but not limited to) the five indicators in IFRS 15. The indicators that control has passed include a customer having:

- A present obligation to pay
- Physical possession
- Legal title
- Significant risks and rewards of ownership
- Accepted the asset

Our assessment indicated that:

- We have a right to payment once goods are delivered to the customers premises (delivery note is signed and accepted);
- Physical possession transfers on delivery to customers. It can be used in new vehicle assembly, put into stores or sold depending on the customers;
- Legal title normally retained solely for securing payment ('protective'), (also see discussion on shipping below);
- Transfer of risks and rewards of ownership occurs when the goods have been delivered. We are responsible for the goods until the goods have been received by the customer. Shipping terms (normally 'incoterms') are discussed below;
- Acceptance usually occurs simultaneously, when the goods are delivered.

When a product is subject to delivery to the customer's site, legal title passes when the product is physically handed over. When a product is shipped to the customer 'free-on-board' (FOB) shipping point (i.e. exports), legal title passes and the risks and rewards are generally considered to have transferred to the customer when the product is handed over to the carrier. Arrangements that involve shipment of goods to a customer might include promises related to the shipping service that give rise to a performance obligation.

Shipping and handling services may be considered a separate performance obligation if control of the goods transfers to the customer before shipment, but a group entity may promise to ship the goods (or arrange for the goods to be shipped). In contrast, if control of a good does not transfer to the customer before shipment, shipping is not a promised service to the customer. This is because shipping is a fulfilment activity as the costs are incurred as part of transferring the goods to the customer.

There is not one indicator which weighs more heavily than the other and not all indicators need to be met. Based on the balance of our analysis, customers obtain control of batteries when the goods are delivered.

The group has a right to payment once goods have been delivered to the customer's premises, or specific location. Invoices are generated at that point in time and usually payable within ranges of 30, 60 and 90 days, depending on the customer type (OEM, local or export). Pricing to customers are based on approved price lists for aftermarket customers and scheduling agreements with OEMs.

Revenue is fully allocated to the sale of a battery. No element of financing is deemed present, sales are consistent with market practice.

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES (continued)

Price adjustments

Similar to automotive components discussed above, variable consideration and contract modification are also applicable in certain circumstances.

Regarding OEM battery supply, inflationary changes and other annual price adjustments are only approved after negotiations between the group and the OEM customers have been finalised. Once the revised price has been negotiated and approved, a contract modification will exist. If the price negotiations will impact only the price of parts to be supplied after the approved negotiations (i.e. future performance), the price change is accounted for prospectively. If the price negotiations will impact the transaction price of the parts already supplied, then revenue should be adjusted for the revised price as a cumulative catch-up adjustment. In most cases contract modifications relate to future purchase orders and parts to be supplied. The impact when compare to previous accounting is similar.

OEM pricing is normally also adjusted during the year for movements in forex rates and the London Metal Exchange index changes ('LME' changes). Lead is a major input cost into manufacturing batteries and the lead price is based on the LME. Some of the input components used in the manufacture of batteries are priced in USD (including lead) and the group is therefore exposed to forex risk. These adjustments result in variable consideration. However, these changes currently apply to batteries supplied in the future and therefore no variable consideration adjustment arises.

Revenue from aftermarket sales is recognised based on the price quoted to the customer, governed by internal pricing lists, net of any discounts applied. Discounts and rebates are provided to aftermarket customers, normally volume related based on sales to date. Volume rebates are based on aggregate sales over a 12 month period. Volume discounts and rebates are accrued for during the year, based on the most likely amount and is readily determinable at balance sheet date.

Right of return and warranties

Customers are permitted to return faulty goods under the standard warranty terms. The warranty provides assurance that the goods are functioning as expected and normally runs for 24 months. Faulty goods are exchanged only for new goods – i.e. no cash refunds are offered. The group's warranty provision is raised in terms of IAS 37 (see note 17).

In one of our group entities, a distributor arrangement exists which effectively permits the customer to return an item for a credit (stock re-direction). This is discussed in further detail below.

Critical estimation and/or judgement in revenue recognition - variable consideration constraint in distributor arrangements:

A supply arrangement exists, in one of the group entities, whereby credit refunds are issued to certain distributors who may be requested to deliver stock, initially sold to them, to other customers of the group entity. The distributor also receives a handling (logistics) fee for this service. The handling fee is expensed as it is a distinct service provided to the group entity.

A credit-note (refund) is given to the independent distributor for their stock utilised. The distributor doesn't separate stock as they carry one stock level which covers all their requirements – over the counter/retail, break-bulk, trade, wholesale and deliveries.

Most distributors would hold generally up to 2 weeks total stock-holding. The end customer is invoiced by the group entity once the stock is delivered.

Revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. An amount of revenue recognised can vary because an entity's entitled to the consideration is contingent on the occurrence or non-occurrence of a future event. The group will not be entitled to the consideration from the distributor if batteries sold to the distributor are transferred to other customers. Therefore a portion of batteries sold includes a variable consideration element since the group expects to reverse a portion of sales made to these distributors.

Therefore, in simple terms, revenue recognised for the initial sale made to the distributor is reversed, until final sale occurs. The related cost of sale is also adjusted. Amounts reversed are estimated based on the historical data sales trends. In these circumstances, a refund liability and a right to recover returned goods asset are recognised.

The right to recover returned goods asset is measured at the former carrying amount of the inventory and is included in inventory (note 11). The refund liability is included in other payables (see note 16). The group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Although the above may resemble a consignment arrangement, we have assessed that control of the batteries have passed to the distributor and a sale occurs. The preponderance of evidence reflects that:

- Once delivered, the distributor is not limited to sell the batteries to its own customers.
- The group has an unconditional right to payment when delivered.
- Legal title is a protective measure, against the distributors failure to pay.
- Physical possession has been transferred.
- Significant risks and rewards of ownership have been transferred i.e. price risk, demand risk and inventory risk.

Therefore the above arrangement is treated as a sale with a right of return, a form of variable consideration.

Executive view on differences between previous and new rules - in simple terms:

Other than the 'accelerated' credit note or revenue cut-off adjustments relating to the distributor supply arrangement, there are essentially no significant differences between IFRS 15 and IAS 18 regarding sale of automotive batteries. Other variable consideration items are normally adjusted prospectively and have little impact on results.

28. CHANGES IN ACCOUNTING POLICIES (continued)
28.3 PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION POLICIES (continued)

Revenue recognition policy under IFRS 15 (applicable from 1 January 2018)

Revenue is recognised when control of the batteries has transferred, being at the point in time when the batteries have been delivered. None of the requirements to recognise revenue over time is met.

Delivery occurs when the batteries have been shipped to the specific location, the risk of obsolescence and loss have been transferred to the customers and the customers have accepted the goods in accordance with their corresponding purchase orders.

The amount of revenue booked is based on the transaction price, which is the full amount of consideration the group expects to be entitled to for supplying each battery. Revenue is measured net of volume rebates, discounts and incentives and VAT. Inter-company sales have been eliminated for consolidation.

To the extent that the forex rates and lead price changes relates only to batteries that are to be delivered in the future, there is no variable consideration, as there is no variability in the selling price between when control of the battery transfers to an OEM customer and when the selling price is settled.

The transaction price in aftermarket may vary because of discounts, rebates and incentives granted to distributors. These amounts are accrued for within trade and other payables (see note 16). Actual amounts due are readily determinable at balance sheet date with minimal estimation.

Sale returns are a form of variable consideration. Sales made to distributors, who have a right of return arrangement, are adjusted for the amount of revenue the group is entitled to. Therefore for goods that will be re-distributed to other customers under this arrangement, revenue is not recognised as it is highly probably that a significant reversal will occur. A refund liability is created to decrease the revenue initially booked.

A liability for the amount of consideration the group entity expects to refund (i.e., products expected to be returned) is set up and an asset with a corresponding entry to cost of sales, for the right to recover products when a refund liability is settled (i.e., this will be at the cost of the initial inventory less any expected costs to recover the products), is also set up.

A trade receivable is recognised when the goods are delivered, as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

The group's obligation to provide for warranties is recognised as a provision (see note 17). The customer does not have the option to purchase the warranty separately. The estimated costs are recorded as a liability when the group transfers the product to the customer.

Financing components
The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

Revenue recognition under IAS 18 (applicable before 1 January 2018)

Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue can be measured reliably. 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 comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value added tax, estimated returns, rebates and discounts and after intercompany sales have been eliminated.

Sales of goods are recognised when a group entity has delivered products to the customer and there is no unfulfilled obligations that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products and all risks and rewards associated with them, the acceptance provisions have lapsed or the group has objective evidence that all criteria for acceptance have been satisfied. The automotive products are sometimes sold with a right to return faulty products. Accumulated experience is used to estimate and provide for such returns at the time of sale. Sales are recorded at fair value based on the price specified in the sales contracts or agreed pricing.

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.4 IMPACT OF CHANGES IN ACCOUNTING POLICIES ON THE COMPANY

The introduction of IFRS 9, however, had an impact on the intergroup loans/advances to subsidiaries. There is no impact on financial liabilities and these continue to be held at amortised cost, within current liabilities as short term loans payable to subsidiaries.

Our assessment of the business model and whether the financial assets meet the SPPI requirements was made on 1 January 2018, and applied to those financial assets on 1 January 2018. The company has taken the exemption not to restate prior comparatives and differences in the carrying values of financial assets, as a result of adopting IFRS 9, were recognised in opening retained earnings.

Classification of intercompany loans at 1 January 2018

Under the rules of IFRS 9, all loans to subsidiaries, that were accounted for by the respective subsidiary as a liability are now under the scope of IFRS 9. Previously loan advances that represented 'quasi equity' (in substance) were included as part of the net investment in the subsidiary (within IAS 27). These advances had no fixed repayment terms but payable in cash upon demand and were non-interest bearing.

Loans to Lumotech, Smiths Plastics and Inalex were previously presented as net investment in subsidiaries. These are now classified as short term loans to subsidiaries under IFRS 9.

The fact that these loans earn no interest does not mean that it fails the SPPI test. For the purposes of the SPPI test, the fair value at initial recognition is considered as 'the principal' for the SPPI test. Intercompany loans which are interest free and repayable on demand (have no formal terms) have an effective interest rate of 0%. Accordingly, for such loans, discounting over the recovery period will have no effect. The company intends to hold the loans to ultimately collect the cash flows. These loans are therefore classified and subsequently measured at 'amortised cost' under IFRS 9.

Current advances to Metair Management Services as well as bank and cash will also be classified at amortised cost (previously classified as 'loans and receivables' at amortised cost). There are no financial assets held at FVTPL or FVOCI.

Measurement of intercompany loans and loss allowances (impairments) at 1 January 2018

The company is required to recognise expect credit losses (ECLs) for financial assets measured at amortised cost. The company has applied the general approach to loans advanced to subsidiaries on 1 January 2018. These loans do not fall within the scope of the simplified approach for trade receivables and contracts assets, as adopted by the group (refer 28.2).

The general model requires recognising impairment losses in line with the stage in which the financial asset currently is. ECLs are recognised in three stages:

1) For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that could result from default events that are possible within the next 12 months (a 12 month ECL for performing assets).
2) When the credit risk of financial assets significantly increased and the resultant credit quality is not low risk, then credit losses are provided for over the remaining life of the exposure (a life-time ECL).
3) When financial assets have already become credit impaired (or default events have occurred), a lifetime approach is adopted on the net amount less allowances. These are individually assessed.

If a loan account had low credit risk at the date of initial application of IFRS 9, then the company has assumed that the credit risk on the asset has not increased significantly since its initial recognition. We have applied the impairment requirements under the general approach for the related party loans as follows:

A) Loan receivable from Inalex

The loan to Inalex for R1 486 307 000 represents capital raised, through equity share issue, by the company in 2013 for the acquisition of Mutlu. Inalex acquired Mutlu, and Inalex also raised a portion of the funding through the issue of preference shares. These advances were not treated as 'capital contributions' by Inalex as no additional share capital was issued, at that time. For clarification purposes, this 'loan' is repayable in cash, if demanded and is interest free.

Inalex is an intermediate holding company and indirectly owns the underlying group's operating subsidiaries, including Mutlu. There has been no significant increase in credit risk since initial recognition and is considered low credit risk, in stage 1. Inalex's cash flow forecasts and results to date to not indicate any adverse liquidity or solvency issues. Inalex is essentially an extension of Metair Investments Limited (the company).Mutlu has delivered strong results and has contributed significantly to the group’s consolidated profits. Inalex's assets are non-current in nature and therefore conversion immediately into cash may take longer than converting inventory and realising trade receivables in an operating subsidiary. However dividends could be increased from underlying operations.

On balance, we have therefore adopted a 'repay over time' strategy for the expected recovery in determining ECLs. The loan could be repaid over time in a number of ways, including, but not limited to:

- adjustment in dividends declared upstream;
- refinancing or extensions of the preference shares issued;
- sale of certain operating subsidiaries or introduction of equity partners into some of our businesses; and
- sale of some of the group’s free-hold properties.

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.4 IMPACT OF CHANGES IN ACCOUNTING POLICIES ON THE COMPANY (continued)

Therefore, taking the above into account, any loss allowance is based on a portion of the lifetime ECLs associated with the PD ('probability of default) in the 12 months post 1 January 2018. Under this scenario, the impairment loss should be limited to the effect of discounting the amount due on the loan at the effective interest rate (present value). Since the effective interest rate is 0%, and all strategies indicate that the company would fully recover the outstanding balance of the loan, discounting would have no impact on ECLs. However, as a consequence of our over time strategy, we have to consider forward looking information and scenarios. We considered the following:

External information:

- The Automotive industry default rates has decreased from 1% in 2016 to 0% in 2017 per the Moody's 'Annual default study: Corporate default and recovery rates' dated 15 February 2018.
- Default rates fell below historical averages and actual corporate defaults declined in 2017.
- Default rates for rated speculative-grade corporate issuers is expected to decline to 1.7% in 2018 from 2.9% in 2017.
- Faster GDP growth in the G-20 countries, a sustained recovery in commodity prices, generally healthy corporate earnings and relatively low refunding risk will support credit conditions and keep defaults low.
- Moody's view is also similar to information available from SPGlobal who indicate a global corporate default rate of 1.33% in 2017 for Aerospace/auto/capital goods and metals as well as an average corporate default rate of 0.25% for BBB- (lowest investment grade).

Internal information:

- There are no adverse indicators in the group's and inalex's operating results.
- The group and Inalex has complied with lenders covenants (refer note 19).
- Inalex would be able to service its preference dividends and the redemption of the preference shares is due in 2021.
- The stability in the South African automotive outlook for the next three years project good production volumes at our main OEM customers, which should support results.
- The group will focus more on expanding our aftermarket lead acid battery export customer base, which should result in higher earnings and ultimately higher cashflows to Inalex.
- The South African government has supported the local automotive industry and has extended the APDP plan until 2035, creating certainty for the industry.
- The underlying impairment testing carried out (note 8) indicates that that Mutlu's recoverable amount exceeds carrying values, this is the most valuable asset held internationally by the group.

We applied a PD*LGD*EAD (probability weighted) methodology for calculating the expected credit loss under IFRS 9 (see MMS - part C below). A weighted average PD rate was computed based on a probability weighted outcomes approach. We considered the most likely scenario if the loan is not repaid, and a loss of R840 million (LGD of 57%) was applied. This represents the preference share funding that needs to be paid before the company is able to recover its loan. A forward looking ECL of R14.95 million was determined and is adjusted against opening retained earnings.

B) Loans receivable from Smiths Plastics and Lumotech

Smiths Plastics and Lumotech were previously impaired as at 31 December 2017 and individually credit impaired at 1 January 2018. The Smiths Plastics loan is subordinated by the company and fully provided for R167 451 000. An amount of R705 000 is carried for Lumotech, post impairment of R57 278 000. These companies incurred operational losses in the past, mainly as a result of the 2008 financial crises and knock impact in the local auto sector since that point in time. These can be considered as stage 3 financial assets.

C) Current advances to Metair Management Services ('MMS')

The current advances have no fixed repayment terms and is interest free. MMS is essentially a management services company, carrying a large portion of 'head office' and staff costs. MMS has incurred operating losses in the past and is currently in a net loss position. The loan has been subordinated by the company.

Without specified terms, it is difficult to demonstrate whether this loan is low credit risk and, if no interest is charged, whether it is 30/90 days past due (rebuttable presumptions in IFRS 9). We have therefore applied a combination of quantitative and qualitative factors in determining whether there has been a significant increase in credit risk. We have looked at the balance sheet position of MMS, the availability of cash resources (including future cash flow projections), 5 year business plans, and other corporate activities which may have an impact looking forward. Year-on-year movements on the loan balance were also analysed.

We therefore concluded that this loan is in stage 2 and expected credit losses is determined on a lifetime basis using a probability weighted analysis.
We applied a PD*LGD*EAD methodology for calculating the expected credit loss under IFRS 9, whereas:

- PD is the likelihood of a default happening through the whole life of the loan, if the intercompany loan is within 'stage 2 or 3'.
- LGD is the percentage that could be lost in the event of a default.
- EAD is the outstanding balance of the loan.

We therefore calculated the IFRS 9 ECL for this intercompany loan as follows:

- PD = 50% (there are only 2 scenarios - MMS will either default if no further support is given or will not default if supported by MIL or another group company in the future).
- LGD = 50% (we have applied the equity deficit in the company as a percentage of the loan outstanding at 31 December 2017. If the company is liquidated this is the best estimate of the likely loss).
- EAD = R438 827 000 (being the total exposure at 1 January 2018).

Expected credit losses of R109 707 000 arise at 1 January 2018, for the current receivable due from MMS.

Notes **to the annual financial statements** (continued)

28. CHANGES IN ACCOUNTING POLICIES (continued)

28.4 IMPACT OF CHANGES IN ACCOUNTING POLICIES ON THE COMPANY (continued)

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the company's financial assets as at 1 January 2018:

R'000	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial asset				
Non-current advances to subsidiary companies*	N/A	Amortised cost	1 487 012	1 472 062
Short term loans - subsidiaries	Loans and receivables	Amortised cost	438 827	329 120
Cash and cash equivalents	Loans and receivables	Amortised cost	590	590
Total financial assets			**1 926 429**	**1 801 772**

* These were previously presented as part of the net investment in subsidiaries on balance sheet (non-current). These are now re-classified to 'short term loans to subsidiaries' (other current financial assets).

The reconciliation for loss allowances (impairments) for the company, at 1 January 2018, are as follows:

	Loans to subsidiaries at amortised cost R'000
Opening loss allowance as at 1 January 2018	(224 729)
Total amount restated through opening retained earnings	(124 657)
Adjusted loss allowance under IFRS 9	(349 386)

Accounting **policies**

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The consolidated annual financial statements are stated in South African Rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) in issue and effective for the group at 31 December 2018 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

The consolidated annual financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below. Derivative financial instruments are carried at fair value.

The consolidated annual financial statements are prepared on the going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 24.

This is the first set of the group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Details of the changes and the impact thereof can be found in Note 28 – changes in significant accounting policies.

NEW STANDARDS AND INTERPRETATIONS

Accounting policy developments include new standards issued, amendments to standards, and interpretations issued on current standards as issued by the IASB.

(a) Standards, amendments and interpretations effective for the first time for 31 December 2018 year-end

Standards and amendments adopted by the group:

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 15 - Revenue from contracts with customers
- IFRS 9 - Financial instruments

Standards and amendments in effect but are not applicable or had minimal impact on the group:

- Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4
- Transfers of Investment Property - Amendments to IAS 40
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2014-2016 Cycle - (amendments to IFRS 1 and IAS 28)

(b) Standards, amendments and interpretations to existing standards that are effective from 1 January 2019 or later and have not been early adopted by the group

A number of new standards and amendments to standards and interpretations have been issued and earlier adoption is permitted. However the group has not adopted these in preparing these annual financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have some impact on the group's financial statements in the period of initial application.

IFRS 16 - Leases:

The group is required to adopt IFRS 16 from 1 January 2019. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance lease is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of R91 million on an undiscounted basis, see note 21. Approximately R34 million of these relate to payments for the short-term portion.

The nature of expenses related to those applicable leases will change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right-of-use assets and interest expense for lease liabilities.

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on the economic conditions, including the group's borrowing rate at 1 January 2019, the composition of the group's lease portfolio remaining at that date, exercising of any renewal options and the extent to which the group chooses to utilise practical expedients and recognition exemptions.

The group expects, on transition to IFRS 16, to recognise additional lease liabilities of approximately R84.5 million and R84.5 million right of use assets. When measuring the lease liabilities at present value, a weighted average incremental borrowing rate of 9.7% was applied.

The group does not expect adoption of IFRS 16 to impact on the loan covenants described in note 19.3, as well as an operating profit. However interest expense is expected to increase by R7.3 million.

The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The cumulative effect of adopting IFRS 16 will be recognised as an adjustment to retained earnings on 1 January 2019. The group will also apply the practical expedient to grandfather the definition of a lease on transition.

Other standards

The following amended standards and interpretations are not expected to have an impact on the group at this point in time:

- IFRIC 23 Uncertainty over Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 and IFRS 11 dealing with changes in group composition
- Amendment to IAS 12 Income taxes, clarifying current and deferred tax on dividends
- Amendment to IAS 23 Borrowing costs clarifying general borrowings
- Amendments to IAS 1 and IAS 8, definition of material information (effective 1 January 2020)
- Amendment in IFRS 3 Business combinations and new definition of 'business' (effective 1 January 2020)
- IFRS 17 Insurance contracts (effective 1 January 2021)
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (deferred but available to adopt)

(c) Standards, amendments and interpretations not yet effective but have been early adopted by the group.

There have been no standards, amendments and interpretations early adopted by the group.

BASIS OF CONSOLIDATION

(a) Subsidiaries

The consolidated annual financial statements incorporate the annual financial statements of Metair Investments Limited and all its subsidiaries from the effective dates of acquisition to the effective dates of loss of control.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are no longer consolidated from the date that control is lost.

The acquisition method of accounting is used to account for business combinations of subsidiaries by the group.
The consideration transferred for the acquisition of a subsidiary is measured at the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity instruments issued at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest (NCI). Acquisition-related costs are expensed in the period in which the costs are incurred or services received.
If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, NCI recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.
The company accounts for subsidiary undertakings at cost less impairment. Advances to subsidiaries by the company, which do not have fixed terms of repayment, are classified as loans to subsidiary companies – current at amortised cost. Refer to note 28.4 for the impact of IFRS 9 on the company and its intercompany loans. Accounting policies on intercompany loans, including impairment assessments, is fully discussed in notes 9 and 19.2.

For the company, the equity-settled share-based payment cost is capitalised to the investment in subsidiaries.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability is subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

Changes in ownership interests in subsidiaries without change of control

Transactions with NCI that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to NCIs are also recorded in equity.

Disposals of subsidiaries

When the group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) Non-controlling interest (NCI)

NCI is valued at the NCI's portion of the acquirer's identifiable assets, liabilities and contingent liabilities at the acquisition date plus the NCI's portion of post-acquisition reserves, excluding the NCI's portion of share-based payment reserve.

NCI is included in equity on the balance sheet and is also reconciled in the statement of changes in equity.

(c) Associated companies

Associates are all entities over which the group has a significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in the statement of other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains or losses arising on investments in associates are recognised in the income statement.

If an associated company applies accounting policies that are recognised as being materially different to those adopted by the group, appropriate adjustments are made to the consolidated annual financial statements, prior to equity accounting.
The group's share of associated earnings less dividends received is transferred to other reserves within the statement of changes in equity. For the purposes of the cash flow statement dividends received from associates are classified as operating cash flows as these enter into the determination of net profit or loss.

FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the annual financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated annual financial statements are presented in South African Rands (ZAR), which are the company's functional and the group's presentation currency.

(b) Transactions and balances

Transactions denominated in foreign currency are translated into the functional currency at the rate of exchange ruling at the transaction date and if remeasured on date of remeasurement. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency, are recognised within other operating expenses in the income statement, except when deferred in other comprehensive income as a qualifying cash flow hedge. Monetary items denominated in foreign currency are translated at the rate of exchange ruling at the reporting date.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) All resulting exchange differences are recognised in other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets or liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

INTANGIBLES

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred in an acquisition over the group's share in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired and the amount of the non-controlling interest in the acquiree. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed and is recognised in profit or loss.

The carrying value of goodwill is compared to the recoverable amount which is the higher of value-in-use and the fair value less cost to sell. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 15 years. The amortisation methods and estimated remaining useful lives are reviewed at least annually.

(c) Customer relationships

Customer relationships are recognised at cost, or if they were acquired in a business combination they are recognised at fair value at the acquisition date. These intangibles have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives of 5 to 15 years. The amortisation methods and estimated remaining useful lives are reviewed at least annually.

(d) Brands

Brands are recognised at cost, or if they were acquired in a business combination they are recognised at fair value at the acquisition date. Brands are classified into two categories: brands with a finite useful life and are carried at cost less accumulated amortisation (definite lives) and brands which have been assessed by management as an indefinite useful life intangible asset and not subject to amortisation.

The Mutlu brand has been assessed as an indefinite useful life intangible asset and is based on an analysis of relevant underlying factors confirming that there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the group. This assumption is further justified by the strong presence the brand has in Turkey and the rest of its international market place and management's intention to keep the Mutlu brand indefinitely.

Amortisation is charged to the income statement on a straight-line basis over the useful life of the asset of 25 years. The amortisation methods and estimated remaining useful lives are reviewed at least annually. The indefinite life intangible assets are tested for impairment annually. The assessment that the estimated useful lives of these assets are indefinite is reviewed at least annually.

Subsequent expenditure on acquired intangible assets is capitalised only when the cost meets the definition and recognition criteria of IAS 38 and the costs can be reliably measured.

(e) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3 - 5 years).

(f) Research and development

Research expenditure relating to gaining new technical knowledge and understanding is charged to the income statement when incurred. Development expenditure relating to the production of new or substantially improved products or processes is capitalised if the costs can be measured reliably, the products or processes are technically and commercially feasible, future economic benefits are probable, and the group intends to and has sufficient resources to complete development and to use or sell the asset. All remaining development expenditure is charged to the income statement. Cost includes expenditure on materials, direct labour and an allocated proportion of project overheads.

Amortisation of development costs recognised as assets are written off to the income statement over 3 - 5 years.

PROPERTY, PLANT AND EQUIPMENT

(a) Owned assets

Land and buildings comprise mainly factories and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives as follows:

Buildings	50 years
Plant, machinery and equipment	3 - 20 years
Vehicles and furniture and fittings	3 - 5 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Residual values and useful lives of all assets are reviewed, and adjusted if appropriate, on an annual basis. In addition, depreciation of an item of property, plant and equipment is to begin when it is available for use and ceases at the earlier of the date it is classified as held for sale or the date that it is derecognised upon disposal. Expenditure incurred on the construction of property, plant and equipment is capitalised within property, plant and equipment and depreciated once brought into use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income and expenses in the income statement.

(b) Assets held under finance leases

Assets leased in terms of finance lease agreements are capitalised. These are leases where a significant portion of the risk and rewards are taken up by the group. At commencement of the lease term, the lessee recognises finance lease assets and liabilities in the balance sheet at an amount equal to the fair value of the leased asset or if lower, the present value of the minimum lease payments. These assets are depreciated on the straight-line basis to their estimated residual value at rates considered appropriate to reduce book values over the shorter of the duration of the lease agreements or useful life of the assets. Finance costs are charged to the income statement over the period of the lease.

Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and the finance charge so as to achieve a constant rate on the finance balance outstanding.

(c) Spare parts and tooling

Spare parts are classified as plant and equipment rather than inventory when they meet the definition of property, plant and equipment. Tooling used in the production of a specific project is subjected to an economic analysis of contractual relations with the automaker/customer in order to determine which party has control over the tool. Tooling is capitalised as part of plant and equipment only when it meets the definition of an asset.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example, goodwill, are not subject to amortisation and are tested annually for impairment. The group periodically evaluates the carrying value of property, plant and equipment and intangible assets, when events and circumstances warrant such a review. The carrying value of an asset is considered to be impaired, when the recoverable amount of such an asset is less than its carrying value.

In that event, a loss is recognised based on the amount by which the carrying value exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less the costs of disposal.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

INVENTORY

Inventory is stated at the lower of cost or net realisable value, due account being taken of possible obsolescence. The cost of inventories is based on the first-in, first-out principle. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and appropriate share of production overheads based on normal operating capacity.

Borrowing costs are excluded as manufactured inventories and are not considered to be qualifying assets. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

CURRENT AND DEFERRED TAX

(a) Income tax expense

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. The charge for current tax is predominantly based on results for the year as adjusted for income that is exempt and expenses that are not deductible using tax rates that are applicable to the taxable income and includes any adjustments to tax payable in respect of prior years.

(b) Deferred tax assets and liabilities

Deferred income tax is recognised, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated annual financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

The provision of deferred tax assets and liabilities reflects the tax consequences that would follow from the expected recovery or settlement of the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The group recognises the estimated liability on all products still under warranty at the reporting date. This provision is calculated based on service histories. The group also estimates and recognises a liability for lead scrap collections on certain products sold regarding recycling obligations. The provision is calculated based on return rates.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

REVENUE AND OTHER INCOME

Revenue from contracts with customers

The group has initially applied IFRS 15 from 1 January 2018. The accounting policies for the group's main types of revenue are explained in note 1.2 D and note 28.3. The effect of initially applying IFRS 15 is described in note 28.1.

Dividends

Dividend income is recognised when the right to receive payment is established.

Interest

Interest income is recognised using the effective interest method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired).

Sundry and incidental income

The group generates incidental income in the form of sale of scrap such as off-cuts, rental income arising from short-term external rental of portions of owned warehouses, external management fees and other sundry items. These items are accounted for as other operating income and are not regarded as core revenue streams.

GOVERNMENT GRANTS AND SIMILAR INCENTIVES

The group qualifies for certain incentives and allowances mainly linked to investment stimulation and production output such as the Automotive Incentive Scheme (AIS), the Enterprise Investment Programme (EIP), the Productive Asset Allowance (PAA), the Automotive Production and Development Programme (APDP) and similar other foreign state incentives.

Government grants that compensate the group for the cost of an asset are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the group will comply with the conditions attached to the grants. The grants are amortised to the income statement as other operating income on a systematic basis over the useful life of the asset, or vehicle model life if shorter.

Grants are classified as non-current to the extent that they are long-term in nature.

Government grants that compensate the group for expenses incurred are recognised in the income statement as other operating income when there is reasonable assurance that they will be received and that the group will comply with the conditions attached to the grants. These are recognised over the period necessary to match them with the costs that they are intended to compensate. Grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

EARNINGS PER SHARE

Basic earnings per share is expressed in cents and is based on the net profit attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year, excluding ordinary shares purchased by the company (treasury shares).

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 (incentive shares).

Headline earnings is earnings as determined by IAS 33, excluding 'separately identifiable re-measurements' (as defined in SAICA Circular 2/2013), net of related tax (both current and deferred) and related non-controlling interest, other than re-measurements specifically included in headline earnings 'included re-measurements' (as defined in SAICA Circular 4/2018).

FINANCIAL INSTRUMENTS

(a) Recognition and initial measurement

Financial instruments, consisting of financial assets and financial liabilities, carried at the reporting date by the group include bank and cash, trade receivables, trade payables, borrowings, bank overdrafts and derivative instruments such as forward foreign exchange contracts. Trade receivables and trade payables exclude prepayments and certain statutory and employee-related payables for the purposes of financial instruments. Contract assets are also excluded as it does not represent an unconditional right to payment until goods are physically delivered.

Trade receivables are initially recognised when they are originated, in conjunction with IFRS 15. All other financial assets and liabilities are recognised on the balance sheet when the group and company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(b) Classification and subsequent measurement Financial Assets

Financial assets - Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

The group does not hold any debt or equity investments and therefore these items are not considered or dealt with further.

Assessing the SPPI criterion

In order for a financial asset to qualify for amortised cost or FVOCI it needs to give rise to cash flows that are 'solely payments of principal and interest' on the principal amount outstanding. This assessment is colloquially referred to as the SPPI test. It is performed at an instrument level.
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition

The trade receivables of the group only involve a single cash flow - the payment of the amount resulting from a transaction in the scope of IFRS 15, which is deemed to be the principal, as stated above. Therefore, the cash flows resulting from the receivables meet the SPPI test of payments of principal and interest despite the interest component being zero in most cases.

Bank and cash is short term in nature and interest income is earned on amounts deposited with the bank. The group recognises these balances at its contractual par amount. The bank balances involves one single cash flow which is the repayment of the principal plus interest accrued at the effective rate. Therefore, the cash flows resulting from these deposits meet the SPPI test of payments of principal and interest.

The contractual cash flows for trade receivables and bank and cash consists solely of principal and interest.

IFRS 9 'Business model' assessment
In addition to the results from the SPPI test, the classification is dependent on the business model under which the group holds the financial assets. An entity's business model for managing financial assets refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets or both.

A business model is typically observable through particular activities undertaken by an entity to achieve its objective, such as how its performance is evaluated, how its managers are remunerated and how its risks are managed, plus the frequency and magnitude of sales. For the purposes of the business model assessment, the group assessed financial assets at a higher level of aggregation. The group may have more than one business model for managing its financial instruments and therefore the assessment need not be determined at the reporting entity level.

Amortised cost business model
The group operates an amortised cost business model for financial assets other than derivatives. Trade and other receivables as well as bank and cash are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Our business model is to hold these assets in order to collect contractual cash flows, provided they pass the SPPI test mentioned above. The group manufactures and supplies automotive parts and batteries for the automotive industry. Receivables, arising from the revenue generated, are collected from customers and are based on the agreed contractual terms. This forms an integral component of working capital and credit risk management as well as cash generation for the group. In re-affirming our assessment we considered:

- the time value of money
- credit risk
- terms that limit the group's claim to cash flows
- liquidity risk
- administration costs and
- profit margins applied

The group's policy for trade receivables is therefore to hold the receivables to collect the contractual cash flows. Therefore they are classified at amortised cost.

The group also holds bank and cash deposits in order to collect the contractual cash flows. These are also classified as measured at amortised cost.

Amortised cost financial assets are subsequently measured using the effective interest method and are subject to the impairment requirements in IFRS 9. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Gains and losses are recognised in profit or loss when the instrument is derecognised or impaired.

Other business models
IFRS 9 requires financial assets to be measured at FVTPL if they are not held within either a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. A business model that results in measurement at FVTPL is, for example, one where the financial assets are held for trading. Another example is where the assets are managed on a fair value basis. In each case, the entity manages the financial assets with the objective of realising cash flows through the sale of the assets.

The group makes decisions based on the assets' fair values and manages the assets to realise those fair values. As consequence, the group's objective will typically result in active buying and selling.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. The group holds derivative financial instruments such as forward foreign exchange contracts. Derivatives fail the SPPI test. They include considerable leverage which is a non-SPPI feature. Therefore derivative financial instruments continue to be FVTPL.

On initial recognition, the group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. This was not applicable for the year.

Financial assets are classified as current assets if they are expected to be realised within 12 months of the reporting date.

Financial assets policy applicable before 1 January 2018
There has been no real change in the recognition and measurement of financial assets from the previous policy under IAS 39. Refer to note 28.2 for further details. There has been changes in the calculation of trade receivable provisions (impairments) which is discussed further below.

Previously the group classified its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depended on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are 'financial assets held for trading'. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as 'held for trading'. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date. Financial assets carried at fair value through profit or loss are measured at fair value and transaction costs are expensed in the income statement. Gains or losses arising from changes in the fair value, including interest and dividend income, are presented in the income statement within 'other operating income and expenses' in the period in which they arise.

Loans and receivables
Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (refer note 12), 'short-term loans - subsidiaries' (refer note 9) and 'cash and cash equivalents' (refer note 14). Loans and receivables are carried at amortised cost using the effective interest method.

Financial liabilities

The only change introduced by IFRS 9 in respect of financial liabilities is related to liabilities designated as at fair value through profit or loss (FVTPL) using the fair value option. This is not applicable to the group. The previous policies, as described below, are still applicable.

Financial liabilities are recognised on the transaction date when the group becomes a party to the contract and thus has a contractual obligation and are derecognised when these contractual obligations are discharged, cancelled or expired.

The group classifies its financial liabilities as either at fair value through profit or loss (predominantly derivatives) and amortised cost.

Financial liabilities are stated initially on the transaction date at fair value including transaction costs. Subsequently, they are stated at amortised cost using the effective interest method, other than those designated at fair value through profit or loss. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Fair value estimation

The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date. The nominal value less estimated credit adjustments of trade receivables is assumed to approximate their fair values. There were no changes to previous fair value estimations as made under IAS 39.

Impairment of financial assets

Policy applicable from 1 January 2018

The group recognises loss allowances for ECLs on financial assets at amortised cost. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. See accounting policy on trade receivables for further information. Loss allowances for advances to subsidiaries are calculated using a probability weighted basis for lifetime ECLs.

Policy applicable before 1 January 2018

An assessment was performed at each reporting date to determine whether objective evidence exists that a non-derivative financial asset is impaired. Objective evidence that financial instruments are impaired includes indications of a debtor or group of debtors experiencing significant financial difficulty, default or delinquency of payments, the probability of a debtor entering bankruptcy, or other observable data indicating a measurable decrease in estimated future cash flows, such as economic conditions that correlate with defaults. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are charged to the income statement and are included in the allowance against loans and receivables. When a subsequent event causes the impairment loss to decrease, the impairment loss is reversed in the income statement. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery.

(c) Derivative financial instruments and hedging activities

All derivative financial instruments are initially recognised at fair value and are subsequently stated at fair value at the reporting date. Attributable transaction costs are recognised in the income statement when incurred. Resulting gains or losses on derivative instruments, excluding designated and effective hedging instruments, are recognised in the income statement within other operating income. The group does not hold or issue derivative financial instruments for dealing purposes.

The group is exposed to market risks from changes in interest rates, foreign exchange rates and commodity prices. The group uses derivative instruments to hedge its exposure to these risks.

The group predominantly uses forward foreign exchange contracts (FECs) to limit risk in changes in foreign exchange rates. To the extent that a derivative instrument has a maturity period of longer than one year, the fair value of these instruments will be reflected as a non-current asset or liability.

The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Hedge accounting is optional and the group does not apply hedge accounting unless in situations in acquisition of significant foreign operations. Hedge accounting is therefore not discussed further.

When derivative instruments, including forward exchange contracts, are entered into as fair value hedges, no hedge accounting is applied (held for trading). All gains and losses on fair value hedges are recognised in the income statement.

The fair values of derivative instruments used for hedging purposes are disclosed in note 19.5.

TRADE RECEIVABLES

Trade receivables are recognised at the transaction price as measured and defined in IFRS 15, Revenue from contracts with customers and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

From 1 January 2018 the group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires lifetime credit losses to be recognised from initial recognition of all receivables and contract assets. This is discussed in further detail in note 19.2 B – credit risk management.

Impairments prior to 1 January 2018 (IAS 39)

A provision for impairment of trade receivables was established when there is objective evidence that the group will not collect the amount as per the original terms of receivables. The amount of the provision is the difference between the asset's carrying value and the present value of future cash flows, discounted at the original effective interest rate. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is recognised in the income statement. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at carrying value, measured at amortised cost.

Cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term, highly liquid investments with original maturities of three months or less, all of which are available for use by the group unless otherwise stated.

Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing. Borrowing costs are expensed unless capitalised as part of the cost of a qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Preference shares, which are mandatorily redeemable on a specific date, or at the option of the shareholders, or if dividend payments are not discretionary are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

EMPLOYEE BENEFITS

Remuneration of employees is charged to the income statement. Short-term employee benefits are those that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the services have been rendered. Short-term employee benefit obligations are measured on an undiscounted basis and are charged to the income statement as the related service is provided.

Long-term employee benefits are those benefits that are expected to be wholly settled more than 12 months after the end of the annual reporting period in which the services have been rendered and are discounted to their present value. An accrual is recognised for accumulated leave, incentive bonuses and other employee benefits when the group has a present legal or constructive obligation as a result of past service provided by the employee, and a reliable estimate of the amount can be made.

Retirement benefits

The group operates a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The plans are generally funded by payments from employees and by the relevant group companies taking account of the recommendations of independent qualified actuaries.

The group also has an obligation in respect of its operations in Turkey which requires mandatory lump sum payments similar to that of a defined benefit pension plan. Defined benefit plans require a liability to be recognised in the balance sheet at the present value of the expected obligation at reporting date. There are no plan assets.

(a) Defined contribution pension plans

For defined contribution pension plans, the group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Defined benefit (post-employment) medical aid benefits

Some group companies provided post-employment health care benefits to their retirees until 31 December 1996. Employees who joined the group after 1 January 1997 do not receive this benefit. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and electing to participate in the scheme. Valuations of these obligations are carried out by independent qualified actuaries.

The liability recognised in the balance sheet is the present value of the defined benefit obligation at the reporting date. The plans are unfunded.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability. The discount rate used is interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation. In South Africa there is no deep and liquid market in such bonds and therefore the market rates on government bonds are used. For Turkey, the rates approved by Capital Markets Board are used.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the statement of comprehensive income as re-measurements, in the period in which they arise. Past-service costs are recognised immediately in the income statement.

(c) Other post-employment benefits

In accordance with the existing Turkish social legislation, the group is required to make lump sum payments to current employees (employed in Mutlu) whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

The expected costs of these benefits are accrued on a systematic basis over the expected remaining period of employment, using the accounting methodology described in respect of defined benefit plans above. Valuations of these are carried out by independent qualified actuaries. The obligation is discounted by using the market rate on government bonds or rates approved by the Capital Markets Board of Turkey.

(d) Long service

The group pays its employees a long service benefit after a specified period of continuous service. The benefit is paid in the month the employee reaches the milestone. The method of accounting and frequency of valuation are similar to those under the defined schemes. The actuarial valuation to determine the liability is performed annually.

(e) Bonus plans

The group recognises a liability and an expense for bonuses and similar items based on a formula that takes into consideration, among others, the profit attributable after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Accounting **policies** (continued)

(f) Share-based payment transactions

The group operates an equity-settled share-based payment compensation plan. The fair value of share options, share appreciation rights, bonus shares and performance shares granted to group directors and senior executives are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and expensed over the period during which the employee becomes unconditionally entitled to the equity instruments. The fair value of the instruments granted is measured using generally accepted valuation techniques, taking into account the terms and conditions upon which the instruments are granted excluding the impact of non-market vesting conditions.

Fair value is measured using the Black Scholes, Binomial tree and Monte-Carlo option pricing models where applicable. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of behavioural considerations such as volatility, dividend yield and the vesting period. The fair value takes into account the terms and conditions on which these incentives are granted and the extent to which the employees have rendered service to the reporting date.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, for equity-settled share-based payments, in the income statement, with a corresponding adjustment to equity.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value of equity instruments granted, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts. The group's net vesting impact on the vesting of share-based payment obligations are transferred to retained earnings within the statement of changes in equity.

INVESTMENT TAX CREDITS (ITC)

The group uses the 'flow-through' method under which the tax benefit from an ITC is recorded immediately as a reduction in current income tax expense (income tax credit) in the period that the credit is generated. The amount recognised is the actual tax reduction, indicated by the tax authorities, which is deducted from corporate tax calculated at reporting date.

If there are significant ongoing performance obligations or a less than probable likelihood of not committing to a project objective or outlay, the 'deferral' method, under which the tax benefit from an ITC is deferred and amortised within income tax provision over the lesser of the project or asset useful life, is applied.

STATED CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where a group company purchases the company's equity stated 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, reissued or disposed of. Where such shares are subsequently sold or 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.

Dividends received on treasury shares are eliminated on consolidation.

TOOLING DEBTORS AND CREDITORS

The group also facilitates tooling arrangements in terms of which it sources and overseas the manufacture of certain moulds on behalf of its customers.

Deposits received from customers for tooling arrangements are recorded as contract liabilities under IFRS 15 (previously tooling creditors). Prepayments paid to suppliers for tooling arrangements are recorded as tooling debtors or prepayments.

DIVIDENDS PAYABLE

Dividend distribution to the company's shareholders is recognised as a liability in the annual financial statements in the period in which the dividends are approved by the company in a general meeting or by the board.

DIVIDENDS WITHHOLDING TAX

Dividends withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012. The group withholds dividends tax on behalf of its shareholders at a rate of 20% on dividends declared. Amounts withheld are not recognised as part of the group's tax charge but rather as part of the dividend paid recognised directly in equity. Where withholding tax is withheld on dividends received, the dividend is recognised at the gross amount with the related withholdings tax recognised as part of tax expense unless it is otherwise reimbursable in which case it is recognised as an asset.

SEGMENT REPORTING

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose results are reviewed by the executive decision-makers to allocate resources and to assess its performance.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that makes strategic decisions. The operating activities of the group (predominantly automotive) are structured according to the markets served – energy storage and automotive components. Reportable segments derive their sales from the manufacture of predominantly batteries and automotive parts.

COMPARATIVE FIGURES

Certain additional disclosure has been provided in respect of the current year. To the extent practicable, comparative information has also been provided.

Investments **in subsidiaries and associates**

	Type	Issued share capital 2018 R'000	Issued share capital 2017 R'000	Direct/ (indirect) interest 2018 %	Direct/ (indirect) interest 2017 %	Direct/ (indirect) cost of shares less impairment 2018 R'000	Direct/ (indirect) cost of shares less impairment 2017 R'000
SUBSIDIARIES							
Automotive components							
Smiths Manufacturing (Pty) Ltd	ordinary			(75.0)	(75.0)	(4 500)	(4 500)
Lumotech (Pty) Ltd	ordinary	1 200	1 200	(100.0)	(100.0)	(20 000)	(20 000)
Alfred Teves Brake Systems (Pty) Ltd	ordinary	15	15	(100.0)	(100.0)	(15)	(15)
Smiths Plastics (Pty) Ltd	ordinary			(100.0)	(100.0)	(28 194)	(28 194)
Unitrade 745 (Pty) Ltd	ordinary			(100.0)	(100.0)		
Smiths Electric Motors (Pty) Ltd	ordinary			(75.0)	(75.0)		
Automould (Pty) Ltd	ordinary	2	2	(100.0)	(100.0)	(25 477)	(25 477)
Energy storage							
Metindustrial (Pty) Ltd	ordinary	500	500	(100.0)	(100.0)		
Rombat SA**	ordinary	76 010	76 010	(99.4)	(99.4)	(437 393)	(437 393)
Mutlu Akü ve Malzemeleri Sanayii Anonim Şirketi***	ordinary			(100.0)	(100.0)		
Dynamic Batteries~	ordinary	2	2	(100.0)	(100.0)	(31 000)	(31 000)
First National Battery Retail (Pty) Ltd	ordinary			(100.0)	(100.0)		
Tlangi Investments (Pty) Ltd	ordinary			(100.0)	(100.0)		
Intermediate holding and management services							
Inalex (Pty) Ltd	ordinary	493 695	493 695	100.0	100.0	493 695	493 695
Nikisize (Pty) Ltd	ordinary	52 695	52 695	(100.0)	(100.0)	(52 695)	(52 695)
Metair Management Services (Pty) Ltd	ordinary			(100.0)	(100.0)		
Business Venture Investments No 1217 (Pty) Ltd	ordinary			(100.0)	(100.0)		
Metair International Cooperatief U.A.*	ordinary	3 473 549	3 473 549	(100.0)	(100.0)	(3 473 548)	(3 473 548)
Metair Energy Solutions B.V*	ordinary			(100.0)	(100.0)	(138 764)	(138 764)
Metair Akü Holding Anonim Şirketi***	ordinary	2 749 500	2 749 500	(100.0)	(100.0)	(2 987 107)	(2 987 107)
Properties							
SMSA Property (Pty) Ltd	ordinary	3 000	3 000	(75.0)	(75.0)		
Honeypenny (Pty) Ltd	ordinary			(100.0)	(100.0)	(6 850)	(6 850)
Climate Control Properties (Pty) Ltd	ordinary	2	2	(100.0)	(100.0)	(2)	(2)
Direct interest						493 695	493 695
Indirect interest						(7 205 545)	(7 205 545)

Investments **in subsidiaries and associates** (continued)

	Type	Issued share capital 2018 R'000	Issued share capital 2017 R'000	Direct/ (indirect) interest 2018 %	Direct/ (indirect) interest 2017 %	Direct/ (indirect) cost of shares less impairment 2018 R'000	Direct/ (indirect) cost of shares less impairment 2017 R'000
ASSOCIATES							
Hesto Harnesses (Pty) Ltd	ordinary	1	1	(74.9)	(74.9)	(1)	(1)
Associated Battery Manufacturers (East Africa) Ltd`	ordinary	953	953	(25.0)	(25.0)	(121 986)	(121 986)
Akkumulatorenfabrik MOLL GmbH + Co.KG``	fixed capital			(25.1)	(25.1)	(117 806)	(117 806)
MOLL Grundstucks- und Vermogensverwaltungs GmbH + Co. KG``	fixed capital			(25.1)	(25.1)	(26 496)	(26 496)
Tenneco Automotive Holdings SA (Pty) Ltd	ordinary	1 233	1 233	25.1	25.1		
Valeo Systems South Africa (Pty) Ltd	ordinary	1	1	49.0	49.0	2 793	2 793
Prime Motors Industry Srl```	ordinary			(35.0)		(16 061)	
Vizirama 112 (Pty) Ltd	ordinary			33.0	33.0		
Eye2square Innovations (Pty) Ltd	ordinary			(25.0)	(25.0)		
Direct interest						2 793	2 793
Indirect interest						(282 350)	(266 289)

All subsidiaries and associates are incorporated in South Africa except for:

* Metair International Cooperatief U.A. and Metair Energy Solutions B.V - Netherlands

** Rombat SA - Romania

*** Mutlu group is incorporated in Turkey and consists of the following:

- Metair Akü Holding Anonim Şirketi
- Mutlu Holding Anonim Şirketi
- Mutlu Akü ve Malzemeleri Sanayii Anonim Şirketi (Mutlu Akü)
- Mutlu Plastik ve Ambalaji Sanayi Anonim Şirketi (Plastik)
- Metropol Motorlu Tasitlar Kiralama Anonim Şirketi (Metropol)

~ Dynamic Batteries - United Kingdom

` Associated Battery Manufacturers (East Africa) Limited - Kenya

`` MOLL group are registered partnerships in Germany and consists of the following entities:

- Akkumulatorenfabrik MOLL GmbH & Co. KG
- MOLL Grundstucks- und Vermogensverwaltungs GmbH & Co. KG
- MOLL Beteiligungsgesellschaft GmbH
- MOLL Grundbesitz GmbH

``` Prime Motors Industry Srl - Romania
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Amounts owing by/(to) subsidiaries before impairment:	2018 R'000	2017 R'000
Metair Management Services (Pty) Ltd	279 466	438 827
Inalex (Pty) Ltd	1 486 307	1 486 307
Lumotech (Pty) Ltd		57 983
Smiths Plastics (Pty) Ltd	167 451	167 451
Business Venture Investments 1217 (Pty) Ltd	(178 262)	(234 626)
	1 754 962	1 915 942

METAIR INVESTMENTS LIMITED

(Incorporated in the Republic of South Africa)
(Registration Number 1948/031013/06)
JSE share code: MTA
ISIN: ZAE000090692
(Metair' or the 'company)

NOTICE TO SHAREHOLDERS

Notice is hereby given that the annual general meeting of the shareholders of Metair will be held at the JSE Limited, One Exchange Square, Gwen Lane, Sandown, Johannesburg, on Thursday, 2 May 2019, at 14h00 (annual general meeting) for the following purposes:

ORDINARY BUSINESS

1. Presentation of annual financial statements

To present the audited annual financial statements, which include the directors' report and the audit and risk committee (committee) report, for the year ended 31 December 2018, as approved by the board of directors of the company (directors) (board) in terms of section 30(3) of the Companies Act, No. 71 of 2008 (as amended) (Companies Act), incorporating the auditor's report.

2. Social and ethics committee report

To receive a report by the social and ethics committee on the matters within its mandate.

To consider, and, if deemed fit pass, with or without modification, the ordinary resolutions set out below:

3. Retirement, re-election and election of directors

It is recorded that Mr JG Best retires as an independent non-executive director of the company in terms of the provisions of the company's Memorandum of Incorporation (MOI) and does not offer himself for re-election and will retire as a director of the company at the annual general meeting.

3.1 Ordinary resolution number 1

Resolved that Ms HG Motau, who retires in terms of the provisions of the company's MOI, but, being eligible and has offered herself for re-election (refer to page 16 of the integrated annual report for a brief curriculum vitae of Ms Motau), be and is hereby re-appointed as a director of the company.

3.2 Ordinary resolution number 2

Resolved that the appointment of Mr CMD Flemming, as an independent non-executive director, with effect from 1 March 2019 and chairman of the audit and risk committee, with effect from the conclusion of the annual general meeting (refer to page 17 of the integrated annual report for a brief curriculum vitae of Mr Flemming), be and is hereby confirmed as a director of the company.

3.3 Ordinary resolution number 3

Resolved that the appointment of Mr S Sithole, as an independent non-executive director with effect from 1 March 2019 (refer to page 17 of the integrated annual report for a brief curriculum vitae of Mr Sithole, be and is hereby confirmed as a director of the company.

3.4 Ordinary resolution number 4

Resolved that the appointment of Mr TP Moeketsi, as an independent non-executive director with effect from 1 March 2019 (refer to page 17 of the integrated annual report for a brief curriculum vitae of Mr Moeketsi), be and is hereby confirmed as a director of the company.

4. Reappointment of independent auditors

4.1 Ordinary resolution number 5

Resolved that PricewaterhouseCoopers Inc., with the designated audit partner being Mr L de Wet, be and are hereby appointed as the independent auditors of the company for the ensuing year as recommended by the audit and risk committee.

5. Election and re-election of committee members

5.1 Ordinary resolution number 6

Resolved that, subject to their applicable appointments and re-appointments as directors in terms of the resolutions proposed above, the members of the committee as set out below be, and are hereby appointed in accordance with the provisions of section 94 of the Companies Act for the period commencing on the date of their appointment or re-appointment and enduring until the next annual general meeting of the company.

Resolved that the nominees to the committee, as proposed by the board, be and are hereby elected and re-elected:

(i) Mr CMD Flemming, as chairman of the committee;
(ii) Ms HG Motau, as a member of the committee; and
(iii) Mr B Mawasha, as a member of the committee, each of whom are independent non-executive directors of the company.

Refer to pages 16 and 17 of the integrated annual report for brief curricula vitae of the nominees.

6. Ordinary resolution number 7

a. Resolved as a non-binding ordinary resolution that the company's remuneration policy, as set out in the remuneration report contained in the integrated annual report (refer to page 94 of the integrated annual report) be and is hereby approved through a non-binding advisory vote.
b. Resolved as a non-binding ordinary resolution that the company's remuneration implementation report, as set out in the remuneration report contained in the integrated annual report (refer to page 99 of the integrated annual report) be and is hereby approved through a non-binding advisory vote.

The reason for the above resolutions being proposed through a non-binding advisory vote is because of it being recommended practices in terms of the King IV Report on Governance for South Africa, 2016 (King IV) and a requirement of the

Listings Requirements of the JSE Limited (JSE) (JSE Listings Requirements), which is in line with sound corporate governance.

The non-binding resolutions are of an advisory nature only and failure to pass these resolutions will therefore not have any legal or other consequences relating to existing arrangements. However, the board will take the outcome of the vote into consideration when considering future implementation of the company's remuneration report.

Shareholders are reminded that in terms of King IV and the Listings Requirements, should 25% or more of the voting rights exercised be against one or both of these non-binding ordinary resolutions, the company undertakes to engage with such shareholders as to the reasons therefor, and undertakes to make recommendations based on the feedback received.

SPECIAL BUSINESS

To consider, and, if deemed fit, to pass, with or without modification, the special resolutions set out below:

Special resolution number 1

Resolved as a special resolution in terms of section 66(9) of the Companies Act, that the remuneration of the non-executive directors with effect from 1 January 2019 to 31 December 2019 (refer to page 108 of the integrated annual report) be and is hereby approved.

The reason for and effect of special resolution number 1 is to approve, to the extent required, the remuneration for non-executive directors for the period commencing 1 January 2019 and ending 31 December 2019.

Special resolution number 2

Resolved as a special resolution in accordance with section 45 of the Companies Act, that the board be and is hereby authorised, by way of a general authority to, at any time and from time to time during the period of two years commencing on the date of passing of this special resolution to provide, any direct or indirect financial assistance limited to related and inter-related companies which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share), (but subject to the provisions of the MOI and section 45(1) of the Companies Act) in such amount and in any form including, but not limited to, by way of loan (on an interest-free or a market-related interest basis), guarantee, the provision of security or otherwise) to any of its present or future subsidiaries and/or any juristic person that the company directly or indirectly controls from time to time (collectively hereinafter referred to as the 'Metair Group) and being on such terms and conditions as the board in its discretion deems fit, for any purpose whether in the normal course of business of the Metair Group or of a transactional nature, subject thereto that the board will, before making such financial assistance available, satisfy itself that:

(i) immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test as prescribed in section 4 of the Companies Act; and
(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

The effect of the special resolution and the reason therefor is that such special resolution is required in terms of section 45 of the Companies Act to grant the directors the authority to allow the company to provide financial assistance by way of loan, guarantee, the provision of security or otherwise, to any company which is related or inter-related to the company or any other juristic person that the company directly or indirectly controls.

This special resolution does not authorise Metair to provide financial assistance to a director or prescribed officer of the company.

In accordance with section 45(5) of the Companies Act, the board hereby gives notice to its shareholders of the fact that no financial assistance has been provided to subsidiaries during the 2018 financial year.

Special resolution number 3

Resolved as a special resolution in accordance with section 44 of the Companies Act, that the board be and is hereby authorised, by way of a general authority to, at any time and from time to time during the period of two years commencing on the date of passing of this special resolution to provide, any direct or indirect financial assistance to any related or inter-related companies in which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share) for the purpose of or in connection with the subscription of any option, or any securities, issued or to be issued by Metair or any related or inter-related companies in which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share) or for the purchase of any securities in Metair or any related or inter-related companies in which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share), (but subject to the provisions of the MOI and section 44 of the Companies Act) in such amount and in any form (including, but not limited to, by way of loan (on an interest-free or a market-related interest basis), guarantee, the provision of security or otherwise) whether in the normal course of business or of a transactional nature, subject thereto that the board will, before making such financial assistance available, satisfy itself that:

(i) immediately after providing the financial assistance, Metair will satisfy the solvency and liquidity test as prescribed in section 4 of the Companies Act; and
(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to Metair.

The effect of the special resolution and the reason therefor is that such special resolution is required in terms of section 44 of the Companies Act to grant the directors the authority to allow Metair to provide financial assistance by way of loan, guarantee, the provision of security or otherwise, to any related or inter-related company in which Metair, directly or indirectly, holds a controlling interest for the purpose of or in connection with the subscription of any option, or any securities, issued or to be issued by Metair or any related or inter-related company which Metair, directly or indirectly, holds a controlling interest, or for the purchase of any securities in Metair or any related or inter-related company in which Metair, directly or indirectly, holds a controlling interest.

Furthermore, this special resolution specifically makes provision for Metair to provide financial assistance in respect of the issuance of preference shares by members of the Metair group, as part of the group's tax efficient funding strategy.

The special resolution does not authorise Metair to provide financial assistance to a director or prescribed officer of Metair.

Special resolution number 4

Resolved as a special resolution in terms of the Companies Act and the JSE Listings Requirements, that the authorisation granted to the company in terms of Article 13 of its MOI to acquire the company's own securities by way of a general approval, upon such terms and conditions and in such amounts as the directors may from time to time decide, subject only to the provisions of the Companies Act and the JSE Listings Requirements, be and is hereby approved, subject to the following terms and conditions:

(i) any repurchase of securities must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and any counterparty;
(ii) this general authority shall be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
(iii) repurchases may not be made at a price greater than 10% above the weighted average of the market value of the securities for the five business days immediately preceding the date on which the repurchase will be effected;
(iv) at any point in time, the company may only appoint one agent to effect repurchases on the company's behalf;
(v) an announcement shall be published as soon as the company has cumulatively repurchased 3% of the initial number (being the number of that class of shares in issue at the time that the general authority was granted) of the relevant class of securities and for each 3% in aggregate of the initial number of that class acquired thereafter, containing the details as required by paragraph 11.27 of the JSE Listings Requirements;
(vi) repurchases shall not, in the aggregate, in any one financial year exceed 5% of the company's issued share capital of that class;
(vii) acquisitions by the subsidiaries of the company may not result in a subsidiary, together with all other subsidiaries of the company holding more than 10% of the relevant class of the issued share capital of the company from time to time;
(viii) repurchases may not be made by the company and/or its subsidiaries during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed to the JSE prior to the prohibited period;
With regard to the above, the company must instruct an independent third party, which makes its investment decisions in relation to the company's securities independently of, and uninfluenced by, the company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;
(ix) the intention of the board is that the repurchase of the company's securities will be effected within the parameters laid down by this resolution as well as by the Companies Act, the JSE Listings Requirements and the board, as and when the directors of the company deem such repurchases to be appropriate, having regard for prevailing market and business conditions; and
(x) the directors will ensure that the requisite prior resolution of the board has been taken authorising such repurchases, confirming that the company and its subsidiaries engaged in such repurchases have passed the solvency and liquidity test envisaged in section 4 of the Companies Act and confirming that, since such tests were performed, there have been no material changes to the financial position of the Metair Group.

The directors shall not make any repurchases under this general authority unless they are of the opinion that, after considering the effect of the maximum number of shares to be repurchased and for a period of 12 months after the date of the notice of the annual general meeting:

a. the company and the Metair Group will be able, in the ordinary course of business, to pay their debts;
b. the assets of the company and the Metair Group will be in excess of the liabilities of the company and the Metair Group, the assets and liabilities being recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements;
c. the share capital and reserves of the company and the Metair Group are adequate for the ordinary business purposes of the company and the Metair Group; and
d. the working capital of the company and the Metair Group will be adequate for ordinary business purposes.

The effect of the special resolution and the reason therefore is to renew the general authority given to the directors in terms of the Companies Act, the MOI and the JSE Listings Requirements for the acquisition by the company and/or its subsidiaries of the company's securities, which authority may be used at the directors' discretion during the course of the period authorised.

Additional Disclosure

In terms of the JSE Listings Requirements, the following disclosures are required with reference to the general authority to repurchase its own securities by the company and/or its subsidiaries set out in special resolution number 4, some of which are set out in the integrated annual report of which this notice forms part.

Major shareholders of the company – refer to page 109 of the integrated annual report.

Share capital – refer to page 195 of the integrated annual report.

Directors' responsibility statement

The directors, whose names are given on page 132 of the integrated annual report, collectively and individually, accept

full responsibility for the accuracy of the information pertaining to the above special resolution number 4 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 aforementioned special resolution contains all the information required by law and the JSE Listings Requirements.

Material change

Other than the facts and developments reported on in the integrated annual report, there have been no material changes in the financial or trading position of the Metair Group since the date of signature of the integrated annual report and the posting date hereof.

PERCENTAGE OF VOTING RIGHTS REQUIRED FOR RESOLUTIONS

Special resolutions

The percentage of voting rights that will be required for the adoption of each special resolution is at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting in order to be adopted.

Ordinary resolutions

The percentage of voting rights that will be required for the adoption of each ordinary resolution is 50% plus one of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting in order to be adopted.

NOTICE RECORD DATE, VOTING RECORD DATE AND FORMS OF PROXY

This notice of the company's annual general meeting has been sent to its shareholders who were recorded as such in the company's securities register on Friday, 8 March 2019, being the notice record date used to determine which shareholders are entitled to receive notice of the annual general meeting.

The record date on which shareholders of the company must be registered as such in the company's securities register in order to attend and vote at the annual general meeting is Thursday, 18 April 2019, being the voting record date used to determine which shareholders are entitled to attend and vote at the annual general meeting. The last day to trade in order to be entitled to vote at the annual general meeting will therefore be Monday, 15 April 2019.

In terms of section 63(1) of the Companies Act, any person attending or participating in the annual general meeting must present reasonably satisfactory identification and the person presiding at the meeting must be reasonably satisfied that the right of any person to participate in and vote (whether as shareholder or as proxy for a shareholder) has been reasonably verified.

Duly completed proxy forms must be received by the company at its registered office or by The Meeting Specialist (Pty) Ltd (JSE Building, One Exchange Square, Gwen Lane, Sandown, 2196 or at PO Box 62043, Marshalltown, 2107 or via email at proxy@tmsmeetings.co.za) by no later than Monday, 29 April 2019 at 14h00. Any forms of proxy not lodged at this time must be handed to the chairman of the annual general meeting immediately prior to the annual general meeting.

The attention of shareholders is directed to the additional notes contained in the form of proxy.

ELECTRONIC PARTICIPATION

Shareholders or their proxies may participate in (but not vote at) the annual general meeting by way of telephone conference call. If they wish to do so they:

- must contact the company secretary (by email at the address sanet@metair.co.za) by no later than Monday, 29 April 2019 in order to obtain a pin number and dial-in details for that conference call;
- will be required to provide reasonably satisfactory identification; and
- will be billed separately by their own telephone service providers for their telephone call to participate in the meeting.

Shareholders and their proxies will not be able to vote telephonically at the annual general meeting and will still need to appoint a proxy or representative to vote on their behalf at the meeting.

By order of the board

SM Vermaak
Company secretary

Johannesburg
13 March 2019

Registered office
Metair Investments Limited
Wesco House
10 Anerley Road
Parktown
Johannesburg

Shareholders' **diary**

Financial year-end	December
Annual general meeting	May

REPORTS AND PROFIT STATEMENTS

Interim report	August
Annual report and financial statements	March

ORDINARY DIVIDENDS

Declared	March
Payment	April

Shareholders are reminded to notify the transfer secretaries of any change in address.

Form of **proxy**

METAIR INVESTMENTS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 1948/031013/06)
JSE share code: MTA
ISIN: ZAE000090692
('Metair' or 'company')

Important note concerning this form of proxy

This form of proxy is only for the use by those shareholders of Metair who have not yet dematerialised their shares in Metair or who have dematerialised their shares in Metair and such dematerialised shares are recorded in the electronic sub-register of Metair Investments Limited in the shareholder's own name (entitled shareholders).

If either of the above situations is not applicable to you, you must not use this form. In such event, you must notify your duly appointed Central Securities Depository Participant (CSDP) or broker, as the case may be, in the manner stipulated in the agreement governing your relationship with your CSDP or broker, of your instructions as regards voting your shares at the annual general meeting.

A shareholder may be entitled to attend and vote at the meeting or may appoint one or more proxies of his/her own choice to attend, speak, and, on a poll, vote in his/her stead at the annual general meeting of the company to be held at 14h00 on Wednesday, 2 May 2018 at the JSE Limited, 1 Exchange Square, Gwen Lane, Sandown, Johannesburg. A proxy need not be a shareholder of the company.

I, ____
(name in block letters)
of (address) ____
____

being holder/s of ____________________ ordinary shares in the company, do hereby appoint:

1. ____________________________________ or failing him/her

2. ____________________________________ or failing him/her,

3. the chairman of the annual general meeting as my/our proxy to attend, speak and, on a poll, vote on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and at any adjournment thereof, and to vote for or against the resolutions or abstain from voting, in accordance with the following instructions:

Voting instruction:

Please indicate with an 'X' in the appropriate spaces how votes are to be cast	**In favour**	**Against**	**Abstain**
Presentation of financial statements	NON-VOTING AGENDA ITEM		
Social and ethics committee report	NON-VOTING AGENDA ITEM		
1. Re-election of Ms HG Motau as a director	☐	☐	☐
2. Appointment of Mr CMD Flemming as a director	☐	☐	☐
3. Appointment of Mr S Sithole as a director	☐	☐	☐
4. Appointment of Mr TP Moeketsi as a director	☐	☐	☐
5. Re-appointment of auditors			
6. Election of audit and risk committee members			
i) Election of Mr CMD Flemming as chairman of the audit and risk committee	☐	☐	☐
ii) Re-election of Ms HG Motau as member of the audit and risk committee	☐	☐	☐
iii) Re-election of Mr B Mawasha as member of the audit and risk committee	☐	☐	☐
7. a. Endorsement of the company's remuneration policy	☐	☐	☐
b. Endorsement of the company's implementation report	☐	☐	☐
Special business:			
Special resolution number 1: Approval of non-executive directors' remuneration	☐	☐	☐
Special resolution number 2: Provision of financial assistance in terms of Section 45 of the Companies Act	☐	☐	☐
Special resolution number 3: Provision of financial assistance in terms of Section 44 of the Companies Act	☐	☐	☐
Special resolution number 4: General authority to repurchase the company's securities	☐	☐	☐

Signed at ______________________ on ______________________ 2018.

Signature: ____

Assisted by me (where applicable) ____

This form of proxy should be lodged with or posted to the registered office of the company (Wesco House, 10 Anerley Road, Parktown, Johannesburg) or lodged with, posted or emailed to The Meeting Specialist (Pty) Ltd (JSE Building, One Exchange Square, Gwen Lane, Sandown, 2196 or at PO Box 62043, Marshalltown, 2107 or via email at proxy@tmsmeetings.co.za) by no later than Monday, 29 April 2019 at 14h00, or handed to the chairperson of the annual general meeting before the appointed proxy exercises any of the relevant shareholder rights at the annual general meeting.

Please read the notes on the reverse side hereof.

Notes **to the form of proxy**

An entitled shareholder may insert the name of a proxy or the names of two alternative proxies of the entitled shareholder's choice in the space(s) provided, with or without deleting 'the chairman of the general meeting' but any such deletion must be initialled by the entitled shareholder. The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

Please insert an 'x' in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the company, insert the number of ordinary shares held in respect of which you desire to vote. Failure to comply with the above 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 entitled shareholder's votes exercisable thereat. An entitled shareholder or his/her proxy is not obliged to use all the votes exercisable by the entitled shareholder or by his/her proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the entitled shareholder or by his/her proxy.

The completion and lodging of this form of proxy will not preclude the relevant entitled shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's Transfer Secretaries or waived by the chairman of the annual general meeting.

Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).

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 Transfer Secretaries of the company.

The chairman of the annual general meeting may reject or accept a form of proxy which is completed and/or received, other than in accordance with these instructions and notes, provided that he/she is satisfied as to the manner in which the entitled shareholder concerned wishes to vote.

Summary of rights contained in Section 58 of the Companies Act, No 71 of 2008, as amended (Companies Act)

In terms of section 58 of the Companies Act:

- a shareholder of a company may, at any time and in accordance with the provisions of section 58 of the Companies Act, appoint any individual (including an individual who is not a shareholder) as a proxy to participate in, and speak and vote at, a shareholders' meeting on behalf of such shareholder;
- irrespective of the form of instrument used to appoint a proxy, the appointment of a proxy is suspended at any time and to the extent that the relevant shareholder chooses to act directly and in person in the exercise of any of such shareholder's rights as a shareholder;
- any appointment by a shareholder of a proxy is revocable, unless the form of instrument used to appoint such proxy states otherwise; if an appointment of a proxy is revocable, a shareholder 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 relevant company;
- a proxy appointed by a shareholder is entitled to exercise, or abstain from exercising, any voting right of such shareholder without direction, except to the extent that the relevant company's memorandum of incorporation, or the instrument appointing the proxy, provides otherwise;
- if the instrument appointing a proxy has been delivered by a shareholder to a company, then, for so long as that appointment remains in effect, any notice that is required in terms of the Companies Act or such company's Memorandum of Incorporation to be delivered to a shareholder must be delivered by such company to:
  - the relevant shareholder; or
  - the proxy or proxies, if the relevant shareholder has:
  i) directed such company to do so, in writing, and
  ii) paid any reasonable fee charged by such company for doing so;
- if a company issues an invitation to its shareholders to appoint 1 (one) or more persons named by the company as a proxy, or supplies a form of proxy instrument:
  - the invitation must be sent to every shareholder entitled to notice of the meeting at which the proxy is intended to be exercised;
  - the invitation or form of proxy instrument supplied by the company must:
    - ° bear a reasonably prominent summary of the rights established in section 58 of the Companies Act;
    - ° contain adequate blank space, immediately preceding the name(s) of any person(s) named in it, to enable a shareholder to write the name and, if desired, an alternative name of a proxy chosen by the shareholder; and
    - ° provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour of or against any resolution(s) to be put at the meeting, or is to abstain from voting;
  - the company must not require that the proxy appointment be made irrevocable; and
  - the proxy appointment remains valid only until the end of the meeting at which it was intended to be used.

Contacts

COMPANY SECRETARY
Sanet Vermaak

REGISTRATION NUMBER
1948/031013/06

JSE SHARE CODE
MTA

ISIN
ZAE000090692

HEAD OFFICE AND PHYSICAL ADDRESS
Wesco House
10 Anerley Road
Parktown
2193

POSTAL ADDRESS
PO Box 2077
Saxonwold
2132

Further information on this report and its contents can be obtained from the company secretary:

Telephone: +27 11 646 3011

Fax: +27 11 646 3102

Email: sanet@metair.co.za

www.metair.co.za