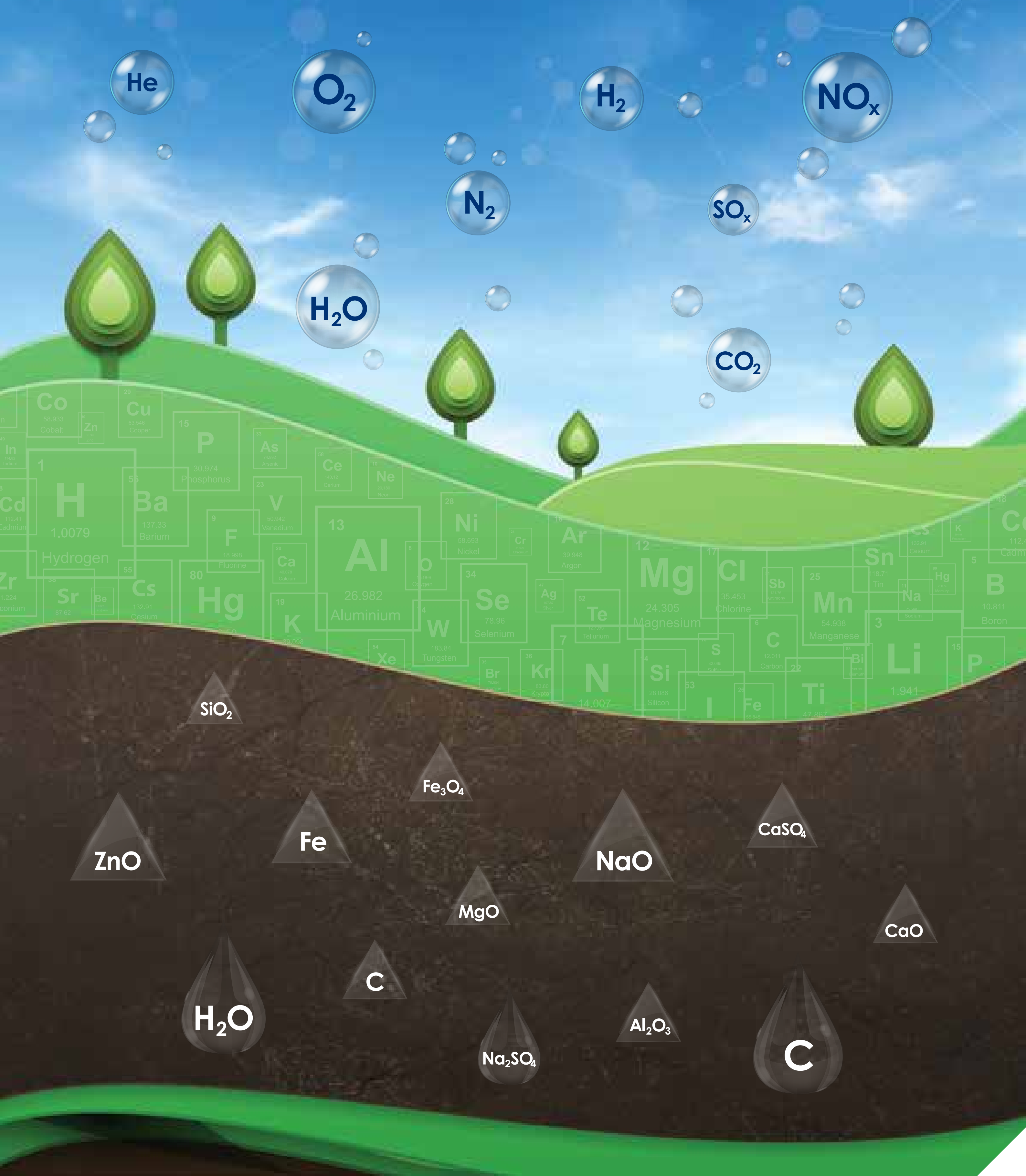
Integrated Annual Report 2017

METAIR
INVESTMENTS LIMITED

automotive | industrial | retail

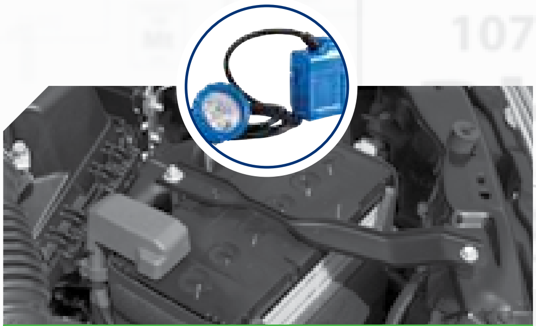


Metair **at a glance**

METAIR INVESTMENTS LIMITED

(Listed on the Johannesburg Stock Exchange)

Manufacturing in South Africa, Turkey, Romania, Kenya and Germany



ENERGY STORAGE VERTICAL

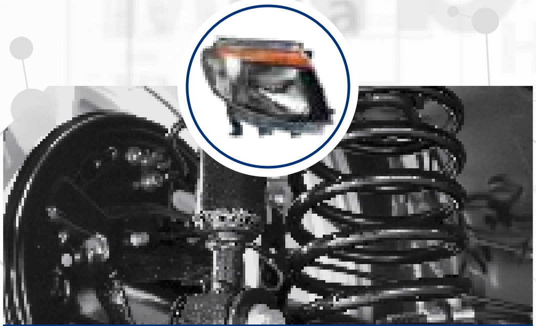
- Automotive and industrial batteries
- Solar systems
- Back-up systems
- Standby systems
- Charging systems
- Battery distribution networks
- Lithium-ion starter batteries and mining cap lamps

AFTERMARKET RETAIL CUSTOMERS:

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

ORIGINAL EQUIPMENT MANUFACTURERS:

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



AUTOMOTIVE COMPONENTS VERTICAL

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

Contents

Theme of the **2017 Integrated Annual Report**

ENVIRONMENTAL FOCUS AND EFFECT

Metair's integrated annual reports are presented against the backdrop of a theme that reflects the current focus of the company and where it is going. This year's theme – Environmental Focus and Effect – talks to Metair's environmental and green solution focus as we use the primary production factor, land (what is on it, what is in it and what is above it), in the most responsible and sustainable way.

The theme is introduced in the cover image, which shows the elements of the periodic table that we use in our manufacturing conversion process to produce our products.

The elemental symbols dispersing into the air and ground show our full understanding of the environmental impact of our main products, our by-products and the environmental management required to deal with their possible negative impacts.

The green shoots in the image symbolise the global shift to greener products and solutions as well as the opportunities that are opening up for Metair in new technologies.

HIGHLIGHTS FOR 2017

REVENUE
increased 6.3% to
R9.5b

Acquisition of
25% of MOLL
provides a presence in Germany and micro-entry into China through partner Chaowei

Continued strong operational results
from Mutlu Akü in Turkey despite a challenging operating environment

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

Excellent progress
on delivery of the group strategy

First lithium-ion battery powered
concept vehicle produced in Romania

DIVIDEND PER SHARE OF
80c
declared in 2018 in respect of the 2017 financial year

GROUP SCOPE 1 and 2
carbon emissions per person hour worked improves
0.3%

Recovery and stabilisation
of automotive components business

LTIFR
reduced to
0.97

HEPS
increased
22.6% to 281c
per share

Established strategic partnerships with government agencies and universities in South Africa, Turkey, Romania and the US **to drive the development of lithium-ion technology** in our key operations.

About **this report**

This integrated annual report aims to provide Metair's stakeholders with a comprehensive overview of the group, its business model, strategy, governance, activities and performance for the period 1 January to 31 December 2017. The report also includes information up to the date of publication of this report where this is relevant to stakeholders.

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

There have been no significant changes to Metair's business that affect the comparability of its reporting against the 2016 report. No material restatements of information provided in previous reports have been made.

Transformation information provided on pages 61 and 62 covers all South African subsidiaries and their material holdings, but excludes the non-South African operations: Rombat, Mutlu Akü, Dynamic, ABM and MOLL. Hesto is reported in the annual financial statements as a managed associate, but is included fully in the non-financial reporting as Metair is responsible for the day-to-day management of the company.

The table on page 42 provides a summary of the matters that most materially impact Metair's ability to create value over the long term. These material aspects are identified and prioritised from a combination of the risk assessment process, stakeholder inputs and a review of regulations, guidelines, media and peer reports.

REPORTING GUIDELINES AND REGULATORY REQUIREMENTS

The contents of this report have been prepared to align with the recommendations of the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework as it applies to our business. The presentation of sustainability information aligns with the GRI Sustainability Reporting Standards reporting guidelines although Metair does not report in accordance with the Standards. A copy of Metair's Sustainability Data Transparency Index report is available on our website.

ASSURANCE

Key strategic risks, internal controls and other material areas have been evaluated by internal and external assessments as part of the group's combined assurance model to support the integrity of the management, monitoring and reporting of data.

As a South African company listed on the Johannesburg Stock Exchange (JSE), Metair aligns to the JSE Listings Requirements and the South African Companies Act, 71 of 2008 (as amended).

External assurance of certain material information included in this report includes:

- The consolidated and separate annual financial statements for the year ended 31 December 2017, which have been audited by PricewaterhouseCoopers Inc. Their report appears on page 123.
- The sustainability information included in this integrated report, which has been externally assured by Integrated Reporting & Assurance Services (refer to their report on page 110).
- External verification of B-BBEE performance, which is performed at a consolidated group level as well as at subsidiary level for the South African operations.

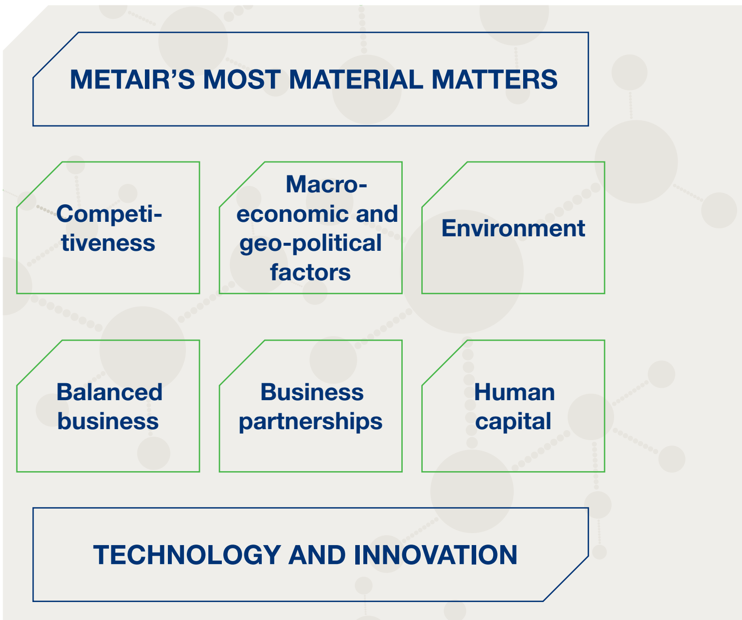
All targets, intentions and forecasts stated in this report are accurate based on the information available to Metair at the time of writing. Metair is well aware that these may be invalidated should conditions change significantly and will report on its progress in the next integrated annual report.

APPROVAL OF THE INTEGRATED ANNUAL REPORT

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

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

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



Who **we are**

Metair Investments Limited is a 70-year old company listed on the Johannesburg Securities Exchange (JSE) that is invested in 11 operations in South Africa and five international operations. From its headquarters in Johannesburg the group manages two distinct business verticals that manufacture, assemble, distribute and retail energy storage solutions and automotive components in Africa, Europe, the Middle East, Turkey and Russia.

ENERGY STORAGE

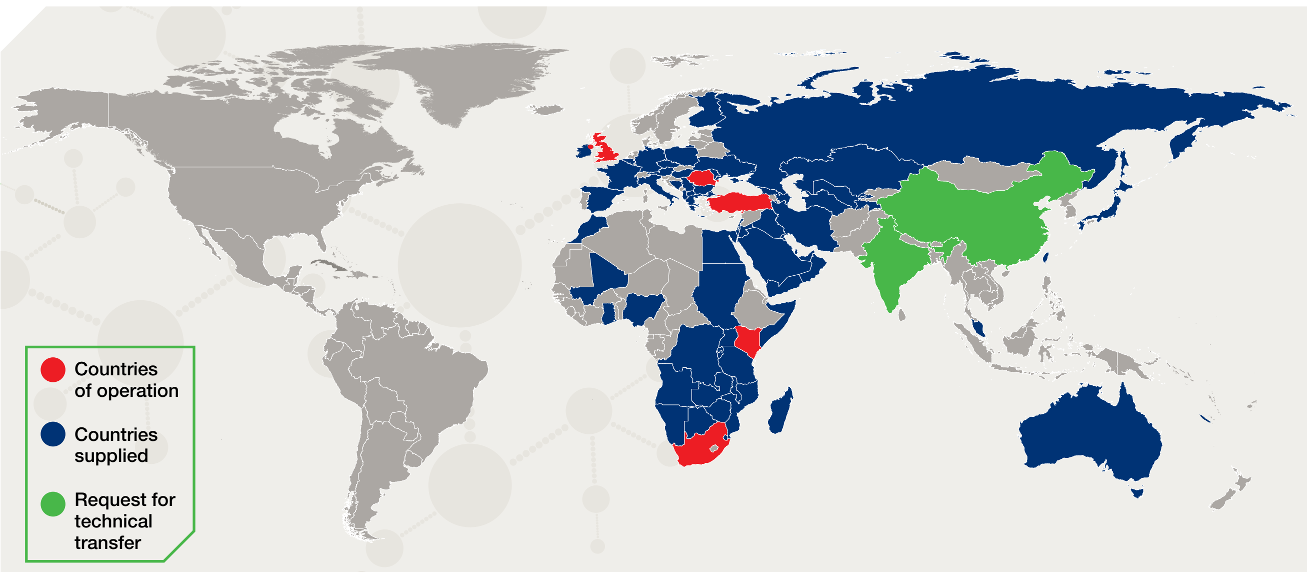
The energy storage segment manufactures batteries for use in the automotive, telecoms, utility, mining, retail and materials/ products handling sectors.

Automotive batteries are supplied to automotive original equipment manufacturers (OEMs) and also to the aftermarket through our unique aftermarket distribution channels and franchised retail networks. Metair supplies batteries to all major OEMs in South Africa, Europe, Romania, Turkey and Russia through subsidiaries in Romania (Rombat), Turkey (Mutlu Akü) and South Africa (FNB), and through our associate, MOLL, in Germany.

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

AUTOMOTIVE COMPONENTS

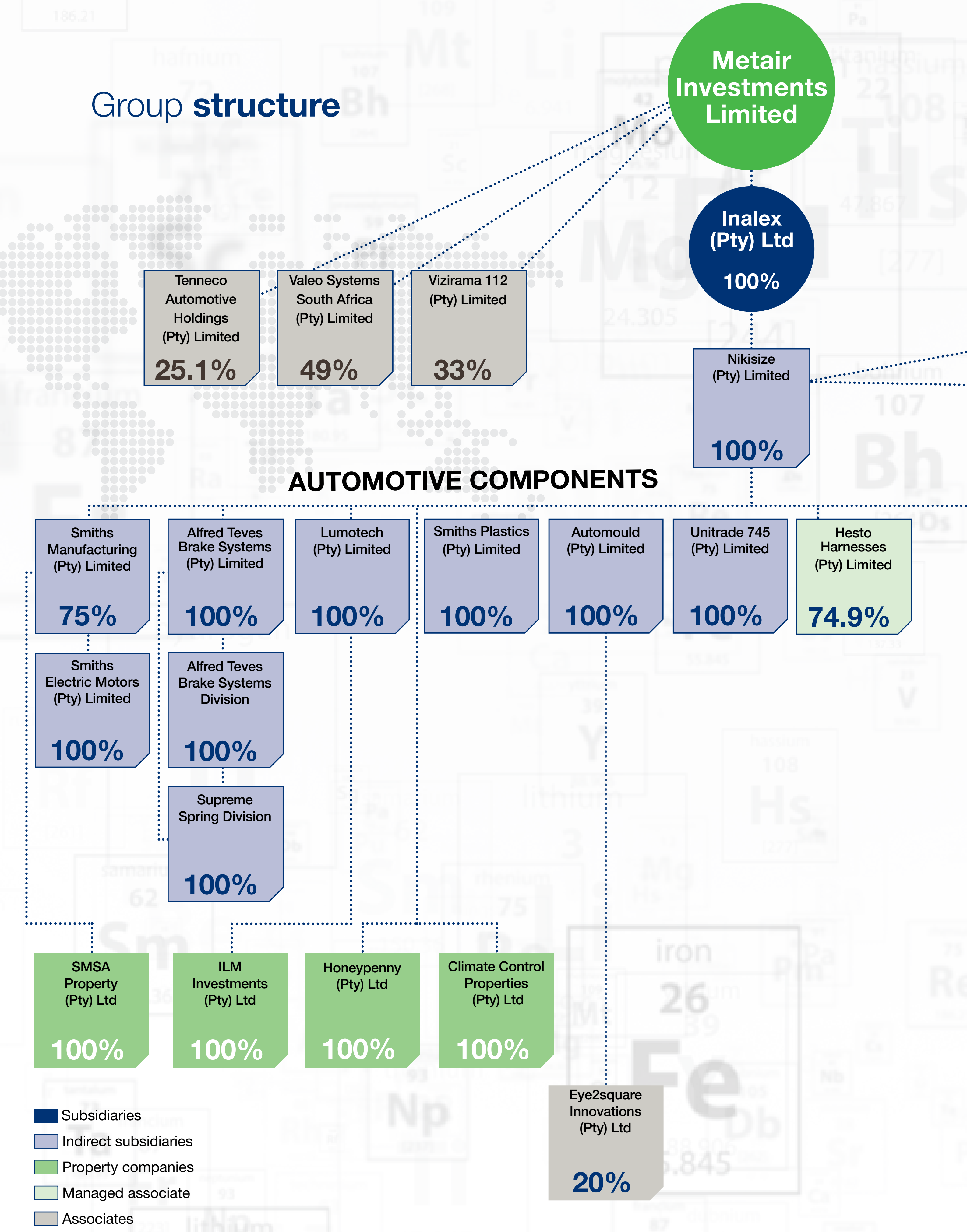
The automotive components vertical produces original equipment (OE) components used in the assembly of new vehicles by OEMs in South Africa, as well as spare parts and other products used in the South African automotive aftermarket. These include brake pads, shock absorbers, lights, radiators and air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

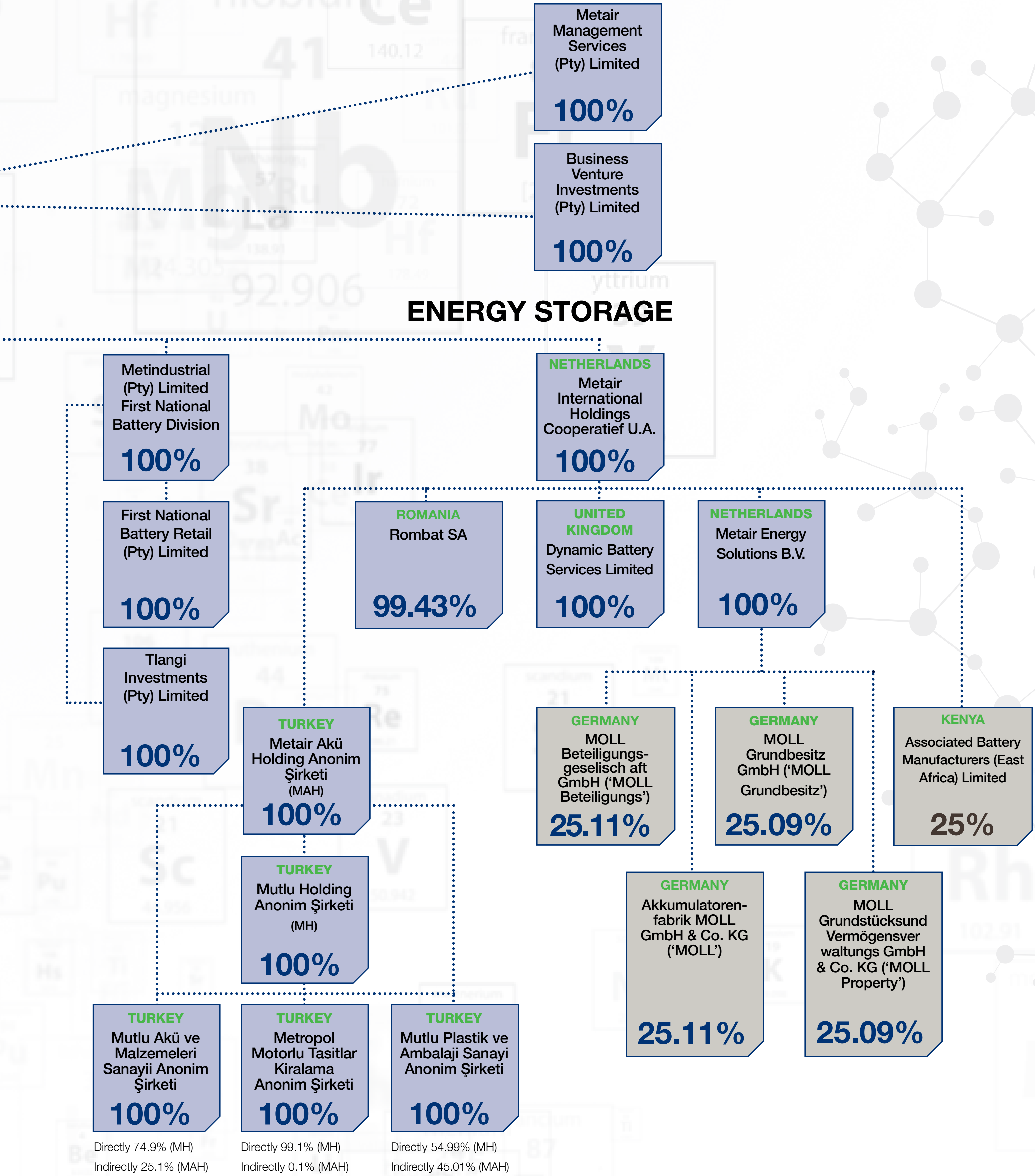


Our **key businesses**

Company	Ownership	Key business area and products	IP in product development	Manufacturing partnerships	Key OE relationships
Mutlu Akü	100.0%	Batteries, solar systems, backup systems, standby systems, charging systems	✓		
First National Battery	100.0%	Batteries, solar systems, backup systems, standby systems, charging systems, Battery Centre franchises	✓		
Rombat	99.4%	Batteries, solar systems, backup systems, standby systems	✓		
Supreme Spring	100.0%	Coil springs, leaf springs, stabiliser bars, torsion bars	✓		
ATE	100.0%	Brake pads, brake discs, brake shoes, hydraulics and other braking components	✓		
Lumotech	100.0%	Headlights, tail lights, reflectors, plastic injection mouldings, commercial lighting including streetlights and warehouse lights	✓	✓	
Tenneco Automotive	25.1%	Shock absorbers, struts, track control arms		✓	
Hesto Harnesses	74.9%	Wiring harnesses, instrument cluster/combination meters, moulded parts		✓	
Valeo SA	49.0%	Front end modules		✓	
Smiths Plastics	100.0%	Plastic injection moulding, chrome plating, body colour painting and assembly		✓	
Automould	100.0%	Plastic injection moulding		✓	
Smiths Manufacturing	75.0%	Air-conditioning and climate control systems, air cleaners, radiators, wiper systems, engine control units, washer systems, charge air coolers, reserve tanks, starter motors and compressors		✓	
Unitrade	100.0%	Automotive cable, automotive wire	✓		
Dynamic Battery Services	100.0%	National and international distribution of key battery group products			
Associated Battery Manufacturers (East Africa)	25.0%	Automotive and solar batteries			
Akkumulatorenfabrik MOLL GmbH & Co. KG	25.1%	Starter batteries to the automotive industry and aftermarket, stationary batteries, solar systems, components	✓		

Group **structure**




Metair Management Services (Pty) Limited
100%
Business Venture Investments (Pty) Limited
100%
ENERGY STORAGE
Metindustrial (Pty) Limited First National Battery Division
100%
NETHERLANDS
Metair International Holdings Cooperatief U.A.
100%
First National Battery Retail (Pty) Limited
100%
ROMANIA
Rombat SA
99.43%
UNITED KINGDOM
Dynamic Battery Services Limited
100%
NETHERLANDS
Metair Energy Solutions B.V.
100%
Tlangi Investments (Pty) Limited
100%
TURKEY
Metair Akü Holding Anonim Şirketi
(MAH)
100%
GERMANY
MOLL Beteiligungs-geselisch aft GmbH ('MOLL Beteiligungs')
25.11%
GERMANY
MOLL Grundbesitz GmbH ('MOLL Grundbesitz')
25.09%
KENYA
Associated Battery Manufacturers (East Africa) Limited
25%
TURKEY
Mutlu Holding Anonim Şirketi
(MH)
100%
GERMANY
Akkumulatoren-fabrik MOLL GmbH & Co. KG ('MOLL')
25.11%
GERMANY
MOLL Grundstücksund Vermögensver waltungs GmbH & Co. KG ('MOLL Property')
25.09%
TURKEY
Mutlu Akü ve Malzemeleri Sanayii Anonim Şirketi
100%
TURKEY
Metropol Motorlu Tasitlar Kiralama Anonim Şirketi
100%
TURKEY
Mutlu Plastik ve Ambalaji Sanayi Anonim Şirketi
100%
Directly 74.9% (MH)
Indirectly 25.1% (MAH)
Directly 99.1% (MH)
Indirectly 0.1% (MAH)
Directly 54.99% (MH)
Indirectly 45.01% (MAH)

What **we do**

MATERIAL OPERATIONS AND MARKET SEGMENTS

ENERGY STORAGE VERTICAL

The information on the pages that follow shows the major operations, revenue contribution, revenue split and the percentage of Metair's holding in the subsidiaries/ associates.

MARKET SEGMENTS

Metair started trading more than 70 years ago as a supplier of products to Toyota SA. As a result, the majority of Metair's business was in the Original Equipment (OE) manufacturing space and reliant on a few customers. To improve the sustainability of our business we have followed a deliberate strategy of bringing more balance to the group, its client base and product lines. We are now represented with all seven Original Equipment Manufacturers (OEMs) in South Africa and have significantly expanded the OE product lines we supply.

While the OE business remains core to the group's strategy, we are focused on growing the aftermarket and non-automotive areas of the business to diversify our earnings base. Our non-automotive business sells products mostly related to telecommunications, utility, mining, retail and materials/ products handling sectors.

The total vehicle parc in South Africa is growing, resulting in an increase in aftermarket sector sales of annuity products, most notably batteries, but also products such as brakes, filters, spark plugs, and heat-exchange-product spares.

The aftermarket performance is supported by our non-automotive market product penetration with lighting and battery products.

Exports consist mainly of aftermarket and OE product exported to Europe, Russia, the Middle East and the rest of Africa.

Since 2012 we have significantly grown our international footprint by acquiring majority stakes in two large battery manufacturers, Rombat and Mutlu Akü. This has helped balance our business by developing our presence in the aftermarket sector and has given substance to our '3 x 50%' strategy (see page 22).

KEY FOR REVENUE SPLIT

Local automotive | Local industrial | Export

MIB

Metindustrial

First National Battery division

100% HOLDING

18%

Revenue contribution

62% | 25% | 13%

PRODUCTS

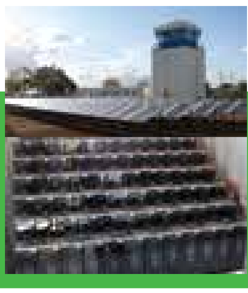
Batteries, solar systems, back-up systems, standby systems, charging systems, Battery Centre franchise

LOCATION

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

Associated Battery Manufacturers (East Africa) Limited

25% HOLDING



PRODUCTS

Automotive and solar batteries

LOCATION

Kenya

Akkumulatorenfabrik MOLL GmbH & Co. KG

25.1% HOLDING

PRODUCTS

Batteries

LOCATION

Germany

Rombat

99.4% HOLDING

11%

Revenue contribution

42 % | 58%

PRODUCTS

Batteries, battery distribution networks

LOCATION

Bistrita and Copsa Mica, Romania

Mutlu Akü

Metair Akü Holding Anonim Şirketi owns 100% of Mutlu Holding and Mutlu Holding owns 100% of Mutlu Akü.

100% HOLDING

29%

Revenue contribution

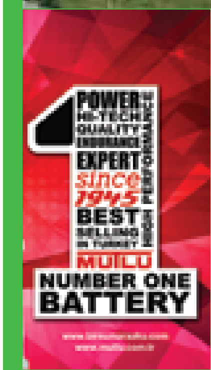
70% | 6% | 24%

PRODUCTS

Automotive and industrial batteries

LOCATION

Istanbul and Gediz, Turkey



What **we do** continued

MATERIAL OPERATIONS AND MARKET SEGMENTS

ENERGY STORAGE VERTICAL CONTINUED

Mutlu Holdings

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

100% HOLDING

LOCATION

Istanbul, Turkey

Mutlu Plastik

Production of plastic battery boxes.

100% HOLDING

PRODUCTS

Plastic parts of batteries. covers and lids

LOCATION

Istanbul, Turkey

Dynamic Battery Services Ltd

National and international distribution of key battery group products.

100% HOLDING

1%

Revenue contribution

100%

LOCATION

Lancashire, Wiltshire and Leicestershire, United Kingdom

AUTOMOTIVE COMPONENTS VERTICAL

KEY FOR REVENUE SPLIT

- Local automotive
- Local aftermarket
- Non-automotive
- Export

Alfred Teves Brake Systems

including Supreme Spring

100% HOLDING

Alfred Teves Brake Systems

1%

Revenue contribution

98% 2%

Supreme Spring

5%

Revenue contribution

93% 3% 4%

PRODUCTS

Brake pads, brake discs, brake shoes, hydraulics, other braking components, coil springs, leaf spring, stabiliser bars, torsion bars

LOCATION

Boksburg and Nigel, South Africa

Lumotech

100% HOLDING

5%

Revenue contribution

84% 15% 1%

PRODUCTS

Headlights, tail lights, reflectors, plastic injection mouldings, commercial lighting, streetlights, warehouse lights

LOCATION

Uitenhage, South Africa

MATERIAL OPERATIONS AND MARKET SEGMENTS

AUTOMOTIVE COMPONENTS VERTICAL CONTINUED

Smiths Manufacturing

75% HOLDING

14%

Revenue contribution

86% | 13% | 1%

PRODUCTS

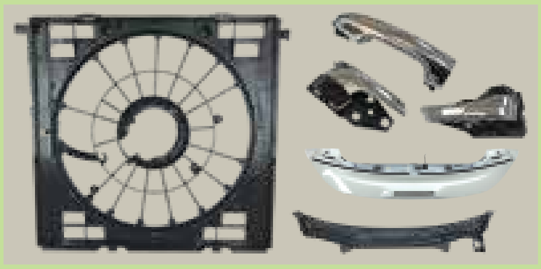
Air-conditioning and climate control systems, washer systems, reserve tanks, charge air coolers, radiators, air cleaners, wiper systems, electronic control units, starter motors and compressors

LOCATION

New Germany and Durban, South Africa

Smiths Plastics and Automould

100% HOLDING



Smiths Plastics

1%

Revenue contribution

76% | 22% | 2%

Automould

4%

Revenue contribution

96% | 4%

PRODUCTS

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

LOCATION

New Germany, Westmead and East London, South Africa

Unitrade

100% HOLDING

1%
Revenue contribution

90% 10%

PRODUCTS

Automotive cable, automotive wire

LOCATION

KwaDukuza, South Africa

Hesto

74.9% HOLDING

10%
Revenue contribution

99% 1%

PRODUCTS

Wiring harnesses, combination meter/ instrument cluster, moulded parts

LOCATION

KwaDukuza, South Africa

Tenneco Automotive Holdings SA

25.1% HOLDING

PRODUCTS

Shock absorbers, struts, track control arms

LOCATION

Port Elizabeth, South Africa

Valeo Systems South Africa

49% HOLDING

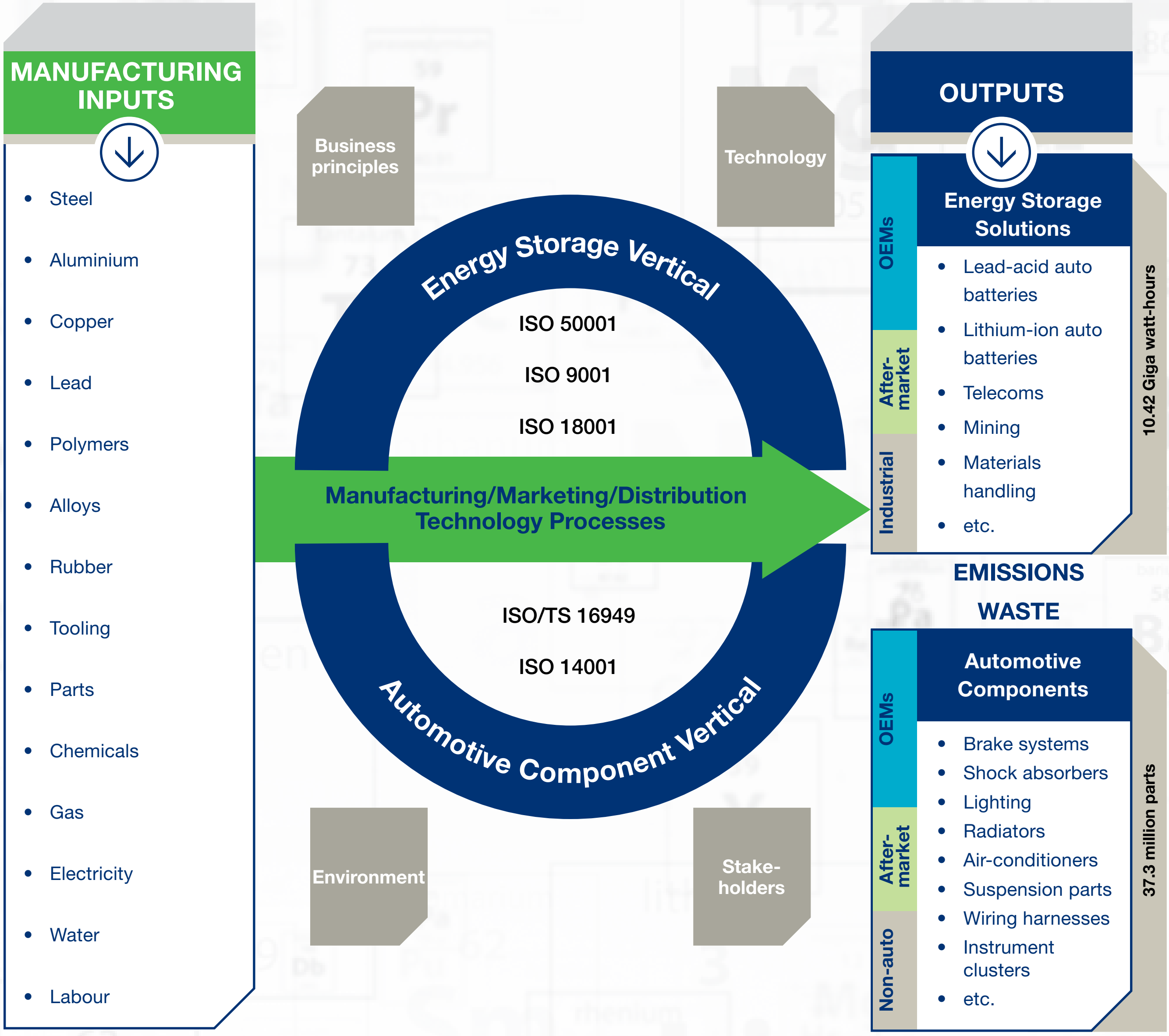
PRODUCTS

Front-end modules

LOCATION

Uitenhage, South Africa

Our **business model**



Our supply chain includes suppliers of raw materials such as steel and lead, and suppliers of tooling and parts. Many of our suppliers are located in the countries in which we have manufacturing facilities, but some are located in other countries, including China, Japan, the US and Europe.

CAPITAL INPUTS

Financial capital
Funds available to the company in the form of retained earnings and credit facilities. Achieving the group's strategic goals is critically dependent on the effective allocation of financial capital to improve cost efficiencies, grow the group's operational footprint and product range, and further expand the energy storage business.

Manufacturing capital
The buildings, infrastructure, machinery and tooling that is used to manufacture our products.

Human capital
The skills, experience and commitment of Metair's leadership, management and employees.

Intellectual capital
The skill and experience of the technical experts in the group. R38.6 million was invested in research and development in 2017, of which R35 million relates to Mutlu Akü in Turkey.

Social and relationship capital
Built through demonstrating our commitment to custodianship and ethical business practices in our dealings with stakeholders.

Natural capital
The natural resources available to the company, including the land on which our facilities stand, the air around us and key inputs such as water, raw materials and energy.

TRADE OFFS

Financial capital invested in more efficient production equipment increases **manufacturing capital** as well as decreasing energy and water use, waste production and the group's carbon footprint, thereby reducing the group's negative impact on our **natural capital.**

Financial capital committed to skills and leadership development increases **human capital** and also builds the **intellectual capital** in the group over time.

Manufactured capital is augmented by investments of **financial capital** and technology transfers (**intellectual capital**) from our technology partners, and depleted by wear and tear during manufacturing of the products we sell to create **financial capital.**

Leveraging the **social and relationship capital** we have with our technology partners and customers develops **intellectual capital** in the group.

Financial capital invested in research and development reduces the value available for distribution to stakeholders in the short term, but strengthens the group's **intellectual capital** and **human capital** in the medium- to long-term.

Improved processes, product designs and factory layouts that arise from the application of **intellectual** and **human capital** builds **manufactured capital.**

A narrow focus on maximising **financial capital** would negatively affect **social and relationship capital** by alienating key stakeholders.

Failure to manage our impact on the **natural capital** around us would erode **social and relationship capital** with stakeholders which would lead to reduced sales and fines, both of which would reduce **financial capital.**

TOTAL 2017 OUTCOMES

Financial capital
- R2 962 million in wealth created for stakeholders
- R1 719 million in remuneration paid to employees
- Dividend of 80 cents per share declared

Manufacturing capital
- R220 million increase in manufacturing capital through capital expenditure
- Wear and tear on manufacturing equipment

Human capital
- 430 more jobs created
- Group LTIFR improved to 0.97
- Absenteeism improved to 3.0%
- Staff turnover increased to 11.5%
- R13.9 million invested in skills development

Intellectual capital
- Improved technical skill and experience in the group
- Focus on succession planning continues to develop the next generation of leadership and expertise
- Development of lithium-ion batteries for automotive and industrial use underway
- Proof of concept first lithium-ion electric vehicle produced

Social and relationship capital
- R10.1 million invested in CSI projects
- Consolidated group B-BBEE Level 4 achieved
- Relationships established with University of the Western Cape (UWC) to develop intellectual capital around lithium-ion technology

Natural capital
- ±67 000 tonnes of lead recycled
- 2017 carbon footprint 638 192 tCO_2e
- 12 000 tonnes of non-hazardous waste produced, of which 72% was recycled

Directors and **officers of the company**

AC Audit and risk committee | REMCOM Remuneration committee | SAEC Social and ethics committee | IC Investment committee

Committee Chairperson | Number of years' service | Executive directors | Non-executive director

SG PRETORIUS (70)

Independent non-executive chairman

M Comm (Business Economics)

Appointed to the board in 2014

4

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

He has received numerous national marketing and leadership awards including Marketing Person of the Year and Boss of the Year. He holds honorary professorships at the University of Johannesburg, University of Pretoria, University of the Free State and an honorary doctorate in marketing from the Durban University of Technology. Brand is a Fellow in Leadership at the Gordon Institute of Business Science and serves on the boards of the READ Educational Trust, the Motor Industry Ombudsman of South Africa and the business incubator InvoTech. Mr Pretorius serves as non-executive director on the boards of Tongaat Hulett, Reunert, Tata Africa Holdings, Agrinet and Italtile Ltd. Mr Pretorius was appointed as an independent non-executive director to the Metair board in January 2014 and as chairman on 1 July 2015.

CT LOOCK (53)

Managing director

B Eng (Industrial)

Appointed to the board in 2006

SAEC 12

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

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

S DOUWENGA (38)

Finance director

B Comm (Hons) CA (SA)

Appointed to the board in 2014

IC SAEC 5

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

JG BEST (69)

Independent non-executive director

ACMA ACIS MBA

Appointed to the board in 2009

AC IC 9

Mr Best has spent most of his career in the mining industry in various senior financial and managing roles. When he retired in July 2005 he was an executive director and chief financial officer of AngloGold Ashanti. He has served on a number of boards as a non-executive director and is currently a non-executive director of the unlisted AngloGold Ashanti Holdings plc where he is chairman of the audit committee, and Polymetal International (plc) (a company listed on the London Stock Exchange) where he is chairman of the audit committee and a member of the remuneration committee. Mr Best's qualifications and associations include: associate of the Chartered Institute of Management Accountants, associate of the Institute of Chartered Secretaries and Administrators, and an MBA from the University of Witwatersrand. Mr Best was appointed to the Metair board as an independent non-executive director in February 2009. He is also the chairman of the Metair board audit and risk committee and the investment committee. In adhering to good corporate governance procedures, as it relates to the recommendations set forth in the King IV Report on Corporate Governance for South Africa, 2016 ('King IV'), Mr Best was appointed as lead independent director of the company with effect from 30 November 2017.

TN MGODUSO (61)

Independent non-executive director

MA (Clinical Psychology)

Appointed to the board in 2016

REMCOM 2

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

PPJ DERBY (47)

Independent non-executive director
BSc (Hons) (Economics), MBA
Appointed to the board in 2016
SAEC IC 2

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

HG MOTAU (43)

Independent non-executive director
CA (SA), MPhil Development Finance
Appointed to the board in 2016
AC IC 1

Ms Motau is a Chartered Accountant and also holds an MPhil in Development Finance from the University of Stellenbosch. She has more 20 years of experience from both the public and private sectors. She is currently the chief executive officer at Mmoni Advisory Services, having previously worked as an audit partner at KPMG's Energy and Natural Resources' Division. She has held roles at various organisations including Blue IQ Investments, Industrial Development Corporation and National Treasury. She serves as a non-executive director of Afrocentric Group and Trustee of the South African National AIDS Council Trust. She is an audit committee member of the Auditor General of South Africa and credit committee member of the First Rand Wholesale Credit Committee. Ms Motau was appointed to the Metair board on 1 November 2016 and is a member of the audit and risk committee and the investment committee.

B MAWASHA (40)

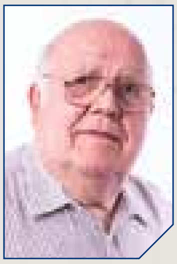
Independent non-executive director
BSc (Eng), ADP, MDP,GCC
Appointed to the board in 2018
AC

Mr Mawasha is the Richards Bay managing director and Rio Tinto Country head for South Africa. He joined Rio Tinto in July 2017. Prior to that, he was the executive head of operations and integration at Kumba Iron Ore (an Anglo American Company). He previously worked for the De Beers Group and AngloGold Ashanti in South Africa and Ghana in leadership, operational and technical roles. Mr Mawasha serves on the board of Foskor and is passionate about education and the development of others. He is a member of the Wits Mining School Industry Advisory Council and the Sol Plaatje University Finance and Investment Committee. He is also on the board of Symphonia for South Africa, a national non-profit organisation promoting quality education for children. In 2017, he was selected as a Young Global Leader of the World Economic Forum. Mr Mawasha was appointed to the Metair board and the audit and risk committee on 1 March 2018.

RS BROADLEY (85)

Independent non-executive director
Advanced Technical Certificate (Engineering)
Appointed to the board in 2001
REMCOM SAEC 17

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



L SOANES (81)*

Independent non-executive director
National Certificate of Engineering
** British*
Appointed to the board in 1999
REMCOM 19

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

SM VERMAAK (52)

Company secretary
B Comm (Fin M) AIRMSA
19

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

Company secretary
SM Vermaak

Transfer secretary
Computershare Investor Services (Pty) Ltd

Rosebank Towers
15 Biermann Avenue
Rosebank, 2196

Registered office
10 Anerley Road, Parktown, Johannesburg, 2193

Registration number
1948/031013/06

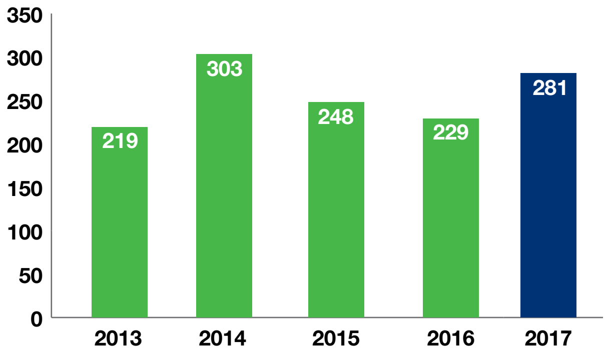
Financial **highlights**

				Restated		Based on results with Hesto consolidated	
	2017 R'000	**2016 R'000**	**2015 R'000**	**2014 R'000**	**2013 R'000**	**2012 R'000**	**2011 R'000**
Revenue	**9 516 657**	8 953 710	7 732 479	7 278 815	5 227 426	4 603 150	4 294 152
Profit before taxation	**775 814**	606 492	744 738	803 150	495 071	641 479	602 000
Impairment charges		1 122				1 045	7 900
Interest paid	**200 867**	187 905	136 277	118 935	27 888	26 457	7 858
Preference dividend	**92 107**	102 583	91 934	29 609			
Profit attributable to ordinary shareholders	**556 182**	447 930	527 423	601 460	341 376	440 543	408 365
Total equity	**4 195 537**	4 179 573	4 974 544	4 238 631	3 788 752	2 052 730	1 701 408
Borrowings	**1 801 495**	1 897 565	1 964 972	1 739 845	1 202 772	251 202	52 085
Property, plant and equipment	**2 605 737**	2 857 131	3 327 427	2 855 286	2 844 929	1 191 499	762 752
Current assets	**4 071 600**	3 780 361	4 114 699	3 540 982	3 150 242	1 831 434	1 640 808
Total assets	**8 105 218**	8 031 150	9 040 460	7 934 651	7 473 305	3 293 869	2 482 126
Number of shares in issue	**198 986**	198 986	198 986	198 986	198 986	152 532	152 532
Weighted average number of shares in issue	**197 987**	197 784	197 216	195 434	149 271	142 030	141 217
Net asset value per share (cents)*	**2 059**	2 059	2 468	2 102	1 895	1 353	1 119
Basic earnings per share (cents)	**281**	227	267	308	229	310	289
Headline earnings per share (cents)	**281**	229	248	303	219	310	260
Dividend per share (cents) declared and paid	**70**	70	80	70	95	72	65
Dividend cover (times) (calculated on headline earnings on prior year)	**3.3**	3.5	3.8	3.1	3.3	3.6	2.9
Return on invested capital after net profit as a % of average total shareholders' funds (ROIC)	**12.3%**	9.2%	10.5%	12.0%		Not reported	
Net profit as a % of average total shareholders' funds (ROE)	**14.0**	10.2	12.3	15.8	12.3	25.6	29.4
Total shareholders' funds as a % of total assets	**51.8**	52.0	55.1	53.4	50.7	62.3	68.5
Interest cover (times)	**4**	4	6	7	17	22	75
Staff complement**	**5 968**	5 955	5 526	5 651	5 870	4 835	5 951

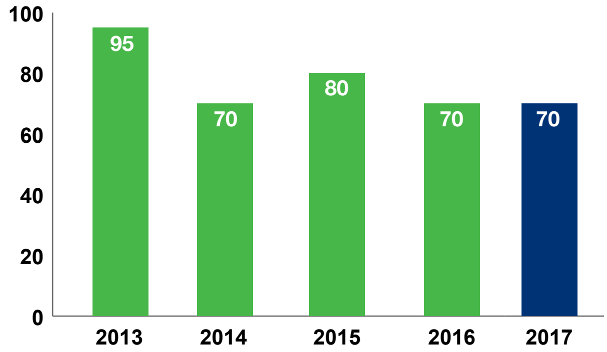
* Calculated on ordinary shareholders' equity and number of shares in issue excluding treasury shares.

** Excludes Hesto.

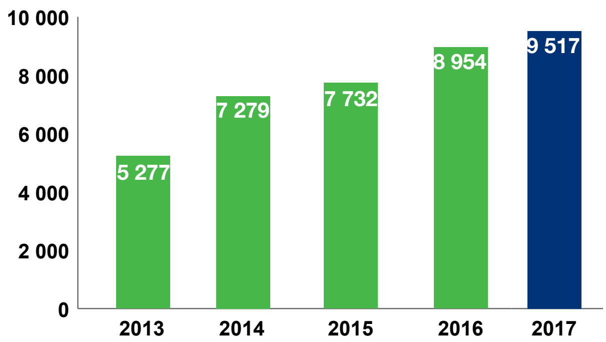
Headline earnings per share (cents)



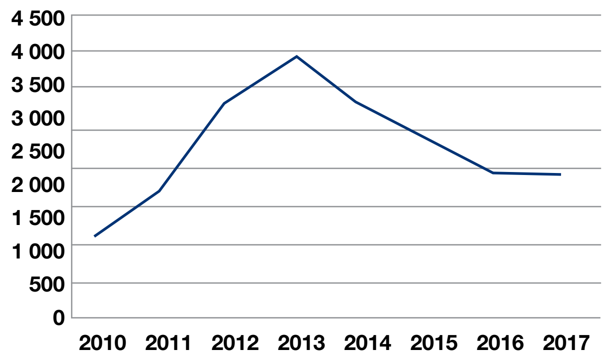
Dividends per share (cents)



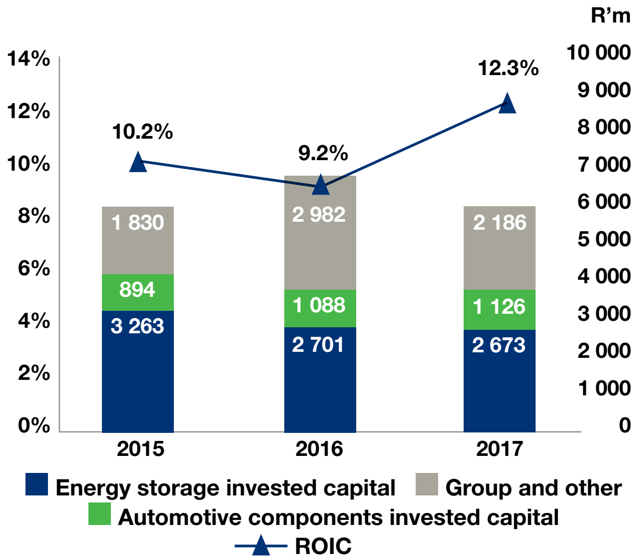
Revenue (R million)



Share price at 31 December (cents)



Metair ROIC



Awards

SUPREME SPRING

- Toyota Supplier Award for Achievement in Stable Supply
- Toyota Supplier Award for Achievement in Parts and Accessories
- Toyota Supplier Superior Award for Cost Management
- General Motors Supplier Quality Excellence Award

HESTO

- Toyota Supplier Award for Achievement in Safety
- Toyota Supplier Superior Award in Value Analysis
- General Motors Supplier Quality Excellence Award

LUMOTECH

- Automotive Industry Development Centre Certificate of Achievement in Wellness Management – Best Practice Sustainable, High Impact Wellness Programme Implementation
- Nelson Mandela Bay Municipality Certificate of Achievement – Top 50 Company – Investment
- iGEMS (Incubating Great Engineering Minds) Recognition of Contribution to the youth and the programme

SMITHS MANUFACTURING

- Toyota Supplier Award for Achievement in Stable Supply
- Toyota Supplier Award for Achievement in Value Analysis
- General Motors Supplier Quality Excellence Award
- Toyota Certificate of Recognition for Parts and Accessories
- Toyota/Denso Global Contribution Award

FIRST NATIONAL BATTERY

- General Motors Supplier Quality Excellence Silver Award
- Eastern Cape Green Awards - Platinum Green Award SHE Department
- Certificate of Recognition SAPS Management

ASSOCIATED BATTERY MANUFACTURERS

- Chloride Exide won a CS Week 2017 innovation award for Leadership Engagement

ROMBAT

- Awarded first place among Great Enterprises (Industry Category) by the Chamber of Commerce and Industry of Romania
- Awarded first place in the Top Companies category by the Chamber of Commerce and Industry of Bistrita-Nasaud
- Received the Innovation Award 2017 for outstanding results in the field of creativity and innovation by the Chamber of Commerce and Industry of Bistrita-Nasaud

MUTLU AKÜ

- Awarded a Grand Prize by the Ministry of Environment and Urbanisation for scrap battery collection performance
- Recognised as having the best stand at the MIMS Automechanika Exhibition in Moscow
- Received an award from the Department of Large Taxpayers for corporate tax payment
- Recognised by Kariyer.Net for HR process management for candidate job applications
- Accepted to the governmental support program for marketing and communication investments in export markets and corporate infrastructure investments by the Ministry of the Economy
- Recognised in the Top 100 most valuable Turkish brands for sales performance and achievement in marketing and communications

The Metair group was recognised as one of the Top 500 Best Managed Companies in South Africa in 2017

Strategic **review**

METAIR'S VISION

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

PHASE 1 3X5 #1

LOCAL RELEVANCE 2005 – 2010

R5 billion turnover
R500 million PBIT

PHASE 2 3X5 #2

INTERNATIONALISATION 2011 – 2014

50% aftermarket
50% OE
50% from batteries

PHASE 3 3X5 #3

GLOBALISATION (GIGA FACTORY AND MEGA PARTS) 2015 – 2020

five continents
50 million batteries
in five years

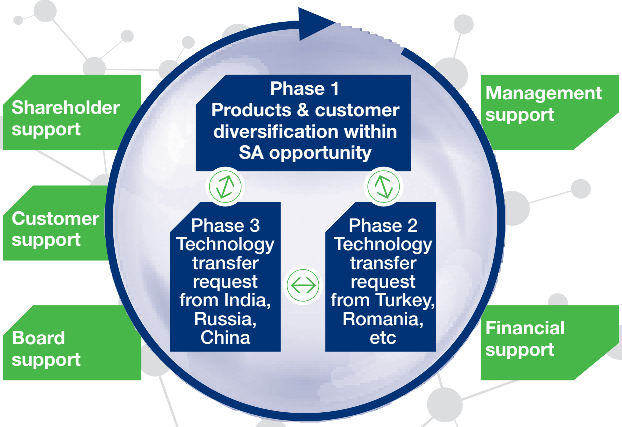
The Metair board approves the group strategy and oversees its implementation to ensure that it achieves the company's core purpose and aligns with our values. The strategy is assessed against the expectations of key stakeholders, its impacts on the six capitals defined by the IIRC's <IR> Framework (see page 15), the risks and opportunities facing the company and its ability to support long-term sustainability. Management is responsible for deriving and refining the strategy. The board also approves the policies and processes through which the strategy is implemented and monitors ongoing performance.

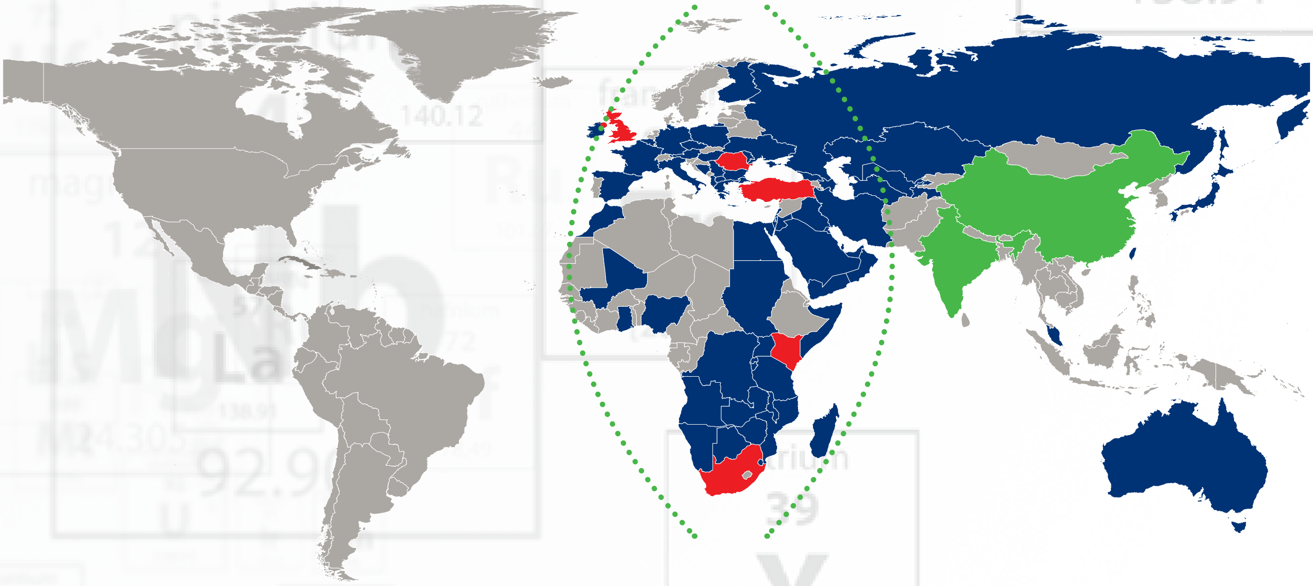
Metair allocates capital internally into operating assets and acquisitions to make progress on achieving its strategic goals. Capital allocation is evaluated using a balanced sustainable return on invested capital model. The company has been challenged by shareholders over the past year to re-evaluate its external capital allocation policy, which has historically prioritised reducing debt and paying dividends, to address the undervaluation of the Metair share price relative to its peers. The Metair board and management is currently assessing the best ways to achieve this goal.

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

Metair began its life supplying automotive components to a single OEM in South Africa. Phase 1 of the strategy commenced in 2005 with the aim of developing Metair into a locally relevant company in South Africa by diversifying our products and customer base. The second phase saw the company entering its first international markets following technology transfer requests from Turkey and Romania, focusing on balancing its business with an increased emphasis on automotive batteries.

The current phase builds on the foundation already laid and the strategic focus shifts to prioritise the energy storage vertical, with the aspiration to grow into five continents in the next five years and produce 50 million batteries. With the rapid changes in automotive technology likely to persist, our energy strategy prioritises selling energy regardless of the form of the energy source product. We aim to meet the energy needs of the full spectrum of mobility and industrial options, and will continue to work closely with OEMs and other key customers to ensure that we supply energy in the way they require as this continues to evolve. Metair's aim is to become a diversified Giga factory in our energy vertical and a mega parts supplier in our automotive components vertical.





Metair currently has well-established production facilities in South Africa, Turkey, Romania and Kenya, and a presence in the UK and Germany. Our shareholding in MOLL also gives us micro-access to the Chinese market through their agreement with Chaowei. While we had previously looked West for further growth opportunities towards our target of 35 Giga watt-hours of energy, developments in international climate change and trade agreements, and the requests for technology transfer and opportunities now presenting themselves, have shifted our focus East to include China, India, Russia and the Middle East.

The trend towards full electric vehicles (EV) is accelerating and Metair is participating in the development of the cutting-edge lithium-ion battery technology that will drive this trend (refer to the case study on page 25). We believe that Start/Stop battery storage solutions are the gateway technology in the pathway to full EV technology.

At the same time, the existing automotive battery technology will remain relevant in the medium-term in the vehicles currently on the road. Our research shows that demand for the products in our automotive components business is likely to continue and even increase with the shift to EV (see page 29).

In order to maximise the span between new technology and existing technology, Metair and our partners are developing and deploying leading technology for niche applications at the front end of the technology curve but also extending our existing technology backwards into large developing markets, providing access to a market of 500 million batteries. Our relationship with Chaowei provides access to a leading player in the e-bike battery market in China, including lithium-ion battery production.

Our strategy has therefore refined to become:
- Energy storage vertical: To become the world leader and a diversified multiple location Giga factory in the supply

GLOBAL MOBILITY PARC (MILLION) UNITS

E-bikes –	**210.5 million**	
2-wheelers –	**134.5 million**	
3-wheelers –	**3.1 million**	
Cars –	**1 370 million**	
Trucks –	**234.5 million**	
Electric vehicles –	**1.3 million**	

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

ENERGY STORAGE VERTICAL – 3X5 STRATEGY 2017

- Targeting 10% of the world mobility battery supply of 500 million batteries
- 50 million batteries = relevance in the market
- five-year target: to achieve world leader position in mobility energy supply
- Targeting leading technology applications like lithium-ion across all product ranges in electrical and all systems in all forms of mobility
- Diversified multiple site Giga factory

STRATEGIC ENABLERS

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

STRATEGIC FOCUS POINTS

Our strategic vision is delivered through seven key strategic focus points, which are discussed below. Ongoing strategy implementation is driven through subsidiary and group key performance indicators (refer to page 48) that are agreed at the annual managing directors' conference for the year ahead.

1. BALANCE BUSINESS BY BUILDING AND EXPANDING THE ENERGY STORAGE VERTICAL

Over the last decade, Metair has increased the resilience and sustainability of its business by diversifying across OEM customers and automotive component lines, adding aftermarket and non-automotive products, entering new geographies and markets, ensuring an equitable balance between the needs of various stakeholders and balancing the need to generate financial returns for our shareholders with our environmental and social responsibilities. The current strategy emphasises the energy storage vertical as Metair moves with the technological requirements of the shift to electric vehicles.

2. NURTURE THE ORIGINAL EQUIPMENT (OE) BUSINESS IN SOUTH AFRICA AND EXPAND THE ORIGINAL EQUIPMENT MANUFACTURER (OEM) CUSTOMER BASE

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

The automotive component vertical renewed most of the business associated with the new model launch in the first half of 2016, in support of the next business cycle linked to new model launches. The major challenges to the next five- to seven-year cycle in South Africa relate to the production volume and margin outlook for newly secured business.

Our investment in MOLL in 2017 gives us a presence in Germany alongside our major European customers, building on the base already established in Romania and Turkey.

3. FOCUS INTENTLY ON COST

Cost competitiveness is the primary consideration in tendering for contracts with OE customers. South African component manufacturers are evaluated by OEMs against global cost benchmarks and production efficiencies must be managed extremely closely to ensure that we can win business at a reasonable economic return. Cost efficiency is similarly important in the aftermarket product lines, where margins remain under pressure due to high levels of local and imported competition.

4. SECURE AND GROW THE AFTERMARKET PRODUCT RANGE

Vehicles start to need various replacement parts between two and four years after manufacture and this is largely non-discretionary. Metair's aftermarket business produces spare parts and other products for the total vehicle population on the road to maintain these vehicles throughout their lifecycle. Generic parts support the increasing pool of imported vehicles. Our investments in Europe provide access to the broader European market where total vehicles in use exceed 350 million.

5. GROW OUR AFRICA FOOTPRINT

Africa represents an attractive market and our OEM customers export cars manufactured in South Africa and containing Metair components into the rest of Africa. As the pool of vehicles in Africa grows the aftermarket opportunity will increase, supported by the increasing number of second hand vehicles from developed markets that are making their way to developing countries. We have a presence in Kenya through ABM and continue to investigate further opportunities for growth on the continent.

6. RESPONSE TO DISRUPTIVE TECHNOLOGIES

This strategy point has been refocused from last year when it was 'adaptation to technological challenges' to signal the need to futureproof our business by understanding the likely impact of new technologies on our business model and choosing how we participate in these.

In 2017 we researched the likely impact of electric vehicles on our current businesses, converted a vehicle to full lithium-ion EV as a proof of concept and established research partnerships with government agencies and universities in South Africa, Turkey, Romania and the US.

Our investment in MOLL includes a technical aid agreement to advance MOLL EFB and EFB+ batteries and provides access to a global intelligence pool on batteries technology of more than 16 doctorates and 12 associated doctorates.

7. TO ESTABLISH THE PRINCIPLE OF BEING AN EXEMPLARY CUSTODIAN WITHIN EVERY EMPLOYEE THAT UNDERPINS THE GROUP'S CORE SOCIAL AND ETHICAL VALUES

Our approach to business and sustainability is founded on the principle of custodianship – being the best caretaker you can be in the position you are in. This principle forms the basis for the group social and ethics framework, and is clearly communicated to every employee in the group to integrate it into their daily actions.

The social and ethics committee assesses ethics performance through an annual ethics questionnaire sent to subsidiaries to ensure that ethics are rolled out and adequately addressed at each subsidiary.

CASE STUDY

COLLABORATIONS IN LITHIUM-ION BATTERY TECHNOLOGY

Metair has been using lithium-ion technology in mining cap lamps for the South African mining industry since May 2013 and is producing a lithium-ion starter battery in Turkey. These products currently rely on lithium-ion solutions sourced from upstream suppliers that are adapted to customer specific systems and solutions by adding system design and controls. In 2017 Metair took several steps to advance our understanding, experience and expertise with lithium-ion technology.

Metair's investment in MOLL creates a relationship with Chaowei and provides scope for expansion across mobility technologies, including e-bikes, two-wheelers, three-wheelers, cars, trucks and electric vehicles. Chaowei currently produces around 300 000 lithium-ion cells a year for use in e-bikes.

In November, we launched a programme to produce lithium-ion batteries across our operations in South Africa, Turkey and Romania that leverages local raw materials use and intellectual property. The programme partners Metair with universities and industry agencies for production and certification. In South Africa, Metair is partnering with the South African Institute for Advanced Materials Chemistry (SAIAMC), located at the University of the Western Cape (UWC), which is the only pilot scale lithium-ion battery cell assembly facility in Africa.

Metair's agreement with UWC will see the company invest R3 million over three years to pilot the prototype lithium production project from January 2018, improve equipment and sponsor one local post-doctoral fellow to be trained and work at Argonne National Laboratory in the USA. Production will focus on mining cap lamp cells, 12-volt lithium-ion automotive batteries, 48-volt lithium-ion batteries for energy storage applications and solar panel recharge.

The local partnerships, such as the one with UWC, will provide the platform for Metair to validate its local solutions on a regular basis and stay at the forefront of technological advancements which will support automobile OEM requirements as the production of electric vehicles accelerates. Metair will also continue to use internationally recognised lithium-ion chemistry solutions and apply specific design and controls for customers.

In December, Metair announced the completion of conversion of a vehicle from internal combustion engine to full electric vehicle using in-house lithium-ion battery technology. Done in cooperation with PrimeMotors in Romania, this project aims to showcase our understanding and adaptation of disruptive technology.

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

Chairman's **statement**

To survive and be sustainable, we must be proactive, keep pace with technology and encourage innovation.

BRAND PRETORIUS – Chairman

"True leadership in a complex, uncertain and anxious world requires leaders to navigate with both a radar system and a compass. They must be receptive to signals that are constantly arriving from an ever-changing landscape and they must be willing to make the necessary adjustments, but they must never deviate from their true north, which is to say, a strong vision based on authentic values."

– Klaus Schwab, Founder and Executive Chairman of the World Economic Forum

B-BBEE Level 4 or better for most of the South African subsidiaries

REVENUE increased 6.3% to **R9.5b**

DIVIDEND PER SHARE OF 80C declared in 2018 in respect of the 2017 financial year

Our new world is characterised by increasing disruption. Companies face an avalanche of changing circumstances and demands, and past certainties are no guarantee of future achievement. The businesses that win in this new world are bold in their vision, broad in their imagination, crystal clear in their strategic focus and relentless in execution. In the words of the moral and social philosopher Eric Hoffer: "In times of change, the learners inherit the earth."

Yet if we are able to handle these volatile and challenging times successfully, it can represent a defining moment that acts as a catalyst to propel our business to a better future. Metair's approach is to invest our time and energy in the opportunities that present themselves while recognising the attendant threats.

To survive and be sustainable, we must be proactive, keep pace with technology and encourage innovation. In an industry experiencing exponential disruption, these developments represent an opportunity for Metair to futureproof our business.

OPERATING ENVIRONMENT

Over the last decade, South Africa Inc. suffered a triple deficit in leadership, trust and the economy. Recent political developments show early signs of a more positive future. The election of Cyril Ramaphosa as President of the ruling party has provided an injection of hope and a revival of confidence, arising from some welcome evidence of a strong commitment to fight corruption and a renewed focus on economic growth.

It is worth noting and applauding the constructive role played by business in the form of Business Leadership South Africa in representing the national interest in the lead up to the transition.

The automotive industry in South Africa is also showing positive signs. Although motor vehicle production in 2017 declined marginally from 600 007 units, it looks likely to settle at a higher medium-term rate than we expected. Over the last year, OEMs have made significant capital investments totalling in excess of R24 billion in the country, a very encouraging development for the local industry. As global trade agreements realign there are indications that these may benefit the South African automotive industry. The likely increased emphasis on localisation in the next iteration of the Automotive Production and Development Programme will also support local production. The growth and increasing age of the South African vehicle parc should support demand for aftermarket parts.

Internal socio-political conditions in Turkey stabilised somewhat in 2017 after a particularly turbulent 2016 and the operating environment in Romania remained positive, although the financial results of our operations in both countries were again negatively impacted by the strength of the Rand against their reporting currencies. Geo-political conditions in the Middle East region remained challenging.

FINANCIAL OVERVIEW

Trading conditions in South Africa were extremely difficult during 2017. While GDP growth recovered to an expected 0.6%, it still remained well below the growth rates required to stimulate meaningful socio-economic development in the country. New vehicle sales increased 1.8% to 557 586 after three consecutive years of declines and exports achieved retracted marginally by 4.6% from 344 820 to 329 053.

Mutlu Akü delivered an excellent production performance and strong automotive sales in the final quarter, accounting for 40% of annual sales. Sales volumes to OEMs, the Turkish aftermarket and export markets achieved new records in 2017. Rombat also delivered a strong performance in the face of stiff competition, benefitting from good growth in its target markets in Europe.

PROGRESS WITH IMPLEMENTATION OF STRATEGY

We remain committed to Metair's strategic vision to generate value for all stakeholders by managing and controlling businesses in the mobility and energy sectors that deliver quality and cost competitive products through manufacturing, marketing and logistical excellence where technology-driven innovation is key.

We favour a customer-centric approach, keeping in touch with the needs and expectations of our customers, building personal relationships based on high levels of respect and trust. We aim to anticipate our customers' needs and work closely with them in the development of the next generation of automotive technology.

The strategic imperative to ensure future relevance and competitiveness requires that we create both a quality and value advantage over our competitors. A major developing strategic thrust is to capitalise on the accelerated switch to electric vehicles (EVs), although we believe the full impact of this trend on our automotive component and energy storage businesses will take at least a decade to play out fully.

Metair's developing global presence and partnerships in key markets improve our access to the intellectual capital and technical skills necessary to keep up with and anticipate the disruptive technological change as the automotive industry shifts to the next stage. Our investments in MOLL (Germany) in June 2017 and PrimeMotors (Romania) in February 2018, along with our partnerships with leading universities, provide the next level of access to relevant intellectual capital in the core energy storage areas of most interest to our customers.

BOARD MATTERS

Metair's business is built on a commitment to good governance and ethical business practices, aligned with the philosophy of conscious capitalism. We implemented the requirements of the King IV Report on Corporate Governance for South Africa, 2016 (King IV™) during 2017 and have updated our policies and charters to fully align with the framework. The company's risk management framework was further developed and strengthened, and we are moving to supplement the bottom-up risk matrices developed at operational level with a strategic top-down assessment.

We welcomed Mr Billy Mawasha to the board in March 2018 and are pleased with the strong technical skills and experience he adds to the board.

SUSTAINABILITY

Corporate sustainability starts with the delivery of quality earnings to grow our financial capital, support access to funding and ensure solvency. This financial capital forms the basis for the value that the organisation can distribute to stakeholders. However, it is important that we appreciate the tradeoffs with and between the other capitals and manage our impacts across the full spectrum of environmental, social and governance issues to ensure that our business is sustainable in the long term.

It is only through effective leadership that we can fully unlock human advantage and we are in the process of developing our human resources capacity to further develop our human capital. Our succession planning initiatives continue to build our leadership bench strength. We have again invested heavily in developing the skills of our workforce and deepening employee engagement is a key focus for the year ahead.

Transformation remains an integral part of our human capital strategy and we regard transformation as a moral, strategic and business imperative.

The theme of this year's report challenges us to fully understand and manage our impact on the natural environment around us. Our commitment to manufacturing excellence drives operational efficiency that has a strong focus on reducing energy and water use, limiting emissions and minimising waste.

Chairman's **statement** (continued)

STAKEHOLDER ENGAGEMENT

Metair's stakeholder-inclusive approach emphasises ongoing engagements with key stakeholders to inform strategy deliberations, help to identify and rank material matters and key risks, and influence governance practices and policies.

Recent engagements with current and potential investors have centred around the need to remedy the undervaluation of the Metair share price. Management and the board are committed to addressing these concerns and during the year we took a number of steps to improve the market's understanding of our operations and their performance. These include providing more detailed operational information and organising a site visit to our operations in Turkey. We continue to assess other ways of unlocking value in the share price, including through share buybacks.

DIVIDEND

The board has approved a dividend of 80 cents per share for the year ending 31 December 2017.

OUTLOOK

The outlook in the short term is positive, supported by improved operational performances and some tailwinds from improved conditions in the South African automotive sector and our other key markets. However, with the strength of the Rand likely to reduce the PBIT contribution from Mutlu Akü and Rombat, and the strong bounce-back in the South African operations already in the base year, we don't expect 2018 earnings to be significantly ahead of the current year.[1] We will continue to focus on ways to improve the share valuations to enhance shareholders' total returns.

In the medium term, we believe that Metair is very well positioned to benefit as the South African economy reaps the rewards of improved macroeconomic growth, reduced policy confusion and increased investor confidence. We have successfully placed our spare battery capacity internationally, are very well positioned in South Africa, have well-established credentials with current and prospective customers, and are seeing many opportunities for volume enhancement.

ACKNOWLEDGEMENTS

2017 was a very challenging year and I would like to start by thanking Theo Loock, our chief executive officer, Sjoerd Douwenga, our chief financial officer, and the rest of the Metair Investments team for the tremendous resilience and very high levels of commitment they demonstrated. They kept their focus despite many distractions and significant demands on their time, demonstrating their ability to get the company to transform and perform at the same time.

Management was ably supported by our staff across all of our operations and I would like to thank everyone in the broader Metair family for their hard work, their dedication and the way they managed to deliver an excellent operational performance under difficult conditions and make further progress in implementing the Metair strategy.

I would like to thank my fellow board members for their contribution to the success of the group during the year and our shareholders for their support and their valuable insights.

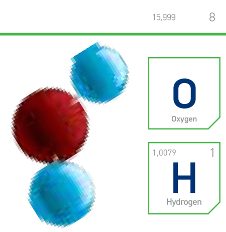
To our customers – thank you for your business. We look forward to continuing to serve you in the years ahead and remain committed to doing our best to exceed your expectations in terms of quality, value and service.

While we see green shoots, trading conditions in our industry are likely to remain very challenging. However, as the information in this report demonstrates, we are up to the challenge. We have faith in the quality of our leaders and employees, our radar is securely in place and working well, and we constantly realign to the compass of our values to ensure that we remain attuned to our strategic vision.

Brand Pretorius
Chairman

[1] The forecast financial information, including the assumptions on which it is based on, has not been reviewed or reported on by Metair's external auditors and is the responsibility of the directors of Metair. Previously published information referencing the PBIT contribution of Mutlu Akü and Rombat to the Metair group as well as in-country local currency PBIT is available on our website at www.metair.co.za/investors/sens in the 'Investor site visit and presentation' entry dated 7 December 2017.

H_2O
Water



Water is a transparent and nearly colourless chemical substance with the chemical formula is H_2O, meaning that each of its molecules contains one oxygen and two hydrogen atoms connected by covalent bonds.

H_2O is the main constituent of Earth's streams, lakes, oceans and the fluids of most living organisms. It is not only a principle requirement for life, but also a critical component in Metair's production processes.

TOTAL WATER CONSUMPTION

2017	2016	Change
621 330	622 027	(0.1%)

CASE STUDY

EV-PROOFING OUR BUSINESS

COMMITMENTS TO 100% EV

• Netherlands	2025	• France	2040
• Norway	2025	• UK	2040
• Germany	2030		

Recent commitments by various countries to go 100% EV in the medium term join undertakings by some government agencies and companies to migrate their logistics chains to electric vehicles (EVs). Most of the major OEMs have signaled their intentions to increase EV production suggesting that the shift to EVs is likely to happen sooner than previously anticipated.

Metair first challenged itself to assess EV construction in 2012 when group companies built two EVs based on lead-acid battery technology. Our mindset is to accept the EV challenge and the possibility of a future 100% EV production scenario and then to plan the group's path to real EV relevance and 'EV-proof' the business. From that point we can take action to enhance our strategy in order to facilitate a smooth and sustainable transition to EV reality.

While Metair's energy storage vertical is already participating in the development of the new technology required to power EVs (see page 25), this year we assessed the likely impact of EVs on our existing automotive component and energy storage products, the results of which are shown in the table below.

Products	Relevance	Reason
Wiring harnesses (Hesto)	↑	The copper required for an EV increases on average by 80% as these vehicles require two separate electrical circuits – a 12-volt system for control circuits and a 360+ volt system as an energy source circuit.
Lighting (Lumotech)	↑	Autonomous vehicles require additional visibility and therefore more lighting. Lights become an even more critical part of vehicle aesthetics and are also needed to meet regulatory requirements.
Heat exchange products (Smiths Manufacturing)	→	Cooling for an internal combustion engine is no longer required. However, the battery in an EV requires a heat management system and energy is required to heat the cabin as there is no heat coming off the engine. Air conditioning systems will continue to be required.
Plastic products (Smiths Plastics and Automould)	↑	EVs are around 20% heavier than current vehicles of a similar size. Plastic parts will be necessary to reduce weight and also assist with vehicle aesthetics. Autonomous driver sensors and aids will require plastic housings and other plastic parts.
Ride control products (Supreme Springs)	↑	Suspension parts are still necessary and heavier EVs will require increased ride control comfort. Producing lighter but higher strength suspension will require improved technology.
Energy storage batteries (FNB, Mutlu Akü and Rombat)	↑	Lead acid batteries are likely to still be needed in EVs for the foreseeable future. EVs have two electrical systems while hybrids can have up to four electrical systems. These include: • a 12-volt system for starting the vehicle or to run the lithium-ion battery management system; • a 24-volt system for energy efficiency enhancements in hybrid internal combustion engines; and • a 48-volt system as an energy source for the power train electric energy recovery system. There is likely to be increased electrical requirement across the full spectrum of mobility options. The size of the lead-acid batteries in EVs is half of hybrids as these batteries don't have to provide energy to crank the engine on starting. Indications from feedback by Tesla owners is that the lead-acid batteries in EVs will need to be replaced annually.

Our conclusion is that our current range of products remains relevant in EVs, but at this stage we do not have line of sight as to when the shift to full EV will start to be felt in supply chains. Interestingly, since most of the carbon footprint in an EV is incurred during manufacture, the lifecycle carbon footprint of EVs that are charged by an electricity grid that depends on fossil fuels is higher than that of current hybrids.

The first disruption to OEM technology is likely to come from the elimination of diesel derivatives from the export models in the next vehicle launches planned over the coming three to five years. This is likely to increase the relevance of hybrid vehicles as they and petrol vehicles fill the gap left by diesel vehicles. We believe that Start/Stop battery storage solutions are the gateway technology in the pathway to full EV technology.

We remain conservative in our approach and mindful of macro-economic conditions and technology trends. The timeline to effect the technology changes required for EVs remains fluid and will vary between markets. A smooth transition to EV technology requires exposure to the full mobility spectrum as Start/Stop technology will converse with two-wheeler energy storage solutions for future EV applications in the energy control circuit.

All indications at this stage are that Metair's core businesses remain very relevant, even in an immediate 100% EV scenario.

Chief **Executive Officer's report**

> **The nature, design, technology and commodities of our products might change to accommodate the pending technology shifts, but their purpose remains the same.**

THEO LOOCK – CEO

"Our challenge in an ever-changing technology environment is to keep up with product development to fulfil the energy (watt-hour) and components (parts) requirement of our international customer base."

First lithium-ion battery powered concept vehicle produced in Romania	**LTIFR** reduced to **0.97**	Group Scope 1 and 2 carbon emissions per person hour worked improves **0.3%**

Metair performed very well in 2017 as we continue to operate in a very dynamic and challenging environment, especially as technology shifts in propulsion solutions develop in the mobility space.

Adjustments and preparations to accommodate these shifts brought about the need to deepen the understanding of Metair's business design platform and expand our business narrative.

Metair's business as explained in the diagram on the next page is built on the mobility, mobility services and energy platform.

In the absence of major technology or market shifts, it was acceptable for the Metair business narrative to be centred around our products. This is no longer the case and we need to shift our business narrative to focus on the needs that our products fulfil and market messaging that is well aligned and understood by stakeholders.

The nature, design, technology and commodities of our products might change to accommodate the pending technology shifts, but their purpose remains the same.

In our energy vertical, we provide energy and finally sell watt-hours. Good progress was made in becoming a diversified multi-site Giga factory. The energy vertical sold 10.42 Giga watt-hours of our 11.5 Giga watt-hours capacity. Our total Giga watt-hours sales were on par with Tesla's Giga factory automotive output.

ENERGY VERTICAL (based on units sold 2017)		COMPONENTS VERTICAL (based on units sold 2017)	
9,69 Giga Watts		Brake systems parts – 0.7 m	Lighting units – 1.1 m
AGM – 0.3 m	EFB – 3.2 m	Plastic mouldings – 25.2 m	Harnesses – 2.7 m
STD – 6.7 m	Other – 0.2 m	Suspension systems – 1.5 m	Front ends – 0.1 m
Industrial – 0.4 m	Total – 10.8 m	HVAC system parts – 6.1 m	Shock absorbers – 2.7 m
Sell energy		**Sell parts**	
Product specific commodity application		**Product specific commodity considering application**	
Product specific technology advancement and R&D		**Product specific technology advancement and R&D**	
12-volt automotive battery		Ride comfort products	
24-volt automotive battery		Thermal management products	
48-volt power units		Wiring harness products	
2 volt standby systems		Lighting products	Plastic products
ENERGY VERTICAL		**COMPONENTS VERTICAL**	
Electrical requirement		Component requirement	

Technology advancement trends

Infotainment	Assisted drive	Autonomous drive	Accident-free drive	Shared ownership	Artificial intelligence

Propulsion and application options

Infotainment	Micro hybrid	Hybrid	Plug in	Full electric vehicle

Mobility, mobility services and energy platform

E-bike	2-wheeler	3-wheeler	4-wheeler	Truck	Electric vehicle

Metair cannot be a single site Giga factory as our customer base is in multiple locations and the watt-hours we sell are required by vehicle manufacturers and vehicle owners in different countries and diverse geographical locations. Our strategy is to continue to become a multiple site Giga factory.

In our automotive components vertical, we sell a number of product solutions ranging from lighting, ride comfort, heat exchange, vehicle electrical distribution and plastic part solutions. These solutions are only provided in the South African market with solution-specific manufacturing sites all over South Africa. Our operations sold 1.2 million lighting units, 25.2 million plastic mouldings, 2.7 million wiring harnesses, 666 419 brake system parts, 6.1 million HVAC system parts and 1.5 million suspension systems – enough to supply the equivalent of 200 000 Tesla's.

Our challenge in an ever-changing technology environment is to keep up with product development to fulfil the energy (watt-hour) and components (parts) requirement of our international customer base.

A GOOD OPERATING PERFORMANCE IN A CHALLENGING ENVIRONMENT

Mitigating and managing exchange rate fluctuations in the currencies in which we operate is an unavoidable and constant challenge given our presence in emerging markets. Despite challenging geopolitical developments in the countries in which we operate, most of our operations delivered strong operational performances in 2017. Our financial statements do not fully reflect the strength of the performance of Mutlu Akü and Rombat due to the weakening of the Turkish Lira and the Romanian Lei against the Rand. The year also saw a significant move in commodity prices – particularly the lead we use in our lead-acid batteries – which required us to act swiftly to recover margins and grow market share.

The automotive vertical bounced back after a difficult 2016, returning to good profitability levels after the disruptions of the new vehicle launch. Hesto in particular moved from a loss last year back to a profit contribution.

We made good progress on most of our environmental, social and governance (ESG) focus areas, although we were disappointed that we didn't more comfortably surpass our goal of reducing our lost-time injury frequency rate (LTIFR) below 1 – we achieved 0.97. But within the group safety efforts there were some notable improvements and Hesto deserves a lot of praise for going a full year without recording a lost-time injury.

As the group continues to expand and enter new jurisdictions, navigating the complexities of local country and international anti-competition and anti-trust regulations requires increased focus. We are clarifying our position regarding various issues in South Africa, Romania and Turkey (as discussed on page 51). Metair is committed to ethical business practices and we have implemented ongoing initiatives to ensure employees have the necessary training to understand and work within the intricacies of compliance in this area.

Metair prides itself on its quality – a key metric in our drive for manufacturing excellence. So it is particularly gratifying that, against the backdrop of last year's new model launch by a major customer, Metair companies received twelve supplier awards from two major customers.

FINANCIAL RESULTS

Group revenue increased 6.3% to R9.5 billion as the automotive component vertical regained stability. The energy storage businesses in Turkey and Romania grew revenues 31% in local currencies, but this reduced to a 21.1% increase in our consolidated accounts when translated into Rand. Operating profit grew 15.9% and the group margin expanded to 8.9% (2016: 8.2%) supported by the margin recovery in the automotive component businesses. Group earnings before interest, tax, depreciation and amortisation (EBITDA) increased 17.6% to R1.2 billion and headline earnings rose 22.8% to R555.6 million, which translated into growth in headline earnings per share growth of 22.6% to 281 cents per share.

Metair's net debt/equity ratio of 29.5% is appropriately conservative and group borrowings from third parties decreased to R1.8 billion. We addressed the first tranche of debt due on the Mutlu Akü acquisition in October 2017 by redeeming two thirds from available cash and unutilised debt facilities, and extending the date on the remainder. We also secured a number of commitments from several leading South African banks for longer-term funding and liquidity at very competitive rates. Metair is comfortably in compliance with all of its lenders' covenants and at 31 December 2017, the group had access to unutilised facilities of approximately R587 million (Rand equivalent), US$95 million and a revolving credit facility of R83 million.

AUTOMOTIVE COMPONENTS VERTICAL (INCLUDING HESTO)

Turnover recovered well, increasing by 5.2% to R4.4 billion, contributing 41% to group revenue and 42% to operating profit as production ramped up and stability returned to the business following last year's model launch. Profit before interest and tax (PBIT) margins increased to 10% from 6% in 2016 due to the benefits of improved consistency in production volumes, manufacturing efficiency and the stronger Rand against the Euro, US Dollar and Japanese Yen throughout the full year.

ENERGY STORAGE VERTICAL

Revenue from the energy storage vertical increased 6.3% to R6.2 billion (59% of group revenue) and operating profit grew 6% (58% of group operating profit). Battery sales in Turkey and Romania peak in the winter months of the last quarter of the year and strong performances at Rombat and Mutlu Akü over these months partially offset the impact of depreciating currencies and higher lead input costs. In the South African market, competition remained high and performance improved as Phase II of the correction at FNB progressed. These factors resulted in consistent PBIT margins of 9.5%.

OPERATIONAL INSIGHT

Automotive components

Our businesses in the automotive components vertical secure valuable relationships with OEMs, improve our production processes through cooperation in new technologies and help to develop intellectual capital in the group. The financial returns from these businesses tend to be relatively predictable and stable over the medium term.

The exit of General Motors was a blow to the country's automotive industry. We are pleased that Isuzu – our primary brand in the General Motors stable chose to remain in the country. It is important to note our appreciation for the responsible way that General Motors chose to exit the local industry – their assistance was crucial in mitigating most of the retrenchments that would otherwise have been necessary.

Metair provided input into the review of the Automotive Production and Development Programme (APDP) and believes that the programme as currently proposed will continue to support the South African automotive industry effectively.

Metair's outlook for South African vehicle production for the medium term has improved and we believe volumes of 650 000 to 700 000 for the industry as a whole (around 10% to 20% above 563 857 units produced in 2017) could be achievable. We also anticipate some growth from product expansions through the addition of new OE business and expanded product ranges with existing clients. Customer model changes planned for the next two to three years – which do not include our major customer – will offer further opportunities for new business.

We believe that the achievement of targeted production volumes, efficiencies associated with the new technology and continued stabilisation of manufacturing processes should increase profitability in the vertical and consequently update our guidance for sustainable medium-term PBIT margins on new business to between 7% and 9%.

Energy storage vertical

Our strategic focus has shifted to bulking up the energy vertical and as our geographical presence expands and we continue to demonstrate our considerable intellectual capital in the vertical, we are receiving requests for technology transfer from companies in our target growth areas.

Our new investment in MOLL brings with it a number of strategic benefits including providing a presence in Germany that allows us to stand next to our customers in a key strategic market. The transaction helps to mitigate some of the geo-political risk linked to Turkey, particularly given the current poor political relationship between the countries. It also gives us access to a centre of technical development and advancement in Germany which improves our ability to work closely with German car companies on technical coordination. In addition, MOLL's relationship with Chaowei provides Metair with micro-entry into China. Between MOLL, Metair and Chaowei the group now has access to considerable intellectual capital in battery technology with more than 16 doctorates and 12 associate doctorates in the field.

MANAGING TECHNOLOGICAL DISRUPTION

The global automotive industry is experiencing significant technological changes with major OEMs signalling their intentions to increase production of electric vehicles (EVs). We are continually assessing manufacturing and technological trends to analyse their likely effects and understand their impact on our current and planned business model.

Our focus in the energy storage vertical has shifted to lithium-ion battery technology in anticipation of the move to EV, building on our experience with lithium-ion cap lamps and starter motors. Metair International Battery (MIB) – the international battery sales company for Mutlu Akü, Rombat and First National Battery – is working closely with several OEMs in Europe to partner to develop lithium-ion technology.

We entered into a partnership with PrimeMotors that converted a motor vehicle into a full lithium-ion EV to improve our understanding of challenges involved in EV production and to demonstrate our expertise in this area. We are also initiating relationships with universities and industry agencies in South Africa, Turkey, Romania and the USA to develop intellectual capital regarding future battery technologies and access manufacturing capacity.

Early in 2018 Metair took a 35% stake in PrimeMotors, which will become the group's incubator and research and development centre for lithium-ion battery development. PrimeMotors is also working with the University of Bucharest on an Artificial Intelligence (AI) project to develop autonomous driving learning.

What has become clear to us is that lead-acid batteries still have a long lifetime, both in the aftermarket for the vehicles currently on the road and in their continued applicability as part of the energy solution for EVs. It is no longer sufficient to only be involved in a single mobility solution as there will be a call for 12-volt, 24-volt and 48-volt electric systems to support electric controls and energy storage, and both lead-acid and lithium-ion batteries have a role to play. Our research also indicates that, far from rendering our core automotive component businesses obsolete, the switch to EVs and the need to resolve the challenges associated with the new technology still require these components (refer to page 29).

As the industry navigates this period of rapid change and technological disruption, the need to invest heavily in intellectual capital through research and development becomes more critical than ever. While we are well aware of the needs and interests of all of stakeholders, failure to make these investments risks allowing our products and our company to become obsolete. Metair invested R38.6 million in research and development during 2017, which we believe positions the company well to participate in emerging vehicle trends and supports the long-term relevance and sustainability of the business.

THE NATURAL ENVIRONMENT

The theme of this year's report and the year ahead is on our Environmental Focus and Effect in recognition of the natural environment as the primary production factor. This challenges us to stay constantly aware of the elements we use in our products and processes, and to take responsibility for handling emissions into the air and ground in a responsible way.

With our capital expenditure tightening following the past few years of preparation for the new model launch, the majority of above-depreciation capital expenditure budgeted for next year focuses on supporting environmental responsibility and safety.

HUMAN CAPITAL

We continue to focus on modernising our human capital approach and set employee satisfaction as a KPI across all operations. We made good progress on transformation in our South African operations and improved gender representation in our offshore subsidiaries. The group achieved a consolidated Level 4 B-BBEE status and most of our South African subsidiaries retained their strong ratings despite the increased hurdles set by the new BEE Codes.

LOOKING AHEAD

Metair's performance in the year ahead is dependent upon, inter alia, the successful execution of our strategy, OE volumes, geopolitical conditions, a peaceful labour environment, efficiency improvements, internal inflation recoveries and the exchange rate. Subject to such factors, we expect 2018 to be a good year for the group.

As shown in the cover image of this report, we see a number of green shoots starting to appear. These include the potential new opportunities arising from the shift to EV for new business in both strategic verticals, the potential improvement in South African vehicle production volumes, progress in selling our

Chief **Executive Officer's report** continued

excess battery capacity and the number of requests for technical cooperation we are receiving.

With the shift to new technologies and more potentially risky products, as well as emerging trends like Industry 4.0 and Green Manufacturing, OE customers are increasingly emphasising ESG performance in addition to technical expertise and price when choosing partners. Metair's commitment to transparent reporting and demonstrating improvement in our ESG performance positions us well to participate.

In the year ahead we will focus on the transfer of technology in emerging markets and our goal is to participate in the development of an EV energy source for at least one OEM. We are busy establishing a new research and development centre in Germany in partnership with Chaowei and MOLL, while looking forward to finalising the structure of our lithium-ion research and production division.

APPRECIATION

I would like to thank our shareholders for their continuous support as we navigate the current period of clarification with respect to technology. We also thank the South African government for its receptiveness to the industry's input into the APDP review.

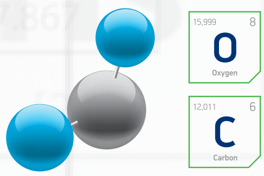
We are extremely grateful to management and employees across the group for their contribution during the year and their support in the drive to improve our health, safety and environmental focus. The people in the automotive component business showed an absolute commitment to recovering stability and profitability in that vertical, and those in the energy storage operations demonstrated their dedication to executing on group strategy.

Thanks also go to the head office staff for the high quality of their work – they do a fantastic job with limited resources. I am particularly pleased at the level of financial intelligence now available to the group.

Finally, I would like to express my appreciation to the Metair board for their direction and backing and I am particularly grateful to our independent directors for the added emphasis on ESG matters that they have brought to the business.

CT Loock
Chief Executive Officer

CO_2
Carbon Dioxide



Carbon dioxide (CO_2) is a colourless gas with a density about 50% higher than that of dry air. Carbon dioxide consists of a carbon atom covalently double bonded to two oxygen atoms.

CO2 is the most significant greenhouse gas in the atmosphere and plays a significant role in global warming.

TOTAL CARBON EMISSIONS

	2017	2016	Change
Scope 1	44 603	46 468	(4.0%)
Scope 2	138 134	141 376	(2.3%)
Scope 3	455 455	398 100	14.4%
Total	**638 192**	**585 944**	**8.9%**

Stakeholder **relations**

Metair takes a stakeholder-inclusive approach in recognition of the critical interdependence between the needs, interests and expectations of our stakeholders and the group's ability to create value in the long term. We define our stakeholders as those individuals or groups that are impacted by our business, or who impact our business, and who play a role in our ability to deliver on our strategic objectives.

Regular engagements with our stakeholders provide input into strategy, help to determine and prioritise material matters and key risks, and assist us to refine company policies and governance structures. When determining our response to a particular stakeholder concern, the trade-offs between the interests of various stakeholder groups, as well as the trade-offs with the long-term interests of the company, are key considerations.

The board is responsible for stakeholder engagement and sets the direction for stakeholder engagement in the company, while delegating its implementation to the management team. Engagements are guided by the group stakeholder engagement policy and Metair's code of conduct to ensure equitable treatment of all stakeholders. These apply to all group companies and guide stakeholder engagement at operational, subsidiary and group levels.

Stakeholder concerns are delegated to the relevant functions for follow up and the stakeholder is engaged as necessary and kept appraised of progress in addressing the issue. Stakeholder engagement is discussed as the first item on the agenda at every board meeting to ensure that the board is informed of all material engagements and their outcomes.

The sections below discuss key engagements with stakeholders during 2017.

ENGAGEMENTS WITH SHAREHOLDERS AROUND METAIR'S REMUNERATION POLICIES AND PRACTICES

Following engagements between shareholders, the chairman of the board and the chairperson of the remuneration committee, Metair's remuneration approach was revised. Changes include the addition of ESG considerations and a return on invested capital benchmark in determining long-term incentives to better align with shareholder interests.

At the 2017 Annual General Meeting, voting on remuneration was broken into five sections to encourage consideration of all aspects of remuneration and to provide the Company with greater clarity as to which areas may still need work.

Trade-offs: Remuneration levels across a company must balance the need to retain and reward management and employees with the need to maximise financial capital available for reinvestment or distribution to other stakeholders, including shareholders. The income disparity within a company – the remuneration of top management compared to that of entry level workers – must also be managed to support executive retention on one hand, and fair compensation on the other.

DEEPENING ENGAGEMENT WITH EMPLOYEES

Metair continues to focus on improving communication with employees to better understand their situations and needs. One of the focus areas at this year's MD's conference was on gathering and sharing employee concerns and feedback. Employee surveys are in place at several operations and the feedback from these includes that employees want more support from the company in their lives and communities. These surveys will be rolled out at the remaining subsidiaries during 2018.

At the same time, political developments in Romania and Turkey led to significant increases in public sector remuneration and minimum wages, which fed through into wage expectations. A three-week strike at Mutlu Akü was finally resolved with an increase well above local inflation.

Trade-offs: Investing in the financial and social wellbeing of our human capital is essential to executing on our strategic goals and builds social capital. However, meeting the increasing expectations of employees diverts financial capital from expansion, reinvestment or distribution.

Stakeholder **relations** continued

ADDRESSING THE UNDERVALUATION OF THE METAIR SHARE PRICE

Several of Metair's current and prospective shareholders have challenged management to address the undervaluation of the company's share price. Shareholders are a particularly important stakeholder group as one of the key providers of capital for the ongoing expansion of the company. A low valuation reduces the opportunity to raise capital and increases the exposure to hostile activist investors.

The Metair board and management team accepts the need to address this issue and the company has taken a number of steps to better align with the needs of analysts and investors. We refined our investor relations strategy to ensure that our investment case positioning better aligns with the priorities of current and prospective shareholders. During November 2017, we released supplementary information relating to the strategy, financial and operational information of the company's previously published results. This increased detail is carried through into this report and the results presentations. We also conducted a site visit to Turkey for analysts, investors and funders to improve understanding of our operations in the country, the Turkish automotive industry and Turkey's economy and strategic location.

We are also currently assessing the most effective ways of improving valuation through external capital allocation initiatives, including the possibility of share buybacks.

Trade-offs: Allocating capital specifically to address share price undervaluation diverts capital that may be required for internal deployment. At the same time, addressing the undervaluation of the share price improves the options available to raise capital for transformative acquisitions. Detailed operational information can help analysts, investors and funders to better understand and value the company. But disclosing strategically sensitive information into the market can negatively impact Metair's competitive position.

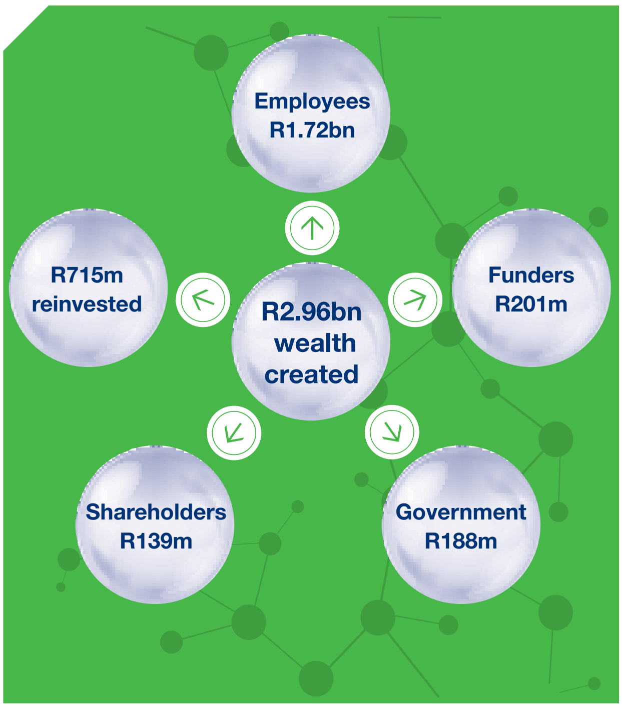
ENGAGEMENT WITH STAKEHOLDERS AROUND METAIR'S APPLICATION OF CAPITAL

Following an approach by an activist shareholder claiming better and closer understanding of shareholders' requirements regarding Metair's capital allocation and usage, we conducted a number of engagements with shareholders. We improved our understanding of shareholders' views regarding thresholds to the allocation of share-based acquisitions as a market expectation in regard to the Metair share price. Securing shareholder approval below these thresholds will be challenging even with once off opportunities that may arise due to timing or pricing.

One of the main areas of focus in the year ahead will be to continue to engage with shareholders to find ways to address the undervaluation of the Metair share price. Aside from ongoing engagement with shareholders and analysts about under-valuation, there are no formal stakeholder engagement initiatives planned for 2018 other than the normal ongoing engagements and those required by King IV in terms of the remuneration vote should this be required.

VALUE CREATED FOR OUR STAKEHOLDERS

Metair created R2.96 billion in value in 2017 (2016: R2.7 billion). Employees received R1.72 billion as salaries, wages and other benefits (2016: R1.68 billion) and the Company invested R27.3 million in training initiatives to further develop our human capital (2016: R30.9 million). Funders received R201 million (2016: R188 million) and R188 million was paid to governments as tax (2016: R138 million). Shareholders received R138.6 million (2016: R139.0 million) and R715 million was retained in the group for maintenance and expansion (2016: R602 million). R10.1 million was invested in local communities through our CSI initiatives (2016: R13.5 million).



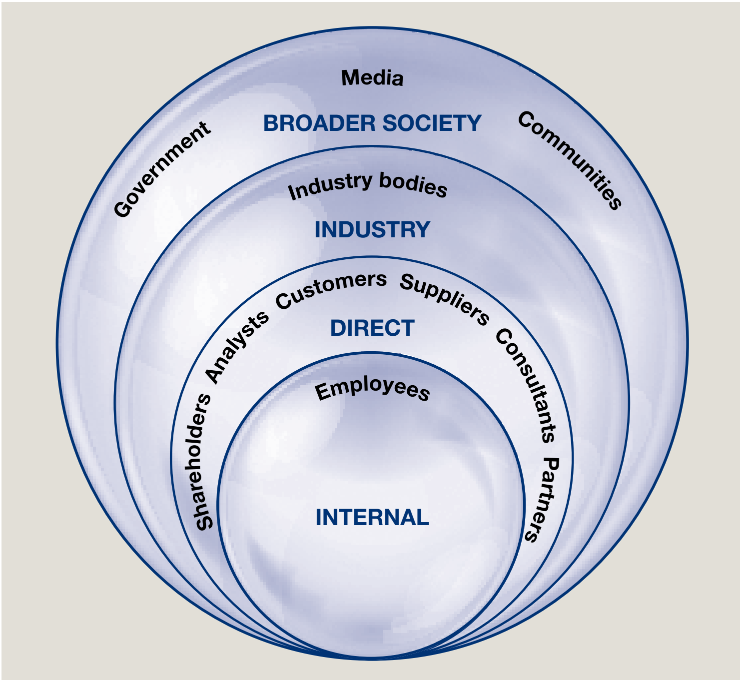
The five-year total return earned by shareholders (share price and dividends received) has been disappointing as a result of the fundamental undervaluation of the Metair share. A shareholder buying on 31 December 2012 would have earned a -5% five-year compound annual return to 31 December 2017. Metair's comparative peer market multiple used for valuation purposes is set at 7 to 7.5 times EBITDA. Therefore Metair's current market multiple of 5 to 5.5 times is seen to be under-valued by 2 to 2.5 times on 2017 EBITDA.

We believe that successful execution of our strategy will over time unlock the value in the share price and are currently evaluating ways to address the undervaluation through initiatives including share buybacks.

METAIR'S KEY STAKEHOLDERS

Our main stakeholders can be grouped into internal stakeholders, those with whom we have direct interactions with on a day-to-day basis, industry stakeholders and broader society.

The table below lists Metair's key stakeholder groupings, their chief concerns, how these are addressed and the channels through which we engage with them.



PRIMARY CONCERN	HOW WE ADDRESS THESE CONCERNS	ENGAGEMENT CHANNELS INCLUDE
Shareholders		
Acceptable return on invested capital, sustainability of the business, total shareholder returns and unlocking share value.	• Regular engagement to stay aware of shareholder expectations. • Well-defined return targets. • Delivery on our strategy supports returns and the sustainability of the business.	• Integrated annual report • Sustainability information • Results commentaries • The abridged report • Annual general meetings • Annual and interim results presentations • One-on-one meetings • Investor perception surveys • Site visits • Website • Pre- and post-results feedback • Pre-close period meetings • SENS announcements • Press releases • Analyst reports • Ad hoc meetings (as requested)

Stakeholder **relations** continued

PRIMARY CONCERN	HOW WE ADDRESS THESE CONCERNS	ENGAGEMENT CHANNELS INCLUDE
Analysts		
Acceptable return on invested capital, sustainability of the business, access to management.	• Regular engagement to understand their needs and meet their disclosure requirements where possible. • Participation in industry forums.	• Annual and interim results presentations • One-on-one meetings • Site visits • Website • Research papers
Customers (existing and potential)		
Product quality, delivery standards, cost competitiveness, brand strength, sustainability of our business, B-BBEE and transformation, innovation.	• Our strategic focus on manufacturing excellence, marketing excellence and cost efficiencies aligns the company with customers' needs. • We are committed to delivering flawless model launches, zero quality incidents and to continue to produce innovative products. • We participate in industry forums to better understand our customers' needs and to represent the interests of automotive component and energy storage manufacturers. • Our strategy includes effective management of ESG concerns, transformation and quality production. • External verification of sustainability reporting, B-BBEE status and ISO 9001 and ISO/TS 16949 accreditation.	• Contract negotiations • Ongoing interactions in the ordinary course of business • Quality reviews • Performance reviews • Industry forums • Trade shows and exhibits • Customer reward systems • Customer visits
Suppliers and trading partners		
Fair payment terms, fair treatment and sustainability.	• Metair takes an ethical approach to doing business and our payment terms align with industry norms. • Participation in industry forums to better understand the concerns of suppliers.	• Contract negotiations • Ongoing interactions in the ordinary course of business • Supplier audits • Service level agreement negotiations • Industry forums • Trade shows and exhibits • Annual meetings
Business partners (JVs and associates)		
Financial performance, fair treatment and quality of management.	• We are committed to ethical business practices and respect the interests of our business partners. • Implementation of strategy.	• Ongoing interactions in the ordinary course of business
Government regulators		
Transformation, health and safety, environmental responsibility, regulatory compliance, sustainable employment, corporate social responsibility.	• Metair's commitment to custodianship and ethical business practices supports social and environmental responsibility. • We invest in employee development and take a responsible and sensitive approach where adjustments are required to employment levels in line with all regulatory requirements. • Our CSI projects promote socio-economic development in our host communities. • Policies and procedures are in place to ensure compliance with all relevant regulations.	• Engagements on specific policy issues • Representation on industry bodies • Regular regulatory submissions • Interactions as required

PRIMARY CONCERN	HOW WE ADDRESS THESE CONCERNS	ENGAGEMENT CHANNELS INCLUDE
Employees		
Equal work/equal pay demands, health and safety, transformation, shareholding participation, banning of labour brokers, equal work/equal pay, preferred procurement from BEE accredited parties, education, training and skills development, company involvement in secondary and tertiary education in communities, rural area economic development, deliverable and sustainable corporate social investment programmes, anti-internationalisation and globalisation demands of South African businesses.	• Metair's ethical approach to doing business includes fair treatment and remuneration of our workers and a focus on health and safety standards and procedures. • Operations ensure that working conditions are acceptable, including work stations, canteen facilities, ablution facilities and meeting areas. • We invest substantially in skills development and aim to maintain good relationships with unions as representatives of our employees. • Remuneration benchmarking and formal job grading and evaluation provide objective measures of fair remuneration. • We are committed to transformation and have implemented initiatives to improve transformation performance at both group and operational levels. • CSI projects focus on rural and company-specific areas of support for schools, clinics, NGOs and any other feasible projects or entities. • Internationalisation and globalisation driven by local sustainability needs to retain or gain international supply contracts and business opportunities.	• Operational performance reviews • Feedback sessions • CEO site visits • Electronic communication • Anonymous Tip Offs hotline • Company website • Union interactions as required • Induction programmes • Job grading systems • Job specification requirements • Training and skills development
Industry bodies (NAACAM, NAAMSA)		
Good corporate conduct, support in engaging government and regulators on industry matters.	• We take an ethical approach to doing business and engage with regulators and government to further the interests of the company and broader industry.	• Representation on industry bodies • Member of the South African Battery Manufacturers Association • Member of and represented on the National Executive Committee of NAACAM
Media		
Access to management	• Management aims to be appropriately accessible within operational constraints.	• Interactions as requested • Press releases • Website
Consultants and service providers		
Fair payment terms, fair treatment and fair contractual responsibility.	• Metair takes an ethical approach to doing business and our payment terms align with industry norms.	• Ongoing engagements in the normal course of business

CASE STUDY

MUTLU AKÜ CARBON EMISSION SAVINGS FROM WORK SHUTTLES

Carbon emissions, and their ozone-depleting impact on global warming, have become an increasingly important consideration for our planet. As individuals, we are encouraged to make purchasing decisions that are likely to have as little negative environmental impact as possible, including such things as whether we consume beef at a cost of 26 kilograms (kg) of carbon dioxide equivalence (CO_2e) per kg of beef consumed, or whether we buy a vehicle with a Start/Stop battery that reduces our fuel consumption by roughly 9%. We are encouraged to purchase energy-efficient fridges and stoves, and to install LED lighting instead of incandescent light bulbs. We are encouraged to buy fruit, vegetables and meat that are locally produced, to reduce the 'carbon miles' of our food, and to take shorter showers and fewer baths to reduce the likelihood of potable water shortages.

Companies are encouraged to not only reduce electricity and fuel consumption, but also to produce products that are designed to reduce the full life cycle environmental impacts, such as how much of the materials used to produce batteries can be fully recycled.

In the end, it's all about being a "socially responsible manufacturer". It's about understanding the negative impacts we may have on the physical/natural environment and ensuring that in all we do, we consider the social implications of how our employees manufacture our goods.

Established in 1945, Mutlu Akü has become one of the most prominent battery manufacturers in Europe, the Middle East and Eastern Europe, with a strong commitment to excellence in product quality, customer service and employee well-being.

Our main production facility is based in the Tuzla region of Istanbul on the outskirts of one of Europe's oldest megacities. Although residential neighbourhoods are expanding towards our perimeter, the factory is situated in a low residential density area approximately 60 km away from the city centre, in an area not well-serviced by public transportation infrastructure.

Based on 2016 data supplied by the Inrix Global Traffic Scorecard, Istanbul is ranked 15th in the world (of over 1 000 cities measured) in terms of the amount of time spent in traffic congestion (where average speed is less than 65% of the normal). This congestion not only impacts air quality due to increased emissions from vehicles idling and/or travelling below normal speeds, but also increases tension in drivers. Congestion decreases the amount of time parents can spend with their families, increases fuel and maintenance costs on commuter vehicles, and raises the risk of physical harm in road rage related accidents. In general, increased time spent in traffic can also be correlated back to a city's overall economic efficiency due to lower productivity rates arising from issues such as late arrivals and lost days due to impacts on mental and physical health.

At Mutlu Akü, the provision of company-supplied shuttle buses plays a key role in improving overall worker wellness, a union requirement that has proven to be a benefit not only to employees, but to the company as a whole. Rather than battling congestion on the roads, employees are able to rest in relative comfort while being driven to and from work. While it's difficult to effectively estimate the economic benefit of providing shuttle buses, it's relatively easy to calculate what the provision of buses means in terms of direct environmental effect.

On a daily basis, roughly 1 030 of our total workforce of 1 130 employees rely on 56 company-supplied shuttle buses, rather than on their own vehicles. The other 100 drive their own vehicles. The provision of buses has a direct impact on the amount of fuel consumed by employee-owned vehicles, and thus a direct impact on the amount of CO_2e generated by the workforce and expelled into the atmosphere. Assuming that 'Instanbulers' only carpool at the same rate as Americans – 76% of Americans admit to driving their own car to work alone – this means that in the absence of shuttle buses, 859 employee-owned vehicles would drive to and from work on a daily basis.

Based on our analysis, we estimate that the provision of shuttle buses reduces the workforce consumption of fuel, and thus carbon emissions, by 67.36%.

If all employees were to drive their own cars to work, they would have to plant 7 645 trees every year to off-set the harmful impacts of the carbon emitted into the atmosphere. By providing company shuttle buses, Mutlu Akü has reduced the draw on nature's own carbon neutralisation by 5 149 trees – trees that can now focus on off-setting 2 348 tonnes of other companies' emissions.

As Mutlu Akü continues to investigate ways in which we can further reduce our impacts on the environment, we will use our transportation model as an example of how focussing on worker wellness can also affect the wellness of our planet. It also supports the economic sustainability not only of the company, but also of the people who drive our success.

http://inrix.com/resources/inrix2016-global-traffic-scorecard/

MUTLU AKÜ CARBON EMISSION SAVINGS FROM WORK SHUTTLES

	No buses	Cars and buses		
	Cars	Cars	Buses	Total
Number of vehicles	859	100	56	
Average distance per vehicle per day (km)	105	128	128	
Number of work days	240	240	240	
Total travel distance per annum (km)	21 646 800	2 520 000	1 720 320	
Average fuel efficiency (litres/100 km)	7.000	7.000	15.928	
Estimated total fuel consumption (litres)	1 515 276	176 400	274 020	
Conversion factor for fuel (petrol/diesel)	2.3	2.3	2.7	
Total carbon emissions (tonnes CO_2e)	3 486	406	732	1 138
Carbon savings (%)				67.36%
Carbon off-set equivalent (456 kg per tree)	7 645	890	1 606	2 496

IMPROVES EMPLOYEE WELLNESS

by reducing traffic-related stress

Mutlu Akü

reduces carbon footprint of

1 130 personal vehicles,

while only increasing by

56 buses

REDUCES

employees' personal fuel and maintenance costs

Reduces traffic congestion by removing 759 personal vehicles from overly congested Istanbul roads

Our most **material matters**

Our material matters are those challenges and opportunities that have the highest potential impact on the group's long-term sustainability or our stakeholders.

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

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

Each material matter is then reviewed against our combined assurance model to ensure that they are subject to an appropriate level of assurance.

The table below lists the group's most material matters, the stakeholders these affect, how we manage the matters, where in this report we discuss them and how our combined assurance model supports them. The strategy symbols in the title bar link each material aspect to the strategy focus area they most directly affect.

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

1. Competitiveness		
• Competition from low-cost countries • Country competitiveness of South Africa • Entry of international competitors • Competition from subsidised imported products • Labour • Unreliable energy and water supply • Raw material supply • Product quality • Technology • Flexibility and adaptability **Stakeholders primarily affected:** All	Automotive component manufacturers compete for business with the multinational OEMs against suppliers from countries with very attractive government incentives, lower costs and higher labour efficiency. Metair's continued ability to produce high-quality products cost efficiently is essential to stay in business. The automotive component aftermarket is also highly competitive and includes low cost imported components supported by foreign government export incentives. South Africa's manufacturing sector faces multiple challenges, including a volatile political and labour environment, and interruptions to essential inputs in the manufacturing process such as energy, water and raw materials. These challenges make it difficult to achieve the production efficiencies necessary to compete and influence long-term OEM investment decisions. Manufacturing volatility also impacts on product quality, which may increase product recalls. The increasingly technical nature of automotive components and energy storage require access to highly technical skills and costly research and development resources to meet the rapidly evolving needs of OEMs. The automotive components vertical is experiencing increased volatility in demand from customers which require companies to be flexible and adaptable to meet customer needs and remain profitable in a less stable and predictable manufacturing environment.	**Read more:** Chief executive officer's report (page 30), performance review (page 46), Human capital (page 59).
Governance and combined assurance: Board and executive committee monitor efficiencies. Combined assurance through policies and procedures, internal controls, risk management function, regular management reviews, internal audit, OE supplier quality reviews, external accreditation (ISO 9001, SABS SANS, VCA, ISD/TS 16949, ISO 14001, ISO 50001 etc.).		
GRI Standards: GRI 201: Economic Performance		

<table>
<tr><th colspan="3">2. Macroeconomic and geopolitical factors</th></tr>
<tr><td>• Slow economic recovery in Europe
• Currency volatility
• Continuity of supply
• Socio-economic stability in key markets

Stakeholders primarily affected: All</td><td>International economic and political developments that impact OEM investment and purchase decisions have an effect on Metair's results.

Currency volatility makes budgeting and forecasting challenging, affects margin recovery on long-term contracts and impacts reported financial performance. Political and social challenges in Metair's locations of operation – particularly in South Africa and Turkey – affect investor confidence in the group's ability to realise its strategy and raise capital for further acquisitions.</td><td>Read more:
Chairman's statement (page 26), Chief executive officer's report (page 30), Chief financial officer's report (page 52) and Group risk management (page 77).</td></tr>
<tr><td colspan="3">Governance and combined assurance: Board and executive committee develop and execute strategies to respond to international developments and business interruptions. Combined assurance through policies and procedures, internal controls, risk management function and regular management reviews.</td></tr>
<tr><td colspan="3">GRI Standards: GRI 201: Economic Performance</td></tr>
<tr><th colspan="3">3. Balanced business</th></tr>
<tr><td>• Balance across customers, industries, geographies and between customer requirements and the need to earn a sustainable economic return
• Successful integration of acquisitions

Stakeholders primarily affected:
Shareholders, analysts, customers (existing and potential), government, employees and trade unions.</td><td>We aim to mitigate risk by diversifying our business, proactively managing customer relationships and ensuring best-practice manufacturing processes. Balance also applies to our entry into the industrial and lithium-ion battery markets, as well as our research to assess the impact of disruptive technologies and the impact on our business from electric vehicles.

Execution of group strategy requires the successful integration of our international acquisitions, the uptake of the additional capacity acquired and the realisation of the medium-term synergies identified.</td><td>Read more: Chief executive officer's report (page 30), Strategic review (page 22), Chief financial officer's report (page 52).</td></tr>
<tr><td colspan="3">Governance and combined assurance: Board and executive committee monitor balance and develop and execute strategies to balance the business. Combined assurance through operational reviews, risk management function, internal audit, external assurance of financial information.</td></tr>
<tr><td colspan="3">GRI Standards: GRI 201: Economic Performance</td></tr>
</table>

Our most **material matters** continued

4. Business partnerships

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

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

Metair's business depends on strong relationships with its stakeholders. The company works closely with its technology partners and key customers through long-term contractual engagements.

Government is a particularly important industry stakeholder through incentive programmes such as the APDP and ensuring that the South African market is protected from foreign government subsidised imports.

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

Metair's former empowerment shareholders sold out of the company in 2015 and the company is in the process of identifying suitable long-term shareholders to replace them over the medium term.

Read more: Chairman's statement (page 26), Stakeholder relations (page 35), Corporate governance report (page 70).

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

GRI Standards: GRI 201: Economic Performance

5. Human capital

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

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

Metair's leadership, management and employees represent the company's human capital, which is a key asset. Cost efficiency and manufacturing competitiveness are critically dependent on labour cost and productivity. Given the technical nature of our business, retaining skills and experience in the group is an important consideration. Succession planning and talent management for senior management and technical expertise must be prioritised to deepen the management layer and avoid overstretching current capacity.

Retention of Metair executives is important as the group concludes its redesign and focus shifts to building the energy storage vertical. The increasingly variable production environment in our industry requires managers to be far more agile and resilient than was previously the case.

Improving representivity at board and management level, and transforming the workforce is a moral imperative, a customer requirement and good business practice. In a competitive market, strong B-BBEE performance can be a competitive advantage.

Read more: Chief executive officer's report (page 30), Corporate governance report (page 70), Human capital (page 59)

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

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

6. The natural environment		
• Energy consumption • Carbon footprint • Waste management • Water • Environmentally friendly products • Environmental impacts **Stakeholders primarily affected:** Strategic shareholders, minority shareholders and analysts, customers (existing and potential), suppliers and trading partners, government, employees and trade unions, regulatory bodies, industry bodies (NAACAM, NAAMSA), media, consultants and service providers.	Metair's guiding principle of custodianship ensures that we actively manage our impact on the environment by reducing usage of scarce resources including energy, water and raw materials. Our goal is to develop a support structure to enable the recycling of these scarce resources. Metair's energy storage vertical is well-positioned to participate in products that support environmental responsibility including solar energy solutions and the next generation of low-emission and full electric motor vehicles.	**Read more:** The natural environment (page 64)
Governance and combined assurance: Board and executive committees develop environmental strategy and monitor progress against targets. Combined assurance through regular management review, risk management function, internal audit, policies and procedures, external accreditation (ISO 14001, ISO 50001), external preparation of carbon footprint data, external assurance of sustainability information.		
GRI Standards: GRI 302, 303, 305, 306, 307		
7. Technology and innovation		
• Customer relationships • Products • Environmental impacts • Raw material suppliers • Business partnerships **Stakeholders primarily affected:** All	Metair needs to keep up with the constantly changing technology environment in which we operate to ensure that our research and product development fulfil the energy (watt-hour) and automotive component (parts) requirements of our international customer base. Although Metair is competent in executing our current technologies, we are building our capacity to enhance our ability to competently deliver the requirement on future technologies.	**Read more:** Chief executive officer's report (page 30), Chairman's statement (page 26)
Governance and combined assurance: Board and executive committees develop technology and innovation strategy and monitor progress against targets. Combined assurance through regular management review, risk management function, internal audit, policies and procedures, external accreditation (ISO 14001, ISO 50001), external preparation of carbon footprint data, external assurance of sustainability information.		
GRI Standards: GRI 201: Economic Performance		

Performance **review**

OPERATING CONTEXT

Global and local geopolitical developments

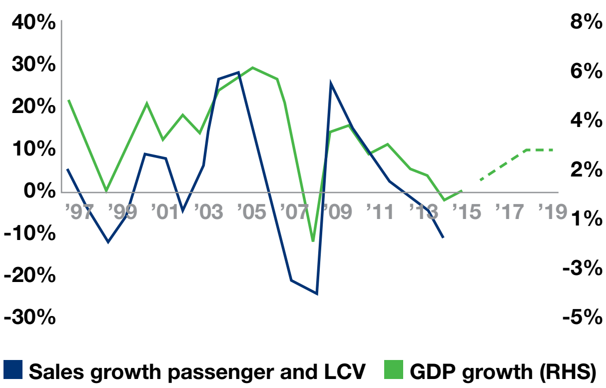
Vehicle sales are linked to economic growth and any geopolitical development that affects growth or sentiment ultimately affects vehicle production and the demand for Metair's energy storage solutions and automotive components. With more than half of South African motor vehicle production destined for export, mainly to Europe, the US and Japan, international developments have a direct impact on South African suppliers to the global OEMs. Our operations in Turkey and Romania contribute approximately 40% to group revenue and are tightly linked to the Western and Eastern European vehicle markets.

The second half of 2016 saw a number of shifts in the global geopolitical order that impacted sentiment in the markets we serve, including Brexit and the shift in US trade and climate agreements since the election of Mr Trump as president. In Turkey, there was an attempted coup in 2016 and relations with Germany, a key automotive market, continued to weaken.

The rise of populism saw significant increases in remuneration to politicians and other public servants in our countries of operation, which have fed through into unrealistic wage demands from our workforce in certain locations.

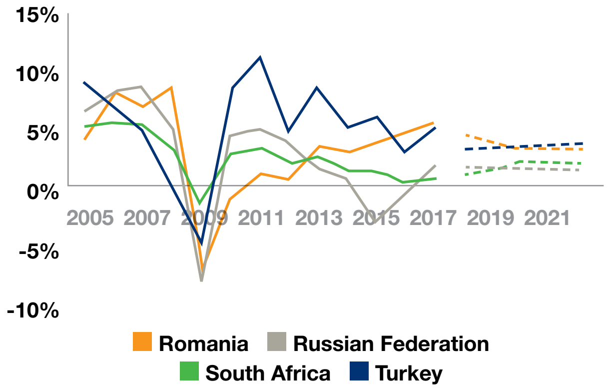
With a minor recovery in South African GDP forecast and vehicle exports achieving record levels, we believe that the local vehicle production market could grow to 650 000 to 700 000 units per year in the medium term. South Africa's Automotive Production and Development Programme (APDP) continues to provide a supportive manufacturing framework for international OEMs, and engagements to date on the likely replacement programme appear positive.

South African GDP growth vs vehicle sales

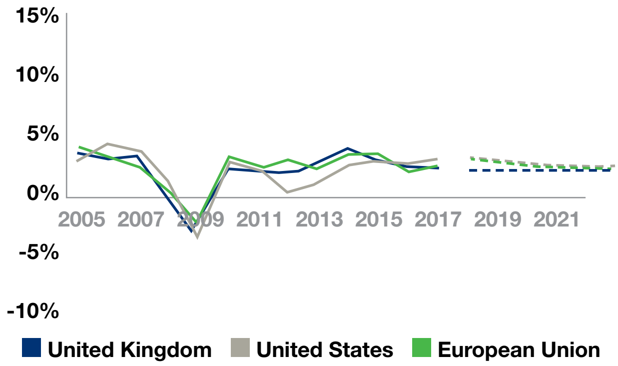


Our strategy aims to position us in significant markets showing GDP growth above two to three percent. In developing markets, where vehicle penetration rates are relatively low, this is likely to translate into mobility growth of five percent plus. Growth rates in the EU and the US are forecast to be less than 2% in the medium-term, however these are significant vehicle markets, so even relatively low sales growth rates translate into substantial production quantities. GDP growth rates in the current developing markets served are forecast to grow between two and four percent over the next five years implying positive vehicle production trends. Growth rates in India and China, two potential future markets for our products, are forecast to run between six and eight percent.

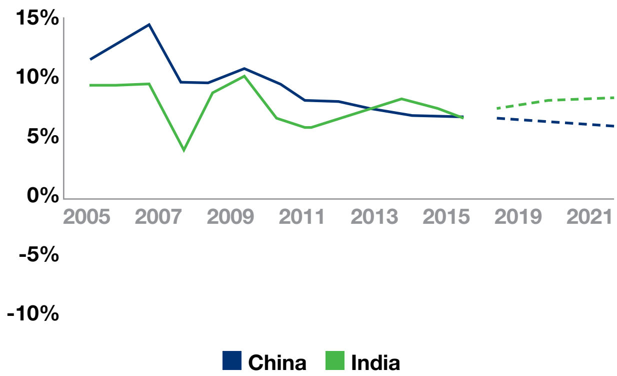
Current emerging markets served



Current developed markets served



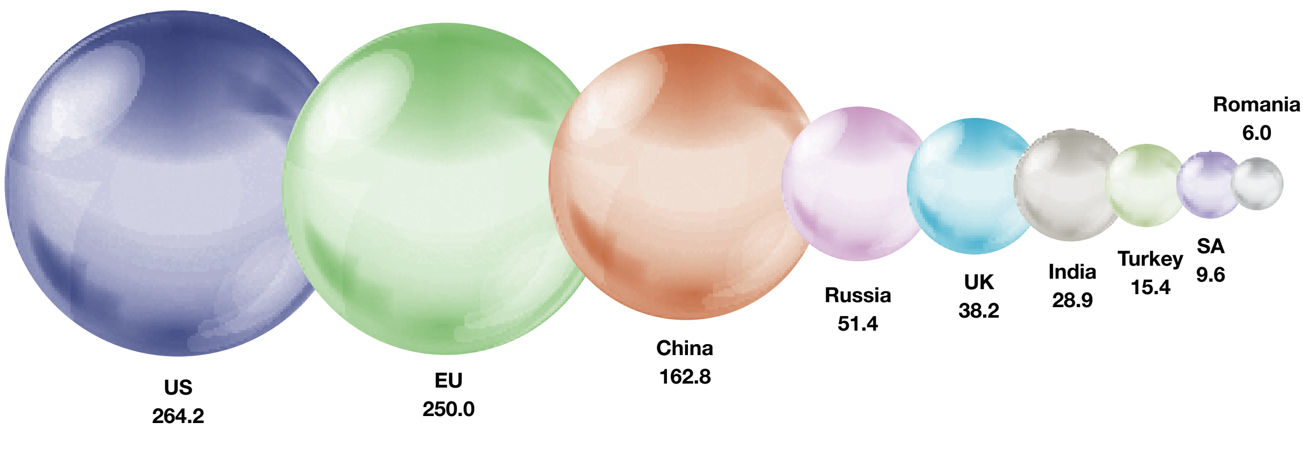
Potential future markets



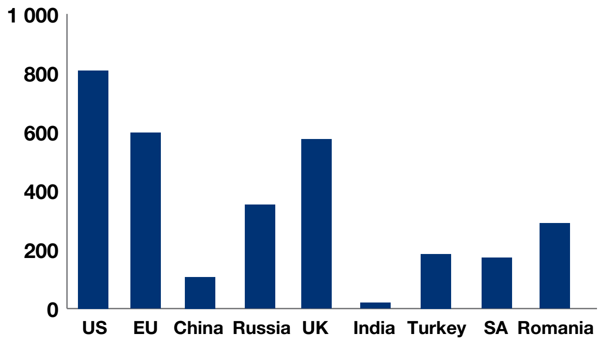
Vehicles in use (vehicle parc) (2015, million)

The number of vehicles in use in a particular country or region indicates the potential market for aftermarket sales of batteries and other automotive spares. As vehicle penetration rises in the larger developing markets, the aftermarket opportunity increases.

Vehicles in use (vehicle parc) (2015, million)



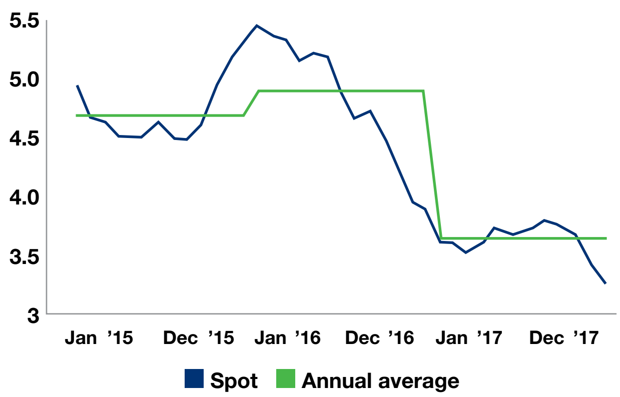
Motor vehicle penetration (2015) (vehicles per 1 000 people)



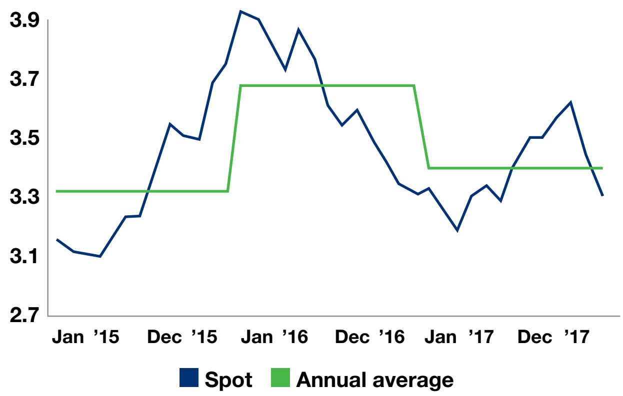
Currency volatility

Currency volatility makes planning and forecasting challenging. In addition, both the Romanian Lei and the Turkish Lira have weakened significantly against the Rand since the start of 2016, which impacts on the reported earnings in Rand and also has an impact on the balance sheet (discussed in the CFO report on page 52).

Turkish Lira/Rand



Romanian Lei/Rand



A weaker local currency against the US Dollar makes products more competitive in a global sourcing environment, but also makes Dollar- denominated inputs more expensive and pressures margins.

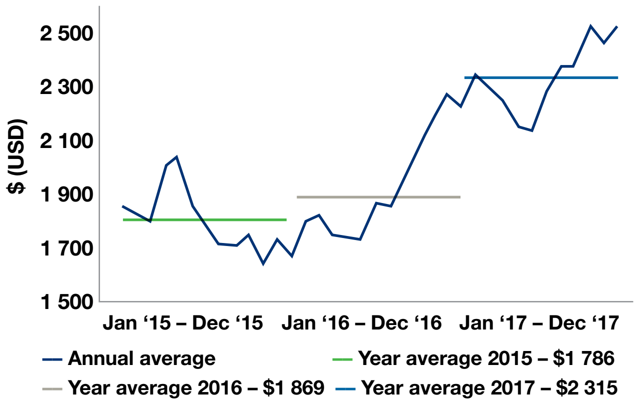
IMPACT OF CURRENCY DEVALUATION (TURKISH LIRA AND ROMANIAN LEI)	
Short-term impact	**Long-term impact**
• Negatively affects profit from foreign operations when converted into Rand • Input cost increases from imported materials and commodities • Focus to recover rising input costs from market in the short term, but with a lag • Margins may fluctuate • Export positioning influence • Local market demand fluctuates • Increased working capital investment	• Improved competitiveness in selected export markets • Importers less competitive in local market • With time it becomes easier to recover costs from market • Increased working capital investment

Performance **review** continued

Raw material costs

Commodities are generally priced in US Dollars, so foreign exchange fluctuations also feed into the cost of raw materials within a local market. Lead is one of the key inputs in our energy storage vertical and prices moved significantly higher during 2016, remaining at elevated levels since then. While the price of lead is volatile, it tends to fluctuate between $1 800 and $2 200 per tonne over time.

Lead price (USD)



IMPACT OF VOLATILITY IN COMMODITY PRICES	
Short-term impact	**Long-term impact**
• Rapidly rising commodity prices • Short-term focus to recover input costs to aftermarket, export, OEM's, always lags the cost curve • Export normally adjusts immediately as new orders quoted at prevailing rates • OEM adjusts on a contractual basis over 1 – 3 months • Aftermarket depends on pricing strategies • Market demand changes due to the rising cost of goods • Working capital investment	• Metair operates vertically integrated businesses, so a higher lead price incentivises recycling • With time it becomes easier to recover rising costs, lag effect eliminated • Market demand normalises, non-discretionary products • Working capital investment

PERFORMANCE AGAINST OUR STRATEGIC FOCUS AREAS

Performance against 2017 Key Performance Indicators

Key Performance Indicators are set at the annual MD's conference to focus each operation on addressing their most important strategic goals in the next 12 to 24 months. Progress against these goals is analysed and discussed at the next MD's conference. This focus on specific deliverables builds accountability and provides the necessary link between the five-year strategic vision, the seven strategic focus areas and the short-term goals at both operational and group levels.

2017 KEY PERFORMANCE INDICATORS	STRATEGY LEG
1. Participate in APDP reviews to ensure 2035 vision that satisfies all stakeholder requirements.	
✔ Achieved. Metair provided input through various channels, including NAACAM where we provided input into presentations and strategy.	
2. Stabilise South Africa automotive businesses (no supply disruptions, no emergency imports and no premium airfreight).	
✔ Achieved. No supply disruptions were experienced, no emergency imports and no premium freight incurred.	
3. Improve South African automotive businesses' financial performance with PBIT above target.	
✔ Achieved. All automotive vertical businesses have improved to above expected levels, except for Smiths Plastics.	
4. Expand South African automotive business aftermarket and Africa business to exceed R400 million turnover.	
✔½ Partially achieved. An aftermarket specialist will be deployed to aid aftermarket expansion efforts. Specific expansion strategies and routes to market are being developed.	
5. Manage optimal repayment/refinancing of R840 million of preference share debt.	
✔ Achieved. Refer to the CFO statement on page 52.	
6. Continue expansion of energy vertical business by evaluating investments in Russia, Europe and in the industrial space.	
✔ Achieved. MOLL investment completed and other strategic investment opportunities are currently being evaluated. Invested in a 35% stake in PrimeMotors early in 2018 to secure lithium-ion technology intellectual property.	

2017 KEY PERFORMANCE INDICATORS	STRATEGY LEG
7. Improve regional energy vertical market share by 1% per region.	
✔½ In progress. Aftermarket share penetration made possible by newly branded product launches and will be measured during the second quarter of 2018.	
8. Reposition FNB in South Africa from product and market position.	
✔½ In progress. FNB has embarked on a re-branding project to define the brand strategy, brand values and marketing strategy.	
9. Maintain gender balance focus and transfer Metair success to subsidiaries (target at least one female representative on subsidiary excos).	
✔ Achieved. We have appointed two female independent non-executive directors to the Mutlu Akü board. We have identified two candidate female Managing Directors in the Group.	
10. Establish human capital focus and development culture in the group.	
✔ Achieved. Every decision in the group now includes a human capital sensitivity and focus. Metair arranged an HR conference during the year.	
11. Improve health, safety and environmental awareness and standards in the group.	
✔ Achieved. No major health and safety incidents occurred during the year. Group LTIFR reduced to 0.97 per 200 000 man-hours.	
12. Drive effective use of invested capital by focusing on working capital, capital expenditure and cash generation supported by meeting minimum ROIC target.	
✔ Achieved. Efficient capital allocation, working capital investment and improved earnings resulted in a ROIC of 12.3%, exceeding minimum ROIC target by 1.3%, which is a 2.5% improvement from 2016.	

Strategic 2018 KPIs

2018 Key Performance Indicators	Strategy leg
1. Monitor disruptive technology opportunities by strengthening relationships with government/university lithium ion developmental facilities already constructed in Turkey, Romania and South Africa. Become electric vehicle (EV) development partners to at least two OEMs and build/convert our first lithium-ion vehicle as proof of understanding and our ability to adapt to disruptive technology.	
2. Continue expansion of the energy vertical business by evaluating new and existing technology investments in Europe, India, China and Russia.	
3. Ensure improved FNB performance to R200 million PBIT.	
4. Expand South African automotive business. Aftermarket and Africa business to exceed R400 million turnover.	
5. Drive effective use of invested capital by focusing on working capital, capital expenditure and cash generation supported by beating minimum ROIC target of 11%.	
6. Manage optimal repayment/refinancing of R560 million of preference share debt.	
7. Continued evaluation of effectiveness of current forex policies. Ensure recovery of forex cost increases from customers and market. Limit total operational forex losses below R20 million.	
8. Ensure sufficient management capacity and technical talent across the group to execute and integrate acquisitions, transfer technology and know-how, and execute strategy. Identify one Metair star and two back-up stars from the energy vertical.	

Performance **review** continued

2017 KEY PERFORMANCE INDICATORS	STRATEGY LEG
9. Adopt a progressive human capital and talent management program. Formalised mentoring, career management, succession and retention plan. Execute hybrid group HR development structure.	
10. Improve health, safety and environmental awareness and standards in the group, focus on continued product quality control and enhancement, as per the sustainability goals in the table below.	
11. Make further meaningful progress in terms of B-BBEE. Achieve group consolidated Level 4.	
12. Implement structured employee engagement and customer satisfaction surveys, where applicable. Establish base lines for these surveys.	

Performance against 2017 sustainability goals.

GOALS FOR 2017	PERFORMANCE IN 2017	GOALS FOR 2018	STRATEGY LEG
All companies to target achievement of ISO 50001# accreditation by the end of 2018	Five companies are ISO 50001 accredited at the end of 2017	All companies to target achievement of ISO 50001 accreditation by the end of 2018	
Zero fatalities and reduce LTIFR* to below 1.00	Zero fatalities and LTIFR reduced to 0.97. Hesto achieved 12 months with zero lost time injuries	Zero fatalities and reduce LTIFR* to below 1 across all companies	
Group absenteeism rate to average below 3% (excluding contractors)	Average employee absenteeism rate (excluding contractors) for 2017 was 3.0%	Group absenteeism rate to average below 3% across all companies (excluding contractors)	
Maintaining and improving our level 4 B-BBEE target going forward on the new codes	Achieved at a group level and most subsidiaries are at Level 4 or better	Maintaining and improving our level 4 B-BBEE target going forward on the new codes and target two companies to be on level 2	
Maintain group training spend at R15 million	Group training spend for 2017 was R27.3 million	Maintain group training spend at R20 million	
Continue involvement in offering of learnership programmes to 300 learners group wide	416 learnerships across the group	Continue involvement in offering of learnership programmes to 300 learners group wide	
1% of net profit spent on CSI projects	1.7% of net profit spent on CSI	1% of net profit spent on CSI projects	
Target 1% improvement on site specific production scrap percentages	Achieved at five of the 11 subsidiaries	Target 1% improvement on site specific production scrap percentages across all companies	
Energy storage businesses to improve yield at recycling facilities by 2% especially at lead recycling facilities	Achieved at FNB, not achieved at Rombat (+1.2%) or Mutlu Akü	Energy storage businesses to catch up the backlog to 2% and improve yield at recycling facilities by 2% especially at lead recycling facilities	
Target a 2% improvement in consumption of water per person hour worked	Group consumption of water per person hour worked increased 2.4% in 2017. 8 of 11 subsidiaries achieved this target	Target a 2% improvement in consumption of water per person hour worked across all companies	

* Lost-time injury frequency rate per 200 000 man-hours.

Energy management standard.

CASE STUDY

COMPETITION AND ANTI-TRUST INVESTIGATIONS ON THE RISE

Metair is committed to ethical business practices and all aspects of regulatory compliance. The heightened sensitivity of competition authorities towards the automotive industry has been felt in several of our operations. While no instances of anti-competitive behaviour or practices have been found in our operations, our Romanian operation, Rombat, underwent a dawn raid by the local Competition Authorities.

Competition regulations and their impact on business relationships are becoming increasingly complex. We are accordingly increasing our emphasis on compliance, particularly around competition issues, to ensure that all employees, and all new employees joining the group as it expands, are suitably trained to ensure ongoing compliance.

SOUTH AFRICA

One of Metair's Japanese technology partners, Yazaki, was implicated in collusive transgressions at an international level with Toyota and paid a fine to EU authorities in 2013. South African competition authorities are investigating whether this collusion had any impact on the local automotive market. Hesto partners with Yazaki and commissioned an external investigation into whether the locally awarded business could have been affected. The review found no evidence of local impacts. We are cooperating fully with the competition authorities and await their response.

Yazaki developed guidelines and training to prevent anti-competitive behaviour which we are adapting to the South African environment and then we will roll this out to Hesto and the rest of our operations.

TURKEY

Mutlu Akü is classified as a dominant player in the Turkish aftermarket and must apply to the local competition authorities to approve certain activities. The application process is currently underway. The company has produced a guideline to prevent anti-competitive behaviour, which has been extended to employees and compliance has been assessed through a mock dawn raid.

ROMANIA

An investigation by the Romanian competition authorities over the last two years found two problematic clauses in Rombat's pre-takeover dealership agreements that could potentially lead to anti-competitive practices since Rombat has more than 30% of the market. While no instances of anti-competitive behaviour were found at dealers or head office, Romanian competition law assesses the potential for collusion in the terms of agreements and contracts at a head office level. Romanian authorities have accordingly issued a fine with a discount if Rombat accepts liability.

Chief **Financial Officer's report**

"To enhance shareholder value in the shorter term, our capital allocation priorities are constantly re-evaluated."

SJOERD DOUWENGA – CFO

As such, and as long as the Metair share is under-valued relative to its peers, preference for share buy-backs, at the expense of dividend distributions, may well be considered. As such, a longer term structured share buy-back programme has been given much consideration.

HEPS increased to 22.6% to **281c** per share

RECOVERY AND STABILISATION of automotive component business

CONTINUED STRONG OPERATIONAL RESULTS from Mutlu Akü in Turkey, despite challenging operating environment

In pursuing the goal of generating financial returns, ethical businesses are required to respect the legitimate interests of stakeholders, including local communities and broader society and manage the organisation's impact on the natural environment responsibly.

This report expands on the financial position and performance of the group in 2017, and discusses the segmental results and other salient features. A discussion of the most material financial aspects affecting the group is provided in the Performance review section on page 46. The group value-added statement on page 56 details the value created and how this was distributed to stakeholders or reinvested during the year.

Group revenue increased 6.3% to R9 517 million in 2017 (2016: R8 954 million), with a commendable performance from Mutlu Akü in the energy storage vertical despite the strong ZAR impacting on foreign currency translation of foreign earnings.

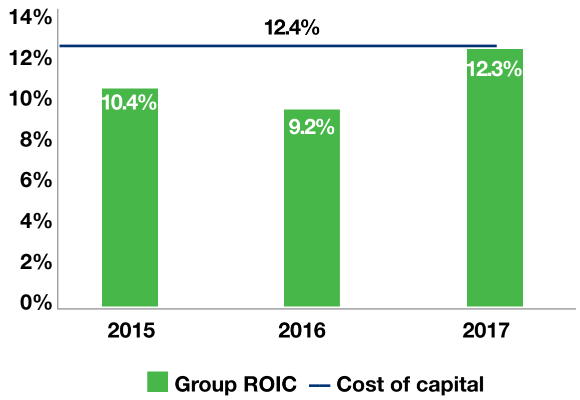
Group operating profit ('PBIT') improved to R848 million (2016: R731 million) at an operating margin of 8.9% (2016: 8.2%) as the automotive components business recovered strongly after the inefficiencies associated with a new model launch of our major customer in 2016. Mutlu Akü performed well and managed to offset most of the negative 25.2% currency translation impact through buoyant in country performance. In country, Mutlu Akü increased operating profit by 25% due to strong volume growth. Group EBITDA increased 18% to R1 216 million (R1 034 million) and the EBITDA margin improved to 12.8% (2016: 11.5%).

A strong recovery at Hesto, who achieved a R110 million PBIT improvement from a very difficult 2016, led to an increase in our share of results from associates to R103 million (2016: R30 million).

Group net debt decreased to R1 204 million (2016: R1 281 million) while net finance expenses increased to R175 million (2016: R155 million).

The 23% increase in headline earnings to R556 million (2016: R453 million) translated into a 23% increase in headline earnings per share to 281 cents per share (2016: 229 cents).

Return on Invested Capital (ROIC) vs Cost of Capital



Group return on invested capital ('ROIC') improved to 12.3% (2016: 9.2%), a 3.1% improvement on 2016. The 2016 ROIC reflected the impact of renewal in automotive components where major capital was invested in 2015 followed by a model launch year in 2016, as well as growth and acquisition capital invested in the energy storage business over the past two to three years.

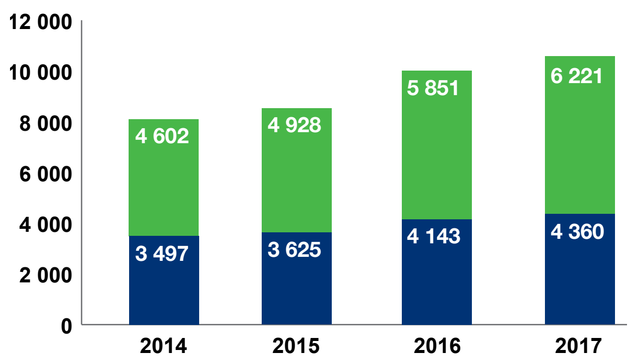
SEGMENTAL REVIEW

Note: The turnover and profit figures quoted in this section include the group's associate, Hesto, which aligns with the presentation in the segmental review on page 8.

Metair has two distinct business verticals – automotive components and energy storage – which supply customers in their local markets (South Africa, Romania and Turkey) and export to customers in other markets (mainly Europe, the Middle East, sub-Saharan Africa and Russia). All batteries, whether automotive batteries or industrial batteries, sold to OEs or aftermarket, are reported in the energy storage segment.

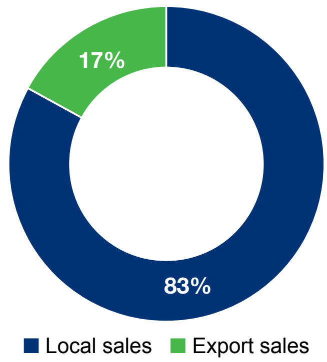
The energy storage segment contributed 59% to group turnover in 2017 and the automotive component segment 41% (2016: 41% automotive component and 59% energy storage).

Revenue* (R million)



* Includes Hesto.

Local and export sales 2017*



* Includes Hesto.

ENERGY STORAGE VERTICAL

Turnover increased by 6.3% to R6 221 million (2016: R5 851 million) due to automotive battery volume growth of 2.4% (192 000 units) and price increases, offset by a 25% and 9% strengthening of the rand against the Turkish Lira and the Romanian Lei respectively. Mutlu Akü again delivered record sales and production volumes, while margins started to recover at First National Battery after the 2016 impact of a highly competitive landscape in South Africa. Overall aftermarket and OEM volumes performed well, and exports to Russian and other CIS countries remained stable around the 400k units.

The energy storage business maintained its operating margin at 9.5%, despite higher commodity prices, a weaker Turkish Lira as well as a higher proportion of OEM volumes, delivering operating profit of R592 million (2016: R558 million). The ES business achieved 43.2% PBIT growth in local currency basis which assisted to offset the impact of the currency movements.

Sales of industrial batteries contributed R685 million to revenue (2016: R736 million), and although a decrease of 7%, achieved c. R18 million improvement in PBIT due to margin correction pricing actions implemented in the SA market.

Return on invested capital for the segment improved to 15.7% (2016: 14.1%).

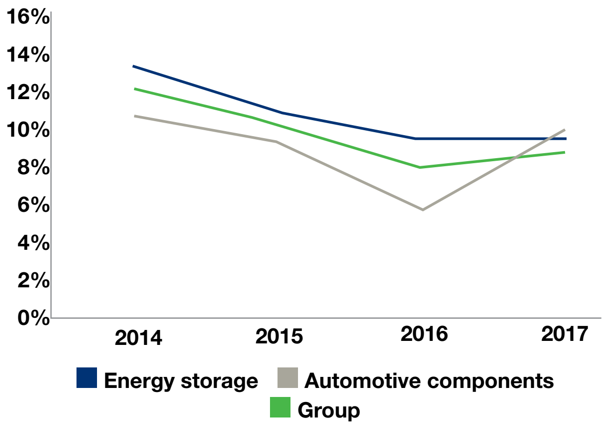
AUTOMOTIVE COMPONENTS

The automotive components contributed R4 360 million (2016: R4 143 million) to revenue, an increase of 5.2%. This increase was supported by the businesses returning to a steady state following the 2016 ramp-up to support a major model change.

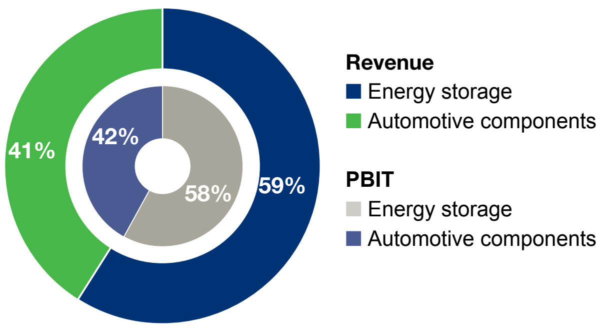
Operating profit increased to R 437 million (2016: R247 million) and the operating margin increased to 10% (2016: 6.0%) as the businesses achieved manufacturing and volume stability. Hesto's results recovered strongly, delivering R99 million PBIT, from a loss of R12 million in 2016.

Return on invested capital for the automotive component segment was 28.5% (2016: 16.1%).

PBIT margin



Revenue and PBIT contribution 2017



CURRENCY IMPACTS

The group has four international investments that do business in their local currencies – Mutlu Akü (Turkish Lira), Rombat (Romanian Lei), Dynamic (British Pound) and ABM (Kenyan Shilling). Mutlu Akü and Rombat make significant contributions to the group's results, delivering 46% of group revenue in 2017 and 52% of PBIT. Group results are therefore exposed to the effects of exchange rate movements between its reporting currency (South African Rand) and these major offshore subsidiaries.

Over the 12 months to 31 December 2017, the average Turkish Lira / Rand conversion weakened by 25%, and the year-end rate for 2017 was also 16% weaker than for 2016. Earnings of our foreign operations are translated into Rand at the average rate for the period and while Mutlu Akü reported a 25% increase in operating profit in Turkish Lira, this translated into a 6% decline when translated into Rand. The average Romanian Lei exchange rate for 2017 depreciated by 9% against the Rand, which eroded earnings reported by Rombat.

The net asset values of foreign subsidiaries are translated into Rand at the ruling exchange rate at year end for inclusion in the financial reports. The devaluation of foreign currency spot rates (mainly the Turkish Lira) resulted in foreign exchange translation losses of R441 million (2016: R1.1 billion loss) being recognised in other comprehensive losses in 2017. While a depreciating local currency reduces the investment's contribution to the group, it also creates opportunities as it improves the price competitivity of exports from that location.

Approximately 30% of Mutlu Akü's sales volumes are exported to aftermarket and OEM customers.

Both business verticals are affected by the impact of currency movements on imported raw materials and components. In the case of the energy storage vertical, these are mainly denominated in US Dollars and Euros, while the currencies most relevant of the automotive components vertical are the US Dollar, Euro and Japanese Yen. Foreign exchange movement recoveries on these input costs are achieved through various contractual arrangements.

Currency fluctuations also affect the energy storage business through their impact on sales and receivables in export markets. The group has a strict foreign exchange risk management policy in place and hedges foreign currency exposures on raw materials, components and capital equipment except where these exposures are offset by natural hedges.

FINANCIAL POSITION

Group net asset value per share remained consistent at 2 059 cents per share. Net working capital increased by R193 million mainly due to higher lead prices, increased OE stock holding ES and tooling projects for a local auto customer.

Cash generated from operations decreased to R905 million (2016: R1 033 million), representing a cash conversion ratio to EBITDA of 74%%. Cash and cash equivalents decreased to R597 million from R617 million in 2016, mainly impacted by the TL devaluation. Net debt (borrowings less cash and cash equivalents) decreased to R1.2 billion at year-end (2016: R1.3 billion) despite the acquisition of MOLL for €7.425 million during the year.

The group's net debt/equity ratio decreased to 29.5% (2016: 31%). Metair's capital structure remains relatively conservative and in compliance with all of our lenders' covenants. Net debt to EBITDA decreased to 0.99 times (2016: 1.2 times).

As at 31 December 2017, Metair had access to unutilised facilities of approximately R587 million (Rand equivalent), US$95 million and a revolving credit facility of R83 million. Note 14 in the financial statements provides detailed information on the group's borrowing facilities. The group has sufficient short-term borrowing facilities, including overdraft facilities, which are renewable annually. The group also secured an additional five-year revolving credit facility to the value of R525 million during January 2018.

The repayment of the first R840 million tranche of preference share funding raised for the Mutlu Akü acquisition fell due at the end of September 2017. In light of the satisfactory cash generation of the Group, as well as the relative ease of repatriating funds from Metair's foreign operations, Metair extended the maturity date of R280 million of the Maturing Preference Shares to September 2018 and has redeemed the R560 million in maturing preference shares, using a combination of available cash of R280 million and existing unutilised debt facilities. The remaining Preference Shares still in issue total R840 million, at a dividend rate of 69% of the ruling South African prime interest rate calculated on a nominal annual monthly compounded basis. The maturity

2018 capital expenditure

(R'000)	Maintenance and general	Efficiency and expansion efficiency	Health, safety and environment	Total
Automotive components	92 366	132 272	53 758	278 396
Energy storage	34 813	30 546	5 718	71 077
Total commitments	**127 179**	**162 818**	**59 476**	**349 473**

profile of the remaining Preference Shares require redemption of R560 million Preference Shares in September 2018 and R280 million Preference Shares in September 2019.

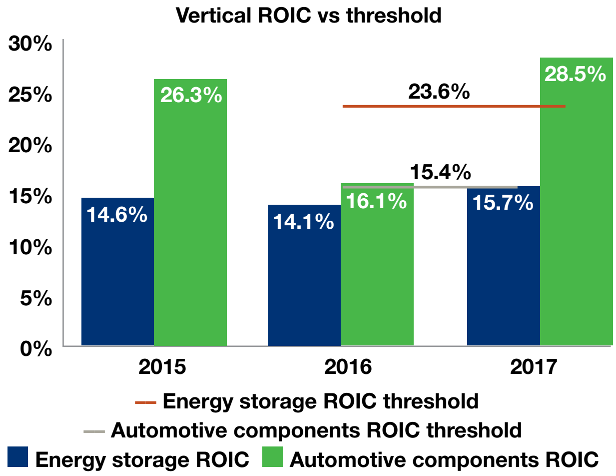
CAPITAL ALLOCATION

Metair's capital allocation is split into internal capital and external capital.

For internal capital allocations, Metair uses return on invested capital ('ROIC') as our primary financial return criteria for the allocation of capital into operating assets and acquisitions, supplemented by return on assets and internal rate of return. ROIC targets and investment thresholds have been established for the group as well as each individual business unit. Capital allocated, with the exception of key strategic spend, is required to be able to meet or exceed its cost of capital within three years of the investment being made. It is Metair's obligation as the holding company, to source, allocate and control capital to achieve this objective.

The long-term return thresholds for the group are as follows:

Metair WACC	Energy storage ROIC threshold	Automotive components ROIC threshold
12.4%	15.5%	23.6%



Capital investments were significant from 2014 to 2016 for both the energy storage and the automotive component verticals and we continue to target our long-term return thresholds and efficiency gains. In 2017 we aimed to limit overall investment to the most meaningful projects with the highest probability of success to support the group's required return on invested capital.

Metair's capital expenditure policy also includes a focus on cash flow management, in particular free cash flow generation, to support our ability to pay down our future debt repayment obligations, without constricting growth capital.

Total capital expenditure (including intangible assets) for 2017 was R220 million (2016: R373 million), with R78 million allocated to maintenance, R129 million to expansion capex and R13 million allocated to health and safety, improving the group's competitive position and efficiency.

Capital expenditure for 2018 will be limited to focus on upgrading structural health and safety requirements and investing in initiatives to improve efficiency and expansion.

External capital allocation refers to the utilisation of profits and cash flow in excess on internal operating capital requirements. Here we consider our priorities in returning capital to funders of debt and equity. Historically, our primary objectives were to reduce debt and pay dividends. But with the board and shareholder requirements to enhance shareholder value in the shorter term as well, our priorities are constantly re-evaluated. As such, and as long as the Metair share is under-valued relative to its peers, preference for share buy-backs, at the expense of dividend distributions, may well be considered. As such, a longer term structured share buy-back program has been given much consideration.

INTANGIBLE ASSETS

Intangible assets reported on Metair's balance sheet primarily relate to goodwill, trademarks, licences, brands, customer relationships, capitalised development costs and software. Intangible assets decreased to R835 million in 2017 (2016: R1.0 billion) mainly due to the foreign exchange translation effects of Mutlu Akü.

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

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

During 2017, the group expensed R14.6 million in research and capitalised R24 million of development costs. Development costs capitalised relate to various new product and technology development projects at Mutlu/MIB.

ACQUISITIONS AND INVESTMENTS

In July 2017, Metair invested €7.425 million (R114 million) in a 25.1% shareholding in Akkumulatorenfabrik MOLL GMBH (MOLL Opco). The acquisition gives Metair direct access into the German market and also provides access to the Chinese market through MOLL's interest of a 5% shareholding in Chaowei's Greenfields automotive production facility.

DIVIDEND

A cash dividend of 80 cents per ordinary share (2016: 70 cents per share) has been declared, which represents a three times dividend cover, in line with our dividend policy of between two and four times cover.

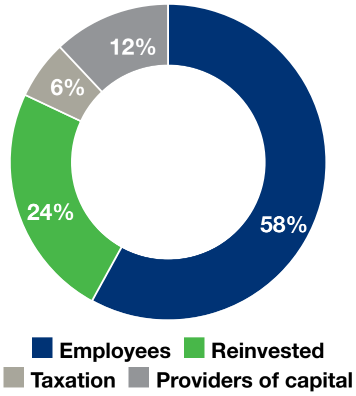
S Douwenga
Finance director

Value-added **statement**

The value-added statement quantifies the value created by the activities of a company and its employees, and describes how this is distributed to stakeholders or reinvested in the business.

In 2017, Metair created wealth of R2 962 million and 58% was distributed to employees in the form of remuneration and benefits, 6% was distributed to government as taxes and 12% to providers of capital. R715 million was retained in the group, of which R449 million was allocated to future expansion.

Distribution of value added %



	% 2017	% 2016	GROUP 2017 R'000	GROUP 2016 R'000
WEALTH CREATED				
Revenue			**9 516 657**	8 953 710
Less: Net cost of products and services			**(6 684 041)**	(6 273 216)
Value added			**2 832 616**	2 680 494
Add: Income from investments			**129 168**	62 961
Wealth created			**2 961 784**	2 743 455
WEALTH DISTRIBUTION	**%**	%		
	2017	2016		
Employees				
Salaries, wages and other benefits (note 1)	**58**	61	**1 719 324**	1 676 133
Providers of capital	**12**	12	**339 457**	326 939
Interest on borrowings	**7**	7	**200 867**	187 905
Dividends to shareholders	**5**	5	**138 590**	139 034
Government taxation (note 3)	**6**	5	**188 242**	138 434
Retained in the group	**24**	22	**714 761**	601 949
To provide for the maintenance of capital	**9**	10	**265 779**	272 925
To provide for expansion	**15**	12	**448 982**	329 024
	100	100	**2 961 784**	2 743 455
1) Salaries, wages and other benefits			**1 719 324**	1 676 133
Wages and salaries			**1 487 098**	1 442 363
Share based payment expenses			**18 199**	18 135
Termination benefits			**1 269**	2 958
Social security costs			**129 149**	131 889
Pension costs – defined contribution plans			**74 438**	66 860
Defined benefit plans			**3 420**	3 042
Post-employment medical benefits			**5 751**	10 886
2) Value added ratios				
Total number of employees at year-end			**5 968**	5 955
Hourly			**3 783**	3 795
Monthly			**2 185**	2 160
Revenue per employee			**1 595**	1 504
Value added per employee			**475**	450
Wealth created per employee			**496**	461
3) Monetary exchanges with governments				
Total income tax			**188 242**	138 434
South Africa			**125 535**	84 577
The Netherlands			**11 769**	
Romania			**13 893**	13 549
Turkey			**37 045**	40 308

Sustainability

OUR APPROACH TO SUSTAINABILITY

Metair's business is built on strong foundations that start with our core values and principles. These provide security in an increasingly changeable operating environment and out of them our mission and values arise. Our products and services are the tangible outputs of our business activities and our ethical and social responsibilities guide our day-to-day actions to ensure that we live our values.

The health of our business is supported by the four pillars of:

- Entrepreneurship, which is driven by our strategy.
- The efforts of our workforce, which represent the human capital in the group.
- The financial capital used in and generated by our activities.
- Our physical environment – land and what is on it, in it and above it.

Our approach to sustainability is founded on our commitment to custodianship and ethical business practices. This challenges us to balance the need to generate financial returns with the obligation to remain responsible custodians of the natural environment and communities around us, and to create value for our stakeholders.

The theme of this year's report – Environmental Focus and Effect – and the cover image emphasise the importance of sustainability concepts to the future of Metair and its subsidiaries. The increasing global focus on climate change and other environmental concerns has had a particularly strong impact on the automotive industry through heightened expectations of global OEMs to demonstrate their sustainability credentials. The emphasis on responsible business practices carries through to companies such as Metair that participate in the global automotive supply chain. With trends such as Green Manufacturing and Industry 4.0 gathering pace, the ability to demonstrate ethical and sustainable business practices becomes a key competitive advantage when tendering for new business.

We take a precautionary approach when considering our impacts on the environment and the communities around us. Sustainability principles are designed into the way we do business and are integrated into our strategy and operational activities. Sustainable practices demonstrate the health of our business and play a key role in supporting the resilience and longevity of the organisation.

Social, ethics and sustainability risks are taken into account in our risk processes in recognition of the fact that sustainability issues, if not effectively managed, ultimately manifest in financial consequences. At the same time, as Metair's expansion into environmentally friendly technologies

Sustainability continued

demonstrates, sustainability trends also create opportunities for new business lines.

HOW WE MANAGE SUSTAINABILITY

The board holds ultimate responsibility for sustainability and has tasked the social and ethics committee with managing and monitoring sustainability in the company. Metair's approach to integrating sustainability into our strategy and operations is defined and guided by our social and ethics framework.

Operations manage sustainability according to group policies and principles and report their performance to the group social and ethics committee every quarter. The non-financial sustainability information disclosed in this report was externally assured, including site visits to various operations and an assessment of data collection techniques and controls. The report of the external assurance provider is available on page 110 of this report.

Our sustainability initiatives have been developed using the guidance of local and international legislation and frameworks including:

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

Continuous improvement in sustainability management reporting across the group is supported by the annual reporting cycle, external assurance and an annual sustainability conference. We remain focused on refining and enhancing our sustainability data policies, procedures, systems and controls to improve data collection, collation and reporting at group and operational levels. During the year we continued the roll out of our group-wide sustainability data management system that will further improve the quality and consistency of reported ESG data. The benefits of integrated thinking and reporting of ESG benchmark metrics across the group are evident in increased understanding of the most important sustainability focal points, competition between operations to improve ESG performance and the investigation of new technologies to reduce environmental impact.

During 2017, Metair instituted a 'yellow card' system, where quarterly ESG performance is assessed against targets set by the social and ethics committee and underperformance is highlighted by the issue of a yellow card. Companies submit action plans detailing how they plan to address the underperformance and the yellow card can only be returned when the issue has been rectified.

The 2017 targets set for the energy storage vertical related to warranty rates and new cases of blood lead detected. The targets for the automotive component vertical measured LTIFR performance and quality rejection rates. Rombat received two yellow cards and Mutlu Akü received one card in the energy storage vertical, and Supreme Springs, Unitrade and Automould each received one card in the automotive component vertical. These cards were issued in June 2017. From 2018, the yellow card assessment will take place every quarter.

The long-term incentive structure for senior executives includes penalty clauses linked to ESG performance in health and safety, preferential procurement and transformation.

Human **capital**

HUMAN CAPITAL AT A GLANCE	
Key features	**2017 performance**
• Headcount 9 103 (+5%) • 9 601 person days lost to strikes • Absenteeism 3.0% ✔ • Normalised staff turnover 11.5% ✘ • 102 bursars supported • Improved B-BBEE performance at most subsidiaries	• Zero fatalities ✔ • LTIFR 0.97 ✔ • Training spend R27.3m ✔ • 416 learnerships ✔ • B-BBEE Level 4 ✔
Key: ✔ 2017 target achieved ✘ 2017 target not achieved	

The human capital represented by the employees and management of Metair play a key role in the success of the business. Meeting the stringent quality standards of our customers and ensuring cost-efficient manufacturing requires high levels of skill, manufacturing experience and commitment. Our commitment to demonstrating exemplary custodianship requires us to put in place procedures to support safe working conditions, provide the facilities to support employees to manage their health and wellness, and promote transformation and gender equality.

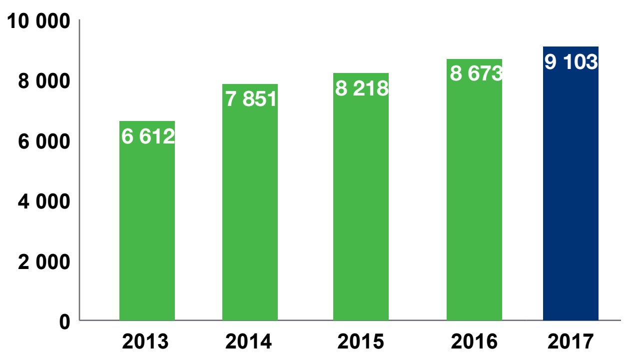
Human capital is managed at the operations by the human resources function. Transformation is a key HR consideration and is monitored by the employment equity and transformation committees, which report to the board.

In 2018, we will focus on developing HR capacity in the group and rolling out a progressive human capital and talent management programme to address career management, mentoring, succession and retention planning.

Our human capital policies and practices aim to ensure that we attract, develop and retain the skills we need to execute our strategy, while building the skills and experience of the next generation of leaders and experts.

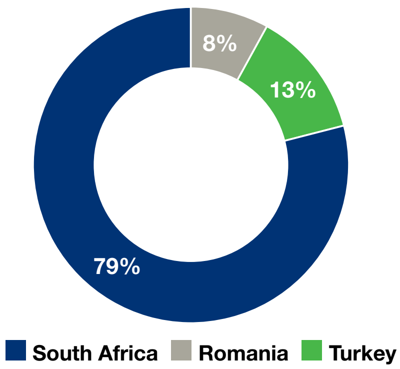
Note that the headcount figures reported in this section include Hesto employees as Metair is responsible for the day-to-day management of this associate. Since Hesto is not a subsidiary in terms of IFRS 10, employees are excluded from the headcount figures reported in the value added statement on page 56.

Staff complement (including Hesto)

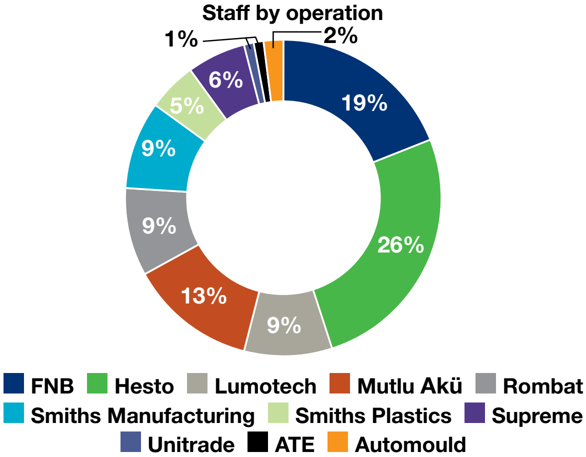


Total staff complement (including contractors) increased 5.0% to 9 103, with half of the increase due to contractors working on a factory extension at Lumotech. At year end, 79% of the workforce was employed in our South African operations, 13% in Turkey, 8% in Romania and 0.1% in the UK. Contractors comprised 9.5% of the total staff complement in 2017 (2016: 6%). Note that employment numbers vary during the year due to the impact of model changes, seasonal volume adjustments and strikes.

Staff by region



Staff by operation



Hesto employs 26% of the group workforce, while the three battery manufacturers – First National Battery, Mutlu Akü and Rombat – together employ 41%. Historically Disadvantaged South Africans (HDSA) represent 90% of the South African workforce (2016: 91%) and women comprise 32% of the total group workforce (2016: 33%).

LABOUR RELATIONS

Metair respects the rights of our employees to freedom of association and we aim to maintain constructive relationships with unions. Union engagements are formalised through recognition agreements and take place at national, provincial and company level. Most South African operations fall under Chapter III of the motor industry bargaining council, but First National Battery is covered at plant level. At year-end, 70% of employees across the group belonged to a union (2016: 73%).

A total of 9 601 person days were lost to industrial action during 2017 (2016: 4 287) with almost all of those lost in a three-week strike at Mutlu Akü. The strike ended with the

Human **capital** continued

signing of a two-year wage agreement at the end of June 2017. Minimum notice periods regarding operational changes range from 24 hours to four weeks, with most subsidiaries having two- to four-week notice periods. Notice periods and provisions for consultation and negotiation are specified in collective agreements at most subsidiaries.

Unplanned work stoppages due to labour disruptions destabilise production, undermine the company's cost competitiveness and damage the company's and country's reputation as a reliable supplier in the eyes of our multinational customers.

There were 99 retrenchments in the group during 2017 (2016: 57). 27 of the retrenchments related to the closure of the three General Motors lines at Hesto on the announcement by General Motors South Africa that it would cease manufacture by the end of 2017. On its exit, General Motors agreed to pay out retrenchment packages to affected employees of their suppliers. Across the rest of the group, ten employees took voluntary severance packages.

Companies in the group do not currently provide transition assistance programmes to facilitate continued employability and assist the management of career endings. Employee assistance programmes at certain subsidiaries provide counselling to employees and appoint financial consultants to offer investment advice on withdrawal of retirement benefits.

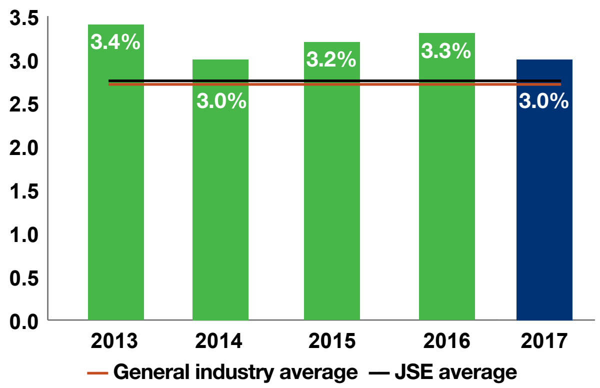
ATTRACTION, RETENTION AND DEVELOPMENT

We aim to be the employer of choice in our industry to attract and retain talented employees with the scarce technical and engineering skills we require. Our employee value proposition includes competitive remuneration packages, quality training programmes and practical learning opportunities. Where employees show the necessary commitment and potential, they may benefit from career opportunities and broader experience across the group and in our international operations.

Succession planning, talent identification and talent development continues to be a focus and succession planning assessments were done for all MDs and FDs in the group during 2017.

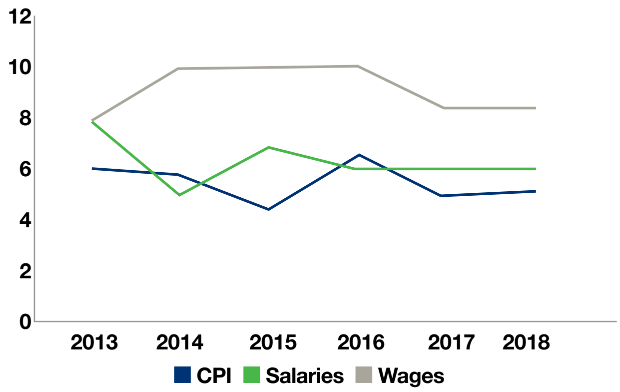
Permanent staff turnover averaged 22.7% in 2017 (2016: 26%) with the majority of terminations relating to employees reaching the end of their contract term. Excluding these terminations, staff turnover averaged 11.5% (2016: 8.4%).

Absenteeism



Absenteeism declined marginally to 3.0% (2016: 3.3%), in line with our target rate of 3.0%. Absenteeism is at or below target for all operations apart from Dynamic, Mutlu Akü and Rombat.

Annual increase %



Metair understands the need to ensure workers receive fair and competitive remuneration and conducts an annual industry benchmarking exercise to keep in line with global market trends. More detail on this exercise and comparisons between pay at various levels in the company is available on page 100. For the last decade the percentage annual increase in hourly wages has exceeded the increase in salaried pay to help to narrow the pay gap between salaried employees and wage earners.

SKILLS DEVELOPMENT

Total spend on skills development programmes decreased to R13.9 million in 2017 (2016: R14.6 million) and to R27.3 million in total for training, which represents 4.6% of net profit after tax (2016: 6.6%). Training spend per permanent employee decreased to R3 308 from R4 399 in 2016. A total of 15 288 training interventions were held during the year, including both internal and external training interventions, and 89% of training spend was directed to HDSA candidates in 2017.

Promising candidates can access a range of practical learning programmes at Metair to develop a skills pipeline for future potential employment. These include learnership programmes, apprenticeship programmes, candidate technician internships, candidate engineers' programmes and graduate-in-training programmes. Hesto runs an accelerated artisan training programme in collaboration with the Department of Labour and the Manufacturing, Engineering and Related Services SETA (MERSETA), and its training school is accredited with MERSETA. Various operations also run adult education and training (AET) courses and Lumotech provides for permanent employees to further their studies at a recognised college or university.

227 learners participated in non-artisan learnerships in the group in 2017 (2016: 87) and there were 189 new recruits to artisan apprenticeship programmes. The group also invested R2.3 million to support 102 promising bursary students studying in engineering, finance and technical fields (2016: 142).

HEALTH AND SAFETY

Health and safety is managed according to the group safety, health and environmental (SHE) policy, which is available on our website at www.metair.co.za. Our health and safety policies align with the relevant legal frameworks, including the Occupational Health and Safety Act.

Operational health and safety is managed according to subsidiary SHE policies that align with the group policy.

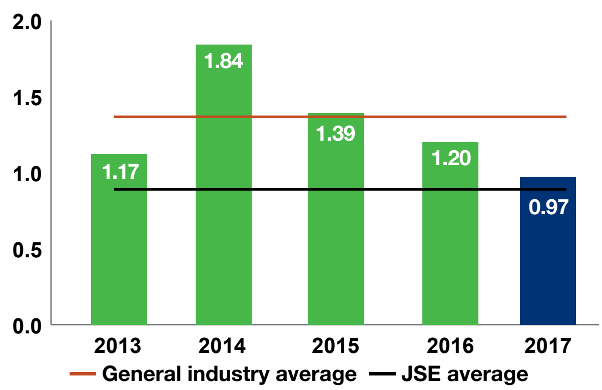
We monitor health and safety in line with our ESG targets. Incidents and near-misses are monitored and benchmark lost-time injury frequency rates (LTIFR) are set against which each subsidiary is measured. Lost-time injuries are those workplace injuries that cause an employee to be deemed unfit to return to work the next day. Our target is zero fatalities, disabling injuries and lost-time incidents.

Nine of our operations are accredited in terms of OHSAS 18001, the international health and safety standard. Accreditation was deferred for Automould as it is in the process of being integrated into Smiths Plastics. Lumotech and Smiths Plastic have opted to seek accreditation under ISO 45001, the new occupational health and safety management standard that will replace OHSAS 18001.

There were no fatalities in the group in 2017 and our continued focus on safety saw lost-time injuries reduce to 86 (2016: 109). The lost-time injury frequency rate (LTIFR) improved to 0.97 per 200 000 person hours (2016: 1.20) and Hesto, our largest operation by number of employees, achieved zero lost-time injuries over the year. While we are pleased with the improvement in our LTIFR, we recognise that safety requires constant focus and we need to continue this improvement. Common workplace injuries in the group operations include cuts, bruises, back and muscle strains and burns.

While most operations are already below 2017's 1.0 LTIFR target, FNB and Mutlu Akü are both above the target and have implemented various initiatives to improve safety performance, including hazard identification and risk assessment training, near miss reporting and SHE representative training.

LTIFR per 200 000 person hours



HAZARDOUS SUBSTANCES

Certain potentially dangerous substances are used in our manufacturing processes. Standard health and safety procedures are applied around each such substance that comply with both local country regulations and the standards governing our OE customers in other jurisdictions.

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

Employee blood lead levels are tested when they join companies where they might be exposed to lead to establish a baseline. Regular re-testing measures ongoing exposure. If blood lead levels increase above benchmark levels, employees are given counselling in the clinic and are removed from areas where there is a chance of further exposure until their blood lead levels return to within the acceptable limits.

HIV/AIDS

Metair's major South African operations offer voluntary counselling and testing (VCT) for employees and contractors at company clinics. During 2017, 408 employees and contractors received counselling for HIV/Aids (2016: 501) and 809 were tested (2016: 902). HIV/Aids prevalence rates at our South African operations remain around 3%.

Nutritional supplementation and vitamins for HIV positive employees are provided at several operations. Awareness-raising activities include competitions, promotions, banners, speeches on wellness days and World Aids Awareness Day activities. Where patients require ARVs, they are referred to government clinics where they can access these. Employees participating in the group's medical aid programmes have access Aids management programmes.

HUMAN RIGHTS

Metair subscribes to the ten principles of the United Nations Global Compact, which include provisions relating to human rights, the rights of labour and a commitment to working against corruption. Incidents of discrimination within the company are taken extremely seriously and are subject to the normal disciplinary procedures, which include dismissal.

We respect the rights of our employees and those of our suppliers to freedom of association. We support the elimination of child labour, forced and compulsory labour and select our suppliers carefully to ensure that they share these ideals.

We apply the same principles to our international operations to ensure that the rights of employees are protected at all our operations.

TRANSFORMATION

Metair is committed to the principles of transformation and appreciates the benefits of a diverse workforce. In South Africa, a strong B-BBEE performance is a potential competitive advantage

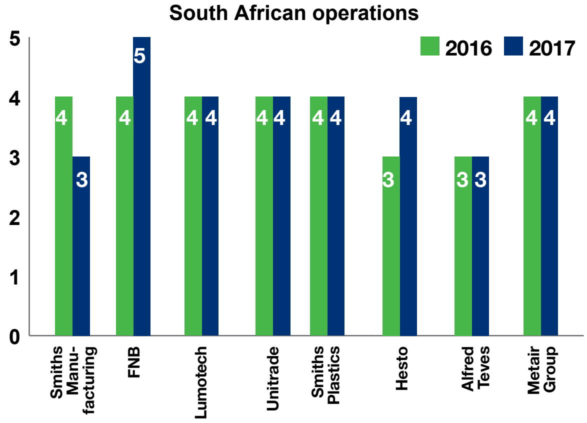
Human **capital** continued

when bidding for new business. It also ensures relevance with suppliers, government and communities. The main diversity focus at Mutlu Akü and Rombat is on improving gender representation.

Metair's group transformation policy and equal opportunity policy drive transformation in the group, which is monitored and managed by the employment equity and transformation committees. Progress is measured using the Department of Trade and Industry B-BBEE Codes of Good Practice (dti CoGP). Progress on achieving the group's B-BBEE targets is included in the calculation of executive variable remuneration.

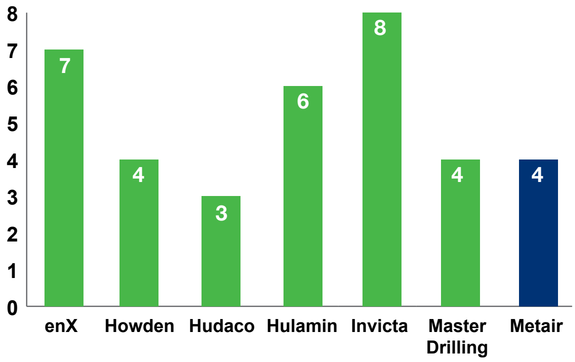
In 2017, the Metair group was externally assessed on a consolidated basis for the first time, achieving level 4 B-BBEE status. Apart from First National Battery, all South African operations are at level 4, with three operations at level 3.

Latest reported B-BBEE status level – South African operations



Metair's B-BBEE performance compares favourably with that of manufacturing industry peers. Metair's externally verified B-BBEE certificate is available on the company website at www.metair.co.za.

Latest reported B-BBEE status level – peer comparison



The biggest opportunity for improvement in the score lies in the management control and enterprise and supplier development categories. Our talent management and succession planning programmes prioritise identifying and developing candidates to improve representation in the subsidiary companies. Enterprise and supplier development is another priority area, focusing on developing raw material suppliers, suppliers of consumables, services and consultancy services. Preferential procurement targets are included in senior executive incentive calculations.

Element	Target	Score 2016	Score 2017	Sub minimum achieved
Ownership	25	22,23	**22,23**	✔
Management control	19	8,48	**8,47**	✔
Skills development	25	19,42	**17,53**	✔
Enterprise and supplier development	44	30,55	**35,75**	✔
Socio-economic development	5	5,00	**5,00**	✔
Overall score	118	85,68	**88,98**	

OWNERSHIP

Metair's original empowerment shareholder partner – Royal Bafokeng Holdings (RBH) – disposed of their remaining shareholdings in Metair during 2015. This shareholding is still recognised in the current ownership calculation using the sale/loss of share principle. The group continues to assess suitable long-term empowerment partners.

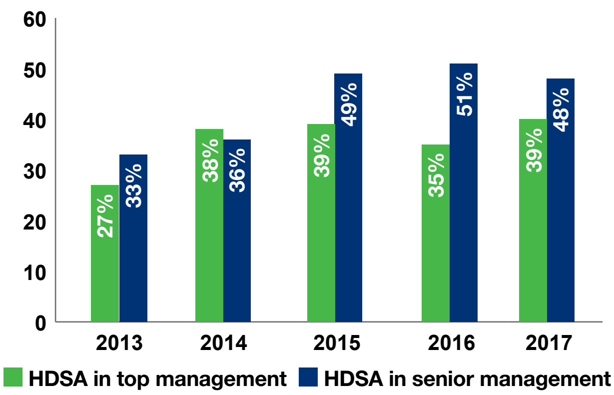
MANAGEMENT CONTROL

Transformation in the workforce of South African operations is driven by five-year employment equity plans and supported by accelerated skills development programmes and learnerships. Internal and external training programmes aim to develop the required skills in the necessary demographic groups to achieve plan targets.

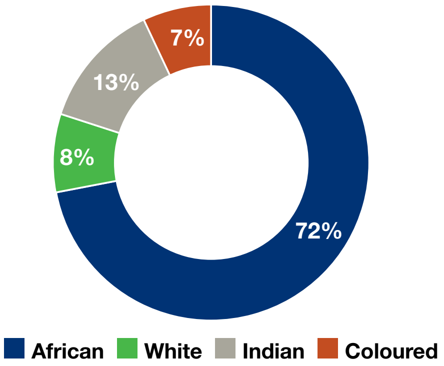
Responsibility for monitoring and measuring transformation in the workforce was moved to the remuneration committee of the board during 2017. Annual employment equity reports are submitted in accordance with the Employment Equity Act. A group transformation masterplan is currently being developed to measure transformation against national demographics.

Historically disadvantaged South Africans (HDSAs) comprised 90% of the total permanent workforce (excluding Mutlu Akü, Rombat and Dynamic) at the end of 2017. HDSAs in top management increased to 39% in 2017 (2016: 35%) and HDSAs in senior management reduced to 48% (2016: 51%).

HDSA in workforce (SA operations only)



Staff composition (SA only)



SKILLS DEVELOPMENT

Metair makes a substantial investment in skills development to develop and sustain the technical skills to support manufacturing excellence in our operations. 89% of employee training spend was directed to HDSA candidates in 2017. The group's skills development initiatives and metrics are discussed in more detail on page 60.

SOCIO-ECONOMIC DEVELOPMENT

Metair's investment in socio-economic development/corporate social investment projects in 2016 was R10.1 million (2016: R13.5 million). Corporate social investment initiatives and performance are discussed in greater detail on page 68.

ENTERPRISE AND SUPPLIER DEVELOPMENT

The preferential procurement initiatives in place at Metair's South African operations support the development of black-owned businesses. Operations have specific enterprise development projects in place and supplier development initiatives include financial assistance and early payment of invoices to improve cash flow in these small businesses.

Total group preferential procurement spend was R886 million in 2017 in the South African operations (2016: R1 733 million), which represents 39.7% of total discretionary procurement spend. Procurement workshops were held during 2017 to improve preferential procurement and a draft group procurement policy is being drawn up. Refer to enterprise development in the automotive supply chain in the box on the right.

PROGRESS AGAINST 2017 HUMAN CAPITAL TARGETS

- Zero fatalities and reduce LTIFR to 1.0 or below.
  Achieved. Zero fatalities and LTIFR reduced to 0.97 per 200 000 man-hours.
- Absenteeism and staff attrition rate for the group should average below 3.0% (excluding contractors).
  In progress. Absenteeism averaged 3.0% for the year.
- Maintain group training spend at a minimum of R15 million.
  Achieved. Group training spend was R27.3 million.
- Continue involvement in offering of learnership programs to 300 learners group wide.
  Achieved. 416 learnerships across the group.
- Maintain and improve our level 4 B-BBEE target going forward on the new codes.
  Achieved. Metair was assessed at consolidated level 4 B-BBEE status.

2018 HUMAN CAPITAL TARGETS

- Zero fatalities and reduce LTIFR to 1.0 or below across all companies.
- Absenteeism and staff attrition rate for the group to average below 3.0% (excluding contractors) across all companies.
- Maintain group training spend at a minimum of R20 million.
- Continue involvement in offering of learnership programmes to 300 learners group wide.
- Maintain and improve our level 4 B-BBEE target going forward on the new codes and target two companies to achieve level 2.

ENTERPRISE DEVELOPMENT IN THE AUTOMOTIVE SUPPLY CHAIN

Metair supports the initiatives driven by the component industry representative body, the National Association of Automotive Component and Allied Manufacturers (NAACAM). These focus on improving members' B-BBEE transformation, establishing a programme for black supplier development, continued support of the automotive supply chain competitiveness initiative (ASCCI) and development of the APDP policy post 2020.

NAACAM has appointed Engeli to assist interested member companies to participate in NAACAM's preferred ownership model which will assist suppliers to improve their B-BBEE scorecards and ratings. Engeli is a 51% black owned and 51% black women owned business focusing on supplier development (transformation and localisation), business incubation and skills development.

Metair is engaging NAACAM on methods of developing a new black supplier base outside of activities already in progress at the various Metair subsidiary companies. We also contributed in comments on the APDP master plan which will shape the South African motor industry up until 2035.

Metair is represented on NAACAM's National Executive Committee by non-executive director, Portia Derby and Supreme Spring managing director, Mark Barley. Metair supported the inaugural NAACAM show in Durban in April 2017 as an exhibitor and our CEO was a guest speaker on the future potential of Africa's various markets and how Metair has established a footprint through ABM in Kenya.

The natural **environment**

ENVIRONMENT AT A GLANCE	
Features	**2017 performance**
• Carbon footprint 638 192 tCO_2e (+8.9%) • Electricity consumption 201 381 MWh (+5%) • Water consumption 621 330m³ (-0.1%) • 72% of non-hazardous waste recycled • ±67 000 tonnes of lead recycled	• ISO 50001 accreditation in process • five of 11 subsidiaries improved scrap by 1% or more ✘ • one of three battery operations improved recycling yield by 2% or more ✘ • 2.4% increase in water consumption per PHW ✘ • 8% increase in electricity consumption per PHW ✘ • Scope 1 and 2 carbon emissions per PHW of 10.3 kgs CO_2e/PHW ✘
PHW – Person hour worked *Key:* ✔ *2017 target achieved*	✘ *2017 target not achieved*

Metair's core social and ethical values drive our responsible approach to managing our impact on the natural environment. The current group theme of Environmental Focus and Effects reflects the increased emphasis on understanding all of our environmental impacts and how this positions Metair to participate in the green shoots of new environmentally friendly technologies.

Managing our environmental footprint responsibly demonstrates our commitment to custodianship, increases opportunities for the company and builds social and relationship capital with customers, communities and regulators. Conversely, failing to take the necessary steps to manage our impact on the world around us risks reputational damage, fines and the loss of our social licence to operate.

Manufacturing excellence includes a focus on optimising the efficient use of scarce natural resources, minimising waste and maximising recycling, particularly the use of recycled lead which ensures that lead is managed responsibly throughout the battery lifecycle.

The social and ethics committee has been mandated by the board to monitor and report on environmental issues. The chief executive officer is a member of the social and ethics committee. Environmental issues are managed at the operations by the safety, health and environment (SHE) departments.

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

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

Formal measurable and auditable systems allow objective measurement of performance against world class standards and Metair expects its operations to implement the highest environmental standards. All subsidiaries are accredited under ISO 14001 (environmental management) and are in the process of implementing ISO 50001 (energy management).

CLIMATE CHANGE

Our commitment to environmentally responsible practices includes a commitment to making a positive contribution to addressing the challenges posed by climate change. Stringent motor vehicle emission regulations to reduce greenhouse gas emissions from transportation have a direct bearing on the automotive industry, our OE customers and the vehicles they produce.

The Start/Stop batteries manufactured by our energy storage vertical play an important role in the short-term to reduce automotive emissions. We are currently working closely with various OEMs, universities and other stakeholders to develop the next generation of automotive energy storage technology, including lithium-ion systems, in anticipation of the ramp up of electric vehicle production. We also manufacture energy storage solutions for alternative power solutions including solar energy.

At the same time, the manufacture of these energy storage solutions is energy intensive, uses substantial quantities of water and the lead in lead-acid batteries can have a significant environmental and social impact if not managed responsibly.

2017 saw the paradox of severe drought in parts of the country combined with extreme storms in KwaZulu-Natal that flooded customer facilities, damaged port infrastructure and affected the import of our raw materials and the export of customer products. These events highlight the potential direct impacts of climate change on our business, which include the effect of extreme weather events on distribution chains, increased risk of tooling for new projects being lost while shipped due to severe storms and increased energy costs in cooling manufacturing processes.

CARBON TAX

Implementation of South Africa's carbon tax was deferred from 2017 to 2019. The threshold emission levels in the current draft legislation will not impact Metair's production facilities, but raw material suppliers may be impacted and may seek to pass through the carbon tax to customers, and ultimately the consumer. Based on the draft legislation, we do not anticipate these pass-through cost increases to be material for the group.

Metair supports initiatives that reduce carbon emissions and encourage responsible use of natural resources. It is, however, critical that these are implemented responsibly to avoid further eroding South Africa's manufacturing cost competitiveness.

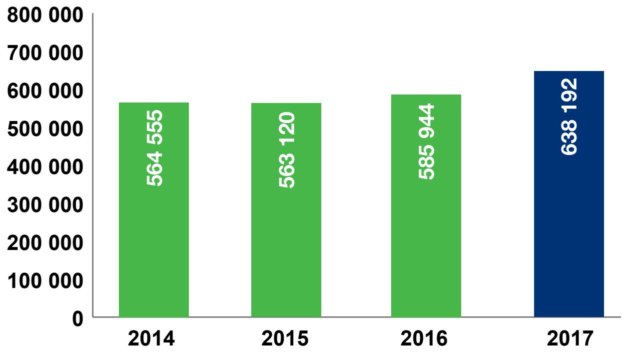
CARBON FOOTPRINT

Metair's total carbon footprint increased 8.9% to 638 192 tCO_2e in 2017 (2016: 585 944 tCO_2e). While Scope 1 (direct emissions) and Scope 2 (indirect emissions from electricity) emissions decreased, Scope 3 emissions increased 14.4% as a result of increased lead use at Mutlu Akü. Emissions embedded in raw materials accounted for 66.4% of the group's total carbon footprint and electricity for 21.6%.

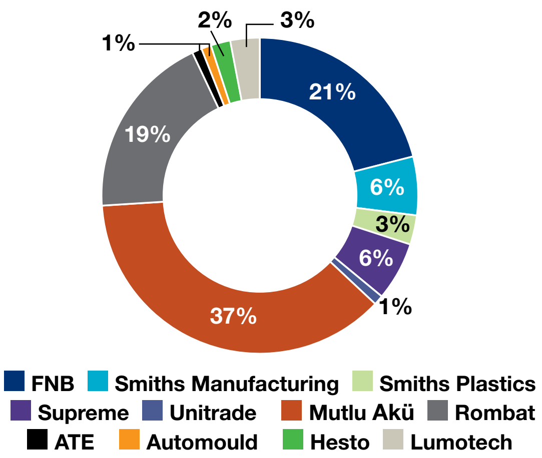
	2017[2]	2016	2015
Scope 1 (direct emissions)	**44 603**	46 468	46 353
Scope 2 (indirect emissions from electricity)	**138 134**	141 376	146 046
Scope 3	**455 455**	398 100	370 722
Total	**638 192**	**585 944**	**563 120**

[2] The carbon footprint was calculated using the GHG Accounting Protocol (WRI, WBCSD) as a guideline, and the equity share approach to consolidate carbon emissions. The relevant DEFRA emissions factors were used for the 2017, 2016 and 2015 emissions calculations. For 2017, the grid emission factor of 0.98 kg/CO_2e per kWh was used (Eskom 2017). The calculation included CO_2, CH_4 and N_2O. Refrigerant gases included hydrofluorocarbons (HFCs) and hydrochlorofluorocarbons (HCFCs R22).

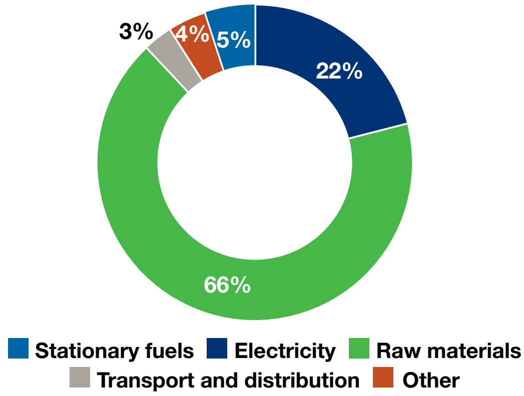
Total carbon emissions (tCO2e)



2017 Carbon footprint by operation



2017 Carbon footprint by source



Battery manufacture uses carbon dense materials and is an energy intensive process and the three battery manufacturing operations – First National Battery, Rombat and Mutlu Akü – combined contribute 77% of the group's carbon footprint.

Given that 93% of the group's carbon footprint is attributable to the consumption of raw materials, stationary fuels and electricity, our initiatives to optimise manufacturing efficiencies (including energy use) are also the most effective means for reducing our carbon footprint.

Scope one and two emissions per person hour worked remained broadly flat on 2017, decreasing by 0.3% year on year.

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

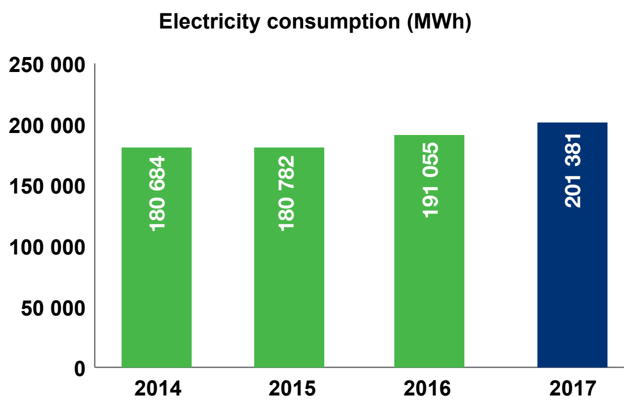
ENERGY CONSUMPTION

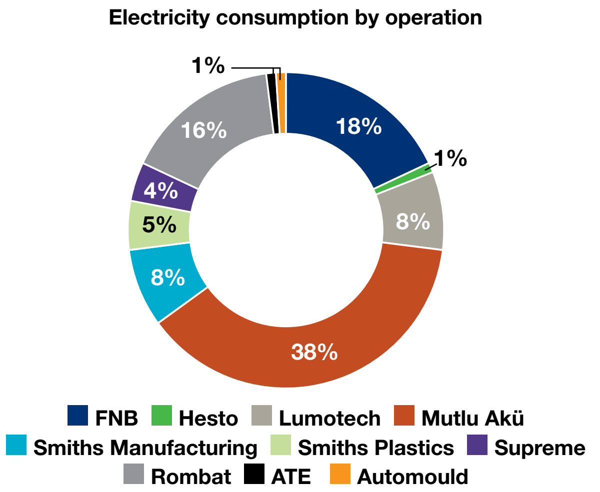
Energy consumed in group operations includes fuels, such as petrol and diesel, gases and electricity. We monitor electricity consumed as a key input in both our manufacturing processes and our costings. Optimising energy consumption is an important aspect of improving production efficiencies to sustain manufacturing excellence. This includes initiatives such as redesigning processes to improve efficiencies, installing more energy efficient machinery and maintaining a high awareness among employees about the need to increase energy efficiency.

Examples of recent initiatives at our operations to improve energy efficiency in our operations include:

- Installing more efficient variable speed drives.
- Energy efficient lighting, daylight sensors and proximity sensors.
- Replacing cooling fans and pumps with more energy efficient alternatives.
- Resizing capacitor banks and electrical motors.
- Implementing energy consumption monitoring systems.
- Insulating injection moulding machines, cooling tanks, pipes and pumps.
- Power factor correction.
- Training and awareness of staff.
- Implementation of ISO 50001 energy management systems across operations by the end of 2018.

The natural **environment** continued





Total electricity consumed by the group increased 5.4% to 201 381 MWh or 724 970 Gigajoules (2016: 191 055 MWh or 687 798 GJ). Electricity consumption per person hour worked increased 8.0%. Mutlu Akü accounts for 38% of total group consumption and the three battery manufacturing operations together consumed 72%. It should be noted that, because batteries are shipped from the factory fully charged, around 40% of the electricity purchased by these operations is being sold in the battery, rather than used. The battery operations are therefore reporting electricity purchased, rather than electricity consumed.

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

We have targeted implementation of the ISO 50001 energy management system across all operations by the end of 2018. So far Mutlu Akü, Hesto, Supreme Springs and Tenneco (an associate) have implemented the system.

WASTE MANAGEMENT

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

Our manufacturing excellence initiatives include a focus on minimising waste from production processes. Scrap reduction targets are set at each subsidiary for primary and secondary materials and the yield on lead recycling and plastic recycling percentage are tracked as measurement criteria for waste management.

In 2017, the group recycled 72% of total non-hazardous waste (8 634 tonnes) compared to 71% (8 366 tonnes) in 2016. Recycled waste was mainly in the form of externally recycled plastic and metal, wooden pallets and internal recycling of plastics. We also recycled 37 000 litres of used oil during the year.

BATTERIES AND RECYCLING

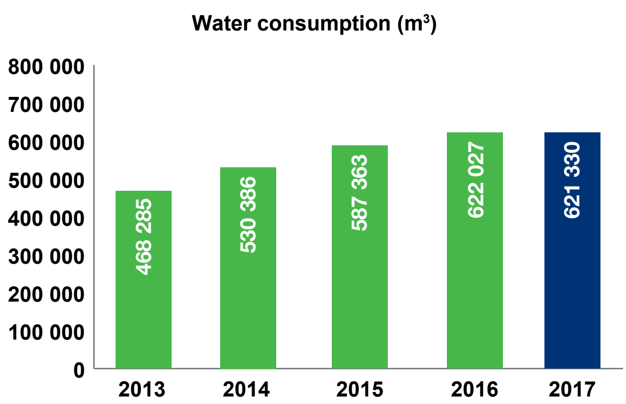
We are conscious of our responsibility to manage the lead and other potentially harmful substances in lead-acid car batteries throughout the lifecycle of these products. Lead-acid batteries are nearly 100% recyclable and we have recycling plants at each of our battery manufacturers. Customers are incentivised to return old batteries when buying new ones.

Battery plates, terminals and other extracted lead are refined and blended to produce high-quality lead alloys for new batteries. Plastic from the batteries is recycled into new battery casings and battery acid is neutralised and processed through an effluent plant.

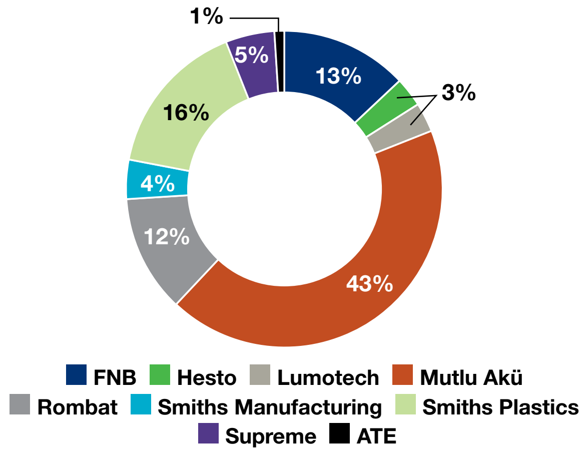
Lead from recycling is cheaper to access, saves energy and reduces emissions as it uses around a third of the energy needed to produce virgin lead from ore. During 2017 the group recycled nearly 70 000 tonnes of lead.

WATER CONSUMPTION

Water withdrawal totalled 621 330 m^3 in 2017, in line with 2016 withdrawal of 622 027m^3. Group water consumption per person hour worked increased 2.4% to 35.1 litres (2016: 34.3 litres).



Water consumption by operation



Water is withdrawn from municipal sources and is calculated from municipal meter readings, corroborated by readings from internal meters where these are installed. The battery manufacturing facilities together account for 68% of group water use.

Various water saving initiatives are in place at operations including:

- Rainwater collection tanks at First National Battery's facilities, which supply cooling towers, battery washing machines and toilets.
- Smiths Manufacturing uses a reverse osmosis water purification plant to recycle and recover 90% of the water used in the wet fluxing and evaporation coating processes.
- Lumotech harvests rainwater for use in its processes and recycles waste water from the cleanroom humidifiers and pump plant.
- Across operations, leak identification and repair is a priority.
- Training and awareness initiatives.

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

ENVIRONMENTAL COMPLIANCE AND IMPACT

Environmental policies and processes at our operations ensure compliance to local environmental requirements. In addition, the stringent environmental regulatory regimes in Europe and Japan that apply to our OEM customers oblige us to clearly understand and closely monitor the environmental impact of our products and their constituents. Industry initiatives such as the Global Automotive Stakeholder Group focus attention on the environmental impacts of substances in automotive parts.

We carefully monitor the material makeup and characteristics of our products so that we adhere to these requirements and thereby mitigate the environmental impact of our products.

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

Environmental protection expenditure totalled R6.6 million in 2017.

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

PROGRESS ON 2017 ENVIRONMENTAL TARGETS:

- All companies to target achievement of ISO 50001 accreditation by the end of 2018.
  In process. Five companies have achieved ISO 50001 to date.
- Target 1% improvement on site specific production scrap percentages.
  Achieved at five of the eleven subsidiaries. Reducing scrap remains a priority at all operations.
- Energy storage businesses to improve yield at recycling facilities by 2% especially at lead recycling facilities.
  Achieved at FNB, not achieved at Rombat or Mutlu Akü. Yields will continue to be closely monitored in 2018.
- Target a 2% improvement in consumption of water per person hour worked.
  Not achieved. While overall water consumption decreased marginally, group total water consumption per person hour worked increased 2.4%. Eight of eleven subsidiaries achieved this target.
- Reduce total energy consumption by reducing electricity consumption per person hour worked by 5% by December 2018.
  In process. Electricity consumption increased 5.4% and consumption per person hour worked increased 8.0% in 2017.
- Reduce Scope 1 and 2 emissions per person hour worked to below 10 kgs CO_2e/PHW.
  Not achieved. Scope 1 and 2 emissions per person hour worked remained at 10.3 kgs CO_2e/PHW

2018 ENVIRONMENTAL TARGETS:

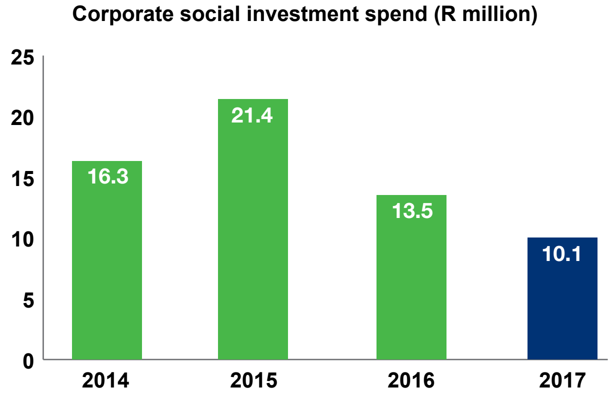
- All companies to target achievement of ISO 50001 accreditation by the end of 2018.
- Target a 2% improvement in consumption of water per person hour worked across all companies.
- Reduce total energy consumption by reducing electricity consumption per person hour worked by 5% by December 2018.
- Target 1% improvement on site specific production scrap percentages across all companies.
- Energy storage businesses to catch up backlog in yield improvement to 2% and improve yield at recycling facilities by 2% especially at lead recycling facilities.
- Reduce Scope 1 and 2 emissions per person hour worked to below 10 kgs CO_2e/PHW.

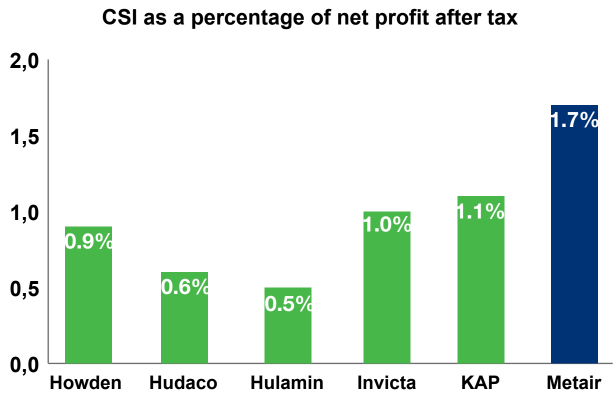
Corporate social **investment**

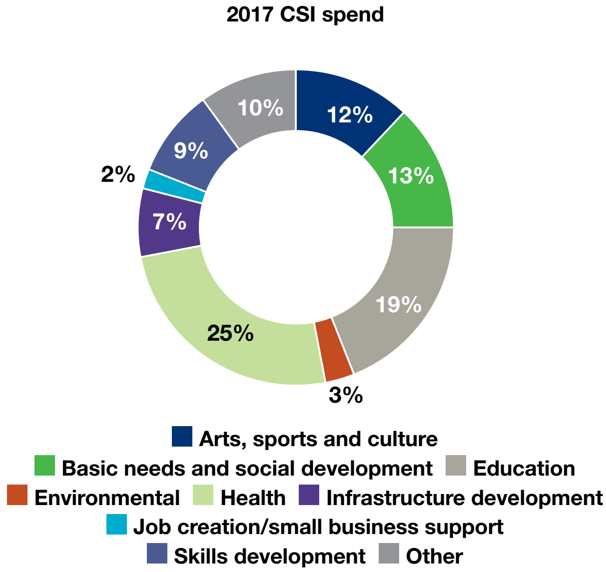
Metair's corporate social investment programmes contribute to the socio-economic development of the communities around our operations. Each operating company allocates 1% of net profit after tax to various initiatives in their host communities. At group level, a further 1% of group net profit after tax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

COMMUNITY SOCIO-ECONOMIC DEVELOPMENT

The projects funded by the operations aim to develop and uplift community members, and to increase the skills available in local communities. Most of these projects focus on addressing pressing health issues and improving facilities and tuition at schools.







Initiatives supported during 2017 included:

- Hesto donated tablets to the Stanger Training Centre School to facilitate learning and development of computer knowledge. The school caters for learners with various special needs. Hesto provides Wi-Fi to Siyavikela and Zilungiselela Schools to support learning and development in rural areas.
- FNB supports the READ Educational Trust and distributed reading material to schools in Butterworth in the Eastern Cape in conjunction with Mercedes Benz SA. FNB continues to partner with the ITEC Literacy programme to address the literacy gap in the pre-school, foundation and intermediate phases of schooling as well as adults.
- FNB also participated in a clean-up project with the Border Kei Chamber of Business and other local businesses, and installed CCTV for the local SAPS to assist community policing and reduced crime.
- Automould supported the READ Educational Trust and also made a donation to the Open Air School, which caters for approximately 260 learners with special educational needs.
- ATE supports Oliver's house, a safe haven for pre-school children in the Zenzele township near Benoni. The company also donated funds to a church group towards building a church.
- Lumotech supported Unity in Africa to prepare learners from disadvantaged communities for university admission with a focus on maths and science. During 2017, the company appointed a Grade 12 learner from this programme onto their learnership program. Lumotech also supported We Care, which facilitates community youth development, youth leadership and runs a community feeding scheme.
- Supreme Springs supported a range of projects, including infrastructure, sports equipment and a feeding scheme for local schools, disaster relief, an unemployed youth skills programme and a community feeding scheme. Supreme also supported Children of Fire, an organisation that takes care of severely burnt children mostly from disadvantaged areas and helps to raise funds for reconstructive surgery.

- Unitrade supported Ethel Mthiyane Special School by donating goods and appliances as well as first aid supplies and equipment for a sick room. The main item sponsored was software to help teach children with special needs, which will significantly assist teachers and improve opportunities for the students.
- Rombat donated individual lockers for 429 children at a local primary school in Bistrita to reduce the potential for back injuries from overloaded back packs (school bags).
- Smiths Plastics supported READ Educational Trust, a learning programme for Grade R learners, sponsored the introduction of an isiZulu programme to the Montford School and facilitated a maths workshop to inspire the school to engage with the new CAPS Curriculum.
- Smiths Manufacturing supported a soccer tournament for underprivileged children in Lahee Park and donated to around 20 non-profit organisations that facilitate healthcare, care giving and feeding schemes. The company also supported a library programme for 400 Grade R to Grade 3 students at Oceanview Primary in Chatsworth, installed solar panels at four homes and supported the upgrade to the science laboratory at Sithokozile Secondary School, benefitting approximately 1 000 school children.

Employees from various operations volunteer their time to support local community programmes, either as part of the Mandela Day initiative or on an ad-hoc basis. This includes Hesto employees handing over electrical appliances, including a fridge, food processor and feeding cups to the Inqolobane Home for children with special needs in Mandeni, a rural area. Staff from Smiths Plastics volunteered their time to the local SPCA in December.

GROUP SOCIO-ECONOMIC DEVELOPMENT

Metair head office supports the Khaya Community Centre in Lehae, Johannesburg. Khaya is a partnership with Orange Babies and works closely with the local municipality to ensure the sustainability of the facility and the project.

During 2017, Khaya extended its services to two new areas by renovating an old building to open Khaya le Thema in Thembelihle informal settlement and opening an early childhood development (ECD) facility at the Moses Maren Technical Secondary School in Nokeng.

The Khaya Centre includes an early childhood learning facility, educational facilities for school-going children, a bakery and kitchen, a sewing room, training rooms, a victim support centre and a primary health care facility. Educational facilities in the centre include four fully equipped classrooms, a computer room, a secure play area, two counselling rooms and a library.

During 2017, activities at the Khaya Centre included:

- ECD for 74 children from three to six years old. 31 children have graduated from the facility to date.
- Support for 880 orphaned and vulnerable children ranging in age from three to 14 years old.
- Assistance for 232 women and 41 men through the palliative care/victim empowerment programme, including home visits, clinic escorts, support for court victims, food parcels and assistance with getting ID documents.
- Support for 435 young community members through the Young Life/Schools Mentorship programmes, including hygiene packs for girls, transport assistance, food parcels and organising a camp.
- Health support at the centre for 205 elderly community members, as well as regular healthcare workshops on HIV testing, breast cancer, tuberculosis and other diseases. A sewing club has been formed at the centre and the completed blankets are sold.

The new ECD centre in Nokeng provided 200 meals to support school HIV education, provided 109 orphaned and vulnerable children with daily meals and 160 meals every week for young girls on the HIV mentorship programme.

The old building housing the Khaya le Themba centre was completely renovated, including new ceilings, a palisade fence and gate, new doors, windows and frames, and renovating the plumbing, basins and toilets. There are 50 children in the ECD programme with 30 children on the waiting list. The programme is currently trying to raise funds to extend feeding and support to 200 orphaned children in the community.

Progress against 2017 CSI target:

- 1% of net profit spent on CSI projects.
  Achieved. 1.7% of net profit after tax invested in CSI projects.

2018 CSI TARGET

- 1% of net profit spent on CSI projects. Within our targeted spend we would like to increase our focus on education and reading improvement projects.

Governance

GOVERNANCE REPORT

CORPORATE GOVERNANCE OUTCOMES

The following outcomes are interlinked and referred to throughout in the company's integrated annual report:

ETHICAL AND EFFECTIVE LEADERSHIP AND CORPORATE CITIZENSHIP

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

In a very challenging environment two requirements remain constant – sound business principles and competent motivated people. More specifically, a challenging environment calls for quality, motivated leadership as well as an organisational focus on leadership development and talent management. The foundation of Metair's business is not only built by design, but also on principles including respect for people, the environment, and ethical and effective leadership. We operate in a fast and continually changing environment, and our strong roots in sound principles align with a culture that stimulates creativity and innovation to ensure that we can adapt quickly and align to new trends, requirements and expectations to be a sustainable business. This year's cover image focuses on the environment and green solutions, and reflects how we use the primary production factor – land (what is on it, what is in it and what is above it) – in the most responsible and sustainable way. A full description of the image and the symbols can be found in the theme section of this integrated annual report on page 2.

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

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

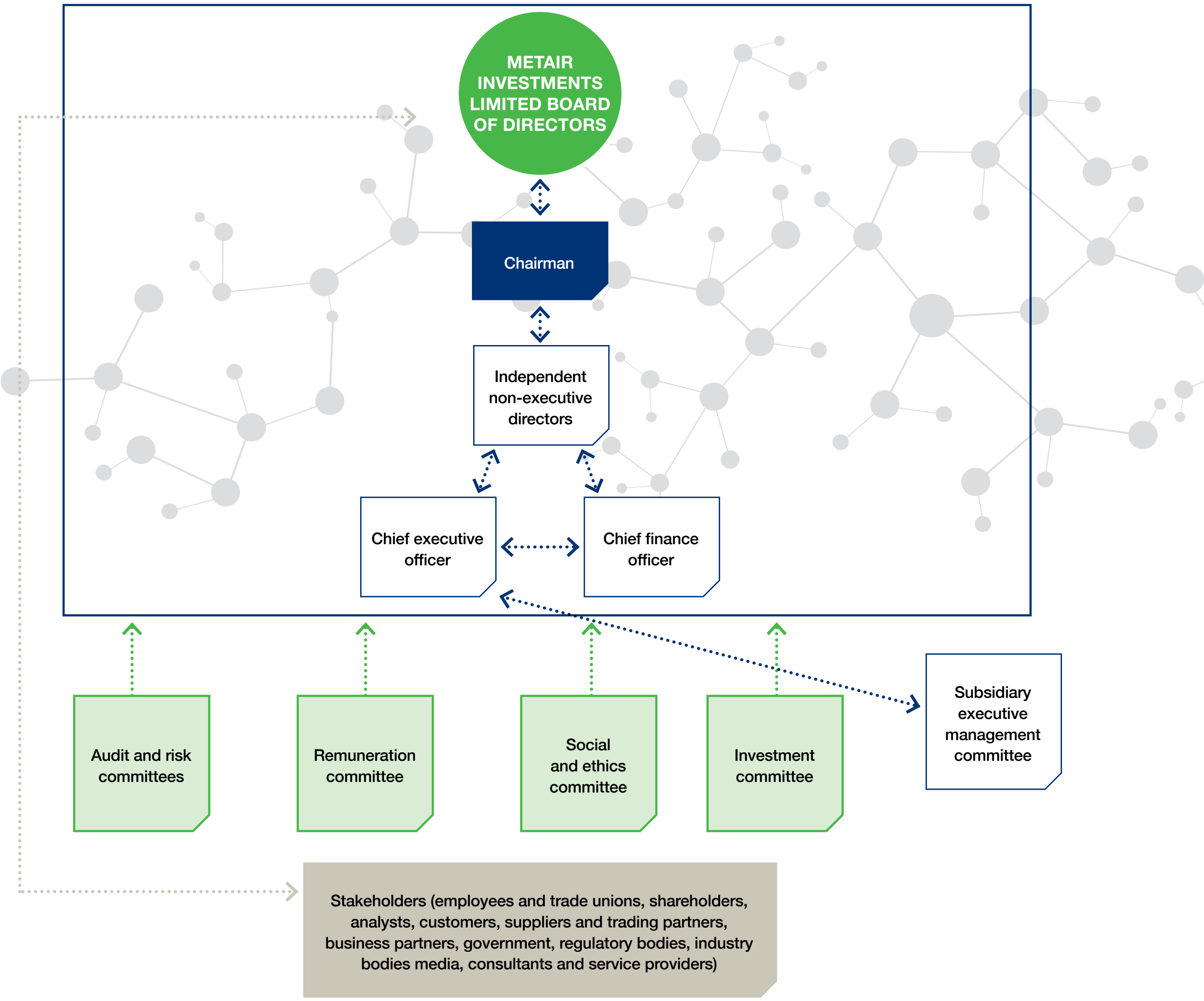
The board and management recognise that the group is not only an economic entity but also a corporate citizen and, as such, it has social and moral responsibilities to society. The group's code of conduct incorporates corporate citizenship and ethical leadership policies. The board, assisted by the social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

The board ensures that the company's ethics are managed effectively. Training, awareness programmes and procurement workshops were held during the year to enhance the company's ethics management. Refer to the social and ethics committee section of the integrated annual report for more information.

GOVERNANCE FRAMEWORK

The group's governance framework is as shown on the next page:

The board is the principal decision maker, supported by the various committees and executive management. The board is responsible for the strategic direction of the group assisted by the chief executive officer, who sets the strategy in conjunction with the board. The chief executive officer is responsible for leading the implementation and execution of the approved strategy, policy and operational planning, and serves as the chief link between management and the board. The chief executive officer reports to the board. Executive management is responsible for the day-to-day management of the company, assisted by executive management teams for each of the subsidiaries. The board is accountable to all stakeholders. The board also appreciates that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.



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

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

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

CORPORATE GOVERNANCE COMPLIANCE

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

The group complied with the principles of King IV™ during the 2017 financial year and continues to strive to improve on the application of the recommended practices in our governance systems, processes and procedures.

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

A compliance report was compiled during the year which was included in both the audit and risk committee as well as the social and ethics committee meeting packs on this subject. This report also included changes and developments in various matters in the compliance sphere. The aim of this report is to keep committee members abreast with developments in legislation, the JSE Listings Requirements and general compliance trends in the industry. The key legal compliance risks identified were laws relating to competition, safety, health and environmental, and these will form part of management focus in the ensuing year.

THE BOARD

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

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

As at 31 December 2017, the board comprised nine directors, of whom two were executive directors (the chief executive officer and the chief financial officer) and seven independent non-executive directors (one being the chairman). In terms of the memorandum of incorporation, the board shall consist of a minimum of 5 directors and a maximum of 15 directors depending on the proper constitution of the board and all committees. The average age of directors is 60.8 years and the average length of service is 7.6 years. No employees aside from the executive directors are deemed to be prescribed officers. Mr JG Best was appointed as lead independent director on 30 November 2017 and will act in this capacity for a period of 12 months from the date of such appointment.

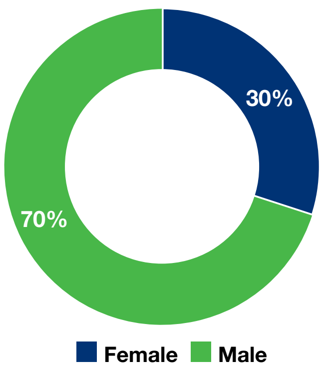
The board initiated a recruitment exercise to appoint another member to the board which has led to the appointment of Mr B Mawasha to the board on 1 March 2018 as independent non-executive director and a member of the audit and risk committee. Mr L Soanes stepped down as a member of the audit and risk committee on 1 March 2018. The process of nomination, election and ultimately the appointment of directors is done in a formal and transparent manner and ethical standards are always adhered to. All candidates identified as possible board members are requested to provide the board with details of their current professional commitments and a statement that confirms that the candidate has sufficient time available to fulfil the responsibilities as a non-executive director.

The board is continuing with this recruitment exercise to find board candidates with practical hands-on manufacturing expertise who can replicate the expertise of Messrs Broadley and Soanes. These gentlemen will remain on the board to mentor the new board members for at least a year and will then retire. The reason for their retirement is board tenure.

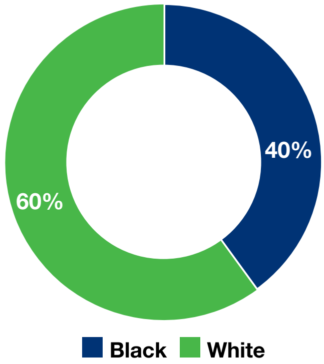
In terms of the memorandum of incorporation, all new directors appointed to the board since the previous annual general meeting, as well as one-third of the existing non-executive directors, are required to retire, but may offer themselves for re-election. Nominations for re-election are considered by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

In appointing new directors, the board took into account gender and racial representation to address the historical imbalances at this level. The new board composition enhances the knowledge, skills, experience, independence, diversity and effectiveness of the board, as well as ensuring that the board reflects the context in which the company operates. The policy to encourage and foster gender and racial diversity at board level includes the intention of the company to have at least three of the board membership being women and one third of the board membership being black people (as defined in the Broad-Based Black Economic Empowerment Act, No. 53 of 2003), wherever possible. Metair achieved this target for the 2017.

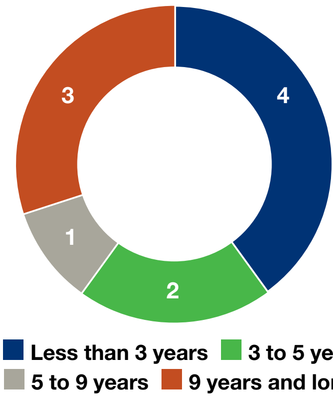
Current board composition/diversity



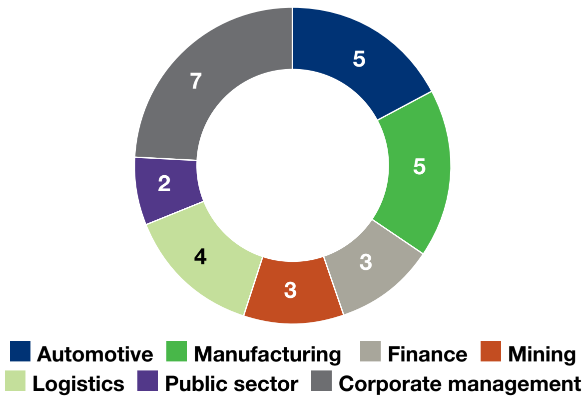
Current board composition/diversity



Current board tenure – number of directors



Directors' industry experience



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

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

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

The self-evaluation process was coordinated by the company secretary and the results were discussed at the board meetings in June and October 2017. The chairman concluded that the board is functioning well and noted areas that require improvement. The self-evaluation process is coordinated and repeated twice annually to assess the functioning of the board and to track progress on areas requiring improvement. Going forward, the board decided that the lead independent director will lead the board in evaluating the performance of the chairman and the chairman will also do performance assessments of the other board members. These assessments will be done in addition to the board self-evaluation process.

An externally facilitated performance evaluation was not done this year as the board decided to allow the newly appointed board members to first settle in and the evaluation will be done in 2018. Going forward, an externally facilitated board evaluation of individual board members will be done once every two years.

The board identified the following areas that require improvement and these items will be put on the action list for 2018:

- Succession planning;
- More informal interaction with the next level of potential young executives;
- Managing the timing of board discussions and remaining on the topic at hand;
- Dedicating sufficient time to matters of strategic importance; and
- Board evaluation – the chairman to evaluate other board members in addition to the normal self-evaluation process.

The chairman reviewed the chief executive officer's performance against agreed performance measures and targets, and this was discussed by the board at the November 2017 board meeting. The board confirmed that they were satisfied that the chief executive officer carried out his duties with due care, skill and diligence. The board expressed their sincere appreciation and support for the dedication, commitment and high quality of work done by the chief executive officer and his management team.

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

The board reviews and approves the board charter annually. The charter was updated with King IV™ references and approved at the November 2017 board meeting. The company also has a policy that evidences a clear division of responsibilities at board level to ensure balance of power and authority which includes the roles and functions of the chairman and the chief executive officer. A copy of the policy can be found on the company's website. In line with King IV™, the chief executive officer may not become the chair of the board until three complete years have passed after the end of his tenure as executive.

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

The board confirmed the independence of the non-executive directors and specifically reviewed the independence of directors whose tenure is nine years or longer. Messrs Broadley's and Soanes' tenures are both in excess of nine years, however, the board is satisfied that they are still of an independent mind.

Director's attendance at board and committee meetings during the year are shown in the table on page 75.

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

Metair executive directors participated in the Metair Investments 2009 Share Plan during the year. Proceeds on the vesting of the shares are disclosed in note 3 of the annual financial statements and further details on allocations to the Metair executive directors are disclosed in note 14.2 of the annual financial statements.

Board training is scheduled annually on topical subjects by external and internal trainers. During 2017 the following training programmes were delivered:

Training Provider	Training Topic
Institute of Directors	King IV™

SUBSIDIARY AND DIVISIONAL BOARDS

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

	Board	Audit and risk committee	Social and ethics committee	Remuneration committee	Investment committee	Overall attendance#
Number of meetings	**6**	**5**	**3**	**5**	**3**	
SG Pretorius (Chairman)	6	–	–	–	–	100%
CT Loock	6	–	3	–	–	100%
S Douwenga	6	–	3	5	3	100%
JG Best	6	5	–	–	3	100%
RS Broadley	6	–	3	5	–	100%
L Soanes	6	5	–	5	–	100%
TN Mgoduso	6	–	–	5	–	100%
PPJ Derby	4*	–	3	–	3	83%
HG Motau	6	5	–	–	3	100%
J Gressel†	–	–	3	–	–	100%
Overall director attendance#	96%	100%	100%	100%	100%	

Attendance percent calculated on board attendance during the tenure of directorship. Executive directors attend all committee meetings.

† Subsidiary representative on the social and ethics committee. Ms Gressel is not a director of Metair Investments.

* Apologies tendered.

COMMITTEES

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

- Investment committee
- Audit and risk committee
- Social and ethics committee
- Remuneration committee

The committees are appropriately constituted to promote independent judgement, and assist with the balance of power. The board appoints the members of the committees and ensures the correct composition except for the audit and risk committee members who are nominated by the board and elected by shareholders. Executive directors, management and external advisors attend committee meetings by invitation except for the social and ethics committee where the chief executive officer and the chief financial officer are members and the investment committee where the chief financial officer is a member.

The board reviews and approves all committee charters and terms of reference annually. All charters were updated with King IV™ references and approved at the October and November 2017 board meetings.

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

Refer to the specific committee disclosures for more information.

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

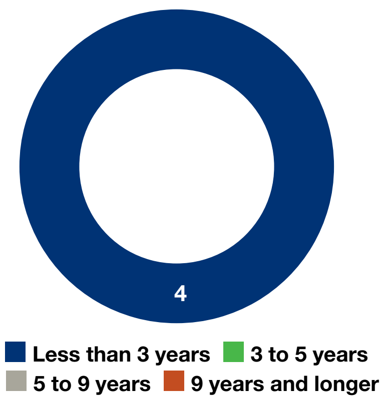
INVESTMENT COMMITTEE

The board established its investment committee in November 2016.

The committee comprises three independent non-executive directors, namely, Mr JG Best, Ms PPJ Derby and Ms HG Motau, as well as Mr S. Douwenga, chief financial officer of the company. The main aim of the committee is to review in detail investment opportunities brought to the board by executive management before they are submitted to the board for a final decision.

The tenure of the committee is as follows:

Investment committee tenure – number of directors



The roles and responsibilities of the committee are to:

- Satisfy itself that Metair's project and investment evaluation guidelines are consistently and properly applied;
- Review and evaluate all investments, disinvestments, corporate structuring and financing proposals which exceed the delegated authority levels of the executive committee and which require prior approval of the board;
- Carry out post-completion reviews of projects;

- Review and evaluate all capital investment and disposal requests submitted by management;
- Report to the board;
- Review capital expenditure;
- Review activities of the group's corporate finance function;
- Review the group's project evaluation guidelines;
- Monitor investment and disposal decisions by the executive committee; and
- Perform such other duties as may be assigned by the board.

As 2017 was the first year in which the committee held actual meetings, the performance of the committee will be evaluated for the first time in 2018.

Three meetings were held during the year as indicated in the table on page 75. The chairman reported to the board after each meeting.

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

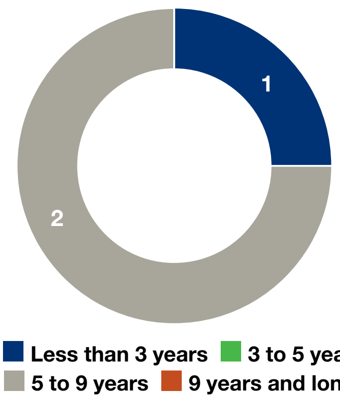
AUDIT AND RISK COMMITTEE

The board established its audit and risk committee on 3 November 2003. The committee is constituted as a statutory committee of Metair in respect of its statutory duties in terms of section 94(7) of the Companies Act 71 of 2008 (Act) and in line with the recommendations of King IV™ as a committee of the board in respect of all other duties assigned to it by the board including those normally performed by an audit and risk committee.

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

The tenure of the committee is as follows:

Audit and risk committee tenure – number of directors



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

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

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

These policy changes were all based on refinements and continuous improvements.

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

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

The role of the committee is to:
- Oversee integrated reporting;
- Oversee the functions of the compliance officer;
- Oversee the effectiveness of the company's assurance functions and services;
- Oversee the internal audit function plan and activities;
- Ensure that the company implemented an effective risk management policy and process that will enhance its ability to achieve its strategic objectives;
- Ensure that the JSE's most recent report back on proactive monitoring of financial statements, and where necessary those of previous periods, have been assessed and appropriate action taken where necessary to respond to the findings as highlighted in the JSE report when preparing the annual financial statements; and
- Recommend the appointment of the external auditor and oversee the external audit process.

The audit and risk committee has specific responsibilities relating to:
- The preparation of accurate financial reporting and financial statements in accordance with International Financial Reporting Standards;
- Integrated reporting;

- Combined assurance;
- Internal audit;
- Risk management, including identifying the significant risks facing the group and formulating the risk response thereto; and
- External audit.

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

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

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

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

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

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

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

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

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

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

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

Five meetings were held during the year as indicated in the table on page 75. The chairman reported to the board after each meeting. External and internal auditors meet with the audit and risk committee separately at least once per annum in order to discuss matters without the executives being present. Significant issues and key audit matters pertaining to the annual financial statements are discussed with the external auditors at the audit and risk committee meetings in November and March and also informally as and when required.

The first meeting of 2018 was held in March. For audit and risk committee attendance – refer to page 75.

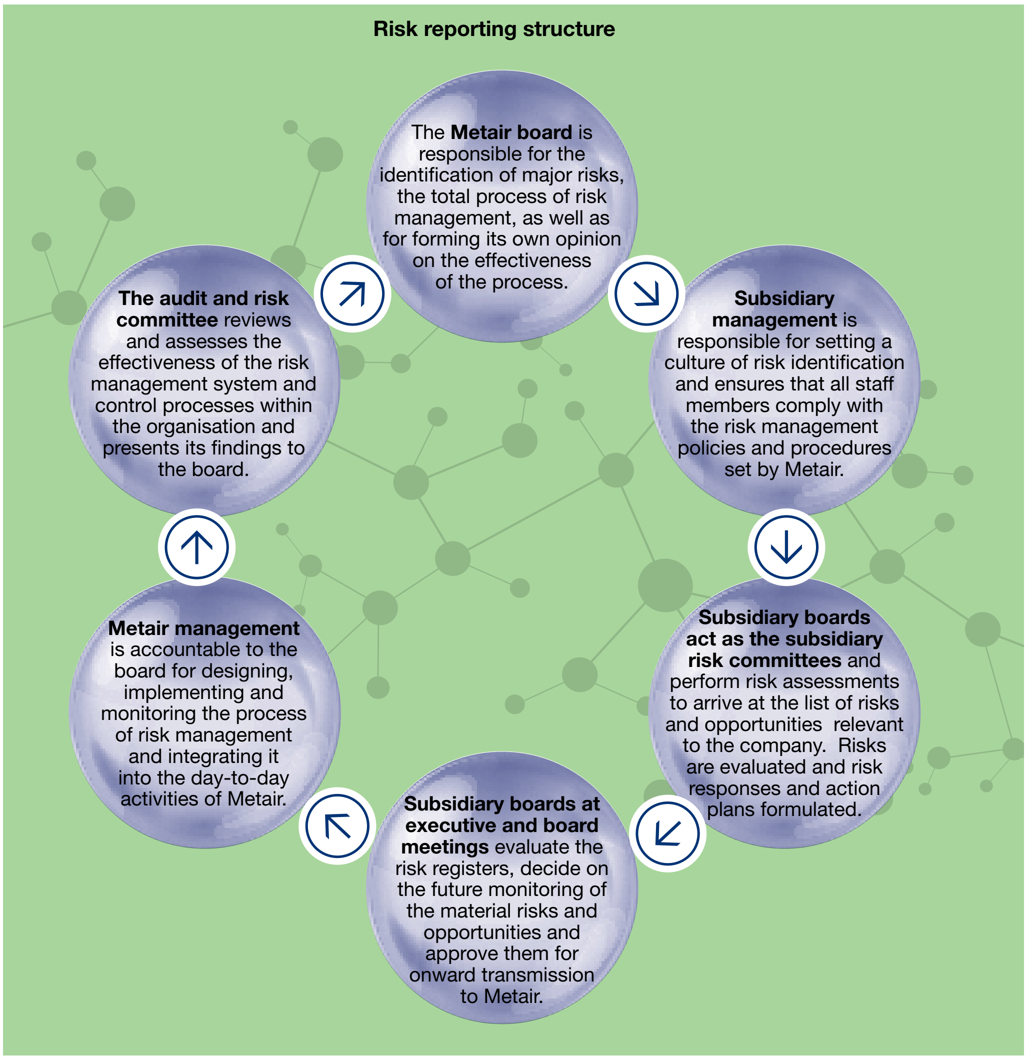
GROUP RISK MANAGEMENT

Risk management is the responsibility of the board with the reporting and monitoring function being delegated to the board audit and risk committee. During 2017 the audit and risk committee decided to allocate a separate meeting dedicated to risk governance alone to ensure that it dedicates sufficient time to this responsibility. An enterprise-wide risk management policy framework forms part of the audit and risk committee charter which is available on the company's website.

The risk reporting structure is illustrated on page 78.

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

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



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

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

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

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

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

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

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

The group has identified an overall group financial risk tolerance level as well as individual tolerance levels per risk. During the year a risk dashboard was prepared which indicates the inherent and residual risk exposure of each risk as well as a graph to indicate where the group consolidated tolerance level falls. The top three risks on the risk assessment for last year were political, social and economic stability in Turkey and South Africa, and currency volatility. This year's top three risks are political, social and economic stability in Turkey, disruptive technology and anti-competitive behaviour.

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

Previous rank	Rank	Move	Risk name	Risk category	Residual vs inherent risk exposure Low High	Link to strategy	Material aspect affected
1	1	→	Turkey political, social and economic stability	Strategic			Competitiveness, macroeconomic and geopolitical factors, human capital
New	2	↑	Traditional and disruptive technology developments relating to our products and services, especially introduction of EVs	Technical complexity			Competitiveness, technology and innovation
New	3	↑	Compliance with local and global competition regulations such as anti-competitive behaviour	Financial			Competitiveness, business partnerships, human capital
2	4	↓	Policies aimed at managing and controlling currency volatility including alignment with customer requirements and views	Financial			Competitiveness
16	5	↑	Product recall exposure	Financial			Competitiveness, business partnerships
New	6	↑	Management capacity to execute and integrate acquisitions in new/ unknown jurisdictions	Strategic			Competitiveness, balanced businesses, human capital
3	7	↓	South Africa political, social and economic stability	Strategic			Competitiveness, macroeconomic and geopolitical factors, human capital

Previous rank	Rank	Move	Risk name	Risk category	Residual vs inherent risk exposure Low High	Link to strategy	Material aspect affected
11	8	↑	Deficient manufacturing process control system	Continuity of supply			Competitiveness, human capital
10	9	↑	Natural disasters, explosions and conflagrations	Continuity of supply			Competitiveness, balanced business
14	10	↑	Progressive human capital and talent management	Strategic			Human capital, competitiveness

◆ Residual risk ◆ Inherent risk

Risk 1 – Turkey political, social and economic stability

Risk Indicator	Individual risk tolerance levels
Length of state of emergency	six months
Number of foreign businesses seized by government	Zero

Opportunity	Outcome
Increased investment tax incentives available for new technology investments through approved research and development centres. Weaker Turkish Lira improves competitive positioning regarding exports.	Proactive monitoring of changing government policies, macro-economic indicators. Maintain economic, social and political relevance. Decrease overall financial exposure to Turkey through execution of Metair long-term strategy.

Action plans	Target date	Actual end date	Comments
Proactive monitoring of changing government policies and macro-economic indicators.	06-Nov-17	Ongoing	
Maintain economic, social and political relevance.		Ongoing	

Action plans	Target date	Actual end date	Comments
Decrease overall financial exposure to Turkey through execution of Metair long term strategy.		Ongoing	Concluded MOLL investment in July 2017 and evaluating other possible investments.

While the socio-political situation in Turkey has stabilised somewhat after the attempted coup in July 2016, there remains the risk of further unrest. This could affect Metair by making operating conditions more challenging, sterilising investment and affecting our ability to execute our strategy in the region. Geopolitical developments across the region also pose a risk to the regional economy.

Mutlu Akü contributes 29% to group revenue and is a key strategic asset, providing access to key markets in Europe, North Africa and Russia. Disruptions to our operations in Turkey or deteriorating relationships with key European markets could impact the expansion of the energy storage vertical, limit our ability to supply regional OEMs cost effectively and affect our research and development facility, which could affect the group's ability to develop the necessary battery technology to remain relevant in the energy storage space.

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

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

Risk 2 – Traditional and disruptive technology developments relating to our products and services, especially introduction of electric vehicles

Risk indicator	Individual risk tolerance levels
Inability to participate in new technology developmental requests from original equipment manufacturers (OEMs).	Zero

Opportunity	Outcome
Automotive components vertical – increased relevance across all Metair product lines. Energy storage vertical – increased electrical requirement, lead-acid batteries still required for two, or even four, electrical systems. Disruptive technology focus on development of alternative products and solutions and creates R&D and training opportunity.	Production of first lithium-ion cells in progress in SA, Romania and Turkey. Establish strong relationships with government/university lithium-ion developmental facilities already constructed in Turkey, Romania and South Africa.

Action plans	Target date	Actual end date
Production of first lithium-ion cells in progress in South Africa, Romania and Turkey.	06-Nov-17	06-Nov-17
Establish strong relationships with government/university lithium-ion developmental facilities already constructed in Turkey, Romania and South Africa.	31-Dec-17	31-Dec-17

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

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

Risk 3 – Compliance with local and global competition regulations such as anti-competitive behaviour

Risk indicator	Individual risk tolerance levels
Investigations into anti-competitive behaviour.	Zero
Major findings on anti-competitive market practices by consultants.	Zero

Opportunity	Outcome
Elimination of anti-competitive practices globally by industry players enhances Metair's competitive positioning in our markets and strengthens the possibility of enhancing market share position.	Ongoing training of management and staff, issuing of specific internal manual containing information and regulations to guide behaviour in such a way as not to breach any competition regulations.

Action plans	Target date	Actual end date	Comments
External consultant reviews on current market practices.	31-Dec-18		
Dawn raid readiness training.	25-Aug-18		Subsidiary company training throughout the year.
Continuous review of training programmes.		Ongoing	

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

Metair is committed to ethical business practices and has implemented ongoing training programmes to ensure management and employees have the required training to support compliance. We engage proactively with competition authorities to understand our exposure in our countries of operation as our businesses develop. Refer to the case study on page 51 on competition and anti-trust investigations on the rise for more information.

Risk 4 – Policies aimed at managing and controlling currency volatility including alignment with customer requirements and views

Risk indicator	Individual risk tolerance levels
Budgeted Rand exchange rate against key currencies (US Dollar, Euro, Turkish Lira, Yen, Thai Bhat, Romanian Lei).	Budgeted quarterly average exchange rates.
Total forex position.	Total operating forex loss – R20 million.

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

Action plans	Actual end date	Comments
Monitor exchange rate fluctuations and forex cover positions.	Ongoing	
Negotiate significant event adjustments with customers.	Ongoing	
Negotiate new forex policy with a key OEM to increase frequency of forex adjustments.	Completed	The OEM has agreed to reduce the forex adjustment trigger (difference between average rate and OEM payment rate) from 8% to 5% from 2017. This will result in more frequent forex adjustments, but does not guarantee neutrality. Will continue pursuing neutrality.
Ensure recovery of forex cost increases from customers and market.	Ongoing	
Continuous monitoring of currency hedge and cost vs benefit exercises to check viability of forex cover positions.	Ongoing	

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

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

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

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

Risk 5 – Product recall exposure

Risk indicator	Individual risk tolerance levels
Warranty rate tolerance.	1%
Parts per million (PPMs) tolerance.	20 PPMs
Customer-specific communication regarding field and product failures.	Zero
Unexpected warranty share rate changes in favour of OEMs.	Zero

.

Opportunity	Outcome
Metair's manufacturing excellence and strong reputation for quality may attract new customers and business. Disruptive technology requires excellent current product performance.	Adherence to quality standards and required technical specifications for products. Adequate insurance cover.

Action plans	Target date	Actual end date
Design responsibility disclaimer to be included in all OEM contracts where Metair is not the owner of the Intellectual Property.	01-Oct-17	31-Oct-17
Maintaining quality accreditation in terms of ISO9001 and TS16949.	Achieved	Achieved
Continuously improve insurance cover limits.	Achieved	Achieved

Metair's products have to meet our customers' exacting quality standards. Product failures can lead to significant reputational damage for Metair and its customers, particularly where these necessitate a recall, and could impact our ability to retain contracts and attract new business. This is particularly relevant as Metair moves into new and unproven technologies.

Metair is committed to manufacturing excellence and our operations are accredited in terms of global and industry quality standards. Customer contracts stipulate warranty share rates, particularly where products are manufactured according to customer designs. The group carries insurance cover in the event of product recall.

Risk 6 – Management capacity to execute and integrate acquisitions in new/unknown jurisdictions

Risk indicator	Individual risk tolerance levels
Executive turnover rate.	Zero
Management raising capacity concerns.	Zero

Opportunity	Outcome
Work life balance focus, human capital development and succession planning opportunity.	Ensure effective functioning of the investment committee. Appointment of experienced and suitable advisors.

Action plans	Target date	Comments
Identify management capacity gaps and constraints and appoint appropriate managers.	31-Dec-18	Jean Esterhuizen appointed as group manufacturing expert and Achim Lulsdorf as group technical expert in the last quarter of 2017.
Evaluate leadership bench strength within the group.	31-Dec-18	
Succession planning.	31-Dec-18	

As Metair continues to expand and enter new geographies, it is important that we add leadership capacity so that the current small group of core executives does not become overwhelmed and burned out. The current team has built up significant experience in the group's core business areas and in integrating foreign acquisitions and the loss of this experience would affect the group's ability to continue to implement its strategy.

We are currently increasing our focus on building our human resources capacity, which includes an emphasis on succession planning and building our leadership bench strength. Key individuals have been identified for appointment to build out the next layer of leadership and reduce the demands on senior executives.

Risk 7 – South Africa political, social and economic stability

Risk Indicator	Individual risk tolerance levels
Incidents of closure of universities.	Zero
Allegations of state capture.	Zero

Opportunity	Outcome
Metair's strategy of developing balance in the business through international expansion, broadening our client base and participating in the development of new technologies helps to ensure the group's continued relevance and reduces the risk of operating in a single industry segment or geography. Reputational and business expansion opportunity offered to modernise all-inclusive business may expand in country business opportunities and margins.	Proactive monitoring of changing government policies and macroeconomic indicators. Maintain economic, social and political relevance.

Action plans	Actual end date
Proactive monitoring of changing government policies and macro-economic indicators.	Ongoing
Maintain economic, social and political relevance.	Ongoing
Decrease overall exposure through execution of Metair long term strategy.	Ongoing

At the end of 2017, South Africa is emerging from a period characterised by weak leadership, increasing populism and a rise in anti-business rhetoric. The early indications after the leadership transition in the ruling party in December 2017 are promising, but there is rising impatience across South Africa, particularly among the youth and the unemployed. A failure to show meaningful progress in addressing the country's many socio-economic challenges increases the risk of political instability through demonstrations, strikes and the erosion of the rule of law. Social and labour unrest creates manufacturing instability, which increases production costs, reduces country competitiveness and influences the long-term investment decisions of OEMs.

Metair engages proactively and constructively with government as a key stakeholder to promote the interests of the group and the industry. We monitor developing political and economic trends, and emphasise our commitment to playing our part in addressing the country's challenges to the extent possible.

Governance

GOVERNANCE REPORT continued

Our strategy to continually develop balance in the business has promoted international expansion, diversified our client base and products, and increased our participation in the development of new technologies, which help to ensure the group's continued relevance and reduce the risk from operating in a single industry segment or geography.

Risk 8 – Deficient manufacturing process control systems

Risk indicator	Individual risk tolerance levels
Warranty rate tolerance.	1%
PPMs tolerance.	20 PPMs
Unapproved process changes.	Zero

Opportunity	Outcome
Metair's manufacturing excellence and strong reputation for quality may attract new customers and business.	
Efficiency enhancements.	
Metair Industry 4 mobilisation can shorten time of product to market and group response to disruptive technology challenges.	Continued strengthening of group-wide process control capacity and focus.

.

Action plans	Target date	Actual end date	Comments
Strengthening group-wide process control capacity and focus.	Ongoing		Jean Esterhuizen appointed as group manufacturing expert and Achim Lulsdorf as group technical expert in the last quarter of 2017.
Formal sign-off from customers for all process changes to be obtained.	31-Dec-17	Ongoing	
Perform process capability and overall equipment efficiency studies.	31-Dec-18		
Capability plaques.	31-Dec-17	30-Sep-17	

Consistent quality requires both manufacturing excellence as well as sound process controls to reduce variability in production processes. Product failures can lead to significant reputational damage for Metair and its customers, particularly where these necessitate a recall, and could impact our ability to retain contracts and attract new business.

Metair continuously strengthens its process controls and recent key appointments will support the standardisation of best practices across group operations.

Risk 9 – Natural disasters, explosions and conflagrations

Risk indicator	Individual risk tolerance levels
Major inadequacies identified in Marsh audits.	Zero

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

Action plans	Target date	Actual end date
Earthquake insurance in Istanbul for Mutlu Akü increased to 100% cover.	01-Oct-17	01-Oct-17
Infrastructure capex approval to strengthen buildings.	06-Oct-18	
Adequate insurance cover for natural disasters.	01-Oct-17	01-Oct-17

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

Risk 10 – Progressive human capital and talent management

Risk indicator	Individual risk tolerance levels
Annual training spend.	Minimum R21 million.
Group B-BBEE scorecard.	Level 4
Staff turnover.	5%

Opportunity	Outcome
To formalise designed employee development and satisfaction programs that lead to best workplace practices resulting in increased efficiency, competitiveness and human capital application.	Formalised mentoring, career management, transformation, skills development, promotions, appointments, training, succession planning, retention, Generation Y focus.

Action plans	Target date	Actual end date
Transformation, skills development, promotions, appointments, training, succession planning, retention, Generation Y focus.		Ongoing
Performance assessments, appraisals and career management.	01-Dec-17	
Continuously address payline differentials to market.	01-Dec-17	
Focus on human resource function capabilities.		Ongoing

To ensure Metair's continued relevance as a business, we need to ensure that our workforce has the necessary skills, reflects our commitment to transformation and is effectively incentivised to perform at its best. We also need to offer attractive career and personal development opportunities, and reward performance appropriately to ensure that we retain talent, experience and intellectual capital in the group as it grows.

We are currently focussing on enhancing our human resources function to ensure that the necessary initiatives are in place to support the continued development and retention of Metair's human capital.

IT STEERING COMMITTEE

An Information Technology (IT) steering committee was constituted in 2013. The committee's main focus area is to look at standardisation and common IT-related matters and policies throughout the group.

The new accounting system, Cognos, has been fully implemented by all subsidiaries for financial and sustainability information. The next project will look at the risk and compliance dashboard.

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

Regular IT steering committee meetings are planned to commence in 2018 to be attended by all subsidiaries.

The committee, which reports to the audit and risk committee, is in the process of reviewing its terms of reference, policies and procedures.

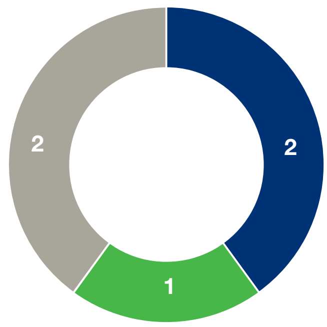
SOCIAL AND ETHICS COMMITTEE

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

The committee comprises two independent non-executive directors, Ms PPJ Derby (chairperson) and Mr RS Broadley, two executive directors, Messrs CT Loock and S Douwenga and a subsidiary representative, Ms J Gressel. Ms J Gressel replaced Mr S Khan as subsidiary representative to the social and ethics committee from January 2017. Mr MC Mahlanu was appointed at subsidiary representative on 1 January 2018. The reason for the rotation is to enhance awareness and implementation of the social and ethics programme across the group as well as to use the subsidiary from which the representative comes as an incubator for testing new ideas before these are rolled out to all the group subsidiaries.

The tenure of the committee is as follows:

Social and ethics committee tenure – number of directors



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

Currently the committee assesses ethics performance through a self-evaluation questionnaire that is completed by all subsidiaries to verify the roll out of ethics initiatives and the adequacy thereof. A sustainability template including non-financial narrative information is also completed on a quarterly basis by the subsidiaries, which is consolidated and presented to the social and ethics committee. This template has been integrated onto the Cognos IT reporting system and information is captured directly onto the system. A social and ethics register forms part of the quarterly reporting and includes reporting of compliance and non-compliance to the social and ethics functions, disciplinary action status, Corporate Social Investment (CSI) initiatives, risks and opportunities, responsible persons and general comments. Targets are set and progress against targets is monitored on a continuous basis. A yellow card system has also been implemented where the committee identified various environmental, social and governance (ESG) targets, which have also been incorporated in the subsidiary key performance measures, influencing their short-term incentives. Refer to the sustainability section on page 57 for more details.

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

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

A consolidated Broad-Based Black Economic Empowerment (B-BBEE) scorecard is kept to monitor subsidiary performance and stakeholder interaction is reported. A King IV™ gap analysis will be performed annually from 2018 and the principles relating to social and ethics matters are checked to ensure that the company is compliant, to identify areas of weakness and to put action plans in place. Feedback on the annual work plan is used to ensure that all actions indicated on the work plan are implemented. All outcomes set on the 2017 work plan have been achieved. The social and ethics committee self-evaluation is also used by the committee to assess the standard and performance of the social and ethics programme in the company. During the year, KPMG performed various internal audits at the subsidiaries to ensure compliance with the social and ethics requirements. Risk audits are being done by Marsh to identify health and safety hazards.

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

The social and ethics reporting framework is as follows:

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

The specific functions of the committee are to:

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

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

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

The following stakeholder engagements were noted:

- Media interaction – CNBC Africa – Metair was complimented on its transformation focus, especially gender composition in an interview. A question was posed whether the women contributed to the good results. Mr Loock responded that the women bring balance to the business and definitely contribute towards better results. He thanked the female board members for their valuable contributions.
- Business Day and Business Report articles.
- Industry recognition – Metair subsidiaries were recognised as the only companies who met transformation requirements at Toyota's suppliers function out of its total R10 billion supplier spend.

The code of conduct has been rolled out to all subsidiaries and signed to demonstrate adherence to and acceptance of the policy from all staff. The code of conduct forms part of the induction process for all new employees and adherence thereto is included in their appointment letters. The company's code of conduct is available on the Metair website.

During the year the committee approved various policies which were recommended to the board for final approval where required and rolled out to the subsidiaries:

- Conflict of interest
- Donations and sponsorships
- Gifts and hospitality
- Anti-bribery and corruption
- Procurement policy

Two procurement workshops were held during the year on 30 January 2017 and 5 May 2017. The outflow of these workshops was a group procurement policy. This policy defines standards and guidelines in relation to Metair's commitment to ensuring that the group's procurement activities, including the sourcing of supplier, are conducted in accordance with best practices. All employees conducting or supporting procurement activities in the group are to act in a professional, transparent and ethical manner at all times.

The company subscribes to a Tip Offs Anonymous fraud line through Deloitte. This initiative has been extended to all subsidiaries in the group, including the offshore subsidiaries. General areas were introduced at subsidiaries where employees have access to computers with some standard applications loaded to access the Tip Offs website and other personal services for workers' convenience, for example to allow employees to access their banking websites. 16 tip offs were received during 2017. All tip off reports received were investigated, resolved and where applicable, action taken and reported back to Deloitte for feedback to the whistle blower.

The first meeting of the committee in 2017 was held in March. Refer to page 75 for social and ethics committee meeting attendance.

The chairperson reported to the board after each meeting held in 2017.

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

SOCIAL AND ETHICS PLAN AND FRAMEWORK

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

The ethics monitoring and reporting framework is done according to the environments shown below.

MARKET PLACE (ECONOMY)

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

WORKPLACE

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

CORPORATE RESPONSIBILITY/ CITIZENSHIP

NATURAL ENVIRONMENT:

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

SOCIAL ENVIRONMENT:

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

* Moved to the remuneration committee.

Arising from the committee's terms of reference, a social and ethics plan and procedure is drawn up, which forms the basis of the work of the committee and the platform around which the social and ethics work plan is implemented within the business operations. A detailed work plan for 2017 was approved and implemented by the committee.

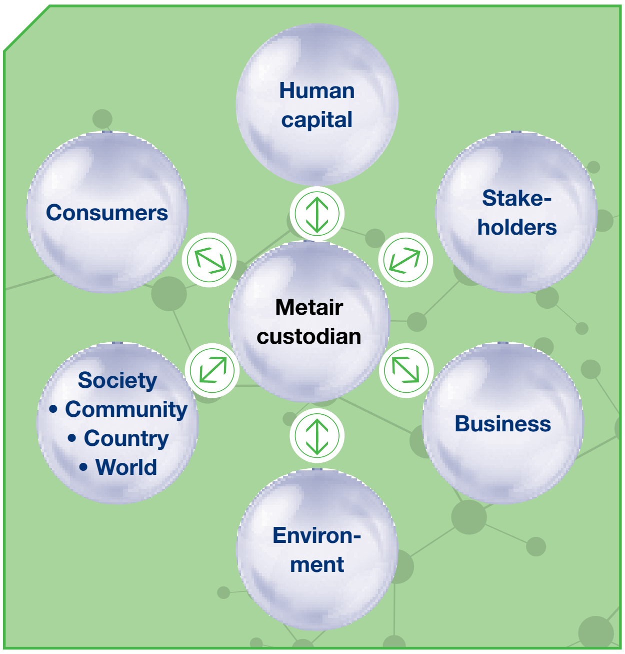
The core principle of the social and ethics framework is custodianship and the core values are unity, harmony, equality, respect for human dignity and doing what is right, fair, reasonable, lawful and just.

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

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

Custodianship encompasses the key elements of long-term sustainability and continuity. It elevates the focus beyond individual or personal interests to build a sustainable legacy while recognising the broad responsibilities we have as corporate citizens to our stakeholders, and in so doing contributing to the development of our society.

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



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

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

Past themes of the annual reports include:

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

These themes and the 2017 theme focusing on the environment and effects on the environment provide the specific focal points for the social and ethics framework going forward.

INSIDER TRADING

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

EMPLOYMENT EQUITY AND TRANSFORMATION

The group, through each of its subsidiaries, has:

- Submitted the relevant employment equity reports (in October 2017), after thorough consultation with staff and union representatives;
- Through the employment equity and transformation committees monitored and measured performance against the five-year employment equity plan and instituted corrective action where necessary; and
- Addressed barriers such as skills shortages among previously disadvantaged groups, through accelerated skills development programmes, learnership programmes, and intensive internal and external training.

The group consequently complies with all the requirements of the Employment Equity Act. Refer to the transformation section of the integrated annual report.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

Metair is looking at the standardisation of B-BBEE verification times, agencies and procedures which will be finalised in 2018. The group focus is on management control, procurement and enterprise and supplier development. Preferential procurement was addressed at a conference held on 30 January 2017 and focused on raw material, consumables, services and consultancy. A second workshop was held on 5 May 2017 and the outflow of the conference was a group procurement policy focusing on specific B-BBEE requirements. The appointment of a B-BBEE partner will be investigated again in 2018.

Metair maintained a score of 22.23 points for the ownership element on the generic Broad-based Black Economic Empowerment scorecard (2016: 22.23). The transfer of these points to the subsidiaries results in all subsidiary companies being compliant during the period. All subsidiaries reported against the new codes. All subsidiaries achieved their goal of being a level four contributor with the exception of one subsidiary that is on a level five. We are pleased to report that one of our subsidiaries achieved a level two for the reporting period.

COMPANY SECRETARY

Ms SM Vermaak has filled the position of company secretary since 2001 and provides professional corporate governance services to the company. Ms Vermaak is not a director of the company and whilst she has direct access to the chairman, the board is satisfied that an arm's-length relationship has been maintained between the board and the company secretary. The board assessed her competence, qualifications and experience during the year and found her to be competent and suitably qualified to act as the company secretary.

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

SPONSOR

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

KING IV COMPLIANCE

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

Board audit **and risk committee report**

The audit committee is constituted as a statutory committee of Metair Investments Limited in respect of its statutory duties in terms of section 94(7) of the Companies Act, 71 of 2008 (Act) and as a committee of the board in respect of all other duties assigned to it by the board. The committee has complied with its legal and regulatory responsibilities for the 2017 financial year.

NAMES AND QUALIFICATIONS OF COMMITTEE MEMBERS

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

TERMS OF REFERENCE

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

INTERNAL AUDIT TERMS OF REFERENCE

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

COMPOSITION

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

Mr Mawasha joined the audit and risk committee on 1 March 2018 replacing Mr L Soanes who resigned from the committee on the same day.

MEETINGS

Five meetings were held during the year and were attended by all members.

STATUTORY DUTIES

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

- Nominated and re-appointed PricewaterhouseCoopers Inc. (PwC) as external auditors and Mr L de Wet as the individual auditor, after confirmation of their independence;
- The committee confirmed that PwC and the designated auditor are approved by the JSE;
- The external auditor fees, as per note 3 of the annual financial statements, and their terms of engagement were approved;
- All non-audit services provided by PwC were reviewed and approved;
- Meetings were held with PwC after the audit committee meetings, without executive management present, and no matters of concern were raised;
- No reportable irregularities were noted by PwC;
- The role of the committee is set out in the audit and risk committee section on page 72 of this report;
- The committee reviewed the annual financial statements, integrated annual report and the interim report during the year with the external auditors present before recommending these to the board for approval;
- Ensures that the JSE's most recent report back on proactive monitoring of financial statements, and where necessary those of previous periods, is assessed and appropriate action taken where necessary to respond to the findings as highlighted in the JSE report when preparing the annual financial statements; and
- All trading statements were reviewed by the audit committee before recommending them to the board for approval.

RISK MANAGEMENT

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

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

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

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

INTERNAL FINANCIAL CONTROLS

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

REGULATORY COMPLIANCE

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

EXTERNAL AUDIT

Following an effectiveness review the committee has no concerns regarding the external auditor's performance or independence and PwC has been recommended to the board and shareholders to be re-appointed. Refer to note 3 of the annual financial statements for audit fees paid. All non-audit services have been reviewed and approved by the committee and the independence of the auditors confirmed.

INTERNAL AUDIT

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

- Approved the re-appointment of KPMG as internal auditor;
- Approved the internal audit plan; and

- Ensured that KPMG is subject to an independent quality review, as and when the committee determines it appropriate.

The committee has a good working relationship with KPMG.

CHIEF FINANCIAL OFFICER REVIEW

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

INTEGRATED ANNUAL REPORT

The committee has reviewed the annual financial statements of Metair Investments Limited and the group for the year ended 31 December 2017 and based on the information provided to the committee, consider that the group complies in all material respects with the requirements of the Companies Act and International Financial Reporting Standards. The committee has reviewed the integrated annual report and the committee recommends the report to the board and shareholders for approval.

On behalf of the board audit committee.

JG Best
Audit and risk committee chairman

14 March 2018

Social and **ethics committee report**

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

The social and ethics committee is constituted as a statutory committee of Metair Investments Limited in respect of its statutory duties in terms of the Companies Act, 71 of 2008 (Act) and as a committee of the board in respect of all other duties assigned to it by the board. The committee assists the board in providing effective leadership and being a good corporate citizen. The committee has complied with its statutory duties and other duties assigned to it by the board for the 2017 financial year.

NAMES AND QUALIFICATIONS OF COMMITTEE MEMBERS

PPJ Derby (Chairperson)	Bachelor of Science Honours (Economics), MBA
RS Broadley	Advanced Technical Certificate (Engineering)
CT Loock	B Eng (Industrial)
S Douwenga	B Comm B Acc CA (SA)
J Gressel	CIS, HR Diploma
MC Mahlanu	Dipl. Human Resources Management and Practice

TERMS OF REFERENCE

The committee has adopted formal terms of reference approved by the board. These terms of reference are reviewed on an annual basis and updated where necessary. During the past year, the committee has executed its duties in accordance with the terms of reference. The terms of reference can be found on the company's website.

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

The specific functions of the committee are to:

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

COMPOSITION

The committee comprises two independent non-executive directors, namely Ms PPJ Derby (chairperson) and Mr RS Broadley, two executive directors, namely Messrs CT Loock and S Douwenga and subsidiary representatives, Ms J Gressel and Mr C Mahlanu.

Ms Gressel joined the committee with effect from 1 January 2017 replacing Mr Khan. Mr C Mahlanu was appointed to the committee on 1 January 2018.

MEETINGS

Three meetings were held during the year and these were attended by all members.

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

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

On behalf of the social and ethics committee.

PPJ Derby
Social and ethics committee chairperson

14 March 2018

Remuneration **report**

BACKGROUND STATEMENT

The group complied with the principles of the King Report on Corporate Governance for South Africa 2016 (King IV) during the 2017 financial year and continues to strive to improve on the application of the recommended practices in the remuneration report and disclosure in ensuring the sustainability of the company.

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

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

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

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

Executives can no longer only take a self-serving approach and shareholders can no longer automatically vote 'No' in the first instance according to some general principle.

The most common general principle used by the investor community to justify a 'no vote' arises from shareholders objecting to the issue of shares to executives. This approach cements the 'against' vote as the general norm and creates an unresolvable long-term disparity that will threaten sustainability.

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

In line with the recommendations of King IV, the remuneration policy as well as the implementation report will be tabled for a separate non-binding advisory votes by shareholders at our next annual general meeting to be held on Wednesday, 2 May 2018.

The results of the non-binding advisory voting on the 2017 remuneration policy and implementation report and measures taken in response thereto based on King IV and the JSE Listings Requirements (Listings Requirements) will be disclosed in the next integrated annual report. Results of the non-binding advisory voting on the 2016 remuneration approach, policy, executive remuneration, chief executive officer's (CEO) retention bonus, company executives' long-term incentive plan share awards and the approval of non-executive director remuneration at the annual general meeting held on Thursday, 4 May 2017 were approved by the requisite majority of shareholders present or represented by proxy and is as indicated below. A copy of the annual general meeting minutes is available on the company's website.

Ordinary resolution number 6(a): Approval of the company's remuneration approach

Shares voted	Abstained	For	Against
176 626 416 88.76%	0.02%	75.64%*	24.36%

The company's aim would always be to comfortably exceed the 75% non-binding approval rate where possible. Continuous shareholder engagement will be followed in this regard. First indications reveal that some shareholders are against any form of share awards and therefore by default reject any remuneration approach that includes share awards.

Ordinary resolution number 6(b): Approval of the company's remuneration policy

Shares voted	Abstained	For	Against
164 676 638 82.76%	6.03%	94.27%	5.73%

Ordinary resolution number 6(c): Approval of the company's 2016 executive remuneration

Shares voted	Abstained	For	Against
176 626 416 88.76%	0.02%	78.92%	21.08%

Ordinary resolution number 6(d): Approval of the company's CEO's retention bonus share award

Shares voted	Abstained	For	Against
163 755 604 82.30%	6.49%	64.53%	35.47%

Investigations indicate that future bonus share awards should be replaced with performance share awards linked to specific performance indicators other than a dedicated fixed term time contract.

Remuneration **report** continued

Ordinary resolution number 6(e): Approval of the company's executives' Long-Term Incentive Plan share awards

Shares voted	Abstained	For	Against
176 627 016 88.76%	0.02%	79.99%	20.01%

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

Shares voted	Abstained	For	Against
176 627 016 88.76%	0.02%	100.0%	0.00%

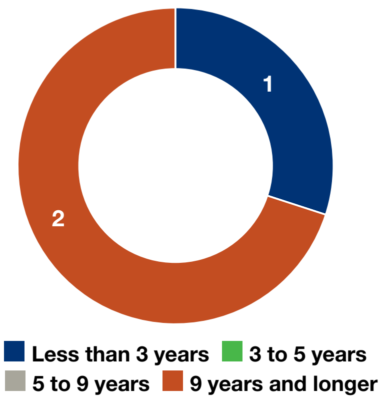
BOARD REMUNERATION COMMITTEE (COMMITTEE)

The Metair board of directors (board) has delegated its remuneration responsibilities to the committee. The committee is established to assist the board in fulfilling its oversight responsibilities. The main role of the committee is to assist and advise the board on matters relating to the remuneration of the board and senior management, in order to motivate and retain executives and ensure that the company is able to attract the best talent in the market in order to maximise shareholder value.

The committee comprises three independent non-executive directors: Ms TN Mgoduso, who is also the chairperson, Messrs RS Broadley and L Soanes. Board appointments are handled by the board directly with Mr Pretorius chairing.

The tenure of the committee is as follows:

Remuneration committee tenure – number of directors



The committee functions in terms of a charter which is approved and re-confirmed by the board annually. The charter as well as the remuneration policy were updated in line with King IV. A copy of the charter is available on the company's website. The Metair long-term share incentive scheme and retention policy were updated during the year. The changes related to retention shares, in that performance shares will be issued rather than issuing bonus shares for retention purposes.

The committee also performs an annual self-evaluation of its effectiveness. The results of the self-evaluation confirmed that the committee is functioning well and no major concerns were noted except for succession planning, which is being addressed.

The key focus areas of the committee are as follows:

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

For more information and other roles and responsibilities, refer to the committee charter on the company's website.

SUCCESSION PLANNING

Succession planning has been highlighted as an important leadership issue. Management addressed the issue and a lot of work went into preparing succession plans for all subsidiaries and Metair's head office, including the CEO. The committee is in the process of reviewing all succession plans for the group and will be addressing weaknesses and planning the way forward. Talent management and development programmes have also been identified as focus areas for the near future. The board is engaged in addressing succession planning for the executive directors and the chairman.

WorkDynamics was used to do performance assessments on the group managing and finance directors. The committee was satisfied that WorkDynamics were independent and objective.

The project phases were as follows:

The consolidated succession planning management report from WorkDynamics provided an overview of the results of the psychometric assessment for the group managing and finance director positions.

A common theme, for example, identified throughout the assessments that required further attention related to self-awareness which speaks to leadership, amongst other factors. A group intervention will be arranged to address this issue.

Overall strengths and areas for development as well as personal development plans have been completed for the managing and finance directors and will be implemented. The assessment process will also be extended to other levels of staff in due course.

One of the positive outcomes of the performance assessment exercise was the unleashing of a positive leadership appetite among the executives, who have all demonstrated renewed enthusiasm in performing their duties.

PERFORMANCE APPRAISALS

The committee reviewed performance appraisals of group executive management and for the subsidiaries.

Performance appraisals are based on a generic assessment which includes the following key performance areas:

- Leadership competencies;
- Management competencies;
- Interpersonal competencies;
- Business competencies in terms of the subsidiary company; and
- Business competencies in terms of Metair.

Appraisals also include specific shareholder objective assessments which include company and individual specific key performance areas. Going forward, the performance appraisals have been aligned with the performance assessment rating legend and will assist Metair to design development plans for executives.

The Metair CEO's performance appraisal was reviewed by the chairman and board.

EMPLOYMENT EQUITY (EE)

Great emphasis has been placed on EE with the remuneration committee assuming the oversight role of this function. An initiative was put in place whereby subsidiaries have to identify two EE candidates who will shadow executives on the board. The executives will then spend time with the identified candidates mentoring and training them to ultimately assume an executive role on the board. Elevating these candidates creates space for other employees to be pulled up to management level to replace them. These candidates also provide succession for executives. The committee felt that training funds should be allocated for this intervention this year.

In Turkey and Romania, the subsidiaries are focussing on improving diversity in terms of gender representation, especially at executive and board level.

ESTABLISHMENT OF A HUMAN CAPITAL DIVISION

The establishment of a fully-fledged human capital division is a key objective of the committee. During the year a decision was taken to establish a group-wide human capital division. An executive resource has been identified in one of the subsidiaries to manage group HR administrative and union relationships. Part of his new role will involve mentoring two EE candidates, one to replace him on the subsidiary executive team and the other to support and ultimately take over the HR function. In this way, mentorships can be used to get African and young people onto the executive management teams at all group companies.

Thorough assessment of readiness for promotion and ability to handle higher level responsibilities will be conducted before appointments are finalised.

EMPLOYMENT CONTRACTS

Employment contracts with executive directors are reviewed and renewed on an annual basis and employment contracts are in place for all non-executive directors. The contracts of executive directors do not contain termination packages or excessive notice periods. An executive director may, subject to the provisions of the Companies Act and the Listings Requirements, be appointed as such by contract for such period as the board may determine, but not exceeding seven years. Executive directors shall not be subject to retirement by rotation or be taken into account in determining the rotation by retirement of directors during the period of any such contract; provided always that the number of executive directors so appointed shall at all times be less than one-half of the number of directors in office. An executive director shall be eligible for reappointment at the expiry of any period of his appointment. Subject to the terms of his contract, he shall be subject to the same provisions as to removal as the other directors and if he ceases to hold the office of director from any cause, he shall ipso facto cease to be an executive director.

MEETINGS

Four meetings were held during the year and were attended by all members of the committee. Please refer to page 75 for more details on meeting attendance. The quorum for transacting business as per the committee terms of reference is that at least two members need to be present. The chairman reported to the board after each meeting.

The last meeting was held in February 2018.

The committee was satisfied that it achieved its stated objectives during the period under review.

Future focus areas for the committee include the following:

- Continue to strive to improve on the application of the recommended practices of King IV in the remuneration policy and disclosure in ensuring the sustainability of the company; and
- Ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term, in the best interest of all stakeholders.

REMUNERATION POLICY

Remuneration strategy

Metair recognises that the group's reward strategy has a direct impact on operational expenditure, group culture, employee behaviour and ultimately, with correct alignment, on the group's ongoing strategic sustainability. Metair aims to reward its employees in a way that reflects the dynamics of the market and the context in which the company operates. All components of the group reward strategy, including fixed pay, variable pay and performance management, are aligned to the strategic direction and business-specific value drivers of Metair and its subsidiaries.

Remuneration **report** continued

The remuneration policy was developed from an understanding of all stakeholders' requirements, guided by an approach that sets the framework for the policy and in the final analysis delivered a designed remuneration structure. This remuneration structure formulates the implementation and resulting financial remuneration. The remuneration policy articulates and gives effect to the company's direction of fair, responsible and transparent remuneration, has been approved by the board, and demonstrates the application of the company's ethical standards and processes

The main roles and responsibilities of the committee relating to the remuneration policy are as follows:
- Discharge the responsibilities of the board relating to all compensation, including share-based compensation of the group executives;
- Establish and administer the agreed group executive remuneration policy with the broad objectives of:
  – aligning executive remuneration with the group strategy, company performance and shareholder interests;
  – aligning the remuneration policy to promote the achievement of strategic objectives within the company's risk appetite;
  – setting remuneration standards which attract, retain and motivate a competent executive team;
  – evaluating compensation of executives, including approval of salary, share-based and other incentive-based awards; and
  – ensuring that executive remuneration is fair and responsible in the context of overall employee remuneration to promote positive outcomes, an ethical culture and responsible corporate citizenship.
- Ensure that the remuneration policy describes all elements of remuneration that are offered in the company;
- Consider the remuneration policy and set strategic objectives for remuneration management within the company's operations and ensure that it gives effect in its direction to fair, responsible and transparent remuneration;
- Support the board to oversee that the implementation and execution of the remuneration policy achieves the objectives of the remuneration policy;
- Submit the remuneration policy to the board for approval;
- Ensure that the remuneration policy records the measures that the board commits to take in the event that either the remuneration policy or the implementation report, or both, have been voted against by 25% or more of the voting rights exercised; and
- Engage with shareholders to address objections and concerns relating to the remuneration policy as and when required.

Shareholder voting

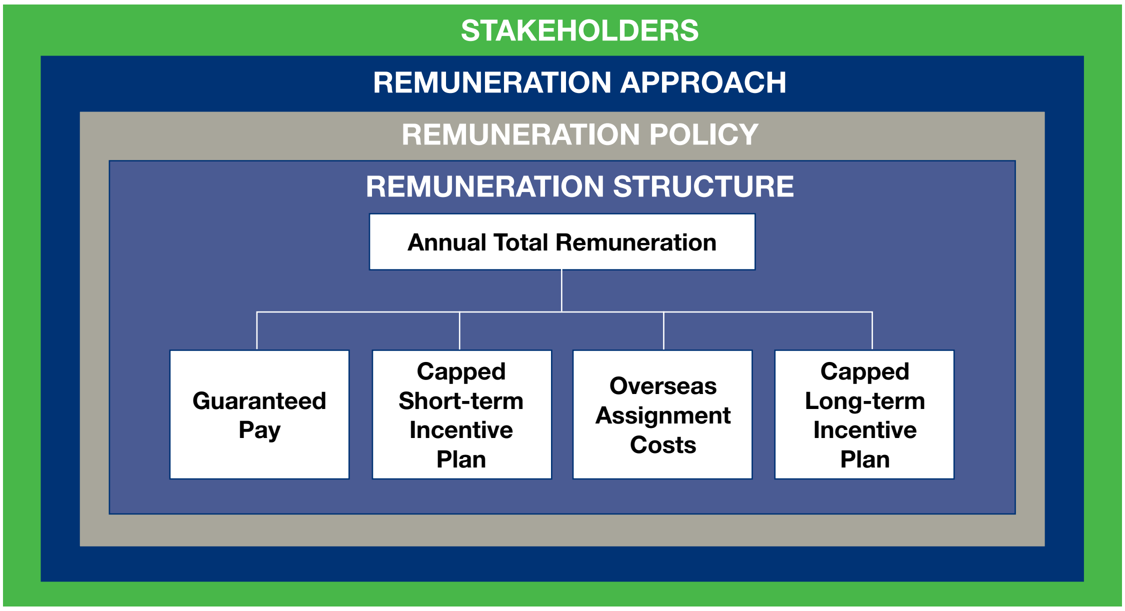
In the event of shareholders voting against the remuneration policy and/or the implementation report with 25% or more of the voting rights exercised at the annual general meeting, the committee will take the following steps in good faith and with best reasonable effort:
- Engage with shareholders to ascertain the reasons for the dissenting votes;
- Address legitimate and reasonable objections and concerns raised; and
- Take action where appropriate to amend the remuneration policy, clarify or adjust remuneration governance and/or processes.

The following information will be disclosed in the background statement of the remuneration report succeeding the voting:
- The parties with whom the company engaged and the manner and form of engagement to ascertain the reasons for dissenting votes; and
- The nature of steps taken to address legitimate and reasonable objections and concerns.

Metair approach and elements of executive management remuneration

With such sensitivities around the subject of remuneration, Metair believes that the only responsible approach is to apply

Remuneration model and strategy



a professional stance based on world best practice that is progressive and sensitive to all stakeholder requirements, including shareholders. Total annual remuneration in the group is designed around a remuneration counter system consisting of four pay elements:

a. Guaranteed pay – Count 1
b. Capped short-term incentive – Count 2
c. Overseas assignments – Count 3
d. Capped long-term incentive – Count 4

For guaranteed pay, the approach starts by evaluating, understanding, comparing, measuring and grading every position in the group.

The group's approach has three main elements:

1. Job grading and ranking system
2. Position relative to market
3. Pay structure
   - Guaranteed
   - Short-term incentive plan (STIP)
   - Special assignments
   - Retention and long-term incentives

The principle applied to guaranteed pay and short-term incentives form part of the budgeted expenses of the business. Any incentive payment is subject to a self-funding requirement to ensure that targeted earnings attributable to shareholders are grossed up by the incentive payment amount and earned above target before pay-out.

Architecture of the long-term incentive structure

The long-term incentive structure was designed by an independent third party with high integrity, local and international recognition. Like the STIP, it is based on the cost to company of the participant to ensure fairness, justness and to have an automatic built-in protection against exorbitant reward.

Share appreciation rights vest in year three, four and five and therefore have a three-year waiting and total five-year retention period. Performance shares have a three-year waiting period before vesting, and therefore have a three-year retention period.

Share appreciation rights

The board recognised the requirement for the committee to have a claw back right on the vesting of share appreciation rights, therefore any vesting of any number of shares is always subject to committee approval at the time of vesting.

In addition to the claw back, the board added some penalty clauses linked to four environmental, social and governance (ESG) elements. For 2017 the targets were as follows:

- Health and safety – Lost-time injury frequency rate – target of 1.0.
- Health and safety – Blood lead – target <40 ug per 100 ml for battery businesses.
- Broad-Based Black Economic Empowerment (B-BBEE) focus – Procurement – target 10% local content from enterprise developed businesses/black-owned businesses.
- Transformation – Increase in management control score on the new B-BBEE scorecard – a minimum of 49 points to be obtained for this element on the scorecard on a consolidated basis per South African manufacturing subsidiary.

Each element can reduce the vesting by 5% for a total of 20% if the performance on these elements is below target or if they cause the company to suffer reputational, brand or sustainability damage.

The final number of shares allocated to the participant at vesting of the share appreciation rights is based on the growth in share price for the number of shares allocated divided by the share price at vesting.

Performance shares

Metair redesigned the performance criteria to adjust for the fact that the acquisition expansion of the energy vertical introduced debt into the company. The criteria was therefore moved from return on assets (ROA) and return on equity (ROE) performance measurements to a return on invested capital (ROIC) performance target.

The ROIC target was combined with total shareholders' return (TSR) to align with shareholder requirements in long-term performance. Therefore, 50% of the vesting of performance shares is linked to meeting the ROIC target and the other 50% is based on Metair's TSR performance compared to our peer group of mid-tier industrial and trading companies.

ROIC

The return on capital or invested capital in a business attempts to measure the return earned on capital invested in an investment. In practice, it is usually defined as follows:

$$\text{ROIC} = \frac{\text{(A) Operating Income (t) x (1 – tax rate)}}{\text{(B) Book Value of Invested Capital (t-1)}}$$

Where:

(A) After-tax operating income =

a. Profit after tax.
b. Add back interest expenses (1 – tax rate).
c. Adjusted for headline earnings per share (HEPS) adjustments (1 – tax rate).

(B) Book value of invested capital at the start of the period (t-1) =

a. Opening book value (BV) of interest-bearing debt plus the opening BV of equity.
b. Plus the weighted average BV of debt + BV of equity for the acquisition of new businesses.
c. Adjusted for the weighted average BV of debt repaid during a year.
d. Adjusted for the foreign currency translation reserve (FCTR) effect associated with intangible assets that arose on acquisition of subsidiaries.

Targets

During Metair's growth and technology balance phase, while Metair is still expanding and building the energy vertical through acquisitions:

- ROIC upper target = weighted average cost of capital (WACC) + 3%
- ROIC lower threshold = 90% of WACC

After the growth and technology balance phase, that is once acquisitions to expand the energy vertical are complete and the company has had three years to deliver targeted ROIC at company level:

- ROIC upper target = WACC + 4%
- ROIC lower threshold = 100% of WACC

Long-term incentive plan (LTIP) participation threshold and multipliers

1. At 90% of WACC – 0.5 times;
2. At WACC – 1 time;
3. From WACC to target – 1 to 3 times (straight line); and
4. Above target ROIC – 3 times.

Determination of WACC

The committee will appoint a third party corporate finance specialist to determine the WACC for Metair, individual companies and segments at the start of each financial year.

Total shareholder return (TSR)

TSR is measured against a benchmark of mid-tier industrial and trading companies. While very few can be considered direct competitors, collectively they can be deemed to be an alternative investment portfolio for Metair's shareholders.

a. Definition

TSR is defined as the increase in the value of a portfolio of shares on the assumption that any dividends accruing to shareholders are immediately invested in additional shares in the portfolio.

For a single share, TSR can be calculated mathematically as the increase (or decrease) in share price plus dividends reinvested over the performance period, expressed as an annual rate of return.

A relatively strict approach in adopting the above formula is as follows:

- Starting share price is the average of the middle market closing prices of the share taken from the stock exchange over the three-month period ending on the business day before the start of the performance period.
- Ending share price is the average of the middle market closing prices of the share taken from the stock exchange over the three-month period ending on the last business day of the performance period.
- Cumulative dividend yield is the aggregate distributions to shareholders paid over the performance period divided by the middle market closing price of a share taken from the stock exchange on the relevant ex-dividend date.

The starting and ending share prices are averaged over a period – in this case three months – to reduce the sensitivity of the three-year TSR calculations to short-term share price volatility.

TSR is a well-established metric, understood by and relevant to institutional shareholders, and can be obtained on request from sponsors or any financial institution.

b. Peer group

The peer group of companies will be considered and reviewed with each new award. The peer group should represent an alternative investment destination for shareholders.

c. Targets (Metair TSR relative to the peer group)

1. For TSR performance below the median for the peer group, none of the TSR-related maximum award will vest;
2. At the median, 33.3% will vest;
3. Between the median and upper-quartile the gradient will be from 33.3% to 100% vesting; and
4. At or above the upper quartile 100% of the maximum TSR-related award will vest.

Retention shares

The final retention element is a specific retention award aimed at attracting, retaining and extending employment contracts with key talent at the Metair and group level. Retention awards will be made in the form of performance shares, the quantum of which will depend on what incentive would be required to retain that specific individual for at least a five-year forward period.

All candidates recommended for inclusion in the scheme must be approved by the committee before being submitted to the board for final sign off.

Retention shares from the company's perspective

Performance shares will vest on the third anniversary of their award to the extent that the specified performance criteria over the intervening period have been met, in line with the Metair Investments Limited 2009 Share Plan, but from a retention point of view, a contract to hold the shares for a further two years will be entered into between the company and the executive. This contract will ensure a minimum retention period of five years from date of award, with the proviso that, in the case of hardship in meeting tax obligations at the time of the shares vesting, the committee can be approached to allow for the sale of some of these shares to pay part or all of the tax

Any decision by the committee will be made with the shareholder requirement in mind to hold three times the individuals cost to company (CTC) in shares (see next paragraph), but will view any tax hardship in a sympathetic manner.

Should the individual leave the company before the five-year period ends the award will be lost.

Retention shares from the shareholders' perspective

Shareholders expect Metair executives to show commitment and confidence in the company by holding unvested and vested shares. The board supports this view and has targeted a value of approximately three times annual CTC in total share exposure, but also recognises that sufficient time needs to be allowed to accumulate this shareholding as it is a significant number.

Architecture of the short-term incentive structure

The design architecture for the STIP is based on a below-market position as set out on the next page:

Specific elements	Maximum capped theoretical % CTC participation	
	CEO	Chief financial officer (CFO)
Actual HEPS* vs budgeted HEPS	45	39
Annual specific performance KPIs	10	5
ROIC** vs target	13	6
Actual HEPS vs target	22	10
One board specific KPI***	10	10
Total maximum theoretical participation	100	70
Comparable market position	100 – 150	80 – 100

* HEPS – Headline earnings per share.

** ROIC – Return on invested capital.

*** KPI – key performance indicator.

Metair's approach to non-executive management remuneration

Non-executive directors are paid a fixed fee for their services but are also entitled to claim travelling and other expenses incurred in carrying out their duties. Non-executive directors do not participate in the STIP or LTIP.

Service contracts are in place for all non-executive directors that explain among other things, their appointment, roles and responsibilities and fees.

PE Corporate Services SA (Pty) Limited was used to do a non-executive remuneration benchmarking exercise to align Metair's non-executive director remuneration with the market, which resulted in fees being adjusted in 2016. Another benchmarking exercise will be undertaken in 2018 to evaluate Metair's fees against the market.

The South African Revenue Service issued two binding rulings relating to the tax treatment of non-executive directors' fees – Binding General Ruling (Income Tax) 40 and Binding General Ruling (VAT) 41 with an effective date of 1 June 2017. Where non-executive directors receive fees in excess of R1 million, they are obliged to register for VAT. In order to determine if fees in aggregate of the R1 million are received, non-executive directors have to aggregate all director fees, committee fees and other income they receive from all companies in which they hold office. If the non-executive director is an independent contractor and would like to charge VAT out of their own company, all income in that company must be added together for VAT purposes. In this regard, the company took a decision that approved fees are exclusive of VAT. Non-executive directors have to invoice the company to pay over the director fees, adding VAT on top of the current fees received, where applicable. This VAT then has to be paid over to SARS. The company on the other hand will now have to pay an additional 14% on top of the director fees, which cannot be claimed as a deduction or reclaimed for VAT.

IMPLEMENTATION REPORT

1. Job grading and ranking system for guaranteed pay – Count 1

The benefit of using an objective international job grading system is that it allows stakeholders to compare positions and grades across all companies in the industry. This year's grading for the top positions at Metair graded the CEO position at 21 points and the group CFO at 18 points. These rankings allow stakeholders to make peer comparisons and evaluate the correctness and fairness – equal work for equal pay – of the group's remuneration practices. This ensures that pay is capped at the relevant graded level. The group uses the Exsys job and evaluation system to determine the ranking across the 21 graded positions in the group.

This year's generalised outcome on the Towers Watson and Exsys system is summarised in the table below.

Global grade	Industry benchmark positions	Equivalent Metair positions
21	Group CEO	Metair CEO
18	Group level CFO, company levels MDs	Metair CFO, large company MDs
17, 16, 15, 14	Company level MDs, directors, senior managers, specialised group and company level	Small company MDs, directors, senior exco members, senior specialists, Metair company secretary
13, 12, 11, 10	Junior managers, engineers, accountants	Junior exco members, managers, engineers, accountants
9, 8, 7	Team leaders, line managers	Company team leaders, junior staff and clerks, technicians
6, 5, 4	Indirect workers, production support staff	Company quality controllers, logistics staff, administrative staff
3, 2, 1	Unionised and non-union workers	Direct labour

An income gap analysis has been compiled to depict the employee category/band ratios relative to each other. In 2017, the average guaranteed package for top management employees (global grades 15 and above) was 8.78 times higher than the average guaranteed package for clerical/administration/semi-skilled employees (global grades 4 – 7).

Remuneration **report** continued

Employee Category	2014	2015	2016	2017
Ratio of top management (GG 15+) to clerical/ administration/semi-skilled (GG 4 – 7)			8.93	**8.78**
Ratio of professionally qualified and subject matter expert/middle management (GG 12 – 14) to clerical/ administration/semi-skilled (GG 4 – 7)	4.10	4.21	4.25	**4.09**
Professionally qualified and subject matter expert/ middle management (GG 12 – 14) to skilled technical and academically qualified and junior management (GG 8 – 11)	2.21	2.17	2.19	**2.19**
Skilled technical and academically qualified and junior management (GG 8 – 11) to clerical/administration/ semi-skilled (GG 4 – 7)	1.85	1.94	1.94	**1.87**
GG – Global grade				

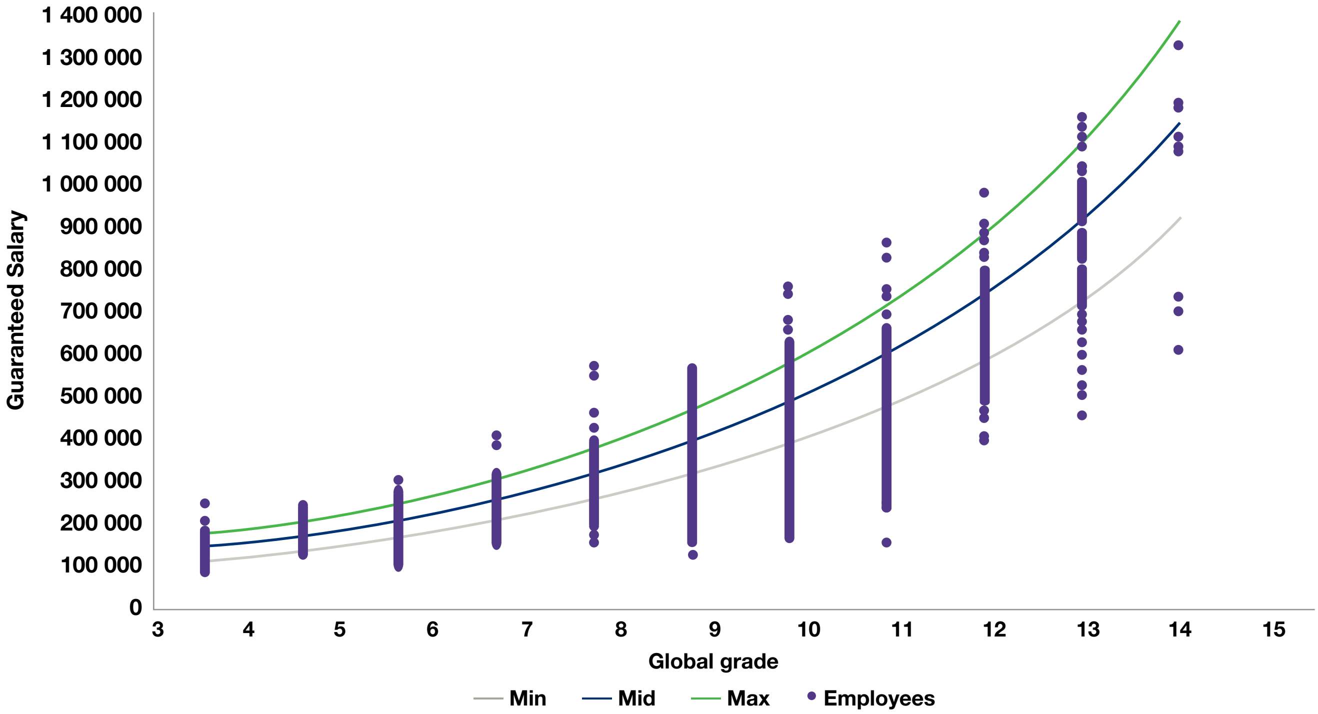
The Metair income gap analysis depicting the employee category/band ratios relative to the CEO's salary showed that in 2017, the CEO earned 3.8 times higher than the average guaranteed package for top management employees (global grades 15 and above, excluding CEOs and CFOs).

Employee Category	2014	2015	2016	2017
CEO (GG 21) to CFO (GG18)			1.63	**1.63**
CEO (GG 21) to top management (GG 15 and above excluding CEO and CFO			3.88	**3.80**
CEO (GG 21) to professionally qualified and subject matter expert/middle management (Global Grades 12 – 14)			7.45	**7.42**
CEO (GG 21) to skilled technical and academically qualified and junior management (Global Grades 8 – 11)			16.31	**16.21**
CEO (GG 21) to clerical/ administration/semi-skilled (Global Grades 4 – 7)			31.68	**30.30**

2. Market position cap

The second element of Metair's approach plots remuneration for each position relative to the market and our peers. The pay scale graph below shows the results of benchmarking group salaries for job grades 4 to 15 for 2017.

Metair group (all business units) salaries vs pay scale (October 2017)



The remuneration gap for Grades 4 to 7 was addressed in 2017 in terms of competitiveness and an improvement can be seen for these employees. Grades 8 to 10 will be addressed in 2018. An upliftment parameter of 8% instead of 6% was recommended for these grades and managing directors had the prerogative to distinguish between their employees and apply a suitable increase in the range of 6% to 8%.

This market comparison is performed by an independent third party that benchmarks Metair against global peers in other manufacturing businesses. The comparison is used to determine where we should remunerate within a three-tier grading across the lower quartile, the median or the upper quartile of the global peer group.

Metair uses the global median as the targeted remuneration level to ensure sustainability. The median level is at 50% of the market, meaning that 50% of the market is still above the level of remuneration set at Metair.

The table below (Count 1 – Guaranteed pay) shows the lower quartile, median and upper quartile position for the guaranteed pay of the CEO and CFO in terms of their 2017 guaranteed packages, excluding short-term incentives.

As can be seen from the table, the group CEO is at 95% of the global median and the group CFO is at 101% of the median.

The related market surveys and published reports on remuneration for 2018 indicated a 6% increase for executive remuneration. The group decided to recommend a 6% salary increase for 2018, except for pay grade levels 8 to 10, where an increase of 8% was recommended in line with the agreed increase negotiated with union members. This increase should remedy our below-market competitiveness in these areas.

In order to ensure fair and competitive remuneration for all workers, the percentage annual increase in hourly wages has exceeded the increase in salaried pay to help narrow the pay gap between salaried employees and wage earners for the last decade. Refer to the human capital section for more information.

3. Pay structure

Annual guaranteed pay

The guaranteed pay structure for the group is on a CTC basis, where all employee-costs are accounted for as remuneration. The level of pay is derived from the job grading and ranking. Pay performance against the median can be influenced over time by employee performance, retention and years of service. At Metair this is Count 1 of four counts used to derive total remuneration.

Annual performance assessments are used to adjust recommended base increases up or down.

Even in the case of above-normal performance appraisals for the group CEO and CFO the group increase of 6% was applied/recommended for 2017 and 2018.

The table below (Count 1 – Guaranteed pay) shows group CEO and CFO remuneration for 2017. The CFO remuneration includes subsistence allowance for the year.

Annual variable pay

Variable pay in the group consists of two elements – the short-term incentive program (STIP) (Count 2 of total pay) and the long-term incentive program (LTIP) (Count 4 of total pay).

Capped short-term incentive program (STIP) – Count 2

Metair undertook a complete overhaul of its STIP this year to ensure total alignment with company and shareholder requirements driven by specific performance outcome objectives and long-term strategy support.

The table below (Count 2 – Short-term incentive) indicates the CEO and CFO short-term incentive participation for 2017 compared to the market:

The application of International Financial Reporting Standards results in a disconnect in the timing in which short-term incentives show in financial accounts since these incentives are paid and reflected in the year following the achieved and audited results on which the incentive is based. In this instance, the short-term incentives reflected in the annual financial statements, note 3, are based on the performance delivered against the 2016 financials and 2017 key performance indicator (KPI)

Count 1 – Guaranteed Pay

		Market data January 2018			Actual earnings as % of market level		
Position	Current earnings (R)	Lower quartile (R)	Median (R)	Upper quartile (R)	Lower quartile	Median	Upper quartile
CEO	6 390 665	5 725 048	6 735 350	7 745 653	112%	95%	83%
CFO	3 996 305	3 377 683	3 973 745	4 569 807	118%	101%	87%

Count 2 – Short-term incentive programme

			Market Data January 2018			Actual earnings as % of market level		
Position	Actual % of CTC	Short-term incentive (R)	Lower quartile (R)	Median (R)	Upper quartile (R)	Lower quartile	Median	Upper quartile
CEO	87%	5 544 479	3 434 561	4 040 660	4 646 759	161%	137%	119%
CFO	63%	2 508 384	1 627 886	1 915 160	2 202 434	154%	131%	114%

performance. However, the short-term incentive reflected in the table above are based on performance and key performance indicators (KPIs) delivered in 2017 but accrued in the annual financial statements of 2017 as it will only be paid in 2018.

The CEO can participate at a theoretical capped maximum of 100% of CTC and the CFO at 70%. Actual achieved for 2017 was at 87% for the CEO and 63% for the CFO.

The table below shows the actual performance elements for the 2017 STIP structure.

The 2017 short-term incentive payment is based on achieving all elements except for the cash generated from operations.

Total Count 2 of annual remuneration (excluding LTIP and overseas assignment costs)
Total annual remuneration excluding LTIP participation and overseas assignment costs for group executives consists of two elements:

- Guaranteed pay
- Capped annual short-term incentive

The table below (Total Count 2 – Guaranteed pay and short-term incentive) shows the total remuneration for the CEO and CFO for 2017:

The inclusion of the STIP participation puts the CEO at 111% of the median of industry peers and the CFO at 110%.

Count 3 – Overseas assignments
The group is in the process of establishing and expanding our energy vertical internationally. The refunding of costs related to temporary overseas assignments also reflect in the accounts as remuneration, although these are reimbursements.

2017 STIP specific elements	Capped % CTC participation – CEO	Capped % CTC participation – CFO
Actual HEPS vs budgeted HEPS		
Incentive will be paid on a straight-line basis starting from 90% of budgeted HEPS	45%	39%
Annual specific performance KPIs:		
Cash generated from operations must be >80% of PBIT with budget being the minimum starting point	2%	1%
Secure industrial business	2%	1%
Obtain AGM Start/Stop business	2%	1%
Improve the financial performance of the South African automotive businesses with PBIT above a targeted percentage	2%	1%
Manage optimal repayment of R840 million of debt or refinancing of debt raised for Mutlu Acquisition	2%	1%
Total	**10%**	**5%**
ROIC vs target		
Incentive will be earned on a straight-line basis between a ROIC of 11% and 15.5% for 2017	13%	6%
Over-performance Level 1 – Budgeted HEPS vs targeted HEPS for 2017		
Additional incentive paid on a straight-line basis between budgeted HEPS and targeted HEPS	22%	10%
Board specific KPIs: Performance against B-BBEE targets and management control element		
Metair to appoint at least three black females and one black male as non-executive directors to the Metair board of directors	10%	10%
Maximum potential on budget	**100%**	**70%**

Total Count 1 and 2 – Guaranteed pay and short-term incentive

		Market data January 2018			Actual earnings as % of market level		
Position	Current earnings (R)	Lower quartile (R)	Median (R)	Upper quartile (R)	Lower quartile	Median	Upper quartile
CEO	11 935 144	9 159 609	10 776 010	12 392 412	130%	111%	96%
CFO	6 504 689	5 005 569	5 888 905	6 772 241	130%	110%	96%

Assignment costs consist of three elements and is the third count in total remuneration:
- Living costs;
- Housing allowance and security; and
- Government and country legislated taxes and levies.

In order to execute the Mutlu Akü acquisition and identify future expansion opportunities the Group CEO was assigned a three-year expatriate assignment in Turkey from 2013. The board subsequently approved an extension on the overseas assignment. The final assignment cost payment to the CEO will be made in April 2018.

The total cost related to the expatriate assignment for the CEO for 2017 was R3 489 634. This assigned cost is included in the remuneration of the CEO in addition to his normal remuneration and included in the total annual remuneration – Count 4.

Total Count 3 of annual remuneration (excluding LTIP)
The third count of annual remuneration excluding LTIP participation for the group executives therefore consists of three elements:
- Guaranteed pay (Count 1);
- Capped annual short-term incentive (Count 2); and
- Overseas assignment costs (Count 3).

The final and more complex element of Metair's executive remuneration policy is participation in the long-term incentive programme.

Count 4 – Retention and the capped LTIP
The aim of the LTIP is to obtain, retain and extend the services of executive management of Metair. However, where required, the LTIP can be expanded to include certain high potential subsidiary senior executives with scarce and critical skills or key employees, even if they are not executives. All candidates recommended for inclusion in the scheme must be approved by the committee before being submitted to the board for final sign off.

The long-term incentive structure in Metair is highly skewed towards performance as the system awards annual performance shares and share appreciation rights to participants.

The table below indicates the percentage of CTC that is used to calculate the number of share appreciation rights and performance shares that were awarded in 2017 to the CEO and CFO. The percentage of CTC allocation is applied on an annual basis.

For the period under review the board awarded the CFO 250 000 retention shares to secure his services for the next five years. These were the last allocation of bonus shares as the policy was changed to issue performance shares for retention going forward. An additional term of restraint is that the shares will not be disposed of for an additional two years after vesting, thus totalling a five-year period. The following claw back performance criteria are attached to this award:
- Successful execution of a board mandated shareholder value upliftment program aiming at increasing shareholder value by 25% or as agreed by the board after discussion of advisor recommendations in this regard. Measurement criteria to be used is the combined increase in market capitalisation and or shareholder value extraction increase by R1.5 billion.
- To achieve the above it would require the execution of the enhancement strategy per business vertical. Therefore the second performance criteria is the successful execution of the energy vertical value upliftment strategy
- The third criteria is the successful execution of the automotive component value upliftment strategy.

In terms of the shareholder requirement for the Metair executives to hold three times CTC in vested and unvested shares, the following table shows the current holdings by way of personal and company holdings:

	Vested	Unvested	Total	Times CTC
CEO	204 083	800 000	1 004 083	3.4
CFO		500 000	500 000	2.7

2017 awards

Position	Share appreciation rights			At share value R/c	Performance shares			At deemed share value R/c
	% of CTC	Value (R)	No. of shares		% of CTC	Deemed value (R)	No. of shares	
CEO	40%	2 549 193	133 326	19.12	19%	1 210 868	47 766	25.35
CFO	32%	1 254 196	65 596	19.12	15%	591 821	23 346	25.35

Remuneration **report** continued

The table contains more detail on the awards for 2017:

Share appreciation rights	
Metair CEO	133 326
Metair CFO	65 596
Total group allocation	1 088 651
Allocation date	27 November 2017
Allocation price	R19.12
Vesting date	From 27 November 2020 in three equal portions annually
Performance shares	
Metair CEO	47 766
Metair CFO	23 346
Total group allocation	518 593
Allocation date	3 April 2017
Vesting date	3 April 2020
Retention bonus shares	
Special allocation to Metair CFO for retention purposes	250 000
Allocation date	19 June 2017
Vesting date	19 June 2020 *
** Contracted to be held to 2022.*	

The retention bonus shares awarded to the CFO have not been included in the total annual remuneration – total Count 4 – as it has claw back performance criteria attached to it which have to be achieved on vesting of the shares.

All the shares vesting as indicated below, with further details provided in note 14 to the annual financial statements, relate to previously approved allocations.

Share appreciation rights	
The last third of the shares allocated on 26 September 2011, which were rolled from last year, vested.	
Metair CEO	3 861
Total group allocation	17 028
Allocation date	26 September 2011
Allocation price	R16,04
Vesting price	R18.76
Vesting date	26 September 2017
Other share appreciation rights were not exercised as there was no appreciation from the grant price. The exercise of all thirds of the shares allocated on 13 November 2012, the first and second third of shares allocated on 26 November 2013, the first third of shares allocated on 2 April 2014 as well as the first third of shares allocated on 26 November 2014 were rolled to next year.	

Performance shares
Performance shares granted on 2 April 2014 did not vest as the performance criteria were not met.

Total Annual Remuneration – Total Count 4

Total Annual Remuneration for the Group CEO and CFO consisting of all four pay counters from 2017 is tabled below.

Awards not yet vested

Details of awards that have not yet vested including awards done in 2017 are included in the table on the next page.

Fair value is based on the higher of the intrinsic value or the originally determined value in terms of IFRS2. The intrinsic value is based on the market value of the Metair share of R21,50 on 31 December 2017 and assumes that all performance criteria have been met.

For more details on the CEO and CFO emoluments, refer to note 3 in the annual financial statements. The long-term incentive structure is further detailed in note 14 of the annual financial statements.

TOP THREE EXECUTIVES' REMUNERATION

The remuneration of the top three executives of the group, excluding Metair holding company executives, are as follows:

Executive emoluments	Executive 1 R'000	Executive 2 R'000	Executive 3 R'000
Salaries and allowances	3 858	2 762	2 140
Performance bonuses	1610	1 063	599
Pension and provident fund contributions	102	376	258
Company contributions		39	66
Gain on exercise of share options		36	30
Total	**5 570**	**4 276**	**3 093**

Total Count 4 – Total annual remuneration

Position	Count 1 Guaranteed (R)	Count 2 Short-term incentive (R)	Count 3 Assignments (R)	Count 4 Long-term incentive (R)	Total (R)
CEO	6 390 665	5 544 479	3 489 634	72 432	15 497 210
CFO	3 996 305	2 508 384			6 504 689
The CEO retained the value of his shares vesting invested in Metair shares as per his agreement with the company.					

Position	Type of awards	Grant date	Maturity date	Grant price	Number of awards	Fair value at grant date	Market value at 31 December 2017	Fair value as at 31 December 2017
CEO	Bonus shares	01-Apr-16	01-Apr-19	R0.00	800 000	R17.83	R17 200 000	R17 200 000
	Performance shares	02-Apr-15	02-Apr-18	R0.00	27 849	R32.00	R598 754	R891 168
		01-Apr-16	01-Apr-19	R0.00	57 693	R10.78	R1 240 400	R1 240 400
		03-Apr-17	03-Apr-20	R0.00	47 766	R20.22	R1 026 969	R1 026 969
	Share appreciation rights	13-Nov-12	13-Nov-17	R30.79	44 277	R12.57	–	R556 562
		26-Nov-13	26-Nov-18	R37.33	800 000	R22.03	–	R17 624 000
		02-Apr-14	03-Apr-19	R42.77	37 744	R13.04	–	R492 182
		26-Nov-14	26-Nov-19	R37.35	49 732	R9.50	–	R472 454
		26-Nov-15	26-Nov-20	R28.30	77 253	R8.04	–	R621 114
		25-Nov-16	26-Nov-21	R20.02	120 124	R6.75	R177 784	R810 837
		27-Nov-17	27-Nov-22	R19.12	133 326	R5.85	R317 316	R779 957
Total					**2 195 764**		**R20 561 221**	**R41 715 642**
CFO	Bonus shares	26-Oct-15	26-Oct-18	R0.00	250 000	R26.03	R5 375 000	R6 507 500
		19-Jun-17	19-Jun-20	R0.00	250 000	R17.29	R5 375 000	R5 375 000
	Performance shares	02-Apr-15	02-Apr-18	R0.00	10 135	R32.00	R217 903	R324 320
		01-Apr-16	01-Apr-19	R0.00	28 061	R10.78	R603 312	R603 312
		03-Apr-17	03-Apr-20	R0.00	23 346	R20.22	R501 939	R501 939
	Share appreciation rights	26-Nov-14	26-Nov-19	R37.35	250 000	R11.17	–	R2 792 500
		02-Apr-14	03-Apr-19	R42.77	22 252	R13.04	–	R290 166
		26-Nov-14	26-Nov-19	R37.35	22 493	R9.50	–	R213 684
		26-Nov-15	26-Nov-20	R38.30	28 834	R8.04	–	R231 825
		25-Nov-16	26-Nov-21	R20.02	59 101	R6.75	R87 469	R398 932
		27-Nov-17	27-Nov-22	R19.12	65 596	R5.85	R156 118	R383 737
Total					**1 009 818**		**R12 316 741**	**R17 622 914**

NON-EXECUTIVE MANAGEMENT REMUNERATION

Non-executive directors' fees remained unchanged and will be presented for approval by shareholders at the next annual general meeting. Directors' fees thus proposed for 2018 are exclusive of VAT and as follows:

Board chairman	R600 000 per annum
Non-executive directors	R300 000 per annum
Audit and risk committee chairman	R36 000 per meeting
Audit and risk committee member	R22 000 per meeting
Remuneration committee chairman	R26 700 per meeting
Remuneration committee member	R16 700 per meeting
Social and ethics committee chairperson	R23 400 per meeting
Social and ethics committee member	R12 000 per meeting
Investment committee chairman	R23 400 per meeting
Investment committee member	R12 000 per meeting

Refer to note 3 in the financial statements for details on actual non-executive director emoluments.

The committee was satisfied that it complied with the remuneration policy during the period under review.

Shareholder **analysis**

Company: Metair Investments Limited
Register date: 29 December 2017
Issued Share Capital: 198 985 886

SHAREHOLDER SPREAD	No of Shareholdings	%	No of Shares	%
1 – 1 000 shares	1 337	46.14	532 165	0.27
1 001 – 10 000 shares	1 056	36.44	3 386 660	1.70
10 001 – 100 000 shares	305	10.52	9 985 896	5.02
100 001 – 1 000 000 shares	156	5.38	52 136 413	26.20
1 000 001 shares and over	44	1.52	132 944 752	66.81
Totals	**2 898**	**100.00**	**198 985 886**	**100.00**

DISTRIBUTION OF SHAREHOLDERS	No of Shareholdings	%	No of Shares	%
Banks/brokers	56	1.93	34 457 387	17.32
Close corporations	25	0.86	177 575	0.09
Endowment Funds	19	0.66	668 705	0.34
Individuals	2 148	74.12	7 442 874	3.74
Insurance companies	34	1.17	7 457 133	3.75
Investment companies	8	0.28	10 248 610	5.15
Medical schemes	6	0.21	326 440	0.16
Mutual funds	173	5.97	74 344 627	37.36
Other corporations	11	0.38	29 407	0.01
Private companies	67	2.31	1 197 362	0.60
Public companies	1	0.03	50	0.00
Retirement funds	99	3.42	59 513 883	29.91
Treasury stock	2	0.07	982 822	0.49
Trusts	249	8.59	2 139 011	1.07
Totals	**2 898**	**100.00**	**198 985 886**	**100.00**

PUBLIC / NON-PUBLIC SHAREHOLDERS	No of Shareholdings	%	No of Shares	%
Non-public shareholders	5	0.16	1 306 905	0.66
Directors and associates of the company	3	0.08	324 083	0.16
Treasury stock	2	0.08	982 822	0.49
Public shareholders	2 893	99.84	197 678 981	99.34
Totals	**2 898**	**100.00**	**198 985 886**	**100.00**

BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE	No of Shares	%
Government Employees Pension Fund	23 605 512	11.86
Foord	15 156 516	7.62
Investec	11 860 607	5.96
Alexander Forbes Investments	10 266 206	5.16
Somerset Capital Management	10 131 280	5.09
MMI Holdings Ltd	6 873 604	3.45
Metal & Engineering Industries	6 477 552	3.26
Coronation Group Investments Ltd	6 183 098	3.11
Vanguard	5 953 580	2.99
Totals	**96 507 955**	**48.50**

INSTITUTIONAL SHAREHOLDING 3% OR MORE	No of Shares	%
Foord Asset Management	29 343 800	14.75
Kagiso Asset Management	24 337 338	12.23
Investec Asset Management	19 769 038	9.93
Sentio Capital Management	14 055 526	7.06
Public Investment Corporation	11 621 635	5.84
Somerset Capital Management	11 397 326	5.73
Vanguard	5 953 580	2.99
Totals	**116 478 243**	**58.54**

BREAKDOWN OF NON-PUBLIC HOLDINGS		
Directors	No of Shares	%
Soanes, L	**120 000**	**0.06**
Soanes, L	120 000	0.06
Loock, CT	**204 083**	**0.10**
Loock, CT	200 222	0.10
Loock, CT	3 861	0.00
Totals	**324 083**	**0.16**
Treasury Stock	No of Shares	%
Business Venture Investments No.1217	800 000	0.40
Business Venture Investments No.1217	182 822	0.09
Totals	**982 822**	**0.49**

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE		
Beneficial Shareholders Holding 3% or more	No of Shares	%
Government Employees Pension Fund	**23 605 512**	**11.86**
Government Employees Pension Fund – Public Investment Corporation	10 103 831	5.08
Government Employees Pension Fund – Sentio Capital Management	6 152 799	3.09
Government Employees Pension Fund – Kagiso Asset Management	3 720 832	1.87
Government Employees Pension Fund – Perpetua Investment Managers	2 089 541	1.05
Government Employees Pension Fund – Public Investment Corporation	944 274	0.47
Government Employees Pension Fund – Legacy Africa Fund Managers	347 813	0.17
Government Employees Pension Fund – Mianzo Asset Management	246 422	0.12
Foord	**15 156 516**	**7.62**
Foord Equity Fund	7 350 122	3.69
Foord Balanced Fund	7 317 767	3.68
Foord Domestic Balanced Fund	488 627	0.25
Somerset Capital Management	**10 131 280**	**5.09**
PFS Somerset Emerging Markets Small Cap Fund	7 972 151	4.01
PFS Somerset Emerging Markets Small Cap Fund	2 159 129	1.09

Shareholder **analysis** continued

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE continued		
Beneficial Shareholders Holding 3% or more continued	**No of Shares**	**%**
Investec	**11 860 607**	**5.96**
Investec Value Fund	6 981 837	3.51
Investec Cautious Managed Fund	2 032 549	1.02
Investec Emerging Companies Fund	1 442 144	0.72
Investec Absolute Balanced Fund	816 125	0.41
Investec SA Value Fund	254 482	0.13
Investec Opportunity Fund	214 302	0.11
Investec Securities – Proprietary STRATE A/C No 2	73 137	0.04
Investec SA Cautious Managed Fund	46 031	0.02
Alexander Forbes Investments	**10 266 206**	**5.16**
Alexander Forbes Investments Fully Discretionary Local	4 505 793	2.26
Alexander Forbes Investments Funds – Equity	3 061 114	1.54
Alexander Forbes Investments Funds	623 219	0.31
Alexander Forbes Investments Funds	586 119	0.29
Alexander Forbes Investments Fully Discretionary Local	248 282	0.12
Alexander Forbes Investments Funds – Low Equity Conserver	236 993	0.12
Alexander Forbes Investments Funds	227 756	0.11
Alexander Forbes Investments Funds – Local Balanced	117 732	0.06
Alexander Forbes Investments Funds – Capped SWIX Tracker	110 688	0.06
Alexander Forbes Investments Fully Discretionary Global Balanced Fund	108 217	0.05
Alexander Forbes Investments – Shariah Equity	92 350	0.05
Alexander Forbes Investments – Aggressive Equity	83 308	0.04
Alexander Forbes Investments Funds	82 440	0.04
Alexander Forbes Investments Funds – Local Balanced	57 886	0.03
Alexander Forbes Investments Funds	53 301	0.03
Alexander Forbes Investments Funds – Institutional Equity	30 718	0.02
Alexander Forbes Investments Funds – Performer Balanced	25 790	0.01
Alexander Forbes Investments Funds – Absolute Return	10 000	0.01
Alexander Forbes Investments Funds – Conserver	2 000	0.00
Alexander Forbes Investments Real Return Focus Fund	2 000	0.00
Alexander Forbes Investments Funds – Absolute	500	0.00
MMI Holdings Ltd	**6 873 604**	**3.45**
Momentum Best Blend Specialist Equity Fund	1 406 808	0.71
Momentum Macro Value Fund	1 179 106	0.59
Momentum Real Growth Equity Fund	1 104 121	0.55
Momentum Funds	1 036 555	0.52
Momentum SA Defensive Growth Fund	701 169	0.35
Momentum Real Growth Equity Fund	592 805	0.30
Momentum Funds	433 300	0.22
MMI Group Ltd	388 986	0.20
Momentum SWIX Index Fund	15 230	0.01
Momentum Mid and Small Cap Index Fund	5 211	0.00
Guardrisk Life	3 700	0.00
Momentum Real Growth Core Equity Fund – SWIX	3 113	0.00
Momentum Real Return Core Fund	2 500	0.00
Momentum Funds – Absolute	1 000	0.00

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE continued		
Beneficial Shareholders Holding 3% or more continued	**No of Shares**	**%**
Metal & Engineering Industries	**6 477 552**	**3.26**
Metal Industries Provident Fund – Kagiso Asset Management	2 742 533	1.38
Engineering Industries Pension Fund – Kagiso Asset Management	2 726 332	1.37
Metal Industries Provident Fund – Metal & Engineering Industries	303 355	0.15
Metal Industries Provident Fund – Metal & Engineering Industries	295 766	0.15
Engineering Industries Pension Fund – Metal & Engineering Industries	158 769	0.08
Engineering Industries Pension Fund – Sentio Capital Management	110 181	0.06
Metal Industries Provident Fund – Sentio Capital Management	54 861	0.03
Engineering Industries Pension Fund – Mianzo Asset Management	30 188	0.02
Engineering Industries Pension Fund – LEGACY AFRICA Fund Managers	27 045	0.01
Metal Industries Provident Fund – Mianzo Investment Management	15 002	0.01
Metal Industries Provident Fund – LEGACY AFRICA Fund Managers	13 520	0.01
Coronation Group Investments Ltd	**6 183 098**	**3.11**
Coronation Group Investments Ltd	5 688 826	2.86
Coronation Group Investments Ltd	494 272	0.25
Vanguard	**5 953 580**	**2.99**
Vanguard Total International Stock Index Fund	2 790 270	1.40
Vanguard Emerging Markets Stock Index Fund	2 693 783	1.35
Vanguard FTSE All-World Ex-US Small Cap Index Fund	431 094	0.22
Vanguard Total World Stock Index Fund	38 433	0.02
Totals	**96 507 955**	**48.50**

Independent assurance **statement**

To the Board and stakeholders of Metair Investments Limited (Metair)

Integrated Reporting & Assurance Services (IRAS) was commissioned by Metair to provide independent third-party assurance (ITPA) over the sustainability content within Metair's 2017 Integrated Annual Report (hereafter, referred to as 'the Report'), covering the period 01 January to 31 December 2017. For the purposes of this statement, 'the Report' refers to the printed report, and downloadable/online version, and all relevant supplemental information made available via the web at www.metair.co.za.

The assurance team consisted of Michael H. Rea, our Lead Certified Sustainability Assurance Practitioner, with 19 years' experience in environmental and social performance measurement, including sustainability reporting and assurance, and our team of junior associates.

ACCOUNTABILITY AA1000S (REVISED, 2008)

To the best of our ability, this assurance engagement has been managed in accordance with AccountAbility's AA1000AS (2008) assurance standard, where the format of the engagement was structured to meet the AA1000AS Type II (Moderate) requirements.

INDEPENDENCE

IRAS was not responsible for the preparation of any part of the Report and has not undertaken any commissions for Metair in the reporting period that would impede our independence. IRAS has, however, conducted assurance engagements for Metair's 2011 through 2013 Reports following AccountAbility's AA1000AS Assurance Standard (Type I, Moderate), including the identification of reporting gaps that ultimately have been incorporated into their reporting processes. From 2014, assurance has shifted to AA1000AS (Type II, Moderate) which has required assurance site visits to the following selected sites:

- 2017 – Mutlu Akü (Turkey) and Rombat (Romania)
- 2016 – ATE and Unitrade
- 2015 – Lumotech, Smiths Manufacturing and Supreme Spring
- 2014 – First National Battery, Hesto Harnesses and Smiths Plastics

Moreover, our engagements have expanded to provide guidance – as a product of our assurance investigations – over effective sustainability data collection, collation and reporting, inclusive of Metair's Group Sustainability Definitions and internal audit procedures. However, this work has not compromised our ability to afford ITPA over the sustainability content within Metair's 2017 IAR.

IRAS's responsibility in performing its assurance activities is to the management of Metair alone and in accordance with the terms of reference agreed with them.

The cost of this assurance engagement was R376 740 (exclusive of VAT and expenses), with no portion of these fees assigned to tasks deemed 'advisory services'.

ASSURANCE OBJECTIVES

The objectives of the assurance process were to:

- Assess the extent to which Group policies and procedures for sustainability data collection, collation and reporting are effectively applied at the following operations: Mutlu Akü and Rombat. This includes testing the accuracy, consistency, completeness and reliability of reported data, relative to a set of selected sustainability indicators, as tested at the selected sites.
- Assess Metair's ability to provide transparent disclosure of quantitative comparable sustainability data (also referred to as 'Environmental, Social and Governance', or 'ESG' data).
- Reasonable adherence to local and international expectations for effective reporting, including guidance provided by the International Integrated Reporting Committee (IIRC) recommendations for integrated reporting (the <IR> Framework);

SCOPE OF WORK PERFORMED

The process used in arriving at this assurance statement is based on AccountAbility's AA1000AS (2008) guidance, as well as other best practices in assurance. Our approach to assurance included the following:

- An 'internal materiality assessment' review of Board and Committee packs to identify the material issues discussed at the highest levels of governance within the company;
- An 'external materiality assessment' review of various media sources and the annual reports of all JSE-listed companies, to identify the material issues that appear to be of significant importance to external stakeholders, the physical/natural environment and the local and global economic environment in which the company operates;
- A review of sustainability measurement and reporting procedures at Metair's head offices, via management interviews with the reporting team, as well as through desktop research;
- A review of data collection, collation and reporting procedures at the selected operational sites, with specific reference to the 16 selected sustainability performance indicators;
- Reviews of drafts of the Report for any significant errors and/or anomalies, inclusive of any lapses in the reporting of material issues identified during our internal and external materiality assessments;
- Reviews of drafts of the Report to test for reasonable adherence to reasonable reporting expectations; and
- A series of interviews with the individuals responsible for collating and writing various parts of the Report in order to ensure sustainability performance assertions could be duly substantiated.

It should be noted that due to the scope and nature of this AA1000AS (Type II, Moderate) assurance engagement, the site visits were designed to test the authenticity of data at the primary source of collection and collation, and this report has been assessed at the point of data aggregation for accuracy of reporting.

The selected sustainability performance indicators are as follows:

1. **Total Employees –** Total number of full time/permanent, temporary, and fixed contract employees.
2. **PHW –** Total number of person hours worked (PHW) for all employees and contractors.
3. **FIFR –** Fatal Injury Frequency Rate (FIFR), calculated as the total number of fatal injuries (FIs) per 200 000 PHW – for employees and contractors.

4. **LTIFR –** Lost Time Injury Frequency Rate (LTIFR), calculated as the total number of lost time injuries (LTIs) per 200 000 PHW – for employees and contractors.
5. **TIFR –** Total Injury Frequency Rate (TIFR), calculated as the total number of injuries – inclusive of FIs, LTIs, Medical Treatment Cases (MTCs) and First Aid Cases (FACs) per 200 000 PHW – for employees and contractors.
6. **Electricity –** Total direct and indirect consumption of electricity for primary purposes.
7. **Petrol –** Total direct and indirect consumption of petrol for primary purposes.
8. **Diesel –** Total direct and indirect consumption of diesel for primary purposes.
9. **Water –** Total volume of water consumed – from all sources (i.e. municipal service, boreholes, etc.) – for primary purposes.
10. **Waste –** Total volume of waste generated that is sent to landfill.
11. **Waste Recycled –** Total volume of waste generated that is sent for recycling.
12. **Female Management –** Number of women in management levels – excluding non-executive directors.
13. **Absenteeism** Total number of person days lost due to all forms of absenteeism (i.e. sick, abscond, etc.), including formal/annual leave.
14. **Employee Turnover –** Percentage of employees – as at final day of reporting period – that left the employ of Metair for all reasons (e.g. End of Contract, Dismissal, Retirement, Death, Permanent Disability/Medical Boarding, End of Contract, etc.).
15. **CSI/SED Spend –** Total Rand value of expenditures on Corporate Social Investment (CSI)/Socio-Economic Development (SED) projects.
16. **CSI/SED M&E –** Presence and application of policies, procedures, systems and controls to ensure that all CSI/SED projects are subject to Monitoring & Evaluation (M&E) to measure the developmental impacts of projects.

FINDINGS AND RECOMMENDATIONS

In general, Metair's sustainability reporting processes continue to improve towards measured excellence, noting that the Report reasonably reflects an accurate accounting of Metair's performance, including the review of data collected, collated and reported by the selected sites.

AA1000AS (TYPE II)

- As per management assertions, Metair engages key stakeholders, as defined within this Report, based on the evidence reviewed, thus meeting the requirements of Inclusivity.
- The content of the Report does not differ, in any significant way, from an analysis of the material issues discussed within Metair, or within its sphere of influence, as per our internal and external materiality scans. Adequate systems and controls are in place to identify and prioritise the company's 'most material issues', thereby meeting reasonable Materiality expectations.
- Metair adequately demonstrated appropriate systems and controls are in place to report back to stakeholders on matters that are deemed 'most material' to the business, in the context of those issues that are deemed 'material to stakeholders', thereby meeting reasonable Responsiveness expectations.

SUSTAINABILITY DATA PERFORMANCE

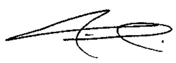
- Metair continues to refine its systems for data collection, collation and reporting, at both the Group and operation level, through the further development of enhanced sustainability data policies, procedures, systems and controls. During the year under review, Metair continued its transition to the use of a Group-wide sustainability data management system, further improving the quantity (completeness) and quality (accuracy, consistency and reliability) of reported ESG data.
- Aside from the following exceptions, the tested site-specific data was found to be reasonably accurate and/or reliable, although process improvements at some sites may still be required with respect to the implementation of internal control procedures for data accuracy and reliability.
- Through the effective use of a supplemental sustainability data table, coupled with effective inclusion of key data within the body of the IAR, Metair continues to demonstrate leadership relative to public disclosure of the ESG data.

EXCEPTIONS

- Systems to collect and collate Contractor Hours Worked at some sites were deemed inadequate to provide 'actual data', leading to the potential for over-reporting injury frequency rates, and thus decreasing the comparability of this data within Metair and against other companies.
- Application of Group definitions for safety continues to require additional attention in order to ensure that data is truly comparable between operations, and between Metair and other companies.
- While CSI/SED Spend data – in the form of cash contributions – is accurately reported, more could be done to ensure that 'Total CSI/SED Spend' includes all operational costs, and the value of time contributed to projects.
- Although CSI/SED project success is measured in terms of spend 'on time and on budget', more could be done to ensure that all significant projects are structured in such a way as to track the developmental outcomes of Metair's contributions.

CONCLUSIONS

Based on the information reviewed, IRAS is confident that this Report provides a comprehensive and balanced account of the environmental, safety and social performance of Metair during the period under review. The data presented is based on a systematic process and we are satisfied that, aside from the exceptions stated above, the reported performance data accurately represents the current environmental, safety and social performance of Metair, while meeting the AA1000AS (2008) principles of Inclusivity, Materiality and Responsiveness. Moreover, and although the quality or quantity of data of can be improved, this Report demonstrates effective leadership with respect to sustainability data transparency.



Integrated Reporting & Assurance Services (IRAS)

Johannesburg
14 March 2018

Supplementary **schedules**

GLOSSARY

ABM	Associated Battery Manufacturers (East Africa) Limited
AET	Adult Education and Training
AGM	Absorbed Glass Mat AGM batteries are classified as a valve regulated lead acid (VRLA) battery. These batteries immobilise the acid in the battery using fibreglass separators between the battery plates and provide the superior performance required in higher-specification Start/Stop systems. AGM batteries are suitable for regenerative braking systems, have more power and longer lives than other types of batteries.
AGOA	Africa Growth and Opportunity Act. US legislation to support the development of Sub-Saharan countries
APDP	Automotive Production and Development Programme. A government support programme for the South African automotive industry
B-BBEE	Broad-based black economic empowerment
BV	Book value
CDP	Carbon Disclosure Project
CEO	Chief executive officer
CFO	Chief financial officer
CIS	Commonwealth of Independent States
CSDP	Central Securities Depository Participant
CSI	Corporate social investment
CTC	Cost to company
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECD	Early childhood development
EFB	Enhanced Flooded Batteries EFB batteries improve on the traditional lead acid battery and can deliver the performance necessary for Start/Stop systems due to their improved durability. These batteries have improved charge acceptance and a longer life than traditional car batteries and are suitable for all cars on the road. EFB technology provides a cost-effective solution for Start/Stop systems but does not have the rapid charging characteristics required for regenerative braking systems employed in modern upmarket cars.
ESG	Environmental, social and governance
EU	European Union
EV	Electric vehicle
FCTR	Foreign currency translation reserve
FNB	First National Battery
GDP	Gross domestic product
GG	Global grade
GJ	Gigajoules
GRI	Global Reporting Initiative
HDSA	Historically disadvantaged South African
HEPS	Headline earnings per share

IIRC	International Integrated Reporting Council
IP	Intellectual property
IT	Information Technology
JSE	Johannesburg Stock Exchange
KPI	Key Performance indicator
LTIFR	Lost time injury frequency rate
LTIP	Long-term incentive plan
MERSETA	Manufacturing, Engineering and Related Services SETA
MIB	Metair International Battery Metair's battery marketing organisation
MOI	Memorandum of Incorporation
MWh	Megawatt hours
NAACAM	National Association of Automotive Component and Allied Manufacturers of South Africa
NAAMSA	National Association of Automobile Manufacturers South Africa
OE	Original Equipment
OEM	Original Equipment Manufacturer
PBIT	Profit before interest and tax
PHW	Person-hours worked
RBH	Royal Bafokeng Holdings
ROA	Return on assets
ROE	Return on equity
ROIC	Return on invested capital
SARS	South African Revenue Service
SENS	Stock Exchange News Service
SETA	Sector Education and Training Authority Skills development institutions established by the Skills Development Act in South Africa
SHE	Safety, health and environment
STIP	Short-term incentive plan
TSR	Total shareholders return
VCT	Voluntary counselling and testing
WACC	Weighted average cost of capital

Appendix I – **Accreditation**

	Environmental	Health and Safety	Quality (non-auto)	Quality (auto)	Energy Management	Quality (OEM)	Quality (OEM)	Quality (OEM)	Quality (EU)	Quality (SA)
Subsidiaries	**ISO 14001**	**OHSAS 18001**	**ISO 9001**	**ISO/TS 16949**	**ISO 50001**	**Q1 Ford**	**QSB GM**	**Formal Q**	**VCA**	**SABS SANS**
First National Battery	✔	✔	✔	✔		N/A	✔	✔	N/A	N/A
Smiths Manufacturing	✔	✔	✔	✔		N/A	✔	N/A	N/A	N/A
Hesto Harnesses	✔	✔	✔	✔	✔	N/A	✔	N/A	N/A	N/A
Smiths Plastics	✔	In planning	✔	✔	In planning	In planning	N/A	N/A	N/A	N/A
Automould	✔			✔		N/A	N/A	N/A	N/A	N/A
Supreme Spring	✔	✔	✔	✔	✔	✔	✔	✔	N/A	N/A
Alfred Teves Brake Systems	✔	✔	✔	N/A		N/A	N/A	N/A	✔	N/A
Lumotech	✔		✔	✔		✔	N/A	✔	✔	✔
Tenneco Automotive Holdings	✔	✔	✔	✔	✔	✔	✔	✔	N/A	N/A
Valeo Systems South Africa			✔	✔		N/A	N/A	N/A	N/A	N/A
Unitrade	✔	✔	✔	✔		N/A	N/A	N/A	N/A	N/A
Rombat	✔	✔	✔	✔	Certification planned for 2018	N/A	N/A	N/A	N/A	N/A
Mutlu Akü	✔	✔	✔	✔	✔	✔			N/A	N/A
ABM	ABM site only		✔	Planned for 2018		N/A	N/A	N/A	N/A	N/A
MOLL	✔	N/A	✔	✔	✔	N/A	N/A	✔	N/A	N/A

Appendix II – **Sustainability data table**

		FY2017	FY2016	FY2015	FY2014	FY2013
Labour						
Total number of permanent employees	Number	7 432	7 028	6 801	6 607	6 457
Total number of temporary employees	Number	810	1 153	849	655	N/R
Total number of contractors	Number	861	492	568	589	155
Total employees (including contractors)	Number	9 103	8 673	8 218	7 851	6 612
Percentage of employees who are deemed 'HDSA' (South Africa only)	%	90.30%	90.90%	92.0%	92.0%	90.0%
Percentage of employees who are women	%	32.30%	32.8%	33.3%	31.4%	35.1%
Percentage of employees who are permanent	%	81.6%	81.0%	82.8%	84.2%	97.7%
Percentage of employees who belong to a trade union	%	69.70%	72.8%	58.5%	67.3%	79.1%
Total number of employee terminations	Number	1 875	2 096	1 619	1 399	771
Employee turnover rate	%	22.7%	25.6%	21.2%	19.3%	6.4%
Total number of person hours worked – all employees (excluding contractors)	Number	17 721 822	18 160 037	16 518 238	15 733 797	11 832 172
Total number of person days lost due to absenteeism	Number	61 797	69 699	60 501	59 105	N/R
Absenteeism rate	%	3.00%	3.3%	3.2%	3.0%	3.4%
Total number of person days lost due to industrial action	Number	9 601	4 287	7 407	-	65 272
Industrial action rate	%	0.4%	0.2%	0.4%	0.0%	0.6%
Total number of employees trained	Number	7 593	8 590	6 122	5 021	5 396
Total number of training interventions	Number	15 288	17 592	30 633	16 834	N/R
Rand value of employee training spend	R (million)	27.3	30.9	15.0	13.6	9.9
Rand value of research and development spend	R (million)	70.6	59.8	74.7	22.5	31.6
Health and Safety (all employees and contractors)						
Total number of fatalities	Number	0	0	0	0	0
Total number of lost time injuries	Number	86	109	115	145	66
Total number of medical treatment cases	Number	87	156	243	146	116
Total number of first aid cases	Number	875	582	661	389	N/R
Total number of recordable injuries	Number	173	265	358	291	182
Fatal injury frequency rate	Rate	0	0	0	0	0
Lost time injury frequency rate	Rate	0.97	1.20	1.39	1.84	1.12
Total injury frequency rate	Rate	11.83	9.33	12.34	8.63	N/R
Total recordable injury frequency rate	Rate	1.95	2.92	4.33	3.69	3.08
Total number of employees and contractors receiving Voluntary Counselling and Testing (VCT) for HIV/Aids (i.e. counselled)	Number	408	501	772	1 002	433
Total number of employees and contractors tested for HIV/Aids	Number	809	902	902	972	433
Environmental						
Carbon footprint						
– Scope 1	tCO_2e	44 603	46 468	46 353	50 747	N/R
– Scope 2	tCO_2e	138 134	141 376	146 046	149 015	N/R
– Scope 3	tCO_2e	455 455	398 100	370 722	364 793	N/R
– Total	tCO_2e	638 192	585 944	563 120	564 555	N/R
Energy						
Total electricity consumption	MWh	201 381	191 055	180 782	180 684	N/R
Total petrol consumption	litres	288 285	303 528	290 229	322 608	N/R
Total diesel consumption	litres	1 430 114	690 653	651 778	607 066	N/R

Appendix II – **Sustainability data table** continued

Water						
Total water consumption	m^3	621 330	622 027	587 363	530 438	468 285
Total volume of water discharged	m^3	192 909	180 595	191 948	1 769 450	N/R
Non-hazardous waste						
Total volume of non-hazardous waste sent to landfill	kgs	3 359 479	3 457 811	5 841 258	2 241 700	
Total volume of paper recycled	kgs	802 564	660 000	369 592	337 024	N/R
Total volume of cardboard recycled	kgs	902 285	867 985	854 426	849 805	N/R
Total volume of plastic recycled (internal and external)	kgs	3 647 220	4 142 133	2 728 303	1 653 402	N/R
Total volume of glass recycled	kgs	450	490	1 045	360	N/R
Total volume of metal recycled (including tin cans) (internal and external)	kgs	1 752 462	1 799 905	1 323 514	1 034 515	N/R
Total volume of biodegradable wet waste recycled	kgs	423 458	350 855	409 980	591 330	N/R
Total volume of other waste recycled (e-waste, wood, polystyrene, packaging foil etc.)	kgs	1 106 516	544 963	312 594	3 826	N/R
Total volume of non-hazardous waste recycled	kgs	8 634 955	8 366 331	5 999 454	4 470 262	3 308 000
Hazardous waste						
Total volume of hazardous waste sent to appropriate disposal sites	kgs	22 187 270	17 838 510	19 274 878	6 620 470	N/R
Total volume of lead recycled	Tonnes	±67 000	±75 000	±68 000	±60 000	N/R
Total volume of oils recycled	kgs	37 276	66 701	58 098	66 690	33 381
CSI/SED Expenditures						
Rand Value of Corporate Social Investment (CSI)/ Socioeconomic Development (SED) expenditures	R (million)	10.1	13.6	21.4	16.3	8.4
Rand Value of CSI/SED spend on education	R (million)	1.9	2.9	8.6	9.1	3.1
Rand Value of CSI/SED spend on skills development, including Adult Basic Education & Training (ABET)	R (million)	0.9	1.2	2.9	2.1	2.0
Rand Value of CSI/SED spend on health, including HIV/AIDS	R (million)	2.5	2.3	2.1	1.6	0.9
Rand Value of CSI/SED spend on basic needs and social development, including nutrition and/or feeding programmes	R (million)	1.3	2.2	2.0	2.0	1.8
Rand Value of CSI/SED spend on infrastructure development	R (million)	0.8	0.4	0.2	0.2	0.0
Rand Value of CSI/SED spend on arts, sports and culture	R (million)	1.2	1.4	0.2	0.3	0.3
Rand Value of CSI/SED spend on other	R (million)	1.0	2.4	3.5	0.9	0.3
Rand Value of CSI/SED spend on environmental projects	R (million)	0.3	–	0.0		
Rand Value of CSI/SED spend on job creation/small business support	R (million)	0.2	0.7	1.9	0.1	0.0
Enterprise development (support for small business development)						
Rand value of enterprise development spend	R (million)	20.9	21.5	27.3	28.6	32.3
Preferential procurement (South African operations only)						
Rand value of total discretionary procurement spend	R (million)	2 231.5	3 416.3	2 241.4	2 755.7	N/R
Rand value of HDSA procurement spend	R (million)	886.0	1 732.5	1 377.9	324.0	572.5
Preferential procurement spend rate	%	39.7%	50.7%	61.5%	11.8%	N/R

Appendix III – **Human capital**

Total headcount	**Male**	**Female**	**Total**
South Africa			
Permanent	3 529	2 280	5 809
Temporary	213	249	462
Contractors			861
Total	**3 742**	**2 529**	**7 132**
Romania			
Permanent	605	90	695
Temporary	61	1	62
Contractors			
Total	**666**	**91**	**757**
Turkey			
Permanent	854	62	916
Temporary	286	0	286
Contractors			
Total	**1 140**	**62**	**1 202**
UK			
Permanent	9	3	12
Temporary			
Contractors			
Total	**9**	**3**	**12**
Group	**5 557**	**2 685**	**9 103**

Annual financial **statements**

Contents

LEVEL OF ASSURANCE

These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

PREPARER

The annual financial statements were prepared under the supervision of Mr S Douwenga (Finance director) B Comm (Hons), CA (SA).

PUBLISHED

14 March 2018

Statement of **responsibility**

BY THE BOARD OF DIRECTORS

The directors are responsible for maintaining proper accounting records and the preparation, integrity, and fair presentation of the financial statements of Metair Investments Limited (Metair) and its subsidiaries. The accounting records disclose with reasonable accuracy the financial position of the company.

The directors acknowledge that they are ultimately responsible for the system of internal controls established by the group and place considerable importance on maintaining a strong control environment. The directors are of the opinion, based on the information and explanations given by management and the internal auditor's that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements.

The directors are of the opinion that the group and the company have adequate resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis.

The auditor is responsible for reporting on whether the group annual financial statements and the annual financial statements of the company are fairly presented in accordance with the applicable reporting framework.

The consolidated annual financial statements are stated in South African Rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) in issue and effective for the Group at 31 December 2017 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and financial reporting pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

They are based on appropriate accounting policies which have been applied consistently and are supported by reasonable and prudent judgements and estimates. The directors also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the annual financial statements. The annual financial statements have been audited by the independent auditors,

PricewaterhouseCoopers Incorporated (PwC), who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The group annual financial statements and the annual financial statements of the company for the year ended 31 December 2017, set out on pages 120 to 191, were approved by the board of directors and signed on its behalf by:

SG Pretorius
Chairman

CT Loock
Managing director

Johannesburg
14 March 2018

The audit report of PricewaterhouseCoopers Incorporated is presented on page 123.

Certificate by **company secretary**

In my capacity as company secretary, I hereby confirm, in terms of section 33(1) of the Companies Act of South Africa, that for the year ended 31 December 2017, the company has lodged with the Companies and Intellectual Property Commission (CIPC) all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

SM Vermaak

14 March 2018

Directors' **report**

The directors have pleasure in submitting their report for the year ended 31 December 2017.

GENERAL REVIEW

The main business of the group is the manufacture and supply of motor vehicle components and energy storage solutions such as automotive and industrial batteries. The group also manufactures non-automotive products. The annual financial statements on pages 127 to 191 set out fully the financial position, results of operations and cash flows of the group and company for the financial year.

FINANCIAL RESULTS

The consolidated net profit for the year attributable to equity holders of the company was R556.2 million (2016: R447.9 million).

DIVIDENDS

The following dividends were declared for ordinary shares:

Declared and paid – 31 December 2016
Ordinary dividend - 70 cents per share

A dividend of 80 cents per share was declared on 14 March 2018 in respect of the year ended 31 December 2017.

STATED CAPITAL

Full details on the present position of the company's stated capital are set out in the notes to the financial statements.

There were no changes to stated capital for the year under review. Share incentive scheme particulars relating to options under the share option scheme and awards under the share plans are given in note 26 to the annual financial statements.

CHANGES IN NON-CURRENT ASSETS

The main changes to the property, plant and equipment of the group were as follows:

	R'000
Additions	192 597

The main changes to the intangible assets of the group were as follows:

	R'000
Additions	27 817

There were no changes for the company. Details can be found in note 7 of the annual financial statements.

DIRECTORS

The composition of the board of directors is set out on pages 16 and 17.

SG Pretorius (appointed January 2014)
CT Loock (appointed March 2006)
S Douwenga (appointed March 2014)
L Soanes (appointed May 1999)
RS Broadley (appointed April 2001)
JG Best (appointed February 2009)
TN Mgoduso (appointed March 2016)
PPJ Derby (appointed March 2016)
G Motau (appointed November 2016)
B Mawasha (appointed March 2018)

SECRETARY

SM Vermaak

Business address
10 Anerley Road, Parktown, Johannesburg, 2193

Postal address
PO Box 2077, Saxonwold, 2132

INTEREST OF DIRECTORS

Interest of directors in the company's stated capital are disclosed in note 26 of the annual financial statements.

The directors have no material interest in contracts with the group.

SUBSIDIARIES

Details of the company's investments in its subsidiaries are disclosed on page 190 and note 9 to the annual financial statements.

HOLDING COMPANY

The company has no holding company.

AUDITORS

PricewaterhouseCoopers Incorporated are the current appointed auditors in accordance with section 90(6) of the Companies Act of South Africa.

RESOLUTIONS

The following special resolutions, the nature of which might be significant to members in their appreciation of the state of affairs of the group, were passed at a general meeting held on 4 May 2017:

Special resolution number 1

Resolved as a special resolution in terms of section 66(9) of the Companies Act, that the remuneration of the non-executive directors with effect from 1 January 2017 to 31 December 2017 be and is hereby approved.

The reason for and effect of special resolution number 1 is to approve, to the extent required, the remuneration for non-executive directors for the period commencing 1 January 2017 and ending 31 December 2017.

Special resolution number 2

Resolved as a special resolution in accordance with section 45 of the Companies Act, that the board be and is hereby authorised, by way of a general authority to, at any time and from time to time during the period of two years commencing on the date of passing of this special resolution to provide, any direct or indirect financial assistance (but subject to the provisions of section 45(1) of the Companies Act and the JSE Listing Requirements) in such amount and in any form (including, but not limited to, by way of loan (on an interest-free or a market-related interest basis), guarantee, the provision of security or otherwise) to any of its present or future subsidiaries and/or any juristic person that the company directly or indirectly controls from time to time (collectively hereinafter the Metair group) and for the time being on such terms and conditions as it in its discretion deems fit, for any purpose whether in the normal course of business of the Metair group or of a transactional nature, subject thereto that the board will, before making such financial assistance available, satisfy itself that:

(i) immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test as prescribed in section 46(2) of the Companies Act; and

(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

The effect of the special resolution and the reason therefore is that same is required in terms of section 45 of the Companies Act to grant the directors the authority to cause the company to provide financial assistance by way of loan, guarantee, the provision of security or otherwise, to any company which is related or inter-related to the company or any other juristic person that the company directly or indirectly controls.

The special resolution does not authorise Metair to provide financial assistance to a director or prescribed officer of the company.

In accordance with section 45(5) of the Companies Act, the board hereby gives notice to its shareholders of the fact that no financial assistance has been provided to subsidiaries during the 2016 financial year.

Special resolution number 3

Resolved as a special resolution in terms of the Companies Act and the JSE Listings Requirements, that the authorisation granted to the company in terms of Article 13 of its memorandum of incorporation to acquire the company’s own securities by way of a general approval, upon such terms and conditions and in such amounts as the directors may from time to time decide, subject only to the provisions of the Companies Act and the JSE Listings Requirements, be and is hereby extended, subject to the following terms and conditions:

(i) any repurchase of securities must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and any counterparty;

(ii) this general authority shall be valid until the company’s next annual general meeting, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;

(iii) repurchases may not be made at a price greater than 10% above the weighted average of the market value of the securities for the five business days immediately preceding the date on which the repurchase will be effected;

(iv) at any point in time, the company may only appoint one agent to give effect to any repurchase;

(v) an announcement shall be published as soon as the company has cumulatively repurchased 3% of the initial number (being the number of that class of shares in issue at the time that the general authority was granted) of the relevant class of securities and for each 3% in aggregate of the initial number of that class acquired thereafter, containing the details as required by paragraph 11.27 of the JSE Listings Requirements;

(vi) repurchases shall not, in the aggregate, in any one financial year exceed 5% of the company’s issued share capital of that class;

(vii) acquisitions by the subsidiaries of the company may not result in a subsidiary, together with all other subsidiaries of the company holding more than 10% of the relevant class of the issued share capital of the company from time to time;

(viii) repurchases may not be made by the company and/or its subsidiaries during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed and approved by the JSE prior to the prohibited period;

(ix) the intention of the board is that the repurchase of the company’s securities will be effected within the parameters laid down by this resolution as well as by the Companies Act, the JSE Listings Requirements and the board, as and when the directors deem such repurchases to be appropriate, having regard for prevailing market and business conditions; and

(x) the directors will ensure that the requisite prior resolution of the board has been taken authorising such repurchases, confirming that the company and its subsidiaries engaged in such repurchases have passed the solvency and liquidity test envisaged in the Companies Act and confirming that, since such tests were performed, there have been no material changes to the financial position of the Metair group.

The directors shall not make any repurchases under this general authority unless they are of the opinion that, after considering the effect of the maximum number of shares to be repurchased and for a period of 12 months after the date of the notice of the annual general meeting:

a) the company and the Metair group will be able, in the ordinary course of business, to pay their debts;

b) the assets of the company and the Metair group will be in excess of the liabilities of the company and the Metair group, the assets and liabilities being recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements;

c) the share capital and reserves of the company and the Metair group are adequate for the ordinary business purposes of the company and the Metair group; and

d) the working capital of the company and the Metair group will be adequate for ordinary business purposes.

The effect of the special resolution and the reason therefore is to extend the general authority given to the directors in terms of the Companies Act and the JSE Listings Requirements for the acquisition by the company and/or its subsidiaries of the company's securities, which authority may be used at the directors' discretion during the course of the period authorised.

POST-BALANCE SHEET EVENTS

The group secured an additional 5 year revolving credit facility to the value of R525 million, refer note 19.2 to the annual financial statements. There were no other significant post-balance sheet events.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors have approved the annual financial statements on pages 127 to 191 which are signed on their behalf by:

SG Pretorius
Chairman

CT Loock
Managing director

Johannesburg
14 March 2018

Independent auditor's **report**

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Metair Investments Limited (the company) and its subsidiaries (together the group) as at 31 December 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Metair Investment Limited's consolidated and separate financial statements set out on pages 127 to 191 comprise:

- the consolidated and separate balance sheets as at 31 December 2017;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

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

Independence

We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

OUR AUDIT APPROACH

Overview

- Overall group materiality: R35 million, which represents 5% of the average consolidated profit before tax for the 2017, 2016 and 2015 financial years.
- Group audit scope:
  - We have performed full scope audits over 11 components and review procedures over 1 component.
  - The group engagement team performed analytical review procedures on components not in audit or review scope.
- Key audit matters:
  Group level
  - Indicator of impairment due to the net asset value of the group exceeding market capitalisation at stages during the financial year.

  Company level
  - Impairment of investment in subsidiaries.

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

Materiality

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

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

Overall group materiality: R35 000 000

How we determined it: 5% of the group's average consolidated profit before tax for the 2017, 2016 and 2015 financial years.

Rationale for the materiality benchmark applied: We chose average consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark. Average consolidated profit before tax is relevant to the industry as a result of vehicle model changes by a customer leading to inconsistent or fluctuating profits over the cycle.

Group audit scope

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

Every component that contributes significantly to the consolidated revenue, consolidated profit before tax and consolidated total assets of the group was subject to a full scope audit of its financial reporting information submitted to the company. We have performed full scope audits over 11 components and review procedures over 1 component. The group engagement team met with the component auditors of 10 of the components, including visits by the group engagement team to Turkey (Mutlu) and Romania (Rombat). The remaining component teams were engaged by means of a review of their working papers and required reporting documents. In order to obtain audit evidence in respect of components not part of the full scope audit, the group engagement team performed analytical review procedures on these components.

KEY AUDIT MATTERS

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

Indicator of impairment due to the net asset value of the group exceeding market capitalisation at stages during the financial year (group level)

Refer to accounting policies, starting on page 179 (Basis of Consolidation, Intangibles and Impairment of non-financial assets), and to note 8 (Intangible assets) starting on page 141.

At times during the year the net asset value of the group exceeded the market capitalisation of the group presenting an impairment indicator that requires consideration.

The group comprises of a number of different business units, with the most significant in terms of asset base being Mutlu Aku (Mutlu), Rombat, First National Battery, Smiths Manufacturing and Hesto Harnesses. The risk of impairment and the related audit focus was therefore concentrated on these cash generating units ('CGUs').

Mutlu and Rombat were both selected for detail impairment testing by management and ourselves as a result of the following:

- The magnitude of the goodwill balance in Rombat and Mutlu (R367 million), as well as the Mutlu brand (R226 million).
- The Mutlu factory and business operations are based in Turkey, and have therefore been exposed to heightened political uncertainty during the current and previous financial year.
- The value in calculations used are sensitive to changes in future cash flows included in the models, and changes in the discount rates applied.
- There are significant judgements involved in forecasting future volumes. Original Equipment (OE) volumes are dependent on OE customers achieving their own indicated volumes, and the ability of the companies to secure ongoing business from current OE customers, and winning new OE business in future.
- In combination, Mutlu and Rombat contribute more than 55% of the consolidated total assets of the group.

The remaining significant CGUs, namely First National Battery, Smiths Manufacturing and Hesto Harnesses contribute the majority of the remaining consolidated total assets of the group not included in impairment testing of Mutlu and Rombat noted above. These CGUs were considered to be significant for the purpose of further assessment to address the risk of impairment.

No other CGU in the group showed evidence of potential impairment that required further consideration based on inspection of current operating results, operating margin and cash flow generation. No relevant qualitative factors were noted that required further consideration.

This impairment assessment is considered a matter of most significance to the current year audit due to the significant judgements made by management with regards to the discount rates, the terminal growth rates, future sale volume and cash flow forecasts that are included in the analyses used to perform the impairment assessments.

How our audit addressed the key audit matter:

Management's future cash flow forecasts for the Rombat and Mutlu CGUs were evaluated. This included testing management's assumptions (volume and price growth, margins, working capital investment, capital expenditures and long-term growth rates) for reasonability by inspecting signed agreements, technical reports, comparison to external and industry benchmarks, and comparison to future market volume forecasts.

We also inquired from management whether the process followed in determining these cash flow forecasts was consistent with established controls and procedures and we agreed the cash flow forecasts to board approved budgets.

The 2016 and 2017 actual results were compared to the forecasts for those years, to identify whether actual results achieved were different from budgeted results. We inquired from management and inspected supporting documentation to understand and corroborate the reasons for the differences. Both CGUs exceeded their budget for both 2017 and 2016, and no issues were identified in this regard.

Based on the outcome of the procedures described above, we accepted the reasonability of management's conclusions in respect of the forecast future cash flows.

In addition to obtaining audit evidence in respect of management's ability to accurately forecast results of its operations, we also assessed whether there were any inconsistencies between the forecasts obtained as part of the 2017 impairment calculations, and those forecasts included in the impairment calculations obtained in the prior years. The forecasts were considered to be consistent, providing further audit evidence in respect of management's forecasts.

The discount rates and growth rates included in the impairment assessments were assessed as follows:

- As a reasonability test, we used our valuations expertise to independently calculate the discount rates used in the models, taking into account independently obtained data. The use of our independently calculated discount rates in the management's assessments would not have resulted in an impairment charge.
- We assessed the long-term growth rates in Romania and Turkey, by comparing these to economic and industry forecasts. The growth rates applied were found to be reasonable.

We tested the mathematical accuracy of the models and compared the valuation methodology applied by management to generally accepted valuation methodology.

In addition to considering sensitivity calculations performed by management, we performed independent sensitivity calculations on the impairment assessments to determine the degree by which the key assumptions (discount rates and long-term growth rates) needed to change in order to trigger an impairment. Based on the evidence obtained we accepted management's conclusion that the key assumptions applied in the models were reasonable.

We considered impairment indicators in remaining CGUs, focusing on First National Battery, Smiths Manufacturing and Hesto Harnesses by inspecting current year operating results and future forecasts for evidence of loss making operations or declining operating results. No impairment indicators were noted in this regard and the current year operating results reflected that the CGUs were profitable and generating positive operating cash flows during 2017. The budgets and forecasts inspected indicate that this will continue in 2018 and beyond.

We inspected the share price movement subsequent to year-end to determine whether the market capitalisation exceeds the net asset value of the group at year-end to determine whether the impairment indicator continued. Subsequent to year-end the market capitalisation exceeded the net asset value of the group and therefore the impairment indicator no longer existed.

Impairment of investments in subsidiaries (company level)
Refer to accounting policies, starting on page 179 (Basis of Consolidation) and to note 9 (Interest in Subsidiaries) starting on page 144.

Impairment indicators were noted as the group's net asset value exceeded market capitalisation at stages during the period. This resulted in an assessment of impairment of the investment in subsidiaries being required.

This area was considered to be of most significance to the audit for the following reasons:

- The magnitude of the balance of the investments in its subsidiaries with a carrying value of R2 034 million; and
- The carrying value is supported by future forecast operating cash flows which are judgemental in nature and dependent on a number of factors, including volume expectations.

How our audit addressed the key audit matter:
We obtained management's calculation and considered whether any impairment indicators exist for investment in individual subsidiaries by inspecting whether operating losses were incurred in the current year, or whether the net asset value of the underlying companies were negative. Based on the calculation obtained no individual subsidiaries indicated evidence of impairment.

Further evidence included testing of the impairment of Goodwill and Intangible assets in Mutlu and Rombat as noted in the above key audit matter as the discounted cash flows per the impairment calculations for the Mutlu and Rombat CGU's exceed the carrying value of the investment in subsidiaries per the separate financial statements.

We inspected the share price movement subsequent to year-end to determine whether the market capitalisation exceeds the net asset value of the group at year-end to determine whether the impairment indicator continued. Subsequent to year-end the market capitalisation exceeded the net asset value of the group and therefore the impairment indicator no longer existed.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Metair Integrated Annual Report 2017, which includes the Directors' Report, the Board Audit and Risk Committee's Report and the Certificate by the Company Secretary as required by the Companies Act of South Africa. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

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

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

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

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

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

Independent auditor’s **report** continued

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Metair Investments Limited for 20 years.

PricewaterhouseCoopers Inc.
Director: L de Wet
Registered Auditor

Johannesburg
14 March 2018

Balance **sheets**

AS AT 31 DECEMBER 2017

	Notes	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
ASSETS					
Non-current assets		4 033 618	4 250 789	2 036 757	2 018 809
Property, plant and equipment	7	2 605 737	2 857 131		
Intangible assets	8	834 572	1 001 461		
Interest in subsidiaries	9			2 033 964	2 016 016
Investment in associates	10	580 440	387 245	2 793	2 793
Deferred taxation	15	12 869	4 952		
Current assets		4 071 600	3 780 361	439 417	533 297
Inventory	11	1 697 663	1 608 961		
Trade and other receivables	12	1 669 985	1 394 933		
Taxation		32 985	31 358		
Short-term loans - subsidiaries	9			438 827	531 385
Derivative financial assets	19.4.1	314	1 092		
Cash and cash equivalents	13	670 653	744 017	590	1 912
Total assets		8 105 218	8 031 150	2 476 174	2 552 106
EQUITY AND LIABILITIES					
Capital and reserves					
Stated capital	26	1 497 931	1 497 931	1 497 931	1 497 931
Treasury shares	26	(10 152)	(10 481)		
Share-based payment reserve	27.1	115 797	95 114	53 257	35 309
Foreign currency translation reserve	27.2	(1 104 558)	(660 569)		
Equity accounted earnings	27.3	322 388	271 336		
Changes in ownership reserve	27.4	(21 197)	(21 197)		
Retained earnings	27.5	3 275 935	2 904 386	689 768	784 948
Ordinary shareholders equity		4 076 144	4 076 520	2 240 956	2 318 188
Non-controlling interests	27.6	119 393	103 053		
Total equity		4 195 537	4 179 573	2 240 956	2 318 188
Non-current liabilities		1 754 247	1 607 953		
Borrowings	14	1 148 806	986 547		
Post-employment benefits	22	78 724	88 911		
Deferred taxation	15	298 326	336 395		
Deferred grant income	16	175 440	147 950		
Provisions for liabilities and charges	17	52 951	48 150		
Current liabilities		2 155 434	2 243 624	235 218	233 918
Trade and other payables	16	1 235 708	1 065 304	592	547
Borrowings	14	652 689	911 018		
Taxation		29 260	16 350		
Provisions for liabilities and charges	17	135 567	108 445		
Short-term loans - subsidiaries	9			234 626	233 371
Derivative financial liabilities	19.4.1	28 862	15 492		
Bank overdrafts	13	73 348	127 015		
Total liabilities		3 909 681	3 851 577	235 218	233 918
Total equity and liabilities		8 105 218	8 031 150	2 476 174	2 552 106

Income **statements**

FOR THE YEAR ENDED 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	2016	2017	2016
	Notes	R'000	R'000	R'000	R'000
Revenue from sale of goods	1	9 516 657	8 953 710		
Cost of sales		(7 760 976)	(7 352 251)		
Gross profit		1 755 681	1 601 459		
Other operating income and dividend revenue	3	88 678	110 777	47 005	139 290
Distribution expenses		(395 405)	(365 775)		
Administrative and other operating expenses		(601 441)	(615 025)	(2 447)	(2 010)
Operating profit	3	847 513	731 436	44 558	137 280
Interest income	2	26 179	33 296	11	30
Interest expense	2	(200 867)	(187 905)	(1)	
Share of results of associates	10	102 989	29 665		
Profit before taxation	3	775 814	606 492	44 568	137 310
Taxation	4	(188 242)	(138 434)	(3)	(9)
Profit for the year		587 572	468 058	44 565	137 301
Attributable to:					
Equity holders of the company		556 182	447 930	44 565	137 301
Non-controlling interests		31 390	20 128		
		587 572	468 058	44 565	137 301
Earnings per share					
Basic earnings per share (cents)	5	281	227		
Diluted earnings per share (cents)	5	279	225		

Statements of **comprehensive income**

FOR THE YEAR ENDED 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	2016	2017	2016
	Notes	R'000	R'000	R'000	R'000
Profit for the year		587 572	468 058	44 565	137 301
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
- Actuarial gains/(losses) recognised	22	7 116	(1 108)		
- Taxation effect	15	(1 546)	65		
		5 570	(1 043)		
Items that may be reclassified to profit or loss:					
- Exchange losses arising on translation of foreign operations		(443 988)	(1 127 532)		
Other comprehensive loss for the year net of taxation		(438 418)	(1 128 575)		
Attributable to:					
Equity holders of the company		(438 536)	(1 128 140)		
- Actuarial gains/(losses) recognised		5 453	(1 254)		
- Exchange losses arising on translation of foreign operations		(443 989)	(1 126 886)		
Non-controlling interests	27.6	118	(435)		
- Actuarial gains recognised		117	211		
- Exchange gains/(losses) arising on translation of foreign operations		1	(646)		
Total comprehensive income/(loss) for the year		149 154	(660 517)	44 565	137 301
Attributable to:					
Equity holders of the company		117 646	(680 210)	44 565	137 301
Non-controlling interests	27.6	31 508	19 693		

Statements of **changes in equity**

FOR THE YEAR ENDED 31 DECEMBER 2017

		GROUP						
	Notes	Stated capital R'000	Treasury shares R'000	Other reserves R'000	Retained earnings R'000	Attributable to equity holders of the company R'000	Non-controlling interests R'000	Total equity R'000
Year ended 31 December 2017								
Balance as at 1 January 2017	26, 27	**1 497 931**	**(10 481)**	**(315 316)**	**2 904 386**	**4 076 520**	**103 053**	**4 179 573**
Net profit for the year	27				**556 182**	**556 182**	**31 390**	**587 572**
Other comprehensive loss	27			**(443 989)**	**5 453**	**(438 536)**	**118**	**(438 418)**
Total comprehensive (loss)/income for the year	27			**(443 989)**	**561 635**	**117 646**	**31 508**	**149 154**
Employee share option scheme	27.1			**20 683**		**20 683**		**20 683**
Vesting of share-based payment obligation	26, 27.1		**329**	**(444)**		**(115)**		**(115)**
Transfer of net vesting impact to retained earnings	27.1, 27.5			**444**	**(444)**			
Transfer of associate profit and dividend	27.3			**51 052**	**(51 052)**			
Dividend*	27.5				**(138 590)**	**(138 590)**	**(15 168)**	**(153 758)**
Balance as at 31 December 2017		**1 497 931**	**(10 152)**	**(687 570)**	**3 275 935**	**4 076 144**	**119 393**	**4 195 537**
Year ended 31 December 2016								
Balance as at 1 January 2016	26, 27	1 497 931	(13 940)	762 462	2 630 982	4 877 435	97 109	4 974 544
Net profit for the year	27				447 930	447 930	20 128	468 058
Other comprehensive loss	27			(1 126 886)	(1 254)	(1 128 140)	(435)	(1 128 575)
Total comprehensive (loss)/income for the year	27			(1 126 886)	446 676	(680 210)	19 693	(660 517)
Employee share option scheme	27.1			19 443		19 443		19 443
Vesting of share-based payment obligation	26, 27.1		3 459	(4 573)		(1 114)		(1 114)
Transfer of net vesting impact to retained earnings	27.1, 27.5			4 573	(4 573)			
Transfer of associate profit and dividend	27.3			29 665	(29 665)			
Dividend**	27.5				(139 034)	(139 034)	(13 749)	(152 783)
Balance as at 31 December 2016		1 497 931	(10 481)	(315 316)	2 904 386	4 076 520	103 053	4 179 573

* An ordinary dividend of 70 cents per share was declared in respect of the year ended 31 December 2016.

** An ordinary dividend of 70 cents per share was declared in respect of the year ended 31 December 2015.

	Notes	Stated capital R'000	Treasury shares R'000	Share-based payment reserves R'000	Retained earnings R'000	Attributable to equity holders of the company R'000	Total equity R'000
		COMPANY					
Year ended 31 December 2017							
Balance as at 1 January 2017		**1 497 931**		**35 309**	**784 948**	**2 318 188**	**2 318 188**
Net profit for the year	27.5				**44 565**	**44 565**	**44 565**
Total comprehensive income for the year					**44 565**	**44 565**	**44 565**
Employee share option scheme	27.1			**18 199**		**18 199**	**18 199**
Purchase of treasury shares	26		**(706)**			**(706)**	**(706)**
Settlement of share options	26, 27		**706**	**(251)**	**(455)**		
Dividend*	27.5				**(139 290)**	**(139 290)**	**(139 290)**
Balance as at 31 December 2017		**1 497 931**		**53 257**	**689 768**	**2 240 956**	**2 240 956**
Year ended 31 December 2016							
Balance as at 1 January 2016		1 497 931		25 921	786 937	2 310 789	2 310 789
Net profit for the year	27.5				137 301	137 301	137 301
Total comprehensive income for the year	27				137 301	137 301	137 301
Employee share option scheme	27.1			18 135		18 135	18 135
Purchase of treasury shares	26		(8 747)			(8 747)	(8 747)
Settlement of share options	26, 27.1		8 747	(8 747)			
Dividend**	27.5				(139 290)	(139 290)	(139 290)
Balance as at 31 December 2016		1 497 931		35 309	784 948	2 318 188	2 318 188

* An ordinary dividend of 70 cents per share was declared in respect of the year ended 31 December 2016.

** An ordinary dividend of 70 cents per share was declared in respect of the year ended 31 December 2015.

Statements of **cash flows**

FOR THE YEAR ENDED 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	2016	2017	2016
	Notes	R'000	R'000	R'000	R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	18.1	905 104	1 033 467	(2 402)	7 426
Interest paid	18.4	(207 912)	(186 534)	(1)	
Taxation paid	18.2	(185 307)	(133 752)	(3)	(9)
Dividends paid	18.3	(153 758)	(152 783)	(139 290)	(139 290)
Dividends from associates	10	51 937		46 550	
Net cash inflow/(outflow) from operating activities		410 064	560 398	(95 146)	(131 873)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment (excludes leased assets)	7	(165 429)	(293 995)		
Acquisition of intangible assets	8	(27 817)	(50 992)		
Acquisition of associate	10	(144 302)	(121 986)		
Advances from/(to) subsidiaries				93 813	(6 458)
Interest received	2	26 179	33 296	11	30
Dividends received	3				139 290
Proceeds on disposal of property, plant and equipment	3, 7	11 318	6 698		
Proceeds on disposal of intangible assets	8	1 228			
Net cash (outflow)/inflow from investing activities		(298 823)	(426 979)	93 824	132 862
CASH FLOWS FROM FINANCING ACTIVITIES					
Preference shares repaid	18.5	(560 000)			
Revolving credit facility drawdown	18.5	296 000	80 000		
Revolving credit facility repaid			(16 000)		
Mutlu group (Mutlu) borrowings repaid - USD and TL	18.5	(56 502)	(106 763)		
Mutlu borrowings raised - TL	18.5	244 569			
Lease payments	18.5	(12 456)	(9 712)		
Utilisation of treasury shares - CGT paid	27.1	(115)	(1 114)		
Net cash outflow from financing activities		(88 504)	(53 589)		
Net increase/(decrease) in cash and cash equivalents		22 737	79 830	(1 322)	989
Cash and cash equivalents at the beginning of the year		617 002	566 707	1 912	923
Exchange loss on cash and cash equivalents		(42 434)	(29 535)		
Cash and cash equivalents at end of the year	13	597 305	617 002	590	1 912

Notes to **the annual financial statements**

	GROUP					
	2017			2016		
	Segment revenue R'000	% of total segment revenue	Segment PBIT R'000	Segment revenue R'000	% of total segment revenue	Segment PBIT R'000
1. SEGMENT REVIEW						
Energy storage						
Automotive						
Local	3 864 239	37	336 517	3 598 149	36	334 096
Direct exports	1 670 904	16	158 350	1 516 901	15	145 906
	5 535 143	53	494 867	5 115 050	51	480 002
Industrial						
Local	652 211	6	92 207	685 764	7	77 733
Direct exports	33 160		4 502	50 108	1	489
	685 371	6	96 709	735 872	8	78 222
Total energy storage	6 220 514	59	591 576	5 850 922	59	558 224
Automotive components						
Local						
Original equipment	3 832 194	36	357 277	3 580 962	35	189 922
Aftermarket	458 895	4	70 312	470 565	5	48 832
Non-auto	25 895		295	38 090		1 251
	4 316 984	40	427 884	4 089 617	40	240 005
Direct exports						
Original equipment	5 163		2 021	17 879		736
Aftermarket	37 784		6 966	35 303		6 198
	42 947	1	8 987	53 182	1	6 934
Total automotive components	4 359 931	41	436 871	4 142 799	41	246 939
Total segment results	10 580 445		1 028 447	9 993 721		805 163
Reconciling items:						
- Share of results of associates			102 989			29 665
- Managed associate *	(1 063 788)		(99 015)	(1 040 011)		11 699
Amortisation and depreciation on fair value uplift of assets arising from business acquisitions			(30 628)			(40 308)
Other reconciling items **			(51 291)			(45 118)
Total	9 516 657		950 502	8 953 710		761 101
Net finance costs			(174 688)			(154 609)
Profit before taxation			775 814			606 492
Included in the above:						
- Depreciation and amortisation			(265 779)			(272 925)

* The full results of Hesto have been included in the segment review as Metair has a 74.9% equity interest and is responsible for the operational management of this associate.

** Other reconciling items relate to Metair head office companies.

Notes to **the annual financial statements** continued

1. SEGMENT REVIEW (continued)
Segment information

Segment description and principal activities

The group manages an international portfolio of companies that manufacture and supply automotive components and energy storage solutions for local and export automotive and industrial markets. The group's manufacturing locations include South Africa, Romania and Turkey and the group also exports products directly from these locations into Africa, Middle East, Russia and Europe. The executive directors of the group and company are the chief operating decision makers ('CODMs'). In order to determine operating and reportable segments, management examines the group's performance from a product, market and geographic perspective and the reportable segments in the annual report are identical to the operating segments identified. The group's business is managed and analysed in two distinct verticals – the energy storage and automotive components business units. Following the acquisitions of Rombat and Mutlu, the impact of the energy storage businesses on the group results has become significant, and the evaluation and management of the group's businesses by the chief operating decision maker is therefore focused on energy storage and automotive components. The reportable segments of these businesses are identified as follows:

Energy storage vertical– automotive and industrial

The energy storage business consists of the automotive and industrial segments which manufacture products for local and export markets. FNB (South Africa), Mutlu (Turkey), Rombat (Romania) and Dynamic (United Kingdom) are included in energy storage results.

Automotive batteries are mainly supplied to the aftermarket through the group's unique distribution channels and retail networks in addition to the supply of batteries to the original equipment manufacturers (OEMs).

Industrial energy products relates to products sold in the telecoms, utility, mining, retail and materials/product handling sectors and are mainly sold into sub-Saharan Africa and Turkey.

Automotive components vertical, including exports – original equipment (OE), aftermarket and non-automotive

The traditional automotive component business comprises of the following segments which manufacture products for the local and export markets:

- OE;
- aftermarket; and
- non-automotive products.

OE involves the manufacture and distribution of components used in the assembly of new vehicles. Supply is linked to a particular vehicle model as the group benefits from long industry product lifecycles. Aftermarket involves the manufacture and distribution of components used to service vehicles produced by local OEMs as well as generic parts for imported vehicles. This creates the opportunity for the group to supply products to owners of vehicles throughout its life cycle. Non-automotive markets include manufacture and distribution of products mostly related to industrial and utility sectors.

Automotive components include coil and leaf springs, headlights, wiring harnesses and cable, air-conditioning, radiators, climate control systems, shock absorbers, plastic injection mouldings and brake pads. The group's 'non-battery' operating subsidiaries represents the automotive component business unit and these include the businesses of Smiths Manufacturing, Smiths Plastics and Automould, Supreme Spring and ATE, Lumotech, Unitrade and Hesto (managed associate).

Basis of measurement

The executive directors assesses the performance of these operating segments based on operating profit, or profit before interest and tax (PBIT), which includes reported depreciation, amortisation as well as impairment charges. PBIT also includes the results of the managed associate (Hesto) but excludes the results of the share of other associates or equity earnings.

Interest income and expenses are not allocated to segments and amortisation of intangible assets arising from business combinations is also excluded. The amounts provided to the executive directors do not include regular measures of segment assets and liabilities and have therefore not been disclosed. The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the income statement. All segment revenues include those from external customers from the sales of goods.

1. **SEGMENT REVIEW (continued)**
Entity-wide information

Major customers

27% (2016: 27%) of total revenue results from sales to a single external customer of the group.

Geographical information

The group is domiciled in South Africa. The result of its revenue from South African operations is R6 224 million (2016: R5 949 million) and from Europe and the Middle East (EME) is R4 356 million (2016: R4 045 million), including managed associates. EME domiciled operations predominantly consists of Romania and Turkey.

Non-current assets (excluding deferred tax assets) amounted to R4 021 million (2016: R4 246 million) of which foreign operations amounted to R2 621 million (2016: R2 897 million). Goodwill of R368 million (2016: R451 million) is fully allocated to energy storage and arises out of the acquisition of Mutlu and Rombat. Goodwill is tested for impairment at the Mutlu and Rombat CGU level and no impairments were recorded in the current or prior years. Details can be found in note 8 – Intangible assets and impairment testing.

		GROUP		COMPANY	
		2017 R'000	2016 R'000	2017 R'000	2016 R'000
2.	**NET FINANCE COSTS**				
	Interest income				
	On bank deposits	22 033	32 235	11	30
	Other	4 146	1 061		
		26 179	33 296	11	30
	Interest expense				
	Bank borrowings and overdraft	(91 488)	(75 358)	(1)	
	Finance leases and hire purchase	(4 124)	(2 459)		
	Dividend on redeemable preference shares	(92 107)	(102 583)		
	Defined benefits and other	(13 148)	(7 505)		
		(200 867)	(187 905)	(1)	
	Net finance (expense)/income	(174 688)	(154 609)	10	30
3.	**OPERATING PROFIT**				
	Operating profit is stated after taking into account the following:				
	Other operating income and dividend revenue				
	Dividends from subsidiaries (unlisted)				139 290
	Dividends from associates (unlisted)			46 550	
	Distribution from subsidiaries			455	
	Management fees received - external	11 842	11 765		
	Government grants	95 094	97 315		
	Bad debts recovered	115	1 305		
	Rent received	2 473	2 073		
	Derivatives at fair value through profit or loss:				
	- Fair value loss	(33 634)	(19 812)		
	Insurance proceeds - general	1 025	807		
	Sundry income	11 763	17 324		
		88 678	110 777	47 005	139 290

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
3. OPERATING PROFIT (continued)				
Expenses by nature				
Auditors' remuneration:				
- Audit fees and disbursements	8 577	9 252	1 329	1 002
- Non-audit assurance services	1 487	706		
- Non-audit non-assurance services	1 486	1 296		
Depreciation and amortisation (notes 7 and 8)	265 779	272 925		
Impairment property, plant and equipment (note 7)		1 122		
Profit on disposal of property, plant and equipment	(800)	(1 771)		
Operating lease charges:				
- Property	13 661	23 492		
- Plant and equipment	23 670	21 168		
Bad debt written off/impairment	106	6 563		
Managerial, technical service fees and transactional costs paid to outside parties	42 327	34 421		
Foreign exchange losses	6 097	897		
Distribution costs	302 172	294 214		
Raw materials, consumables used and other overheads	6 329 950	5 951 194		
Employee benefit expense	1 719 324	1 676 133	312	311
Other administrative and general expenses	43 986	41 439	806	696
Total cost of sales, distribution expenses, administrative and other operating expenses	8 757 822	8 333 051	2 447	2 010
Employee benefit expense				
Wages and salaries	1 487 098	1 442 363	312	311
Share-based payment expenses	18 199	18 135		
Termination benefits	1 269	2 958		
Social security costs	129 149	131 889		
Pension costs - defined contribution plans	74 438	66 860		
Post-employment medical benefits (note 22.1)	3 420	3 042		
Other post-employment benefits (note 22.2)	5 751	10 886		
	1 719 324	1 676 133	312	311
Number of persons employed by the group at the end of the year				
Hourly	3 783	3 795		
Monthly	2 185	2 160		
	5 968	5 955		
Directors' emoluments				
Executive directors				
Salaries and allowances	17 412	15 698	17 412	15 698
Other benefits	669	4 361	669	4 361
	18 081	20 059	18 081	20 059
Paid by subsidiary companies	(18 081)	(20 059)	(18 081)	(20 059)
Non-executive directors	312	227	312	227
Fees	3 398	2 985	3 398	2 985
Paid by subsidiary company	(3 086)	(2 758)	(3 086)	(2 758)

3. **PROFIT BEFORE TAXATION (continued)**

Directors' emoluments (continued)

	COMPANY 2017				
	CT Loock R'000	S Douwenga R'000	SG Pretorius R'000	RS Broadley R'000	L Soanes R'000
Executive directors					
Salaries and allowances	**9 525**	**3 755**			
Performance bonuses	**2 627**	**1 505**			
Pension and provident fund contributions	**318**	**194**			
Company contributions	**38**	**47**			
Gain on the exercise of share options	**72**				
	12 580	**5 501**			
Paid by subsidiary companies	**(12 580)**	**(5 501)**			
Non-executive directors			**2**	**2**	**2**
Fees			**600**	**420**	**494**
Paid by subsidiary company			**(598)**	**(418)**	**(492)**

		JG Best R'000	TN Mgoduso R'000	PPJ Derby R'000	G Motau R'000
Non-executive directors		**300**	**2**	**2**	**2**
Fees		**574**	**434**	**418**	**458**
Paid by subsidiary company		**(274)**	**(432)**	**(416)**	**(456)**

	COMPANY 2016				
	CT Loock R'000	S Douwenga R'000	SG Pretorius R'000	RS Broadley R'000	L Soanes R'000
Executive directors					
Salaries and allowances	9 436	3 533			
Performance bonuses	1 913	816			
Pension and provident fund contributions	298	219			
Company contributions	50	47			
Gain on the exercise of share options	3 747				
	15 444	4 615			
Paid by subsidiary companies	(15 444)	(4 615)			
Non-executive directors			2	2	2
Fees			600	426	455
Paid by subsidiary company			(598)	(424)	(453)

	DR Wilson* R'000	JG Best R'000	TN Mgoduso R'000	PPJ Derby R'000	G Motau R'000
Non-executive directors	2	215	2	2	
Fees	316	444	362	303	79
Paid by subsidiary company	(314)	(229)	(360)	(301)	(79)

* Paid to Royal Bafokeng Management Services (Pty) Ltd.

Information regarding share awards/share options granted to executive directors of Metair can be found in note 26.1.

Notes to **the annual financial statements** continued

		GROUP		COMPANY	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
4.	**TAXATION**				
	Normal taxation	176 473	138 434	3	9
	Current:				
	- Current year	190 090	115 685	3	9
	- Prior years	(4 028)	632		
	Deferred:				
	- Current year	(12 271)	22 369		
	- Prior years	2 682	(252)		
	Dividend withholding/other taxes	11 769			
		188 242	138 434	3	9
		%	%	%	%
	Reconciliation of taxation rate:				
	Standard rate - South Africa	28.0	28.0	28.0	28.0
	Effect of change in taxation rate	0.1			
	Associates' results net of taxation	(3.7)	(1.4)		
	Prior year adjustment:				
	- Current	(0.5)	0.1		
	- Deferred	0.3			
	Dividend withholding/other taxes	1.5			
	Securities transfer tax	0.2			
	Exempt income	(1.4)	(1.4)	(29.5)	(28.4)
	Non-deductible expenses	1.5	2.6	1.5	0.4
	Non-deductible expenses for preference dividends and interest	3.7	4.9		
	Utilisation of previously unrecognised tax losses	(0.5)	(0.3)		
	Taxation losses for which no deferred taxation asset was recognised	1.1			
	Investment tax credit	(1.8)	(3.6)		
	Foreign tax rate difference*	(4.2)	(6.1)		
	Effective rate	24.3	22.8		

* Mutlu and Rombat statutory taxation rates are 20% (2016: 20%) and 16% (2016: 16%) respectively. Mutlu statutory taxation rate will increase to 22% in 2018.

The tax effects relating to items of other comprehensive income are disclosed in notes 15 and 27.

Deferred income taxation assets are recognised for assessable taxation losses to the extent that the realisation of the related taxation benefit through taxable profits is probable and is based primarily on the future forecasted profitability of the relevant entity. Factors considered include future new profit returns and internal reorganisations.

The group did not recognise deferred income taxation assets of R40.7 million (2016: R37.3 million) in respect of estimated taxation losses amounting to R163.5 million (2016: R151 million) that can be carried forward against future taxable income.

	GROUP 2017	GROUP 2016
5. EARNINGS PER SHARE		
Basic earnings per share represents the income in cents attributable to equity holders of the company, based on the group's attributable profit or loss from ordinary activities divided by the weighted average number of shares in issue during the year, excluding treasury shares.	281	227
Headline earnings per share represents the income in cents attributable to equity holders of the company, based on the group's attributable profit or loss from ordinary activities, adjusted as required by SAICA Circular 2/2013, divided by the weighted average number of shares in issue during the year excluding, treasury shares.	281	229
Diluted earnings per share		
Diluted earnings per share (cents)	279	225
Diluted headline earnings per share (cents)	279	228
For the diluted earnings per share calculation, the weighted average number of ordinary shares outstanding is adjusted to take into account all dilutive potential ordinary shares.		
The company has one category of potential dilutive ordinary shares: Share options.		
The number of shares taken into account is determined by taking the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options and awards. This calculation is done to determine the 'purchased' shares to be added to the ordinary shares outstanding for the purpose of computing the dilution.		

	GROUP			
	Earnings per share		Earnings per share	
Reconciliation between basic earnings and headline earnings	2017 R'000	2017 cents	2016 R'000	2016 cents
Net profit attributable to ordinary shareholders	556 182	280.9	447 930	226.5
Profit on disposal of property. plant and equipment	(595)	(0.3)	(1 416)	(0.7)
Gross amount	(800)		(1 771)	
Taxation effect	205		355	
Impairment of property. plant and equipment			1 089	0.6
Gross amount			1 122	
Taxation effect			(33)	
Impairment of associate			5 000	2.5
Gross amount			5 000	
Headline earnings	555 587	280.6	452 603	228.8
Weighted average number of shares in issue ('000)	197 987		197 784	
Diluted earnings per share				
Net profit attributable to ordinary shareholders	556 182	279.4	447 930	225.4
Number of shares used for diluted earnings calculation ('000)	199 055		198 699	
Diluted headline earnings per share				
Headline earnings	555 587	279.1	452 603	227.8
Number of shares used for diluted earnings per share calculation ('000)	199 055		198 699	
Weighted average number of shares in issue ('000)	(197 987)		(197 784)	
Adjustment for dilutive share options ('000)	1 068		915	

		GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
6.	**DIVIDENDS**				
	A dividend of 70 cents (2016: 70 cents) per share in respect of the 2016 (2015) year declared on 22 March 2017 (16 March 2016) and paid on 24 April 2017 (25 April 2016).	138 590	139 034	139 290	139 290

		GROUP Land and buildings R'000	Plant, machinery and equipment R'000	Vehicles and furniture and fittings R'000	Total R'000
7.	**PROPERTY, PLANT AND EQUIPMENT**				
	2017				
	At cost	**1 108 726**	**2 736 213**	**177 664**	**4 022 603**
	Less: Accumulated depreciation and impairment	**(98 957)**	**(1 197 608)**	**(120 301)**	**(1 416 866)**
		1 009 769	**1 538 605**	**57 363**	**2 605 737**
	2016				
	At cost	1 219 147	2 709 904	185 643	4 114 694
	Less: Accumulated depreciation and impairment	(82 123)	(1 049 140)	(126 300)	(1 257 563)
		1 137 024	1 660 764	59 343	2 857 131
	Reconciliation of movement:				
	Year ended 31 December 2017				
	Opening net book value	**1 137 024**	**1 660 764**	**59 343**	**2 857 131**
	Transfers	**6 851**	**(14 260)**	**7 409**	
	Additions	**11 594**	**167 781**	**13 222**	**192 597**
	Disposals	**(5 367)**	**(4 838)**	**(313)**	**(10 518)**
	Depreciation	**(20 378)**	**(200 098)**	**(15 215)**	**(235 691)**
	Currency adjustment	**(119 955)**	**(70 744)**	**(7 083)**	**(197 782)**
	Closing net book value	**1 009 769**	**1 538 605**	**57 363**	**2 605 737**
	Year ended 31 December 2016				
	Opening net book value	1 338 719	1 929 526	59 182	3 327 427
	Transfers	80 215	(89 888)	9 673	
	Additions	24 891	274 742	22 321	321 954
	Disposals	(233)	(4 416)	(277)	(4 926)
	Depreciation	(20 055)	(206 130)	(16 734)	(242 919)
	Impairment		(1 122)		(1 122)
	Currency adjustment	(286 513)	(241 948)	(14 822)	(543 283)
	Closing net book value	1 137 024	1 660 764	59 343	2 857 131

A register of land and buildings is available at the registered offices of the subsidiaries owning the respective properties.

Property, plant and equipment amounting to R102.5 million (2016: R112.6 million) are encumbered as security for bank overdrafts.

7. **PROPERTY, PLANT AND EQUIPMENT (continued)**

Assets under construction are included as follows:

	GROUP 2017 R'000	2016 R'000
Land and buildings	**9 496**	13 026
Plant and equipment	**89 849**	120 937

Depreciation expenses are included within cost of sales of R206.2 million (2016: R214.3 million); distribution costs of R3.5 million (2016: R2.5 million); and administrative expenses of R26.0 million (2016: R26.1 million) in the income statement.

Lease rentals amounting to R13.7 million (2016: R23.5 million) relating to property and R23.7 million (2016: R21.2 million) relating to plant and equipment are included in the income statement. The group leases various vehicles and machinery under non-cancellable finance lease and instalment sales agreements. The lease terms are up to a period of 5 years. The net book value of the assets leased amounts to R60.7 million (2016: R44.6 million).

	GROUP						
	Goodwill R'000	Trade-marks R'000	Licences R'000	Brands R'000	Customer relation-ship R'000	Develop-ment costs and other R'000	Total R'000
8. INTANGIBLE ASSETS							
2017							
At cost	**385 555**	**49 767**	**30 487**	**285 652**	**151 476**	**61 994**	**964 931**
Less: Accumulated amortisation and impairment	**(17 797)**	**(15 981)**	**(18 220)**	**(17 724)**	**(45 270)**	**(15 367)**	**(130 359)**
	367 758	**33 786**	**12 267**	**267 928**	**106 206**	**46 627**	**834 572**
2016							
At cost	468 846	51 567	29 838	338 270	179 466	46 240	1 114 227
Less: Accumulated amortisation and impairment	(17 797)	(13 288)	(15 245)	(15 938)	(40 732)	(9 766)	(112 766)
	451 049	38 279	14 593	322 332	138 734	36 474	1 001 461
Reconciliation of movement:							
Year ended 31 December 2017							
Opening net book value	**451 049**	**38 279**	**14 593**	**322 332**	**138 734**	**36 474**	**1 001 461**
Additions			**1 273**			**26 544**	**27 817**
Disposals						**(1 228)**	**(1 228)**
Amortisation		**(2 779)**	**(3 378)**	**(4 076)**	**(11 442)**	**(8 413)**	**(30 088)**
Currency adjustments	**(83 291)**	**(1 714)**	**(221)**	**(50 328)**	**(21 086)**	**(6 750)**	**(163 390)**
Closing net book value	**367 758**	**33 786**	**12 267**	**267 928**	**106 206**	**46 627**	**834 572**
Year ended 31 December 2016							
Opening net book value	643 995	49 943	3 637	442 189	205 148	12 179	1 357 091
Transfers			(5)			5	
Additions		48	15 514			35 430	50 992
Amortisation		(3 052)	(3 986)	(5 288)	(15 099)	(2 581)	(30 006)
Currency adjustments	(192 946)	(8 660)	(567)	(114 569)	(51 315)	(8 559)	(376 616)
Closing net book value	451 049	38 279	14 593	322 332	138 734	36 474	1 001 461

8. INTANGIBLE ASSETS (continued)

General

Goodwill, trademarks, brands and customer relationships are allocated to their respective underlying cash-generating units. The respective businesses acquired are defined as the underlying cash-generating units which support the valuation of the goodwill, trademarks, brands and customer relationships.

Significant trademarks and brands comprise Mutlu, Povver, Celik and Rombat.

Additions to intangible assets comprises predominantly of capitalised development costs, licences and software.

Brands are recognised as indefinite useful life intangible assets when an analysis of the relevant underlying factors confirm that there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity. This assumption is further justified by the strong presence these brands have in their respective marketplace. The Mutlu brand has a track record of stability, is long established and has demonstrated the ability to survive changes in the economic environment. Factors considered include the market-leading position of the Mutlu brand in Turkey, its wide name-recognition and strong presence in the marketplace, management's intention to maintain advertising spend and to keep the brand indefinitely.

Amortisation on finite intangible assets of R20.3 million (2016: R23.5 million) is included within cost of sales and R9.8 million (2016: R6.5 million) within administration expenses in the income statement. Intangible assets recognised as defined life intangible assets are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the costs of these assets over their useful lives. Trademarks, brands and customer relationships are amortised over periods ranging from 5 to 25 years. There are no restrictions on title.

Goodwill and indefinite life intangible assets are allocated to the following cash-generating units ('CGUs'):

	Opening net book value R'000	Currency adjustments R'000	Closing net book value R'000
2017			
Goodwill			
- Rombat SA	**44 642**	**2**	**44 644**
- Mutlu group	**406 407**	**(83 293)**	**323 114**
Brands			
- Mutlu group	**268 900**	**(43 339)**	**225 561**
	719 949	**(126 630)**	**593 319**
2016			
Goodwill			
- Rombat SA	50 089	(5 447)	44 642
- Mutlu group	593 906	(187 499)	406 407
Brands			
- Mutlu group	366 459	(97 559)	268 900
	1 010 454	(290 505)	719 949

Impairment tests on goodwill and indefinite life intangible assets

The group's goodwill and indefinite life intangible assets arising in the CGUs, Mutlu and Rombat, belong to the energy storage vertical. The recoverable amount has been determined based on value-in-use calculations and is estimated using a discounted cash flow model ('DCF').

DCF calculations use cash flow projections based on financial budgets and five-year business plans approved by management, which include assumptions on profit before interest and tax, depreciation, working capital movements and capital maintenance expenditure. Cash flows beyond a five-year period are extrapolated using the estimated growth rates stated below (terminal value). The estimated future cash flows used are pre-tax.

The perpetuity growth rate is consistent with long-term industry growth forecasts. The discount rate reflects specific risks relating to the cash-generating unit. No impairment was required in the current or prior year.

8. INTANGIBLE ASSETS (continued)

The summary of key assumptions used for value-in-use calculations are as follows:	ROMBAT %	MUTLU %
2017		
Compound annual volume growth rate*	**6.9**	**10.1**
Long-term growth rate**	**4.1**	**5.0**
Discount rate (WACC)***	**11.5**	**19.6**
Period (years)	**5.0**	**5.0**
2016		
Long-term growth rate**	3.4	3.7
Discount rate (WACC)***	9.3	17.0
Period (years)	5.0	5.0

* Compound annual volume growth rate in the initial five-year period.

** Long-term growth rate used to extrapolate cash flows beyond the five-year period.

*** Implied pre-tax discount rate applied to cash flow projections reflecting specific risks relating to the CGU and the country they operate in.

Raw material input costs: Lead constitutes approximately 60% of the material cost of batteries and therefore the group is exposed to commodity price risk in the quoted market price of lead which may impact on input costs. However this risk is mitigated by the following:

- Operations benefit from vertical integration of scrap battery recycling which also allows the group to meet its legal recycling obligations and acts as a key source of raw materials.
- Recovery of old batteries through the group's distribution network and recycling of its lead content allows the group to significantly reduce its costs, thus achieving strong operational efficiency and overall lower input costs when compared to LME (London Metals Exchange).
- A natural hedge exists for USD denominated lead price which is partially off-set through export sales denominated in foreign currency.
- Medium and long-term product pricing generally follow trends in USD and LME as battery prices are predominantly based on the USD exchange rate and the LME price of lead per tonne. $2300 USD/tonne (2016: $2050 USD/tonne) has been used in the forecast period costs for lead.

Implied pre-tax discount rate: The discount rate of each CGU is determined using a Weighted Average Cost of Capital ('WACC') approach. Risk adjusted discount rates are derived from risk-free rates based upon long-term government bonds in the territory, or territories, within which each CGU operates. This is normally the yield of the ten-year benchmark sovereign bond denominated in the CGUs domestic currency as a proxy for the risk-free rate. A relative risk adjustment (or beta) has been applied to risk-free rates to reflect the risk inherent in each CGU relative to all other sectors on average, determined using an average of the betas of comparable listed companies, relevered. The discount rate is further adjusted (where applicable) for a small stock premium (SSP), a company specific risk premium (CSRP), forecasting risk ('alpha') and a market or equity risk premium (MRP). Since we have made use of domestic sovereign bonds as a measure of the risk-free rate, no country risk premium has been applied. In determining the cost of debt we have used a 'build-up approach' considering each CGUs capacity to borrow on a standalone basis. A long-term target debt to equity ratio of 25% has been applied to arrive at a WACC.

Long-term growth rates: To forecast beyond the detailed cash flows into perpetuity, a long-term growth rate has been used. In each case, this approximates long-term industry and country forecasts in the territory where the CGU is primarily based.

Goodwill sensitivity analysis

The results of the group's impairment tests are dependent upon estimates and judgements made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to potential changes in key assumptions has therefore been reviewed.

The table below shows the discount rate and long-term growth rate assumptions used in the calculation of value-in-use and the amount by which each assumption must change in isolation in order for the estimated recoverable amount to approximate the carrying value.

8. INTANGIBLE ASSETS (continued)

Sensitivity analysis of assumptions used in the goodwill impairment test	**ROMBAT**	**MUTLU**
Change required for the carrying value to approximate the recoverable amount:		
2017		
Discount rate %	**11.5**	**19.6**
Percentage points change	**+3.0**	**+3.9**
Long-term growth rate %	**4.1**	**5.0**
Percentage points change	**-4.3**	**-6.6**
2016		
Discount rate %	9.3	17.0
Percentage points change	+5.4	+3.4
Long-term growth rate %	3.4	3.7
Percentage points change	-6.0	-6.0

	COMPANY	
	2017 R'000	**2016 R'000**
9. INTEREST IN SUBSIDIARIES		
Unlisted		
Investments at cost	**493 695**	493 695
Non-current advances to subsidiary companies	**1 487 012**	1 487 012
Share-based payment costs	**53 257**	35 309
Net investment interest	**2 033 964**	2 016 016
Current advances to subsidiary companies	**438 827**	531 385
Current advances from subsidiary companies	**(234 626)**	(233 371)
	2 238 165	2 314 030

Metair has undertaken not to sell subsidiaries or reduce loan balances due while various subsidiaries are indebted to the lenders in respect of the refinancing (refer note 14).

Non-current advances are presented net of impairment provisions. have no fixed terms of repayment and regarded as part of the net investment interest in subsidiaries carried at cost. Current advances are interest-free and payable on demand. These are presented as short-term loans due/(from) group subsidiary companies. Refer to note 8 for information regarding impairment testing on carrying values.

The interest of the holding company Metair Investments Ltd in the after tax income/(loss) of the subsidiaries was in aggregate as follows:

	GROUP	
	2017 R'000	**2016 R'000**
Net income	**1 458 483**	982 747
Net losses	**(46 022)**	(48 645)

Details of subsidiaries are disclosed on page 190.

All subsidiary undertakings are included in the consolidation. The total non-controlling interest for the period is R119 393 313 (2016: R103 052 849) of which R115 535 636 (2016: R99 164 867) is for Smiths Manufacturing. Smiths Manufacturing is situated in South Africa and is a conventional manufacturing company producing automotive products such as climate control and air-conditioning systems predominantly for the OE sector. Management has assessed the level of influence the group is able to exercise over Smiths Manufacturing and it has control over the company due to its voting and similar rights as well as the ability to direct the relevant activities.

9. INTEREST IN SUBSIDIARIES (continued)

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information, prepared in accordance with IFRS, for Smiths Manufacturing (Pty) Ltd (Smiths) (75% held) that has non-controlling interest that is material to the group. The amounts disclosed are based on those included in the consolidated financial statements before inter-company eliminations.

	2017 R'000	2016 R'000
Summarised balance sheet		
Non-controlling interest %	25	25
Current		
Assets	516 603	405 279
Liabilities	(247 108)	(233 738)
Total net current assets	269 495	171 541
Non-current		
Assets	250 570	265 555
Liabilities	(75 322)	(58 842)
Total net non-current assets	175 248	206 713
Net assets	444 743	378 254
Summarised results		
Revenue	1 463 224	1 334 174
Other comprehensive income	468	845
Profit attributable to non-controlling interest	31 009	19 674
Total comprehensive income allocated to non-controlling interest	31 126	19 885
Dividends paid to non-controlling interest	14 755	13 642
Accumulated non-controlling interest	115 536	99 165
Summarised cash flow		
Net cash inflow from operating activities	95 328	28 023
Net cash outflow from investing activities	(6 035)	(32 336)
Net cash inflow/(outflow) from financing activities	653	(4 812)

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
10. INVESTMENT IN ASSOCIATES				
Unlisted				
Investments at cost less impairment	269 082	124 780	2 793	2 793
Share of post-acquisition reserves included in equity accounted earnings	311 358	262 465		
Total carrying value	580 440	387 245	2 793	2 793
Reconciliation of movements:				
Balance at the beginning of the year	387 245	235 890	2 793	2 793
Acquisition of associate	144 302	121 986		
Impairment of associate - Eye2square Innovations (Pty) Ltd		(5 000)		
Share of equity accounted earnings	102 989	34 665		
Dividends received	(51 937)			
Foreign currency translation	(2 159)	(296)		
Investment in associates	580 440	387 245	2 793	2 793

Set out below are the associates of the group, which are accounted for on the equity method.
The associates have share capital consisting of ordinary shares and subscribed capital which are held directly by the group except, Valeo Systems SA and Tenneco Automotive Holdings SA that is held directly by the company.

Their principal place of business is the same as country of incorporation and the proportion of ownership is the same as the voting rights held.

10. INVESTMENT IN ASSOCIATES (continued)

Nature of investment in associates	Percentage holding %	Place of business/ country of incorporation	Group carrying amount R'000
2017			
Unlisted			
Hesto Harnesses (Pty) Ltd	**74.9**	**South Africa**	**187 655**
MOLL	**25.1**	**Germany**	**144 302**
Tenneco Automotive Holdings SA (Pty) Ltd	**25.1**	**South Africa**	**46 357**
Associated Battery Manufacturers (East Africa) Limited	**25.0**	**Kenya**	**139 728**
Valeo Systems SA (Pty) Ltd	**49.0**	**South Africa**	**62 398**
Vizirama 12 (Pty) Ltd	**33.0**	**South Africa**	
Eye2square Innovations (Pty) Ltd	**20.0**	**South Africa**	
			580 440
2016			
Unlisted			
Hesto Harnesses (Pty) Ltd	74.9	South Africa	137 777
Tenneco Automotive Holdings SA (Pty) Ltd	25.1	South Africa	34 466
Associated Battery Manufacturers (East Africa) Limited	25.0	Kenya	132 716
Valeo Systems SA (Pty) Ltd	49.0	South Africa	82 286
Vizirama 12 (Pty) Ltd	33.0	South Africa	
Eye2square Innovations (Pty) Ltd	20.0	South Africa	
			387 245

Details of the associates are disclosed on page 191. There are no significant restrictions on the ability of associates to transfer funds to the group. The group does not provide or has received guarantees or similar undertakings for financing facilities, except a limited letter of support of R3.6 million granted to Valeo for overdraft facilities. The risk of default is considered remote.
The associate companies operate in the automotive component industry and manufacture automotive parts and batteries for OE and aftermarket segments, similar to the group strategy, with the exception of Vizirama. Vizirama is an investment company that holds the patents and owns the tooling utilised in the manufacture of streetlights.

The group's associates are private entities and there is no quoted market price available for shares.

The group owns 74.9%, of the majority of the voting rights in Hesto. However, the Shareholder's Agreement stipulates that unanimous consent is required for all decisions relating to the relevant activities of Hesto. The other shareholder also has a currently exercisable and substantive option (call option) that results in Metair accounting for the investment as an associate.

Hesto manufactures and sells automotive wiring harnesses and related components in South Africa. Hesto is a strategic and specialist automotive component manufacturer giving the group OE product and market focus as well being a product differentiator. Hesto's results are also included in the group's segmental analysis as a managed associate.

The group made further progress during the year, in Energy Storage, with the acquisition of a 25.1% equity interest in Akkumulatorenfabrik MOLL GmBH & Co. KG ('MOLL Opco') and MOLL Grundstücks-und Vermögensverwaltungs GmbH + Co. KG ('MOLL Propco'),Germany (together known as 'MOLL') for a total consideration of R144.3 million (approximately Euro 9.2 million). MOLL is a renowned battery supplier for the automotive industry and for commercial vehicles. It manufactures exclusively at its site in Bad Staffelstein/Germany, and has been supplying European OEMs such as Audi, Daimler, Porsche, Lamborghini and VW. The acquisition represents significant potential for synergies and technological transfer, strengthening our access to German OEMs as well as potential access to new markets such as China.

In the prior year the group acquired a 25% shareholding in Associated Battery Manufactures (East Africa) Limited (ABM), Kenya for R122.0 million (approximately USD8.1 million). ABM owns the Chloride and Exide brands for the Kenyan as well as Tanzanian and Ugandan markets. The ABM group is purely aftermarket and represents significant potential for synergies and technology transfer in maintenance free batteries for automotive and lithium batteries for solar. Included in the acquisition cost is a shareholder's loan of R4.8 million, which was recognised as part of the investment in the associate. The loan is not in default nor impaired.

10. INVESTMENT IN ASSOCIATES (continued)

Summarised financial information for associates

Set out below are the summarised financial information for the associates, which are accounted for using the equity method. Hesto, ABM and MOLL are considered significant as well as strategic and are disclosed individually, whilst the other associates are aggregated.

	2017			
	Hesto Harnesses R'000	ABM R'000	MOLL R'000	Other associates R'000
Summarised income statements				
Revenue	1 063 788	904 085	1 218 035	1 341 258
Profit after taxation	66 592	58 234	(676)	99 009
Foreign currency translation		(8 636)		
Total comprehensive income	66 592	49 598	(676)	99 009
Attributable to group	49 877	12 400		38 554
Dividends received from associates		5 387		46 550
Summarised balance sheets				
Current				
Assets	277 928	377 165	333 260	586 840
Liabilities	(227 833)	(110 579)	(195 702)	(247 320)
Non-current				
Assets	247 809	161 454	234 416	87 445
Liabilities	(47 364)	(69 996)	(107 697)	(2 351)
Net assets	250 540	358 044	264 277	424 614

	2016		
	Hesto Harnesses R'000	ABM R'000	Other associates R'000
Summarised income statements			
Revenue	1 040 011	441 720	1 418 967
(Loss)/profit after taxation	(16 197)	44 101	84 116
Foreign currency translation		(1 184)	
Total comprehensive income	(16 197)	42 917	84 116
Attributable to group	(12 132)	10 729	35 771
Dividends received from associates		84 787	
Summarised balance sheets			
Current			
Assets	267 308	385 244	588 677
Liabilities	(258 153)	(100 140)	(239 291)
Non-current			
Assets	244 299	175 738	75 148
Liabilities	(69 506)	(77 297)	(3 929)
Net assets	183 948	383 545	420 605

The information above reflects the amounts presented in the financial statements of the associates (and not the group's share of those amounts) adjusted for differences in accounting policies between the group and the associates.

10. INVESTMENTS IN ASSOCIATES (continued)

The statutory financial year-end of ABM is the end of February, however the results presented are at 31 December 2017 and equity accounted up to this date.

The preliminary notional goodwill arising on acquisition of MOLL Opco and MOLL Propco amounted to R8 million and R2 million respectively. The majority partner in MOLL Opco has a put option to sell their entire shareholding to the remaining shareholders of the entity. We have examined the terms of the option and have determined that the likelihood of the derivative option instrument arising is remote and the fair value of the option liability to be immaterial at year-end.

Reconciliation of summarised financial information

Reconciliation of summarised financial information for associates are presented in the table below:

	2017			
	Hesto Harnesses R'000	ABM R'000	MOLL R'000	Other associates R'000
Opening net assets 1 January	183 948	383 566		420 605
Profit for the year	66 592	58 234		99 009
Dividends paid		(45 188)		(95 000)
Associates purchased			144 302	
Foreign currency translation and other reserves		(38 568)		
Closing net assets	250 540	358 044	144 302	424 614
Shareholding	74.9%	25.0%	25.1%	Varying
Cost	1	121 986	144 302	2 793
Equity accounted profits	187 654	17 742		105 962
Carrying amount	187 655	139 728	144 302	108 755

	2016		
	Hesto Harnesses R'000	ABM R'000	Other associates R'000
Opening net assets 1 January	200 146		336 489
(Loss)/profit for the year	(16 198)	44 101	84 116
Dividends paid			
Associates purchased		362 185	
Foreign currency translation		(22 720)	
Closing net assets	183 948	383 566	420 605
Shareholding	74.9%	25.0%	Varying
Cost	1	121 986	2 793
Equity accounted profits	137 776	10 729	113 960
Carrying amount	137 777	132 715	116 753

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
11. INVENTORY				
Raw material	704 607	789 442		
Work in progress	354 189	286 521		
Finished goods	638 867	532 998		
	1 697 663	1 608 961		
Included in the above are inventories stated at net realisable value of	14 944	21 321		
The cost of inventories recognised as expense and included in cost of sales amounted to	6 946 507	6 426 150		
Inventory pledged as security for bank overdrafts amounting to:	7 029	14 481		

	GROUP		COMPANY	
	2017	2016	2017	2016
	R'000	R'000	R'000	R'000
12. TRADE AND OTHER RECEIVABLES				
Trade receivables	**1 535 155**	1 296 689		
Less: Provision for impairment of trade receivables	**(34 452)**	(34 627)		
	1 500 703	1 262 062		
Prepayments	**31 924**	14 084		
Tooling prepayments	**33 787**	17 688		
Grant claim receivable	**2 915**	5 301		
VAT asset	**9 153**	5 627		
Rebates and discounts receivable	**52 675**	57 507		
Other receivables	**38 828**	32 664		
	1 669 985	1 394 933		

Trade receivables can be categorised in the following categories:

	Total R'000	Fully perfor-ming R'000	Past due and not impaired R'000	Impaired and provided for R'000
2017				
Original equipment	**439 764**	**386 446**	**53 221**	**97**
Exports	**327 841**	**265 643**	**41 422**	**20 776**
Aftermarket	**620 096**	**557 232**	**52 385**	**10 479**
Non-automotive	**147 454**	**78 543**	**65 811**	**3 100**
	1 535 155	**1 287 864**	**212 839**	**34 452**
2016				
Original equipment	374 427	332 584	41 752	91
Exports	217 151	134 120	60 794	22 237
Aftermarket	644 629	571 518	63 885	9 226
Non-automotive	60 482	33 005	24 404	3 073
	1 296 689	1 071 227	190 835	34 627

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

	GROUP	
	2017	2016
	R'000	R'000
Rand	**648 543**	561 146
British Pound	**19 698**	24 038
Euro	**125 265**	91 684
US Dollar	**155 631**	128 113
Australian Dollar	**1 393**	134
Romanian Lei	**133 030**	130 966
Turkish Lira	**586 425**	456 519
Singapore Dollar		2 333
	1 669 985	1 394 933

12. TRADE AND OTHER RECEIVABLES (continued)

The provision for impairment can be analysed as follows:

	Total R'000	Original equip-ment R'000	Export R'000	After-market R'000	Non-auto-motive R'000
2017					
At 1 January	**34 627**	**91**	**22 237**	**9 226**	**3 073**
Provisions for receivables impaired	**2 050**	**80**		**1 917**	**53**
Amounts written off	**(1 263)**		**(1 025)**	**(212)**	**(26)**
Unused amounts reversed	**(718)**	**(74)**	**(437)**	**(207)**	
Currency adjustments	**(244)**		**1**	**(245)**	
As at 31 December	**34 452**	**97**	**20 776**	**10 479**	**3 100**
2016					
At 1 January	36 421		24 290	8 229	3 902
Provisions for receivables impaired	4 855	91	1 336	3 428	
Amounts written off	(602)		(88)	(338)	(176)
Unused amounts reversed	(1 710)			(1 057)	(653)
Currency adjustments	(4 337)		(3 301)	(1 036)	
As at 31 December	34 627	91	22 237	9 226	3 073

The ageing profile of total trade receivables are presented below:

	Total R'000	Original equip-ment R'000	Export R'000	After-market R'000	Non-auto-motive R'000	Past due and not impaired R'000
2017						
Up to 3 months	**1 461 242**	**438 650**	**296 307**	**583 847**	**142 438**	**185 932**
3 to 6 months	**34 342**	**1 080**	**8 323**	**22 833**	**2 106**	**9 086**
Over 6 months	**39 571**	**34**	**23 211**	**13 416**	**2 910**	**17 821**
	1 535 155	**439 764**	**327 841**	**620 096**	**147 454**	**212 839**
2016						
Up to 3 months	1 215 739	370 275	183 486	606 930	55 048	162 109
3 to 6 months	42 289	3 830	13 264	24 039	1 156	14 392
Over 6 months	38 661	323	20 401	13 660	4 277	14 334
	1 296 689	374 428	217 151	644 629	60 481	190 835

The creation and release of provision for impaired receivables have been included in other operating expenses in the income statement. Unwinding of discount is included in interest income in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

Mutlu has obtained security in the form of guarantees of R431.4 million (2016: R364.5 million) over certain trade receivables.

Trade receivables of R213.7 million (2016: R188.4 million) have been pledged as security for bank overdrafts.

		GROUP		COMPANY	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
13.	**CASH AND CASH EQUIVALENTS**				
	For the purposes of the cash flow statement, cash and cash equivalents consist of the following:				
	Cash at bank and on hand	670 653	744 017	590	1 912
	Bank overdrafts	(73 348)	(127 015)		
		597 305	617 002	590	1 912
	The following bank rates applied at year-end:				
	Interest rate on short-term bank deposits	8.9%	4.0%		
	Interest rate on bank overdrafts	9.3%	10.0%		
	Interest rate on European bank overdrafts	1.1%	1.0%		

Property, plant and equipment of R102.5 million (2016: R122.6 million), inventory of R7.0 million (2016: R14.5 million) and trade receivables of R213.7 million (2016: R188.4 million) have been pledged as security for bank overdrafts.

		GROUP		COMPANY	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
14.	**BORROWINGS**				
	Redeemable preference shares	840 000	1 400 000		
	Bank borrowings	912 916	463 698		
	Instalment sale liabilities	43 006	27 515		
	Finance lease liabilities	5 573	6 352		
	Total borrowings	1 801 495	1 897 565		
	Current portion included in current liabilities	(652 689)	(911 018)		
	Non-current portion	1 148 806	986 547		

Preference shares

An aggregate of 1 400 cumulative redeemable no par value preference shares were issued on 2 September 2014 and are mandatorily redeemable. The remaining obligation is to be settled as follows:

	R'000
Upon the date 4 years after the Issue Date (2 September 2018)	560 000
Upon the date 5 years after the Issue Date (final redemption date of 2 September 2019)	280 000
	840 000

Preference dividends are to be paid on a semi-annual basis on 15 April and 15 October of each year during the term and carry a dividend rate of 69% of the ruling South African prime rate calculated on a nominal annual monthly compounded basis (NACM).

The preference shares are subject to covenant requirements (refer note 19.3) and these requirements have been complied with.

14. BORROWINGS (continued)

Bank borrowings

Bank borrowings includes term loans, call loans of R245.9 million (2016: R93.4 million) and revolving credit facilities (RCF) of R667 million (2016: R371 million).

The group has a general RCF of R750 million provided by ABSA Bank Limited, Investec Bank and Standard Bank of South Africa Limited. Drawdowns on the RCF amounted to R667 million (2016: R371 million) at balance sheet date. The RCF has a tenure of five years with a final maturity date of 13 August 2019. Interest is charged at 2.05% over the ruling JIBAR rate, determined either on a one, three or six month basis, as selected by the group (interest period). Interest accrues on a daily basis and is payable in arrears at the end of each interest period. Drawdowns are payable on a rolling basis at each interest period, but not later than the final maturity date. Drawdowns are classified as non-current liabilities at balance sheet date as a result of the rolling mechanism. The RCF is guaranteed on a joint and several basis by certain subsidiaries within the group.

The secured term and call loans of R245.9 million (2016: R93.4 million of secured term loans), consist predominantly of TL75.2 million denominated borrowings arising in Mutlu (2016: USD2 million and TL16.7 million) with maturities ranging up to 2021. The interest rates range from 13.1% to 15.0% per annum (2016: 3.26% to 13%). Annual repayments approximate TL24.5 million per annum (2016: USD2 million and TL8.3 million).

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Maturity of non-current borrowings (excluding financed assets)				
Later than 1 year and not later than 2 years	1 007 345	312 652		
Later than 2 year and not later than 5 years	105 614	650 994		
	1 112 959	963 646		
The carrying amount of the above borrowings are denominated in the following currencies:				
Rand	1 555 573	1 804 861		
US Dollar		27 752		
Turkish Lira	245 922	64 952		
	1 801 495	1 897 565		

The group had the following undrawn borrowing (including overdraft) facilities at year-end:
- RCF of R83 million (2016: R379 million)
- Other South African facilities of R587 million (2016: R478 million)
- US Dollar denominated facilities of USD94.9 million (2016: USD79 million)
- Turkish Lira denominated facilities of TL151 million (2016: TL145 million)
- Euro denominated facilities of EUR33.0 million (2016: EUR14.8 million)

Except for the RCF funding, all undrawn borrowing facilities are renewable annually. The borrowing powers of the company are unlimited in terms of its memorandum of incorporation.

Mutlu has provided general security of USD30 million (2016: USD30 million) for the USD facilities available. These facilities have not been utilised at reporting date.

Instalment sale liabilities

Assets acquired by instalment sale agreements are paid over an agreed time period. The title of the asset passes automatically, once the full amount has been paid. Payment obligations are effectively secured as the rights to the asset revert to the financer in the event of default. Instalment sale agreements are secured over vehicles and machinery with a book value of R47.3 million (2016: R33.5 million).

		GROUP		COMPANY	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
14.	**BORROWINGS (continued)**				
	Instalment sale liabilities - Minimum payments:				
	Within 1 year	13 653	9 470		
	Later than 1 year and not later than 5 years	38 336	24 106		
	Minimum instalments	51 989	33 576		
	Future finance charges	(8 983)	(6 061)		
	Present value of liabilities	43 006	27 515		
	The present value of all instalment sale liabilities may be analysed as follows:				
	Within 1 year	9 967	7 229		
	Later than 1 years and not later than 2 years	10 130	2 785		
	Later than 2 years and not later than 5 years	22 909	17 501		
	Present value of liabilities	43 006	27 515		
	Finance lease liabilities				
	Lease rental obligations under financial lease arrangements are capitalised and lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.				
	Capitalised finance leases are secured over vehicles and equipment with a book value of:	13 372	11 483		
	Gross finance lease liabilities - minimum lease payments:				
	Within 1 year	2 942	4 171		
	Later than 1 year and not later than 5 years	2 947	2 786		
	Minimum lease payments	5 889	6 957		
	Future finance charges on finance leases	(316)	(605)		
	Present value of finance lease liabilities	5 573	6 352		
	The present value of all finance lease liabilities may be analysed as follows:				
	Within 1 year	2 765	3 737		
	Later than 1 years and not later than 2 years	560	2 615		
	Later than 2 years and not later than 5 years	2 248			
		5 573	6 352		
	All borrowings are interest-bearing and the approximate annual interest rates at year-end are as follows:	%	%		
	Preference shares	7.1	7.0		
	Bank borrowings				
	- Revolving credit facility	*JIBAR+2.05	*JIBAR+2.05		
	- Other call and term facilities	9.0	9.0		
	- Call loans (foreign borrowings)	13.0 - 15.1	3.0 - 13.0		
	Instalment sale liabilities	10.0	9.50		
	Finance lease liabilities	10.0	9.00		

* Johannesburg inter-bank agreed rate.

Notes to **the annual financial statements** continued

		GROUP		COMPANY	
		2017 R'000	2016 R'000	2017 R'000	2016 R'000
15.	**DEFERRED TAXATION**				
	Deferred income taxation is calculated on all temporary differences under the liability method using a principal taxation rate of 28% (2016: 28%) for South Africa, 16% (2016: 16%) for Romania, 22% (2016: 20%) for Turkey and 19% (2016: 20%) for the United Kingdom.				
	The following amounts are shown in the consolidated balance sheet:				
	Deferred taxation assets	(12 869)	(4 952)		
	Deferred taxation liabilities	298 326	336 395		
		285 457	331 443		
	The movement as follows:				
	At the beginning of the year	331 443	395 855		
	Income statement (credit)/charge:				
	- Current year	(12 271)	22 369		
	- Prior year	2 682	(252)		
	Taxation charged/(credited) to other comprehensive income:				
	- Actuarial gains/(losses)	1 546	(65)		
	Taxation credited to equity:				
	- Share-based payments	(2 484)	(1 308)		
	Currency adjustments	(35 459)	(85 156)		
	At the end of the year	285 457	331 443		
	Deferred taxation assets:				
	Deferred taxation asset to be recovered after more than 12 months	(71 131)	(61 549)		
	Deferred taxation asset to be recovered within 12 months	(37 584)	(26 078)		
		(108 715)	(87 627)		
	Deferred taxation liabilities:				
	Deferred taxation liability to be recovered after more than 12 months	366 752	394 424		
	Deferred taxation liability to be recovered within 12 months	27 420	24 646		
		394 172	419 070		
	Amounts aggregated:				
	Deferred taxation assets	(108 715)	(87 627)		
	Deferred taxation liabilities	394 172	419 070		
	Net deferred taxation liability	285 457	331 443		

15. DEFERRED TAXATION (continued)

Deferred taxation liabilities

	GROUP				
	Post-employment benefits R'000	Plant and equipment allowances R'000	Intangibles R'000	Claims and other receivables R'000	Total R'000
2017					
Opening balance		**310 671**	**94 649**	**13 750**	**419 070**
Reallocations				**220**	**220**
Charged/(credited) to the income statement:					
- Current year		**14 114**	**(4 713)**	**920**	**10 321**
- Prior year		**3 246**		**25**	**3 271**
Currency adjustments		**(24 921)**	**(13 755)**	**(34)**	**(38 710)**
Closing balance		**303 110**	**76 181**	**14 881**	**394 172**
2016					
Opening balance	1 264	348 861	135 195	17 190	502 510
Reallocations			13	326	339
Charged/(credited) to the income statement:					
- Current year	(1 163)	22 024	(7 308)	(3 389)	10 164
- Prior year		(1 024)		(93)	(1 117)
Currency adjustments	(101)	(59 190)	(33 251)	(284)	(92 826)
Closing balance		310 671	94 649	13 750	419 070

Deferred taxation assets

	GROUP						
	Share-based payments R'000	Post-employment benefits R'000	Assessed losses set off R'000	Provision for doubtful debts R'000	Warranty claims R'000	Derivatives and other R'000	Total R'000
2017							
Opening balance	**(3 186)**	**(21 737)**		**(3 342)**	**(15 064)**	**(44 298)**	**(87 627)**
Reallocations			**(3 493)**			**3 273**	**(220)**
Charged/(credited) to the income statement:							
- Current year	**(1 188)**	**(3 769)**	**(130)**	**(388)**	**(1 775)**	**(15 342)**	**(22 592)**
- Prior year				**497**		**(1 086)**	**(589)**
Charged/(credited) to other comprehensive income		**2 198**				**(652)**	**1 546**
Deferred taxation on share-based payment reserve*	**(2 484)**						**(2 484)**
Currency adjustments	**1**	**2 172**		**21**	**441**	**616**	**3 251**
Closing balance	**(6 857)**	**(21 136)**	**(3 623)**	**(3 212)**	**(16 398)**	**(57 489)**	**(108 715)**
2016							
Opening balance	(2 044)	(30 645)	(8 754)	(3 008)	(16 608)	(45 596)	(106 655)
Reallocations				(42)	(35)	(262)	(339)
Charged/(credited) to the income statement:							
- Current year	147	3 780	7 752	(729)	643	612	12 205
- Prior year		266	1 002	174		(577)	865
Charged/(credited) to other comprehensive income		(65)					(65)
Deferred taxation on share-based payment reserve*	(1 308)						(1 308)
Currency adjustments	19	4 927		263	936	1 525	7 670
Closing balance	(3 186)	(21 737)		(3 342)	(15 064)	(44 298)	(87 627)

* The measurement of the deductible expense for deferred taxation purposes is based on the entity's share price at the balance sheet date.

15. DEFERRED TAXATION (continued)

Deferred tax assets have been recognised for the carry forward amount of unused tax losses relating to the group's operations where, among other things, taxation losses can be carried forward indefinitely and there is evidence that it is probable that sufficient taxable profits will be available in the future to utilise all tax losses carried forward.

Deferred tax assets have been recognised to the extent that it is probable that the entities will generate future taxable income against which these tax losses can be utilised. Currently there are no statutory limitations as to its usage.

Deferred tax liabilities are not recognised for the income tax effect that may arise on the remittance of unremitted earnings by subsidiaries. It is management's intention that, where there is no double taxation relief, these earnings will be permanently re-invested in the group.

Dividend withholding tax is payable at a rate of 20% (2016: 20%) on dividends distributed to shareholders. Dividends paid to companies and certain other institutions and certain individuals are not subject to this withholding tax. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the tax authorities on behalf of the shareholder. On receipt of a dividend, the company includes the dividend withholding tax on this dividend in its computation of the income tax expense in the period of such receipt.

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
16. TRADE AND OTHER PAYABLES				
Trade creditors	830 340	675 565		
Accrual for leave pay	26 576	24 591		
Sundry creditors, advances received and other accruals	190 346	189 610	592	547
Deferred income on government grants	203 854	162 849		
Payroll and statutory accruals	70 342	68 850		
Royalties payable	24 860	26 466		
VAT and other indirect taxes	33 705	22 905		
Rebates and discounts payable	21 167	25 415		
Preference share interest accrual	9 958	17 003		
	1 411 148	1 213 254	592	547
Non-current portion of deferred income on government grants included in non-current liabilities	(175 440)	(147 950)		
Current portion included in current liabilities	1 235 708	1 065 304	592	547
The carrying amounts of the group's trade and other payables are denominated in the following currencies:				
Rand	415 619	332 955	592	547
Yen	91 646	98 502		
US Dollar	406 582	257 536		
Euro	140 141	167 564		
British Pound	7 205	5 259		
Thai Baht	16 587	17 044		
Romanian Lei	179 940	214 662		
Turkish Lira	151 501	116 346		
Singapore Dollar	1 711	3 169		
Indian Rupee	216	217		
	1 411 148	1 213 254	592	547

17. PROVISIONS FOR LIABILITIES AND CHARGES

Warranty

Provision is made for the estimated liability on all products sold which are still under warranty including claims initiated, not yet settled. Claims are expected to be settled in the next financial year. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims would differ from historical amounts. Factors that could impact the estimated claims information include the success of the group's productivity and quality initiative, as well as parts and labour costs.

Executive bonuses

Executive bonuses are approved by the remuneration committee.

Environmental

A provision is recognised for the present value of costs that may be incurred for statutory environmental and similar matters. The unwinding of discount is negligible.

Other provisions

Other provisions comprises predominantly of scrap battery recovery and recycling obligations and long service awards. The provisions amounted to R26.4 million (2016: R27.9 million) and R20.4 million (2016: R18.2 million) respectively.

	GROUP				
	Executive bonus R'000	Warranty claims R'000	Environ-mental R'000	Other R'000	Total R'000
2017					
Balance at the beginning of the year	**23 989**	**63 709**	**15 556**	**53 341**	**156 595**
- Additional provision	**43 317**	**54 469**		**98 518**	**196 304**
- Unused amounts reversed	**(3 656)**	**(7 971)**		**(5 500)**	**(17 127)**
Utilised during the year	**(19 865)**	**(40 645)**		**(81 226)**	**(141 736)**
Currency adjustments	**(1 352)**	**(2 092)**		**(2 074)**	**(5 518)**
Balance at the end of the year	**42 433**	**67 470**	**15 556**	**63 059**	**188 518**
2016					
Balance at the beginning of the year	20 929	68 882	18 181	60 960	168 952
Acquisition of subsidiary					
- Additional provision	25 578	50 369		101 511	177 458
- Unused amounts reversed	(2 214)	(10 819)		(2 127)	(15 160)
Utilised during the year	(18 754)	(39 389)		(103 741)	(161 884)
Currency adjustments	(1 550)	(5 334)	(2 625)	(3 262)	(12 771)
Balance at the end of the year	23 989	63 709	15 556	53 341	156 595

Analysis of total provisions:	2017 R'000	2016 R'000
Non-current	52 951	48 150
Current	135 567	108 445
	188 518	156 595

		GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
18.	**NOTES TO CASH FLOW STATEMENTS**				
18.1	**Reconciliation of profit before taxation to cash generated from operations**				
	Profit before taxation	775 814	606 492	44 568	137 310
	Adjustment for:				
	Depreciation and amortisation	265 779	272 925		
	Impairment charge		1 122		
	Profit on disposal of property, plant and equipment	(800)	(1 771)		
	Profit on insurance proceeds for property, plant and equipment				
	Other financial assets at fair value through profit or loss:				
	- Fair value losses	33 634	19 812		
	Foreign exchange losses on operating activities	6 097	897		
	Share-based payment expenses	18 199	18 135		
	Net share-based payment effects			(455)	9 388
	Post-employment benefit - charge	14 904	20 859		
	Post-employment benefits - contributions paid	(6 628)	(25 802)		
	Share of equity accounted earnings/dividends from investments	(102 989)	(29 665)	(46 550)	(139 290)
	Interest income	(26 179)	(33 296)	(11)	(30)
	Interest expense	200 867	187 905	1	
	Increase in provisions and derivatives	49 261	24 244		
	Operating cash generated before working capital changes	1 227 959	1 061 857	(2 447)	7 378
	Working capital changes (excluding the effect of acquisition and exchange differences on consolidation):				
	Increase in inventory	(137 481)	(10 056)		
	Increase in trade and other receivables	(426 306)	(14 417)		
	Increase/(decrease) in trade and other payables	240 932	(3 917)	45	48
	Cash generated from operations	905 104	1 033 467	(2 402)	7 426
18.2	**Taxation paid**				
	Taxation paid is reconciled to the amount disclosed in the income statement as follows:				
	Amounts unpaid/(receivable) at the beginning of the year	15 008	(10 295)		
	Income statement charge (note 4)	(197 831)	(116 317)	(3)	(9)
	Currency adjustment	1 241	7 868		
	Amounts receivable at the end of the year	(3 725)	(15 008)		
		(185 307)	(133 752)	(3)	(9)
18.3	**Dividends paid**				
	To shareholders	(138 590)	(139 034)	(139 290)	(139 290)
	To non-controlling interests	(15 168)	(13 749)		
		(153 758)	(152 783)	(139 290)	(139 290)
18.4	**Interest paid**				
	Interest expense (note 2)	(200 867)	(187 905)	(1)	
	Preference share interest accrual at the beginning of the year	(17 003)	(15 631)		
	Preference share interest accrual at the end of the year	9 958	17 003		
		(207 912)	(186 533)	(1)	

	GROUP			
	Redeemable preference shares R'000	Bank borrowings R'000	Instalment sale and finance lease liabilities R'000	Total R'000
18. NOTES TO CASH FLOW STATEMENTS (continued)				
18.5 Reconciliation of movements in borrowings (refer note 14) to cash flows arising from financing activities				
2017				
Balance at the beginning of the year	**1 400 000**	**463 698**	**33 867**	**1 897 565**
Changes from financing cash flows:	**(560 000)**	**484 067**	**(12 456)**	**(88 389)**
Preference shares redeemed/repaid	**(560 000)**			**(560 000)**
Proceeds from RCF drawdowns		**296 000**		**296 000**
Mutlu borrowings repaid - USD and TL		**(56 502)**		**(56 502)**
Mutlu borrowings raised - TL		**244 569**		**244 569**
Lease repayments			**(12 456)**	**(12 456)**
New leases			**27 168**	**27 168**
Foreign exchange rate adjustments		**(34 849)**		**(34 849)**
Balance at the end of the year	**840 000**	**912 916**	**48 579**	**1 801 495**

19. FINANCIAL INSTRUMENTS

19.1 Financial instruments by category

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

Assets as per balance sheet

	GROUP Loans and receivables R'000	Assets at fair value through profit or loss R'000	Total R'000
2017			
Derivative financial instruments		**314**	**314**
Trade and other receivables*	**1 595 265**		**1 595 265**
Cash and cash equivalents	**670 653**		**670 653**
Total	**2 265 917**	**314**	**2 266 232**
2016			
Derivative financial instruments		1 092	1 092
Trade and other receivables*	1 357 743		1 357 743
Cash and cash equivalents	744 017		744 017
Total	2 101 760	1 092	2 102 852

Liabilities as per balance sheet

	GROUP Other financial liabilities at fair value through profit R'000	Other financial liabilities at amortised cost R'000	Total R'000
2017			
Borrowings		**1 801 495**	**1 801 495**
Derivative financial instruments	**28 862**		**28 862**
Bank overdraft		**73 348**	**73 348**
Trade and other payables**		**1 137 610**	**1 137 610**
Total	**28 862**	**3 012 453**	**3 041 315**
2016			
Borrowings		1 897 565	1 897 565
Derivative financial instruments	15 492		15 492
Bank overdraft		127 015	127 015
Trade and other payables**		980 619	980 619
Total	15 492	3 005 199	3 020 691

* Prepayments and VAT receivables are excluded from the trade and other receivables balance.

** Leave pay, advances received, deferred income and other non-financial liabilities are excluded from trade and other payables balance.

19. FINANCIAL INSTRUMENTS (continued)

19.1 Financial instruments by category (continued)

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

Assets and liabilities as per balance sheet

	COMPANY		
	Loans and receivables R'000	Other financial liabilities at amortised cost R'000	Total R'000
2017			
Short-term loans to subsidiaries	**438 827**		**438 827**
Cash and cash equivalents	**590**		**590**
Short-term loans from subsidiaries		**(234 626)**	**(234 626)**
Trade and other payables		**(592)**	**(592)**
Total	**439 417**	**(235 218)**	**204 199**
2016			
Short-term loans to subsidiaries	531 385		531 385
Cash and cash equivalents	1 912		1 912
Short-term loans from subsidiaries		(233 371)	(233 371)
Trade and other payables		(547)	(547)
Total	533 297	(233 918)	299 379

19.2 Financial risk management

The group's activities expose it to financial risks: market risk (including foreign currency exchange trade risk and variable interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The risk management committee provides principles for overall risk management, as well as guidance containing specific areas such as foreign exchange currency risk.

A. Market risk

i. Foreign currency exchange rate risk (also refer 19.4.1)

The group exports and imports goods and is therefore exposed to exchange risk arising from various foreign currency exchange exposures. These consist primarily of exposures with respect to the Euro, US Dollar and Japanese Yen.

Management has set up policies to require group companies to manage their foreign currency exchange rate risk against their functional currency. When the business wins long-term customer tenders or orders that are in a foreign currency the group minimises the potential volatility of the cash flows from these transactions by 'hedging' either economically or through forward exchange contracts ('FECs'). At period end the group is required to market to market these FECs even though it has no intention of closing them out in advance of their maturity dates. The marked to mark value represents foreign notional amounts translated at the market forward rate at reporting date. These valuation adjustments are realised through profit and loss. Hedge accounting is not applied unless specifically designated as a cash flow hedge. Hedge accounting is usually applied in the case of foreign business acquisitions such as the 2013 Mutlu business combination. The group's current foreign exchange currency risk management policy is to 'cover' at least 50% of net exposures (including orders or firm commitments, where possible).

The group makes use of professional foreign currency management specialists to assist in administrating its foreign exchange exposures/contracts.

The company does not have any foreign currency exchange rate risk.

19. FINANCIAL INSTRUMENTS (continued)

19.2 Financial risk management (continued)

Uncovered foreign currency exchange exposures at year-end can be analysed as follows:

	At balance sheet date				Purchase orders not yet reflected as liabilities in the balance sheet			
	2017		2016		2017		2016	
	Foreign amount inflow/ (outflow) '000	Rand equivalent inflow/ (outflow) R'000	Foreign amount inflow/ (outflow) '000	Rand equivalent inflow/ (outflow) R'000	Foreign amount '000	Rand equivalent R'000	Foreign amount '000	Rand equivalent R'000
US Dollars	7 188	88 625	(2 019)	(27 706)	4 687	50 130	2 527	34 849
Euros	(2 682)	(39 856)	(2 620)	(37 959)	1 643	21 477	1 507	21 863
Japanese Yen	(113 790)	(12 511)	122 297	14 409	368 821	40 551	279 857	32 991
Great British Pound	(13)	(222)	(21)	(354)	166	3 139	109	1 866
Thai Baht					33 612	10 536	17 808	6 855
Singapore Dollars	(1 085)	(189)	1 076	220	1 864	361	1 064	216
Indian Rupee			197	1 876	1 439	13 014	1 379	13 154
Total		35 847		(49 514)		139 208		111 794

	Profit higher/(lower)	
Foreign exchange sensitivity analysis	**2017 R'000**	**2016 R'000**
At 31 December 2017, if the Rand had weakened/strengthened by 10% in relation to the following currencies, with all other variables held constant, estimated post-taxation profit for the year would change for the following:		
- Mainly as a result of foreign exchange gains/(losses) on translating foreign denominated trade receivables and trade payables, and US Dollar borrowings in Mutlu and the mark-to-market valuation of forward exchange contracts:		
US Dollar	20 692	10 102
- Mainly as a result of foreign exchange gains/(losses) on translating foreign denominated exposures in Mutlu and the mark-to-market valuation of forward exchange contracts:		
Euros	1 442	6 422
Japanese Yen	7 183	7 538
Great British Pound	109	696
Thai Baht	1 347	1 246
Australian Dollar	102	11
Singapore Dollar	139	64

The following significant exchange rates against the ZAR applied at year-end:

	Spot rate		Average rate	
	2017	2016	2017	2016
US Dollar	12.5	13.7	13.5	14.8
Euros	14.8	14.4	15.0	16.3
Japanese Yen (at inverted rate)	8.9	8.5	8.3	7.3
Turkish Lira - Mutlu - translation of results	3.3	3.9	3.7	4.9
Romanian Lei - Rombat - translation of results	3.2	3.2	3.3	3.6

19. FINANCIAL INSTRUMENTS (continued)

19.2 Financial risk management (continued)

ii. Interest rate risk

The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. The group is exposed to variable interest rate risk as it borrows and places funds primarily at floating interest rates. These include the group's local RCF facility, bank overdrafts, Mutlu Turkish Lira borrowings and the groups local preference share funding (refer note 14).

Management evaluates the group's borrowings and exposures on a regular basis and utilise floating rates as it deems appropriate in order to optimise interest savings and reduce volatility in the debt related element of the group's cost of capital.

Interest rates on bank overdrafts are disclosed in note 13. Interest rates on other long and short-term borrowings are disclosed in note 14. Bank overdraft facilities are reviewed annually and the terms are normally market related. For borrowing exposures and related maturity dates refer note 14.

At 31 December 2017, if the average interest rates on borrowings had been 1.0% point higher with all other variables held constant, post-taxation profit for the year would have been R9.8 million (2016: R10.3 million) lower.

Company changes in variable interest rates do not have a significant impact on the company as the company does not have any external borrowings or significant cash holdings.

Current advances to/from subsidiaries are interest free (refer note 9).

iii. Price risk

The company and group is not exposed to equity securities price risk as the group does not have investments in equities classified on the balance sheet either as available-for-sale or at fair value through profit or loss.

B. Credit risk

The group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. The group considers it has two types of credit risk; operational and financial. Operational credit risk relates to non-performance by customers in respect of trade and other receivables. Financial credit risk relates to non-performance by banks and similar institutions in respect of cash and deposits, facilities and financial contracts, including forward foreign exchange currency contracts.

Operational

The group supplies batteries and automotive parts to predominantly the automotive industry. As a supplier to automotive OEMs, the cash recovery is normally within thirty days, however the group may have a concentration of amounts outstanding with a single or smaller grouping of customers at any one time. Group revenues consist of 36% (2016: 35%) from automotive component OEMs. The credit profiles of such OEMs are available from credit rating agencies. The insolvency of, damage to relations or commercial terms with a major customer could impact future results. In the aftermarket customer base there are a greater proportion of amounts receivable from small and medium sized customers and the group's independent distributor networks. This indirectly provides an advantage in concentration to OEMs. Refer to note 12 for further analysis of trade receivables.

Net trade receivables of R1 501 million (2016: R1 262 million) comprises of R1 207 million (2016: R1 001 million) from the energy storage business and R294 million (2016: R261 million) from the automotive component business.

Credit risk and customer relationships are managed in a number of ways within the group. The granting of credit is controlled by a formal application process and rigid account limits. Ongoing credit evaluations are performed on the financial position of these debtors. This evaluation takes into account its financial position, past experience and other factors such as amounts overdue and credit limits. The group has extensive and regular dialogue with key customers and strong commercial relationships. Provisions for doubtful debts are determined based upon the customer's ability to pay and other factors in the group's relationship with the customer. Trade receivables are presented net of the provision for impairment.

Financial

Credit risk is mitigated by placing cash with different financial institutions to minimise risk. In South Africa, this is usually limited to the 'big 4' retail banks and highly reputable financial institutions. In Turkey and Romania, this is usually limited to reputable financial institutions of strong international investment ratings. The maximum exposure to a single bank for deposits in South Africa is R107.3 million (2016: R198.9 million), whilst foreign deposits (held by foreign subsidiaries) and mark to market exposure for forward foreign currency contracts at 31 December 2017 varies amongst counterparties.

19. FINANCIAL INSTRUMENTS (continued)

19.2 Financial risk management (continued)

The credit quality of financial assets is based on historical counterparty default rules:

	GROUP	
Analysis of credit quality	**2017 R'000**	**2016 R'000**
Trade receivables		
Counterparties are:		
Group 1 - new customers (less than 6 months).	75 679	26 078
Group 2 - existing customers (more than 6 months) with no defaults in the past.	1 424 893	1 235 868
Group 3 - existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.	131	116
	1 500 703	1 262 062
The group has different categories of customers and a period of six months has been used as the criteria in distinguishing between new and existing customers.		
Credit limits were within terms and management does not expect any losses from non-performance by these counterparties. The maximum exposure to credit risk is estimated to be the carrying amounts of the financial assets and the risk exposure may be minimised by collection of collateral held by Mutlu (refer note 12).		
Cash and cash equivalents		
Bank balances were held as follows:		
South African banks	318 675	439 837
European banks	74 471	42 522
Turkish banks	277 507	261 658
	670 653	744 017
Derivative financial assets		
Forward exchange contracts were held as follows:		
South African banks - net ZAR forward cover value outflow	(286 559)	(279 653)

	COMPANY	
	2017 R'000	**2016 R'000**
Current advances to subsidiary - with no defaults in the past and not impaired	438 827	531 385
Bank balances with South African banks	590	1 912

The group does not expect any financial counterparties to fail to meet their obligations. Additional information on credit ratings can be found publicly on S&P Global, Fitch and Moody's Investor services. SA short-term ratings were at P-3 using S&P Global ratings at balance sheet date, indicating acceptable ability to repay short-term obligations.

19. FINANCIAL INSTRUMENTS (continued)

19.2 Financial risk management (continued)

C. Liquidity risk

The group is exposed to liquidity risk as part of its normal financing and operational cash cycles. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to ensure that sufficient liquidity is available to meet obligations as they fall due and to maintain sufficient flexibility in order to fund investment and acquisition objectives. The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

The group undertook a refinancing of borrowings and facilities in the form of R1 400 million in preference share funding and a revolving credit facility (RCF) for R750 million during 2014. Metair redeemed R560 million in maturing preference shares during 2017. The repayment of the remaining preference shares will be funded using a combination of new preference share subscriptions, available cash and existing unutilised debt facilities.

Subsequent to year-end, the group secured an additional 5 year RCF, to the value of R525 million at a margin of 235 bps above 3 months JIBAR from our lenders. The additional facility requires no change to existing debt covenants or structures. The maturity profile of the remaining R840 million preference shares require redemption of R560 million in September 2018 and R280 million in September 2019.

The group utilises the credit facilities of various banking institutions and has been able to operate within these facilities. This trend is expected to continue into the foreseeable future to fund growth in the group. Details of borrowing including available facilities are disclosed in note 14. Projected operational cash flows are expected to provide adequate support in liquidity levels.

Analysis of financial liabilities - maturities (group)

The table below analyses the group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balance due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Balance sheet carrying value R'000	Contractual cash flows R'000	Less than 1 year R'000	Between 1 and 2 years R'000	Between 2 and 5 years R'000
As at 31 December 2017					
Borrowings	**1 801 495**	**2 085 370**	**814 208**	**1 108 001**	**163 161**
Derivative financial liabilities	**28 862**	**28 862**	**28 862**		
Overdraft	**73 348**	**75 058**	**75 058**		
Trade and other payables	**1 137 610**	**1 137 610**	**1 137 610**		
As at 31 December 2016					
Borrowings	1 897 565	2 178 309	1 064 432	408 679	705 198
Derivative financial liabilities	15 492	15 492	15 492		
Overdraft	127 015	128 286	128 286		
Trade and other payables	980 619	980 619	980 619		

Analysis of financial liabilities - maturities (company)

Financial liabilities noted in 19.1 for R234.6 million (2016: R233.4 million) relate to current advances from a subsidiary. The projected recovery of advances granted to other subsidiaries are expected to provide adequate liquidity to repay this obligation. The contractual cash flows approximate the carrying values.

Analysis of derivative financial instruments

Details of the outstanding foreign exchange contracts which will be settled on a gross basis follows in note 19.4.1.

19 FINANCIAL INSTRUMENTS (continued)

19.3 Capital risk management

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

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt/reduce capital investments. Capital allocations is limited to the most meaningful projects with the highest probability of success to support the group's required return on invested capital and free cash flow generation.

The group monitors capital structure on the basis of net debt/equity. This ratio is calculated as net debt divided by ordinary shareholders' equity. Net debt is calculated as total interest bearing borrowings (including bank overdrafts) less cash and cash equivalents. Metair's capital structure remains relatively conservative and in compliance with all of our lender's covenants. The target remains c. 25% debt:equity and the actual ratio may fluctuate over the short-term, taking into account the group's globalisation strategy for our Energy Storage Vertical. Overall the debt levels are targeted to not exceed 2.5 x EBITDA.

The ratios at 31 December were as follows:

	GROUP	
	2017 R'000	**2016 R'000**
Total borrowings (notes 13 and 14)	**1 874 843**	2 024 580
Less: Cash and cash equivalents (note 13)	**(670 653)**	(744 017)
Net debt	**1 204 190**	1 280 563
Ordinary shareholders' equity	**4 076 143**	4 076 520
Total capital	**5 280 333**	5 357 083
Net debt/equity ratio %	**29.5**	31.4
Net debt:EBITDA	**1.0**	1.2

Debt covenants

The borrowings provided by lenders to the group are subject to covenant measures (refer note 14). Covenant measures at reporting date and in the prior year have been met.

The three covenant measures (as calculated per covenant requirements) are:
- Priority debt covenant not more than 1 times (achieved - 0.16 times)
- Interest cover ratio not less than 3.0 times (achieved 7.31 times)
- Net borrowings to 'adjusted EBITDA' ratio (as defined) shall not exceed 2.5 times (achieved 1.14 times)

The company is not subject to debt covenants.

19.4 Fair value estimation

The financial instruments that are measured subsequent to initial recognition at fair value are forward currency contracts. All of these financial instruments are classified as Level 2 fair value measurements, as defined by IFRS 13, being those derived from inputs other than quoted prices that are observable. Derivative financial instruments are discussed further below in note 19.4.1.

Financial instruments traded in active markets and based on market prices at reporting date as well as financial instruments in which inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) are classified as level 1 and level 3 respectively, as defined by IFRS 13. There are no such items applicable to the group at reporting date.

Bank overdrafts, other short-term bank borrowings, bank balances and cash and short-term bank deposits, trade receivables and payables approximate book value due to their short maturities.

For borrowings, the current contractual pricing of borrowings approximates the rates that would be available to the group.

19. **FINANCIAL INSTRUMENTS (continued)**

19.4.1 **Derivative financial instruments**

The table below analyses financial instruments carried at fair value, by valuation method as defined in paragraph 19.4

		GROUP			
		2017 R'000		2016 R'000	
At 31 December	**Level**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Forward exchange contracts and similar instruments - held for trading valued at fair value through profit/(loss)	2	**314**	**28 862**	1 092	15 492

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates (market observable/published rates) to terminate the contracts at the reporting date. The maximum exposure to credit risk at the balance sheet is the fair value of the derivative assets.

Derivatives are used as economic hedges and are classified as current assets or liabilities as the maturity of the hedged item is less than 12 months. Derivative instruments resulted in a loss of R33.6 million (2016: loss of R19.8 million) for the year.

Forward exchange contracts

Year-end forward exchange contracts can be analysed as follows:

	****Rand amount '000**	**Foreign notional amount '000**	**FEC rate - range**	**Derivative Asset/ Liability fair value '000**	**Period to maturity**
Derivative financial assets					
Imports*					
Euro	1 511	100	14.97	14	30 April 2018
Exports*					
US Dollar	626	51	12.31 - 12.86	24	31 January 2018
Euro	2 401	162	14.60 - 16.09	251	16 January 2018 - 31 January 2018
Australian Dollar	324	34	10.41	25	16 February 2018
	3 351			300	
Total derivative financial assets				**314**	
Derivative financial liabilities					
Imports*					
US Dollar	112 014	9 032	12.45 - 14.52	(12 022)	16 January 2018 - 30 April 2018
Euro	67 596	4 525	15.08 - 17.08	(6 245)	16 January 2018 - 31 May 2018
Japanese Yen	80 847	730 797	7.78 - 9.03	(8 116)	16 January 2018 - 31 May 2018
Thai Baht	23 989	63 000	2.26 - 2.60	(2 128)	26 January 2018 - 26 April 2018
Great British Pound	1 197	72	18.52 - 18.53	(131)	31 January 2018
Singapore Dollar	3 718	400	9.58 - 10.25	(218)	16 January 2018 - 29 March 2018
	289 361			(28 860)	
Exports*					
Euro	354	24	14.77	(1)	31 January 2018
Australian Dollar	608	63	9.62	(1)	31 January 2018
	962			(2)	
Total derivative financial liabilities				**(28 862)**	

* Includes forward exchange contracts that represent imports and exports being managed on a net basis.

** Forward cover value in ZAR terms, representing the foreign notional amount translated at the contracted rates.

		GROUP		COMPANY	
		2017 R'000	2016 R'000	2017 R'000	2016 R'000
20.	**CONTINGENT LIABILITIES**				
	Letters of support in respect of overdrafts of associates				
	Valeo	3 675	3 675	3 675	3 675

The group has contingent liabilities in respect of performance guarantees, letters of credit, customs and excise and other related matters such as claims and disputes arising out of the ordinary cause of business of which the likelihood of loss is remote. Performance and related guarantees amounted to R82 million (2016: R245 million) at 31 December 2017.

Refer to note 23 for details on subordination agreements with subsidiaries. Certain group subsidiaries provided guarantees for funding provided to the group.

		GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
21.	**COMMITMENTS**				
	Capital commitments	349 473	187 338		
	Contracted:				
	- Plant, machinery and equipment	53 524	46 124		
	Authorised by the directors, but not yet contracted:				
	- Plant, machinery and equipment	295 949	141 214		
	Unexpired portion of operating lease contracts	79 911	70 314		
	- Payable within 1 year	34 867	32 417		
	- Payable later than 1 year and not later than 5 years	41 044	37 897		
		425 384	257 652		

The above commitments will be financed mainly from internal resources as well as from facilities available.

The group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The group also leases various plant and machinery under cancellable and non-cancellable operating lease agreements. The group is required to give notice for the termination of these agreements based on the specific terms of agreement. The lease expenditure charged to the income statement during the year is disclosed in note 3.

22. POST-EMPLOYMENT BENEFITS

The group provides post-employment benefits for its employees.

Amounts included in the financial statements comprise of:

	GROUP 2017 R'000	GROUP 2016 R'000
Balance sheet obligation for:		
Post-employment medical benefit (note 22.1)	32 108	32 324
Other post-employment benefits (note 22.2)	46 616	56 587
Liability in the balance sheet	78 724	88 911
Income statement charge:		
Post-employment medical benefits (note 22.1)	3 420	3 042
Other post-employment benefits (note 22.2)	11 484	17 818
	14 904	20 860
Remeasurements included in other comprehensive income for:		
Post-employment medical benefits (note 22.1) - gain	(2 004)	(1 957)
Other post-employment benefits (note 22.2) - (gain)/loss	(7 440)	3 065
Long service award	2 328	
	(7 116)	1 108

22.1 Post-employment medical benefits

Certain of the companies in the group operated post-employment medical benefit schemes until 31 December 1996. Employees who joined the group after 1 January 1997 will not receive any co-payment subsidy from the group upon reaching retirement.

The scheme is unfunded. The present value of the obligation is based on the 'projected unit credit basis' using certain assumptions.

The amounts recognised in the income statement are as follows:

	GROUP 2017 R'000	GROUP 2016 R'000
Current service costs	592	608
Interest costs	2 828	2 434
	3 420	3 042
Movement in the liability recognised in the balance sheet		
At the beginning of the year	32 324	32 230
Acquisition of subsidiary		
Total expense per income statement	3 420	3 042
Contributions paid	(1 632)	(991)
Actuarial gain recognised in other comprehensive income	(2 004)	(1 957)
At the end of the year	32 108	32 324
The amounts recognised in equity are as follows:		
Recognised actuarial gain	(2 004)	(1 957)

The effect of a 1% movement in the assumed medical healthcare cost rate is as follows:

	Increase R'000	Decrease R'000
Effect on the aggregate of the current service cost and interest cost	**(2 856)**	**3 725**
Revised defined benefit obligation - net	**28 808**	**36 047**

Assumptions	2017	2016
The principal actuarial assumptions used were:		
- Discount rate for obligation	10.0%	9.3%
- Healthcare cost inflation	7.0%	7.0%
- Continuation of membership on retirement	100%	100%
- CPI inflation	6.5%	6.7%
- Post-retirement mortality	PA (90)-1	PA (90)-1
- Pre-retirement mortality	SA 85-90	SA 85-90

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience.

22. POST-EMPLOYMENT BENEFITS (continued)

22.2 Other post-employment benefits

In accordance with Turkish social legislation, Mutlu is required to make lump sum payments to current employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such payments are calculated on the basis of 30 day pay limited to a salary cap of TL4 732 (2016: TL4 297) per year at 31 December, per year of employment at the rate of pay applicable at the date of retirement/termination.

In the annual financial statements, the group reflects a liability calculated using the projected unit credit method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds (or rates approved by the Turkish capital markets board). Severance payment liability is not subject to any legal funding.

The scheme is unfunded.

	GROUP	
	2017 R'000	**2016 R'000**
Current service costs	**5 751**	10 886
Interest costs	**5 733**	6 931
	11 484	17 817
Movement in the liability recognised in the balance sheet		
At the beginning of the year	**56 587**	81 387
Total expense per income statement	**11 484**	17 817
Contributions paid	**(4 996)**	(24 811)
Actuarial (gain)/loss recognised in other comprehensive income	**(7 440)**	3 065
Currency adjustment	**(9 019)**	(20 871)
At the end of the year	**46 616**	56 587
The amounts recognised in equity are as follows:		
Recognised actuarial (gain)/loss	**(7 440)**	3 065
The effect of a 1% movement in the discount rate is as follows:	**Increase R'000**	**Decrease R'000**
Revised defined benefit obligation	**43 566**	**50 060**
The principal actuarial assumptions used at balance sheet date are as follows (based on Turkish statistics):	**2017**	**2016**
Annual discount rate	**11.5%**	11.0%
Salary inflation rate	**6.0%**	6.0%
Average monthly earnings (Turkish Lira)	**3 835**	3 745
Mortality table	**CS080 F/M**	CS080 F/M

The principal assumption is that the maximum liability for each year of service will increase in line with inflation.

22.3 Pension schemes

The group operates defined contribution pension schemes and contributions are charged against the income statement. The group contributed R74.4 million (2016: R66.9 million) to the defined contribution schemes.

		GROUP		COMPANY	
		2017 R'000	2016 R'000	2017 R'000	2016 R'000
23.	**SUBORDINATION AGREEMENTS**				
	The company has subordinated a portion of loans receivable from the following subsidiaries in favour of, and for the benefit of, the other creditors of the subsidiaries to the extent that the aforementioned subsidiaries liabilities exceed total assets.				
	Total loan amount receivable:				
	Smiths Plastics (Pty) Ltd (Smiths Plastics)			167 451	167 451
	Metair Management Services (Pty) Ltd (MMS)			438 827	531 385
				606 278	698 836

The company has also subordinated its claims against certain subsidiaries in respect of the revolving credit facility and preference share funding in favour of the lenders.

24. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Management makes judgements, estimates and assumptions in the preparation of the annual financial statements that affect the disclosure and values of assets, liabilities, income, expenses and equity.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by nature, seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Asset useful lives and residual values (refer note 7**)**
Property, plant and equipment are depreciated over its useful life taking into account residual values where appropriate. The actual useful lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset useful lives, factors such as technological innovation, product lifecycles/project life and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Goodwill impairment testing (refer note 8**)**
The group tests annually whether goodwill (including indefinite life intangibles) has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Key estimates include growth and discount rates (WACC) applied. Future cash flows (earnings) expected to be generated by Mutlu and Rombat (CGUs) are projected, taking into account factors such as market conditions and earnings growth. Sensitivity analyses are also performed and the results can be found in note 8.

Hesto accounted for as an associate (refer note 10**)**
Metair owns 74.9% of Hesto. However, the shareholder's agreement stipulates that unanimous consent is required for all decisions relating to the relevant activities of Hesto (de facto majority vote). The other shareholder also has a currently exercisable and substantive option (call option) that results in Metair accounting for the investment as an associate.

The call option held would benefit the other shareholder through additional voting rights acquired from its exercise. The other shareholder currently holds 25.1% shareholding in Hesto and the option will allow an increase to either 50.1% or 100% shareholding.

The unanimous consent required for decision-making is a clear indication that Metair does not control Hesto. Although unanimous consent usually indicates joint control, the impact of the call option results in the relationship being one of an associate. Metair therefore applies equity accounting to Hesto and has applied the disclosure requirements of IFRS 12 in respect of summarised information on associates.

IFRS 2 - Equity-settled schemes (refer note 26.1**)**
IFRS 2 charges, determined by reference to the fair value of options granted, are calculated in terms of the group's accounting policy and based on option pricing models for the share option scheme in operation. The charge is based on assumptions applied at grant date to the valuation models. These include, among others the risk-free interest rate, Metair share price volatility and dividend yields.

Fair value determination at grant date includes market performance conditions (such as share price), excludes the impact of any service and non-market performance vesting conditions (such as employment period conditions and profitability) and includes the impact of any non-vesting conditions.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

25. RELATED PARTIES

The group and company entered into transactions with related parties. Transactions that are eliminated intra-group for consolidation purposes are not included.

Information on emoluments paid to executive and non-executive directors have been presented in note 3. Employees fulfilling the role of key management are all appointed to the board of directors.

Information on investments in subsidiaries and associates is presented in notes 9, 10 and on pages 144 to 145. Information on loans granted to subsidiaries has been presented in note 9. Dividend income from subsidiaries has been presented in note 3. Directors' shareholding and share incentives granted have been presented in note 26.

Information on the Metair Investments Limited 2009 Share Plan can be found in note 26. The share-based payment expense for key management amounted to R10.5 million (2016: R13.5 million).

Information on the Metair group Pension Scheme can be found in note 22.3.

Information on shareholding of the company can be found on pages 108 to 111.

	GROUP	
	2017 R'000	**2016 R'000**
The group entered into the following transactions with its equity partner in Smiths Manufacturing:		
Purchases of goods and services	**47 019**	52 587
Dividend paid	**14 755**	13 642
Outstanding balance at year-end	**64 563**	44 124
The group entered into the following transactions with its associates:		
Hesto		
Purchases from group companies	**103 716**	93 017
Sales to group companies	**16 477**	13 696
Management fees paid to group companies	**730**	633
Management fees received from group companies	**335**	314
Outstanding balance to group companies	**6 192**	5 377
Outstanding balance from group companies	**1 062**	925
Valeo		
Purchases from group companies	**45 138**	54 723
Management fees paid to group companies	**265**	258
Outstanding balance to group companies	**1 615**	2 244

The company has provided limited letters of support to certain subsidiaries within the group (refer note 23).

		GROUP		COMPANY	
		2017	2016	2017	2016
		R'000	R'000	R'000	R'000
26.	**STATED CAPITAL AND TREASURY SHARES**				
	Authorised number of shares				
	400 000 000 ordinary shares at no par value	400 000 000	400 000 000	400 000 000	400 000 000
	Issued number of shares				
	Ordinary shares at beginning and end of the year	198 985 886	198 985 886	198 985 886	198 985 886
		198 985 886	198 985 886	198 985 886	198 985 886
	Issued				
	198 985 886 ordinary shares of no par value	1 497 931	1 497 931	1 497 931	1 497 931
		1 497 931	1 497 931	1 497 931	1 497 931
	Treasury shares				
	Balance at the beginning of the year	(10 481)	(13 940)		
	Shares disposed by Business Venture Investments No 1217 (Pty) Ltd (vesting utilisation)	329	3 459		
	Balance at the end of the year	(10 152)	(10 481)		
	Number of treasury shares are held as follows				
	Business Venture Investments No 1217 (Pty) Ltd	982 822	1 015 527		

Treasury shares are ordinary shares held, by a subsidiary in the company, for the purpose of the Metair Investments Ltd 2009 share plan.

26.1 The Metair Investments Ltd 2009 Share Plan (equity-settled share-based payment scheme)

The Metair Investments Ltd 2009 Share Plan is an equity-settled share-based payment scheme.

The Metair Investments Ltd 2009 Share Plan was approved by shareholders on 4 December 2009. Under the plan executives, senior managers and/or key employees of the group will annually be offered a combination of share appreciation rights, performance shares or bonus shares.

Annual allocations of share appreciation rights, awards of performance shares and grants of bonus shares are governed by Metair's remuneration policies.

If an employee ceases to be employed by the group by reason of no fault termination prior to the vesting and/or exercise of the share appreciation rights, performance shares or bonus shares, the share appreciation rights, performance shares or bonus shares available to vest and/or be exercised shall be deemed to have vested and been exercised and shall be settled to the employee in terms of the share plan with effect from the date of termination of employment.

All shares vested are exercised.

a) Share appreciation rights

Annual allocations of share appreciation rights will be made to executives and selected managers. They will be available to be settled, subject to any performance criteria that may have been stipulated at allocation in equal thirds on the third, fourth and fifth anniversaries but need not be exercised until the sixth anniversary, at which time they will be automatically settled.

On settlement, the value accruing to participants will be the appreciation of Metair's share price. The appreciation may be calculated as the full appreciation in the share price, or that appreciation over and above a prescribed hurdle rate which may have been stipulated at allocation.

26. STATED CAPITAL AND TREASURY SHARES (continued)

26.1 The Metair Investments Ltd 2009 Share Plan (equity-settled share-based payment scheme) (continued)

a) Share appreciation rights (continued)

Movements in the number of rights granted are as follows:

	2017		2016	
	Number of grants	Weighted average strike grant price R	Number of grants	Weighted average strike grant price R
Balance at the beginning of the year	3 581 592	30.19	2 593 320	34.26
Granted	1 088 651	19.12	1 038 484	20.02
Lapsed	(130 620)	(27.76)	(50 212)	(30.12)
Vested with appreciation	(25 347)	(20.61)		
Vested with no appreciation	(176 191)	(20.61)		
Balance at the end of the year	4 338 085	27.93	3 581 592	30.19
IFRS 2 share-based payment charge		R7 122 939		R10 857 616

Rights outstanding at the end of the year vest in the following years (performance period). subject to the fulfilment of performance conditions.

	2017 Number of rights	2016 Number of rights
Year ending 31 December:		
2017		1 232 003
2018	1 715 445	712 048
2019	739 876	788 241
2020	835 985	506 440
2021	683 895	342 860
2022	362 884	
	4 338 085	3 581 592

b) Performance shares

Annual conditional awards of performance shares will be made to participants with a zero strike price. Performance shares will vest on the third anniversary of their award to the extent that the specified performance criteria over the intervening period has been met.

The board dictates the performance criteria for each award. The performance conditions applied to the performance shares awarded from 2016 is as follows:

- Metair executives performance criteria will be group's return on invested capital ('ROIC') (50%) and total shareholder return ('TSR') (50%) being targeted. TSR will be measured against a benchmark of selected mid-tier industrial and trading companies. Metair's weighted average ROIC over the three year period will be referenced to weighted averaged cost of capital ('WACC').
- Subsidiary executives performance criteria will be group's ROIC (50%) and the subsidiaries own segmental ROIC (50%) being targeted.

26. STATED CAPITAL AND TREASURY SHARES (continued)

26.1 The Metair Investments Ltd 2009 Share Plan (equity-settled share-based payment scheme) (continued)

b) Performance shares (continued)

Movements in the number of shares awarded are as follows:

	2017 Number of shares	2016 Number of shares
Balance at the beginning of the year	1 033 854	731 833
Granted	518 593	608 420
Lapsed	(319 033)	(306 399)
Vested	(7 358)	
Balance at the end of the year	1 226 056	1 033 854
Share awards outstanding at the end of the year vest in the following years, subject to the fulfilment of performance conditions.		
Year ending 31 December:		
2017		224 355
2018	205 676	225 984
2019	523 726	583 515
2020	496 654	
	1 226 056	1 033 854
IFRS 2 share-based payment charge*	R5 230 839	R1 826 923

* The calculation of the IFRS 2 charge for the year was adjusted for the number of options that are expected to vest at reporting date, based on the non-market vesting conditions.

c) Bonus shares

Special allocations of bonus shares awarded vest after three years conditional on continued employment. For a period of two years from the vesting date and provided continued employment of Metair, the shares may not be disposed, transferred or encumbered. Bonus shares are granted with a zero strike price.

Movements in the number of bonus shares awarded are as follows:

	2017 Number of shares	2016 Number of shares
Balance at the beginning of the year	1 100 000	643 819
Granted	250 000	800 000
Vested		(343 819)
Balance at the end of the year	1 350 000	1 100 000
IFRS 2 share-based payment charge	R5 845 504	R5 450 331
Share awards outstanding at the end of the year vest in the following years, subject to the fulfilment of performance conditions.		
Year ending 31 December:		
2018	300 000	300 000
2019	800 000	800 000
2020	250 000	
	1 350 000	1 100 000

26. STATED CAPITAL AND TREASURY SHARES (continued)

26.1 The Metair Investments Limited 2009 Share Plan (equity-settled share-based payment scheme) (continued)

d) Valuation of share incentive grants

The fair value of the share appreciation rights was determined using a modified binomial tree model. The performance and bonus shares granted in terms of the share plan are the economic equivalent of awarding a Metair share (without dividend rights for the period from grant date to vesting date) at zero strike. Therefore the value of each performance share and bonus share is equal to the share price on the grant date less the present value of future dividends expected over the vesting period.

The table below sets out the assumptions used to value the grants:

	Share appreciation rights	Performance shares	Bonus shares
2017			
Spot price	**R19.88**	**R24.20**	**R19.70**
Strike price (grant price)	**R19.12**	**Nil**	**Nil**
Volatility*	**29.09%**	**33.11%**	**N/A**
Dividend yield	**4.44%**	**3.28%**	**3.28%**
Valuation (IFRS 2)	**R6 353 058**	**R16 075 218**	**R4 322 467**
Fair value per share at grant date	**R5.86**	**R21.93**	**R19.70**
2016			
Spot price	R20.99	R19.80	R19.80
Strike price (grant price)	R20.02	Nil	Nil
Volatility*	27.61%	30.58%	N/A
Dividend yield	3.3%	4.4%	3.2%
Valuation (IFRS 2)	R7 099 694	R7 845 749	R14 261 008
Fair value per share at grant date	R6.75	R17.35	R17.83

The total IFRS 2 employee share-based payment expense for the year was R18.2 million (2016: R18.1 million), including allocation to non-controlling interests. The cost of share-based expenses for the company is capitalised to the investment in subsidiaries. Metair's share price at 31 December 2017 was R20.50 (2016: R22.00).

* The volatility input to the pricing model is a measure of the expected price fluctuations of the Metair share price over the life of the option structure. Volatility is measured as the annualised standard deviation of the daily price changes in underlying shares.

26. STATED CAPITAL AND TREASURY SHARES (continued)

26.1 The Metair Investments Limited 2009 Share Plan (equity-settled share-based payment scheme) (continued)

e) Share awards, options and other grants allocated to and exercised by Metair executive directors

	Share appreciation rights	Performance shares	Bonus shares	Total
Yearly award (number of shares):				
2017				
CT Loock	**133 326**	**47 766**		**181 092**
S Douwenga	**65 596**	**23 346**	**250 000**	**338 942**
2016				
CT Loock	120 124	57 693	800 000	977 817
S Douwenga	59 101	28 061		87 162
Exercise (number of shares):				
2017				
CT Loock*	**(26 631)**	**(64 629)**		**(91 260)**
S Douwenga		**(12 358)**		**(12 358)**
2016				
CT Loock*		(113 962)	(180 222)	(294 184)
Cumulative (number of shares):				
2017				
CT Loock	**1 259 456**	**133 308**	**800 000**	**2 192 764**
S Douwenga	**448 276**	**61 542**	**500 000**	**1 009 818**
2016				
CT Loock	1 152 761	150 171	800 000	2 102 932
S Douwenga	382 680	50 554	250 000	683 234

* Set off against performance shares exercised is 76 987 (2016: 113 962) shares not vested by the remuneration committee in terms of the under fulfilment of certain performance conditions.

26.2 Interest of directors

At 31 December members of the board of directors had a direct beneficial interest in the company's ordinary stated capital as set out below (there has been no change since that date):

	2017 Beneficial Direct Number	%	2016 Beneficial Direct Number	%
Executive directors				
CT Loock	**204 083**	**0.10**	200 222	0.10
Independent non-executive directors				
L Soanes	**120 000**	**0.06**	120 000	0.06
Total	**324 083**	**0.16**	320 222	0.16

There is no indirect beneficial or non-beneficial interest by members of board of directors.

Notes to **the annual financial statements** continued

		GROUP		COMPANY	
		2017 R'000	2016 R'000	2017 R'000	2016 R'000
27.	**RESERVES**				
	Other reserves comprises the following:				
27.1	**Share-based payment reserve**				
	Balance at the beginning of the year	95 114	75 671	35 309	25 921
	Value of service provided	18 199	18 135	18 199	18 135
	Deferred taxation	2 484	1 308		
	Utilisation of treasury shares to settle obligation*	(329)	(3 459)	(251)	(8 747)
	Estimated taxation effect of utilisation of treasury shares	(115)	(1 114)		
	Transfer of net vesting impact to retained earnings	444	4 573		
	Balance at the end of the year	115 797	95 114	53 257	35 309
	* The market value of shares utilised to settle the obligation amounted to R0.7 million (2016: R7 million).				
27.2	**Foreign currency translation reserve**				
	Balance at beginning of the year	(660 569)	466 317		
	Exchange loss arising from translation of foreign operations	(443 989)	(1 126 886)		
	Balance at end of the year	(1 104 558)	(660 569)		
27.3	**Equity accounted reserves**				
	Balance at the beginning of the year	271 336	241 671		
	Transfers from retained earnings	51 052	29 665		
	Balance at the end of the year	322 388	271 336		
	Transfer from retained earnings consists of:				
	- Share of associated companies' after taxation income	102 989	29 665		
	- Dividends received	(51 937)			
		51 052	29 665		
27.4	**Change in ownership reserve - Non-controlling interests (NCI)**				
	The reserve relates to the premiums paid on purchases of and profit/loss on disposals to NCI without a change in degree of control. The reserve arose as a result of transactions with Mutlu NCI in previous years.				
	Balance at the end of the year	(21 197)	(21 197)		
	Total other reserves	(687 570)	(315 316)	53 257	35 309
27.5	**Retained earnings**				
	Balance at the beginning of the year	2 904 386	2 630 982	784 948	786 937
	Net profit for the year	556 182	447 930	44 565	137 301
	Other comprehensive income/(loss)	5 453	(1 254)		
	Dividends paid	(138 590)	(139 034)	(139 290)	(139 290)
	Transfers to equity accounted reserves	(51 052)	(29 665)		
	Transfer of net vesting impact to retained earnings	(444)	(4 573)	(455)	
	Balance at the end of the year	3 275 935	2 904 386	689 768	784 948
27.6	**Non-controlling interests**				
	Balance at the beginning of the year	103 053	97 109		
	Net profit for the year - attributable to non-controlling interests	31 390	20 128		
	Other comprehensive income/(loss) - attributable to non-controlling interests	118	(435)		
	Dividend	(15 168)	(13 749)		
	Balance at the end of the year	119 393	103 053		

Accounting **policies**

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The consolidated annual financial statements are stated in South African Rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) in issue and effective for the Group at 31 December 2017 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

The consolidated annual financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below.

The consolidated annual financial statements are prepared on the going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 24.

NEW STANDARDS AND INTERPRETATIONS

Accounting policy developments include new standards issued, amendments to standards, and interpretations issued on current standards as issued by the IASB.

(a) Standards, amendments and interpretations effective for the first time for 31 December 2017 year-end

Standards and amendments adopted by the group:

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
- Disclosure initiative – amendments to IAS 7
- Annual Improvements to IFRS Standards 2014-2016 Cycle –various standards (amendments to IFRS 12)

The group also 'applied' the following amendments which are applicable from 1 January 2018:

- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. The amendments will also not affect the current or future periods as they clarify existing practice and do not introduce major changes. The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 18 for the additional information.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

A number of new standards and amendments to standards and interpretations have been issued and have not been applied in preparing these annual financial statements.

The following standards, amendments and interpretations are not expected to have a significant impact on the group and are not applicable in most cases:

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 *(effective date 1 January 2018)*
- Transfers of Investment Property – Amendments to IAS 40 *(effective date 1 January 2018)*
- IFRS 17 Insurance Contracts *(effective date 1 January 2021)*
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 (effective date TBC)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective date 1 January 2018)
- IFRIC 23 Uncertainty over income tax treatments
- Annual Improvements to IFRS Standards 2014-2016 Cycle – (amendments to IFRS 1 and IAS 28)

The following standards are expected to have an impact on the group's financial statements in the period of initial application:

IFRS 15 - Revenue from Contracts with Customers (effective date 1 January 2018):

The FASB and IASB has issued a new standard on revenue recognition. This replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. IFRS 15 provides a new framework for assessing the accounting for revenue transactions.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer and requires entities to reassess their contracts with customers.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. As with any new standard, there are also increased disclosures.

We commenced our evaluation of the implications of IFRS 15 during 2017, by evaluating its impact on a select number of contracts and revenue streams across our businesses.

Management has assessed the effects of applying the new standard on the group's financial statements and based on assessments undertaken to date, the following areas have been identified that will be affected:

Timing of revenue recognition

- ***'Point in time vs. over time'***
  Revenue for OEM specific parts is currently recognised when the goods are delivered to the customers' premises, which is taken to be the point in time when the customer accepts the goods and the related risks and rewards of ownership transfer. Based on the groups assessment of the majority of OEM contractual relationships, particularly within the

automotive component business, revenue recognition for many of the parts contracts with OEMs and associated costs, will need to be recognised 'over time' in terms of IFRS 15, i.e. before the goods are delivered to the customers premises.

This is because in the majority of arrangements assessed, the parts or components have no alternative use and the group has a right to payment for production to date. Therefore this would accelerate revenue recognition for these specific component contracts or orders.

The estimated impact on retained earnings and NCI at 1 January 2018, as a result for changes in accounting for contracts that have not been completed or delivered, is an increase in the range of between R10 million and R13 million and R0.7 million and R0.8 million, respectively. The impact of the changes in the consolidated balance sheet is an increase in trade and other receivables (contract assets), increase in deferred tax liabilities and a decrease in inventories.

- ***'Renewal rights' and 'LTRs'***
  As part of the impact assessment phase, contractual price downs or life time reductions ('LTRs'), in some OEM contracts, are separated under IFRS 15. The value of this 'material or renewal right' for the customer would need to be recognised on all relevant product sold.

  Effectively the new standard takes a view that where products sold are substantially the same and the customer is able to buy future units at a reduced price, a relatively consistent price should apply to all sales. This would have the impact of deferring some early invoiced revenue to later units sold. The impact of LTRs are not considered to be significant as this is currently limited to a specific customer / business unit and effective during 2018 production.

- ***Rendering of services***
  In some cases, the delivery of parts to OEM customers is seen as a separate performance obligation (i.e. a shipping service) under IFRS 15. If transportation is identified as a separate performance obligation, then a separate revenue stream should be recognised for this shipping service.

  The result is that the total consideration for the 'parts price' needs to be allocated to all services based on their relative stand-alone selling prices (i.e. how much relates to shipping service and to parts).

  Management does not expect the application of IFRS 15 to result in significant differences in the timing or separation for shipping services as the stand alone selling prices are immaterial.

Principal vs. Agent considerations

The group normally engages in sourcing, procuring and/or assembly of tooling required for specific parts to be manufactured for customers. Under IFRS 15, agreements to 'supply' customer tooling are now within scope.

The assessment of agent vs. principal is based on whether the arrangement is a promise to deliver or arrange the tooling and if the group controls the specific goods or services before transferring them to the end customer.

Under IFRS 15, revenue should be recognised 'net' if the arrangement is on an agency basis, or 'gross' if considered a principal.

The group currently accounts for tooling on an 'agency' basis. The tooling arrangement is out-sourced to tool-makers and approved by the OEM and the group does not establish prices to the customer.

Based on assessments performed under IFRS 15, because the group are now seen to be the primary party responsible for the tool, this indicates that the group is acting as principal. Commercially, although tooling arrangements are 'priced' at zero margin, revenue will have to be recognised on a 'gross-up' basis during construction of the tool and delivery.

Had IFRS 15 been applied during the year under review, revenue and cost of sales would have been estimated to be approximately R177 million higher. There is no impact on profit after tax and retained earnings at 1 January 2018. Depending on the level of future model and face-lift changes required by customers, the result may have a marginal impact on the PBIT margin.

Other matters

Contract modifications – price and engineering changes are subject to negotiations and the changes applied prospectively. Accordingly the accounting for these adjustments and changes under IFRS 15 is of minimal impact as the accounting currently applied is the same.

Variable consideration – If the consideration promised in a contract includes a variable amount, an estimate of the variable amount should be included in revenue, provided there is certainty and there will not be significant reversals. Cost recoveries for economic, material and foreign exchange adjustments are now regarded as a form of variable consideration and should be applied to all parts delivered. Currently, as these adjustments are only applied to parts that will be supplied in the future, there is minimal impact to the current accounting under IFRS 15.

Distributor and aftermarket agreements - We are also in the process of finalising our assessments on certain distributor and aftermarket revenue streams within the energy storage businesses and will complete these assessments before first time adoption.

Presentation of contract assets and contract liabilities in the balance sheet – IFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to expected volume discounts/rebates, warranties, right of return and other associated provisions which are currently included in other balance sheet line items.

Transition

The group plans to adopt IFRS 15 using the simplified transition method (modified retrospective method) retrospectively only to contracts that are not completed at the date of initial application (i.e. 1 January 2018) applying certain practical expedients. As a result, the group expects not apply the requirements of IFRS 15 to the comparative period presented.

The estimated impact of the adoption of IFRS 15 on the group is based on assessments undertaken to date. As the implementation of the standard progresses, the actual impact of adoption may vary due to:

- Refinement of systems and the need for further extension of other contract assessments
- Future changes to agreements and new business and

- The new accounting policies are subject to change until the group presents its first financial statements that include the date of initial application

IFRS 9 - Financial Instruments (2009 & 2010) and amendments on general hedge accounting (effective date 1 January 2018):
This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

Classification and general measurement
IFRS 9 contains three principal classification categories for financial assets: measured at cost, FVOCI (Fair Value through Other Comprehensive Income) and FVTPL (Fair Value Through Profit and Loss). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the group does not believe that the new classification requirements will have a material impact on accounting for its financial assets. Currently the group does not hold any investment in debt and equity securities that are managed on a fair value basis. (refer to note 19 for financial instruments by category).

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Hedge accounting
When initially applying IFRS 9, the group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. Hedge accounting still remains optional and derivatives still carried at fair value.

The group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency receivables, payables and sales and inventory purchases. The group currently does not apply hedge accounting and all movements (derivative financial instruments and foreign currency denominated translations) are recognised within profit/loss. There will be no impact on retained earnings at 1 January 2018.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

In addition, IFRS 9 requires changes in the fair value of foreign exchange forward contracts attributable to forward points, and in the time value of the option contracts, to be deferred in a new costs of hedging reserve within equity. The deferred amounts will be recognised against the related hedged transaction when it occurs.

The group foreign exchange risk management policies also requires the use of forward cover to be taken on firm commitments to suppliers (purchase orders made but not reflected in the balance sheet). There is usually a 3 -6 month pipeline before these orders are recognised. The movement in the derivative positions are taken to profit and loss as hedge accounting is not applied.

If applied under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are classified to profit and loss as a reclassification adjustment in the same period as the hedged expected cash flows affect profit and loss. However under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast non-financial asset purchases (i.e. inventory), the amounts accumulated in the cash flow hedge reserve and the cost of hedging reserve will instead be included directly in the initial cost of the non-financial asset when it is recognised.

The group will re-evaluate the requirements for hedge accounting under IFRS 9 and consider applying hedge accounting as and when appropriate on future transactions. Derivative fair value losses amounted to R33 million (2016: R20 million) for the year.

Impairment - financial assets and contract assets
The new impairment model requires the recognition of impairment provisions based on a forward looking 'expected credit losses' (ECL) model rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The model will require 'disaggregation' of the customer base, application of different default rates within various trade receivable ageing buckets and the use of forward looking information.

The group expects a small increase in the loss allowance for trade debtors held at amortised cost. Actual credit loss experience over the past 5 years averaged 0.5% of total trade debtors. The group's debtor's book is also diversified between global auto- manufactures (corporates/OEMs) and individual entities (mainly aftermarket customers). If the actual historical default loss experience was recalculated and adjusted by factors to reflect current and future economic conditions, the impact on retained earnings at 1 January 2018 is not considered to be significant.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The group is in the process of implementing the system and control changes that it believes will be necessary to capture required data and analysis.

Transition
IFRS 9 Must be applied for financial years commencing on or after 1 January 2018. The group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 16 – Leases (effective date 1 January 2019):
This IFRS is part of the IASB's project to replace IAS 17 and was issued in January 2016. The standard applies to annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied.

It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance lease is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised.

The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of R76 million on an undiscounted basis, see note 21. Approximately R35 million of these relate to payments for the short-term portion.

The nature of expenses related to those applicable leases will change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right-of-use assets and interest expense for lease liabilities.

The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the group's borrowing rate at 1 January 2019, the composition of the groups lease portfolio at that date, exercising of any renewal options and the extent to which the group chooses to utilise practical expedients and recognition exemptions.

So far, the most significant impact identified is that the group may recognise new assets and liabilities for the potential renewal of an operating lease for factory facilities at one of the divisions in 2019. The estimated ROU (Right Of Use) asset to be recognised amounts to R29 million, based on currently available terms of re-negotiation.

The group will assess the effects of the standard in full. The group does not expect adoption of IFRS 16 to impact on the loan covenants described in note 19.

IFRS 16 is Mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

(c) Standards, amendments and interpretations not yet effective but have been early adopted by the group.

There have been no standards, amendments and interpretations early adopted by the group.

BASIS OF CONSOLIDATION

(a) Subsidiaries

The consolidated annual financial statements incorporate the annual financial statements of Metair Investments Limited and all its subsidiaries from the effective dates of acquisition to the effective dates of loss of control.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are no longer consolidated from the date that control is lost.

The acquisition method of accounting is used to account for business combinations of subsidiaries by the group.
The consideration transferred for the acquisition of a subsidiary is measured at the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity instruments issued at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest (NCI). Acquisition-related costs are expensed in the period in which the costs are incurred or services received.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, NCI recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The company accounts for subsidiary undertakings at cost less impairment. Advances to subsidiaries by the company, which do not have fixed terms or repayment, are included in the investments in subsidiaries.

For the company, the equity-settled share-based payment cost is capitalised to the investment in subsidiaries.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Changes in ownership interests in subsidiaries without change of control

Transactions with NCI that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to NCIs are also recorded in equity.

Disposals of subsidiaries

When the group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) Non-controlling interest (NCI)

NCI is valued at the NCI's portion of the acquirer's identifiable assets, liabilities and contingent liabilities at the acquisition date plus the NCI's portion of post-acquisition reserves, excluding the NCI's portion of share-based payment reserve.

NCI is included in equity on the balance sheet and is also reconciled in the statement of changes in equity.

(c) Associated companies

Associates are all entities over which the group has a significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in the statement of other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains or losses arising on investments in associates are recognised in the income statement.

If an associated company applies accounting policies that are recognised as being materially different to those adopted by the group, appropriate adjustments are made to the consolidated annual financial statements, prior to equity accounting.
The group's share of associated earnings less dividends received is transferred to other reserves within the statement of changes in equity. For the purposes of the cash flow statement dividends received from associates are classified as operating cash flows as these enter into the determination of net profit or loss.

FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the annual financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated annual financial statements are presented in South African Rands (ZAR), which are the company's functional and the group's presentation currency.

(b) Transactions and balances

Transactions denominated in foreign currency are translated into the functional currency at the rate of exchange ruling at the transaction date and if remeasured on date of remeasurement. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency, are recognised within other operating expenses in the income statement, except when deferred in other comprehensive income as a qualifying cash flow hedge. Monetary items denominated in foreign currency are translated at the rate of exchange ruling at the reporting date.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(iii) All resulting exchange differences are recognised in other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets or liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

INTANGIBLES

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred in an acquisition over the group's share in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired and the amount of the non-controlling interest in the acquiree. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed and is recognised in profit or loss.

The carrying value of goodwill is compared to the recoverable amount which is the higher of value-in-use and the fair value less cost to sell. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 15 years. The amortisation methods and estimated remaining useful lives are reviewed at least annually.

(c) Customer relationships

Customer relationships are recognised at cost, or if they were acquired in a business combination they are recognised at fair value at the acquisition date. These intangibles have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives of 5 to 15 years. The amortisation methods and estimated remaining useful lives are reviewed at least annually.

(d) Brands

Brands are recognised at cost, or if they were acquired in a business combination they are recognised at fair value at the acquisition date. Brands are classified into two categories: brands with a finite useful life and are carried at cost less accumulated amortisation (definite lives) and brands which have been assessed by management as an indefinite useful life intangible asset and not subject to amortisation.

The Mutlu brand has been assessed as an indefinite useful life intangible asset and is based on an analysis of relevant underlying factors confirming that there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the group. This assumption is further justified by the strong presence the brand has in Turkey and the rest of its international market place and management's intention to keep the Mutlu brand indefinitely.

Amortisation is charged to the income statement on a straight-line basis over the useful life of the asset of 25 years. The amortisation methods and estimated remaining useful lives are reviewed at least annually. The indefinite life intangible assets are tested for impairment annually. The assessment that the estimated useful lives of these assets are indefinite is reviewed at least annually.

Subsequent expenditure on acquired intangible assets is capitalised only when the cost meets the definition and recognition criteria of IAS 38 and the costs can be reliably measured.

(e) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3 - 5 years).

(f) Research and development

Research expenditure relating to gaining new technical knowledge and understanding is charged to the income statement when incurred. Development expenditure relating to the production of new or substantially improved products or processes is capitalised if the costs can be measured reliably, the products or processes are technically and commercially feasible, future economic benefits are probable, and the group intends to and has sufficient resources to complete development and to use or sell the asset. All remaining development expenditure is charged to the income statement. Cost includes expenditure on materials, direct labour and an allocated proportion of project overheads.

Amortisation of development costs recognised as assets are written off to the income statement over 3 - 5 years.

PROPERTY, PLANT AND EQUIPMENT

(a) Owned assets

Land and buildings comprise mainly factories and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives as follows:

Buildings	50 years
Plant, machinery and equipment	3 - 20 years
Vehicles and furniture and fittings	3 - 5 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Residual values and useful lives of all assets are reviewed, and adjusted if appropriate, on an annual basis. In addition, depreciation of an item of property, plant and equipment is to begin when it is available for use and ceases at the earlier of the date it is classified as held for sale or the date that it is derecognised upon disposal. Expenditure incurred on the construction of property, plant and equipment is capitalised within property, plant and equipment and depreciated once brought into use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating income and expenses in the income statement.

(b) Assets held under finance leases

Assets leased in terms of finance lease agreements are capitalised. These are leases where a significant portion of the risk and rewards are taken up by the group. At commencement of the lease term, the lessee recognises finance lease assets and liabilities in the balance sheet at an amount equal to the fair value of the leased asset or if lower, the present value of the minimum lease payments. These assets are depreciated on the straight-line basis to their estimated residual value at rates considered appropriate to reduce book values over the shorter of the duration of the lease agreements or useful life of the assets. Finance costs are charged to the income statement over the period of the lease.

Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and the finance charge so as to achieve a constant rate on the finance balance outstanding.

(c) Spare parts and tooling

Spare parts are classified as plant and equipment rather than inventory when they meet the definition of property, plant and equipment. Tooling used in the production of a specific project is subjected to an economic analysis of contractual relations with the automaker/customer in order to determine which party has control over the associated future risks and rewards of ownership. Tooling is capitalised as part of plant and equipment only when the group has control over these risks and rewards.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example, goodwill, are not subject to amortisation and are tested annually for impairment. The group periodically evaluates the carrying value of property, plant and equipment and intangible assets, when events and circumstances warrant such a review. The carrying value of an asset is considered to be impaired, when the recoverable amount of such an asset is less than its carrying value.

In that event, a loss is recognised based on the amount by which the carrying value exceeds the recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less the costs of disposal.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

INVENTORY

Inventory is stated at the lower of cost or net realisable value, due account being taken of possible obsolescence. Cost is determined on the first-in first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Borrowing costs are excluded as manufactured inventories and are not considered to be qualifying assets. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

CURRENT AND DEFERRED TAX

(a) Income tax expense

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. The charge for current tax is predominantly based on results for the year as adjusted for income that is exempt and expenses that are not deductible using tax rates that are applicable to the taxable income and includes any adjustments to tax payable in respect of prior years.

(b) Deferred tax assets and liabilities

Deferred income tax is recognised, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated annual financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

The provision of deferred tax assets and liabilities reflects the tax consequences that would follow from the expected recovery or settlement of the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The group recognises the estimated liability on all products still under warranty at the reporting date. This provision is calculated based on service histories. The group also estimates and recognises a liability for lead scrap collections on certain products sold regarding recycling obligations. The provision is calculated based on return rates.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

REVENUE

Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue can be measured reliably and when specific criteria have been met for each of the group's activities as described below.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value added tax, estimated returns, rebates and discounts and after inter-company sales have been eliminated.

(a) Sales of goods – Energy storage (batteries) and automotive components

The group manufactures and sells a range of products predominantly for the automotive industry. The group produces and supplies batteries and automotive components to major OEM manufacturers in South Africa. The group also manufactures and distributes batteries and spare parts for use in the motor vehicle aftermarket, and non-automotive products for various other sectors of industry.

Sales of goods are recognised when a group entity has delivered products to the customer and there is no unfulfilled obligations that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products and all risks and rewards associated with them, the acceptance provisions have lapsed or the group has objective evidence that all criteria for acceptance have been satisfied. The automotive products are sometimes sold with a right to return faulty products. Accumulated experience is used to estimate and provide for such returns at the time of sale. Sales are recorded at fair value based on the price specified in the sales contracts or agreed pricing.

(b) Dividends

Dividends are recognised when the right to receive payment is established.

(c) Interest

Interest is recognised on a time proportion basis that takes account of the effective yield on the asset.

When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Sundry and incidental income

The group generates incidental income in the form of sale of scrap such as off-cuts, rental income arising from short-term external rental of portions of owned warehouses, external management fees and other sundry items. These items are accounted for as other operating income and are not regarded as a core revenue stream.

GOVERNMENT GRANTS AND SIMILAR INCENTIVES

The group qualifies for certain incentives and allowances mainly linked to investment stimulation and production output such as the Automotive Incentive Scheme (AIS), the Enterprise Investment Programme (EIP), the Productive Asset Allowance (PAA), the Automotive Production and Development Programme (APDP) and similar other foreign state incentives.

Government grants that compensate the group for the cost of an asset are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the group will comply with the conditions attached to the grants. The grants are amortised to the income statement as other operating income on a systematic basis over the useful life of the asset.
Grants are classified as non-current to the extent that they are long-term in nature.

Government grants that compensate the group for expenses incurred are recognised in the income statement as other operating income when there is reasonable assurance that they will be received and that the group will comply with the conditions attached to the grants. These are recognised over the period necessary to match them with the costs that they are intended to compensate. Grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

EARNINGS PER SHARE

Basic earnings per share is expressed in cents and is based on the net profit attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year, excluding ordinary shares purchased by the company (treasury shares).

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares (incentive shares).

Headline earnings is earnings as determined by IAS 33, excluding 'separately identifiable re-measurements' (as defined in SAICA Circular 2/2013), net of related tax (both current and deferred) and related non-controlling interest, other than re-measurements specifically included in headline earnings 'included re-measurements' (as defined in SAICA Circular 2/2013).

FINANCIAL INSTRUMENTS

Financial instruments carried at the reporting date include cash and bank balances/overdrafts, investments, receivables, trade creditors, borrowings and derivatives. These also exclude prepayments and certain statutory and employee-related payables.

Financial assets and liabilities are recognised on the balance sheet when the group and company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(a) Derivative financial instruments and hedging activities

All derivative financial instruments are initially recognised at fair value and are subsequently stated at fair value at the reporting date. Attributable transaction costs are recognised in the income statement when incurred. Resulting gains or losses on derivative instruments, excluding designated and effective hedging instruments, are recognised in the income statement within other operating income. The group does not hold or issue derivative financial instruments for dealing purposes.

The group is exposed to market risks from changes in interest rates, foreign exchange rates and commodity prices. The group uses derivative instruments to hedge its exposure to these risks. The group predominantly uses forward foreign exchange contracts (FECs) to limit risk in changes in foreign exchange rates. To the extent that a derivative instrument has a maturity period of longer than one year, the fair value of these instruments will be reflected as a non-current asset or liability.

The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The group's criteria for a derivative instrument to be designated as a hedging instrument at the inception of the transaction require that:

- the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;

- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- there is adequate documentation of the hedging relationship at the inception of the hedge; and
- for cash flow hedges, the forecast transaction that is the subject of the hedge must be highly probable.

Where a derivative instrument is designated as a cash flow hedge of an asset, liability or highly probable forecast transaction that could affect the income statement, the effective part of any gain or loss arising on the derivative instrument is recognised as other comprehensive income and is classified as a cash flow hedge accounting reserve until the underlying transaction occurs. The ineffective part of any gain or loss is recognised in the income statement. If the hedging instrument no longer meets the criteria for cash flow hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

If the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is transferred from the cash flow hedge accounting reserve, as other comprehensive income, to the underlying asset or liability on the transaction date. If the forecast transaction is no longer expected to occur, then the cumulative balance in other comprehensive income is recognised immediately in the income statement as reclassification adjustments. Other cash flow hedge gains or losses are recognised in the income statement at the same time as the hedged transaction occurs. Hedge accounting is normally applied to significant foreign acquisitions.

When derivative instruments, including forward exchange contracts, are entered into as fair value hedges, no hedge accounting is applied (held for trading). All gains and losses on fair value hedges are recognised in the income statement.

The fair values of derivative instruments used for hedging purposes are disclosed in note 19.

(b) Financial assets

The group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are 'financial assets held for trading'. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as 'held for trading' unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date. Refer to note 19 for information on FEC's.

Loans and receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (refer note 12), 'short-term loans - subsidiaries' (refer note 9) and 'cash and cash equivalents' (refer note 13).

Recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other operating income and expenses' in the period in which they arise.

Fair value estimation

The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date. The nominal value less estimated credit adjustments of trade receivables is assumed to approximate their fair values.

Impairment of financial assets

An assessment is performed at each reporting date to determine whether objective evidence exists that a financial asset is impaired. Objective evidence that financial instruments are impaired includes indications of a debtor or group of debtors experiencing significant financial difficulty, default or delinquency of payments, the probability of a debtor entering bankruptcy, or other observable data indicating a measurable decrease in estimated future cash flows, such as economic conditions that correlate with defaults. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are charged to the income statement and are included in the allowance against loans and receivables. When a subsequent event causes the impairment loss to decrease, the impairment loss is reversed in the income statement. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery.

(c) Financial liabilities

Financial liabilities are recognised on the transaction date when the group becomes a party to the contract and thus has a contractual obligation and are derecognised when these contractual obligations are discharged, cancelled or expired.

The group classifies its financial liabilities as either at fair value through profit or loss (predominantly derivatives) and amortised cost.

Financial liabilities are stated initially on the transaction date at fair value including transaction costs. Subsequently, they are stated at amortised cost using the effective interest method, other than those designated at fair value through profit or loss.

TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not collect the amount as per the original terms of receivables. The amount of the provision is the difference between the asset's carrying value and the present value of future cash flows, discounted at the original effective interest rate. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is recognised in the income statement. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

Accounting **policies** continued

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at carrying value.

Cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term, highly liquid investments with original maturities of three months or less, all of which are available for use by the group unless otherwise stated.

Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing. Borrowing costs are expensed unless capitalised as part of the cost of a qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Preference shares, which are mandatorily redeemable on a specific date, or at the option of the shareholders, or if dividend payments are not discretionary are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

EMPLOYEE BENEFITS

Remuneration of employees is charged to the income statement. Short-term employee benefits are those that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the services have been rendered. Short-term employee benefit obligations are measured on an undiscounted basis and are charged to the income statement as the related service is provided.

Long-term employee benefits are those benefits that are expected to be wholly settled more than 12 months after the end of the annual reporting period in which the services have been rendered and are discounted to their present value. An accrual is recognised for accumulated leave, incentive bonuses and other employee benefits when the group has a present legal or constructive obligation as a result of past service provided by the employee, and a reliable estimate of the amount can be made.

Retirement benefits

The group operates a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The plans are generally funded by payments from employees and by the relevant group companies taking account of the recommendations of independent qualified actuaries.

The group also has an obligation in respect of its operations in Turkey which requires mandatory lump sum payments similar to that of a defined benefit pension plan. Defined benefit plans require a liability to be recognised in the balance sheet at the present value of the expected obligation at reporting date. There are no plan assets.

(a) Defined contribution pension plans

For defined contribution pension plans, the group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Defined benefit (post-employment) medical aid benefits

Some group companies provided post-employment health care benefits to their retirees until 31 December 1996. Employees who joined the group after 1 January 1997 do not receive this benefit. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and electing to participate in the scheme. Valuations of these obligations are carried out by independent qualified actuaries.

The liability recognised in the balance sheet is the present value of the defined benefit obligation at the reporting date. The plans are unfunded.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability. The discount rate used is interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation. In South Africa there is no deep and liquid market in such bonds and therefore the market rates on government bonds are used. For Turkey, the rates approved by Capital Markets Board are used.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the statement of comprehensive income as re-measurements, in the period in which they arise. Past-service costs are recognised immediately in the income statement.

(c) Other post-employment benefits

In accordance with the existing Turkish social legislation, the group is required to make lump sum payments to current employees (employed in Mutlu) whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

The expected costs of these benefits are accrued on a systematic basis over the expected remaining period of employment, using the accounting methodology described in respect of defined benefit plans above. Valuations of these are carried out by independent qualified actuaries. The obligation is discounted by using the market rate on government bonds or rates approved by the Turkish Markets Board.

(d) Long service

The group pays its employees a long service benefit after a specified period of continuous service. The benefit is paid in the month the employee reaches the milestone. The method of accounting and frequency of valuation are similar to those under the defined schemes. The actuarial valuation to determine the liability is performed annually.

(e) Bonus plans

The group recognises a liability and an expense for bonuses and similar items based on a formula that takes into consideration, among others, the profit attributable after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(f) Share-based payment transactions

The group operates an equity-settled share-based payment compensation plan. The fair value of share options, share appreciation rights, bonus shares and performance shares granted to group directors and senior executives are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and expensed over the period during which the employee becomes unconditionally entitled to the equity instruments. The fair value of the instruments granted is measured using generally accepted valuation techniques, taking into account the terms and conditions upon which the instruments are granted excluding the impact of non-market vesting conditions.

Fair value is measured using the Black Scholes, Binomial tree and Monte-Carlo option pricing models where applicable. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of behavioural considerations such as volatility, dividend yield and the vesting period. The fair value takes into account the terms and conditions on which these incentives are granted and the extent to which the employees have rendered service to the reporting date.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, for equity-settled share-based payments, in the income statement, with a corresponding adjustment to equity.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value of equity instruments granted, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts. The group's net vesting impact on the vesting of share-based payment obligations are transferred to retained earnings within the statement of changes in equity.

INVESTMENT TAX CREDITS (ITC)

The group uses the 'flow-through' method under which the tax benefit from an ITC is recorded immediately as a reduction in current income tax expense (income tax credit) in the period that the credit is generated. The amount recognised is the actual tax reduction, indicated by the tax authorities, which is deducted from corporate tax calculated at reporting date.

If there are significant ongoing performance obligations or a less than probable likelihood of not committing to a project objective or outlay, the 'deferral' method, under which the tax benefit from an ITC is deferred and amortised within income tax provision over the lesser of the project or asset useful life, is applied.

STATED CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where a group company purchases the company's equity stated capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to the company's equity holders.

Dividends received on treasury shares are eliminated on consolidation.

TOOLING DEBTORS AND CREDITORS

The group also facilitates tooling arrangements in terms of which it sources and overseas the manufacture of certain moulds on behalf of its customers.

Deposits received from customers for tooling arrangements are recorded as tooling creditors. Prepayments paid to suppliers for tooling arrangements are recorded as tooling debtors.

DIVIDENDS PAYABLE

Dividend distribution to the company's shareholders is recognised as a liability in the annual financial statements in the period in which the dividends are approved by the company in a general meeting or by the board.

DIVIDENDS WITHHOLDING TAX

Dividends withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012. The group withholds dividends tax on behalf of its shareholders at a rate of 20% on dividends declared. Amounts withheld are not recognised as part of the group's tax charge but rather as part of the dividend paid recognised directly in equity. Where withholding tax is withheld on dividends received, the dividend is recognised at the gross amount with the related withholdings tax recognised as part of tax expense unless it is otherwise reimbursable in which case it is recognised as an asset.

SEGMENT REPORTING

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose results are reviewed by the executive decision-makers to allocate resources and to assess its performance.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that makes strategic decisions. The operating activities of the group (predominantly automotive) are structured according to the markets served – energy storage and automotive components. Reportable segments derive their sales from the manufacture of predominantly batteries and automotive parts.

COMPARATIVE FIGURES

Certain additional disclosure has been provided in respect of the current year. To the extent practicable, comparative information has also been provided.

Investments in **subsidiaries and associates**

	Type	Issued share capital 2017 R'000	Issued share capital 2016 R'000	Direct/ (indirect) interest 2017 %	Direct/ (indirect) interest 2016 %	Direct/ (indirect) cost of shares less impairment 2017 R'000	Direct/ (indirect) cost of shares less impairment 2016 R'000
SUBSIDIARIES							
Energy storage and automotive components							
Smiths Manufacturing (Pty) Ltd	ordinary			(75.0)	(75.0)	(4 500)	(4 500)
Metindustrial (Pty) Ltd	ordinary	500	500	(100.0)	(100.0)		
Lumotech (Pty) Ltd	ordinary	1 200	1 200	(100.0)	(100.0)	(20 000)	(20 000)
Smiths Plastics (Pty) Ltd	ordinary			(100.0)	(100.0)	(28 194)	(28 194)
Unitrade 745 (Pty) Ltd	ordinary			(100.0)	(100.0)		
Smiths Electric Motors (Pty) Ltd	ordinary			(75.0)	(75.0)		
First National Battery Retail (Pty) Ltd	ordinary			(100.0)	(100.0)		
Tlangi Investments (Pty) Ltd	ordinary			(100.0)	(100.0)		
Automould (Pty) Ltd	ordinary	2	2	(100.0)	(100.0)	(25 477)	(25 477)
Alfred Teves Brake Systems (Pty) Ltd	ordinary	15	15	(100.0)	(100.0)	(15)	(15)
Rombat SA**	ordinary	76 010	76 010	(99.4)	(99.4)	(437 393)	(437 393)
Mutlu Akü ve Malzemeleri Sanayii Anonim Şirketi ***	ordinary			(100.0)	(100.0)		
Dynamic Batteries ~	ordinary	2	2	(100.0)	(100.0)	(31 000)	(31 000)
Intermediate holding and management services							
Inalex (Pty) Ltd	ordinary	493 695	493 695	100.0	100.0	493 695	493 695
Nikisize (Pty) Ltd	ordinary	52 695	52 695	(100.0)	(100.0)	(52 695)	(52 695)
Metair Management Services (Pty) Ltd	ordinary			(100.0)	(100.0)		
Business Venture Investments No 1217 (Pty) Ltd	ordinary			(100.0)	(100.0)		
Metair International Cooperatief U.A.*	ordinary	3 473 549	3 456 262	(100.0)	(100.0)	(3 473 548)	(3 456 262)
Metair Energy Solutions B.V*	ordinary			(100.0)	(100.0)	(138 764)	
Metair Akü Holding Anonim Şirketi***	ordinary	2 749 500	2 858 419	(100.0)	(100.0)	(2 987 107)	(2 987 107)
Properties							
SMSA Property (Pty) Ltd	ordinary	3 000	3 000	(75.0)	(75.0)		
ILM Investments (Pty) Ltd	ordinary	1	1	(100.0)	(100.0)		
Honeypenny (Pty) Ltd	ordinary			(100.0)	(100.0)	(6 850)	(6 850)
Climate Control Properties (Pty) Ltd	ordinary	2	2	(100.0)	(100.0)	(2)	(2)
Direct interest						493 695	493 695
Indirect interest						(7 205 545)	(7 049 495)

	Type	Issued share capital 2017 R'000	Issued share capital 2016 R'000	Direct/ (indirect) interest 2017 %	Direct/ (indirect) interest 2016 %	Direct/ (indirect) cost of shares less impairment 2017 R'000	Direct/ (indirect) cost of shares less impairment 2016 R'000
ASSOCIATES							
Hesto Harnesses (Pty) Ltd	ordinary	**1**	1	**(74.9)**	(74.9)	**(1)**	(1)
Associated Battery Manufacturers (East Africa) Ltd `	ordinary	**953**	953	**(25.0)**	(25.0)	**(121 986)**	(121 986)
Akkumulatorenfabrik MOLL GmbH + Co.KG ``	fixed capital			**(25.1)**		**(117 806)**	
MOLL Grundstucks- und Vermogensverwaltungs GmbH + Co. KG ``	fixed capital			**(25.1)**		**(26 496)**	
Tenneco Automotive Holdings SA (Pty) Ltd	ordinary	**1 233**	1 233	**25.1**	25.1		
Valeo Systems South Africa (Pty) Ltd	ordinary	**1**	1	**49.0**	49.0	**2 793**	2 793
Vizirama 112 (Pty) Ltd	ordinary			**33.0**	33.0		
Direct interest						**2 793**	2 793
Indirect interest						**(266 289)**	(121 987)

All subsidiaries and associates are incorporated in South Africa except for:

* Metair International Cooperatief U.A. and Metair Energy Solutions B.V - Netherlands

** Rombat SA - Romania

*** Mutlu group is incorporated in Turkey and consists of the following:

- Mutlu Holding Anonim Şirketi
- Mutlu Akü ve Malzemeleri Sanayii Anonim Şirketi (Mutlu Akü)
- Mutlu Plastik ve Ambalaji Sanayi Anonim Şirketi (Plastik)
- Metropol Motorlu Tasitlar Kiralama Anonim Şirketi (Metropol)

~ Dynamic Batteries - United Kingdom

` Associated Battery Manufacturers (East Africa) Limited - Kenya

`` MOLL group are registered partnerships in Germany and consists of the following entities:

- Akkumulatorenfabrik MOLL GmbH & Co. KG
- MOLL Grundstucks- und Vermogensverwaqltungs GmbH & Co. KG
- MOLL Beteiligungsgesellschaft GmbH
- MOLL Grundbesitz GmbH

All subsidiary undertakings are included in the group consolidation. The proportion of the voting rights in the subsidiary undertakings held directly and indirectly by the parent company do not differ from the proportion of ordinary shares held.

Amounts owing by/(to) subsidiaries before impairment:	2017 R'000	2016 R'000
Metair Management Services (Pty) Ltd	**438 827**	531 385
Inalex (Pty) Ltd	**1 486 307**	1 486 307
Lumotech (Pty) Ltd	**57 983**	57 983
Smiths Plastics (Pty) Ltd	**167 451**	167 451
Business Venture Investments 1217 (Pty) Ltd	**(234 626)**	(233 371)
	1 915 942	2 009 755

METAIR INVESTMENTS LIMITED

(Incorporated in the Republic of South Africa)
(Registration Number 1948/031013/06)
JSE share code: MTA
ISIN: ZAE000090692
('Metair' or the 'Company')
Notice to shareholders

NOTICE TO SHAREHOLDERS

Notice is hereby given that the annual general meeting of the shareholders of Metair will be held in the conference room, AstroTech Conference Centre, Cnr. Anerley Road and 3rd Avenue, Parktown, Johannesburg, on Wednesday, 2 May 2018, at 14:00 for the following purposes:

ORDINARY BUSINESS

Presentation of annual financial statements

To present the audited annual financial statements, which include the directors' report and the audit and risk committee report, for the year ended 31 December 2017, as approved by the board of directors of the Company ('Directors') ('Board') in terms of section 30(3) of the Companies Act, No. 71 of 2008 (as amended) ('Companies Act'), incorporating the auditor's and directors' reports.

Social and ethics committee report

To receive a report by the social and ethics committee on the matters within its mandate.

To consider, and, if deemed fit pass, with or without modification, the ordinary resolutions set out below:

Ordinary resolution number 1

Resolved that Mr SG Pretorius, who retires in terms of the provisions of the Company's Memorandum of Incorporation ('MOI'), but, being eligible and has offered himself for re-election (refer to page 16 of the integrated annual report for a brief curriculum vitae of Mr SG Pretorius), be and is hereby re-appointed as a Director of the Company.

Ordinary resolution number 2

Resolved that Mr JG Best, who retires in terms of the provisions of the MOI, but, being eligible and has offered himself for re-election (refer to page 16 of the integrated annual report for a brief curriculum vitae of Mr JG Best), be and is hereby re-appointed as a Director of the Company.

Ordinary resolution number 3

Resolved that Ms TN Mgoduso, who retires in terms of the provisions of the MOI, but, being eligible and has offered herself for re-election (refer to page 16 of the integrated annual report for a brief curriculum vitae of Ms TN Mgoduso), be and is hereby re-appointed as a Director of the Company.

Ordinary resolution number 4

Resolved that Ms PPJ Derby, who retires in terms of the provisions of the MOI, but, being eligible and has offered herself for re-election (refer to page 17 of the integrated annual report for a brief curriculum vitae of Ms PPJ Derby), be and is hereby re-appointed as a Director of the Company.

Ordinary resolution number 5

Resolved that the appointment of Mr B Mawasha, as an independent non-executive director and a member of the Company's audit and risk committee ('Committee'), with effect from 1 March 2018 (refer to page 17 of the integrated annual report for a brief curriculum vitae of Mr B Mawasha), be and is hereby confirmed as a Director of the Company.

Reappointment of independent auditors
Ordinary resolution number 6

Resolved that PricewaterhouseCoopers Inc., with the designated audit partner being Mr L de Wet, be and is hereby appointed as the independent auditors of the Company for the ensuing year as recommended by the Committee.

Election of Committee members
Ordinary resolution number 7

Resolved that, subject to their applicable reappointments as Directors in terms of the resolutions proposed above, the members of the Committee as set out below be, and are hereby appointed in accordance with the provisions of section 94 of the Companies Act for the period commencing on the date of their re-appointment and enduring until the next annual general meeting of the Company.

Resolved that the nominees to the Committee, as proposed by the Board, be and are hereby re-elected:

(i) Mr JG Best, as chairman of the Committee;
(ii) Ms HG Motau, as a member of the Committee; and
(iii) Mr B Mawasha, as a member of the Committee, each of whom are independent non-executive Directors of the Company.

Refer to pages 16 and 17 of the integrated annual report for brief curricula vitae of the nominees.

Ordinary resolution number 8

a. Resolved as an ordinary resolution that the Company's remuneration policy, as set out in the remuneration report contained in the integrated annual report (refer to page 95 of the integrated annual report) be and is hereby approved through a non-binding advisory vote.
b. Resolved as an ordinary resolution that the Company's remuneration implementation report, as set out in the remuneration report contained in the integrated annual report (refer to page 99 of the integrated annual report) be and is hereby approved through a non-binding advisory vote.

The reason for the above resolutions being proposed through a non-binding advisory vote is because of it being recommended practices in terms of the King IV Report on Governance for South Africa 2016 ('King IV') and in line with sound corporate governance.

The non-binding resolutions are of an advisory nature only and failure to pass these resolutions will therefore not have any legal or other consequences relating to existing arrangements. However, the Board will take the outcome of the vote into consideration when considering future implementation of the Company's remuneration report.

Shareholders are reminded that in terms of King IV, should 25% or more of the voting rights exercised be against one or both of these non-binding resolutions, the Company undertakes to engage with such shareholders as to the reasons therefore, and undertakes to make recommendations based on the feedback received.

SPECIAL BUSINESS

To consider, and, if deemed fit, to pass, with or without modification, the special resolutions set out below:

Special resolution number 1

Resolved as a special resolution in terms of section 66(9) of the Companies Act, that the remuneration of the non-executive Directors with effect from 1 January 2018 to 31 December 2018 (refer to page 105 of the integrated annual report) be and is hereby approved.

The reason for and effect of special resolution number 1 is to approve, to the extent required, the remuneration for non-executive Directors for the period commencing 1 January 2018 and ending 31 December 2018.

Special resolution number 2

Resolved as a special resolution in accordance with section 45 of the Companies Act, that the Board be and is hereby authorised, by way of a general authority to, at any time and from time to time during the period of two years commencing on the date of passing of this special resolution to provide, any direct or indirect financial assistance limited to related and inter-related companies which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share), (but subject to the provisions of the MOI and section 45(1) of the Companies Act) in such amount and in any form including, but not limited to, by way of loan (on an interest-free or a market-related interest basis), guarantee, the provision of security or otherwise) to any of its present or future subsidiaries and/or any juristic person that the Company directly or indirectly controls from time to time (collectively hereinafter referred to as the 'Metair Group') and being on such terms and conditions as the Board in its discretion deems fit, for any purpose whether in the normal course of business of the Metair Group or of a transactional nature, subject thereto that the Board will, before making such financial assistance available, satisfy itself that:

(i) immediately after providing the financial assistance, the Company will satisfy the solvency and liquidity test as prescribed in section 4 of the Companies Act; and
(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

The effect of the special resolution and the reason therefore is that such special resolution is required in terms of section 45 of the Companies Act to grant the Directors the authority to allow the Company to provide financial assistance by way of loan, guarantee, the provision of security or otherwise, to any company which is related or inter-related to the Company or any other juristic person that the Company directly or indirectly controls.

This special resolution does not authorise Metair to provide financial assistance to a Director or prescribed officer of the Company.

In accordance with section 45(5) of the Companies Act, the Board hereby gives notice to its shareholders of the fact that no financial assistance has been provided to subsidiaries during the 2017 financial year.

Special resolution number 3

Resolved as a special resolution in accordance with section 44 of the Companies Act, that the Board be and is hereby authorised, by way of a general authority to, at any time and from time to time during the period of two years commencing on the date of passing of this special resolution to provide, any direct or indirect financial assistance to any related or inter-related companies in which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share) for the purpose of or in connection with the subscription of any option, or any securities, issued or to be issued by Metair or any related or inter-related companies in which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share) or for the purchase of any securities in Metair or any related or inter-related companies in which Metair, directly or indirectly, holds a controlling equity interest (50% plus one share), (but subject to the provisions of the MOI and section 44 of the Companies Act) in such amount and in any form (including, but not limited to, by way of loan (on an interest-free or a market-related interest basis), guarantee, the provision of security or otherwise) whether in the normal course of business or of a transactional nature, subject thereto that the Board will, before making such financial assistance available, satisfy itself that:

(i) immediately after providing the financial assistance, Metair will satisfy the solvency and liquidity test as prescribed in section 4 of the Companies Act; and
(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to Metair.

The effect of the special resolution and the reason therefore is that such special resolution is required in terms of section 44 of the Companies Act to grant the Directors the authority to allow Metair to provide financial assistance by way of loan, guarantee, the provision of security or otherwise, to any related or inter-related company in which Metair, directly or indirectly, holds a controlling interest for the purpose of or in connection with the subscription of any option, or any securities, issued or to be issued by Metair or any related or inter-related company which Metair, directly or indirectly, holds a controlling interest, or for the purchase of any securities in Metair or any related or inter-related company in which Metair, directly or indirectly, holds a controlling interest.

Shareholder **information**

NOTICE TO SHAREHOLDERS continued

Furthermore, this special resolution specifically makes provision for Metair to provide financial assistance in respect of the issuance of preference shares by members of the Metair group, as part of the group's tax efficient funding strategy.

The special resolution does not authorise Metair to provide financial assistance to a Director or prescribed officer of Metair.

Special resolution number 4

Resolved as a special resolution in terms of the Companies Act and the Listings Requirements of the JSE Limited ('JSE'), that the authorisation granted to the Company in terms of Article 13 of its MOI to acquire the Company's own securities by way of a general approval, upon such terms and conditions and in such amounts as the Directors may from time to time decide, subject only to the provisions of the Companies Act and the JSE Listings Requirements, be and is hereby approved, subject to the following terms and conditions:

(i) any repurchase of securities must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and any counterparty;
(ii) this general authority shall be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
(iii) repurchases may not be made at a price greater than 10% above the weighted average of the market value of the securities for the five business days immediately preceding the date on which the repurchase will be effected;
(iv) at any point in time, the Company may only appoint one agent to effect repurchases on the Company's behalf;
(v) an announcement shall be published as soon as the Company has cumulatively repurchased 3% of the initial number (being the number of that class of shares in issue at the time that the general authority was granted) of the relevant class of securities and for each 3% in aggregate of the initial number of that class acquired thereafter, containing the details as required by paragraph 11.27 of the JSE Listings Requirements;
(vi) repurchases shall not, in the aggregate, in any one financial year exceed 5% of the Company's issued share capital of that class;
(vii) acquisitions by the subsidiaries of the Company may not result in a subsidiary, together with all other subsidiaries of the Company holding more than 10% of the relevant class of the issued share capital of the Company from time to time;
(viii) repurchases may not be made by the Company and/or its subsidiaries during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed to the JSE prior to the prohibited period;
With regard to the above, the Company must instruct an independent third party, which makes its investment decisions in relation to the Company's securities independently of, and uninfluenced by, the Company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;
(ix) the intention of the Board is that the repurchase of the Company's securities will be effected within the parameters laid down by this resolution as well as by the Companies Act, the JSE Listings Requirements and the Board, as and when the Directors of the Company deem such repurchases to be appropriate, having regard for prevailing market and business conditions; and
(x) the Directors will ensure that the requisite prior resolution of the Board has been taken authorising such repurchases, confirming that the Company and its subsidiaries engaged in such repurchases have passed the solvency and liquidity test envisaged in section 4 of the Companies Act and confirming that, since such tests were performed, there have been no material changes to the financial position of the Metair Group.

The Directors shall not make any repurchases under this general authority unless they are of the opinion that, after considering the effect of the maximum number of shares to be repurchased and for a period of 12 months after the date of the notice of the annual general meeting:

a. the Company and the Metair Group will be able, in the ordinary course of business, to pay their debts;
b. the assets of the Company and the Metair Group will be in excess of the liabilities of the Company and the Metair Group, the assets and liabilities being recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements;
c. the share capital and reserves of the Company and the Metair Group are adequate for the ordinary business purposes of the Company and the Metair Group; and
d. the working capital of the Company and the Metair Group will be adequate for ordinary business purposes.

The effect of the special resolution and the reason therefore is to renew the general authority given to the Directors in terms of the Companies Act, the MOI and the JSE Listings Requirements for the acquisition by the Company and/or its subsidiaries of the Company's securities, which authority may be used at the Directors' discretion during the course of the period authorised.

Additional Disclosure

In terms of the JSE Listings Requirements, the following disclosures are required with reference to the general authority to repurchase its own securities by the Company and/or its subsidiaries set out in special resolution number 4, some of which are set out in the integrated annual report of which this notice forms part.

Major shareholders of the Company – refer to page 106 of the integrated annual report.

Share capital – refer to page 173 of the integrated annual report.

Directors' responsibility statement

The Directors, whose names are given on page 120 of the integrated annual report, collectively and individually, accept full responsibility for the accuracy of the information pertaining to the above special resolution number 4 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the aforementioned special resolution contains all the information required by law and the JSE Listings Requirements.

Material change

Other than the facts and developments reported on in the integrated annual report, there have been no material changes in the financial or trading position of the Metair Group since the date of signature of the integrated annual report and the posting date hereof.

PERCENTAGE OF VOTING RIGHTS REQUIRED FOR RESOLUTIONS

Special resolutions

The percentage of voting rights that will be required for the adoption of each special resolution is at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting in order to be adopted.

Ordinary resolutions

The percentage of voting rights that will be required for the adoption of each ordinary resolution is 50% plus one of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting in order to be adopted.

NOTICE RECORD DATE, VOTING RECORD DATE AND FORMS OF PROXY

This notice of the Company's annual general meeting has been sent to its shareholders who were recorded as such in the Company's securities register on Friday, 9 March 2018, being the notice record date used to determine which shareholders are entitled to receive notice of the annual general meeting.

The record date on which shareholders of the Company must be registered as such in the Company's securities register in order to attend and vote at the annual general meeting is Friday, 20 April 2018, being the voting record date used to determine which shareholders are entitled to attend and vote at the annual general meeting. The last day to trade in order to be entitled to vote at the annual general meeting will therefore be Tuesday, 17 April 2018.

In terms of section 63(1) of the Companies Act, any person attending or participating in the annual general meeting must present reasonably satisfactory identification and the person presiding at the meeting must be reasonably satisfied that the right of any person to participate in and vote (whether as shareholder or as proxy for a shareholder) has been reasonably verified.

Duly completed proxy forms must be received by the Company at its registered office or by the Transfer Secretaries (Computershare Investor Services (Pty) Ltd, Ground Floor, Rosebank Towers, 15 Biermann Avenue, 2196 or at PO Box 61051, Marshalltown, 2107) by no later than Thursday, 26 April 2018 at 14:00. Any forms of proxy not lodged at this time must be handed to the chairman of the annual general meeting immediately prior to the annual general meeting.

The attention of shareholders is directed to the additional notes contained in the form of proxy.

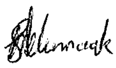
ELECTRONIC PARTICIPATION

Shareholders or their proxies may participate in (but not vote at) the annual general meeting by way of telephone conference call. If they wish to do so they:

- must contact the Company Secretary (by email at the address sanet@metair.co.za) by no later than Thursday, 26 April 2018 in order to obtain a pin number and dial-in details for that conference call;
- will be required to provide reasonably satisfactory identification; and
- will be billed separately by their own telephone service providers for their telephone call to participate in the meeting.

Shareholders and their proxies will not be able to vote telephonically at the annual general meeting and will still need to appoint a proxy or representative to vote on their behalf at the meeting.

By order of the Board



SM Vermaak
Company Secretary

Johannesburg
14 March 2018

Registered office
Metair Investments Limited
Wesco House
10 Anerley Road
Parktown
Johannesburg

Shareholders' **diary**

Financial year-end	December
Annual general meeting	May

REPORTS AND PROFIT STATEMENTS

Interim report	August
Annual report and financial statements	March

ORDINARY DIVIDENDS

Declared	March
Payment	April

Shareholders are reminded to notify the transfer secretaries of any change in address.

Form of **proxy**

METAIR INVESTMENTS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 1948/031013/06)
JSE share code: MTA
ISIN: ZAE000090692
('Metair' or 'Company')

Important note concerning this form of proxy

This form of proxy is only for the use by those shareholders of Metair who have not yet dematerialised their shares in Metair or who have dematerialised their shares in Metair and such dematerialised shares are recorded in the electronic sub-register of Metair Investments Limited in the shareholder's own name ('entitled shareholders').

If either of the above situations is not applicable to you, you must not use this form. In such event, you must notify your duly appointed Central Securities Depository Participant ('CSDP') or broker, as the case may be, in the manner stipulated in the agreement governing your relationship with your CSDP or broker, of your instructions as regards voting your shares at the annual general meeting.

A shareholder may be entitled to attend and vote at the meeting or may appoint one or more proxies of his/her own choice to attend, speak, and, on a poll, vote in his/her stead at the annual general meeting of the Company to be held at 14:00 on Wednesday, 2 May 2018 at AstroTech Conference Centre, Cnr. Anerley Road and 3rd Avenue, Parktown, Johannesburg. A proxy need not be a shareholder of the Company.

I, ____
(name in block letters)
of (address) ____
____

being holder/s of ______________________ ordinary shares in the Company, do hereby appoint:

1. ______________________________ or failing him/her

2. ______________________________ or failing him/her,

3. the chairman of the annual general meeting as my/our proxy to attend, speak and, on a poll, vote on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and at any adjournment thereof, and to vote for or against the resolutions or abstain from voting, in accordance with the following instructions:

Voting instruction: Please indicate with an 'X' in the appropriate spaces how votes are to be cast	In favour	Against	Abstain
Presentation of financial statements	NON VOTING AGENDA ITEM		
Social and ethics committee report	NON VOTING AGENDA ITEM		
1. Re-election of Mr SG Pretorius as a director	☐	☐	☐
2. Re-election of Mr JG Best as a director	☐	☐	☐
3. Re-election of Ms TN Mgoduso as a director	☐	☐	☐
4. Re-election of Ms PPJ Derby as a director	☐	☐	☐
5. Appointment of Mr B Mawasha as a director			
6. Re-appointment of auditors	☐	☐	☐
7. Election of audit and risk committee members			
a. Re-election of Mr JG Best as chairman of the audit and risk committee	☐	☐	☐
b. Re-election of Ms HG Motau as member of the audit and risk committee	☐	☐	☐
c. Re-election of Mr B Mawasha as member of the audit and risk committee	☐	☐	☐
Ordinary resolution number 8a: Approval of the Company's remuneration policy	☐	☐	☐
Ordinary resolution number 8b: Approval of the Company's implementation report	☐	☐	☐
Special business:			
Special resolution number 1: Approval of non-executive directors' remuneration	☐	☐	☐
Special resolution number 2: Provision of financial assistance in terms of Section 45 of the Companies Act	☐	☐	☐
Special resolution number 3: Provision of financial assistance in terms of Section 44 of the Companies Act	☐	☐	☐
Special resolution number 4: General authority to repurchase the Company's securities	☐	☐	☐

Signed at ______________________ on ______________________ 2018.

Signature: ____

Assisted by me (where applicable) ______________________________

This form of proxy should be lodged at the registered office of the Company (Wesco House, 10 Anerley Road, Parktown, Johannesburg) or at the Transfer Secretaries (Computershare Investor Services (Pty) Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 or at PO Box 61051, Marshalltown, 2107) by no later than Thursday, 26 April 2018 at 14h00, or handed to the chairperson of the annual general meeting before the appointed proxy exercises any of the relevant shareholder rights at the annual general meeting.

Please read the notes on the reverse side hereof.

NOTES TO **THE FORM OF PROXY**

An entitled shareholder may insert the name of a proxy or the names of two alternative proxies of the entitled shareholder's choice in the space(s) provided, with or without deleting 'the chairman of the general meeting' but any such deletion must be initialled by the entitled shareholder. The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

Please insert an 'x' in the relevant spaces according to how you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of ordinary shares held in respect of which you desire to vote. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the entitled shareholder's votes exercisable thereat. An entitled shareholder or his/her proxy is not obliged to use all the votes exercisable by the entitled shareholder or by his/her proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the entitled shareholder or by his/her proxy.

Forms of proxy must be lodged with or posted to the Transfer Secretaries (Computershare Investor Services (Pty) Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 or PO Box 61051, Marshalltown, 2107) so as to be received by not later than 14h00 on Thursday, 26 April 2018. Alternatively, proxy forms should be handed to the chairperson of the annual general meeting before the appointed proxy exercises any of the relevant shareholder rights at the annual general meeting.

The completion and lodging of this form of proxy will not preclude the relevant entitled shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the Company's Transfer Secretaries or waived by the chairman of the annual general meeting.

Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).

A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretaries of the Company.

The chairman of the annual general meeting may reject or accept a form of proxy which is completed and/or received, other than in accordance with these instructions and notes, provided that he/she is satisfied as to the manner in which the entitled shareholder concerned wishes to vote.

Summary of rights contained in Section 58 of the Companies Act, No 71 of 2008, as amended ('Companies Act')
In terms of section 58 of the Companies Act:

- a shareholder of a company may, at any time and in accordance with the provisions of section 58 of the Companies Act, appoint any individual (including an individual who is not a shareholder) as a proxy to participate in, and speak and vote at, a shareholders' meeting on behalf of such shareholder;
- irrespective of the form of instrument used to appoint a proxy, the appointment of a proxy is suspended at any time and to the extent that the relevant shareholder chooses to act directly and in person in the exercise of any of such shareholder's rights as a shareholder;
- any appointment by a shareholder of a proxy is revocable, unless the form of instrument used to appoint such proxy states otherwise; if an appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by:
  i) cancelling it in writing, or making a later inconsistent appointment of a proxy, and
  ii) delivering a copy of the revocation instrument to the proxy and to the relevant company;
- a proxy appointed by a shareholder is entitled to exercise, or abstain from exercising, any voting right of such shareholder without direction, except to the extent that the relevant company's memorandum of incorporation, or the instrument appointing the proxy, provides otherwise;
- if the instrument appointing a proxy has been delivered by a shareholder to a company, then, for so long as that appointment remains in effect, any notice that is required in terms of the Companies Act or such company's Memorandum of Incorporation to be delivered to a shareholder must be delivered by such company to:
  – the relevant shareholder; or
  – the proxy or proxies, if the relevant shareholder has:
  i) directed such company to do so, in writing, and
  ii) paid any reasonable fee charged by such company for doing so;
- if a company issues an invitation to its shareholders to appoint 1 (one) or more persons named by the company as a proxy, or supplies a form of proxy instrument:
  – the invitation must be sent to every shareholder entitled to notice of the meeting at which the proxy is intended to be exercised;
  – the invitation or form of proxy instrument supplied by the company must:
    ◦ bear a reasonably prominent summary of the rights established in section 58 of the Companies Act;
    ◦ contain adequate blank space, immediately preceding the name(s) of any person(s) named in it, to enable a shareholder to write the name and, if desired, an alternative name of a proxy chosen by the shareholder; and
    ◦ provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour of or against any resolution(s) to be put at the meeting, or is to abstain from voting;
  – the company must not require that the proxy appointment be made irrevocable; and
  – the proxy appointment remains valid only until the end of the meeting at which it was intended to be used.

Contacts

COMPANY SECRETARY
Sanet Vermaak

REGISTRATION NUMBER
1948/031013/06

JSE SHARE CODE
MTA

ISIN
ZAE000090692

HEAD OFFICE AND PHYSICAL ADDRESS
Wesco House
10 Anerley Road
Parktown
2193

POSTAL ADDRESS
PO Box 2077
Saxonwold
2132

Further information on this report and its contents can be obtained from the company secretary:

Telephone: +27 11 646 3011

Fax: +27 11 646 3102

Email: sanet@metair.co.za

METAIR
INVESTMENTS LIMITED
automotive | industrial | retail

www.metair.co.za