



**ANNUAL FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 DECEMBER 2019

*good chemistry* 



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# AVAILABILITY OF DOCUMENTS

These annual financial statements are available electronically at <https://www.aeciworld.com/reports/ar-2019/pdf/full-afs.pdf>. The integrated annual report is also available on the Company's website (<https://www.aeciworld.com/reports/ar-2019/pdf/full-iar.pdf>) as is the Notice of Annual General Meeting of shareholders scheduled to be held on 26 May 2020 (<https://www.aeciworld.com/reports/ar-2019/pdf/agm-notice.pdf>). Stakeholders are advised that they are entitled to request printed copies of all or any of these documents by contacting the Group Company Secretary, in writing, as follows: EN Rapoo, Group Company Secretary, AECL Ltd, Private Bag X21, Gallo Manor, 2052; [nomini.rapoo@aeciworld.co.za](mailto:nomini.rapoo@aeciworld.co.za) or [groupcommunications@aeciworld.com](mailto:groupcommunications@aeciworld.com).

# DECLARATION BY THE GROUP COMPANY SECRETARY

I hereby confirm that AECL Ltd has lodged with the Registrar of Companies all such returns in respect of the year under review as are required of a public company in terms of the Companies Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up-to-date.



**Nomini Rapoo**

Group Company Secretary

Woodmead, Sandton

24 February 2020

# PREPARATION OF FINANCIAL STATEMENTS

The Group consolidated financial statements and the Company financial statements were published on 25 February 2020 and are for the year ended 31 December 2019. These comprise the Audit Committee's report to stakeholders, the Directors' report, the Declaration by the Group Company Secretary, the External Auditor's Report, the Basis of Reporting and Significant Accounting Policies, and the financial statements.

These financial statements have been audited as required by the Companies Act and their preparation was supervised by the Chief Financial Officer, Mr KM Kathan CA(SA), AMP (Harvard).

# AUDIT COMMITTEE'S REPORT TO STAKEHOLDERS

Dear stakeholders

**This report is provided by the Audit Committee (“the Committee”) appointed in respect of the 2019 financial year of AECI Ltd. This report incorporates the requirements of the Companies Act, other regulatory requirements and King IV principles. The Committee’s operation is guided by detailed terms of reference that are informed by the Companies Act and King IV and were approved by the Board.**

## MEMBERSHIP

The Committee was nominated by the Board in respect of the 2019 financial year and its members were confirmed by shareholders at the AGM held on 29 May 2019. Shareholders will be requested to confirm the appointment of the members of the Committee presenting themselves for re-election for the 2020 financial year at the AGM scheduled for 26 May 2020.

The Committee comprises solely Independent Non-executive Directors. Abridged biographies of these Directors are published at:

<https://www.aeciworld.com/about-leadership.php>

Members in the period were:

- › PG Sibiya  
(appointed Chairman on 28 October 2019)
- › FFT De Buck  
(appointed on 28 November 2019)
- › GW Dempster  
(resigned on 29 May 2019)
- › G Gomwe  
(Chairman until 28 October 2019)
- › AJ Morgan

The Chief Executive, the Chief Financial Officer, the Group Financial Manager, the External Auditor and Internal Audit attend by invitation, as does the Group Tax Manager as required.

Mr Morgan has served on the Committee since 2010. He has indicated his intention to resign from the Board and relinquish all related responsibilities at the upcoming AGM. The Committee thanks him for his service and guidance during his tenure.

Mr Gomwe joined the Committee in 2015 and served as Chairman from September 2017 to October 2019, when Ms Sibiya succeeded him. He remains a Committee member. Ms De Buck was appointed in November 2019.

## PURPOSE

The purpose of the Committee is to:

- › assist the Board in overseeing the quality and integrity of the Company’s integrated reporting process, specifically as it relates to the financial statements, and announcements in respect of the financial results, thereby enhancing the credibility of financial reporting and providing a channel for communication between the Board, the Internal and External Auditors and management;

- › ensure that an effective control environment in the AECI Group is maintained by supporting the Board in the discharge of its duties relating to the safeguarding of assets, the operation of adequate systems and controls, the integrity of financial statements and reporting and related risk management;
- › provide the Company’s Financial Director, the External Auditor and the Head of Internal Audit with unrestricted access to the Committee and its Chairman, as required, in relation to any matter falling within the remit of the Committee;
- › meet with the External Auditor, Senior Managers, Executives and Executive Directors as the Committee may elect;
- › review and recommend to the Company’s Board, for approval, the Company’s unaudited interim financial results for the half-year to 30 June;
- › review and recommend to the Company’s Board, for approval, the Company’s audited financial statements for the financial year to 31 December;
- › oversee the activities of, and ensure coordination between, the activities of the Internal and External Auditors;

Five meetings were held in the year. Dates and attendance were as follows:

DIRECTOR	22 FEB	22 MAY	16 JUL <sup>1</sup>	19 JUL	23 NOV
GW Dempster (resigned from the Committee on 29 May 2019)	✓	✓	–	–	–
MA Dytors*	✓	✓	✓	✓	✓
G Gomwe (Chairman until 28 October 2019)	✓	✓	✓	✓	✓
KM Kathan*	✓	✓	✓	✓	✓
AJ Morgan	✓	✓	✓	✓	✓
PG Sibiya (Chairman from 28 October 2019)	✓	✓	✓	✓	✓

<sup>1</sup> Special meeting.

\* By invitation.

- › perform duties that are assigned to it by the Companies Act and as governed by other legislative requirements, including the statutory Audit Committee functions required for some subsidiary companies;
- › receive and deal with any complaints concerning accounting practices, the Internal Audit function or the content and audit of financial statements or related matters;
- › conduct annual reviews of the Committee's work and terms of reference and make recommendations to the Board to ensure that the Committee operates at maximum effectiveness; and
- › assess the performance and effectiveness of the Committee and its members on a regular basis.

In addition, the Chairman of the Committee meets regularly with the Head of Internal Audit without the External Auditor, other Executive Board members or the Company's Financial Director being present.

## EXECUTION OF FUNCTIONS

The Committee executed its duties and responsibilities during the 2019 financial year in accordance with its terms of reference as they relate to the Group's accounting, internal auditing, internal control, and integrated reporting practices, specifically relating to the financial statements, and pursuant to the provisions of the JSE Listings Requirements.

During the year under review:

In respect of the External Auditor and the external audit, the Committee among other matters:

- › nominated Deloitte & Touche as the External Auditor to shareholders for appointment as auditor for the financial year ended 31 December 2019, and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor. The Committee confirms that the auditor is accredited by the JSE;
- › approved the external audit engagement letter, the audit plan and the budgeted audit fees payable to the External Auditor;
- › reviewed the audit, evaluated the effectiveness of the auditor, its independence and evaluated the External Auditor's internal quality control procedures;
- › obtained an annual written statement from the auditor that its independence was not impaired;
- › obtained assurance that no member of the external audit team was hired by the Company or its subsidiaries during the year;
- › obtained assurances from the External Auditor that adequate accounting records were being maintained by the Company and its subsidiaries;
- › applied a policy setting out the categories of non-audit services that the External Auditor may or may not provide, split between permitted, permissible and prohibited services;
- › approved all non-audit services with Deloitte & Touche from its appointment onwards;

- › considered whether any Reportable Irregularities were identified and reported by the External Auditor in terms of the Auditing Profession Act, No. 26 of 2005, and determined that there were none.

The Committee is satisfied with the quality of the external audit in relation to the audit quality indicators.

In respect of the financial statements, the Committee among other matters:

- › confirmed the going concern as the basis of preparation of the interim and annual financial statements;
- › reviewed compliance with the financial conditions of loan covenants and determined that the capital of the Company was adequate;
- › examined and reviewed the interim and annual financial statements, as well as all financial information disclosed to stakeholders, prior to submission to and approval by the Board;
- › ensured that the financial statements fairly present the financial position of the Company and of the Group as at the end of the financial year and the results of operations and cash flows for the financial year, and considered the basis on which the Company and the Group were determined to be going concerns;
- › considered accounting treatments, significant unusual transactions and accounting judgements;
- › considered the appropriateness of the Accounting Policies and adopted any changes thereto;
- › ensured that the Company has established appropriate financial reporting procedures, and that those procedures are operating effectively;
- › reviewed the External Auditor's audit report;
- › reviewed the representation letter relating to the Group financial statements, which was signed by management;
- › considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements; and
- › met separately with management, the External Auditor and the Head of Internal Audit.

In respect of internal control and Internal Audit, including ad hoc investigations, the Committee among other matters:

- › reviewed and approved the Internal Audit charter and annual audit plan and evaluated the independence, effectiveness and performance of the Internal Audit function and compliance with its charter;
- › considered the reports of the Internal Auditor and the External Auditor on the Group's systems of internal control including financial controls, business risk management and the maintenance of effective internal control systems;
- › received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof;

- › reviewed significant issues raised by the internal audit processes and the adequacy of corrective actions in response to significant internal audit findings; and
- › based on the above, the Committee formed the opinion that there were no material breakdowns in internal control, including financial controls, business risk management and maintenance of effective material control systems.

In respect of risk management and IT, the Committee, insofar as relevant to its functions:

- › considered the reports of Internal Audit and the External Auditor insofar as these were relevant to risk management and IT and could have an impact on financial controls, and ensured that the related management action plans were adequate;
- › reviewed the progress made by management on the IT general control environment, which has received significant attention, and agrees that this area is of critical importance to the Group and focus must be maintained to ensure delivery of the enhancements in this key area. This will enable reliance on general IT controls and a more efficient audit approach to be adopted by the External Auditor;
- › agreed that whilst a formal combined assurance model is not yet in place, embedding and strengthening the strategic and operational risk management environment is a key process to ensure that a solid foundation is laid for the development of a formal combined assurance model; and
- › reviewed and considered feedback from the Financial Review and Risk Committees' meetings, including those that related to risk management and IT.

In respect of legal and regulatory requirements to the extent that these may have an impact on the financial statements, the Committee:

- › monitored complaints received via the Group's whistle-blowing service, including complaints or concerns regarding accounting matters, Internal Audit, internal accounting controls, contents of the financial statements, potential violations of the law and questionable accounting or auditing matters; and
- › considered reports provided by management, Internal Audit and the External Auditor regarding compliance with legal and regulatory requirements.

In respect of the coordination of assurance activities, the Committee reviewed the plans and work outputs of the external and internal auditors and concluded that these were adequate to address all significant financial risks facing the business.

Considered the appropriateness of the experience and expertise of the Chief Financial Officer and Financial Director and his Finance team and concluded that these were appropriate.

Considered the appropriateness of the experience and expertise and the effectiveness of the Head of Internal Audit and concluded that both his experience and expertise were appropriate.

The Committee has noted the following additions to its duties in terms of the JSE Listings Requirements amendment that took effect on 2 December 2019, and will address fulfilment of these duties in its 2020 work plan: to consider all entities included in the consolidated Group IFRS financial statements, to ensure that it has access to all the financial information, to allow the Company to effectively prepare and report on the financial statements of the Group.

## CHANGE IN INTERNAL AUDIT MODEL

For the last number of years, the AECI Group's Internal Audit function operated as an in-house resource. The Audit Committee, assisted by the Executive Committee, reviewed this arrangement and concluded that a change to a co-sourcing model was appropriate.

The Group has diversified its geographic footprint extensively in recent years. This has resulted in a corresponding increase in complexity in governance matters such as auditing owing to differences in language, culture and regulatory requirements. As a consequence, the need for in-country specialist knowledge became evident. Accordingly, and at the conclusion of a detailed and rigorous process, PricewaterhouseCoopers ("PwC") was appointed as AECI's co-sourced Internal Audit partner, with effect from 1 October 2019. A core group of Internal Audit Managers remained with AECI and the balance of the team transferred to PwC.

## KEY AUDIT MATTER

The Committee noted the key audit matter set out in the External Auditor's Report, as follows:

- › the impairment assessment of goodwill amounts and indefinite life intangible assets that arose on the acquisition of Schirm GmbH and Much Asphalt (Pty) Ltd.

The Committee has considered and evaluated this matter and is satisfied that it is represented correctly.

## INDEPENDENCE OF THE EXTERNAL AUDITOR

The Committee is satisfied that Deloitte & Touche is independent of the Company and the Group after taking the following factors into account:

- › representations made by Deloitte & Touche to the Committee;
- › the Committee's review of the performance of the External Auditor and consequently nominated, for approval at the forthcoming AGM, Deloitte & Touche as the External Auditor for the 2020 financial year;
- › the auditor does not, except as External Auditor or in rendering permitted non-audit services, receive any remuneration or other benefits from the Company (please refer to "Non-Audit Service Fees" below, and the Company's Non-Audit Services Policy, in particular. This is available at <https://www.aeciworld.com/pdf/policies/non-audit-services-policy.pdf>;
- › this is Deloitte & Touche's second year of appointment as External Auditor;
- › the designated external audit partner has served for the same period; and
- › in accordance with the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

## NON-AUDIT SERVICE FEES

Deloitte & Touche was nominated as External Auditor by the Committee and appointed as External Auditor by shareholders at the AGM held on 29 May 2019.

Prior to appointment as External Auditor, Deloitte & Touche provided certain non-audit services to the Company. This work included a review of the Group's sustainability reporting, consulting services on the Group's innovation projects (the latter services were phased out in the first half of 2019), advisory services on government incentive programmes (which commenced prior to the appointment as External Auditor and in respect of which Deloitte & Touche no longer provides services) and sundry benchmarking and survey consulting. The auditor's independence was not impaired by this consultancy, advisory or other work undertaken.

All the service assignments still in progress at the time of Deloitte & Touche being appointed as External Auditor have now been completed. All services, other than those carried over and now complete, previously performed which could potentially have impaired the independence of Deloitte & Touche were transferred to other service providers. All new non-audit services performed by Deloitte & Touche during 2019 complied with the Company's Non-Audit Services Policy in terms of the type of service provided as well as the quantum thereof. The Committee, in line with this Policy, approved all non-audit services performed by Deloitte & Touche during the year. All non-audit services are pre-approved by Deloitte & Touche in accordance with their independence policy framework.

## ANNUAL FINANCIAL STATEMENTS

Following the review by the Committee of the annual financial statements of AECI Ltd for the year ended 31 December 2019, the Committee is of the view that in all material respects they comply with the relevant provisions of the Companies Act and IFRS and fairly present the Group and Company financial position at that date and the results of operations and cash flows for the year then ended.

Having met its obligations, the Committee recommended the annual financial statements for the year ended 31 December 2019 for approval to the AECI Board on 24 February 2020.

The Board has approved this report, which will be open for discussion at the forthcoming AGM.

On behalf of the Audit Committee



**Philisiwe Sibiya**

Chairman

Woodmead, Sandton

24 February 2020

# DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the consolidated and separate financial statements for the year ended 31 December 2019.

## NATURE OF BUSINESS

### PROFILE AND STRATEGY

AECI is a diversified Group of 16 companies. It has regional and international businesses in Africa, Europe, Asia's South Eastern region, North America, South America and Australia. Products and services are provided to a broad spectrum of customers in the mining, water treatment, plant and animal health, food and beverage, infrastructure and general industrial sectors.

The Group's strategy is to be the supplier of choice in the markets in which it operates and to continue to grow domestically as well as through ongoing expansion of its footprint within the geographies and markets served. In line with this strategy, businesses are managed in five growth pillars: Mining Solutions (AEL Intelligent Blasting, Experse and Senmin), Water & Process (ImproChem), Plant & Animal Health (Nulandis and Schirm), Food & Beverage (Lake Foods and Southern Canned Products), and Chemicals (Chemfit, Chemical Initiatives, ChemSystems, Industrial Oleochemical Products, Much Asphalt and SANS Technical Fibers). Included in this pillar is the Specialty Minerals South Africa joint venture.

These pillars are AECI's key operating segments.

AECI also has a property division, Acacia Real Estate. Its main activities are the management of the Company's leasing portfolio and the provision of services at the Umbogintwini Industrial Complex in KwaZulu-Natal. Together with Head Office support functions, including the treasury, Acacia Real Estate constitutes the Group's sixth reporting segment, namely Property & Corporate.

All business activities are underpinned by the Group's BIGGER values – of being Bold, Innovative, Going Green and being Engaged and Responsible.

## MINING SOLUTIONS

These businesses provide a mine-to-mineral solution for the mining sector internationally. The offering includes surfactants for explosives manufacture, commercial explosives, initiating systems and blasting services right through the value chain to chemicals for ore beneficiation and tailings treatment.

## WATER & PROCESS

ImproChem provides integrated water treatment and process chemicals, and equipment solutions, for a diverse range of applications in Africa. These include, inter alia, public and industrial water, desalination and utilities.

## PLANT & ANIMAL HEALTH

Nulandis manufactures and supplies an extensive range of crop protection products, plant nutrients and services for the agricultural sector in Africa.

Schirm, based in Germany, is a contract manufacturer of agrochemicals and fine chemicals with a European and US footprint. It is the premier provider of external agrochemical formulation services in Europe.

## FOOD & BEVERAGE

The businesses in this pillar supply ingredients and commodities to the dairy, beverage, wine, meat, bakery, health and nutrition industries.

The other main activity is the manufacture and distribution of a broad range of juice-based products and drinks, including formulated compounds, fruit concentrate blends and emulsions.

## CHEMICALS

AECI's Chemicals businesses supply chemical raw materials and related services for use across a broad spectrum of customers in the manufacturing, infrastructure and general industrial sectors, mainly in South Africa and in other Southern African countries. SANS Technical Fibers is based in the USA.

AECI was registered as a company in South Africa in 1924 and has been listed on the JSE since 1966. The Company reported a profit for the year ended 31 December 2019 of R1,3 billion after tax. At the end of 2019 its market capitalisation was R13 billion and it had 7 506 employees.

## INTERESTS OF DIRECTORS, THE DIRECTOR OF A MAJOR SUBSIDIARY, THE GROUP COMPANY SECRETARY AND PRESCRIBED OFFICERS IN ORDINARY SHARES

At 31 December 2019 the Directors, the Director of a major subsidiary (viz. AECI Mining Solutions Ltd), the Group Company Secretary and the Prescribed Officers had direct beneficial interests in the Company's ordinary share capital as set out on the facing page. None of their associates (as defined in terms of the JSE Listings Requirements) had any interests. No individual's direct beneficial interests changed between the end of the financial year and the publication of the annual financial statements on 25 February 2020 and none of them have any interests in the Company's preference shares.

No Non-executive Director has been granted options or shares. The Executive Directors, the Director of AECI Mining Solutions, the Group Company Secretary and the Prescribed Officers have been issued long-term incentive benefits as disclosed in note 31 to the financial statements.

## BORROWING POWERS

In terms of its MOI the Company has unlimited borrowing powers.

## INTERESTS IN ORDINARY SHARES

	2019 Direct	2019 Indirect	2018 Direct	2018 Indirect
<b>EXECUTIVE DIRECTORS</b>				
MA Dytor	105 097	—	83 291	—
KM Kathan	94 814	—	78 873	—
	<b>199 911</b>	<b>—</b>	<b>162 164</b>	<b>—</b>
<b>DIRECTOR OF AECI MINING SOLUTIONS LTD, A MAJOR SUBSIDIARY</b>				
EE Ludick	9 250	—	8 240	—
	<b>9 250</b>	<b>—</b>	<b>8 240</b>	<b>—</b>
Prescribed Officers				
MVK Matshitse *	—	—	13 364	—
DK Murray	10 487	—	5 639	—
DJ Mulqueeny	8 578	—	—	—
	<b>19 065</b>	<b>—</b>	<b>19 003</b>	<b>—</b>
<b>GROUP COMPANY SECRETARY</b>				
EN Rapoo	8 223	—	4 145	—
	<b>8 223</b>	<b>—</b>	<b>4 145</b>	<b>—</b>
	<b>236 449</b>	<b>—</b>	<b>193 552</b>	<b>—</b>

\* Retired on 31 January 2019.

### GOING CONCERN

The financial statements have been prepared using appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The Directors are of the opinion that the Company and its subsidiaries, joint ventures and associates have adequate resources to continue as going concerns in the foreseeable future.

### SHARE CAPITAL AND SHARE PREMIUM

The issued share capital of the Company is 121 829 083 listed ordinary shares of R1 each (2018: 121 829 083 shares), 10 117 951 unlisted redeemable convertible B ordinary shares of no par value (2018: 10 117 951 shares) and 3 000 000 listed 5,5% cumulative preference shares of R2 each (2018: 3 000 000 shares).

### STRATE

The dematerialisation of the Company's issued shares commenced in July 2001. Shares still in paper form are no longer good for delivery and will need to be dematerialised before participation in any transaction.

Shareholders may direct any enquiries in this regard to the Company's Transfer Secretaries on telephone number +27 (0) 861 100 950 in South Africa, or +44 (0) 870 889 3176 in the United Kingdom.

An interim ordinary cash dividend of 156 cents was declared on 23 July 2019 and was paid on 2 September 2019.

A final ordinary cash dividend of 414 cents was declared on 24 February 2020 and will be paid on 6 April 2020.

Preference share dividends were paid on 14 June 2019 and on 13 December 2019. See note 26 to the financial statements for details in this regard.

### CHANGES TO THE BOARD

The following changes in Non-executive Directors were announced during the year:

### RESIGNATIONS

- › Mr Graham Dempster, with effect from 30 September 2019;
- › Ms Zella Fuphe, with effect from 26 November 2019.

### APPOINTMENTS

- › Ms Fikile De Buck, with effect from 1 June 2019;
- › Messrs Steve Dawson and Walter Dissinger, with effect from 1 January 2020.

### DIRECTORATE AND SECRETARY

Details of the Directorate and Secretary of the Company are available at:

<https://www.aeciworld.com/about-leadership.php>

In terms of the Company's MOI Mr KM Kathan, Dr KDK Mokhele and Adv R Ramashia retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

As already indicated, Ms De Buck was appointed to the Board on 1 June 2019 and the appointments of Messrs Dawson and Dissinger took effect on 1 January 2020, after the reporting date.

### MAJOR SHAREHOLDERS

Details of the interests of shareholders who hold beneficial interests equal to or in excess of 5% of the Company's ordinary share capital are included in note 13 to the financial statements.

### SPECIAL RESOLUTIONS

The Company passed the following resolutions at the AGM held on 29 May 2019:

1. to approve the annual fees payable by the Company to its Non-executive Directors;
2. to grant the Directors a general authority to repurchase the Company's issued shares; and
3. to grant the Directors the authority to cause the Company to provide financial assistance to any company or other legal entity which is related or inter-related to the Company.

### MATERIAL CHANGES

There have been no material changes in the financial or trading position of the Company and its subsidiaries since 31 December 2019.

### REGULATORY INTERACTION

The Group is involved in various legal proceedings and is in consultation with its legal counsel, assessing the outcome of these proceedings on an ongoing basis. As proceedings progress, the Group's management makes provision in respect of legal proceedings where appropriate. Litigations, current or pending, are not likely to have a material adverse effect on the Group.

## INTERESTS OF DIRECTORS, DIRECTORS OF MAJOR SUBSIDIARIES, THE GROUP COMPANY SECRETARY AND PRESCRIBED OFFICERS

During 2019 no contracts were entered into in which the above individual/s had an interest and which significantly affected the business of the Group. The same individual/s had no interests in any third party or company responsible for managing any of the business activities of the Group.

## REMUNERATION AND EMPLOYEE INCENTIVE PARTICIPATION SCHEMES

Full details regarding the remuneration and participation in the Group's long-term incentive schemes by the Company's Executive Directors, the Director of a major subsidiary, the Group Company Secretary and Prescribed Officers are disclosed in note 31 to the financial statements.

## DIRECTORS' RESPONSIBILITY STATEMENT

The Directors accept full responsibility for the accuracy of the information given 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;
- › all reasonable enquiries to ascertain such facts have been made; and
- › this statement contains all information required by law and the JSE Listings Requirements.

The Directors acknowledge that their responsibility includes:

- › ensuring that internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error, are appropriately designed, implemented and maintained;
- › selecting and applying appropriate accounting policies; and
- › making accounting estimates that are reasonable in the circumstances.

The Directors' responsibility also includes ensuring that adequate accounting records and an effective system of risk management are maintained.

After giving due, careful and proper consideration to these responsibilities, the Directors believe that their obligations under this statement have been met.

## APPROVAL OF CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

The consolidated and separate annual financial statements of the Company were approved by the Board of Directors on 24 February 2020 and were signed on that date by:



**Mark Dytor**  
Chief Executive



**Mark Kathan**  
Chief Financial Officer

Woodmead, Sandton  
24 February 2020

# SHAREHOLDER ANALYSES

## 1. ANALYSIS OF REGISTERED ORDINARY SHAREHOLDERS AND COMPANY SCHEMES

Source: J.P. Morgan Cazenove

### ORDINARY SHAREHOLDERS

#### REGISTERED SHAREHOLDER SPREAD

In accordance with the JSE Listings Requirements, the following table confirms that on 27 December 2019 the spread of registered shareholders, as detailed in the integrated report and accounts, was:

	Number of holders	% of total shareholders	Number of shares	% of issued capital
<b>SHAREHOLDER SPREAD</b>				
1 – 1 000 shares	3 916	69,93	1 146 681	0,94
1 001 – 10 000 shares	1 131	20,20	3 486 716	2,86
10 001 – 100 000 shares	381	6,80	13 174 987	10,81
100 001 – 1 000 000 shares	154	2,75	53 727 912	44,11
1 000 001 shares and above	18	0,32	50 292 787	41,28
<b>TOTAL</b>	<b>5 600</b>	<b>100,00</b>	<b>121 829 083</b>	<b>100,00</b>

#### PUBLIC AND NON-PUBLIC SHAREHOLDINGS

Within the shareholder base, we are able to confirm the split between public shareholdings the holdings of Directors<sup>1</sup>/Company-related schemes as being:

	Number of holders	% of total shareholders	Number of shares	% of issued capital
<b>SHAREHOLDER TYPE</b>				
Public	5 592	99,86	109 707 935	90,05
Non-public	8	0,14	12 121 148	9,95
Treasury	1	0,02	11 884 699	9,76
Directors <sup>1</sup> /related holdings	7	0,13	236 449	0,19
<b>TOTAL</b>	<b>5 600</b>	<b>100,00</b>	<b>121 829 083</b>	<b>100,00</b>

<sup>1</sup> Includes Company Directors, the Director of a major subsidiary, the Group Company Secretary and Principal Officers.

## 2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS

### SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS ABOVE 3%

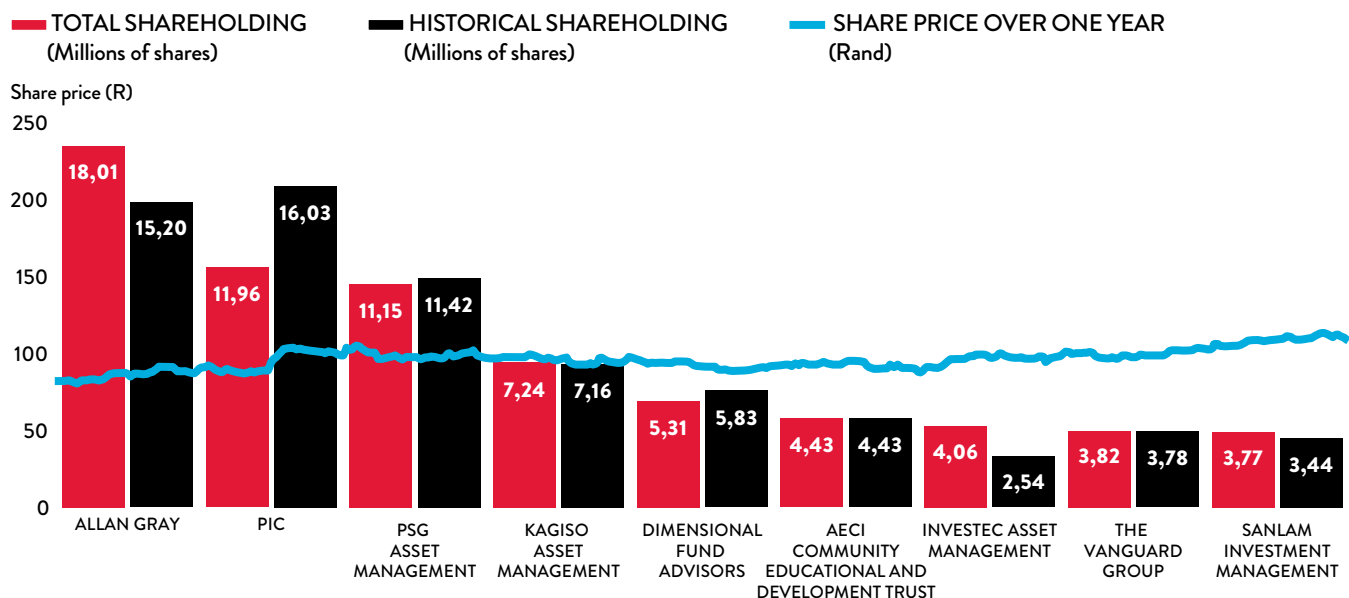
Through regular analysis of STRATE registered holdings, and pursuant to the provisions of section 56 of the Companies Act, the following shareholders held directly and indirectly equal to or in excess of 3% of the issued share capital as at 27 December 2019:

#### INVESTMENT MANAGEMENT SHAREHOLDINGS

	Total shareholding (number of shares)	% of issued capital
<b>INVESTMENT MANAGER</b>		
Allan Gray	18 008 013	14,78
PIC	11 955 154	9,81
PSG Asset Management	11 151 112	9,15
Kagiso Asset Management	7 237 542	5,94
Dimensional Fund Advisors	5 306 921	4,36
AECI Community Education and Development Trust	4 426 604	3,63
Investec Asset Management	4 059 837	3,33
The Vanguard Group	3 821 460	3,14
Sanlam Investment Management	3 770 162	3,09
<b>TOTAL</b>	<b>69 736 805</b>	<b>57,24</b>

## 2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS CONTINUED

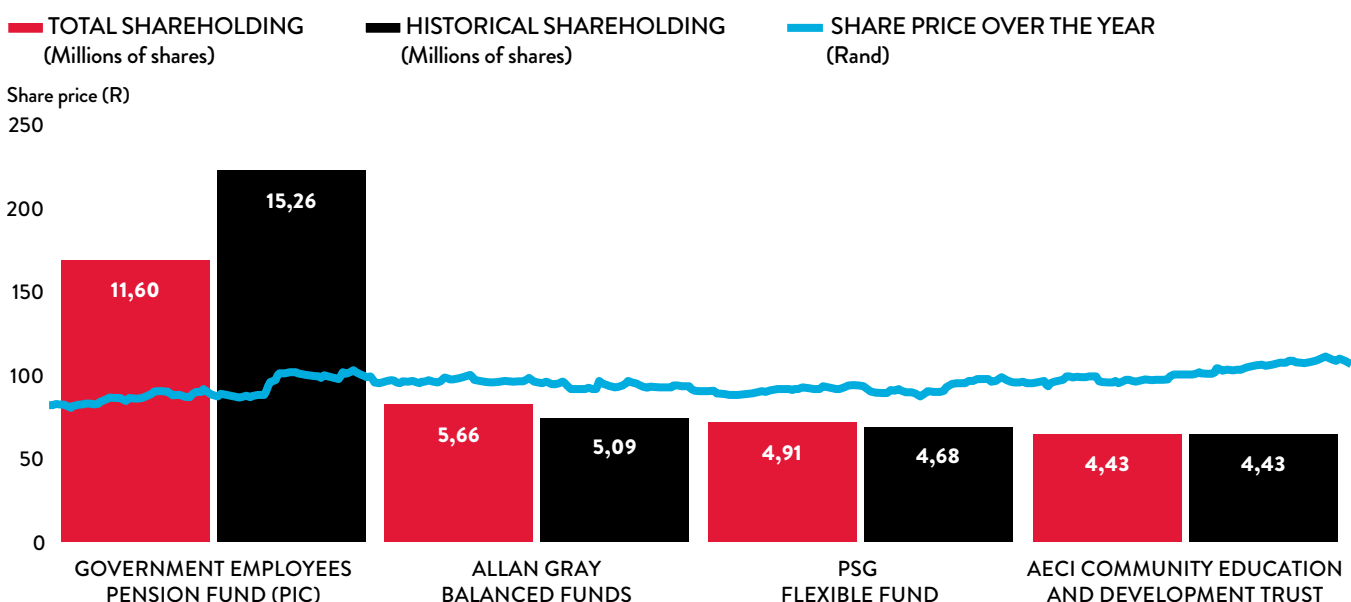
### INVESTMENT MANAGEMENT SHAREHOLDING POSITIONS ABOVE 3% WITH 12-MONTH CHANGE



### BENEFICIAL SHAREHOLDINGS

	Total shareholding (number of shares)	% of issued capital
Government Employees Pension Fund (“PIC”)	11 603 556	9,52
Allan Gray Balanced Funds	5 662 971	4,65
PSG Flexible Fund	4 907 426	4,03
AECI Community Education and Development Trust	4 426 604	3,63
<b>TOTAL</b>	<b>26 600 557</b>	<b>21,83</b>

### BENEFICIAL SHAREHOLDING POSITIONS ABOVE 3% WITH 12-MONTH CHANGE



**2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS** CONTINUED**PREVIOUSLY DISCLOSED HOLDINGS**

## INVESTMENT MANAGERS NOW HOLDING BELOW 3%

	Total shareholding (number of shares)	% of issued capital	Previous %
INVESTMENT MANAGER			
N/A	—	—	—
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>—</b>

## BENEFICIAL OWNERS NOW HOLDING BELOW 3%

	Total shareholding (number of shares)	% of issued capital	Previous %
BENEFICIAL OWNER			
N/A	—	—	—
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>—</b>

**3. GEOGRAPHIC SPLIT OF ORDINARY SHAREHOLDERS****GEOGRAPHIC SPLIT OF INVESTMENT MANAGERS AND COMPANY-RELATED HOLDINGS**

	Total shareholding (number of shares)	% of issued capital
REGION		
South Africa	83 679 128	68,69
USA and Canada	18 257 860	14,99
United Kingdom	2 396 189	1,97
Rest of Europe	1 252 119	1,03
Rest of the world	16 243 787	13,32
<b>TOTAL</b>	<b>121 829 083</b>	<b>100,00</b>

**GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS**

	Total shareholding (number of shares)	% of issued capital
REGION		
South Africa	83 859 722	68,83
USA and Canada	17 734 453	14,56
United Kingdom	2 020 143	1,66
Rest of Europe	2 698 115	2,21
Rest of the world	15 516 650	12,74
<b>TOTAL</b>	<b>121 829 083</b>	<b>100,00</b>

#### 4. SHAREHOLDER CATEGORIES

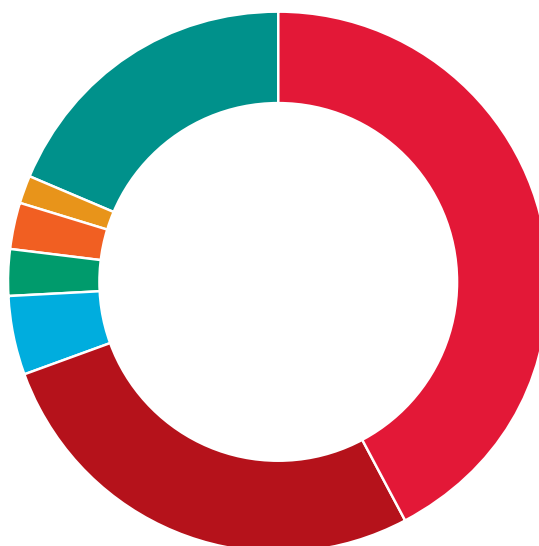
An analysis of beneficial shareholdings, supported by the section 56 enquiry process, confirmed the following beneficial shareholder types:

##### BENEFICIAL SHAREHOLDER CATEGORIES

CATEGORY	Total shareholding (number of shares)	% of issued capital
Unit trusts/mutual funds	51 471 937	42,25
Pension funds	33 084 447	27,16
Black Economic Empowerment	5 596 271	4,59
Insurance companies	3 464 474	2,84
Private investor	3 290 563	2,70
Trading position	1 969 683	1,62
Exchange-traded fund	902 427	0,74
Custodians	695 615	0,57
Hedge fund	481 276	0,40
University	418 853	0,34
Medical aid scheme	418 393	0,34
Sovereign wealth	352 161	0,29
Local authority	239 467	0,20
Charity	228 980	0,19
Private equity	73 688	0,06
Remainder	19 140 848	15,71
<b>TOTAL</b>	<b>121 829 083</b>	<b>100,00</b>

##### BENEFICIAL SHAREHOLDERS SPLIT BY CATEGORY (%)

<b>42,25</b>	<b>Unit trusts</b>
<b>27,16</b>	<b>Pension funds</b>
<b>4,59</b>	<b>Black Economic Empowerment</b>
<b>2,84</b>	<b>Insurance companies</b>
<b>2,70</b>	<b>Private investor</b>
<b>1,62</b>	<b>Trading position</b>
<b>18,47</b>	<b>Remainder</b>

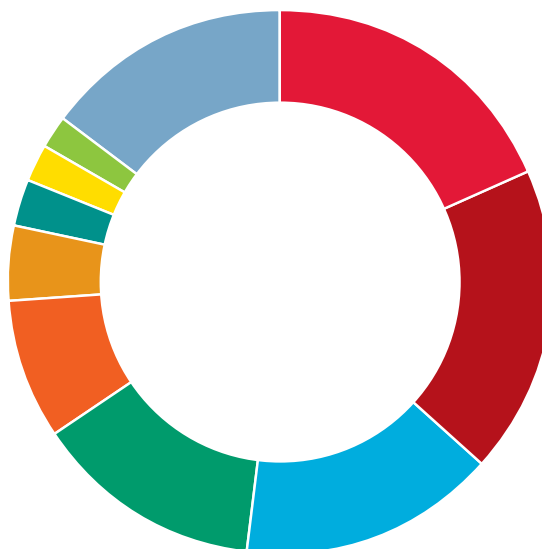


## 5. ANALYSIS OF INVESTMENT STYLES

Analysis into institutional attributes broadly indicates the following split of investment approach within the shareholder base:

### ANALYSIS OF INVESTMENT STYLES (%)

18,55	Value
18,32	Index
15,35	Deep value
13,60	Growth
1,14	Growth at a reasonable price ("GARP")
12,46	Growth excluding GARP
8,13	Quantitative
4,59	Black Economic Empowerment
2,81	Hedge fund
2,09	Trading position
1,85	Retail
14,71	Remainder



## 1. ANALYSIS OF REGISTERED PREFERENCE SHAREHOLDERS

Source: J.P. Morgan Cazenove

### PREFERENCE SHAREHOLDERS

#### REGISTERED SHAREHOLDER SPREAD

In accordance with the JSE Listings Requirements, the following table confirms that on 27 December 2019 the spread of registered shareholders, as detailed in the integrated report and accounts, was:

	Number of holders	% of total shareholders	Number of shares	% of issued capital
<b>SHAREHOLDER SPREAD</b>				
1 – 1 000 shares	22	12,29	8 147	0,29
1 001 – 10 000 shares	116	64,80	576 986	20,38
10 001 – 100 000 shares	39	21,79	1 185 837	41,89
100 001 – 1 000 000 shares	2	1,12	1 059 852	37,44
1 000 001 shares and above	–	–	–	–
<b>TOTAL</b>	<b>179</b>	<b>100</b>	<b>2 830 822</b>	<b>100</b>

There are no non-public holders of preference shares.

## 2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS

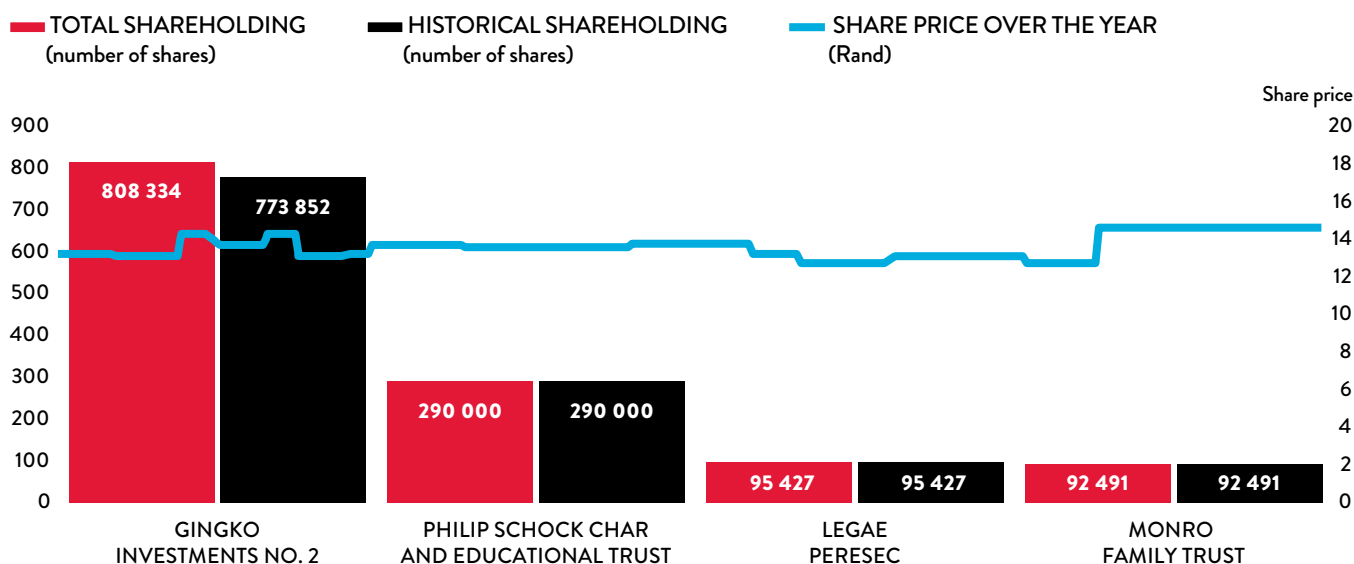
### SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS ABOVE 3%

Through regular analysis of STRATE registered holdings, and pursuant to the provisions of section 56 of the Companies Act, the following shareholders held directly and indirectly equal to or in excess of 3% of the issued share capital as at 27 December 2019:

#### INVESTMENT MANAGEMENT SHAREHOLDINGS

INVESTMENT MANAGER	Total shareholding (number of shares)	% of issued capital
Gingko Investments No. 2	808 334	28,55
Philip Schock Char and Educational Trust	290 000	10,24
Legae Peresec	95 427	3,37
Monro Family Trust	92 491	3,28
<b>TOTAL</b>	<b>1 286 252</b>	<b>45,44</b>

#### INVESTMENT MANAGEMENT SHAREHOLDING POSITIONS ABOVE 3% WITH 12-MONTH CHANGE

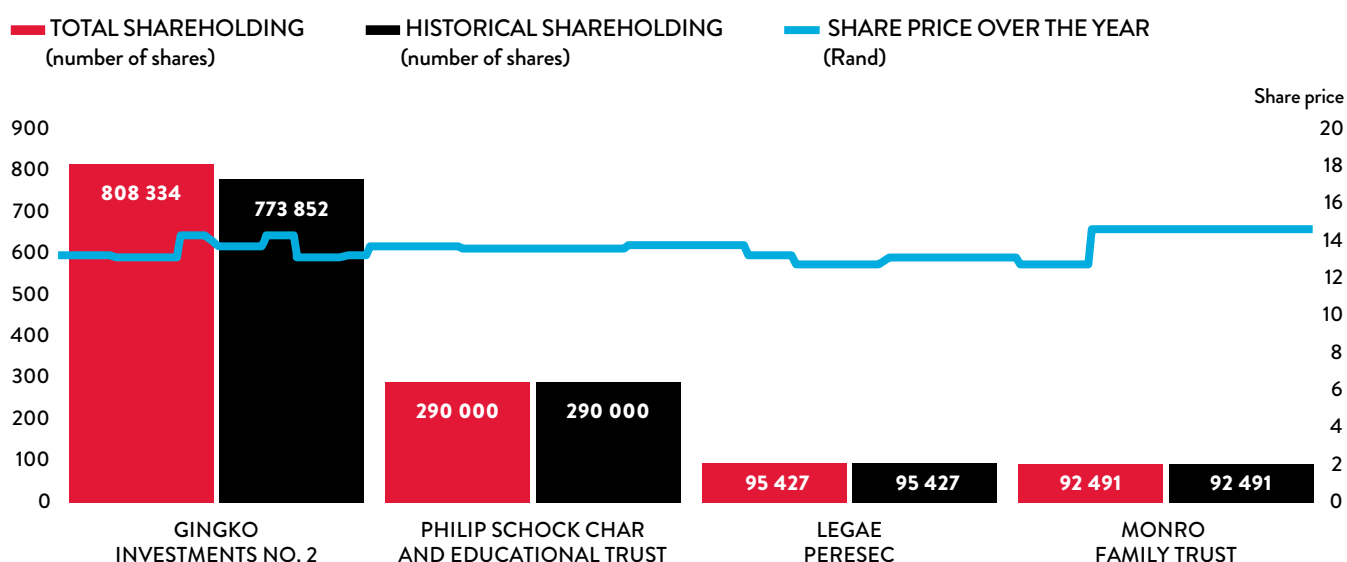


## 2. SUBSTANTIAL INVESTMENT MANAGEMENT AND BENEFICIAL INTERESTS CONTINUED

### BENEFICIAL SHAREHOLDINGS

	Total shareholding (number of shares)	% of issued capital
<b>BENEFICIAL SHAREHOLDINGS</b>		
Gingko Investments No. 2	808 334	28,55
Philip Schock Char and Educational Trust	290 000	10,24
Legae Peresec	95 427	3,37
Monro Family Trust	92 491	3,28
<b>TOTAL</b>	<b>1 286 252</b>	<b>45,44</b>

### BENEFICIAL SHAREHOLDING POSITIONS ABOVE 3% WITH 12-MONTH CHANGE



### PREVIOUSLY DISCLOSED HOLDINGS

#### INVESTMENT MANAGERS NOW HOLDING BELOW 3%

INVESTMENT MANAGER	Total shareholding (number of shares)	% of issued capital	Previous %
N/A	—	—	—
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>—</b>

#### BENEFICIAL OWNERS NOW HOLDING BELOW 3%

BENEFICIAL OWNER	Total shareholding	%	Previous %
N/A	—	—	—
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>—</b>

### 3. GEOGRAPHIC SPLIT OF PREFERENCE SHAREHOLDERS

#### GEOGRAPHIC SPLIT OF INVESTMENT MANAGERS

REGION	Total shareholding (number of shares)	% of issued capital
South Africa	2 779 431	98,18
USA and Canada	—	—
United Kingdom	—	—
Rest of Europe	8 480	0,30
Rest of the world	42 911	1,52
<b>TOTAL</b>	<b>2 830 822</b>	<b>100,00</b>

#### GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS

REGION	Total shareholding (number of shares)	% of issued capital
South Africa	2 794 953	98,73
USA and Canada	—	—
United Kingdom	—	—
Rest of Europe	8 480	0,30
Rest of the world	27 389	0,97
<b>TOTAL</b>	<b>2 830 822</b>	<b>100,00</b>

### 4. SHAREHOLDER CATEGORIES

An analysis of beneficial shareholdings, supported by the section 56 enquiry process, confirmed the following beneficial shareholder types:

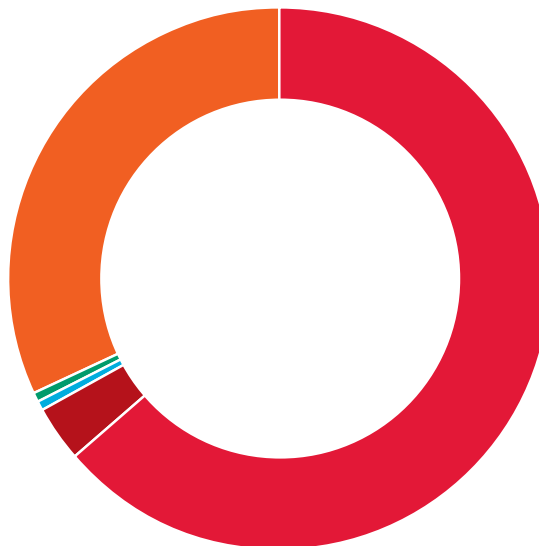
#### BENEFICIAL SHAREHOLDER CATEGORIES

CATEGORY	Total shareholding (number of shares)	% of issued capital
Private investor	1 800 870	63,62
Trading position	95 427	3,37
Charity	22 000	0,78
Custodians	8 480	0,30
Unclassified	904 045	31,93
<b>TOTAL</b>	<b>2 830 822</b>	<b>100,00</b>

#### 4. SHAREHOLDER CATEGORIES CONTINUED

##### BENEFICIAL SHAREHOLDERS SPLIT BY CATEGORY

- 63,62 Private investor
- 3,37 Trading position
- 0,78 Charity
- 0,30 Custodians
- 31,93 Unclassified

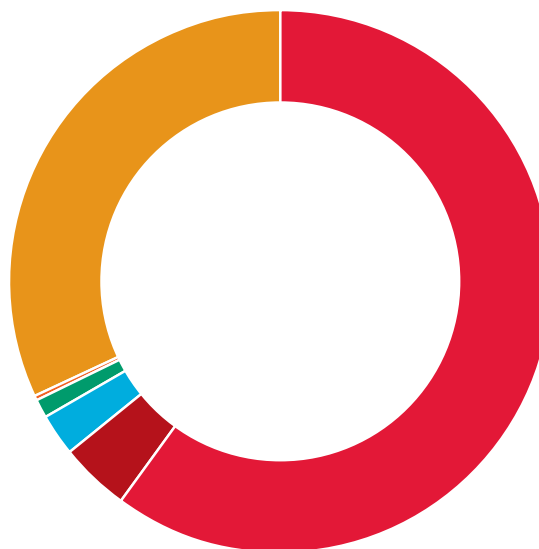


#### 5. ANALYSIS OF INVESTMENT STYLES

Analysis into institutional attributes broadly indicates the following split of investment approach within the shareholder base:

##### ANALYSIS OF INVESTMENT STYLES

- 60,08 Retail
- 4,15 Trading position
- 2,62 Growth
  - 0,04 Growth at a reasonable price ("GARP")
  - 2,58 Growth excluding GARP
- 0,96 Value
- 0,30 Custody
- 31,89 Unclassified



# EXTERNAL AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF AECI LTD

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

#### Opinion

We have audited the consolidated and separate financial statements of AECI Ltd and its subsidiaries ("the Group") set out on pages 21 to 99, which comprise the statements of financial position as at 31 December 2019, and the income statements and statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 December 2019, 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.

#### 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 are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together with the IRBA codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements for 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. The key audit matter applies to the consolidated financial statements and there is no key audit matter for the separate financial statements.

#### KEY AUDIT MATTER

#### HOW THE MATTER WAS ADDRESSED IN THE AUDIT

#### Impairment assessment of goodwill and indefinite life intangible assets that arose on the acquisitions of Much Asphalt (Pty) Ltd ("Much") and Schirm GmbH ("Schirm")

As disclosed in notes 4 and 5, the Group's goodwill and indefinite life intangible assets in respect of the acquisition in 2018 of Much and Schirm is as follows:

R millions	Much	Schirm
Goodwill	1 531	317
Brands*	64	80
<b>Total</b>	<b>1 595</b>	<b>397</b>

\* Indefinite life intangible assets.

IAS 36 Impairment of assets ("IAS 36") requires assets that are not subject to amortisation, such as goodwill and indefinite life intangible assets to be assessed for impairment annually, irrespective of whether any impairment indicators exist.

The Directors performed an impairment assessment over the goodwill balances and brands by assessing the recoverable amount through the determination of the value-in-use amounts and comparing these to the carrying amounts. The value-in-use for the Much and Schirm group of cash generating units ("CGUs") was calculated using a discounted cash flow model.

Goodwill and indefinite life intangible assets were not considered impaired by the Directors in the current year.

Our audit procedures included the following:

- › We assessed the design and implementation of key controls on management's budgeting and forecasting approval process;
- › We focused our detailed testing of the review of impairment of the Much and Schirm goodwill on the key assumptions and inputs made by the Directors;
- › Engaged our internal corporate finance specialists to assist with evaluating whether the value-in-use model used by Directors complies with the requirements of IAS 36;
- › Engaged our internal corporate finance specialists to assist with validating the assumptions used to calculate the discount rates and recalculating these rates;
- › Analysed and robustly challenged the revenue growth rates with reference to the budgets and the probability of achieving targets in the future;
- › Tested the forecasts with reference to historical performance; and
- › Reviewed the appropriateness of the disclosure in the financial statements.

**KEY AUDIT MATTER****HOW THE MATTER WAS ADDRESSED IN THE AUDIT****Impairment assessment of goodwill and indefinite life intangible assets that arose on the acquisitions of Much Asphalt (Pty) Ltd ("Much") and Schirm GmbH ("Schirm")** continued

We considered the Goodwill and Brands impairment assessment of Much and Schirm to be a matter of most significance and a key audit matter due to:

- › Their combined significant value to the Group's asset value;
- › The acquisitions are recent to the Group and acquired in 2018; and
- › Significant management judgement is applied along with significant estimation by the Directors in determining the value-in-use of the CGUs and selecting the appropriate key inputs of:
  - » revenue growth rates; and
  - » discount rates.

For both Much and Schirm, the revenue growth rates appear optimistic; however, these were within the acceptable range. The discount rates were at the lower end of the acceptable ranges.

The assumptions utilised were acceptable in the context of arriving at a conclusion in respect of the audit as a whole.

We have reviewed the disclosures in note 4 and 5 to the financial statements which contain the key assumptions utilised and the sensitivities which could arise should these assumptions vary and we consider these to be appropriate.

**OTHER INFORMATION**

The Directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Declaration by the Group Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Report, which is expected to be made available to us after that date. The other information does not include the consolidated 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 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 on the other information that we obtained prior to the date of this Auditor's Report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED 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's and 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 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 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 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 the 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 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.

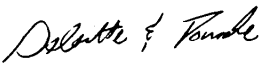
We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette No. 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of AECI Ltd for two years.



**Deloitte & Touche**

Registered Auditor

Per: Patrick Ndlovu

Partner

24 February 2020

Buildings 1 and 2, Deloitte Place

The Woodlands, Woodlands Drive

Woodmead, Sandton

Private Bag X6, Gallo Manor, 2052

South Africa

# BASIS OF REPORTING AND SIGNIFICANT ACCOUNTING POLICIES

## REPORTING ENTITY

AECI Ltd (“the Company”) is a public company domiciled in South Africa. The address of the Company’s registered office is the First Floor, AECI Place, 24 The Woodlands, Woodlands Drive, Woodmead, Sandton. The consolidated financial statements of the Company for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as “the Group” and individually as “Group entities” or “business entities”) and the Group’s interest in associates and joint arrangements. The Group operates in six operating segments: Mining Solutions, Water & Process, Plant & Animal Health, Food & Beverage, Chemicals, and Property & Corporate. Refer to note 32 for further details.

## BASIS OF PREPARATION

### Statement of compliance

The Group financial statements and the Company financial statements have been prepared in compliance with IFRS, and interpretations of those Standards as adopted by the IASB, the SAICA Financial Reporting Guides issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and in accordance with the requirements of the Companies Act.

The following accounting standards, interpretations and amendments to published accounting standards, which are relevant to the Group but not yet effective, have not been adopted in the current year and will be applied in the reporting period in which they become effective:

**IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** – The amendments to these standards deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The Group anticipates that the application of these amendments may have an impact on the Group’s financial results in future periods should such transactions arise.

› **Amendments to IFRS 3 Definition of a business** – The amendments to this standard clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

› **Amendments to IAS 1 and IAS 8 Definition of material** – The amendments to these standards are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of “obscuring” material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence”.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term “material” to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

## BASIS OF MEASUREMENT

The Group financial statements and the Company financial statements have been prepared on the going concern basis using the historical cost convention, except for available-for-sale financial assets, contingent consideration, pension fund employer surplus accounts and post-retirement medical aid obligation liabilities which are measured at fair value. Equity-settled share-based payments are measured at fair value at the grant date.

## FUNCTIONAL AND PRESENTATION CURRENCY

The Group financial statements and the Company financial statements have been prepared in South African rand, which is the Company’s functional currency. All the financial information has been rounded to the nearest millions of rand, except where otherwise stated.

## SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Group, as set out herein, have been applied consistently throughout the Group and are consistent with those followed in the prior year in all material respects, except to the extent that these have been affected by the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. Unless specifically stated otherwise, the Company also applies all of the Group’s accounting policies.

## BASIS OF CONSOLIDATION

### Subsidiaries

Subsidiaries are those entities controlled by the Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group financial statements incorporate the financial statements of the Company and its subsidiaries. The results of subsidiaries, including those acquired or disposed of during the year, are included from the dates control commenced and up to the dates control ceased. Inter-Group transactions and balances between Group entities, as well as any unrealised income and expenditure arising from such transactions, are eliminated on consolidation. Non-controlling interests in the net assets of subsidiaries are identified separately from the Group’s equity therein.

The non-controlling interest, which represents the present ownership interests and would entitle shareholders to a proportionate share of the entity in the event of liquidation, is measured at the non-controlling interest's proportional share of the acquiree's identifiable net assets. Subsequent profits or losses, and each component of other comprehensive income, are attributed to non-controlling interest even if it results in the non-controlling interest having a deficit balance. All other components of non-controlling interest are measured at their acquisition date fair values.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the income statement.

### Joint arrangements

Joint arrangements are those entities in respect of which there is a contractual agreement whereby the Group and one or more other parties undertake an economic activity, which is subject to joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operation is an arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group's participation in joint ventures is accounted for using the equity method. Joint ventures are recognised at cost initially, which includes transaction costs. Subsequent to initial recognition, the Group financial statements include the Group's share of profits or losses and other comprehensive income of the equity-accounted investees, until the date on which joint control ceases. The Group's participation in joint operations is accounted for by recognising the Group's share of assets, liabilities, revenue and expenses on a line-by-line basis.

Where a Group entity transacts with a joint arrangement of the Group, unrealised profits are eliminated to the extent of the Group's interest in the joint arrangement.

### Associates

An associate is an entity in which the Group holds an equity interest, over which the Group has significant influence and is neither a subsidiary nor an interest in a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.

An associate is recognised at cost in the Company financial statements.

An associate is recognised at cost initially in the Group. Post-acquisition results of associate companies are accounted for in the Group financial statements, using the equity method of accounting from the date that significant influence commences until the date that significant influence ceases. An impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in the income statement and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. Where a Group entity transacts with an associate of the Group, unrealised profits are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation to or has made payments on behalf of the investee.

### Investments in subsidiaries

Investments in subsidiaries in the Company financial statements are recognised at cost less impairment losses and include the equity contributions of share-based payments to employees of subsidiaries as well as loans owing from non-operating subsidiaries.

## BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Goodwill is not amortised. The goodwill of joint ventures and associates is included in the carrying amount of the relevant equity-accounted investee. Goodwill is reviewed for impairment at least annually.

Cash-generating units ("CGUs") represent the business operations from which the goodwill arose at the date of acquisition. On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group measures goodwill at the acquisition date as:

- › the fair value of the consideration transferred; plus
- › the recognised amount of any non-controlling interests in the acquiree; less
- › the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. The contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in the income statement. A change in estimate of the contingent consideration is recognised in net operating costs and changes as a result of the time value of money are recognised in interest expense.

## DEFERRED TAX

A deferred tax asset is the amount of income tax recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and unused tax credits. A deferred tax liability is the amount of income tax payable in future periods in respect of taxable temporary differences.

Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The tax base of an asset is the amount that is deductible for tax purposes if the economic benefits from the asset are taxable, or is the carrying amount of the asset if the economic benefits are not taxable. The tax base of a liability is the carrying amount of the liability less the amount deductible in respect of that liability in future periods.

Deferred tax is recognised in respect of temporary differences between the carrying values of assets and liabilities for accounting purposes and their corresponding values for tax purposes. Deferred tax is also recognised on tax losses. No deferred tax is recognised on temporary differences relating to the initial recognition of goodwill, the initial recognition (other than in a business combination) of an asset or a liability to the extent that neither accounting nor tax profit is affected on acquisition, and differences relating to investments in subsidiaries, joint arrangements and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets are reviewed at each reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

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

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset into a working condition for its intended use, as well as gains and losses on qualifying cash flow hedges and borrowing costs attributable to that asset. Depreciation is provided on property, plant and equipment (other than land) on the straight line basis at rates which will write off the assets over their estimated useful lives. Assets under construction are not depreciated until they are available for use. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The estimated useful lives are as follows:

» <b>Property</b>	
» land	indefinite
» buildings	5 to 50 years
» <b>Plant and equipment</b>	
» plant and equipment	3 to 30 years
» furniture and fittings	3 to 15 years
» computer equipment	3 to 10 years
» motor vehicles	3 to 12 years

When significant 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.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amounts of the items sold and are recognised in the income statement.

Specific plant spares are measured at cost and are depreciated over the estimated useful lives of the plants to which they relate.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied in the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of maintaining property, plant and equipment is recognised in the income statement.

## INVESTMENT PROPERTIES

Investment properties, comprising properties or portions of properties leased to third parties, are measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated and buildings are depreciated on a straight line basis over their useful lives of 20 years. Depreciation methods, useful lives and residual values are reviewed at each reporting date. Any gain or loss on disposal (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognised in the income statement.

Transfers to and from investment property are made when there is evidence of a change in use. Transfers are measured at the carrying amount immediately prior to transfer and no changes to the carrying amount are made unless the change in use results in an indication of impairment.

## INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are recognised if it is probable that future economic benefits will flow from the intangible assets and their costs can be measured reliably. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement as incurred.

Intangible assets with finite useful lives are amortised on a straight line basis over their estimated useful lives. The amortisation methods and estimated remaining useful lives are reviewed at least annually.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment at each reporting date.

The estimated useful lives are as follows:

» Customer and marketing relationships	5 to 20 years
» Brands	indefinite
» Patents and trademarks	15 to 20 years
» Technical and licensing agreements	17 years
» Other	3 to 10 years

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the income statement when the asset is derecognised.

## Intangible assets acquired in a business combination

Intangible assets acquired in a business combination, and recognised separately from goodwill, are recognised initially at their fair value at the acquisition date. Subsequently, these intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## RESEARCH AND DEVELOPMENT

Research costs are expensed in the income statement in the year in which they are incurred. Development costs are reviewed on an ongoing basis and are capitalised if they can be measured reliably, the product or process is technically and commercially feasible, it is probable that the asset will generate future economic benefits and the Group intends, and has sufficient resources, to complete development and to use or sell the asset.

Development costs are expensed in the income statement if they do not qualify for capitalisation. If a project is abandoned during the development stage, the total accumulated expenditure is written off in the income statement.

## NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Management classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Property, plant and equipment and intangible assets are not depreciated or amortised once they have been classified as held for sale.

A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is allocated first to goodwill and then to the remaining assets and liabilities on a pro-rated basis except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefits, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale, and subsequent gains or losses on remeasurement, are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment losses.

## IMPAIRMENT

### Financial assets

The Group recognises a loss allowance for expected credit losses on financial assets except for the assets at fair value through other comprehensive income. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The Group recognises lifetime expected credit losses for accounts receivable and these are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions, including the time value of money where appropriate.

For all other financial assets, the Group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. If there has been no significant increase in credit risk, the loss allowance is measured at an amount equal to the 12-month expected credit losses.

The Group determines increases in credit risk by considering any change in the risk of default occurring since the date of initial recognition. The Group considers that a rebuttable default has occurred when a financial asset is more than 90 days past due.

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated to determine the extent of the impairment loss. The recoverable amount is the higher of its fair value, less costs to sell, and its value-in-use.

Value-in-use is estimated taking into account future cash flows, forecast market conditions and the expected lives of the assets. An impairment loss is recognised whenever the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement. Subsequent to the recognition of an impairment loss, the depreciation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets of the CGU.

An impairment loss is reversed only to the extent that the carrying amount of the asset or CGU does not exceed the net carrying amount that would have been determined if no impairment loss had been recognised. A reversal of an impairment loss is recognised in the income statement.

Goodwill is allocated to CGUs that are expected to benefit from the synergies of the business combination. Goodwill and the CGUs to which it has been allocated are tested for impairment on an annual basis, even if there is no indication of impairment. Impairment losses on goodwill are not reversed.

## INVENTORIES

Inventories of raw and packaging materials, products and intermediates and merchandise are measured at cost using the first-in first-out method or the weighted average cost method, depending on the nature of the inventories or their use to businesses in the Group.

The cost of finished goods and work in progress comprises raw and packaging materials, manufacturing costs, depreciation and an appropriate allocation of production overheads. Costs may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases.

In all cases inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses, taking into account obsolescence.

## PROVISIONS

A provision is recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at the reporting date, taking into account the risks and uncertainties associated with the obligation. Non-current provisions are determined by discounting the expected future cash flows to their present value at a pre-tax rate that reflects current market assessment of the time value of money. The unwinding of the discount is recognised in interest expense.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## Environmental remediation

A provision for environmental remediation is recognised in accordance with the Group's SHEQ Policy and applicable legal requirements. The adequacy of the provision is reviewed annually at the reporting date against changed circumstances, legislation and technology.

## SHARE CAPITAL

Share capital comprises ordinary shares and redeemable convertible B ordinary shares and is classified as equity. Issued ordinary shares are measured at the fair value of the proceeds received less any directly attributable issue costs. An amount equal to the par value of the shares issued is presented as share capital. The amount by which the fair value exceeds par value is presented as share premium. For no par value shares, the fair value is presented in full as share capital.

## PREFERENCE SHARES

Preference shares are measured at historical cost, are cumulative and are classified as equity. Dividends paid are disclosed in the statement of changes in equity.

## TREASURY SHARES

Treasury shares are Company shares held by a subsidiary and by the AECI Employees Share Trust ("EST") and are excluded from the shares recognised as Group equity.

## EARNINGS PER SHARE

### Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

### Diluted earnings per share

Diluted earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue, adjusted for the dilutive effect of the contingently returnable ordinary shares issued to the AECI Community Education and Development Trust ("CEDT"), the potential shares issued to the EST and the performance shares issued as part of the Group's Long-term Incentive Plan ("LTIP").

## REVENUE

### Revenue recognition

The Group recognises revenue from the following major sources:

- › sale of goods in all its operating segments;
- › sale of goods and related product application services in its Mining Solutions, Water & Process and Chemicals operating segments; and
- › rental income and related facilities management services in its Property & Corporate operating segment.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. For certain revenue categories the Group identifies "sale of goods and services" as "not distinct" and thus combines goods and services with other promised goods or services until it identifies a "combined bundle of goods and services" as a single performance obligation.

### Sale of goods in all operating segments

For sales of goods to customers, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of use or further distribution and price to sell the goods, has the primary responsibility for the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, since only the passage of time is required before payment is due.

### Sale of goods and related product application services

The Group provides product application services to customers. These are performed as and when goods are delivered and relate mainly to:

- › blasting services, where explosives are delivered directly to the point and location of usage, and detonated within hours of delivery; and
- › dosing of chemicals directly into a customer's manufacturing or water treatment process, where the promise to the customer is a specific outcome to the process regardless of product volumes or service levels required to achieve that outcome.

The goods and services are delivered simultaneously or near-simultaneously and results in the product being used by the customer at that point in time. As a consequence, revenue is recognised when the product and related application service are delivered and the right to consideration becomes unconditional.

### **Rental income and related facilities management services in the Property & Corporate operating segment**

IFRS 15 does not apply to revenue from lease contracts within the scope of IFRS 16 Leases. Consequently, the Group continues to recognise revenue in respect of rentals received from leasing activities on a straight line basis over the period of the lease, where fixed escalation clauses apply, and when there is a reasonable expectation that recovery of the lease rental is probable. Where no fixed escalation clauses are applicable to a lease, rental income is recognised in the period in which it is due by the lessee.

Facilities management services to lessees comprise rail, environmental and laboratory services, steam generation, effluent treatment, electricity provision and storage and handling services. Revenue from these services is recognised as and when the services are provided, since these services are usage-based and are delivered at a point in time.

## **FOREIGN CURRENCIES**

### **Foreign currency translations**

Transactions in foreign currencies are translated into the functional currencies of each entity in the Group at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency of the entity concerned at the rates of exchange ruling at the dates of the transactions.

Gains or losses arising on exchange differences are recognised in the income statement. Costs associated with forward cover contracts linked to borrowings are included in financing costs.

### **Foreign operations**

The financial statements of foreign operations in the Group are translated into South African rand as follows:

- › assets, including goodwill, and liabilities at the rates of exchange ruling at the reporting date;
- › income, expenditure and cash flow items at the weighted average rate of exchange during the accounting period; and
- › equity at historical rates.

Differences arising on translation are recognised in other comprehensive income and are presented in the foreign currency translation reserve in reserves. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, while retaining control, the relevant portion of the cumulative foreign currency translation reserve is recognised in non-controlling interest. Differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered part of the net investment in a foreign operation and are recognised in other comprehensive income in the foreign currency translation reserve.

## **FINANCIAL INSTRUMENTS**

Financial instruments are recognised at fair value initially. Directly attributable transaction costs are included in the amount recognised only when changes in fair value are not subsequently recognised in the income statement. Subsequent to initial recognition, these instruments are measured as set out as follows in respect of derivative and non-derivative financial instruments.

### **Offset**

If a legally enforceable right currently exists to set off recognised amounts of financial assets and financial liabilities, which are in determinable monetary amounts, and the Group intends either to settle on a net basis or realise the asset and settle the liability simultaneously, the relevant financial assets and financial liabilities are offset.

### **Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity securities, the pension fund employer surplus accounts in the defined-contribution plans ("ESAs"), loans to and from subsidiaries, accounts receivable, cash, loans and borrowings, loans from joint ventures, contingent consideration and accounts payable.

The Group recognises loans and receivables on the date on which they are originated. All other financial instruments are recognised on the date on which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantively all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

## **Investments**

Investments in unlisted equity securities are classified as financial assets at fair value through other comprehensive income and are measured at fair value with any gains or losses, including foreign exchange, recognised in other comprehensive income, along with the associated deferred tax.

When these assets are derecognised, the gain or loss accumulated in other comprehensive income is reclassified to retained income. Dividends on these investments are recognised in the income statement as investment income when they are declared and the Group has a right to receive them.

## **Accounts receivable**

Accounts receivable are measured at amortised cost using the effective interest method, less any impairment losses.

## **Cash**

Cash is measured at amortised cost.

## **Loans to subsidiaries, joint arrangements and associates**

Loans by the Company to subsidiaries, joint arrangements and associates are measured at amortised cost using the effective interest method, less any impairment losses.

## **Financial liabilities**

Financial liabilities, including borrowings and accounts payable, are measured at amortised cost using the effective interest method.

## **Finance costs**

Interest is recognised in the income statement in the period in which it is incurred.

## **Derivative financial instruments**

The Group uses derivative financial instruments including currency swaps, forward rate agreements and forward exchange contracts to manage its exposure to foreign exchange risk arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

## **Derivative instruments**

Derivative instruments are recognised and measured at fair value with changes in fair value being included in the income statement, other than derivatives designated as cash flow hedges.

## **Hedge accounting**

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and recognised in the income statement.

If a cash flow hedge meets the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in the income statement.

If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses recognised in other comprehensive income are transferred to the income statement in the same period in which the asset or liability affects the income statement.

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated gains or losses recognised in other comprehensive income are included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when the hedge becomes ineffective), when the hedge instrument is sold, terminated or exercised, when, for cash flow hedges, the forecast transaction is no longer expected to occur, or when the hedge designation is revoked. Any cumulative gain or loss on the hedging instrument for a forecast transaction is retained in other comprehensive income until the transaction occurs, unless the transaction is no longer expected to occur in which case it is transferred to the income statement.

## INVESTMENT INCOME

Interest income is recognised in the income statement as it accrues and it is measured using the effective interest method. Dividend income from investments is recognised in the income statement when the shareholders' right to receive payment has been established.

## LEASES

The Group leases various properties, plant and equipment. Rental contracts are typically entered into for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. Although the lease agreements do not impose any covenants, leased assets may not be used as security for borrowing purposes.

Up to and including the 2018 financial year, leases for property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease.

From 1 January 2019, the Group recognised a right-of-use asset and a corresponding lease liability at the lease commencement date, being the date at which the leased asset was available for use by the Group. The right-of-use asset was measured at cost initially and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements in the lease liability.

The lease liability was measured initially at the present value of the lease payments not paid at the commencement date, discounted using the implicit rate in the lease or, if that rate could not be readily determined, the lessee's incremental borrowing rate. Generally, the Group used the lessee's incremental borrowing rate as the discount rate.

Payments associated with short-term leases and leases of low value assets are recognised on a straight line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low value assets are assets that, when new, have a value of R100 000 or less.

The Group elected to apply the practical expedient in IFRS 16 and accounts for lease and non-lease components as a single lease.

## EMPLOYEE BENEFITS

### Short-term employee benefits

The cost of all short-term employee benefits is recognised in the income statement during the period in which the employee renders the related service. Accruals for employee entitlements to salaries, performance bonuses and annual leave represent the amount of the Group's present obligation as a result of employees' services provided up to the reporting date. Accruals are calculated at undiscounted amounts based on current salary rates.

### Retirement benefits

The Group provides defined-contribution and, historically, defined-benefit funds for its employees, the assets of which are held in separate funds. These funds are financed by payments from employees and the Group, taking account of the recommendations of independent actuaries.

### Defined-contribution plans

A defined-contribution plan is a post-retirement benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined-contribution pension plans are recognised in the income statement as the related service is provided.

The Group's two defined-contribution plans both have ESAs which were created through transfers from the ESAs in the AECI Pension Fund (a defined-benefit plan). These ESAs can only be utilised in accordance with the allowed uses as defined by the Pension Funds Act, No. 24 of 1956, as amended ("the Act").

The ESAs in the defined-contribution plans are recognised as financial assets and are measured at fair value, with all changes in fair value being recognised in the income statement.

The ESAs have been utilised to fund a portion of the employer contribution made on behalf of members to these funds. The ESAs are invested in money market assets and earn a return on this investment. The ESA of the AECI Defined Contribution Pension Fund may also increase as a result of the unvested retirement benefit equalisation target ("RBET"), transferred when employees leave the fund before becoming entitled to that portion of the RBET (see note 30).

### Defined-benefit plans

A defined-benefit plan is a post-retirement benefit plan other than a defined-contribution plan. The Group's net obligation in respect of defined-benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on suitable corporate bonds that have maturity dates approximating the terms of the Group's obligations. The South African obligations are contained in separate legal entities and are denominated in rand, while the German obligations, at Schirm, are unfunded and are denominated in euro.

Actuarial valuations are conducted annually by a qualified actuary and the calculation is performed using the projected unit credit method.

In the South African entities, the calculation results in a benefit to the Group. However, the recognised asset is limited to amounts credited to the ESAs in accordance with the Act, where this does not exceed the present value of economic benefits available in the form of reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan or on settlement of the plan liabilities.

The defined-benefit cost recognised in net operating costs in the income statement includes the current service cost and the net interest on the net defined-benefit liability/(asset). Net interest expense/(income) is the interest on the net defined-benefit liability/(asset) at the beginning of the period, calculated using the discount rate used in the prior year's actuarial valuation. The interest takes into account changes in the net defined-benefit liability/(asset) during the year as a result of contributions and benefit payments.

The defined-benefit cost relating to actuarial gains and losses, which include the return on plan assets (excluding the interest income recognised in the income statement) and the effect of the asset ceiling (excluding the interest cost) and any changes in actuarial assumptions or experience adjustments, are remeasurements and are recognised immediately in other comprehensive income.

### Defined-benefit post-retirement medical aid obligations

The Group provides defined-benefit post-retirement healthcare benefits to certain of its retirees and eligible employees. The Group's net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on suitable corporate bonds that have maturity dates approximating the terms of the Group's obligations and are denominated in rand as the benefits are expected to be paid in rand.

Actuarial valuations are conducted annually by a qualified actuary and the calculation is performed using the projected unit credit method.

The defined-benefit cost recognised in net operating costs in the income statement includes the current service cost and the net interest on the net defined-benefit liability. Net interest expense is the interest on the net defined-benefit liability at the beginning of the period, calculated using the discount rate used in the prior year's actuarial valuation. The interest takes into account changes in the net defined-benefit liability during the year as a result of contributions and benefit payments.

The defined-benefit cost relating to actuarial gains and losses, which include any changes in actuarial assumptions or experience adjustments, are remeasurements and are recognised immediately in other comprehensive income.

### Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw from the offer of those benefits or when the Group recognises costs of restructuring.

### Other long-term employee benefits

The Group's obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine its present value. Remeasurements are recognised in the income statement in the period in which they arise.

## SHARE-BASED PAYMENTS

The Group has equity-settled and cash-settled share-based compensation plans.

### Cash-settled share-based scheme (benefit and retention units)

These schemes allow senior Group employees to participate in the performance of AECI's ordinary share price, in return for services rendered, through the payment of cash incentives which are based on the market price of AECI ordinary shares. These share appreciation rights are recognised as a liability at fair value at each reporting date, in the statement of financial position, until the date of settlement. The fair value of these rights is determined at each reporting date and the unrecognised cost is amortised in the income statement as an employee cost over the period that employees provide services to the Group.

### Equity-settled share-based schemes

The EST equity-settled share-based scheme awards certain employees B ordinary shares which will be converted to ordinary shares after a 10-year lock-in period based on a predetermined award formula.

Senior employees are awarded performance shares. Performance shares are awards that entitle certain employees to receive ordinary shares after a three-year lock-in period based on the performance of the Company's ordinary share price relative to a peer group of listed companies. The 2019 allocations under the scheme carry two additional conditions, compared to the conditions that applied in prior years, relating to targets for the Company's headline earnings per share ("HEPS") and its return on net assets ("RONA") over the performance period.

Such equity-settled share-based payments are measured at fair value at the date of the grant. The fair value from the 2018 allocation also takes into account the expectation of achieving the HEPS and RONA targets.

The fair value determined at the grant of the equity-settled share-based payments is charged as an employee cost, with a corresponding increase in equity, on a straight line basis over the period that the employee becomes unconditionally entitled to the shares, based on management's estimation of the shares that will vest and adjusted for effects of non-market based vesting conditions. On settlement, where shares are repurchased in the market, the cost is recognised as a change in the share-based payment reserve.

## INCOME TAX

Income tax comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

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

## DIVIDENDS

Dividends are recognised as a liability when declared and are included in the statement of changes in equity.

## SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of all segments are reviewed monthly by the AECI Executive Committee to make decisions about resources to be allocated to them and to assess their performances.

Inter-segment transactions are concluded on terms that are no more and no less favourable than transactions with unrelated external parties.

The Group reports on its segments based on the nature of the products or services offered, as follows:

- › Mining Solutions — The businesses in this segment provide a mine-to-mineral solution for the mining sector internationally. The offering includes surfactants for explosives manufacture, commercial explosives, initiating systems and blasting services right through the value chain to chemicals for ore beneficiation and tailings treatment;
- › Water & Process — ImproChem provides integrated water treatment solutions and process chemicals, and equipment solutions, for a diverse range of applications in Africa. These include, inter alia, public and industrial water, desalination and utilities;
- › Plant & Animal Health — Nulandis manufactures and supplies an extensive range of crop protection products, plant nutrients and services for the agricultural sector in Africa. Schirm, based in Germany, is a contract manufacturer of agrochemicals and fine chemicals with a European and US footprint. It is the premier provider of external agrochemical formulation services in Europe;
- › Food & Beverage — These businesses supply ingredients and commodities to the dairy, beverage, wine, meat, bakery, health and nutrition industries. The other main activity is the manufacture and distribution of a broad range of juice-based products and drinks, including formulated compounds, fruit concentrate blends and emulsions;
- › Chemicals — Supply of chemical raw materials and related services for use across a broad spectrum of customers in the manufacturing, infrastructure and general industrial sectors mainly in South Africa and in other African countries;
- › Property & Corporate — Mainly property leasing and management in the office, industrial and retail sectors, and corporate functions including the treasury.

Segment reporting is based on IFRS and is representative of the internal structure used for management reporting.

## SIGNIFICANT JUDGEMENTS MADE BY MANAGEMENT AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an

ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

The accounting policies which have been identified as including assumptions and estimation uncertainties that may have an impact on the future results are set out below:

### Income and deferred tax

The Group is subject to income taxes in various jurisdictions which apply different tax legislation and the calculation of the Group's tax charge involves a degree of estimation and judgement. Deferred tax assets — with a carrying amount of R234 million at 31 December 2019 (2018: R382 million) (see note 10) — are recognised to the extent that it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest and inflation rates and market conditions.

### Environmental remediation

Estimating the future costs of environmental remediation obligations is complex and requires management to make estimates and judgements because most of the obligations will be fulfilled in the future and laws are often not clear regarding what is required. The resulting provisions, with a carrying amount of R163 million at 31 December 2019 (2018: R149 million), are influenced further by changing technologies and social, political, environmental, safety, business and statutory considerations. As explained in note 16, the Group has to apply judgement in determining the environmental remediation provision.

### Assets lives and residual values

Property, plant and equipment, investment property and intangible assets are depreciated or amortised over their estimated useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product lifecycles and maintenance programmes are taken into account. Residual value assessments consider issues such as current market conditions, the remaining useful life of an asset and disposal values.

At 31 December 2019 the carrying amounts of property, plant and equipment, investment property and intangible assets were R5 722 million (2018: R5 768 million) (see note 1), R228 million (2018: R222 million) (see note 3) and R964 million (2018: R1 039 million) (see note 4) respectively.

### Post-retirement benefit obligations

Post-retirement defined benefits are provided for certain existing and former employees. Actuarial valuations are based on assumptions which include employee turnover, mortality rates, the discount rate, the expected long-term rate of return of retirement plan assets, healthcare inflation costs and rates of increase in compensation costs. The net present value of current estimates for post-retirement medical aid benefits has been discounted to its present value at 9,7% per annum (2018: 9,8%), being the estimated investment return assuming the liability is fully funded. Medical cost inflation of Consumer Price Index ("CPI") +2% per annum has been assumed (2018: CPI +1%). The present actuarial value of the defined-benefit obligation at the reporting date was R207 million (2018: R216 million) (see note 30).

### Impairments

An asset is impaired when its carrying amount exceeds its recoverable amount. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually while other assets are tested if there is an indication that they may be impaired. The assessment of recoverable amounts involves the application of judgement relating to the calculation of value-in-use, which is based on cash flow projections, variations in the amount and timing of these cash flows and the discount rate used to determine the present value of those future cash flows.

These are assessed for each CGU to which goodwill is attributed or for the CGU or asset where indicators of impairment have been assessed. See note 5 for significant assumptions on value-in-use for goodwill.

The carrying amounts of goodwill and intangible assets with indefinite useful lives at 31 December 2019 were R3 201 million (2018: R3 410 million) (see note 5) and R144 million (2018: R147 million), respectively (see note 4).

### Financial instruments

The fair value of unlisted investments requires judgement and estimation of the key inputs into valuation techniques used to determine the fair value. These investments had a carrying amount of R95 million at 31 December 2019 (2018: R97 million) (see note 28).

Determining expected credit losses requires assessments of general economic conditions, both current and future and their impact on the credit risk of financial assets, as well as using periods that amounts are past due, to indicate levels of credit loss expected. Credit losses may occur differently to these expectations, both in terms of timing and amount.

### Leases

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in the management of contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Group applied judgement to determine the lease term for some of the lease contracts, in which it is a lessee, that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liabilities and right-of-use assets recognised.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the lessee.

At the reporting date, the carrying amounts of right-of-use assets and lease liabilities were R592 million (2018: R nil) (see note 2) and R576 million (2018: R nil) (see note 15) respectively.

# STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2019

R millions	Note	GROUP		COMPANY	
		2019	2018	2019	2018
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
		<b>11 884</b>	11 681	<b>10 676</b>	10 396
Property, plant and equipment	1	<b>5 722</b>	5 768	<b>555</b>	536
Right-of-use assets	2	<b>592</b>	–	<b>27</b>	–
Investment property	3	<b>228</b>	222	<b>253</b>	249
Intangible assets	4	<b>964</b>	1 039	<b>14</b>	4
Goodwill	5	<b>3 201</b>	3 410	<b>696</b>	754
Pension fund employer surplus accounts	30	<b>662</b>	341	<b>662</b>	341
Investment in subsidiaries	6			<b>7 921</b>	7 913
Loans to subsidiaries	6			<b>399</b>	434
Investment in joint ventures	7	<b>33</b>	258	<b>28</b>	28
Investment in associates	8	<b>141</b>	135	<b>24</b>	24
Other investments	9	<b>107</b>	126	<b>97</b>	113
Deferred tax	10	<b>234</b>	382	–	–
<b>CURRENT ASSETS</b>					
		<b>11 249</b>	10 594	<b>6 583</b>	6 160
Inventories	11	<b>4 034</b>	4 081	<b>1 102</b>	1 320
Accounts receivable	12	<b>4 908</b>	4 650	<b>1 691</b>	1 387
Other investments	9	<b>252</b>	218	<b>116</b>	135
Loans to joint ventures	7	–	7	–	–
Loans to subsidiaries	6			<b>3 267</b>	3 301
Tax receivable		<b>77</b>	57	–	–
Cash		<b>1 978</b>	1 581	<b>407</b>	17
<b>TOTAL ASSETS</b>		<b>23 133</b>	22 275	<b>17 259</b>	16 556
<b>EQUITY AND LIABILITIES</b>					
<b>ORDINARY CAPITAL AND RESERVES</b>					
		<b>10 912</b>	10 043	<b>4 617</b>	5 034
Share capital and share premium	13	<b>110</b>	110	<b>128</b>	128
Reserves		<b>1 487</b>	1 557	<b>346</b>	271
Retained earnings		<b>9 315</b>	8 376	<b>4 143</b>	4 635
<b>PREFERENCE SHARE CAPITAL</b>					
	13	<b>6</b>	6	<b>6</b>	6
<b>SHAREHOLDERS' EQUITY</b>					
		<b>10 918</b>	10 049	<b>4 623</b>	5 040
<b>NON-CONTROLLING INTEREST</b>					
	34	<b>166</b>	156		
<b>TOTAL EQUITY</b>		<b>11 084</b>	10 205	<b>4 623</b>	5 040
<b>NON-CURRENT LIABILITIES</b>					
		<b>6 764</b>	6 646	<b>6 152</b>	6 080
Deferred tax	10	<b>527</b>	547	<b>132</b>	60
Loans from subsidiaries	6			<b>2 213</b>	2 197
Non-current borrowings	14	<b>5 237</b>	5 475	<b>3 480</b>	3 480
Lease liabilities	15	<b>366</b>	–	<b>11</b>	–
Contingent consideration	36	–	10	–	10
Put option liability	34	<b>32</b>	31	–	–
Non-current provisions and employee benefits	16	<b>602</b>	583	<b>316</b>	333
<b>CURRENT LIABILITIES</b>					
		<b>5 285</b>	5 424	<b>6 484</b>	5 436
Accounts payable	17	<b>4 683</b>	5 010	<b>1 999</b>	2 072
Current borrowings	18	<b>195</b>	283	<b>26</b>	280
Lease liabilities	15	<b>210</b>	–	<b>17</b>	–
Loans from joint ventures	7	<b>62</b>	–	<b>130</b>	30
Loans from subsidiaries	6			<b>4 284</b>	3 043
Contingent consideration	36	<b>15</b>	–	<b>15</b>	–
Tax payable		<b>120</b>	131	<b>13</b>	11
<b>TOTAL LIABILITIES</b>		<b>12 049</b>	12 070	<b>12 636</b>	11 516
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>23 133</b>	22 275	<b>17 259</b>	16 556

## INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

R millions	Notes	GROUP		COMPANY	
		2019	2018	2019	2018
<b>REVENUE</b>	19	<b>24 799</b>	23 314	<b>5 860</b>	5 665
Net operating costs	20	<b>(22 768)</b>	(21 315)	<b>(5 692)</b>	(5 300)
<b>OPERATING PROFIT</b>		<b>2 031</b>	1 999	<b>168</b>	365
Impairment of equity-accounted investee		–	(78)		
Profit on sale of joint venture	7	<b>234</b>	–		
Share of profit of equity-accounted investees, net of tax	7, 8	<b>30</b>	–		
<b>PROFIT FROM OPERATIONS AND EQUITY-ACCOUNTED INVESTEEES</b>		<b>2 295</b>	1 921	<b>168</b>	365
Dividends received	29			–	1 817
Net finance costs		<b>(457)</b>	(365)	<b>(270)</b>	(188)
Interest expense	22	<b>(516)</b>	(403)	<b>(478)</b>	(413)
Interest received	23	<b>59</b>	38	<b>208</b>	225
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>1 838</b>	1 556	<b>(102)</b>	1 994
Tax (expense)/credit	24	<b>(511)</b>	(529)	<b>17</b>	(82)
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>1 327</b>	1 027	<b>(85)</b>	1 912
<b>ATTRIBUTABLE TO:</b>					
Ordinary shareholders		<b>1 291</b>	990	<b>(88)</b>	1 909
Preference shareholders		<b>3</b>	3	<b>3</b>	3
Non-controlling interest		<b>33</b>	34		
		<b>1 327</b>	1 027	<b>(85)</b>	1 912
<b>PER ORDINARY SHARE (CENTS):</b>					
– Basic earnings	25	<b>1 223</b>	938		
– Diluted basic earnings	25	<b>1 179</b>	909		
– Headline earnings	25	<b>1 150</b>	1 045		
– Diluted headline earnings	25	<b>1 108</b>	1 012		
– Ordinary dividends paid	26	<b>522</b>	489		
– Ordinary dividends declared after the reporting date	26	<b>414</b>	366		

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>1 327</b>	1 027	<b>(85)</b>	1 912
<b>OTHER COMPREHENSIVE INCOME/(LOSS) NET OF TAX:</b>	<b>97</b>	416	<b>261</b>	(27)
Items that may be reclassified subsequently to profit or loss:	<b>(149)</b>	482	<b>(1)</b>	14
– Foreign currency loan translation differences	<b>(11)</b>	64	<b>(1)</b>	11
– Foreign operations translation differences	<b>(138)</b>	413	–	–
– Effective portion of cash flow hedges	–	5	–	3
Tax effect on items that may be reclassified subsequently to profit or loss:	<b>3</b>	(16)	–	(3)
– Foreign currency loan translation differences	<b>3</b>	(16)	–	(3)
Items that may not be reclassified subsequently to profit or loss:	<b>338</b>	(69)	<b>366</b>	(53)
– Remeasurement of defined-benefit obligations	<b>326</b>	(45)	<b>354</b>	(29)
– Remeasurement of post-retirement medical aid obligations	<b>12</b>	(24)	<b>12</b>	(24)
Tax effects on items that may not be reclassified subsequently to profit or loss:	<b>(95)</b>	19	<b>(104)</b>	15
– Remeasurement of defined-benefit obligations	<b>(91)</b>	11	<b>(100)</b>	7
– Remeasurement of post-retirement medical aid obligations	<b>(4)</b>	8	<b>(4)</b>	8
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1 424</b>	1 443	<b>176</b>	1 885
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Ordinary shareholders	<b>1 388</b>	1 389	<b>173</b>	1 882
Preference shareholders	<b>3</b>	3	<b>3</b>	3
Non-controlling interest	<b>33</b>	51		
	<b>1 424</b>	1 443	<b>176</b>	1 885

# STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

R millions	Ordinary share capital	Share capital	Foreign currency translation reserve	Share-based payment reserve
<b>GROUP</b>				
<b>BALANCE AT 1 JANUARY 2018</b>	110	<b>110</b>	883	224
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>			444	
Remeasurement of defined-benefit obligations				
Deferred tax on remeasurement of defined-benefit obligations				
Remeasurement of post-retirement medical aid obligations				
Deferred tax on remeasurement of post-retirement medical aid obligations				
Cash flow hedge fair value adjustments				
Foreign currency loan translation differences			64	
Deferred tax on foreign currency loan translation differences			(16)	
Foreign operations translation differences			396	
Profit for the year				
<b>TRANSACTIONS WITH OWNERS</b>				35
Acquisition of non-controlling interest				
Change in ownership percentage				
Recognition of put option liability for the future buy-out of non-controlling interests				
Dividends paid				
Share-based payment reserve				81
Settlement cost of performance shares				(46)
<b>BALANCE AT 31 DECEMBER 2018</b>	110	<b>110</b>	1 327	259
Adjustment on adoption of IFRS 16, net of deferred tax				
<b>ADJUSTED BALANCE AT 1 JANUARY 2019</b>	110	<b>110</b>	1 327	259
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>			(146)	
Remeasurement of defined-benefit obligations				
Deferred tax on remeasurement of defined-benefit obligations				
Remeasurement of post-retirement medical aid obligations				
Deferred tax on remeasurement of post-retirement medical aid obligations				
Foreign currency loan translation differences			(11)	
Deferred tax on foreign currency loan translation differences			3	
Foreign operations translation differences			(138)	
Profit for the year				
<b>TRANSACTIONS WITH OWNERS</b>				76
Dividends paid				
Share-based payment reserve				83
Settlement cost of performance shares				(45)
Transfers between reserves				38
<b>BALANCE AT 31 DECEMBER 2019</b>	110	<b>110</b>	1 181	335

## FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve comprises all the Group's foreign exchange differences from the translation of the financial statements of foreign operations, as well as from the translation of monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future.

## SHARE-BASED PAYMENT RESERVE

The share-based payment reserve comprises the accumulated share-based payments over the vesting periods of the underlying instruments. Once instruments have vested, the reserve is transferred to retained earnings.

# STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

Change-in-ownership reserve	Cash flow hedge reserves	Total other reserves	Retained earnings	Total	Non-controlling interest	Preference share capital	Total equity
—	(5)	<b>1 102</b>	7 980	<b>9 192</b>	116	6	<b>9 314</b>
	5	<b>449</b>	940	<b>1 389</b>	51	3	<b>1 443</b>
			(45)	<b>(45)</b>			<b>(45)</b>
			11	<b>11</b>			<b>11</b>
			(24)	<b>(24)</b>			<b>(24)</b>
			8	<b>8</b>			<b>8</b>
	5	<b>5</b>		<b>5</b>			<b>5</b>
		<b>64</b>		<b>64</b>			<b>64</b>
		<b>(16)</b>		<b>(16)</b>			<b>(16)</b>
		<b>396</b>		<b>396</b>	17		<b>413</b>
			990	<b>990</b>	34	3	<b>1 027</b>
(29)		<b>6</b>	(544)	<b>(538)</b>	(11)	(3)	<b>(552)</b>
			(4)	<b>(4)</b>	32		<b>32</b>
(29)		<b>(29)</b>		<b>(29)</b>	(15)		<b>(19)</b>
		<b>81</b>	(540)	<b>(540)</b>	(28)	(3)	<b>(571)</b>
		<b>(46)</b>		<b>(46)</b>			<b>(46)</b>
(29)	—	<b>1 557</b>	8 376	<b>10 043</b>	156	6	<b>10 205</b>
			11	<b>11</b>			<b>11</b>
(29)	—	<b>1 557</b>	8 387	<b>10 054</b>	156	6	<b>10 216</b>
		<b>(146)</b>	1 534	<b>1 388</b>	33	3	<b>1 424</b>
			326	<b>326</b>			<b>326</b>
			(91)	<b>(91)</b>			<b>(91)</b>
			12	<b>12</b>			<b>12</b>
			(4)	<b>(4)</b>			<b>(4)</b>
		<b>(11)</b>		<b>(11)</b>			<b>(11)</b>
		<b>3</b>		<b>3</b>			<b>3</b>
		<b>(138)</b>		<b>(138)</b>	—		<b>(138)</b>
			1 291	<b>1 291</b>	33	3	<b>1 327</b>
		<b>76</b>	(606)	<b>(530)</b>	(23)	(3)	<b>(556)</b>
			(568)	<b>(568)</b>	(23)	(3)	<b>(594)</b>
		<b>83</b>		<b>83</b>			<b>83</b>
		<b>(45)</b>		<b>(45)</b>			<b>(45)</b>
		<b>38</b>	(38)	<b>—</b>			<b>—</b>
(29)	—	<b>1 487</b>	9 315	<b>10 912</b>	166	6	<b>11 084</b>

## CHANGE-IN-OWNERSHIP RESERVE

The change-in-ownership reserve is the reserve set aside for the buy-out of non-controlling interests at a date in the future. The future buy-out will be effected in terms of a put option held by the minority shareholders of the Much Asphalt group of companies.

# STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

R millions	Ordinary share capital	Share premium
<b>COMPANY</b>		
<b>BALANCE AT 1 JANUARY 2018</b>	122	6
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		
Remeasurement of defined-benefit obligations		
Deferred tax on remeasurement of defined-benefit obligations		
Remeasurement of post-retirement medical aid obligations		
Deferred tax on remeasurement of post-retirement medical aid obligations		
Cash flow hedge fair value adjustments		
Foreign currency loan translation differences		
Profit for the year		
<b>TRANSACTIONS WITH OWNERS</b>		
Dividends paid		
Share-based payment reserve		
Settlement cost of performance shares		
<b>BALANCE AT 31 DECEMBER 2018</b>	122	6
Adjustment on adoption of IFRS 16, net of deferred tax		
<b>ADJUSTED BALANCE AT 1 JANUARY 2019</b>	122	6
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		
Remeasurement of defined-benefit obligations		
Deferred tax on remeasurement of defined-benefit obligations		
Remeasurement of post-retirement medical aid obligations		
Deferred tax on remeasurement of post-retirement medical aid obligations		
Foreign currency loan translation differences		
Loss for the year		
<b>TRANSACTIONS WITH OWNERS</b>		
Dividends paid		
Share-based payment reserve		
Settlement cost of performance shares		
Transfers between reserves		
<b>BALANCE AT 31 DECEMBER 2019</b>	122	6

## OTHER RESERVES

The reserve for effective cash flow hedges and the foreign currency translation reserve.

# STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

Share capital and share premium	Share-based payment reserve	Other reserves	Total other reserves	Retained earnings	Total	Preference share capital	Total equity
<b>128</b>	225	—	<b>225</b>	3 362	<b>3 715</b>	6	<b>3 721</b>
		11	<b>11</b>	1 871	<b>1 882</b>	3	<b>1 885</b>
				(29)	<b>(29)</b>		<b>(29)</b>
				7	<b>7</b>		<b>7</b>
				(24)	<b>(24)</b>		<b>(24)</b>
				8	<b>8</b>		<b>8</b>
		3	<b>3</b>		<b>3</b>		<b>3</b>
		8	<b>8</b>		<b>8</b>		<b>8</b>
				1 909	<b>1 909</b>	3	<b>1 912</b>
	35		<b>35</b>	(598)	<b>(563)</b>	(3)	<b>(566)</b>
	81		<b>81</b>	(598)	<b>(598)</b>	(3)	<b>(601)</b>
	(46)		<b>(46)</b>		<b>(46)</b>		<b>(46)</b>
<b>128</b>	260	11	<b>271</b>	4 635	<b>5 034</b>	6	<b>5 040</b>
				2	<b>2</b>		<b>2</b>
<b>128</b>	260	11	<b>271</b>	4 637	<b>5 036</b>	6	<b>5 042</b>
		(1)	<b>(1)</b>	174	<b>173</b>	3	<b>176</b>
				354	<b>354</b>		<b>354</b>
				(100)	<b>(100)</b>		<b>(100)</b>
				12	<b>12</b>		<b>12</b>
				(4)	<b>(4)</b>		<b>(4)</b>
		(1)	<b>(1)</b>		<b>(1)</b>		<b>(1)</b>
				(88)	<b>(88)</b>	3	<b>(85)</b>
	76		<b>76</b>	(668)	<b>(592)</b>	(3)	<b>(595)</b>
	83		<b>83</b>	(630)	<b>(630)</b>	(3)	<b>(633)</b>
	(45)		<b>(45)</b>		<b>(45)</b>		<b>(45)</b>
	38		<b>38</b>	(38)	<b>—</b>		<b>—</b>
<b>128</b>	336	10	<b>346</b>	4 143	<b>4 617</b>	6	<b>4 623</b>

# STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

R millions	Note	GROUP		COMPANY	
		2019	2018	2019	2018
<b>CASH GENERATED BY OPERATIONS</b>	i	<b>3 347</b>	2 955	<b>497</b>	597
Dividends received		<b>50</b>	18	–	–
Interest paid		<b>(456)</b>	(370)	<b>(480)</b>	(391)
Interest received		<b>59</b>	38	<b>208</b>	225
Tax paid	ii	<b>(509)</b>	(302)	<b>(12)</b>	32
Changes in working capital	iii	<b>(538)</b>	(155)	<b>(132)</b>	(19)
Cash flows relating to defined-benefit costs		<b>(20)</b>	(19)	<b>(18)</b>	(17)
Cash flows relating to non-current provisions and employee benefits		<b>(65)</b>	(136)	<b>(44)</b>	(85)
<b>CASH AVAILABLE FROM OPERATING ACTIVITIES</b>		<b>1 868</b>	2 029	<b>19</b>	342
Dividends paid	iv	<b>(594)</b>	(571)	<b>(633)</b>	(601)
<b>CASH FLOWS GENERATED FROM OPERATING ACTIVITIES</b>		<b>1 274</b>	1 458	<b>(614)</b>	(259)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(302)</b>	(4 759)	<b>1 320</b>	(1 933)
Net replacement to maintain operations		<b>(551)</b>	(406)	<b>(77)</b>	(55)
Replacement of property, plant and equipment		<b>(674)</b>	(519)	<b>(99)</b>	(111)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		<b>123</b>	113	<b>22</b>	56
Investments to expand operations		<b>(141)</b>	(4 353)	<b>1 397</b>	(1 878)
Acquisition of					
– property, plant and equipment		<b>(129)</b>	(291)	<b>(23)</b>	(29)
– intangible assets		<b>(16)</b>	(1)	<b>(15)</b>	(1)
– investment property		<b>(14)</b>	(36)	<b>(12)</b>	(36)
– investments		<b>(53)</b>	(5)	<b>1 433</b>	276
– subsidiaries, net of cash acquired		–	(3 884)	–	(2 087)
Loans with					
– associates and other investments		<b>2</b>	1	<b>14</b>	(1)
– joint ventures		<b>69</b>	(137)	–	–
Proceeds from disposal of joint venture	7	<b>390</b>	–	–	–
<b>NET CASH GENERATED/(UTILISED) BEFORE FINANCING ACTIVITIES</b>		<b>972</b>	(3 301)	<b>706</b>	(2 192)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(547)</b>	3 519	<b>(316)</b>	2 084
Lease payments		<b>(246)</b>	–	<b>(17)</b>	–
Non-current borrowings – raised		–	4 331	–	2 380
Current borrowings – raised		<b>875</b>	4 526	<b>26</b>	2 622
– repaid		<b>(1 131)</b>	(5 281)	<b>(280)</b>	(2 872)
Buy-out of non-controlling interest		–	(11)	–	–
Settlement of performance shares		<b>(45)</b>	(46)	<b>(45)</b>	(46)
<b>INCREASE/(DECREASE) IN CASH</b>		<b>425</b>	218	<b>390</b>	(108)
Cash at the beginning of the year		<b>1 581</b>	1 206	<b>17</b>	125
Translation (loss)/gain on cash		<b>(28)</b>	157	–	–
<b>CASH AT THE END OF THE YEAR</b>		<b>1 978</b>	1 581	<b>407</b>	17

## NOTES TO THE STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>i. CASH GENERATED BY OPERATIONS</b>				
Profit from operations	<b>2 031</b>	1 999	<b>168</b>	365
Adjusted for non-cash movements:				
Defined-benefit and defined-contribution costs	<b>95</b>	88	<b>88</b>	84
Depreciation and amortisation	<b>1 031</b>	710	<b>109</b>	101
Share-based payment expense	<b>83</b>	81	<b>52</b>	39
Impairment of goodwill	<b>147</b>	31	<b>58</b>	–
Non-current provisions and employee benefits	<b>31</b>	40	<b>22</b>	7
(Surplus)/loss on disposal of property, plant and equipment	<b>(69)</b>	6	–	1
Fair value adjustment on put option liability	<b>(2)</b>	–	–	–
	<b>3 347</b>	2 955	<b>497</b>	597
<b>ii. TAX PAID</b>				
Owing at the beginning of the year	<b>(74)</b>	28	<b>(11)</b>	43
Charge for the year	<b>(478)</b>	(412)	<b>(14)</b>	(22)
Business combinations	–	8	–	–
Owing at the end of the year	<b>43</b>	74	<b>13</b>	11
	<b>(509)</b>	(302)	<b>(12)</b>	32
<b>iii. CHANGES IN WORKING CAPITAL</b>				
Decrease/(increase) in inventories	<b>47</b>	(330)	<b>218</b>	(85)
(Increase)/decrease in accounts receivable	<b>(275)</b>	(208)	<b>(303)</b>	106
(Decrease)/increase in accounts payable	<b>(269)</b>	236	<b>(47)</b>	(40)
	<b>(497)</b>	(302)	<b>(132)</b>	(19)
Translation differences	<b>(41)</b>	147	–	–
	<b>(538)</b>	(155)	<b>(132)</b>	(19)
<b>iv. DIVIDENDS PAID</b>				
Paid during the year (see note 26)	<b>(571)</b>	(543)	<b>(633)</b>	601
Paid to non-controlling interest	<b>(23)</b>	(28)	–	–
	<b>(594)</b>	(571)	<b>(633)</b>	601

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

## 1. PROPERTY, PLANT AND EQUIPMENT

R millions	Property	Plant and equipment	Furniture and fittings	Computer equipment	Motor vehicles	Under construction	Total
<b>GROUP</b>							
<b>2019</b>							
<b>COST</b>	<b>1 917</b>	<b>7 534</b>	<b>141</b>	<b>291</b>	<b>677</b>	<b>698</b>	<b>11 258</b>
At the beginning of the year	1 847	7 304	138	320	659	705	10 973
Additions	10	175	5	19	8	586	803
Disposals	(10)	(263)	(13)	(66)	(25)	(30)	(407)
Transfers	92	394	11	20	42	(559)	–
Translation differences	(22)	(76)	–	(2)	(7)	(4)	(111)
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>	<b>611</b>	<b>4 054</b>	<b>87</b>	<b>219</b>	<b>565</b>		<b>5 536</b>
At the beginning of the year	536	3 787	90	254	538		5 205
Disposals	(10)	(246)	(13)	(65)	(23)		(357)
Depreciation for the year	89	542	11	33	57		732
Translation differences	(4)	(29)	(1)	(3)	(7)		(44)
<b>CARRYING AMOUNT</b>	<b>1 306</b>	<b>3 480</b>	<b>54</b>	<b>72</b>	<b>112</b>	<b>698</b>	<b>5 722</b>
<b>2018</b>							
<b>COST</b>	1 847	7 304	138	320	659	705	10 973
At the beginning of the year	1 291	6 210	132	399	584	444	9 060
Additions	36	229	2	8	20	515	810
Additions through business combinations	442	879	3	2	18	119	1 463
Disposals	(50)	(593)	(10)	(104)	(25)	(12)	(794)
Transfers	39	331	4	9	10	(393)	–
Translation differences	89	248	7	6	52	32	434
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>	536	3 787	90	254	538		5 205
At the beginning of the year	480	3 752	79	318	466		5 095
Disposals	(34)	(531)	(8)	(103)	(26)		(702)
Depreciation for the year	85	466	10	34	48		643
Translation differences	5	100	9	5	50		169
<b>CARRYING AMOUNT</b>	<b>1 311</b>	<b>3 517</b>	<b>48</b>	<b>66</b>	<b>121</b>	<b>705</b>	<b>5 768</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 1. PROPERTY, PLANT AND EQUIPMENT CONTINUED

R millions	Property	Plant and equipment	Furniture and fittings	Computer equipment	Motor vehicles	Under construction	Total
<b>COMPANY</b>							
<b>2019</b>							
<b>COST</b>	<b>83</b>	<b>973</b>	<b>17</b>	<b>40</b>	<b>21</b>	<b>52</b>	<b>1 186</b>
At the beginning of the year	56	981	22	54	21	103	1 237
Additions	3	76	2	13	2	26	122
Disposals	(6)	(111)	(7)	(27)	(2)	(20)	(173)
Transfers	30	27	–	–	–	(57)	–
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>	<b>37</b>	<b>542</b>	<b>13</b>	<b>25</b>	<b>14</b>		<b>631</b>
At the beginning of the year	37	585	18	47	14		701
Disposals	(6)	(109)	(7)	(27)	(2)		(151)
Depreciation for the year	6	66	2	5	2		81
<b>CARRYING AMOUNT</b>	<b>46</b>	<b>431</b>	<b>4</b>	<b>15</b>	<b>7</b>	<b>52</b>	<b>555</b>
<b>2018</b>							
<b>COST</b>	<b>56</b>	<b>981</b>	<b>22</b>	<b>54</b>	<b>21</b>	<b>103</b>	<b>1 237</b>
At the beginning of the year	52	855	24	59	26	130	1 146
Additions	4	62	–	5	1	68	140
Disposals	–	(31)	(2)	(10)	(6)	–	(49)
Transfers	–	95	–	–	–	(95)	–
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>	<b>37</b>	<b>585</b>	<b>18</b>	<b>47</b>	<b>14</b>		<b>701</b>
At the beginning of the year	33	512	18	49	15		627
Disposals	(1)	(6)	(2)	(7)	(3)		(19)
Depreciation for the year	5	79	2	5	2		93
<b>CARRYING AMOUNT</b>	<b>19</b>	<b>396</b>	<b>4</b>	<b>7</b>	<b>7</b>	<b>103</b>	<b>536</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 2. RIGHT-OF-USE ASSETS

R millions	Property	Plant and equipment	Motor vehicles	Total
<b>GROUP</b>				
<b>2019</b>				
<b>COST</b>	<b>434</b>	<b>25</b>	<b>351</b>	<b>810</b>
Transition adjustment (see note 35)	411	23	361	795
Additions	19	3	–	22
Lease modifications	14	–	(11)	3
Translation differences	(10)	(1)	1	(10)
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>	<b>96</b>	<b>10</b>	<b>112</b>	<b>218</b>
Depreciation for the year	97	10	113	220
Translation differences	(1)	–	(1)	(2)
<b>CARRYING AMOUNT</b>	<b>338</b>	<b>15</b>	<b>239</b>	<b>592</b>
<b>COMPANY</b>				
<b>2019</b>				
<b>COST</b>	<b>38</b>	<b>4</b>		<b>42</b>
Transition adjustment (see note 35)	29	1		30
Additions	9	3		12
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>	<b>14</b>	<b>1</b>		<b>15</b>
Depreciation for the year	14	1		15
<b>CARRYING AMOUNT</b>	<b>24</b>	<b>3</b>		<b>27</b>

## 3. INVESTMENT PROPERTY

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>COST</b>	<b>260</b>	250	<b>292</b>	280
At the beginning of the year	250	241	280	271
Additions	14	36	12	36
Disposals	(4)	(27)	–	(27)
<b>ACCUMULATED DEPRECIATION</b>	<b>32</b>	28	<b>39</b>	31
At the beginning of the year	28	25	31	24
Depreciation for the year	4	3	8	7
<b>CARRYING AMOUNT</b>	<b>228</b>	222	<b>253</b>	249
<b>ADDITIONAL INFORMATION</b>				
Fair value <sup>1,2</sup>	1 042	797	1 889	1 563
Rental and service income from investment property	342	312	457	368
Direct operating expenses – relating to rental and service income	(325)	(325)	(325)	(325)

1 The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value, based on the inputs of the valuation techniques used.

2 The fair value in the Group is lower than the fair value in the Company because certain properties become owner-occupied on consolidation.

The Company leases property, offices and industrial sites to external customers as well as to its subsidiary companies. The lease periods are between one and 10 years, with most leases having a three-year term, with annual rental escalations between CPI and 8%. At 31 December 2019, the gross lettable area of the office and industrial buildings was 177 133m<sup>2</sup> (2018: 177 133m<sup>2</sup>). Revenue from the investment property also includes amounts related to the provision of steam, water, effluent management, rail services and bulk electricity, mainly at the Umbogintwini Industrial Complex.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 3. INVESTMENT PROPERTY CONTINUED

### MEASUREMENT OF FAIR VALUES

#### FAIR VALUE HIERARCHY

The fair value of investment property is determined by an external independent property valuation expert, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, on a rolling three-year cycle in line with Group policy.

This entails valuing approximately a third of the Group's investment properties annually, thereby ensuring that each property is valued at least once in a three-year cycle. For the properties that were not subject to an independent valuation in any given year, an assessment of the key assumptions is performed by management. No significant changes to the existing key assumptions were identified in the current year.

The fair value for the investment property has been split into its components. Fair value measurement has been categorised as a Level 3 fair value based on the inputs of the valuation techniques used.

#### UNOBSERVABLE INPUTS

A number of valuation techniques were used, depending on the optimal likely use of the property. The following table summarises the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs considered:

VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	INTER-RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
The comparable sales approach was used to value vacant land.	Comparable sales for parcels of raw, unserviced or rezoned and fully serviced land.	The enhanced fair value rate per square metre has a direct influence on fair value.
The valuation model was based on sales of comparable properties in the surrounding area, which were analysed to provide an estimate of the value for the property with adjustments made for differing characteristics.	The land valued at Modderfontein and Umbogintwini is zoned for business use and is partially serviced but it is not immediately sub-divisible and developable.	
The comparable transactions were analysed in terms of their use and the purchase price was adjusted for variances in the quality of the space. This purchase price was then divided by the land size to determine a value rate per square metre. This rate was applied to the land in order to derive a fair value.	Therefore, a fair value per square metre had to be derived with reference to a comparable unzoned and unserviced parcel of land but enhanced by the perceived value of installed services and zoning.	
The income approach was used to value the buildings.	<ul style="list-style-type: none"> <li>› Capitalisation rate: 13,0%;</li> <li>› Vacancy rate for office space: 10,0% – 20,0%;</li> <li>› Vacancy rate for industrial space: 2% – 18%;</li> <li>› Operating expenses for all buildings: R22,50/m<sup>2</sup> – R28,40/m<sup>2</sup>.</li> </ul>	The estimated fair value would increase/ (decrease) if: <ul style="list-style-type: none"> <li>› the capitalisation rate were lower/(higher);</li> <li>› the vacancy rate for office space were lower/(higher);</li> <li>› the vacancy rate for industrial space were lower/(higher);</li> <li>› the operating expenses for all buildings were lower/(higher).</li> </ul>
The valuation model was based on discounted cash flows incorporating the lease obligations, including escalations, to termination. At lease expiry, a new lease is assumed and the commencing rental is assumed to be the current gross market rental escalated at an appropriate growth rate.		
The present value of the future cash flows was added to the present value of the hypothetical exit value, being the hypothetical net annual income capitalised into perpetuity at an appropriate market-related rate.		
The discount and exit capitalisation rates were determined by reference to comparable sales, appropriate surveys prepared by industry professionals, benchmarking against other comparable valuations, and after consultation with experienced and informed professionals in the property industry including other valuers, brokers, managers and investors.		

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 4. INTANGIBLE ASSETS

R millions	Customer and marketing relationships	Brands	Technical and licensing agreements	Patents, trademarks and other	Total
<b>GROUP</b>					
<b>2019</b>					
<b>COST</b>	<b>886</b>	<b>144</b>	<b>139</b>	<b>55</b>	<b>1 224</b>
At the beginning of the year	901	147	139	39	1 226
Additions	—	—	—	16	16
Translation differences	(15)	(3)	—	—	(18)
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>	<b>159</b>	<b>—</b>	<b>67</b>	<b>34</b>	<b>260</b>
At the beginning of the year	100	—	59	28	187
Amortisation for the year	61	—	8	6	75
Translation differences	(2)	—	—	—	(2)
<b>CARRYING AMOUNT</b>	<b>727</b>	<b>144</b>	<b>72</b>	<b>21</b>	<b>964</b>
<b>2018</b>					
<b>COST</b>	901	147	139	39	1 226
At the beginning of the year	134	—	138	39	311
Additions through business combinations	733	139	—	—	872
Additions	—	—	1	—	1
Translation differences	34	8	—	—	42
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>	<b>100</b>	<b>—</b>	<b>59</b>	<b>28</b>	<b>187</b>
At the beginning of the year	46	—	51	26	123
Amortisation for the year	54	—	8	2	64
<b>CARRYING AMOUNT</b>	<b>801</b>	<b>147</b>	<b>80</b>	<b>11</b>	<b>1 039</b>

### INDEFINITE LIFE INTANGIBLE ASSETS

The brands relate to the cash generating units CGUs detailed below. Brands have an indefinite useful life and are assessed annually for impairment as part of the goodwill impairment assessment (see note 5).

#### MUCH ASPHALT

Company brand **64**

Much Asphalt is South Africa's largest manufacturer and supplier of asphalt products, bituminous road binders and emulsions. It has a strong brand reputation, established over more than 50 years of operations, and is recognised as a leader in its field.

Much Asphalt operates in terms of a business-to-business ("B2B") model and its customers include road construction companies ("RCCs"). These RCCs regularly approach Much Asphalt for non-binding quotations. They have their own in-house asphalt manufacturing capabilities or have relationships with competing asphalt manufacturers. Pricing plays a significant role in winning contracts, even though Much Asphalt may be able to negotiate prices based on its experience, the quality of the work provided and the technology it has at its disposal.

Given Much Asphalt's long history and that its predominant business model is B2B, with price competitiveness playing a major role in securing business against competitors with similar competitive products and manufacturing process, its brand was assessed as having an indefinite useful life.

#### SCHIRM

Company brand **80**

Schirm was acquired via a share deal, resulting in its brand also being acquired by AECI. Schirm's name has a long tradition in the agrochemicals and fine chemicals industries. The name is considered a quality signal to the market and carries an attributable value. Schirm operates as a contract manufacturer and does not sell products under its own product brands or trademarks.

Since all of Schirm's sales are affected by its brand, total revenue was considered as the basis for the valuation. Due to Schirm's stable market position, characterised by a profound customer base and high barriers to entry for competitors, the Schirm brand was assessed as having an indefinite useful life.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 4. INTANGIBLE ASSETS CONTINUED

Patents,  
trademarks  
and other

R millions

### COMPANY

#### 2019

<b>COST</b>		<b>20</b>
At the beginning of the year		<b>5</b>
Additions		<b>15</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>		<b>6</b>
At the beginning of the year		<b>1</b>
Amortisation for the year		<b>5</b>
<b>CARRYING AMOUNT</b>		<b>14</b>

#### 2018

<b>COST</b>		5
At the beginning of the year		4
Additions		1
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>		1
At the beginning of the year		1
<b>CARRYING AMOUNT</b>		4

## 5. GOODWILL

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>COST</b>	<b>3 500</b>	3 585	<b>936</b>	936
At the beginning of the year	<b>3 585</b>	1 662	<b>936</b>	936
Additions through business combinations	–	1 836	–	–
Written off	<b>(23)</b>	(1)	–	–
Translation differences	<b>(62)</b>	88	–	–
<b>ACCUMULATED IMPAIRMENT LOSSES</b>	<b>299</b>	175	<b>240</b>	182
At the beginning of the year	<b>175</b>	138	<b>182</b>	182
Written off	<b>(23)</b>	–	–	–
Impairment charge for the year	<b>147</b>	31	<b>58</b>	–
Translation differences	–	6	–	–
<b>CARRYING AMOUNT</b>	<b>3 201</b>	3 410	<b>696</b>	754
Goodwill is allocated to CGUs based on the Group's operating segments as follows:				
Mining Solutions	<b>467</b>	467	–	–
Water & Process	<b>349</b>	349	–	–
Plant & Animal Health	<b>483</b>	545	<b>100</b>	100
Food & Beverage	<b>51</b>	198	<b>4</b>	62
Chemicals	<b>1 851</b>	1 851	<b>592</b>	592
<b>CARRYING AMOUNT</b>	<b>3 201</b>	3 410	<b>696</b>	754

### IMPAIRMENT OF GOODWILL

Goodwill is tested for impairment by calculating the value-in-use of the CGU or CGUs to which the goodwill is allocated. The goodwill in the operating segments comprises individual CGUs, each of which has been tested for impairment. The goodwill balances are aggregated, per operating segment, due to no single CGU in each operating segment being considered individually significant.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 5. GOODWILL CONTINUED

Value-in-use was determined by discounting the future cash flows expected to be generated from the continuing use of the CGU and was based on the following key assumptions:

- › cash flows were projected based on actual operating results and the business plan for a period of at least five years, and using an average trading margin of between 8% and 11% over the five years;
- › a pre-tax discount rate between 7% and 21% (2018: 8% and 22%) was applied in determining the recoverable amount of the CGU and the discount rate was estimated based on the Group's weighted average cost of capital, adjusted for the risk profile applicable to each CGU; and
- › terminal value growth rates of between 2% and 6% (2018: 1% and 6%) were applied. This was based on sustainable earnings and a conservative growth model.

Other than Much Asphalt and Schirm (as disclosed below), a reasonably possible change in the assumptions used to calculate the value-in-use is not likely to cause the recoverable amount to fall below the carrying value of the remaining CGUs.

### GROUP

#### IMPAIRMENTS DURING THE YEAR

The goodwill of R147 million on the Group's investment in Southern Canned Products (Pty) Ltd ("SCP"), in the Food & Beverage operating segment, was impaired. Lower trading margins in key customers' industries diminished SCP's ability to achieve the cash flow synergies identified at the time of acquisition.

The value-in-use of the CGU was reassessed at 31 December 2019 by discounting its expected future cash flows. Its recoverable amount was R296 million compared to its carrying value of R441 million and, accordingly, the goodwill of R147 million was fully impaired.

The impairment assessment was performed using a discounted cash flow model in accordance with the Group's policy on impairment of non-financial assets. The following key assumptions were applied:

- › margins were determined by management, using judgement and best estimates derived from information available at the time;
- › sales volumes were determined after considering sustainable production capacity and demand observed in the markets in which SCP operates;
- › a discount rate of 16,5% was applied in the model and was calculated using the Group's weighted average cost of capital, the South African risk-free rate and the South African country risk premium;
- › cash flows were projected based on actual operating results and the business plan for a period of five years; and
- › a terminal value growth rate of 5,5% was applied and was based on sustainable earnings and a conservative growth model into perpetuity.

### COMPANY

#### IMPAIRMENTS DURING THE YEAR

The divisional goodwill of R58 million on the Company's investment in Infigro, in the Food & Beverage segment, was impaired. The cash flow synergies relating to this business unit are no longer expected to be realised in full as a result of changes in market conditions, with new competitors negatively impacting margins and a significant slowdown in demand from the largest customer. The combination of these factors necessitated an impairment of the associated goodwill.

The value-in-use of the CGU was reassessed at 31 December 2019 by discounting the expected future cash flows to be generated from this CGU. The recoverable amount was R73 million compared to the carrying value of R140 million and, accordingly, the goodwill of R58 million was fully impaired.

The impairment assessment was performed using a discounted cash flow model, in accordance with the Group's policy on impairment of non-financial assets. The following key assumptions were applied:

- › margins were determined by management, using judgement and best estimates derived from information available at the time;
- › sales volumes were determined after considering sustainable production capacity and demand observed in the market in which Infigro operates;
- › the discount rate of 15,3% applied in the model was calculated using the Group's weighted average cost of capital, the South African risk-free rate and the South African country risk premium;
- › the cash flows were projected based on actual operating results and the business plan for a period of five years; and
- › a terminal value growth rate of 5,5% was applied and was based on sustainable earnings and a conservative growth model into perpetuity.

#### IMPAIRMENT TESTING FOR CGUs CONTAINING GOODWILL

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs as follows:

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Much Asphalt <sup>1</sup>	1 531	1 531	—	—
Schirm <sup>1</sup>	317	376	—	—
Multiple units with individually insignificant goodwill <sup>2</sup>	1 353	1 503	696	754
<b>CARRYING AMOUNT</b>	<b>3 201</b>	<b>3 410</b>	<b>696</b>	<b>754</b>

<sup>1</sup> The brands, which are intangible assets with indefinite useful lives, are included in the impairment assessment of the relevant CGUs (see note 4).

<sup>2</sup> The remainder of the Group's goodwill comprises 33 CGUs which are individually insignificant.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 5. GOODWILL CONTINUED

### MUCH ASPHALT

The recoverable amount of this CGU was based on the value-in-use, estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

%	GROUP	
	2019	2018
Discount rate	<b>13,8</b>	14,8
Terminal value growth rate	<b>5,5</b>	5,5
Budgeted revenue growth rate (average for the next five years)	<b>9,0</b>	13,2

A nominal discount rate was applied in determining the recoverable amount of the CGU and estimated based on the Group's weighted average cost of capital, adjusted for the risk profile applicable to the CGU, with a possible debt leveraging of 30%. The discount rate is influenced by changes in the country risk-free rate, currency default spread and risk premiums which, in turn, are influenced by changes in the macro-economic environment.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual earnings before interest, tax, depreciation and amortisation ("EBITDA") growth rate, consistent with the assumptions that a market participant would make.

Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years. It was assumed that sales would increase in line with projected government investment in road infrastructure that will materialise in the foreseeable future, based on the South African government's commitments to infrastructure spend as published by the National Treasury in its forecasts for the next five years.

The estimated recoverable amount of the CGU exceeded its carrying amount by approximately R298 million, but this amount is sensitive to changes in certain key assumptions. Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

%	INCREASE/ (DECREASE) REQUIRED FOR CARRYING AMOUNT TO EQUAL RECOVERABLE AMOUNT	
	2019	2018
Discount rate	<b>1,1</b>	1,8
Budgeted revenue growth rate (average for the next five years)	<b>(2,5)</b>	(4,1)

### SCHIRM

The recoverable amount of this CGU was based on the value-in-use, estimated using discounted cash flows.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

%	GROUP	
	2019	2018
Discount rate	<b>7,7</b>	8,1
Terminal value growth rate	<b>2,2</b>	1,8
Budgeted revenue growth rate (average for the next five years)	<b>4,3</b>	5,7

A nominal discount rate was applied in determining the recoverable amount of the CGU and was estimated based on the Group's weighted average cost of capital, adjusted for the risk profile applicable to the CGU, with a possible debt leveraging of 15%. The discount rate is influenced by changes in the country risk-free rate, currency default spread and risk premiums which, in turn, are influenced by changes in the macro-economic environment.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years. It was assumed that sales would increase in line with the expectation that challenges associated with the commissioning of the new synthesis plant and registration of certain products over the next five years, will be resolved.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 5. GOODWILL CONTINUED

The estimated recoverable amount of the CGU exceeded its carrying amount by approximately €43 million (R690 million translated at 31 December 2019), but this amount is sensitive to changes in certain key assumptions. Management identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

% %	INCREASE/ (DECREASE) REQUIRED FOR CARRYING AMOUNT TO EQUAL RECOVERABLE AMOUNT	
	2019	2018
Discount rate	1,9	0,5
Budgeted revenue growth rate (average for the next five years)	(5,2)	(1,6)

## 6. INVESTMENT IN SUBSIDIARIES AND LOANS WITH SUBSIDIARIES

R millions	COMPANY	
	2019	2018
Unlisted shares (see note 33)	7 570	7 562
At cost	7 621	7 613
Less: impairment losses	(51)	(51)
Non-current loans to subsidiaries	351	351
Amounts owing <sup>1,3</sup>	351	351
Investment in subsidiaries	7 921	7 913
Non-current loans from subsidiaries <sup>1,3</sup>	(2 213)	(2 197)
<b>NET INVESTMENT IN SUBSIDIARIES</b>	<b>5 708</b>	<b>5 716</b>
Interest-bearing non-current loans to subsidiaries <sup>1,3</sup>	399	434
Interest-bearing current loans to subsidiaries <sup>2,3</sup>	3 267	3 301
<b>INTEREST-BEARING LOANS TO SUBSIDIARIES</b>	<b>3 666</b>	<b>3 735</b>
Interest-bearing current loans from subsidiaries <sup>3</sup>	(4 284)	(3 043)
<b>INTEREST-BEARING LOANS FROM SUBSIDIARIES</b>	<b>(4 284)</b>	<b>(3 043)</b>
<b>NET LOANS WITH SUBSIDIARIES (see note 33)<sup>3</sup></b>	<b>(2 480)</b>	<b>(1 154)</b>

1 Other loans provided by and to the Company are not expected to be repaid within 12 months and are classified as non-current.

2 Business entities are funded through the central treasury of the Company and such loans are classified as current.

3 Net loans with subsidiaries is calculated as the sum of loans to and loans from subsidiaries.

The loans with non-operating business entities are considered part of the net investment in those entities and bear no interest.

All significant subsidiaries' financial information included in the financial statements is prepared as at the reporting date of the parent.

Impairment assessments on investments in unlisted shares of dormant entities were made with reference to the net asset value of those entities. Where this resulted in the value of the investment having a recoverable amount lower than the carrying value, the investments were impaired.

Impairment assessments on investments in and loans to subsidiaries were made with reference to the net asset value, future business plans and cash flow forecasts of those subsidiaries. Where this resulted in the value of the investment having a recoverable amount lower than the carrying value, the investments were impaired.

Loans bear interest at market-related variable rates, are unsecured and have no fixed terms of repayment.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 7. INVESTMENT IN AND LOANS WITH JOINT VENTURES AND JOINT OPERATIONS

### INTERESTS IN JOINT VENTURES

Specialty Minerals South Africa (“SMSA”) is a joint venture with Specialty Minerals Inc., a wholly-owned subsidiary of Minerals Technologies Inc., which is a global leader in precipitated calcium carbonate technology. Accordingly, SMSA has access to the most up-to-date technology and technical services. The Company’s products are used as a value-adding filler material in the manufacture of copy grade paper in South Africa.

The Group has a residual interest in the net assets of SMSA and thus it is classified as a joint venture. The joint venture is not a publicly listed entity and, therefore, it does not have published price quotations.

Crest Chemicals (“Crest”) was a joint venture with the Brenntag (Holding) BV. Crest represents several international manufacturers of specialty and commodity chemical products and distributes these to a large number of industries in Southern Africa.

The Group’s share of profit of joint ventures for the year was R21 million (2018: R2 million).

In 2019 the Group received dividends of R50 million from its joint ventures (2018: R18 million).

Summarised financial information for the joint ventures was as follows:

### STATEMENTS OF FINANCIAL POSITION

R millions	SMSA	Total
<b>2019</b>		
<b>OWNERSHIP (%)</b>	<b>50</b>	
Current assets excluding cash and cash equivalents	<b>26</b>	<b>26</b>
Cash and cash equivalents	<b>65</b>	<b>65</b>
Non-current assets	<b>11</b>	<b>11</b>
<b>TOTAL ASSETS</b>	<b>102</b>	<b>102</b>
Trade and other payables	<b>36</b>	<b>36</b>
<b>TOTAL LIABILITIES</b>	<b>36</b>	<b>36</b>
<b>NET ASSETS</b>	<b>66</b>	<b>66</b>
Group’s share of net assets	<b>33</b>	<b>33</b>
<b>CARRYING AMOUNT</b>	<b>33</b>	<b>33</b>

R millions	Crest	SMSA	Total
<b>2018</b>			
<b>OWNERSHIP (%)</b>	50	50	
Current assets excluding cash and cash equivalents	464	25	489
Cash and cash equivalents	28	121	149
Non-current assets	172	13	185
<b>TOTAL ASSETS</b>	<b>664</b>	<b>159</b>	<b>823</b>
Trade and other payables	225	32	257
Non-current liabilities	27	—	27
<b>TOTAL LIABILITIES</b>	<b>252</b>	<b>32</b>	<b>284</b>
Non-controlling interest	25	—	25
<b>NET ASSETS</b>	<b>387</b>	<b>127</b>	<b>514</b>
Group’s share of net assets	194	64	258
<b>CARRYING AMOUNT</b>	<b>194</b>	<b>64</b>	<b>258</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 7. INVESTMENT IN AND LOANS WITH JOINT VENTURES AND JOINT OPERATIONS CONTINUED

### INCOME STATEMENTS

R millions	Crest	SMSA	Total
<b>2019</b>			
<b>OWNERSHIP (%)</b>	<b>50</b>	<b>50</b>	
Revenue	<b>577</b>	<b>170</b>	<b>747</b>
Net operating costs excluding depreciation and amortisation	<b>(550)</b>	<b>(120)</b>	<b>(670)</b>
Depreciation and amortisation	<b>(11)</b>	<b>(3)</b>	<b>(14)</b>
Interest expense	<b>(5)</b>	–	<b>(5)</b>
Interest received	<b>1</b>	<b>4</b>	<b>5</b>
Tax credit	<b>(4)</b>	<b>(16)</b>	<b>(20)</b>
Non-controlling interest	<b>(1)</b>	–	<b>(1)</b>
<b>PROFIT</b>	<b>7</b>	<b>35</b>	<b>42</b>
Group's share of profit <sup>1</sup>	<b>4</b>	<b>17</b>	<b>21</b>

<sup>1</sup> The Group's share of Crest's profit was for the six months ended 30 June 2019, at which date it was classified as held for sale.

R millions	Crest	SMSA	Total
<b>2018</b>			
<b>OWNERSHIP (%)</b>	50	50	
Revenue	1 515	172	1 687
Net operating costs excluding depreciation and amortisation	(1 563)	(107)	(1 670)
Depreciation and amortisation	(10)	(3)	(13)
Interest expense	(1)	–	(1)
Interest received	2	5	7
Tax expense/(credit)	14	(18)	(4)
Non-controlling interest	(2)	–	(2)
<b>(LOSS)/PROFIT</b>	<b>(45)</b>	<b>49</b>	<b>4</b>
Group's share of (loss)/profit	<b>(23)</b>	<b>25</b>	<b>2</b>

### LOANS (FROM)/TO JOINT VENTURES

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Interest-bearing current loans (from)/to joint ventures	<b>(62)</b>	7	<b>(130)</b>	(30)

Loans bear interest at market-related variable rates, are unsecured and have no fixed terms of repayment.

### DISPOSAL OF INTEREST IN JOINT VENTURE

The Group disposed of its 50% shareholding in Crest to its joint venture partner, Brenntag (Holding) BV on 29 November 2019. The business was part of the Chemicals operating segment and was classified as held for sale at 30 June 2019.

R millions	2019
<b>GROUP</b>	
Final adjusted purchase price	<b>430</b>
Initial purchase price consideration received	<b>390</b>
Purchase price adjustment on working capital <sup>1</sup>	<b>40</b>
Carrying value of investment disposed	<b>(196)</b>
<b>PROFIT ON SALE OF JOINT VENTURE</b>	<b>234</b>

<sup>1</sup> The purchase price was adjusted upwards by 50% of the amount by which Crest's final working capital exceeded its working capital target as agreed in the sale and purchase agreement. This additional amount was received after the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 7. INVESTMENT IN AND LOANS WITH JOINT VENTURES AND JOINT OPERATIONS CONTINUED

### INTEREST IN JOINT OPERATION

DetNet is a joint arrangement with Dyno Nobel, a subsidiary of Incitec Pivot Ltd. DetNet is represented globally by both AEL Intelligent Blasting and Dyno Nobel, thus providing global access and support for all its products. The Group has rights to the assets and obligations for the liabilities of DetNet and thus it is classified as a joint operation which is proportionately consolidated. On proportionate consolidation the investment in unlisted shares is derecognised and the joint operation's results are consolidated on a line-by-line basis into that of the Group.

R millions	COMPANY	
	2019	2018
Unlisted shares at amortised cost	<b>28</b>	28

### PERCENTAGE HELD BY AECI

OWNERSHIP (%)	2019	2018
DetNet South Africa (Pty) Ltd	<b>50</b>	50

### GROUP'S SHARE OF INCOME STATEMENT

R millions	2019	2018
<b>OWNERSHIP (%)</b>	<b>50</b>	50
Revenue	<b>281</b>	196
Net operating costs excluding depreciation and amortisation	<b>(229)</b>	(172)
Depreciation and amortisation	<b>(5)</b>	(3)
Interest received	<b>4</b>	3
Tax expense	<b>(15)</b>	(3)
<b>PROFIT</b>	<b>36</b>	21

### GROUP'S SHARE OF FINANCIAL POSITION

R millions	2019	2018
<b>OWNERSHIP (%)</b>	<b>50</b>	50
Current assets excluding cash and cash equivalents	<b>145</b>	96
Cash and cash equivalents	<b>34</b>	25
Non-current assets	<b>23</b>	22
<b>TOTAL ASSETS</b>	<b>202</b>	143
Trade and other payables including provisions	<b>47</b>	25
Current financial liabilities excluding trade and other payables and provisions	<b>2</b>	–
Non-current liabilities	<b>1</b>	1
Non-current financial liabilities excluding trade and other payables and provisions	<b>1</b>	–
<b>TOTAL LIABILITIES</b>	<b>51</b>	26
<b>NET ASSETS</b>	<b>151</b>	117

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 8. INVESTMENT IN ASSOCIATES

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>UNLISTED SHARES AT COST</b>	<b>299</b>	299	<b>24</b>	24
At the beginning of the year	<b>299</b>	289	<b>24</b>	24
Acquisitions	—	10	—	—
<b>POST-ACQUISITION ACCUMULATED LOSSES</b>	<b>(158)</b>	(164)		
Balance at the beginning of the year	<b>(164)</b>	(90)		
Impairment	—	(78)		
Translation differences	<b>(3)</b>	6		
Current year's share of net profits/(losses) of associate companies	<b>9</b>	(2)		
<b>TOTAL INVESTMENT IN ASSOCIATES</b>	<b>141</b>	135	<b>24</b>	24

The Group has a 42,6% interest in PT Black Bear Resources Indonesia ("BBRI"). BBRI is an Indonesian company and owns an ammonium nitrate plant which supplies ammonium nitrate solution to the region, thereby improving AECI Mining Solutions' supply chain. BBRI is a strategic investment for that segment as it enables local supply to replace imports into this market.

The Group has a 49% interest in Clover Pride (Pty) Ltd ("Clover Pride"), a South African manufacturer and importer of olive oils, extra virgin olive oils, balsamic vinegars and related products.

The Group has a 27% interest in Specialised Road Technologies (Pty) Ltd ("SRT"). SRT has a wide range of specialised equipment at its disposal for road surveillance testing and its laboratory is equipped to meet the latest requirements of asphalt design protocol and performance grade binder specification testing. SRT is an associate of Much Asphalt and is consolidated in the Chemicals operating segment.

### GROUP

R millions	BBRI	Clover Pride	SRT	Total
<b>2019</b>				
<b>OWNERSHIP (%)</b>	<b>42,6</b>	<b>49,0</b>	<b>27,0</b>	
<b>STATEMENT OF FINANCIAL POSITION</b>				
Current assets	<b>110</b>	<b>56</b>	<b>35</b>	<b>201</b>
Non-current assets	<b>340</b>	<b>41</b>	<b>10</b>	<b>391</b>
Current liabilities	<b>(121)</b>	<b>(15)</b>	<b>(3)</b>	<b>(139)</b>
Non-current liabilities	<b>(50)</b>	<b>(13)</b>	<b>(1)</b>	<b>(64)</b>
<b>NET ASSETS (100%)</b>	<b>279</b>	<b>69</b>	<b>41</b>	<b>389</b>
<b>CARRYING AMOUNT OF INTEREST IN ASSOCIATE</b>	<b>97</b>	<b>34</b>	<b>10</b>	<b>141</b>
<b>2018</b>				
<b>OWNERSHIP (%)</b>	42,6	49,0	27,0	
<b>STATEMENT OF FINANCIAL POSITION</b>				
Current assets	114	42	30	186
Non-current assets	365	42	12	419
Current liabilities	(222)	(15)	(1)	(238)
Non-current liabilities	—	(12)	(2)	(14)
<b>NET ASSETS (100%)</b>	257	57	39	353
<b>CARRYING AMOUNT OF INTEREST IN ASSOCIATE</b>	96	29	10	135

The Company's R24 million investment in Clover Pride is carried at cost less accumulated impairments.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 8. INVESTMENT IN ASSOCIATES CONTINUED

### INCOME STATEMENT

R millions	BBRI	Clover Pride	SRT	Total
<b>2019</b>				
<b>OWNERSHIP (%)</b>	<b>42,6</b>	<b>49,0</b>	<b>27,0</b>	
Revenue	200	127	27	354
Net operating costs excluding depreciation and amortisation	(139)	(109)	(23)	(271)
Depreciation and amortisation	(46)	—	(4)	(50)
Interest expense	(11)	(2)	—	(13)
Interest received	2	1	1	4
Tax expense	—	(4)	—	(4)
<b>PROFIT</b>	<b>6</b>	<b>13</b>	<b>1</b>	<b>20</b>
<b>GROUP SHARE OF PROFIT</b>	<b>3</b>	<b>6</b>	<b>—</b>	<b>9</b>
<b>2018</b>				
<b>OWNERSHIP (%)</b>	42,6	49,0	27,0	
Revenue	185	108	20	313
Net operating costs excluding depreciation and amortisation	(139)	(106)	(17)	(262)
Depreciation and amortisation	(40)	—	(3)	(43)
Interest expense	(12)	(2)	—	(14)
Interest received	1	—	1	2
Tax expense	—	—	(1)	(1)
<b>LOSS</b>	<b>(5)</b>	<b>—</b>	<b>—</b>	<b>(5)</b>
<b>GROUP SHARE OF LOSS</b>	<b>(2)</b>	<b>—</b>	<b>—</b>	<b>(2)</b>

## 9. OTHER INVESTMENTS

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>NON-CURRENT INVESTMENTS</b>				
Equity instruments	99	101	97	99
Unlisted shares <sup>1</sup>	95	97	93	95
Capital contributions	4	4	4	4
Loans and receivables <sup>2</sup>	8	25	—	14
<b>OTHER NON-CURRENT INVESTMENTS</b>	<b>107</b>	<b>126</b>	<b>97</b>	<b>113</b>
<b>CURRENT INVESTMENTS</b>				
Money market investments <sup>3</sup>	136	83	—	—
Employer surplus accounts <sup>4</sup>	101	135	101	135
Loans and receivables <sup>2</sup>	15	—	15	—
<b>OTHER CURRENT INVESTMENTS</b>	<b>252</b>	<b>218</b>	<b>116</b>	<b>135</b>

1 During 2017, AECI invested US\$5 million (R65 million translated at the time) in Origin Materials ("Origin"), a start-up company based in California, USA, that has pioneered the development of bio-based chemicals which can be processed into a large number of products for application in global markets. Included in the unlisted shares is a R22 million investment in the Good Chemistry Fund. The Group designates these investments as measured at fair value through other comprehensive income. The fair value of the investment in Origin was categorised as a Level 3 asset, because the shares were not listed on an exchange and there were no recent observable arm's length transactions in the shares other than the amount invested. The Good Chemistry Fund is also considered to be a Level 3 asset in the fair value hierarchy.

2 These loans have varying repayments terms ranging from no fixed repayment terms to a repayment period of 10 years. Interest on these loans is charged at fixed rates of between nil and 15% annually, and at floating rates of prime plus 1%.

3 The money market investment is an investment in a collective investment scheme with Investec Bank Ltd and a money market fund with Old Mutual Ltd. The investments are considered to be Level 1 financial assets and, therefore, their carrying values were the same as their fair values at the reporting date.

4 Employer surplus accounts include the surpluses from the AECI Defined Contribution Pension Fund and the AECI Employees Provident Fund. The funds are invested in a money market account and the investment is thus considered to be a Level 1 financial asset. Its carrying value, therefore, was the same as its fair value at the reporting date. See note 29 for further information in this regard.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 10. DEFERRED TAX

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Deferred tax assets	<b>234</b>	382	–	–
Deferred tax liabilities	<b>(527)</b>	(547)	<b>(132)</b>	(60)
<b>NET DEFERRED TAX LIABILITY</b>	<b>(293)</b>	(165)	<b>(132)</b>	(60)
At the beginning of the year	<b>(165)</b>	302	<b>(60)</b>	(18)
Recognised in the income statement				
– normal activities	<b>(33)</b>	(117)	<b>31</b>	(60)
Recognised in other comprehensive income				
– foreign currency loan translation differences	<b>3</b>	(16)	–	–
– defined-benefit obligations	<b>(91)</b>	11	<b>(100)</b>	7
– post-retirement medical aid obligations	<b>(4)</b>	8	<b>(4)</b>	8
Business combinations	–	(352)	–	–
Other	<b>(3)</b>	(1)	<b>1</b>	3
<b>AT THE END OF THE YEAR</b>	<b>(293)</b>	(165)	<b>(132)</b>	(60)
Analysis by major temporary differences:				
Property, plant and equipment	<b>(598)</b>	(710)	<b>(61)</b>	(56)
Right-of-use assets and finance lease liabilities	<b>(13)</b>	–	–	–
Intangible assets	<b>(232)</b>	(142)	–	–
Provisions and deferred income	<b>468</b>	424	<b>193</b>	177
Pension fund employer surplus accounts	<b>(214)</b>	(133)	<b>(214)</b>	(133)
Deferred foreign exchange differences	<b>(35)</b>	(68)	<b>(43)</b>	(47)
Computed tax losses	<b>326</b>	460	–	–
Other	<b>5</b>	4	<b>(7)</b>	(1)
	<b>(293)</b>	(165)	<b>(132)</b>	(60)

Deferred tax assets of R234 million (2018: R382 million) were recognised to the extent that it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits were estimated based on business plans which include estimates and assumptions regarding economic growth, interest and inflation rates and market conditions. These deferred tax assets do not expire.

## 11. INVENTORIES

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Raw and packaging materials	<b>1 471</b>	1 524	<b>204</b>	233
In progress	<b>18</b>	68	<b>6</b>	10
Finished goods and merchandise	<b>2 324</b>	2 261	<b>881</b>	1 057
Consumable stores	<b>205</b>	186	–	–
Spares and other	<b>204</b>	211	<b>29</b>	30
Obsolescence provisions	<b>(188)</b>	(169)	<b>(18)</b>	(10)
	<b>4 034</b>	4 081	<b>1 102</b>	1 320
Recognised in profit or loss:				
Cost of inventories recognised as an expense	<b>13 533</b>	12 935	<b>4 013</b>	3 856
Losses and write-down of inventories	<b>11</b>	14	<b>5</b>	8
Inventory adjustments	<b>81</b>	64	<b>(6)</b>	7

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 12. ACCOUNTS RECEIVABLE

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Trade (net of loss allowances)	4 035	4 086	1 193	1 109
Contracts with customers	4 032	4 084	1 190	1 107
Lease receivables	3	2	3	2
Pre-payments	126	197	24	29
VAT	332	144	52	32
Deposits	138	26	13	7
Other	217	156	35	43
Forward exchange contracts	28	26	3	8
Joint ventures and associates	32	15	38	16
Subsidiaries	—	—	333	143
	<b>4 908</b>	4 650	<b>1 691</b>	1 387

Trade receivables are exposed to credit risk as described in note 28.

The maximum exposure to credit risk for trade receivables at 31 December by geographic region was:

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
South Africa	2 364	2 427	1 131	1 032
Rest of African continent	1 047	1 070	55	65
North America	99	47	—	—
South America	6	15	—	—
Asia	73	96	5	5
Australia	72	87	—	—
Europe	374	344	2	7
<b>TRADE (NET OF LOSS ALLOWANCES)</b>	<b>4 035</b>	4 086	<b>1 193</b>	1 109

## CONCENTRATION OF CREDIT RISK

The following table provides information on the exposure to credit risk and expected credit loss rates (“ECLs”) for trade receivables by geographic region as at 31 December 2019:

GROUP	Weighted average loss rate (%)	Gross carrying amount	Specific loss allowances	Lifetime ECL allowance	Total loss allowance	Trade (net of loss allowances)
R millions						
<b>SOUTH AFRICA</b>						
Current (not yet due) <sup>1</sup>	—	1 894	—	(7)	(7)	1 887
1 – 30 days past due	1	318	—	(3)	(3)	315
31 – 60 days past due	2	129	—	(2)	(2)	127
61 – 90 days past due	4	31	(1)	(1)	(2)	29
More than 90 days past due	100	66	(1)	(59)	(60)	6
		2 438	(2)	(72)	(74)	2 364
<b>REST OF AFRICAN CONTINENT</b>						
Current (not yet due)	1	766	(1)	(4)	(5)	761
1 – 30 days past due	1	196	—	(2)	(2)	194
31 – 60 days past due	1	60	—	(1)	(1)	59
61 – 90 days past due	2	30	—	(1)	(1)	29
More than 90 days past due	100	81	(3)	(74)	(77)	4
		1 133	(4)	(82)	(86)	1 047

<sup>1</sup> Weighted average loss rate of less than 1%.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 12. ACCOUNTS RECEIVABLE CONTINUED

### GROUP

R millions	Weighted average loss rate (%)	Gross carrying amount	Specific loss allowances	Lifetime ECL allowance	Total loss allowance	Trade (net of loss allowances)
<b>EUROPE</b>						
Current (not yet due)	1	328	(1)	(4)	(5)	323
1 – 30 days past due	9	56	(2)	(4)	(6)	50
31 – 60 days past due	–	–	–	–	–	–
61 – 90 days past due	–	1	–	–	–	1
More than 90 days past due	100	2	–	(2)	(2)	–
		387	(3)	(10)	(13)	374
<b>OTHER REGIONS</b>						
Current (not yet due) <sup>1</sup>	–	222	–	(1)	(1)	221
1 – 30 days past due	–	26	–	–	–	26
31 – 60 days past due	–	1	–	–	–	1
61 – 90 days past due	–	–	–	–	–	–
More than 90 days past due	100	6	–	(4)	(4)	2
		255	–	(5)	(5)	250

Other regions include Asia, Australia, North America and South America.

### COMPANY

R millions	Weighted average loss rate (%)	Gross carrying amount	Specific loss allowances	Lifetime ECL allowance	Total loss allowance	Trade (net of loss allowances)
<b>SOUTH AFRICA</b>						
Current (not yet due) <sup>1</sup>	–	840	–	(2)	(2)	838
1 – 30 days past due	–	192	–	(1)	(1)	191
31 – 60 days past due	1	84	–	(1)	(1)	83
61 – 90 days past due	4	21	(1)	(1)	(2)	19
More than 90 days past due	100	20	(1)	(19)	(20)	–
		1 157	(2)	(24)	(26)	1 131
<b>REST OF AFRICAN CONTINENT</b>						
Current (not yet due) <sup>1</sup>	–	41	–	–	–	41
1 – 30 days past due	–	6	–	–	–	6
31 – 60 days past due	1	8	–	–	–	8
61 – 90 days past due	7	–	–	–	–	–
More than 90 days past due	100	1	–	(1)	(1)	–
		56	–	(1)	(1)	55

<sup>1</sup> Weighted average loss rate of less than 1%.

Other regions amount to R7 million, with negligible losses expected. These include receivables from Asia, Australia, Europe, North America and South America.

The loss allowance is calculated using an ECL model instead of an incurred loss model. The Group uses a provision matrix to calculate ECLs, with amounts more than 90 days past due viewed as rebuttable default events. The weighted average loss rate is not applied to receivables that carry an insignificant risk of default due to credit insurance, letters of credit or other forms of guarantee.

The ECLs were calculated based on actual credit loss experience. The Group performed the calculation of ECL rates separately by segmenting exposures based on common credit risk characteristics and focused on the risks relevant to each geographic region.

Actual credit loss experience was adjusted to reflect differences between economic conditions during the period over which the historical data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 12. ACCOUNTS RECEIVABLE CONTINUED

### IMPAIRMENT ALLOWANCE OF TRADE RECEIVABLES

The movements in the allowance for impairment in respect of trade receivables were as follows:

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
At the beginning of the year	<b>(224)</b>	(149)	<b>(38)</b>	(16)
Adjustment due to recognition of expected credit losses under IFRS 9	—	(56)	—	(19)
Subsidiaries acquired	—	(57)	—	—
Net remeasurement of loss allowance	<b>28</b>	10	<b>3</b>	(6)
Impairment allowances applied to trade receivables deemed irrecoverable	<b>18</b>	28	<b>8</b>	3
<b>AT THE END OF THE YEAR</b>	<b>(178)</b>	(224)	<b>(27)</b>	(38)
Contracts with customers	<b>(178)</b>	(223)	<b>(27)</b>	(37)
Lease receivables	—	(1)	—	(1)

The decrease in loss allowance was attributable mainly to a decrease in the gross carrying amounts of trade receivables.

## 13. SHARE CAPITAL AND SHARE PREMIUM

R millions	NUMBER OF SHARES		GROUP		COMPANY	
	2019	2018	2019	2018	2019	2018
<b>ORDINARY SHARES</b>						
Authorised						
Ordinary shares of R1 each	<b>180 000 000</b>	180 000 000	<b>180</b>	180	<b>180</b>	180
B ordinary shares of no par value	<b>10 117 951</b>	10 117 951				
<b>LISTED ORDINARY SHARES AT THE BEGINNING AND END OF THE YEAR</b>						
At the beginning of the year						
Group	<b>109 944 384</b>	109 944 384	<b>110</b>	110		
Company	<b>121 829 083</b>	121 829 083			<b>122</b>	122
At the end of the year						
Group	<b>109 944 384</b>	109 944 384	<b>110</b>	110		
Company	<b>121 829 083</b>	121 829 083			<b>122</b>	122
<b>UNLISTED REDEEMABLE CONVERTIBLE B ORDINARY SHARES AT THE BEGINNING AND END OF THE YEAR</b>						
Company	<b>10 117 951</b>	10 117 951				
Share premium less share issue expenses			—	—	<b>6</b>	6
Total ordinary shares						
Group	<b>109 944 384</b>	109 944 384	<b>110</b>	110		
Company	<b>131 947 034</b>	131 947 034			<b>128</b>	128
No par value treasury shares held by a consolidated trust	<b>10 117 951</b>	10 117 951				
Par value treasury shares held by a subsidiary company	<b>11 884 699</b>	11 884 699				
Total treasury shares	<b>22 002 650</b>	22 002 650				
<b>LISTED PREFERENCE SHARES</b>						
Authorised and issued						
5,5% cumulative shares of R2 each	<b>3 000 000</b>	3 000 000	<b>6</b>	6	<b>6</b>	6

In terms of the Company's MOI, all payments of dividends on the preference shares and all payments to be made in respect of the preference shares in the event of liquidation shall be made in pound sterling and calculated as though the shares were one pound sterling per share. The capital repayment to preference shareholders in the event of liquidation is limited to 3 150 000 pound sterling (1,05 pound sterling per share).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 13. SHARE CAPITAL AND SHARE PREMIUM CONTINUED

Other than treasury shares, the following beneficial shareholders held 5% or more of the Company's listed ordinary shares at 31 December 2019:

BENEFICIAL SHAREHOLDER	Number of shares	% of issued ordinary shares
Allan Gray	18 008 013	14,8
PIC	11 955 154	9,8
PSG Asset Management	11 151 112	9,2
Kagiso Asset Management	7 237 542	5,9

## CAPITAL MANAGEMENT

The Board of Directors' policy is to actively manage its capital base so as to maintain investor and market confidence and sustain future development of the business. The Board of Directors monitors the spread of shareholders, the level of dividends to ordinary shareholders and RONA. RONA is defined as operating profit plus share of profit of equity-accounted investees, net of tax, as a percentage of average operating assets less average operating liabilities (see note 32). There are no externally imposed capital requirements.

## 14. NON-CURRENT BORROWINGS

R millions (unless otherwise indicated)

Facility	Terms of repayment	Interest rate <sup>1</sup>	Weighted average interest rate (%)	GROUP		COMPANY	
				2019	2018	2019	2018
<b>UNSECURED</b>							
<b>LOCAL</b>							
<b>LOANS</b>							
Term loan	Repayable in full on 12 April 2021	JIBAR + 1,94%	8,96	<b>1 100</b>	1 100	<b>1 100</b>	1 100
	Repayable in full on 21 November 2021	JIBAR + 1,41%	8,41	<b>200</b>	200	<b>200</b>	200
	Repayable in full on 21 November 2023	JIBAR + 1,60%	8,60	<b>500</b>	500	<b>500</b>	500
<b>DMTN PROGRAMME<sup>2</sup></b>							
AECI01	Repayable in full on 11 September 2021	JIBAR + 1,55%	8,56	<b>360</b>	360	<b>360</b>	360
AECI02	Repayable in full on 11 September 2023	JIBAR + 1,75%	8,81	<b>520</b>	520	<b>520</b>	520
AECI03	Repayable in full on 21 November 2022	JIBAR + 1,51%	8,51	<b>500</b>	500	<b>500</b>	500
AECI04	Repayable in full on 21 November 2023	JIBAR + 1,56%	8,56	<b>300</b>	300	<b>300</b>	300
<b>FOREIGN</b>							
<b>LOANS— US DOLLAR</b>							
	Repayable in full on 23 November 2020	LIBOR + 1,45%	3,86	<b>168</b>	173		
	Repayable in full on 21 November 2021	LIBOR + 1,52%	3,93	<b>196</b>	201		
	Repayable in full on 21 November 2022	LIBOR + 1,83%	4,24	<b>210</b>	216		
	Repayable in full on 21 November 2023	LIBOR + 1,98%	4,39	<b>281</b>	287		
<b>LOANS— EURO</b>							
	Repayable in full on 21 November 2023	EURIBOR + 2,00% <sup>3</sup>	1,64	<b>535</b>	559		
	Repayable in full on 21 November 2023	0,27% + 2,00%	2,27	<b>535</b>	559		
<b>TOTAL BORROWINGS</b>				<b>5 405</b>	5 475	<b>3 480</b>	3 480
Current borrowings (see note 18)				<b>(168)</b>	—	—	—
<b>NON-CURRENT BORROWINGS</b>				<b>5 237</b>	5 475	<b>3 480</b>	3 480

1 Applicable three-month base rate with interest accrued and repaid every three months.

2 The JSE Limited granted AECI the listing of its Senior Unsecured Floating Rate Notes, in terms of its Domestic Medium Term Note Programme ("DMTN Programme"), dated 4 September 2018. The DMTN Programme is guaranteed by AECI Mining Solutions Ltd, Chemical Services Ltd, Much Asphalt (Pty) Ltd and AECI Mauritius Ltd, effective from 11 September 2018.

3 Three-month EURIBOR, provided that if at any time while any amount is outstanding under the facility, the sum of such margin and EURIBOR is negative, the lenders will apply a floor of minus 2% to EURIBOR, such that the sum of the margin and EURIBOR remains greater than or equal to zero %.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 14. NON-CURRENT BORROWINGS CONTINUED

### SUMMARY OF REPAYMENTS

R millions	TOTAL OWING	REPAYABLE DURING THE YEAR ENDING 31 DECEMBER				TOTAL OWING
	2019	2020	2021	2022	2023	2018
<b>GROUP</b>						
Borrowings denominated in rand	<b>3 480</b>	–	1 660	500	1 320	3 480
Borrowings denominated in foreign currency	<b>1 925</b>	168	196	210	1 351	1 995
<b>TOTAL BORROWINGS</b>	<b>5 405</b>	168	1 856	710	2 671	5 475
<b>COMPANY</b>						
Borrowings denominated in rand	<b>3 480</b>	–	1 660	500	1 320	3 480
<b>TOTAL BORROWINGS</b>	<b>3 480</b>	–	1 660	500	1 320	3 480

## 15. LEASE LIABILITIES

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Transition adjustment (see note 35)	<b>739</b>	–	<b>30</b>	–
Additions	<b>22</b>	–	<b>12</b>	–
Lease payments	<b>(246)</b>	–	<b>(17)</b>	–
Lease modifications	<b>3</b>	–	–	–
Interest	<b>62</b>	–	<b>3</b>	–
Translation differences	<b>(4)</b>	–	–	–
<b>TOTAL LEASE LIABILITIES</b>	<b>576</b>	–	<b>28</b>	–
Current lease liabilities	<b>(210)</b>	–	<b>(17)</b>	–
<b>NON-CURRENT LEASE LIABILITIES</b>	<b>366</b>	–	<b>11</b>	–

## MATURITY ANALYSIS

R millions	Total owing 2019	Payable within 1 year	Payable between 1 and 5 years		Total owing 2018
			Payable thereafter		
<b>GROUP</b>					
Undiscounted amounts	<b>690</b>	254	346	90	–
Unearned interest	<b>(114)</b>	(44)	(56)	(14)	–
<b>TOTAL LEASE LIABILITIES</b>	<b>576</b>	210	290	76	–
<b>COMPANY</b>					
Undiscounted amounts	<b>31</b>	19	12	–	–
Unearned interest	<b>(3)</b>	(2)	(1)	–	–
<b>TOTAL LEASE LIABILITIES</b>	<b>28</b>	17	11	–	–

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 15. LEASE LIABILITIES CONTINUED

### INFORMATION REGARDING VARIABLE LEASE ESCALATIONS

Some of the vehicle and property leases in which the Group is the lessee contain annual future escalations that are linked to local country CPI. All other leases contain fixed escalation rates.

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Fixed escalation leases	<b>488</b>	—	<b>28</b>	—
Variable escalation leases	<b>88</b>	—	—	—
— linked to South African CPI	<b>87</b>	—	—	—
— linked to foreign CPI	<b>1</b>	—	—	—
<b>TOTAL LEASE LIABILITIES</b>	<b>576</b>	—	<b>28</b>	—

## 16. NON-CURRENT PROVISIONS AND EMPLOYEE BENEFITS

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>ENVIRONMENTAL REMEDIATION</b>				
At the beginning of the year	<b>165</b>	167	<b>107</b>	109
Paid during the year	<b>(4)</b>	(20)	<b>(1)</b>	(2)
Charged to net operating costs during the year (see note 20)				
— Additional provision made	<b>7</b>	16	—	—
— Reversal of provision	<b>(5)</b>	—	—	—
Translation differences	—	2	—	—
	<b>163</b>	165	<b>106</b>	107
Current portion included in accounts payable (see note 17)	—	(16)	—	—
<b>AT THE END OF THE YEAR</b>	<b>163</b>	149	<b>106</b>	107
<b>EARNINGS-BASED INCENTIVE SCHEME (see note 30)</b>				
At the beginning of the year	<b>22</b>	37	<b>21</b>	35
Paid during the year	<b>(9)</b>	(19)	<b>(8)</b>	(18)
Charged to net operating costs during the year (see note 20)				
— Additional provision made	<b>3</b>	4	<b>3</b>	4
	<b>16</b>	22	<b>16</b>	21
Current portion included in accounts payable (see note 17)	<b>(16)</b>	(22)	<b>(16)</b>	(21)
<b>AT THE END OF THE YEAR</b>	—	—	—	—
<b>EARNINGS-GROWTH INCENTIVE SCHEME (see note 30)</b>				
At the beginning of the year	<b>91</b>	119	<b>40</b>	53
Paid during the year	<b>(31)</b>	(59)	<b>(14)</b>	(27)
Charged to net operating costs during the year (see note 20)				
— Additional provision made	<b>24</b>	36	<b>14</b>	16
— Reversal of provision	<b>(6)</b>	(5)	<b>(3)</b>	(2)
	<b>78</b>	91	<b>37</b>	40
Current portion included in accounts payable (see note 17)	<b>(67)</b>	(67)	<b>(34)</b>	(30)
<b>AT THE END OF THE YEAR</b>	<b>11</b>	24	<b>3</b>	10

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 16. NON-CURRENT PROVISIONS AND EMPLOYEE BENEFITS CONTINUED

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>CASH-SETTLED SHARE-BASED INCENTIVE SCHEME (see note 30)</b>				
At the beginning of the year	22	45	22	45
Paid during the year	(21)	(12)	(21)	(12)
Charged to net operating costs during the year (see note 20)				
– Additional provision made	8	4	8	4
– Reversal of provision	–	(15)	–	(15)
	9	22	9	22
Current portion included in accounts payable (see note 17)	(9)	(22)	(9)	(22)
<b>AT THE END OF THE YEAR</b>	–	–	–	–
<b>ACTUARIAL VALUATION OF OBLIGATIONS (see note 30)</b>				
Post-retirement medical aid obligations	207	216	207	216
Defined-benefit obligations	221	194	–	–
<b>AT THE END OF THE YEAR</b>	428	410	207	216
<b>TOTAL NON-CURRENT PROVISIONS</b>	<b>602</b>	<b>583</b>	<b>316</b>	<b>333</b>

### ENVIRONMENTAL REMEDIATION

The environmental remediation provision is based on the Group's SHEQ Policy, obligations in terms of legislation to remediate land and the most appropriate end-use for the land. The expenditure is expected to be incurred as and when the Group is legally required to do so, depending on end-use for the land. The Group's environmental costs could increase depending on the impact of possible changes in legislation and possible changes in practices by environmental authorities.

### EARNINGS-BASED, EARNINGS-GROWTH AND CASH-SETTLED SHARE-BASED INCENTIVE SCHEMES

The earnings-based incentive scheme, earnings-growth incentive scheme and cash-settled share-based incentive scheme provisions represent the present value of obligations to employees who have been granted units in terms of the incentive schemes (see note 30).

The amount payable depends on employees meeting the vesting conditions pertaining to their period of employment as well as the earnings of the Group or the Company's share price performance during the life of the units.

### POST-RETIREMENT MEDICAL AID OBLIGATIONS

Details of the nature of the post-retirement medical aid obligations provision are disclosed in note 30. The costs will be incurred over the lifetime of all eligible employees and will vary depending on expected lives, changes to salary inflation, healthcare costs and discount rates.

Assumptions used to determine the obligations are also detailed in note 30.

## 17. ACCOUNTS PAYABLE

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Trade	3 373	3 736	1 373	1 434
Payroll-related accruals	625	622	214	212
Other	221	183	105	148
Provisions	162	162	5	5
Accruals	110	110	67	67
Forward exchange contracts	65	26	25	9
VAT	25	27	–	–
Subsidiaries	–	–	151	121
Joint ventures and associates	10	17	–	3
	4 591	4 883	1 940	1 999
Current portion of non-current provisions (see note 16)	92	127	59	73
	4 683	5 010	1 999	2 072

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 18. CURRENT BORROWINGS

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Current portion of non-current borrowings (see note 14)	<b>168</b>	–	–	–
Unsecured interest-bearing short-term borrowings	<b>27</b>	283	<b>26</b>	280
	<b>195</b>	283	<b>26</b>	280

## 19. REVENUE

### DISAGGREGATION OF REVENUE BY NATURE

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>MINING SOLUTIONS</b>	<b>11 537</b>	11 013		
Sale of goods	<b>9 983</b>	9 449		
Sale of goods and related product application services	<b>1 554</b>	1 564		
<b>WATER &amp; PROCESS</b>	<b>1 452</b>	1 376		
Sale of goods	<b>37</b>	79		
Sale of goods and related product application services	<b>1 415</b>	1 297		
<b>PLANT &amp; ANIMAL HEALTH</b>	<b>4 783</b>	4 423	<b>2 591</b>	2 433
Sale of goods	<b>4 774</b>	4 423	<b>2 584</b>	2 433
Sale of goods and related product application services	<b>9</b>	–	<b>7</b>	–
<b>FOOD &amp; BEVERAGE</b>	<b>1 466</b>	1 248	<b>503</b>	461
Sale of goods	<b>1 466</b>	1 248	<b>503</b>	461
<b>CHEMICALS</b>	<b>5 567</b>	5 266	<b>2 424</b>	2 460
Sale of goods	<b>5 505</b>	5 215	<b>2 370</b>	2 409
Sale of goods and related product application services	<b>62</b>	51	<b>54</b>	51
<b>PROPERTY &amp; CORPORATE</b>	<b>338</b>	311	<b>343</b>	295
Sale of goods	<b>7</b>	15	–	–
Sale of services	<b>331</b>	296	<b>343</b>	295
<b>REVENUE RECOGNISED AT A POINT IN TIME</b>	<b>25 143</b>	23 637	<b>5 861</b>	5 649
<b>PROPERTY &amp; CORPORATE</b>	<b>133</b>	128	<b>131</b>	128
Rental income	<b>133</b>	128	<b>131</b>	128
Inter-segment	<b>(477)</b>	(451)	<b>(132)</b>	(112)
<b>TOTAL</b>	<b>24 799</b>	23 314	<b>5 860</b>	5 665

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 19. REVENUE CONTINUED

### DISAGGREGATION OF REVENUE BY INDUSTRY

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Mining	<b>11 848</b>	11 263	<b>272</b>	295
Agriculture	<b>4 843</b>	4 719	<b>2 551</b>	2 404
Chemicals	<b>2 819</b>	2 271	<b>364</b>	380
Food and beverage	<b>1 409</b>	1 297	<b>448</b>	430
Oil and refining	<b>715</b>	650	<b>224</b>	197
Coatings, ink and adhesives	<b>510</b>	281	<b>127</b>	141
Textiles and leather	<b>433</b>	451	<b>15</b>	4
Paper and packaging	<b>470</b>	386	<b>427</b>	359
Toiletries, cosmetics and pharmaceuticals	<b>348</b>	371	<b>339</b>	367
Property	<b>342</b>	320	<b>380</b>	306
Detergents	<b>251</b>	192	<b>250</b>	192
Potable water	<b>213</b>	182	<b>1</b>	–
Engineering and foundry	<b>144</b>	191	<b>142</b>	188
Plastics and rubber	<b>81</b>	338	<b>73</b>	61
Steel and metals	<b>56</b>	85	<b>20</b>	48
Construction	<b>40</b>	62	<b>11</b>	34
Energy	<b>39</b>	76	<b>2</b>	24
Automotive	<b>35</b>	33	<b>23</b>	22
Appliances and furniture	<b>10</b>	17	<b>4</b>	11
Other	<b>126</b>	80	<b>53</b>	2
Subsidiaries	–	–	<b>134</b>	200
Sales to joint ventures and associates	<b>67</b>	49		
<b>TOTAL</b>	<b>24 799</b>	23 314	<b>5 860</b>	5 665

### DISAGGREGATION OF REVENUE BY GEOGRAPHICAL END MARKET

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
SACU <sup>1</sup>	<b>15 294</b>	14 981	<b>5 580</b>	5 288
Rest of Africa	<b>5 222</b>	4 470	<b>89</b>	150
International	<b>4 216</b>	3 814	<b>57</b>	27
Subsidiaries	–	–	<b>134</b>	200
Sales to joint ventures and associates	<b>67</b>	49	–	–
<b>TOTAL</b>	<b>24 799</b>	23 314	<b>5 860</b>	5 665

1 Southern African Customs Union comprising South Africa, Botswana, Eswatini, Lesotho and Namibia.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 20. NET OPERATING COSTS

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Cost of sales	<b>16 497</b>	15 528	<b>4 741</b>	4 543
Selling and distribution expenses	<b>1 797</b>	1 832	<b>425</b>	420
Administrative expenses	<b>4 474</b>	3 955	<b>526</b>	337
<b>NET OPERATING COSTS</b>	<b>22 768</b>	21 315	<b>5 692</b>	5 300
Net operating costs have been arrived at after taking into account:				
Auditor's remuneration	<b>31</b>	50	<b>12</b>	26
– Audit fees	<b>25</b>	24	<b>6</b>	5
– Other services	<b>6</b>	26	<b>6</b>	21
Depreciation and amortisation	<b>1 031</b>	710	<b>109</b>	101
– Property, plant and equipment	<b>732</b>	643	<b>81</b>	93
– Investment property	<b>4</b>	3	<b>8</b>	7
– Right-of-use assets	<b>220</b>	–	<b>15</b>	–
– Intangible assets	<b>75</b>	64	<b>5</b>	1
Foreign exchange gains	<b>(387)</b>	(627)	<b>(1)</b>	(74)
Foreign exchange losses	<b>425</b>	539	<b>13</b>	–
Impairment of goodwill	<b>147</b>	31	<b>58</b>	–
Increase in non-current provisions and employee benefits	<b>31</b>	40	<b>22</b>	7
– Environmental remediation	<b>2</b>	16	–	–
– Earnings-based incentive scheme	<b>3</b>	4	<b>3</b>	4
– Earnings-growth incentive scheme	<b>18</b>	31	<b>11</b>	14
– Cash-settled share-based incentive scheme	<b>8</b>	(11)	<b>8</b>	(11)
Lease costs	<b>127</b>	229	<b>18</b>	33
Research and development expenditure	<b>64</b>	61	<b>7</b>	7
Fair value adjustment on put option liability	<b>2</b>	–	–	–
(Surplus)/loss on disposal of property, plant and equipment	<b>(69)</b>	6	–	1
Total salaries and other staff costs	<b>4 484</b>	4 193	<b>761</b>	723
Salaries and other staff costs	<b>4 401</b>	4 112	<b>709</b>	684
EST share-based payment	–	3	–	(2)
Performance share-based payment	<b>83</b>	78	<b>52</b>	41

## 21. SHARE-BASED PAYMENTS

### AECI EMPLOYEES SHARE TRUST (“EST”)

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Equity-settled share-based payment	–	3	–	3
– recognised in profit from operations	–	3	–	(2)
– investment in subsidiaries and joint ventures	–	–	–	5

On 9 February 2012, the EST subscribed for 10 117 951 redeemable convertible AECI B ordinary shares of no par value, for no cash consideration. The EST will hold the shares on behalf of its beneficiaries for a period of 10 years. The beneficiaries are permanent employees who did not participate in any of the Group's existing long-term incentive schemes at 9 February 2012 and Black Managers who were employed as that same date in the Group's South African operations, and any other employees and Black Managers who are employed subsequently and granted allocations by the AECI Executive Committee.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 21. SHARE-BASED PAYMENTS CONTINUED

The number of shares for Black Managers was determined on the basis of annual basic salary divided by the issue price of R75,82. The number of shares for the remaining eligible employees was 1 022 AECL B ordinary shares per employee plus 102 AECL B ordinary shares for every year of completed service up to a maximum of 10 years, as indicated in the following table:

Number of years of completed service	Total number of shares allocated
Less than 1	1 022
1	1 124
2	1 226
3	1 328
4	1 430
5	1 532
6	1 634
7	1 736
8	1 838
9	1 940
10	2 042

The shares are unlisted, not transferable or saleable, have the same voting rights as AECL ordinary shares and any dividend declared on the B ordinary shares may not exceed the dividend declared on the ordinary shares.

At the end of the 10-year lock-in period, the shares allocated to beneficiaries will be distributed in accordance with the EST distribution formula. These entitlement shares will then be converted to AECL ordinary shares and the remainder of the B ordinary shares will be redeemed for no consideration. Any shares which have not been allocated to employees will be distributed to the AECL Community Education and Development Trust.

The number of shares to be distributed and available for conversion to AECL ordinary shares will be determined in accordance with the EST distribution formula:

$$A = B \times \{1 - [(C - E + F + X) \div D]\}$$

A is the number of the vested B ordinary shares to which an EST beneficiary is entitled, provided that fractions arising will be rounded to the nearest whole number. If A is zero, there will be no distribution and the remaining vested shares not distributed will be redeemed for no consideration.

B is the total number of shares vested in beneficiaries at the termination date.

C is R75,82 being the issue price, increased by the rate of 85% of the prime rate compounded monthly in arrears during the 10-year EST term.

D is the volume weighted average price ("VWAP") of an AECL ordinary share for the higher of the 30 or 60 trading days ending at the close of trading on the EST termination date.

E is an amount equal to the distributions which would have been paid on the vested shares had they been AECL ordinary shares instead of B ordinary shares and as though they had been held from 9 February 2012.

F is an amount equal to the dividends and any other payments and distributions which have actually been paid in respect of B ordinary shares over the EST term.

X is an amount equal to the aggregate administration costs of the EST paid by the Group over the EST term divided by the total number of B ordinary shares held by the EST.

A share-based payment expense is recognised as an equity-settled share-based payment in profit from operations, with a corresponding credit to a share-based payment reserve, and is recognised over the vesting period of the shares with reference to the fair value of the equity instruments granted. The vesting period is based on a forfeiture profile as follows:

### PERCENTAGE OF B ORDINARY SHARES TO BE FORFEITED

	%
Less than 3 years	100
3 but less than 4 years	80
4 but less than 5 years	60
5 but less than 6 years	40
6 but less than 7 years	20
More than 7 years	—

The fair value of the equity instruments was determined using a Monte Carlo option pricing approach to simulate the future share price of the Company's listed shares over the period of the transaction. The approach involves a large number of simulations of the price calculated at the end of the term, discounted to present value using a risk-free rate. The present value of all simulations is averaged to determine the fair value of the equity instrument.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 21. SHARE-BASED PAYMENTS CONTINUED

The inputs for the model, based on market conditions at the grant date, and fair value determined were:

	First allocation	Second allocation	Third allocation	Fourth allocation	Fifth allocation
Market price of the Company's listed shares at the grant date (rand)	88,89	80,95	116,76	120,59	91,00
Issue price (rand) <sup>1</sup>	75,82	75,82	75,82	75,82	75,82
Risk-free interest rates	South African rand zero swaps curve				
Prime rates	South African rand prime curve				
Dividend yield	Based on 10% of forecast dividends				
Grant date	30 Apr 2012	1 Oct 2012	1 Sep 2013	1 Sep 2014	31 Mar 2016
Termination date	9 Feb 2022	9 Feb 2022	9 Feb 2022	9 Feb 2022	9 Feb 2022
Hurdle price (rand) <sup>2</sup>	216,26	199,75	222,35	203,25	104,00
Share price volatility (% per annum) <sup>3</sup>	24,70	22,50	22,00	23,93	22,77
Vesting dates	7 years in accordance with the forfeiture profile above				
Number of simulations	50 000	50 000	50 000	50 000	500 000
Fair value of equity instrument (rand)	18,54	12,27	29,64	32,81	8,08
Number of shares allocated	7 569 669	509 102	560 978	710 562	1 897 590

1 The issue price was calculated as the higher of the VWAP for the 30 or 60 trading days ended at the close of business on 7 October 2011, being the Friday prior to the signature date of the EST subscription agreement as determined by the rules.

2 The issue price increased by the rate of 85% of the prime rate compounded monthly in arrears over the 10-year EST term.

3 Volatility was measured using the daily historic volatility equally weighted over a period of 10 years, being equivalent to the EST term.

### NUMBER OF SHARES

2019 2018

#### EST SHARE ALLOCATION

Number of shares issued to the EST	<b>10 117 951</b>	10 117 951
Number of shares allocated to beneficiaries	<b>(11 247 901)</b>	(11 247 901)
Number of shares forfeited	<b>1 866 712</b>	1 862 698

#### UNALLOCATED POOL SHARES

**736 762** 732 748

The EST is consolidated in the Group in line with IFRS 10 Consolidated Financial Statements, given that the AECI Executive Committee controls and determines the number of shares allocated to beneficiaries. The B ordinary shares are treated as treasury shares. Any dividends received by the EST are eliminated together with the dividend paid by the Company in the Group results. Dividends paid to beneficiaries of the EST are not eliminated.

B ordinary shares forfeited return to the pool of unallocated shares and are available for reallocation.

## AECI PERFORMANCE SHARES ("PS")

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Equity-settled share-based payment	<b>83</b>	78	<b>83</b>	78
— Recognised in profit from operations	<b>83</b>	78	<b>52</b>	41
— Investment in subsidiaries and joint ventures			<b>31</b>	37

### NUMBER OF SHARES

2019 2018

#### SHARE ALLOCATION

Number of PS allocated at the beginning of the year	<b>1 954 285</b>	1 368 141
Number of PS allocated to beneficiaries during the year	<b>1 097 603</b>	920 224
Number of PS exercised during the year	<b>(335 690)</b>	(313 895)
Number of PS forfeited during the year	<b>(200 602)</b>	(20 185)
<b>TOTAL PS ALLOCATED AS AT 31 DECEMBER</b>	<b>2 515 596</b>	1 954 285

The AECI Long-term Incentive Plan ("LTIP") was approved by shareholders in 2012. The purpose of the plan is to attract, retain, motivate and reward Executives and Managers who are able to influence the performance of AECI and its subsidiaries on a basis which aligns their interests with those of the Group.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 21. SHARE-BASED PAYMENTS CONTINUED

Annual conditional awards of PS are allocated to Executives and Senior Managers. PS will vest on the third anniversary of their award to the extent that the Company has met specific performance criteria over the intervening period. Essentially the value per share that vests is the full value, but the number of shares that will vest will depend on whether the Company's performance over the intervening three-year period has been on target, or an under- or over-performance against the target(s) set at the award date. The PS do not have an issue price.

The methodology of vesting will target the Company's comparative total shareholder return ("TSR") in relation to a peer group of companies. A peer group of 16 JSE-listed companies (including AECI) has been used to determine AECI's relative performance. From 2018, in respect of new awards, the vesting performance measurements included a measure on RONA and growth of HEPS over the three-year vesting period.

The fair value of the PS was determined using a Monte Carlo option pricing approach to simulate the future share price of the Company's listed shares and those of the peer companies, and their correlations to one another. The approach involves a large number of simulations of the share prices using the spot share prices on the grant date, as well as risk-free interest rates and volatilities for the different shares as inputs. As the TSR calculation requires the simulation of a number of correlated random variables, the correlations between the share price returns of AECI and the peer companies are incorporated into the valuation. For each outcome of the AECI and peer companies' share prices, the TSR will be calculated, incorporating the historical TSR indices. A vesting percentage for the PS will be determined in accordance with the pre-defined ranking rules. The product of this vesting percentage and the simulated AECI share price will provide the fair value of the PS for each simulation. The present value of all simulations was averaged to determine the fair value of the PS.

The RONA and HEPS performance measures are estimated at each reporting period, based on actual results and latest forecasts of the RONA and HEPS for the Group, to determine the expected number of shares that will vest. The cost recognised in the income statement is adjusted accordingly, if required.

The inputs for the model, based on market conditions at the grant date, and fair value determined were as follows:

	Fifth allocation	Sixth allocation	Seventh allocation	Eighth allocation
Market price of AECI's listed shares at the grant date (rand)	83,00	106,28	114,87	95,86
Risk-free interest rates	South African rand zero swaps curve			
Prime rates	South African rand prime curve			
Dividend yield	Based on forecast dividends			
Grant date	30 Jun 2016	30 Jun 2017	16 Apr 2018	15 Apr 2019
Vesting date	30 Jun 2019	30 Jun 2020	16 Apr 2021	14 Apr 2022
AECI share price volatility (% per annum)	24,33	24,96	24,4	21,23
Fair value of equity instrument (rand)	108,51	199,46	110,89	86,40
Number of PS allocated	388 290	675 369	920 224	1 097 603

The fifth allocation was approved in June 2016 resulting in a grant date of 30 June 2016. The performance period was from 1 June 2016 to 1 June 2019. The sixth allocation was approved in June 2017 resulting in a grant date of 30 June 2017. The performance period is from 1 June 2017 to 1 June 2020. The seventh allocation was approved in April 2018 resulting in a grant date of 16 April 2018. The performance period is from 1 January 2018 to 31 December 2021. The eighth allocation was approved in April 2019 resulting in a grant date of 15 April 2019. The performance period is from 1 January 2019 to 31 December 2022.

The fifth allocation of PS vested on 30 June 2019. The performance period for those shares was completed on 1 June 2019 and AECI achieved seventh position in the peer group, with the number of shares vesting equal to the allocated shares multiplied by 1,4. The number of PS granted to eligible employees was 388 290 with 52 600 shares having been forfeited prior to vesting. Each awarded share was multiplied by 1,4 and this resulted in 469 966 ordinary shares vesting to eligible employees. AECI contracted with Avior Capital Markets (Pty) Ltd ("Avior") to purchase the shares on the JSE Ltd and to deliver them to eligible employees on the vesting date. Avior purchased the shares at a cost of R45 million and this settlement was recognised in the share-based payment reserve. Avior facilitated the transfer or sale of shares as desired by eligible employees. The shares were settled in equity by AECI and the facilitation of further transactions on the vested shares does not alter the nature of the scheme.

## 22. INTEREST EXPENSE

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Non-current borrowings	<b>(364)</b>	(203)	<b>(304)</b>	(163)
Current borrowings	<b>(82)</b>	(196)	<b>(71)</b>	(182)
Lease liabilities	<b>(62)</b>	—	<b>(3)</b>	—
Subsidiary companies			<b>(95)</b>	(61)
Unwinding of discount (see notes 34 and 36)	<b>(8)</b>	(4)	<b>(5)</b>	(7)
	<b>(516)</b>	(403)	<b>(478)</b>	(413)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 23. INTEREST RECEIVED

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Joint ventures	3	1	–	–
Subsidiary companies	–	–	181	206
Loans and receivables	56	37	27	19
	<b>59</b>	<b>38</b>	<b>208</b>	<b>225</b>

Interest is received from financial assets at amortised cost (see note 28).

## 24. TAX (EXPENSE)/CREDIT

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Current tax	(481)	(410)	(10)	(24)
South African and foreign normal tax	(451)	(362)	(10)	(20)
Foreign withholding taxes	(30)	(43)	–	–
Securities transfer tax	–	(5)	–	(4)
Deferred tax	(50)	(94)	23	(35)
South African and foreign deferred tax	(50)	(94)	23	(35)
	<b>(531)</b>	<b>(504)</b>	<b>13</b>	<b>(59)</b>
Adjustment for prior years	20	(25)	4	(23)
South African and foreign normal tax	3	(2)	(4)	2
Deferred tax	17	(23)	8	(25)
	<b>(511)</b>	<b>(529)</b>	<b>17</b>	<b>(82)</b>
Analysis of deferred tax charge by major temporary differences:				
Property, plant and equipment	(23)	(36)	(4)	(5)
Right-of-use assets and finance lease liabilities	18	–	–	–
Intangible assets	1	5	–	–
Provisions and deferred income	(36)	12	(58)	(23)
Pension fund employer surplus accounts	80	18	80	18
Deferred foreign exchange differences	(1)	5	3	(16)
Computed tax losses utilised	(136)	(87)	–	(4)
Other	47	(11)	2	(5)
	<b>(50)</b>	<b>(94)</b>	<b>23</b>	<b>(35)</b>
Adjustment for prior years	17	(23)	8	(25)
	<b>(33)</b>	<b>(117)</b>	<b>31</b>	<b>(60)</b>
Computed tax losses				
Utilised to reduce deferred tax or create deferred tax assets	(484)	(332)	–	4
Losses on which no deferred tax assets were raised because of uncertainty regarding their utilisation	92	20	–	–
	<b>(392)</b>	<b>(312)</b>	<b>–</b>	<b>4</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 24. TAX (EXPENSE)/CREDIT CONTINUED

%	GROUP		COMPANY	
	2019	2018	2019	2018
Reconciliation of tax rate computed in relation to profit before tax:				
Effective rate	<b>27,8</b>	34,0	<b>16,7</b>	4,1
Capital and non-taxable receipts	<b>11,4</b>	4,0	—	25,6
Non-deductible expenses	<b>(3,7)</b>	(2,5)	<b>4,1</b>	(0,3)
Impairment of goodwill and equity-accounted investee (non-deductible)	<b>(2,2)</b>	(1,9)	<b>15,9</b>	—
S23N interest limitation	<b>(0,9)</b>	—	<b>16,3</b>	—
Foreign withholding taxes	<b>(1,6)</b>	(2,2)	—	—
Adjustment for prior years	<b>1,1</b>	(1,4)	<b>(4,1)</b>	(1,2)
Capital gains	<b>(4,1)</b>	—	—	—
Effects of share-based payment arrangements	<b>2,2</b>	1,0	<b>(12,4)</b>	(0,2)
Securities transfer tax	—	(0,9)	—	(0,2)
Other	<b>(2,0)</b>	(2,1)	<b>(8,5)</b>	0,2
<b>SOUTH AFRICAN STANDARD RATE</b>	<b>28,0</b>	28,0	<b>28,0</b>	28,0

## 25. EARNINGS PER SHARE

### GROUP

R millions	2019	2018
<b>HEADLINE EARNINGS ARE DERIVED FROM:</b>		
Profit attributable to ordinary shareholders	<b>1 291</b>	990
Impairment of goodwill <sup>1</sup>	<b>147</b>	31
Impairments related to equity-accounted investees — net	—	78
Impairments related to equity-accounted investees — gross <sup>1</sup>	—	78
Tax effect of impairments related to equity-accounted investees	—	—
Profit on disposal of joint venture — net <sup>1</sup>	<b>(167)</b>	—
Profit on disposal of joint venture — gross <sup>1</sup>	<b>(234)</b>	—
Tax effects of profit on disposal of joint venture	<b>67</b>	—
(Surplus)/loss on disposal of investment property, property, plant and equipment — net <sup>1</sup>	<b>(58)</b>	4
(Surplus)/loss on disposal of investment property, property, plant and equipment — gross <sup>1</sup>	<b>(69)</b>	6
Tax effects of disposal of investment property, property, plant and equipment	<b>11</b>	(2)
<b>HEADLINE EARNINGS</b>	<b>1 213</b>	1 103

<sup>1</sup> The remeasurements had no non-controlling interest effect.

### GROUP

	2019	2018
<b>EARNINGS PER ORDINARY SHARE</b>		
Basic (cents)	<b>1 223</b>	938
Headline (cents)	<b>1 150</b>	1 045
Weighted average number of ordinary shares in issue	<b>131 947 034</b>	131 947 034
Weighted average number of ordinary shares held by the consolidated EST	<b>(10 117 951)</b>	(10 117 951)
Weighted average number of contingently returnable ordinary shares held by the CEDT	<b>(4 426 604)</b>	(4 426 604)
Weighted average number of shares held by a consolidated subsidiary	<b>(11 884 699)</b>	(11 884 699)
<b>WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC AND HEADLINE EARNINGS PER SHARE</b>	<b>105 517 780</b>	105 517 780

Basic and headline earnings per share have been calculated on the profit attributable to ordinary shareholders and headline earnings, respectively, for the financial year as shown above and on the weighted average number of ordinary shares in issue of 105 517 780, net of treasury shares (2018: 105 517 780 net of treasury shares).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 25. EARNINGS PER SHARE CONTINUED

Cents	2019	2018
<b>GROUP</b>		
<b>DILUTED EARNINGS PER ORDINARY SHARE</b>		
Basic	<b>1 179</b>	909
Headline	<b>1 108</b>	1 012

The B ordinary shares issued to the EST in 2012, which may be converted to ordinary shares, the contingently returnable shares issued to the CEDT in 2012 and the PS allocations are all dilutive potential ordinary shares. The dilutive effect is based on the number of ordinary shares that are expected to be issued in future. Taking these dilutive potential ordinary shares into account, diluted EPS and diluted HEPS have been calculated on the profit attributable to ordinary shareholders and headline earnings, respectively, for the financial year as shown above and on a weighted average number of shares of 109 507 102 (2018: 108 965 495). AECI's average share price since the beginning of the financial year, used in the determination of potentially dilutive ordinary shares, was R95,36 (2018: R105,04). The other potential ordinary shares do not have an exercise price.

	2019	2018
<b>GROUP</b>		
<b>RECONCILIATION OF THE WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE:</b>		
Weighted average number of ordinary shares	<b>105 517 780</b>	105 517 780
Dilutive adjustment for potential ordinary shares	<b>3 989 322</b>	3 447 715
<b>WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR DILUTED EARNINGS PER SHARE</b>	<b>109 507 102</b>	108 965 495

## 26. DIVIDENDS

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
<b>ORDINARY</b>				
Final for the prior year: No. 170 of 366 cents (2018: 340 cents) paid on 8 April 2019	<b>398</b>	368	<b>441</b>	408
Interim for the current year: No. 171 of 156 cents (2018: 149 cents) paid on 2 September 2019	<b>170</b>	161	<b>189</b>	179
Total ordinary dividends paid: 522 cents (2018: 489 cents)	<b>568</b>	529	<b>630</b>	587
<b>PREFERENCE</b>				
Nos. 162 and 163 paid on 14 June 2019 and 13 December 2019 respectively	<b>3</b>	3	<b>3</b>	3
<b>EST</b>				
A dividend of 84 cents per share was declared in 2017 and paid in the prior year	—	7	—	7
A dividend of 49 cents per share was declared and paid in the prior year	—	4	—	4
	<b>571</b>	543	<b>633</b>	601
Proposed final ordinary dividend No. 172 for the year ended 31 December 2019 of 414 cents (2018: 366 cents) per share payable on 5 April 2020	<b>448</b>	402	<b>497</b>	446
	<b>448</b>	402	<b>497</b>	446

The Company also declared a dividend of 52 cents (2018: nil) on the B ordinary shares held by the EST, which is payable in 2020.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 27. COMMITMENTS AND CONTINGENT LIABILITIES

### COMMITMENTS

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Capital commitments authorised	<b>574</b>	516	<b>31</b>	21
Contracted for	<b>182</b>	103	<b>25</b>	18
Not contracted for	<b>392</b>	413	<b>6</b>	3
Acquisitions authorised and contracted for <sup>1</sup>	<b>88</b>	91	–	–
Future rentals on non-cancellable property, plant and equipment leases (see note 35)	–	932	–	35
Payable within 1 year	–	257	–	17
Payable between 1 and 5 years	–	547	–	18
Payable thereafter	–	128	–	–
Future rentals on short-term and low value assets	<b>35</b>	–	–	–
Payable within 1 year	<b>22</b>	–	–	–
Payable between 1 and 5 years	<b>12</b>	–	–	–
Payable thereafter	<b>1</b>	–	–	–

1 During September 2018 the Group, through its subsidiary, AECI Latam Produtos Quimicos Ltd, acquired an explosives business in Lorena, Brazil from Dinacon, for a cash consideration of US\$6,3 million. At the reporting date, the conditions precedent to make the transaction unconditional had not yet been fulfilled. The initial accounting for the business combination has thus not been completed and, accordingly, it was not possible for IFRS 3 Business Combinations disclosures to be made.

### CONTINGENT LIABILITIES

The Group is involved in various legal proceedings and is in consultation with its legal counsel, assessing the outcome of these proceedings, on an ongoing basis. As proceedings progress, the Group's management makes provision in respect of legal proceedings where appropriate. Litigations, current or pending, are not likely to have a material adverse effect on the Group.

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group finances its operations by a combination of retained profits, current borrowings, non-current borrowings and financial instruments denominated in both rand and foreign currencies. The Group also enters into derivative transactions to manage the currency and interest rate risks arising from its operations.

The Group raises non-current and current borrowings centrally and on-lends to its business entities at market-related interest rates. The Group borrows in both the local and international debt markets in rand and foreign currencies. It uses derivatives, where appropriate, to generate the desired effective currency and interest rate profile. The derivatives used for this purpose are principally forward foreign currency contracts and forward rate agreements.

The Group does not write interest rate or currency options and only purchases currency options when these are considered to offer a cost-effective alternative to forward foreign exchange contracts. It is Group policy that no financial instruments be purchased or sold unless they relate to underlying commercial transactions.

The main risks arising in the normal course of business from the Group's financial instruments are currency, interest rate, liquidity, credit and equity price risk. This note presents information about the Group's exposure to these risks and the Group's objectives, policies and processes for measuring and managing them. Further quantitative disclosures are included with other relevant notes as indicated.

The Board of Directors is responsible for the risk management activities in the Group. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit function undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Risk Committee. The Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the Risk Management Framework in relation to the risks faced by the Group.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

### CATEGORIES OF FINANCIAL INSTRUMENTS AND FAIR VALUES

R millions	Notes	CARRYING AMOUNT		FAIR VALUE	
		2019	2018	2019	2018
<b>GROUP</b>					
<b>FINANCIAL ASSETS</b>					
At fair value through other comprehensive income – equity instrument <sup>1</sup>					
		<b>95</b>	97	<b>95</b>	97
– Unlisted shares – Level 3	9	<b>95</b>	97	<b>95</b>	97
At fair value through profit or loss <sup>2</sup>					
		<b>265</b>	244	<b>265</b>	244
– Forward exchange contracts – Level 2	12	<b>28</b>	26	<b>28</b>	26
– Money market investment in collective investment scheme – Level 1	9	<b>136</b>	83	<b>136</b>	83
– Employer surplus accounts – Level 1	9	<b>101</b>	135	<b>101</b>	135
Amortised cost					
		<b>6 423</b>	5 896		
– Accounts receivable <sup>3</sup>	12	<b>4 422</b>	4 283		
– Cash <sup>4</sup>		<b>1 978</b>	1 581		
– Loans to joint ventures <sup>4</sup>	7	<b>–</b>	7		
– Loans and receivables relating to other investments <sup>4</sup>	9	<b>23</b>	25		
		<b>6 783</b>	6 237	<b>360</b>	341
<b>FINANCIAL LIABILITIES</b>					
Not measured at fair value					
		<b>(9 098)</b>	(9 966)		
– Accounts payable <sup>3</sup>	17	<b>(3 604)</b>	(4 208)		
– Loans from joint ventures <sup>4</sup>	7	<b>(62)</b>	–		
– Borrowings <sup>5</sup>	14, 18	<b>(5 432)</b>	(5 758)		
At fair value through profit or loss					
		<b>(112)</b>	(67)	<b>(112)</b>	(67)
– Forward exchange contracts – Level 2	17	<b>(65)</b>	(26)	<b>(65)</b>	(26)
– Contingent consideration – Level 3		<b>(15)</b>	(10)	<b>(15)</b>	(10)
– Put option liability – Level 3		<b>(32)</b>	(31)	<b>(32)</b>	(31)
		<b>(9 210)</b>	(10 033)		

1 These financial assets have been designated at initial recognition to be carried at fair value through other comprehensive income.

2 These financial assets are measured at fair value through profit or loss because they are not measured at amortised cost nor at fair value through other comprehensive income.

3 The fair value for financial instruments such as short-term receivables and payables have not been disclosed because their carrying amounts are a reasonable approximation of fair value.

4 The fair value would not be materially different from the carrying amounts.

5 The fair values of the interest-bearing borrowings have not been disclosed as they are not materially different from the carrying amounts.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

### CATEGORIES OF FINANCIAL INSTRUMENTS AND FAIR VALUES CONTINUED

R millions	Notes	CARRYING AMOUNT		FAIR VALUE	
		2019	2018	2019	2018
<b>COMPANY</b>					
<b>FINANCIAL ASSETS</b>					
At fair value through other comprehensive income — equity instrument <sup>1</sup>					
		<b>93</b>	95	<b>93</b>	95
— Unlisted shares — Level 3	9	<b>93</b>	95	<b>93</b>	95
At fair value through profit or loss <sup>2</sup>					
		<b>104</b>	143	<b>104</b>	143
— Forward exchange contracts — Level 2	12	<b>3</b>	8	<b>3</b>	8
— Employer surplus accounts — Level 1	9	<b>101</b>	135	<b>101</b>	135
Amortised cost					
		<b>6 051</b>	5 435		
— Accounts receivable <sup>3</sup>	12	<b>1 612</b>	1 318		
— Cash <sup>4</sup>		<b>407</b>	17		
— Non-current loans to subsidiaries <sup>4</sup>	12	<b>750</b>	785		
— Current loans to subsidiaries <sup>4</sup>	6	<b>3 267</b>	3 301		
— Loans and receivables relating to other investments <sup>4</sup>	9	<b>15</b>	14		
		<b>6 248</b>	5 673	<b>197</b>	238
<b>FINANCIAL LIABILITIES</b>					
At fair value through profit or loss					
		<b>(40)</b>	(19)	<b>(40)</b>	(19)
— Forward exchange contracts — Level 2	17	<b>(25)</b>	(9)	<b>(25)</b>	(9)
— Contingent consideration — Level 3		<b>(15)</b>	(10)	<b>(15)</b>	(10)
Not measured at fair value					
		<b>(11 762)</b>	(10 808)		
— Accounts payable <sup>3</sup>	17	<b>(1 629)</b>	(1 778)		
— Borrowings <sup>5</sup>	14, 18	<b>(3 506)</b>	(3 760)		
— Loans from joint ventures <sup>4</sup>	7	<b>(130)</b>	(30)		
— Non-current loans from subsidiaries <sup>4</sup>	6	<b>(2 213)</b>	(2 197)		
— Current loans from subsidiaries <sup>4</sup>	6	<b>(4 284)</b>	(3 043)		
		<b>(11 802)</b>	(10 827)		

1 These financial assets have been designated at initial recognition to be carried at fair value through other comprehensive income.

2 These financial assets are measured at fair value through profit or loss because they are not measured at amortised cost nor at fair value through other comprehensive income.

3 The fair value for financial instruments such as short-term receivables and payables have not been disclosed because their carrying amounts are a reasonable approximation of fair value.

4 The fair value would not be materially different from the carrying amounts.

5 The fair values of the interest-bearing borrowings have not been disclosed as they are not materially different from the carrying amounts.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments are either at fair value based on methods and assumptions for determining the fair value, or at values which approximate fair value based on the nature or maturity period of the financial instrument.

Fair value measurements are classified into three levels, based on the observability and significance of the inputs used in making the measurement:

- › Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- › Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- › Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values for forward exchange contracts are based on quotes from brokers. Similar contracts are traded in an active market and the quotes reflect the actual transactions on similar instruments. The fair value of the money market investment in a collective investment scheme and the employer surplus accounts is based on quoted market prices (see note 9).

The fair value of the contingent consideration is calculated using discounted cash flows. The valuation model considers the present value of the expected future payment, discounted using a risk-adjusted discount rate of 9,2% (2018: 9,2%). The expected payment is determined by considering the possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario.

There were no transfers between Levels 1, 2 or 3 of the fair value hierarchy during the year.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

### MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income and the value of its financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits.

#### (A) CURRENCY RISK

Where possible, the Group's non-South African operations match their assets and liabilities in the same currency to avoid unnecessary currency exposures. However, forward currency markets do not exist in some of the countries in which the Group operates.

Currency risk arises as a result of sale and purchase transactions, cash and borrowings in currencies other than rand. The currencies giving rise to currency risk are mainly euro and US dollar. Currency exposures are managed using appropriate exposure management techniques.

The management of each business entity is tasked with managing the foreign currency exposures arising in its own entity in consultation with the central treasury. All material purchases and sales in foreign currencies are transacted through the central treasury.

#### CURRENCY HEDGING

For foreign currency commitments, including highly probable forecast sales and purchases, the Group's policy is to hedge the full value of the transaction, and consequently designates an item in its entirety as the hedged item in a hedging relationship.

Since the notional amount, life and underlying of the hedging instruments and their corresponding hedged items are the same, it is expected that the value of the hedging instruments and the value of the corresponding hedged items will change systematically in opposite directions in response to movements in the underlying exchange rates.

#### FAIR VALUE HEDGES

Fair value hedges have been recognised for the net exposure to trading in foreign currency. Forward exchange contracts have been designated as hedging instruments in respect of amounts denominated in euro and US dollars.

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Value of the hedging instrument, based on the contract rates	216	333	398	453
Profit on the hedging instruments recognised in the income statement	3	66	4	15

#### CASH FLOW HEDGES

The Group has hedged its foreign currency exposure on imports of raw materials by entering into forward exchange contracts for the purchase commitments.

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Value of hedging instruments, based on the contract rates	—	81	8	34

Maturing of the hedging instruments and payment related to the corresponding hedged items occur simultaneously. The cash flows relating to the hedging instruments are expected to occur within 12 months from the reporting date and will not affect the income statement as the amount accumulated in equity will be removed from other comprehensive income and recognised in the initial cost of the related items of plant and equipment and inventory.

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Amount recognised directly in other comprehensive income under hedge accounting principles in respect of the effective portion of cash flow hedges	—	(5)	—	—

#### EXPOSURE TO CURRENCY RISK

The Group's exposure to foreign currency risk at 31 December was:

R millions	2019			2018		
	Euro	US dollar	Other	Euro	US dollar	Other
Cash	21	116	96	31	187	88
Trade receivables	111	458	85	41	515	64
Trade payables	(149)	(532)	(135)	(205)	(724)	(92)
Gross exposure	(17)	42	46	(133)	(22)	60
Forward exchange contracts	21	242	(47)	254	228	(68)
<b>NET EXPOSURE</b>	<b>4</b>	<b>284</b>	<b>(1)</b>	<b>121</b>	<b>206</b>	<b>(8)</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

The Company's exposure to foreign currency risk at 31 December was:

R millions	2019			2018		
	Euro	US dollar	Other	Euro	US dollar	Other
Cash	—	6	—	—	4	1
Trade receivables	3	30	1	3	58	—
Loans to subsidiaries	—	399	—	—	434	—
Trade payables	(48)	(137)	(2)	(80)	(373)	—
Gross exposure	(45)	298	(1)	(77)	123	1
Forward exchange contracts	81	321	4	131	353	3
<b>NET EXPOSURE</b>	<b>36</b>	<b>619</b>	<b>3</b>	<b>54</b>	<b>476</b>	<b>4</b>

The following significant exchange rates applied during the year:

Rand	CLOSING RATE		AVERAGE RATE	
	2019	2018	2019	2018
Euro	15,73	16,45	16,18	15,61
US dollar	14,03	14,37	14,45	13,24

### SENSITIVITY ANALYSIS

Based on the Group's net exposure to currency risk, a 10% strengthening of the rand at 31 December would have (decreased)/increased equity and profit by the amounts shown below, assuming all other variables remained constant:

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Equity	(64)	(16)	(38)	(39)
Profit for the year before tax	(26)	23	(26)	(49)

### (B) INTEREST RATE RISK

The Group borrows extensively in both local and offshore markets to minimise its borrowing costs in rand terms.

Exposure to interest rate risk on borrowings and receivables is managed on a proactive basis. Depending on market conditions, the Group makes appropriate use of forward rate agreements, interest rate swaps and interest rate caps and floors to generate the desired interest rate profile and to manage exposure to interest rate fluctuations. No target levels of exposure are maintained.

The interest rate risk profile of financial liabilities at 31 December was:

R millions	TOTAL		FLOATING RATE FINANCIAL LIABILITIES		FIXED RATE FINANCIAL LIABILITIES	
	2019	2018	2019	2018	2019	2018
<b>GROUP</b>						
Rand						
— Current (see note 18)	27	283	27	283	—	—
— Non-current	3 480	3 480	3 480	3 480	—	—
US dollar						
— Current	168	—	168	—	—	—
— Non-current	687	877	687	877	—	—
Euro						
— Non-current	1 070	1 118	535	559	535	559
	<b>5 432</b>	<b>5 758</b>	<b>4 897</b>	<b>5 199</b>	<b>535</b>	<b>559</b>
Loans from joint ventures	62	—	62	—	—	—
<b>TOTAL</b>	<b>5 494</b>	<b>5 758</b>	<b>4 959</b>	<b>5 199</b>	<b>535</b>	<b>559</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

R millions	TOTAL		FLOATING RATE FINANCIAL LIABILITIES		FIXED RATE FINANCIAL LIABILITIES	
	2019	2018	2019	2018	2019	2018
<b>COMPANY</b>						
Rand						
– Current	<b>26</b>	280	<b>26</b>	280	–	–
– Non-current	<b>3 480</b>	3 480	<b>3 480</b>	3 480	–	–
	<b>3 506</b>	3 760	<b>3 506</b>	3 760	–	–
Loans from joint ventures	<b>130</b>	30	<b>130</b>	30	–	–
Loans from subsidiaries	<b>4 284</b>	3 043	<b>4 284</b>	3 043	–	–
<b>TOTAL</b>	<b>7 920</b>	6 833	<b>7 920</b>	6 833	–	–

### SENSITIVITY ANALYSIS

The Group has used a sensitivity analysis technique that measures the estimated change to profit or loss of an instantaneous increase or decrease of 1% (100 basis points) in market interest rates, from the rate applicable at 31 December, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

The Group is exposed mainly to fluctuations in the following market interest rates: JIBAR, LIBOR, EURIBOR and money market rates. Changes in market interest rates affect the interest income or expense of floating rate financial instruments.

A change in the above market interest rates at the reporting date would have increased/(decreased) profit before tax by the amounts shown below.

The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables, in particular foreign currency exchange rates, remained constant. The analysis was performed on the same basis as that used for 2018.

R millions	(DECREASE)/INCREASE IN PROFIT BEFORE TAX			
	2019		2018	
	Upward change in interest rate	Downward change in interest rate	Upward change in interest rate	Downward change in interest rate
3-month JIBAR	<b>35</b>	<b>(35)</b>	35	(35)
3-month LIBOR	<b>9</b>	<b>(9)</b>	9	(9)
3-month EURIBOR	<b>5</b>	<b>(5)</b>	6	(6)
Money market	–	–	3	(3)

### LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk through the management of working capital and cash flows. A balance between continuity of funding and flexibility is maintained through the use of borrowings from a range of institutions, with varying debt maturities.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

### (I) MATURITY PROFILE OF FINANCIAL LIABILITIES AT 31 DECEMBER

<b>GROUP</b>	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years
R millions					
<b>2019</b>					
<b>FINANCIAL LIABILITIES</b>					
Unsecured borrowings	<b>5 478</b>	<b>6 572</b>	<b>595</b>	<b>458</b>	<b>5 519</b>
– Capital	<b>5 432</b>	<b>5 600</b>	<b>195</b>	<b>168</b>	<b>5 237</b>
– Interest accrued <sup>1</sup>	<b>46</b>	<b>972</b>	<b>400</b>	<b>290</b>	<b>282</b>
Loans from joint ventures	<b>62</b>	<b>62</b>	<b>62</b>	–	–
Trade and other payables	<b>3 604</b>	<b>3 604</b>	<b>3 604</b>	–	–
Contingent consideration	<b>15</b>	<b>15</b>	<b>15</b>	–	–
Put option liability	<b>32</b>	<b>44</b>	–	–	<b>44</b>
<b>DERIVATIVE FINANCIAL LIABILITIES</b>					
Forward exchange contracts					
– inflows	<b>(28)</b>	<b>(1 363)</b>	<b>(1 363)</b>	–	–
– outflows	<b>65</b>	<b>1 147</b>	<b>1 147</b>	–	–
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>9 228</b>	<b>10 081</b>	<b>4 060</b>	<b>458</b>	<b>5 563</b>
<b>PERCENTAGE PROFILE (%)</b>		<b>100</b>	<b>40</b>	<b>5</b>	<b>55</b>
<b>2018</b>					
<b>FINANCIAL LIABILITIES</b>					
Unsecured borrowings	5 811	7 074	646	536	5 892
– Capital	5 758	5 758	283	173	5 302
– Interest accrued <sup>1</sup>	53	1 316	363	363	590
Trade and other payables	4 155	4 155	4 155	–	–
Contingent consideration	10	16	–	16	–
Put option liability	31	47	–	–	47
<b>DERIVATIVE FINANCIAL LIABILITIES</b>					
Forward exchange contracts					
– inflows	(26)	(1 475)	(1 475)	–	–
– outflows	26	1 062	1 062	–	–
<b>TOTAL FINANCIAL LIABILITIES</b>	10 007	10 879	4 388	552	5 939
<b>PERCENTAGE PROFILE (%)</b>		100	40	5	55

<sup>1</sup> Interest is based on the closing rate at 31 December and the repayment dates of the borrowings.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

### COMPANY

R millions	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years
<b>2019</b>					
<b>FINANCIAL LIABILITIES</b>					
Unsecured borrowings	<b>1 167</b>	<b>4 307</b>	<b>368</b>	<b>244</b>	<b>3 694</b>
– Capital	<b>1 126</b>	<b>3 506</b>	<b>26</b>	<b>–</b>	<b>3 480</b>
– Interest accrued <sup>1</sup>	<b>41</b>	<b>801</b>	<b>342</b>	<b>244</b>	<b>214</b>
Loans from joint ventures	<b>130</b>	<b>130</b>	<b>130</b>	<b>–</b>	<b>–</b>
Non-current loans from subsidiaries	<b>2 213</b>	<b>2 213</b>	<b>–</b>	<b>–</b>	<b>2 213</b>
Current loans from subsidiaries	<b>4 284</b>	<b>4 284</b>	<b>4 284</b>	<b>–</b>	<b>–</b>
Trade and other payables	<b>1 588</b>	<b>1 588</b>	<b>1 588</b>	<b>–</b>	<b>–</b>
Contingent consideration	<b>15</b>	<b>15</b>	<b>15</b>	<b>–</b>	<b>–</b>
<b>DERIVATIVE FINANCIAL LIABILITIES</b>					
Forward exchange contracts					
– inflows	<b>(3)</b>	<b>(472)</b>	<b>(472)</b>	<b>–</b>	<b>–</b>
– outflows	<b>25</b>	<b>66</b>	<b>66</b>	<b>–</b>	<b>–</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>9 419</b>	<b>12 131</b>	<b>5 979</b>	<b>244</b>	<b>5 907</b>
<b>PERCENTAGE PROFILE (%)</b>		<b>100</b>	<b>49</b>	<b>2</b>	<b>49</b>
<b>2018</b>					
<b>FINANCIAL LIABILITIES</b>					
Unsecured borrowings	1 426	4 829	583	303	3 943
– Capital	1 380	3 760	280	–	3 480
– Interest accrued <sup>1</sup>	46	1 069	303	303	463
Loans from joint ventures	30	30	30	–	–
Non-current loans from subsidiaries	2 197	2 197	–	–	2 197
Current loans from subsidiaries	3 043	3 043	3 043	–	–
Trade and other payables	1 732	1 732	1 732	–	–
Contingent consideration	10	29	–	29	–
<b>DERIVATIVE FINANCIAL LIABILITIES</b>					
Forward exchange contracts					
– inflows	(8)	(569)	(569)	–	–
– outflows	9	82	82	–	–
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>8 439</b>	<b>11 373</b>	<b>4 901</b>	<b>332</b>	<b>6 140</b>
<b>PERCENTAGE PROFILE (%)</b>		<b>100</b>	<b>43</b>	<b>3</b>	<b>54</b>

<sup>1</sup> Interest is based on the closing rate at 31 December and the repayment dates of the borrowings.

The Company's liquidity risk is managed through short-term borrowing facilities from which funding is drawn down as and when required. In addition, the repayment of loans from subsidiaries is controlled by the Company as these loans do not have fixed repayment terms and repayment can be deferred if needed.

### (II) BORROWING FACILITIES

The Group ensures that adequate borrowing facilities are in place. The Group maintains a policy of ensuring that expected peak cash flows over the next 12 months are comfortably exceeded by existing facilities in order to preserve operational flexibility.

Some of the Group's loan agreements contain financial covenants. As in the prior year, the Group complied with all such covenants.

### CREDIT RISKS

Credit risks arise on cash, investments and accounts receivable. The risk on cash is managed by investing with financially sound institutions only and by setting prudent exposure limits for each institution. The risk arising on trade receivables is managed through normal credit policies using credit limits, continual review and exception reporting. The exposure to credit risk relating to trade receivables is decentralised, with each operating business entity managing its own credit control procedures because of the Group's diversified customer base. Adequate allowance is made for impairment losses.

Details of the carrying amounts and exposure to credit risk of trade receivables, as well as impairments recognised, are disclosed in note 12.

At the reporting date, the maximum exposure to credit risk is represented by the carrying amount of each financial asset.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 29. RELATED PARTY INFORMATION

The significant operating subsidiaries of the Group are identified in note 33, joint ventures in note 7 and associate companies in note 8.

All transactions and balances with these related parties have been eliminated in accordance with and to the extent required by IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures.

No dividends were received from associate companies in 2019 (2018: nil).

Transactions with Directors are disclosed in note 31.

Transactions with related parties are concluded on terms that are no more and no less favourable than transactions with unrelated external parties.

R millions	2019	2018
<b>COMPANY</b>		
<b>TRANSACTIONS THAT TOOK PLACE WITH RELATED PARTIES OF THE COMPANY WERE:</b>		
Leasing income and sales by the Company to		
– Subsidiaries	<b>181</b>	200
Sales to the Company by		
– Subsidiaries	<b>77</b>	138
– Joint ventures	<b>29</b>	87
Dividends received by the Company from		
– Subsidiaries	–	1 817
Interest received by the Company from		
– Subsidiaries	<b>179</b>	205
– Joint ventures	<b>2</b>	1
Interest paid by the Company to		
– Subsidiaries	<b>88</b>	54
– Joint ventures	<b>7</b>	6
Rental of premises to the Company by		
– Subsidiaries	<b>32</b>	31
Secretarial and administration fees paid to the Company by		
– Subsidiaries	<b>179</b>	164
– Joint ventures	<b>7</b>	9
<b>OUTSTANDING BALANCES WITH RELATED PARTIES OF THE COMPANY AT 31 DECEMBER WERE: (see notes 6 and 7)</b>		
Loan amounts owing to the Company by		
– Subsidiaries	<b>4 017</b>	4 086
Loan amounts owing by the Company to		
– Subsidiaries	<b>6 497</b>	5 240
– Joint ventures	<b>130</b>	30
R millions	<b>2019</b>	2018
<b>GROUP</b>		
<b>KEY MANAGEMENT PERSONNEL COMPENSATION:</b>		
– short-term employee benefits	<b>44</b>	34
– post-retirement benefits	<b>2</b>	2
– other long-term benefits	<b>5</b>	6
	<b>51</b>	42

Accounts receivable from and payable to related parties of the Group and the Company are disclosed in notes 12 and 17. Loans with joint ventures and dividends received from joint ventures are disclosed in note 7.

Key management personnel are the Directors, Prescribed Officers and Managing Directors or equivalent of operating business entities.

The key management personnel compensation above relates to the Managing Director or equivalent and excludes Directors' and Prescribed Officers' remuneration which is set out in note 31.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 30. EMPLOYEE BENEFITS

### RETIREMENT BENEFITS

The Group provides retirement benefits for all its permanent employees by means of an independent defined-contribution pension fund and an independent defined-contribution provident fund. The Group has four legacy defined-benefit pension funds which have no active members. The employees of certain acquired companies have separate retirement benefit arrangements. Schirm has statutory arrangements whilst Much Asphalt makes available membership in umbrella funds which employees may contribute to.

Restructuring of the Group's pension funds commenced in 2014 and progress has been reported annually in prior integrated reports.

Restructuring of the AECI Pension Fund ("APF") and the AECI Supplementary Pension Fund ("ASPF") was completed during the year. The remaining pensioners were settled and their assets transferred to Sanlam. The Conversion Reserve Account in the APF, set aside at the start of the process, was distributed to stakeholders in line with the agreement between the Company and the APF. This resulted in "agterskot" benefit payments to all stakeholder groups. Most of these payments have been made, with the fund's net assets being reduced to reflect the pending payment of the remaining payments to be made. The Company was allocated R224 million of this reserve. This amount was allocated to its employer surplus account ("ESA") in the APF and was subsequently transferred, under s15E of the Pension Funds Act ("the Act"), to the AECI Defined Contribution Pension Fund ("ADCPF"). A similar process occurred in the ASPF with stakeholders receiving payments in line with the agreement. The ESA in the ASPF was utilised to make payments in line with the agreement between the Company and the ASPF and there was no allocation to the Company in this fund, with the remaining few liabilities settled in 2019. The liabilities and assets for the remaining members have not yet been accounted for as a settlement but the asset values to be settled were set aside in 2015, with an asset limitation being applied to reduce AECI's recognised asset to the amount in the ESA.

Once the remaining administrative matters have been completed, the two funds will be placed into liquidation. There are no further liabilities to stakeholders in respect of these two funds.

The AECI Employees Pension Fund ("AEPF") and the Dulux Employees Pension Fund ("DEPF") made significant progress in their own restructuring during the year. The DEPF's application to transfer its pensioners was approved in February 2019 and the AEPF applications were approved in June 2019, with the pensioner members in both funds transferring to Old Mutual thereafter. The benefits of the pensioner members were enhanced by 89% (DEPF) and 58% (AEPF) through distribution of surplus in these funds to stakeholders. As part of this process and in line with the agreements between the funds and the Company, allocations were made to the ESA of each fund of R115 million (AEPF) and R5 million (DEPF), respectively, and these allocations were subsequently transferred under s15E of the Act to the ADCPF.

The restructuring process will continue during 2020 and it is anticipated that any remaining reserves will be distributed to members and the funds will then be placed into liquidation during 2021.

As already described, AECI transferred assets from the ESA of the APF, AEPF and DEPF to the ESA of the ADCPF during the year. The total amount was R388 million. The ESA in the ADCPF has been utilised to continue taking a contribution holiday. In addition, assets from the ADCPF ESA were transferred to that of the AECI Employees Provident Fund ("AEPPrF") (R90 million) during the year. The ESA of the AEPPrF is also being utilised to continue taking a contribution holiday.

The four legacy funds no longer have any ongoing obligations to members and the Company has no further obligations to former members of these funds in the form of benefits. The liquidation process is expected to take some time as it is a legislated process. However, there are no longer any IAS 19 obligations to be accounted for.

All funds are governed by the Act. The Act provides that any actuarial surplus in any fund belongs to the fund and that the only portion of the assets of the funds that may be utilised by, or for the benefit of, the employer are any credit balances in the ESA, unless specified otherwise in the fund's rules. The ESA in the funds represent the asset ceiling.

The assets of the funds are under the control of the Trustees of the respective funds. Regulation 28 of the Act limits the amount and extent to which the funds may invest in particular classes of assets. The Trustees' investment strategies are aligned with the nature of the funds' liabilities and the achievement of adequate returns to ensure that those obligations can be settled when they are due. The assets are invested in segregated or pooled investments with a spread of asset classes including bonds, insurance policies and cash.

Defined-benefit funds are actuarially valued every year using the projected unit credit method of valuation by an independent firm of consulting actuaries, while for defined-contribution funds no valuations are required.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 30. EMPLOYEE BENEFITS CONTINUED

The Group has the following ESAs:

### GROUP AND COMPANY

R millions	2019	2018
<b>NON-CURRENT</b>	<b>662</b>	341
AECI Pension Fund ("APF")	—	18
AECI Employees Pension Fund ("AEPF")	—	12
AECI Supplementary Pension Fund ("ASPF")	3	5
Dulux Employees Pension fund ("DEPF")	—	1
AECI Defined Contribution Pension Fund ("ADCPF")	659	305
<b>CURRENT— CLASSIFIED AS A FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (see note 9)</b>	<b>101</b>	135
AECI Employees Provident Fund ("AEPPrF")	37	17
AECI Defined Contribution Pension Fund ("ADCPF")	64	118
	<b>763</b>	476

### PENSION FUNDS' ESAs

R millions	ADCPF 2019	AEPPrF 2019	Total 2019
At the beginning of the year	423	17	440
s15E transfer from the APF, AEPF and DEPF	388	—	388
s15E transfer from the APF	(90)	90	—
Contribution holiday	(61)	(74)	(135)
Unvested retirement benefit equalisation target	25	—	25
Investment return	38	4	42
<b>AT THE END OF THE YEAR</b>	<b>723</b>	<b>37</b>	<b>760</b>

The financial information of the defined-benefit funds has been disaggregated even though the plans have similar risks subsequent to the settlements that took place during the year.

Based on interim valuations by the funds' actuaries, the defined-benefit funds' financial positions at 31 December were:

### GROUP AND COMPANY

R millions	APF 2019	ASPF 2019	AEPF 2019	DEPF 2019	Total 2019	Total 2018
<b>FAIR VALUE OF PLAN ASSETS</b>	<b>11</b>	<b>3</b>	<b>84</b>	<b>6</b>	<b>104</b>	1 444
At the beginning of the year	566	6	833	39	1 444	1 865
Interest income	37	—	47	1	85	183
Return on plan assets below interest income	(14)	(1)	(40)	2	(53)	(76)
s15E transfers	(250)	—	(132)	(6)	(388)	(470)
Benefits paid	—	—	(18)	—	(18)	(58)
Assets transferred on settlement	(328)	(2)	(606)	(30)	(966)	—
<b>PRESENT ACTUARIAL VALUE OF DEFINED – BENEFIT OBLIGATIONS</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	(382)
At the beginning of the year	(8)	—	(362)	(12)	(382)	(394)
Interest expense	—	—	(17)	—	(17)	(37)
Benefits paid	—	—	18	—	18	58
Actuarial gain from changes in financial assumptions	—	—	—	—	—	9
Actuarial gain/(loss) on experience	2	—	—	—	2	(18)
Present value of liabilities settled	6	—	361	12	379	—
<b>ASSET CEILING</b>	<b>(11)</b>	<b>—</b>	<b>(84)</b>	<b>(6)</b>	<b>(101)</b>	(1 026)
At the beginning of the year	(540)	(1)	(459)	(26)	(1 026)	(984)
Interest cost	(35)	—	(29)	(1)	(65)	(101)
Change in the effect of the asset ceiling	564	1	404	21	990	59
<b>PENSION FUNDS' ESA</b>	<b>—</b>	<b>3</b>	<b>—</b>	<b>—</b>	<b>3</b>	36

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 30. EMPLOYEE BENEFITS CONTINUED

The fair value of the funds' plan assets at 31 December 2019 comprised bonds (81%; 2018: 7%), cash (19%; 2018: 52%) and insurance policies (nil; 2018: 41%). The fair value of the funds' plan assets at 31 December 2019 did not comprise any equity instruments nor any AECI shares.

Principal actuarial assumptions applied at 31 December in the valuations were:

%	2019	2018
Discount rate	–	9,96
Expected return on plan assets	–	9,96
Future price inflation	–	5,58
Expected salary increases	–	–
Future pension increases	–	5,03

As the funds have no future long-term obligations to members, there are no relevant actuarial assumptions used in the current year's valuations.

The funds are not sensitive to any changes in actuarial assumptions.

The total R162 million cost recognised in the income statement (2018: R145 million) in respect of the defined-contribution funds represents contributions payable by the Group at rates specified in the rules of the schemes. These contributions were paid from the ESA of the defined-contribution funds as a contribution holiday (R143 million) and in cash (R19 million).

Amounts recognised in the income statement in respect of the defined-benefit obligations were:

### GROUP AND COMPANY

R millions	APF 2019	ASPF 2019	AEPF 2019	DEPF 2019	Total 2019	Total 2018
Interest cost	–	–	(17)	–	(17)	(37)
Expected return on plan assets	37	–	47	1	85	182
Change in the effect of the asset ceiling	(35)	–	(29)	(1)	(65)	(101)
Loss on settlement	–	(2)	–	–	(2)	(2)
Fair value of assets transferred on settlement	(328)	(2)	(606)	(30)	(966)	–
Liabilities extinguished	6	–	361	12	379	(2)
Asset ceiling utilised	322	–	245	18	585	–
<b>RECOGNISED IN THE INCOME STATEMENT</b>	<b>2</b>	<b>(2)</b>	<b>1</b>	<b>–</b>	<b>1</b>	<b>42</b>
Remeasurements recognised in other comprehensive income in respect of the defined-benefit obligations were:						
Actuarial gain on financial assumptions	–	–	–	–	–	9
Actuarial gain/(loss) on experience	2	–	–	–	2	(16)
Actual return in excess of expected interest income	(14)	(1)	(40)	2	(53)	(76)
Settlement loss	(322)	–	(245)	(18)	(585)	–
Change in the effect of the asset ceiling	564	1	404	21	990	59
<b>RECOGNISED IN OTHER COMPREHENSIVE INCOME</b>	<b>230</b>	<b>–</b>	<b>119</b>	<b>5</b>	<b>354</b>	<b>(24)</b>

The employees of Schirm in Germany are entitled to retirement benefits which are dependent on their seniority, length of service and level of pay. The plans are unfunded. The defined-benefit obligations are actuarially valued every year using the projected unit credit method of valuation by an independent firm of consulting actuaries. The liability is denominated in euro and the disclosure has been prepared using the year-end ZAR:€ exchange rate.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 30. EMPLOYEE BENEFITS CONTINUED

R millions	2019	2018
<b>GROUP</b>		
At the beginning of the year	<b>(194)</b>	–
Acquired through business combination	–	(158)
Benefits paid	<b>2</b>	2
Exchange rate difference	<b>6</b>	(19)
<b>RECOGNISED IN THE INCOME STATEMENT</b>	<b>(7)</b>	(4)
Current service cost	<b>(4)</b>	(2)
Interest expense	<b>(3)</b>	(2)
<b>RECOGNISED IN OTHER COMPREHENSIVE INCOME</b>	<b>(28)</b>	(15)
Actuarial loss from changes in financial assumptions	<b>(30)</b>	(6)
Actuarial gain/(loss) on experience	<b>2</b>	(9)
<b>PRESENT ACTUARIAL VALUE OF DEFINED-BENEFIT OBLIGATIONS</b>	<b>(221)</b>	(194)

Principal actuarial assumptions applied at 31 December in the valuations were:

%	2019	2018
Discount rate	<b>1,06</b>	1,70
Expected salary increases	<b>2,00</b>	2,00
Future pension increases	<b>1,75</b>	1,75

A reasonably possible change in the discount rates and mortality rates used in the valuation will not have a material impact on the liability.

### POST-RETIREMENT MEDICAL AID (“PRMA”) BENEFITS

The Group provides medical aid benefits for all its permanent employees domiciled in South Africa, principally via the AECl Medical Aid Society. Historically, qualifying employees were granted a subsidy on their medical aid contributions after retirement. The obligation of the employer to continue to subsidise medical aid contributions after retirement is no longer a condition of employment for new employees and has not been offered since 1 January 2002.

The subsidy is a portion of the required medical aid contributions of participating members in a ratio between 3,0% and 66,7% of the total contribution, depending on each employee’s date of employment in the Group. The medical aid fund is liable to pay medical claims in terms of its rules and the risk in respect of the liability relates to the increase in contribution levels required by the medical aid fund. The Group does not have any specific obligation to the medical aid fund.

Based on interim valuations by the actuaries, the funded status of the PRMA obligations at 31 December was:

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Present actuarial value of defined-benefit obligations	<b>(207)</b>	(216)	<b>(207)</b>	(216)
At the beginning of the year	<b>(216)</b>	(185)	<b>(216)</b>	(185)
Current service cost	<b>(1)</b>	(1)	<b>(1)</b>	(1)
Interest cost	<b>(20)</b>	(17)	<b>(20)</b>	(17)
Benefits paid	<b>18</b>	17	<b>18</b>	17
Net actuarial gains/(losses)	<b>12</b>	(30)	<b>12</b>	(30)
<b>NET PRMA LIABILITY</b>	<b>(207)</b>	(216)	<b>(207)</b>	(216)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 30. EMPLOYEE BENEFITS CONTINUED

Principal actuarial assumptions for the PRMA obligations were:

### GROUP

%	2019	2018
Annual increase in healthcare costs	<b>CPI +2</b>	CPI +1
Discount rate	<b>9,70</b>	9,80

Healthcare cost inflation was estimated based on CPI, with the result that the percentages used in the valuation were:

%	2019	2018
2021		6,4
2022 and thereafter		7,8

Estimated employer's contributions in respect of PRMA obligations for the coming year for both the Group and the Company are R19 million, representing the subsidies for the remaining eligible pensioner members.

Amounts recognised in the income statement in respect of the PRMA obligations were:

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Current service cost	<b>(1)</b>	(1)	<b>(1)</b>	(1)
Interest cost	<b>(20)</b>	(17)	<b>(20)</b>	(17)
<b>RECOGNISED IN THE INCOME STATEMENT</b>	<b>(21)</b>	(18)	<b>(21)</b>	(18)
Remeasurements recognised in other comprehensive income in respect of PRMA obligations:				
Actuarial gain	<b>12</b>	(30)	<b>12</b>	(30)
<b>RECOGNISED IN OTHER COMPREHENSIVE INCOME</b>	<b>12</b>	(30)	<b>12</b>	(30)

### SENSITIVITY ANALYSIS

	31 Dec	Discount rate +1%	Discount rate -1%	Future inflation +1%	Future inflation -1%
For a change in significant actuarial assumptions:					
Present actuarial value of obligations (R millions)	(207)	(189)	(228)	(227)	(190)
Change in liability (%)		(8,5)	10,2	9,8	(8,4)
Current service cost for 2020 (R millions)	1	1	1	1	1
Change in current service cost (%)		–	–	9,4	(16,0)
Interest cost for 2020 (R millions)	20	20	20	22	19
Change in interest cost (%)		–	–	9,5	(4,2)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 30. EMPLOYEE BENEFITS CONTINUED

### CASH-SETTLED SHARE-BASED SCHEME (“BENEFIT UNITS”)

The Group offered benefit units, without payment, to those employees of the Company or its subsidiary companies who the Board of Directors, in its absolute discretion, considers play a role in the management of the Company or its subsidiary companies and contribute to their growth and profitability.

The benefit on realisation of a benefit unit is calculated based on the AECI share price at its exercise date after deducting the issue price of that unit, and is settled in cash.

Participants are entitled to exercise their units as follows:

After 2 years – up to 20% of the units

After 3 years – up to 40% of the units

After 4 years – up to 60% of the units

After 5 years – up to 100% of the units

If a unit is not exercised within 10 years from the date such unit was granted, it will lapse.

If a participant retires on pension, or otherwise leaves the employ of the Group or one of its subsidiary companies for a reason approved by the Board of Directors, the participant shall nevertheless continue to have the same rights and obligations under the scheme in respect of the participant’s units as if the participant had remained in the employ of the Group.

In the event that a participant ceases to be an employee other than as a result of death, retirement on pension or other reasons approved by the Board of Directors, any unit not yet exercised will lapse.

Details of benefit units at 31 December were:

Expiry date	Grant date	Issue price (Rand)	Granted	NUMBER OF UNITS		
				Exercised	Forfeited	Outstanding
February 2019	March 2009	43,42	382 650	333 490	49 160	–
February 2020	March 2010	59,80	399 316	243 514	41 412	114 390
February 2021	March 2011	83,82	447 640	226 635	68 878	152 127
			1 229 606	803 639	159 450	266 517

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Cash-settled share-based payment transactions recognised in the income statement	7	(4)	7	(4)
Total carrying amount of cash-settled share-based transaction liabilities (see note 16)	9	9	9	9
Total intrinsic value of vested cash-settled share-based transaction liabilities	9	11	9	11

### DEFERRED SHARES FOR EXECUTIVES AND SENIOR MANAGERS (“DS”)

The Group offered DS, without payment, to those employees of the Company or its subsidiary companies who the Board of Directors, in its absolute discretion, considers play a significant role in the management of the Company or subsidiary companies and contribute to their growth and profitability.

The benefit on realisation of a DS is calculated based on the AECI share price at the exercise date after deducting the issue price of that unit, and is settled in cash.

Vesting will take place on the third anniversary of the allocation (or the closest working day).

If a participant leaves the employ of the Group or one of its subsidiary companies for any reason on or before the vesting date, any units granted will lapse.

Details of DS at 31 December were:

Expiry date	Grant date	Granted	NUMBER OF UNITS		
			Exercised	Forfeited	Outstanding
July 2019	August 2016	137 874	107 884	29 990	–

DS were issued for the first time in January 2016. No allocations were made after August 2016 and the scheme has been terminated.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 30. EMPLOYEE BENEFITS CONTINUED

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Cash-settled share-based payment transactions recognised in the income statement	1	8	1	8
Total carrying amount of cash-settled share-based transaction liabilities (see note 16)	—	13	—	13
Total intrinsic value of vested cash-settled share-based transaction liabilities	—	11	—	11

### EARNINGS-BASED INCENTIVE SCHEMES (“EBIS UNITS”)

The Group offers EBIS units, without payment, to those employees of the Company or its subsidiary companies who the Board of Directors, in its absolute discretion, considers play a significant role in the management of the Company or its subsidiary companies and contribute to their growth and profitability.

The benefit on realisation of an EBIS unit is calculated on an earnings number, similar to HEPS of the Group, as published at every reporting date of the Group, after deducting the issue price of that unit.

Participants are entitled to exercise their units as follows:

#### FOR UNITS ISSUED FROM 2010

After 3 years — up to 33,3% of the units

After 4 years — up to 66,6% of the units

After 5 years — up to 100% of the units

#### FOR UNITS ISSUED PRIOR TO 2010

After 2 years — up to 20% of the units

After 3 years — up to 40% of the units

After 4 years — up to 60% of the units

After 5 years — up to 100% of the units

If a unit is not exercised within 10 years from the date such unit was granted, it will lapse.

If a participant retires on pension, or otherwise leaves the employ of the Group or one of its subsidiary companies for a reason approved by the Board of Directors, the participant shall nevertheless continue to have the same rights and obligations under the scheme in respect of the participant’s units as if the participant had remained in the employ of the Group.

In the event that a participant ceases to be an employee other than as a result of death, retirement on pension or other reasons approved by the Board of Directors, any units not yet exercised will lapse.

Details of EBIS units at 31 December were:

Expiry date	Grant date	Issue price (Rand)	NUMBER OF UNITS			
			Granted	Exercised	Forfeited	Outstanding
February 2019	March 2009	5,96	6 258 700	5 657 400	601 300	—
February 2020	March 2010	3,34	18 594 101	15 633 652	2 160 878	799 571
February 2021	March 2011	5,84	17 643 920	13 023 207	2 692 970	1 927 743
			42 496 721	34 314 259	5 455 148	2 727 314

### EARNINGS-GROWTH INCENTIVE SCHEME (“EG UNITS”)

The Group offers EG units, without payment, to those employees of the Company or its subsidiary companies who the Board of Directors, in its absolute discretion, considers play a significant role in the management of the Company or its subsidiary companies and contribute to their growth and profitability.

On settlement, the value accruing to participants will be their share of the full appreciation in the Group’s HEPS.

Participants are entitled to exercise their units as follows:

After 3 years — up to 33,3% of the units

After 4 years — up to 66,6% of the units

After 5 years — up to 100% of the units

If a unit is not exercised within seven years from the date such unit was granted, it will lapse.

If a participant retires on pension, or otherwise leaves the employ of the Group or one of its subsidiary companies for a reason approved by the Board of Directors, the participant shall nevertheless continue to have rights and obligations under the scheme in respect of the participant’s units as if the participant had remained in the employ of the Group.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 30. EMPLOYEE BENEFITS CONTINUED

In the event that a participant ceases to be an employee other than as a result of death, retirement on pension or other reasons approved by the Board of Directors, any units not yet exercised will lapse.

The EG units were issued for the first time in 2012.

Details of EG units at 31 December were:

Expiry date	Grant date	Issue price (Rand)	Granted	NUMBER OF UNITS		
				Exercised	Forfeited	Outstanding
November 2019	November 2012	7,21	15 067 761	11 911 631	3 156 130	–
June 2020	June 2013	6,27	19 361 771	12 434 599	3 438 736	3 488 436
June 2021	June 2014	7,91	13 833 744	7 317 870	2 430 350	4 085 524
June 2022	June 2015	6,63	10 532 462	3 638 163	1 414 869	5 479 430
June 2023	June 2016	7,53	8 097 793	861 123	1 039 319	6 197 351
			66 893 531	36 163 386	11 479 404	19 250 741

R millions	GROUP		COMPANY	
	2019	2018	2019	2018
Total carrying amount of EG units liabilities (see note 16)	<b>78</b>	91	<b>37</b>	40

## 31. REMUNERATION AND INTERESTS OF DIRECTORS, THE GROUP COMPANY SECRETARY AND PRINCIPAL OFFERS

### INTEREST OF DIRECTORS, THE GROUP COMPANY SECRETARY AND PRESCRIBED OFFICERS IN THE SHARE CAPITAL OF THE COMPANY

The aggregate beneficial holdings of the Directors, the Group Company Secretary and Prescribed Officers of the Company in the issued ordinary shares of the Company at 31 December were:

	NUMBER OF SHARES			
	2019 Direct	2019 Indirect	2018 Direct	2018 Indirect
<b>EXECUTIVE DIRECTORS</b>				
MA Dytor	<b>105 097</b>	–	83 291	–
KM Kathan	<b>94 814</b>	–	78 873	–
	<b>199 911</b>	–	162 164	–
<b>PRESCRIBED OFFICERS</b>				
EE Ludick	<b>9 250</b>	–	8 240	–
MVK Matshitse <sup>1</sup>	–	–	13 364	–
DK Murray	<b>10 487</b>	–	5 639	–
DJ Mulqueeny	<b>8 578</b>	–	–	–
	<b>28 315</b>	–	27 243	–
<b>GROUP COMPANY SECRETARY</b>				
EN Rapoo	<b>8 223</b>	–	4 145	–
	<b>8 223</b>	–	4 145	–
	<b>236 449</b>	–	193 552	–

1 MVK Matshitse retired with effect from 31 January 2019.

Non-executive Directors did not have any beneficial holdings in either of the years presented.

There has been no change in the aggregate beneficial holdings of the Directors, the Group Company Secretary and Prescribed Officers of the Company between the reporting date and issue date of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 31. REMUNERATION AND INTERESTS OF DIRECTORS, THE GROUP COMPANY SECRETARY AND PRINCIPAL OFFERS CONTINUED

### NON-EXECUTIVE DIRECTORS' REMUNERATION

R thousands	Directors' fees	Chairman/ Committee fees	Attendance fees	2019 Total	2018 Total
GW Dempster (resigned 30 September 2019)	192	310	217	719	763
Z Fuphe (resigned 26 November 2019)	236	195	114	545	547
G Gomwe	258	476	274	1 008	905
KDK Mokhele	—	1 619	228	1 847	1 755
AJ Morgan	258	465	228	951	924
R Ramashia	258	284	251	793	737
J Molapo	258	—	68	326	157
PG Sibiyi	258	227	160	645	348
FFT De Buck (appointed on 29 May 2019)	154	—	34	188	—
	1 872	3 576	1 574	7 022	6 136

### EXECUTIVE DIRECTORS' REMUNERATION

R thousands	MA Dytor	KM Kathan	Total
<b>2019</b>			
Basic salary	5 577	4 442	10 019
Bonus and performance-related payments <sup>1</sup>	4 146	3 308	7 454
Expense allowances, medical aid and insurance contributions	756	595	1 351
Leave pay	214	—	214
Retirement fund contributions	475	378	853
Total cash-settled share-based payments and other long-term benefits	1 530	4 233	5 763
Benefit unit payments <sup>2</sup>	431	3 252	3 683
DS unit payments <sup>3</sup>	1 099	981	2 080
Pre-tax benefit of PS vested	3 602	2 652	6 254
Aggregate remuneration	16 300	15 608	31 908
Pre-tax benefit of PS vested	(3 602)	(2 652)	(6 254)
<b>AGGREGATE REMUNERATION PAID BY THE COMPANY</b>	<b>12 698</b>	<b>12 956</b>	<b>25 654</b>

<b>2018</b>			
Basic salary	4 943	4 152	9 095
Bonus and performance-related payments	4 995	4 150	9 145
Expense allowances, medical aid and insurance contributions	641	567	1 208
Leave pay	184	—	184
Retirement fund contributions	478	405	883
Total cash-settled share-based payments and other long-term benefits	2 776	3 474	6 250
Benefit unit payments	195	—	195
EG unit payments	1 710	2 697	4 407
DS unit payments	871	777	1 648
Pre-tax benefit of PS vested	4 113	3 028	7 141
Aggregate remuneration	18 130	15 776	33 906
Pre-tax benefit of PS vested	(4 113)	(3 028)	(7 141)
<b>AGGREGATE REMUNERATION PAID BY THE COMPANY</b>	<b>14 017</b>	<b>12 748</b>	<b>26 765</b>

1 Bonus and performance-related amounts are in respect of the current year's performance but are paid in the following year.

2 MA Dytor exercised 7 910 benefit units which generated a benefit of R430 937 before tax. KM Kathan exercised 59 700 benefit units which generated a benefit of R3 252 456 before tax.

3 MA Dytor exercised 11 870 DS units which generated a benefit of R1 099 043 before tax. KM Kathan exercised 10 594 DS units which generated a benefit of R980 898 before tax.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 31. REMUNERATION AND INTERESTS OF DIRECTORS, THE GROUP COMPANY SECRETARY AND PRINCIPAL OFFERS CONTINUED

### PRESCRIBED OFFICERS' REMUNERATION <sup>1</sup>

R thousands	EE Ludick	MVK Matshitse	DJ Mulqueeny	DK Murray	Total
<b>2019</b>					
Basic salary	3 594	250	3 073	3 010	9 927
Bonus and performance-related payments <sup>2</sup>	2 658	—	2 269	2 223	7 150
Expense allowances, medical aid and insurance contributions	441	39	566	591	1 637
Notice pay	—	1 881	—	—	1 881
Retirement lump sum	—	4 289	—	—	4 289
Leave pay	—	349	—	—	349
Retirement fund contributions	306	24	262	256	848
Total cash-settled share-based payments and other long-term benefits	929	693	651	650	2 923
Benefit unit payments <sup>3</sup>	65	—	—	—	65
EG unit payments <sup>4</sup>	67	693	—	—	760
DS unit payments <sup>5</sup>	797	—	651	650	2 098
Pre-tax benefit of PS vested	1 363	—	787	801	2 951
Aggregate remuneration	9 291	7 525	7 608	7 531	31 955
Pre-tax benefit of PS vested	(1 363)	—	(787)	(801)	(2 951)
Aggregate remuneration paid by subsidiaries	(7 928)	—	—	—	(7 928)
<b>AGGREGATE REMUNERATION PAID BY THE COMPANY</b>	<b>—</b>	<b>7 525</b>	<b>6 821</b>	<b>6 730</b>	<b>21 076</b>
<b>2018</b>					
Basic salary	3 375	2 883	2 913	2 853	12 024
Bonus and performance-related payments	3 357	850	2 902	2 809	9 918
Expense allowances, medical aid and insurance contributions	475	438	539	551	2 003
Retirement fund contributions	329	281	284	278	1 172
Total cash-settled share-based payments and other long term benefits	1 745	1 288	516	1 298	4 847
EG unit payments	1 220	746	—	786	2 752
DS unit payments	525	542	516	512	2 095
Pre-tax benefit of PS vested	1 597	1 433	—	1 093	4 123
Aggregate remuneration	10 878	7 173	7 154	8 882	34 087
Pre-tax benefit of PS vested	(1 597)	(1 433)	—	(1 093)	(4 123)
Aggregate remuneration paid by subsidiaries	(9 281)	—	—	—	(9 281)
<b>AGGREGATE REMUNERATION PAID BY THE COMPANY</b>	<b>—</b>	<b>5 740</b>	<b>7 154</b>	<b>7 789</b>	<b>20 683</b>

1 Members of the AECI Executive Committee exercise general control over the management of the business and activities of the Company. There are no other persons who exercise such control over the business or a significant portion thereof. Accordingly, the AECI Executive Committee members are the Company's Prescribed Officers.

2 Bonus and performance-related amounts are in respect of the current year's performance but are paid in the following year.

3 EE Ludick exercised 5 100 benefit units which generated a benefit of R65 178 before tax.

4 EE Ludick exercised 38 056 EG units which generated a benefit of R66 598 before tax. MVK Matshitse exercised 156 793 EG units which generated a benefit of R693 082 before tax.

5 EE Ludick exercised 8 611 DS units which generated a benefit of R797 292 before tax. DJ Mulqueeny exercised 7 036 DS units which generated a benefit of R651 463 before tax. DK Murray exercised 7 017 DS units which generated a benefit of R649 704 before tax.

### AGGREGATE REMUNERATION

R thousands	2019	2018
Non-executive Directors	7 022	6 136
Executive Directors	31 908	33 906
Prescribed Officers	31 955	34 087
	<b>70 885</b>	<b>74 129</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 31. REMUNERATION AND INTERESTS OF DIRECTORS, THE GROUP COMPANY SECRETARY AND PRINCIPAL OFFERS CONTINUED

### LONG-TERM INCENTIVE SCHEMES

Certain Directors and Prescribed Officers have outstanding share options and long-term incentive units under the long-term incentive schemes as described in note 30.

### CASH-SETTLED SHARE-BASED SCHEME (“BENEFIT UNITS”)

Included in benefit units were the following units granted to Directors and Prescribed Officers:

	Grant date	Issue price (Rand)	Granted	NUMBER OF UNITS		
				Exercised	Lapsed or forfeited	Outstanding
MA Dytor	March 2009	43,42	7 910	7 910	—	—
	March 2010	59,80	7 600	—	—	7 600
	March 2011	83,82	6 600	—	—	6 600
KM Kathan	March 2009	43,42	59 700	59 700	—	—
	March 2010	59,80	47 320	—	—	47 320
	March 2011	83,82	18 100	—	—	18 100
EE Ludick	March 2011	83,82	5 100	5 100	—	—
			152 330	72 710	—	79 620

Movements in the number of benefit units held by Directors and Prescribed Officers were:

	NUMBER OF UNITS	
	2019	2018
Outstanding at the beginning of the year	152 330	156 580
Exercised during the year	(72 710)	(4 250)
<b>OUTSTANDING AT THE END OF THE YEAR</b>	<b>79 620</b>	<b>152 330</b>

MA Dytor exercised 7 910 benefit units which generated a benefit of R430 937 before tax. KM Kathan exercised 59 700 benefit unit which generated a benefit of R3 252 456 before tax. EE Ludick exercised 5 100 EG units which generated a benefit of R65 178 before tax.

### EARNINGS-GROWTH INCENTIVE SCHEMES (“EG UNITS”)

Included in EG units were the following units granted to Directors and Prescribed Officers:

	Grant date	Issue price (Rand)	Granted	NUMBER OF UNITS		
				Exercised	Lapsed or forfeited	Outstanding
MA Dytor	June 2014	7,91	210 594	140 396	—	70 198
	June 2015	6,63	392 862	130 954	—	261 908
	June 2016	7,53	258 598	—	—	258 598
KM Kathan	June 2014	7,91	195 120	130 080	—	65 040
	June 2015	6,63	350 549	116 849	—	233 700
	June 2016	7,53	230 761	—	—	230 761
EE Ludick	June 2014	7,91	114 166	114 166	—	—
	June 2015	6,63	243 999	81 333	—	162 666
	June 2016	7,53	156 588	—	—	156 588
MVK Matshitse	June 2013	6,27	136 069	136 069	—	—
	June 2014	7,91	115 308	76 871	38 437	—
	June 2015	6,63	219 003	73 001	146 002	—
	June 2016	7,53	136 124	—	136 124	—
DJ Mulqueeny	June 2016	7,53	125 539	—	—	125 539
DK Murray	June 2014	7,91	109 824	73 215	—	36 609
	June 2015	6,63	231 882	77 249	—	154 633
	June 2016	7,53	127 794	—	—	127 794
			3 354 780	1 150 183	320 563	1 884 034

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 31. REMUNERATION AND INTERESTS OF DIRECTORS, THE GROUP COMPANY SECRETARY AND PRINCIPAL OFFERS CONTINUED

Movements in the number of EG units held by Directors and Prescribed Officers were as follows:

	NUMBER OF UNITS	
	2019	2018
Outstanding at the beginning of the year	2 399 447	3 427 389
Appointments during the year	—	637 585
Lapsed during the year	(320 563)	—
Exercised during the year	(194 850)	(1 665 527)
<b>OUTSTANDING AT THE END OF THE YEAR</b>	<b>1 884 034</b>	<b>2 399 447</b>

EE Ludick exercised 38 056 EG units which generated a benefit of R66 598 before tax. MVK Matshitse exercised 156 793 EG units which generated a benefit of R693 082 before tax.

### DEFERRED SHARES FOR EXECUTIVES AND SENIOR MANAGERS (“DS”)

Included in DS were the following units granted to Directors and Prescribed Officers:

	Grant date	Issue price (Rand)	Granted	NUMBER OF UNITS		
				Vested	Lapsed or forfeited	Outstanding
MA Dytor	August 2016	96,82	11 870	11 870	—	—
KM Kathan	August 2016	96,82	10 594	10 594	—	—
EE Ludick	August 2016	96,82	8 611	8 611	—	—
MVK Matshitse	August 2016	96,82	7 392	—	7 392	—
DJ Mulqueeny	August 2016	96,82	7 036	7 036	—	—
DK Murray	August 2016	96,82	7 017	7 017	—	—
			52 520	45 128	7 392	-

Movements in the number of DS held by Directors and Prescribed Officers were as follows:

	NUMBER OF UNITS	
	2019	2018
Outstanding at the beginning of the year	52 520	64 319
Lapsed during the year	(7 392)	—
Appointments during the year	—	23 847
Exercised during the year	(45 128)	(35 646)
<b>OUTSTANDING AT THE END OF THE YEAR</b>	<b>—</b>	<b>52 520</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 31. REMUNERATION AND INTERESTS OF DIRECTORS, THE GROUP COMPANY SECRETARY AND PRINCIPAL OFFERS CONTINUED

### AECI PERFORMANCE SHARES (“PS”)

Included in PS were the following granted to Directors and Prescribed Officers.

	Grant date	Granted	NUMBER OF PS		
			Vested <sup>1</sup>	Lapsed or forfeited	Outstanding
MA Dytor	June 2016	28 049	28 049	–	–
	June 2017	43 766	–	–	43 766
	April 2018	62 474	–	–	62 474
	April 2019	70 494	–	–	70 494
KM Kathan	June 2016	20 650	20 650	–	–
	June 2017	35 215	–	–	35 215
	April 2018	46 200	–	–	46 200
	April 2019	48 531	–	–	48 531
EE Ludick	June 2016	10 615	10 615	–	–
	June 2017	25 096	–	–	25 096
	April 2018	31 004	–	–	31 004
	April 2019	32 632	–	–	32 632
MVK Matshitse	June 2016	9 228	–	9 228	–
	June 2017	14 476	–	14 476	–
	April 2018	17 881	–	17 881	–
DJ Mulqueeny	June 2016	6 127	6 127	–	–
	June 2017	14 966	–	–	14 966
	April 2018	22 984	–	–	22 984
	April 2019	28 683	–	–	28 683
DK Murray	June 2016	6 237	6 237	–	–
	June 2017	14 990	–	–	14 990
	April 2018	22 685	–	–	22 685
	April 2019	28 313	–	–	28 313
		641 296	71 678	41 585	528 033

<sup>1</sup> The pre-tax benefits generated by PS vested in Directors and Prescribed Officers were:

MA Dytor: R3 601 753  
 KM Kathan: R2 651 625  
 EE Ludick: R1 363 051  
 DJ Mulqueeny: R786 774  
 DK Murray: R800 899

Movements in the number of PS held by Directors and Prescribed Officers were:

	NUMBER OF PS	
	2019	2018
Outstanding at the beginning of the year	<b>432 643</b>	255 796
Lapsed during the year	<b>(41 585)</b>	–
Appointments during the year	–	49 700
Issued during the year	<b>208 653</b>	203 228
Vested during the year	<b>(71 678)</b>	(76 081)
<b>OUTSTANDING AT THE END OF THE YEAR</b>	<b>528 033</b>	432 643

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 32. OPERATING SEGMENTS

### BASIS OF SEGMENTATION

The Group's key growth pillars, which are its operating segments, are described below. Businesses in the pillars offer differing products and services and are managed separately because they require different technology and marketing strategies.

SEGMENTS	OPERATIONS
<b>Mining Solutions</b>	The businesses in this segment provide a mine-to-mineral solution for the mining sector internationally. The offering includes surfactants for explosives manufacture, commercial explosives, initiating systems and blasting services right through the value chain to chemicals for ore beneficiation and tailings treatment.
<b>Water &amp; Process</b>	ImproChem provides integrated water treatment solutions, process chemicals, and equipment solutions, for a diverse range of applications in Africa. These include, inter alia, public and industrial water, desalination and utilities.
<b>Plant &amp; Animal Health</b>	Nulandis manufactures and supplies an extensive range of crop protection products, plant nutrients and services for the agricultural sector in Africa. Schirm, based in Germany, is a contract manufacturer of agrochemicals and fine chemicals with a European and US footprint. It is the premier provider of external agrochemical formulation services in Europe.
<b>Food &amp; Beverage</b>	These businesses supply ingredients and commodities to the dairy, beverage, wine, meat, bakery, health and nutrition industries. The other main activity is the manufacture and distribution of a broad range of juice-based products and drinks, including formulated compounds, fruit concentrate blends and emulsions.
<b>Chemicals</b>	Supply of chemical raw materials and related services for use across a broad spectrum of customers in the manufacturing, infrastructure and general industrial sectors mainly in South Africa and in other Southern African countries.
<b>Property &amp; Corporate</b>	Mainly property leasing and management in the office, industrial and retail sectors, and corporate centre functions including the treasury.

There are varying levels of integration between the segments. This includes transfers of raw materials and finished goods, and property management services. Inter-segment pricing is determined on terms that are no more and no less favourable than transactions with unrelated external parties.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 32. OPERATING SEGMENTS CONTINUED

### INFORMATION RELATING TO OPERATING SEGMENTS

Information relating to each operating segment is set out below. Segmental profit from operations is used to measure performance because AECI's Executive Committee believes that this information is the most relevant in evaluating the results of the respective segments.

R millions	EXTERNAL REVENUE		INTER-SEGMENT REVENUE		TOTAL SEGMENT REVENUE	
	2019	2018	2019	2018	2019	2018
Mining Solutions	<b>11 429</b>	10 918	<b>108</b>	95	<b>11 537</b>	11 013
Water & Process	<b>1 415</b>	1 327	<b>37</b>	49	<b>1 452</b>	1 376
Plant & Animal Health	<b>4 735</b>	4 386	<b>48</b>	37	<b>4 783</b>	4 423
Food & Beverage	<b>1 405</b>	1 201	<b>61</b>	47	<b>1 466</b>	1 248
Chemicals	<b>5 473</b>	5 153	<b>94</b>	113	<b>5 567</b>	5 266
Property & Corporate	<b>342</b>	329	<b>129</b>	110	<b>471</b>	439
Inter-segment	—	—	<b>(477)</b>	(451)	<b>(477)</b>	(451)
	<b>24 799</b>	23 314	—	—	<b>24 799</b>	23 314

R millions	DEPRECIATION		AMORTISATION		IMPAIRMENTS	
	2019	2018	2019	2018	2019	2018
Mining Solutions	<b>615</b>	335	<b>1</b>	2	—	—
Water & Process	<b>20</b>	26	<b>19</b>	19	—	—
Plant & Animal Health	<b>147</b>	106	<b>26</b>	24	—	31
Food & Beverage	<b>33</b>	14	<b>3</b>	2	<b>147</b>	—
Chemicals	<b>114</b>	113	<b>21</b>	16	—	—
Property & Corporate	<b>66</b>	52	<b>5</b>	1	—	—
Inter-segment	<b>(39)</b>	—	—	—	—	—
	<b>956</b>	646	<b>75</b>	64	<b>147</b>	31

R millions	PROFIT/(LOSS) FROM OPERATIONS		EBITDA <sup>1</sup>		CAPITAL EXPENDITURE	
	2019	2018	2019	2018	2019	2018
Mining Solutions	<b>1 305</b>	1 274	<b>1 923</b>	1 531	<b>479</b>	410
Water & Process	<b>190</b>	120	<b>229</b>	165	<b>22</b>	24
Plant & Animal Health	<b>203</b>	119	<b>376</b>	249	<b>118</b>	119
Food & Beverage	<b>(88)</b>	74	<b>(46)</b>	90	<b>10</b>	29
Chemicals	<b>512</b>	559	<b>903</b>	690	<b>132</b>	193
Property & Corporate	<b>(83)</b>	(147)	<b>(12)</b>	(94)	<b>72</b>	72
Inter-segment	<b>(8)</b>	—	<b>(47)</b>	—	—	—
	<b>2 031</b>	1 999	<b>3 326</b>	2 631	<b>833</b>	847

R millions	OPERATING ASSETS <sup>2</sup>		OPERATING LIABILITIES <sup>2</sup>	
	2019	2018	2019	2018
Mining Solutions	<b>7 917</b>	7 023	<b>1 931</b>	1 946
Water & Process	<b>1 205</b>	1 183	<b>263</b>	255
Plant & Animal Health	<b>4 324</b>	4 298	<b>1 425</b>	1 383
Food & Beverage	<b>762</b>	875	<b>243</b>	292
Chemicals	<b>4 839</b>	5 072	<b>847</b>	1 039
Property & Corporate	<b>1 126</b>	973	<b>328</b>	341
Inter-segment	<b>(524)</b>	(254)	<b>(354)</b>	(246)
	<b>19 649</b>	19 170	<b>4 683</b>	5 010

<sup>1</sup> Earnings before interest, taxation, depreciation and amortisation calculated as profit from operations and equity-accounted investees plus depreciation and amortisation.

<sup>2</sup> Operating assets comprise property, plant and equipment, right-of-use assets, investment property, intangible assets, goodwill, inventories, accounts receivable and assets classified as held for sale. Operating liabilities comprise accounts payable.

<sup>3</sup> Geographical information on non-current assets has not been disclosed as it is not readily available.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 33. PRINCIPAL SUBSIDIARIES

	ISSUED SHARE CAPITAL	EFFECTIVE SHAREHOLDING		INTEREST OF AECI LTD # SHARES		INTEREST OF AECI LTD # LOANS TO/(FROM)	
	2019 Number of shares	2019 %	2018 %	2019 R millions	2018 R millions	2019 R millions	2018 R millions
<b>HOLDING COMPANIES</b>							
<b>DIRECTLY HELD</b>							
AECI Treasury Holdings (Pty) Ltd	100	100	100	—	—	(151)	(89)
<b>INSURANCE</b>							
<b>DIRECTLY HELD</b>							
AECI Captive Insurance Company Ltd	810 000	100	100	51	51	(110)	(30)
<b>MINING SOLUTIONS</b>							
<b>DIRECTLY HELD</b>							
AECI Mining Solutions Ltd	400 000 000	100	100	4 438	4 438	597	1 029
<b>INDIRECTLY HELD</b>							
AECI Australia (Pty) Ltd	13 700 000	100	100	—	—	—	—
AECI Ghana Ltd	1 000 000	100	100	—	—	—	—
AECI (Mauritius) Limited	866	100	100	—	—	—	—
AECI Mining and Chemical Services Namibia (Pty) Ltd	100	100	100	—	—	—	—
AECI Mining and Chemical Services (Chile) Ltda	2	100	100	—	—	—	—
AEL Burkina SARL <sup>1</sup>	100 000	100	100	—	—	—	—
AEL DRC SPRL <sup>2</sup>	10 000	100	100	—	—	—	—
AEL Mali SARL	8 659	100	100	—	—	—	—
AEL Morocco	2 500	100	100	—	—	—	—
AEL Zambia plc	25 508 250	75	75	—	—	—	—
AEL Mining Services Ltd <sup>++</sup>	100	100	100	—	—	(381)	(419)
African Explosives (Botswana) Ltd	3	100	100	—	—	—	—
African Explosives Holdings (Pty) Ltd	4 331 278	100	100	—	—	(920)	(1 056)
African Explosives (Tanzania) Ltd	26	100	100	—	—	—	—
PT AEL Indonesia	1 150	100	100	—	—	—	—
<b>WATER &amp; PROCESS</b>							
<b>INDIRECTLY HELD</b>							
Blendtech (Pty) Ltd	1 800	100	100	—	—	(5)	(54)
ImproChem (Pty) Ltd	4 000	100	100	—	—	(345)	(105)

# Cost less impairments.

++ Trading as an agent on behalf of AECI Mining Solutions Ltd.

All companies are incorporated in the Republic of South Africa except for those whose country of incorporation is indicated by their registered company name, and those annotated as follows:

1 Burkina Faso.

2 Democratic Republic of Congo.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 33. PRINCIPAL SUBSIDIARIES CONTINUED

	ISSUED SHARE CAPITAL	EFFECTIVE SHAREHOLDING		INTEREST OF AECI LTD# SHARES		INTEREST OF AECI LTD# LOANS TO/(FROM)	
	2019 Number of shares	2019 %	2018 %	2019 R millions	2018 R millions	2019 R millions	2018 R millions
<b>PLANT &amp; ANIMAL HEALTH</b>							
<b>DIRECTLY HELD</b>							
Biocult (Pty) Ltd	5 000	100	100	17	17	16	16
<b>INDIRECTLY HELD</b>							
Farmers Organisation Ltd <sup>4</sup>	240	100	100	—	—	—	—
Schirm GmbH <sup>5</sup>	100	100	100	—	—	—	—
Other Plant & Animal Health subsidiaries				—	—	(49)	(39)
<b>FOOD &amp; BEVERAGE</b>							
<b>DIRECTLY HELD</b>							
Afoodable (Pty) Ltd	100	100	100	16	16	29	30
Southern Canned Products (Pty) Ltd	100 000	100	100	241	241	173	158
<b>CHEMICALS</b>							
<b>DIRECTLY HELD</b>							
Chemical Services Ltd	83 127 950	100	100	818	818	(449)	(2)
SANS Fibers Inc. <sup>3</sup>	100	100	100	—	—	399	434
SANS Fibres (Pty) Ltd <sup>+</sup>	17 979 433	100	100	8	8	(126)	(126)
Much Asphalt (Pty) Ltd	100	98	98	1 801	1 801	405	524
<b>INDIRECTLY HELD</b>							
Chemfit (Pty) Ltd	4 000	100	100	—	—	(76)	(72)
Chemfit Fine Chemicals (Pty) Ltd	1 000	100	100	—	—	(72)	(53)
Other chemicals subsidiaries				—	—	(412)	(365)
<b>PROPERTY</b>							
Acacia Real Estate (Pty) Ltd	1 000	100	100	—	—	(347)	(279)
Paardevelei Properties (Pty) Ltd	1	100	100	—	—	(380)	(375)
Other property subsidiaries				3	3	(268)	(266)
<b>OTHER</b>							
				177	169	(8)	(15)
				<b>7 570</b>	7 562	<b>(2 480)</b>	(1 154)

# Cost less impairments.

+ Trading as an agent on behalf of AECI Ltd.

All companies are incorporated in the Republic of South Africa except for those whose country of incorporation is indicated by their registered company name, and those annotated as follows:

3 United States of America.

4 Malawi

5 Germany.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 34. NON-CONTROLLING INTEREST

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interest:

R millions	AEL Zambia	Much Asphalt <sup>1</sup>	Other	Total
<b>2019</b>				
<b>NON-CONTROLLING INTEREST (%)</b>	<b>25</b>	<b>2</b>		
Non-current assets	<b>64</b>	<b>1 012</b>		
Current assets	<b>512</b>	<b>359</b>		
Non-current liabilities	<b>(14)</b>	<b>(331)</b>		
Current liabilities	<b>(140)</b>	<b>(352)</b>		
<b>NET ASSETS</b>	<b>422</b>	<b>688</b>		
Carrying amount of non-controlling interest	<b>106</b>	<b>45</b>	<b>15</b>	<b>166</b>
Revenue	<b>(732)</b>	<b>(1 876)</b>		
Profit	<b>(89)</b>	<b>(125)</b>		
<b>PROFIT FOR THE YEAR ALLOCATED TO NON-CONTROLLING INTEREST</b>	<b>(22)</b>	<b>(10)</b>	<b>(1)</b>	<b>(33)</b>
Other comprehensive income	<b>8</b>	<b>—</b>	<b>(8)</b>	<b>—</b>
<b>OTHER COMPREHENSIVE INCOME ALLOCATED TO NON-CONTROLLING INTEREST</b>	<b>2</b>	<b>—</b>	<b>(2)</b>	<b>—</b>
<b>TOTAL COMPREHENSIVE INCOME ALLOCATED TO NON-CONTROLLING INTEREST</b>	<b>(20)</b>	<b>(10)</b>	<b>(3)</b>	<b>(33)</b>
Dividends paid	<b>(60)</b>	<b>(5)</b>		
Other cash flows from operating activities	<b>88</b>	<b>178</b>		
Cash flows from operating activities	<b>28</b>	<b>173</b>		
Cash flows from investing activities	<b>(9)</b>	<b>(38)</b>		
Cash flows from financing activities	<b>1</b>	<b>(138)</b>		
Increase/(decrease) in cash	<b>20</b>	<b>(3)</b>		
Cash at the beginning of the year	<b>142</b>	<b>42</b>		
Translation loss on cash	<b>(3)</b>	<b>—</b>		
<b>CASH AT THE END OF THE YEAR</b>	<b>159</b>	<b>39</b>		

1 AECI Ltd holds 98% of Much Asphalt (Pty) Ltd and indirectly holds 55% of East Coast Asphalt (Pty) Ltd, a subsidiary of Much Asphalt (Pty) Ltd.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 34. NON-CONTROLLING INTEREST CONTINUED

R millions	AEL Zambia	Much Asphalt <sup>1</sup>	Other	Total
<b>2018</b>				
<b>NON-CONTROLLING INTEREST (%)</b>	25	2		
Non-current assets	66	1 431		
Current assets	438	315		
Non-current liabilities	(14)	(441)		
Current liabilities	(89)	(430)		
<b>NET ASSETS</b>	401	875		
Carrying amount of non-controlling interest	100	40	16	156
Revenue	(813)	(1 497)		
Profit	(107)	(82)		
<b>PROFIT FOR THE YEAR ALLOCATED TO NON-CONTROLLING INTEREST</b>	(27)	(8)	1	(34)
Other comprehensive income	(68)	–	–	(68)
<b>OTHER COMPREHENSIVE INCOME ALLOCATED TO NON-CONTROLLING INTEREST</b>	(17)	–	–	(17)
<b>TOTAL COMPREHENSIVE INCOME ALLOCATED TO NON-CONTROLLING INTEREST</b>	(44)	(8)	1	(51)
Cash flows from operating activities	11	(135)		
Cash flows from financing activities	(2)	144		
Increase in cash	9	9		
Cash at the beginning of the year	133	–		
Cash acquired	–	33		
<b>CASH AT THE END OF THE YEAR</b>	142	42		

<sup>1</sup> AECI Ltd holds 98% of Much Asphalt (Pty) Ltd and indirectly holds 55% of East Coast Asphalt (Pty) Ltd, a subsidiary of Much Asphalt (Pty) Ltd.

### NON-CONTROLLING INTEREST PUT OPTION LIABILITY

The business combination of Much Asphalt included a clause whereby the non-controlling interest equity holders are able to put 100% of their shareholding to the Group on 3 April 2023, the expiry date of the option.

The put option liability is the present value of the fair value of the option at the exercise date. In arriving at the option value, a weighted average EBITDA for the three years preceding the exercise date, less net debt estimated at the exercise date, was multiplied by an EBITDA multiple of 7,7. This liability is considered to be a Level 3 financial liability at fair value through profit or loss. The discount rate was estimated based on the Group's weighted average cost of capital adjusted to reflect the most affordable funding available to the Group at the reporting date.

R millions	2019	2018
Balance at the beginning of the year	<b>31</b>	–
At acquisition date	–	29
Fair value adjustment on put option liability	<b>(2)</b>	–
Unwinding of discount	<b>3</b>	2
<b>NON-CONTROLLING INTEREST PUT OPTION LIABILITY</b>	<b>32</b>	31

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 35. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

### IFRS 16 LEASES

This standard introduced a single, on-balance sheet lease accounting model for lessees. A lessee is required to recognise right-of-use assets representing its right to use the underlying assets, and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to former practice; i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 introduced additional disclosures for both lessees and lessors. It replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements. The new accounting policy applied from 1 January 2019 is disclosed in note 35(c).

### 35 (A) ADJUSTMENTS RECOGNISED ON ADOPTION OF IFRS 16

The Group adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated.

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard in the application of the initial accounting:

- › the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- › reliance on previous assessments in determining whether leases are onerous;
- › leases that, as at 1 January 2019, had a remaining lease term of 12 months or less continued to be accounted for on a straight line basis over the remaining lease term;
- › leases for which the underlying asset is of low value continued to be accounted for on a straight line basis over the lease term;
- › initial direct costs were excluded from the measurement of the right-of-use asset at 1 January 2019; and
- › where contracts contain options to extend or terminate the lease, the benefit of hindsight was used to determine the lease term.

The Group also elected to not reassess whether a contract was, or contained, a lease as at 1 January 2019. Instead, for contracts entered into before the transition date the Group relied on assessments made through the application of IAS 17 and IFRIC 4.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessees' incremental borrowing rates as at 1 January 2019. The weighted average lessees' incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 10%.

R millions	1 JANUARY 2019	
	Group	Company
Operating lease commitments disclosed as at 31 December 2018	<b>932</b>	<b>35</b>
Discounted using the lessees' incremental borrowing rate at the date of initial application	<b>744</b>	<b>31</b>
Less: low-value leases recognised on a straight line basis as expense	<b>(2)</b>	<b>(2)</b>
Less: short-term leases recognised on a straight line basis as expense	<b>(17)</b>	—
Plus: adjustments as a result of a different treatment of extension and termination options	<b>14</b>	—
<b>LEASE LIABILITIES RECOGNISED AS AT 1 JANUARY 2019</b>	<b>739</b>	<b>30</b>

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at 1 January 2019.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 35. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The change in accounting policy affected the following items in the statement of financial position:

R millions	1 JANUARY 2019	
	Group	Company
<b>ASSETS</b>	<b>Increase/(decrease)</b>	
Right-of-use assets	<b>795</b>	<b>30</b>
Property	<b>411</b>	<b>29</b>
Plant and equipment	<b>23</b>	<b>1</b>
Vehicles	<b>361</b>	<b>—</b>
Pre-payments	<b>(56)</b>	<b>—</b>
Deferred tax assets	<b>(4)</b>	<b>—</b>
<b>TOTAL ASSETS</b>	<b>735</b>	<b>30</b>
<b>EQUITY AND LIABILITIES</b>	<b>(Increase)/decrease</b>	
Finance lease liabilities	<b>(739)</b>	<b>(30)</b>
Operating lease smoothing liabilities	<b>15</b>	<b>2</b>
Retained earnings	<b>(11)</b>	<b>(2)</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>(735)</b>	<b>(30)</b>

### 35 (B) IMPACT ON SEGMENTAL DISCLOSURES AND EARNINGS PER SHARE

Adjusted profit before tax decreased whilst segment assets and segment liabilities for the year ended 31 December 2019 increased as a result of the change in accounting policy. The effects of the change on the operating segments are set out below:

R millions	Increase in share of profits from equity-accounted investees, net of tax	Decrease in operating lease expenses	Increase in depreciation	Increase in interest expense	Increase in segment assets*	Increase in segment liabilities*
<b>GROUP</b>						
Mining Solutions	—	(214)	187	55	428	459
Water & Process	—	(11)	10	4	30	32
Plant & Animal Health	—	(30)	29	6	149	101
Food & Beverage	—	(24)	18	9	97	106
Chemicals	1	(3)	3	—	6	6
Property & Corporate	—	(13)	12	2	14	15
Inter-segment	—	47	(39)	(14)	(132)	(143)
	<b>1</b>	<b>(248)</b>	<b>220</b>	<b>62</b>	<b>592</b>	<b>576</b>

\* Excluding deferred tax.

The net impact of adopting IFRS 16 on profit from operations and equity-accounted investees was R29 million.

R millions	Decrease in operating lease expenses	Increase in depreciation	Increase in interest expense	Increase in segment assets*	Increase in segment liabilities*
<b>COMPANY</b>					
Impact	<b>(18)</b>	<b>15</b>	<b>3</b>	<b>27</b>	<b>28</b>

\* Excluding deferred tax.

The net impact of adopting IFRS 16 on profit from operations and equity-accounted investees was R3 million.

EPS and HEPS decreased by 24 cents for the year ended 31 December 2019 as a result of the adoption of IFRS 16. Diluted EPS and diluted HEPS decreased by 23 cents.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 CONTINUED

## 35. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 35 (C) CHANGE IN SIGNIFICANT ACCOUNTING POLICY

#### LEASES

The Group leases various properties, plant and equipment. Rental contracts are typically entered into for fixed periods but may have extension options as described in note 35(d). Lease terms are negotiated on an individual basis and contain a range of terms and conditions. Although the lease agreements do not impose any covenants, leased assets may not be used as security for borrowing purposes.

Up to and including the 2018 financial year, leases for property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease.

From 1 January 2019, the Group recognised a right-of-use asset and a corresponding lease liability at the lease commencement date, being the date on which the leased asset was available for use by the Group. The right-of-use asset was measured at cost initially and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements in the lease liability.

The lease liability was measured initially at the present value of the lease payments not paid at the commencement date, discounted using the implicit rate in the lease or, if that rate could not be readily determined, the lessee's incremental borrowing rate. Generally, the Group used the lessee's incremental borrowing rate as the discount rate.

The lease liability was subsequently increased by interest costs and decreased by lease payments made. It was remeasured when there was a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Payments associated with short-term leases and leases of low value assets are recognised on a straight line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low value assets are assets that, when new, have a value of R100 000 or less.

The Group elected to apply the practical expedient in IFRS 16 and accounts for lease and non-lease components as a single lease.

### 35 (D) CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

#### LEASES

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in the management of contracts. The majority of extension and termination options held are exercisable only by the Group entities and not by the respective lessor.

The Group has applied judgement to determine the lease term for some of the lease contracts, in which it is a lessee, that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liabilities and right-of-use assets recognised.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or to not exercise a termination option. Extension options (or periods after termination options) are included in the lease term only if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the lessee.

## 36. CONTINGENT CONSIDERATION

The contingent consideration arose on the acquisition of Biocult in 2015. It is dependent on the future earnings of Biocult and payable in October 2020, five years after the effective date. See note 28 for the fair value estimation of the liability.

## 37. EVENTS AFTER THE REPORTING DATE

No reportable events occurred after the reporting date.

## 38. GOING CONCERN

The financial statements have been prepared using appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The Directors are of the opinion that the Company and its subsidiaries, joint ventures and associates have adequate resources to continue as going concerns in the foreseeable future.

The Directors have formally reviewed the budgets and forecasts of AECI's businesses and have concluded that the Group will continue in business for the foreseeable future. They also conducted liquidity and solvency tests as required by the Companies Act. Accordingly, the going concern basis of accounting remains appropriate.

# ADMINISTRATION

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## EXTERNAL AUDITOR

Deloitte & Touche

## PRIMARY TRANSACTIONAL AND FUNDING BANKS

Absa Bank Ltd  
Investec Bank Ltd  
First National Bank of Southern Africa Ltd  
(A Division of FirstRand Bank Ltd)  
Nedbank Ltd  
Sanlam Life Insurance Ltd  
(acting through its Sanlam Capital Markets division)  
Standard Chartered Bank  
The Standard Bank of South Africa Ltd

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