

KAAP  **AGRI**

Salient features

+1,5%
8 574 668

REVENUE (R'000)
(2019: 8 451 520)

-2,3%
388,54

HEADLINE EARNINGS
PER SHARE (CENTS)
(2019: 397,85)

+4,6%
392,52

RECURRING HEADLINE EARNINGS
PER SHARE (CENTS)
(2019: 375,19)

-44,4%
50,00

FINAL DIVIDEND
PER SHARE (CENTS)
(2019: 90,00)

-59,5%
50,00

TOTAL DIVIDEND
PER SHARE (CENTS)
(2019: 123,5)

Commentary

The Kaap Agri summary report provides an overview of the activities, results and financial position of the Group for the year ended 30 September 2020.

FINANCIAL REVIEW

The Group specialises in trading in agricultural, fuel and related retail markets in Southern Africa. With its strategic footprint, infrastructure, facilities and client network, it follows a differentiated market approach. In support of the core retail business, the Group also offers financial, grain handling and agency services. Kaap Agri has 217 operating points located in eight South African provinces as well as in Namibia.

OPERATING ENVIRONMENT

The operating conditions under which the Group traded for the year consisted of two distinctly different periods due to Covid-19 ("Covid"), which had a minimal influence on the first half of the financial year, but impacted Group results in the second half of the financial year.

The first six months of the financial year experienced a slow start to agri and retail trade due to a combination of sluggish retail spend and a constrained consumer environment, underpinned by suppressed GDP growth as well as adverse weather conditions and increased competitor activity. Encouragingly, both agri and retail performance improved during the second quarter. As indicated at the prior year-end, crucial late season rainfall needed by the wheat farmers did not materialise, resulting in harvest reductions. Conditions for fruit and vegetable production were largely positive, but significant farm expansions and infrastructural spend diminished, partly drought-related and partly related to ongoing concerns around land policies. The fuel industry experienced ongoing fuel volume decreases. However, convenience and quick service restaurant ("QSR") performance improved.

The second six months of the financial year included the impact of Covid, which was felt across all the Group's business units. Except for specifically QSRs and liquor sales, most of the remainder of the business was categorised as a supplier of essential goods and services and remained open for trade, albeit under certain limitations during the different levels of lockdown. Despite being open for trade, roughly 56% of retail stock items were classified as non-essential and were therefore prohibited for sale during level 5 lockdown. The move to level 4 lockdown allowed the Group to gradually start trading in more retail product categories. Fuel sales were significantly impacted by the lockdown-related reduction in travel and road transport, and despite restaurants re-opening under level 3 lockdown, QSR trade remained suppressed. Convenience store sales were impacted by reduced footfall, as well as the inability to sell tobacco and related products. While agri-input trade was the least impacted by Covid of all income channels, farm infrastructure projects were either halted or delayed during levels 5 and 4 lockdown, resulting in a slowdown in products required from our Manufacturing division. The immediate focus of the Group was to save livelihoods, protect the company, avoid the Covid iceberg and stabilise the company during the Covid period. This was achieved.

The business environment in which we operate continues to be constrained and it remains to be seen what the long-term effects of Covid will be on general consumer behaviour.

Commentary (continued)

FINANCIAL RESULTS

Despite Covid, Kaap Agri increased revenue by 1,5% to R8,6 billion, up from R8,5 billion in the previous financial year, with like-for-like comparable growth declining by 0,6%. Covid is conservatively estimated to have had a 6,6% negative impact on revenue growth. The 1,5% growth in revenue was achieved despite a 2,9% decrease in the number of transactions. Excluding a 5,9% reduction in the number of transactions in the Retail Fuel & Convenience environment, the remaining business grew transactions by 2,3%.

Agri sales growth outperformed retail sales growth, largely due to Covid-related trading restrictions which impacted retail sales to a larger degree than agri sales. Retail Fuel & Convenience sales were hardest hit by Covid restrictions. Product deflation is estimated at 3,9% but excluding the large deflationary impact of fuel in the revenue basket, product inflation was 1,1%. Despite Covid, the Group has shown a high degree of resilience under exceptionally challenging trading conditions. The ongoing diversification strategy is expected to generate improved results in the year ahead, as income streams which were constrained during Covid continue to recover.

The Group's growth strategy of footprint expansion combined with the upgrade and improvement of existing offerings continued during the period, albeit at a reduced level. Four new and managed retail fuel sites were added with total Group fuel volumes increasing by 2,0% in the year. The Fuel Company ("TFC") grew annual fuel volumes by 3,7% at owned and managed sites awaiting regulatory approval. A number of small Agrimark upgrades and expansions were completed, and an additional 6 600 tons are currently being added to our grain storage capacity. During the first half of the year, a decision was taken to slow down further TFC footprint expansion across the business and to focus on delivering returns on previously invested capital. The onset of Covid has reinforced this decision. However, the business will continue investigating value-enhancing opportunities albeit with a more conservative approach.

Gross profit increased by 4,7% and at a rate higher than revenue growth due to the impact of a changed sales mix and an improvement in agri trading margins. Retail margins will continue to be under pressure as consumer spending patterns adapt to a changed and constrained economic environment. Fuel prices were relatively stable for the first six months of the year. However, prices reduced on average by 27,8% between March and May due to Covid. Although fuel prices have subsequently increased, pricing has not yet recovered to pre-Covid levels. Fuel prices ended the year 5,3% lower (petrol) and 8,6% lower (diesel) compared to last year.

A number of concerted cost reduction initiatives were implemented during the year, with a large focus on the optimisation of salary-related expenditure and associated costs. This, combined with specific Covid-related cost interventions, resulted in a growth in expenditure of only 2,0%. Given the conversion of managed fuel sites to owned sites and the acquisition of new sites, with the accompanying inclusion of new site costs, this increase in expenditure is particularly pleasing and indicative of our ability to flex costs when necessary. Effective cost management remains paramount, especially given the revenue challenges and margin constraints being experienced in the current environment.

The operational performance of Kaap Agri (Namibia) improved during the year largely due to the continued focus on margin improvement through procurement initiatives as well as in-store upgrades and sales execution.

Partridge Building Supplies (Pty) Ltd, which trades as Underberg Forge in the Southern KwaZulu-Natal Midlands, recovered strongly from a disappointing performance last year and remains strategic in terms of footprint expansion and agri diversification. Further footprint expansion and revenue enhancing opportunities are being explored.

Interest received reduced by 1,5%, reflecting a combination of reduced interest rates on debtors accounts and low growth on the debtors book. Debtors interest rates are linked to bank borrowing rates and, as such any reduction

Commentary (continued)

in the prime lending rate is passed onto the customer. Interest paid to banks reduced by 4,4%, due to a combination of lower interest rates and increased interest paid on higher average borrowings offset by lower interest paid on grain financing. As at 30 September 2020, net interest-bearing debt had increased by R23,7 million compared to the prior year. R450 million of interest-bearing debt has been converted to five-year term debt, with the intention to align the repayment of this debt with the earnings profile of the underlying acquired businesses.

EBITDA grew by 6,8% due largely to the impact of the adoption of IFRS 16. Excluding the impact of IFRS 16, EBITDA grew by 1,0%.

The Group's effective tax rate of 26,9% (2019: 26,0%) is higher than last year due mainly to the effect of the non-taxable revaluation of put options in the prior year.

Headline earnings decreased by 2,2% while recurring headline earnings ("RHE") grew by 4,4%. Once-off items, predominantly adjustments for the interest and remeasurement of liabilities relating to put options exercisable by non-controlling subsidiary shareholders, as well as costs associated with new business development, are excluded from headline earnings to calculate RHE. Excluding the adoption of IFRS 16, as well as the negative impact of Covid, both of which are non-comparable with the prior year, RHE would have grown by 15,4% year-on-year ("YoY").

Headline earnings per share of 388,54 cents decreased by 2,3% while recurring headline earnings per share ("RHEPS") of 392,52 cents grew by 4,6% from the prior year, resulting in a five-year compound annual growth rate in RHEPS of 8,6% until 30 September 2020.

Return on revenue has increased to 3,3% from 3,2% last year, due to a combination of product mix contribution, low expense growth and lower fuel prices.

OPERATING RESULTS

Income growth from the Trade division, which includes the Agrimark retail branches, Forge Agri, Forge Build, Agrimark Packaging distribution centres, Agrimark Mechanisation services and spare parts, as well as fuel depots, increased by 6,9% YoY with operating profit before tax increasing by 15,9%. Forge showed a strong recovery and improved retail margins were achieved in the other trading environments.

Retail Fuel & Convenience income declined by 6,0% and operating profit before tax decreased by 12,8%. Revenue decreases were driven by fuel price reductions, as well as the slowdown in both business and recreational travel during the Covid period, and despite good work done on expense management, certain costs remain relatively fixed despite fuel volume decreases. YoY fuel price decreases also contributed to lower profitability. This division has shown strong recovery as lockdown levels have eased.

Grain Services, which includes grain handling and storage of grain and related products, seed processing and potato seed marketing, delivered pleasing results despite a wheat harvest which was more than 30% down YoY. Although revenue decreased by 9,7% off the back of lower grain handling volumes, operating profit before tax grew by 11,9%. This performance was supported by the timing of non-recurring surplus wheat sales and alternative product handling. Latest harvest estimates indicate the likelihood of an above average wheat harvest for the new financial year across the total Swartland region which bodes well for performance going forward.

Manufacturing produces dripline, sprinkler irrigation products and plastic bulk bins for the agricultural market, as well as offering agency services for imported irrigation products. Irrigation-related revenue recovered well during the second half of the year. Bulk bin revenue is expected to increase in the new year as the product development and enhancement phase has now been completed. Revenue grew by 4,4%, however, profit before tax declined by 44,9% due to start-up costs in Tego, as well as margin pressure in Agriplas.

Commentary (continued)

Costs classified under the Corporate division, which includes the cost of support services, as well as other costs not allocated to specific segments, increased from 1,2% of revenue to 1,3%.

Treasury income reduced by 20,4%, a combination of lower interest rates, increased interest paid on higher average borrowings and lower internal interest received on working capital.

FINANCIAL POSITION

Capital spend of R313,0 million was incurred during the year, with R117,5 million allocated to expansion, R21,4 million on replacement assets and R174,1 million incurred in the acquisition of TFC businesses. Spend by division remains heavily weighted to our strategic growth areas with the Retail Fuel & Convenience segment receiving the majority of capital allocation. Additionally, product development and enhancement costs were capitalised in the manufacturing environment and further modules of supply chain optimisation software were implemented. The investment in bulk bin manufacturing capacity made during this financial year will only generate returns from the coming financial year.

Working capital has been exceptionally well controlled, increasing by only R20,4 million YoY. Debtors have, however, grown above the increase in credit sales and out of terms debtors have increased by 14,4%. Debtors turn on average 4,2 times per year (2019: 4,3 times). Excluding wheat debt out of terms, being carry over from the previous season's poor harvest, out of terms debtors have increased by only 4,4% (R6,5 million). Wheat overdues will be settled from the current good harvest and no current year carry over is expected. Securities are held where appropriate and we believe we are suitably provided for when considering the health of the debtors book.

Stock levels have been proactively managed throughout the Covid period and inventory days have remained constant YoY aided by the continued increased participation of our

centralised distribution centre. Creditors days have increased slightly. Return on net assets has decreased to 8,4% from 9,0% last year, the result of subdued current year earnings growth and annualised investment in the business. Despite the YOY reduction in return on invested capital ("ROIC") being exacerbated by Covid, ROIC remained above the weighted average cost of capital in the business.

Net interest-bearing debt increased by 1,8% to R1,3 billion. The Group's debt-to-equity ratio, calculated on average balances, increased to 64,9% (2019: 62,5%) with net debt to EBITDA reducing to 2,3 times (2019: 2,4 times) and interest cover of 5,0 times (2019: 5,0 times). Gearing remains at acceptable levels with sufficient headroom available to meet the coming year's requirements. Return on equity decreased to 13,8% (2019: 14,6%).

During the year, the Group continued to generate strong cash flows from operations. Investment has been made back into the business to support growth, in terms of increased capital expenditure and acquisitions, albeit at a lower rate than the prior year. This trend will continue into the new year.

DIVIDEND

At half year, the Board of Directors ("Board") took the decision to forego the payment of an interim dividend due to the uncertainty surrounding Covid and the view that cash preservation and liquidity were paramount. This has proven to be the correct decision and together with a number of cost saving and cash flow initiatives, has contributed significantly to the Group's ongoing balance sheet strength. Salary sacrifices were made across the Group, including executive and non-executive directors, and the personal sacrifice of all our staff members has contributed significantly to the Group's robustness in dealing with the challenges of Covid. The full year results have highlighted exceptional working capital management, strong cash generation and resilient earnings growth.

Commentary (continued)

Footfall has returned and revenue has partially recovered, although not to pre-Covid levels. We remain confident regarding the performance of the business going forward. While recognising salary sacrifices made and considering the performance of the business excluding these sacrifices, the Board has approved and declared a gross final dividend of 50,00 cents per share (2019: 90,00 cents per share) from income reserves, for the period ended 30 September 2020. The final dividend amount, net of South African dividends tax of 20% is 40,00 cents per share for those shareholders who are not exempt from dividend tax or are not entitled to a reduced rate in terms of the applicable double-tax agreement. Given that no interim dividend was declared, the total dividend for the year of 50,00 cents per share (2019: 123,50 cents) represents a dividend cover of 7,4 times (2019: 2,9 times).

The salient dates for this dividend distribution are:

| | |
|-------------------------------------|--------------------------------|
| Declaration date | Thursday, 26 November 2020 |
| Last day to trade cum dividend | Tuesday, 9 February 2021 |
| Trading ex dividend commences | Wednesday, 10 February 2021 |
| Record date to qualify for dividend | Friday, 12 February 2021 |
| Date of payment | Monday, 15 February 2021 |

The number of ordinary shares in issue at declaration date is 74 170 277 and the income tax number of Kaap Agri is 9312717177.

Share certificates may not be dematerialised or rematerialised between Wednesday, 10 February 2021 and Friday, 12 February 2021, both days inclusive.

OUTLOOK

Agricultural conditions in the Western Cape have largely improved YoY. However, certain areas remain under pressure, particularly the Northern regions of the country. Good rainfall throughout the wheat season has resulted in an increase in the anticipated wheat harvest when compared to that of last year, with all indications pointing to an above average yield across the whole Swartland region. Farm dam levels have largely recovered in the areas we do business, while conditions in KwaZulu-Natal are also encouraging. The agricultural environment is, however, cautious given erratic climatic conditions, as well as policy uncertainty around land rights.

Covid has severely impacted consumer spend patterns and we anticipate that general retail performance will be subdued in the short term. A number of supply chain interventions have been implemented which will improve procurement and logistics efficiencies going forward and contribute to enhanced retail margins. It is expected that pressure will remain on fuel volume sales with a longer recovery period anticipated in business and leisure travel. However, in addition to the annualisation of existing sites, we will continue to capitalise on convenience store and QSR revenue and margin opportunities at current sites. Kaap Agri will be focusing on driving returns on capital already invested in the Retail Fuel & Convenience Segment, but remains open to executing value-enhancing transactions.

Despite the challenges of a constrained consumer environment and the additional impact of Covid, business performance has been encouraging and the Group has delivered results ahead of expectation under the current circumstances. Our balance sheet has remained strong throughout and we have implemented initiatives that have not only saved costs and conserved cash resources but have also saved livelihoods. Despite the many obstacles, we have embraced the opportunities that Covid

Commentary (continued)

has presented to better serve our customers and to enhance our various digital engagement platforms to improve customer safety and convenience. Our diversification strategy has reduced our overall Group risk position and we believe we are well positioned to capitalise on any improvement in trading conditions. We remain committed to all our stakeholders and to our strategy of growth, underpinned by an improvement in value creation.

EVENTS AFTER THE REPORTING DATE

There have been no events that may have a material effect on the Group that occurred after the end of the reporting period and up to the date of approval of the summary consolidated financial results by the Board.

DETAILS OF THE AGM


The annual general meeting ("AGM") of Kaap Agri shareholders has been scheduled to take place on Thursday, 11 February 2021 at 12:30 in Paarl.

The notice for the AGM will be published on SENS and dispatched to shareholders in due course, accompanied by a summary of the company's consolidated financial statements for the year ended 30 September 2020.

APPRECIATION

The Board records its appreciation for the continued support and loyalty of the Group's employees, shareholders, customers and suppliers.

On behalf of the Board



GM Steyn

Chairman

25 November 2020



S Walsh

Chief Executive Officer

Statement of financial position

at 30 September

| | Note | 2020 R'000 | 2019 R'000 |
|---|------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 1 525 678 | 1 375 392 |
| Right-of-use assets | 6 | 236 302 | – |
| Intangible assets | 7 | 471 012 | 298 169 |
| Investment in joint venture | 8 | 6 542 | 8 901 |
| Financial assets at fair value through other comprehensive income | | 5 580 | 5 580 |
| Trade and other receivables | 9 | 43 039 | 38 700 |
| Loans | | 54 764 | 58 959 |
| Deferred taxation | | 2 772 | – |
| | | 2 345 689 | 1 785 701 |
| Current assets | | | |
| Inventory | | 1 104 191 | 1 083 930 |
| Trade and other receivables | 9 | 1 782 355 | 1 869 860 |
| Derivative financial instruments | | 1 385 | 1 882 |
| Short-term portion of loans | | 5 026 | – |
| Cash and cash equivalents | | 34 817 | 46 369 |
| | | 2 927 774 | 3 002 041 |
| Total assets | | 5 273 463 | 4 787 742 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Equity attributable to shareholders of holding company | | 2 028 158 | 1 826 062 |
| Non-controlling interest | | 98 545 | 100 186 |
| Total equity | | 2 126 703 | 1 926 248 |
| Non-current liabilities | | | |
| Deferred taxation | | 100 271 | 72 778 |
| Financial liability at fair value through profit or loss | 11 | 76 600 | 79 100 |
| Financial liability at amortised cost | 11 | 14 213 | 14 800 |
| Lease liabilities | 6 | 220 642 | – |
| Instalment sale agreements | | 79 975 | 23 694 |
| Employee benefit obligations | | 15 380 | 15 924 |
| Borrowings | | 418 750 | – |
| | | 925 831 | 206 296 |
| Current liabilities | | | |
| Trade and other payables | 10 | 1 330 472 | 1 319 209 |
| Short-term portion of instalment sale agreements | | 32 371 | 16 120 |
| Short-term portion of Employee benefit obligations | | 2 223 | 2 028 |
| Short-term portion of lease liabilities | 6 | 14 499 | – |
| Short-term borrowings | | 830 039 | 1 309 447 |
| Income tax | | 11 325 | 8 394 |
| | | 2 220 929 | 2 655 198 |
| Total liabilities | | 3 146 760 | 2 861 494 |
| Total equity and liabilities | | 5 273 463 | 4 787 742 |
| Total shareholders' equity to Total assets employed* (%) | | 40,3% | 42,1% |
| Net interest bearing debt to Total assets employed* (%) | | 26,2% | 26,3% |
| Net asset value per share (rand) | | R28,86 | R26,00 |
| Shares issued (number – '000) | | 70 282 | 70 237 |
| Total number of ordinary shares in issue** | | 74 170 | 74 170 |
| Treasury shares | | (3 888) | (3 933) |

* Ratios calculated on average balances.

** There was no change in the issued share capital between 30 September 2020 and the dividend declaration date, being 74 170 277 shares.

Income statement

for the year ended 30 September

| | 2020 R'000 | Restated 2019 R'000 |
|---|---------------|---------------------------|
| Revenue | 8 574 668 | 8 451 520 |
| Cost of sales | (7 263 775) | (7 199 183) |
| Gross profit | 1 310 893 | 1 252 337 |
| Operating expenses | (926 305) | (884 849) |
| Operating profit before interest received | 384 588 | 367 488 |
| Interest received | 123 848 | 125 694 |
| Operating profit | 508 436 | 493 182 |
| Finance costs | (124 563) | (111 014) |
| Share in loss of joint venture | (2 359) | (2 327) |
| Profit before tax | 381 514 | 379 841 |
| Income tax | (102 336) | (98 562) |
| Profit for the period | 279 178 | 281 279 |
| Attributable to equity holders of the holding company | 275 081 | 277 320 |
| Non-controlling interest | 4 097 | 3 959 |
| Earnings per share – basic (cents) | 391,49 | 394,98 |
| Earnings per share – diluted (cents) | 391,49 | 393,48 |
| Dividend per share (cents) | 50,00 | 123,50 |

Headline earnings reconciliation

for the year ended 30 September

| | 2020 R'000 | 2019 R'000 |
|---|---------------|---------------|
| Profit for the period | 279 178 | 281 279 |
| Attributable to equity holders of the holding company | 275 081 | 277 320 |
| Non-controlling interest | 4 097 | 3 959 |
| Net profit on disposal of assets | (2 069) | (255) |
| Gross | (2 874) | (354) |
| Tax effect | 805 | 99 |
| Goodwill written off | – | 2 250 |
| Headline earnings | 277 109 | 283 274 |
| Attributable to equity holders of the holding company | 273 012 | 279 332 |
| Non-controlling interest | 4 097 | 3 942 |
| Headline earnings per share – basic (cents) | 388,54 | 397,85 |
| Headline earnings per share – diluted (cents) | 388,54 | 396,33 |
| Weighted average number of shares (number – '000) | 70 266 | 70 211 |
| Weighted average number of diluted shares (number – '000) | 70 266 | 70 479 |

Statement of comprehensive income

for the year ended 30 September

| | 2020 R'000 | 2019 R'000 |
|---|---------------|---------------|
| Profit for the period | 279 178 | 281 279 |
| Other comprehensive income: | | |
| Cash flow hedges | (1 340) | 1 462 |
| Gross | (1 861) | 2 031 |
| Tax | 521 | (569) |
| Total comprehensive income for the period | 277 838 | 282 741 |
| Attributable to equity holders of the holding company | 273 741 | 278 782 |
| Non-controlling interest | 4 097 | 3 959 |

Statement of changes in equity

for the year ended 30 September

| | 2020 R'000 | 2019 R'000 |
|---|------------------|---------------|
| Stated capital | 446 571 | 444 901 |
| Gross shares issued | 480 347 | 480 347 |
| Treasury shares | (33 776) | (35 446) |
| Other reserves | 10 112 | 9 797 |
| Opening balance | 9 797 | 9 172 |
| Share-based payments | 1 655 | (837) |
| Other comprehensive income | (1 340) | 1 462 |
| Retained profit | 1 571 475 | 1 371 364 |
| Opening balance | 1 371 364 | 1 285 415 |
| Partial disposal of subsidiaries | - | 5 471 |
| Redemption liability – part of business combination | - | (113 823) |
| Initial recognition of IFRS 16 | (11 721) | - |
| Profit for the period | 275 081 | 277 320 |
| Dividends paid | (63 249) | (83 019) |
| Equity attributable to shareholders of the holding company | 2 028 158 | 1 826 062 |
| Non-controlling interest | 98 545 | 100 186 |
| Opening balance | 100 186 | 2 710 |
| Non-controlling interest on asset-for-share transaction | - | 78 578 |
| Non-controlling interest on acquisition of subsidiary | - | 17 198 |
| Initial recognition of IFRS 16 | (638) | - |
| Profit for the period | 4 097 | 3 959 |
| Dividends paid | (5 100) | (2 259) |
| Capital and reserves | 2 126 703 | 1 926 248 |

Statement of cash flows

for the year ended 30 September

| | 2020 R'000 | 2019 R'000 |
|---|------------------|---------------|
| Cash flow from operating activities | 494 477 | 353 979 |
| Net cash profit from operating activities | 483 458 | 417 257 |
| Interest received | 126 956 | 118 991 |
| Working capital changes | (20 415) | (97 768) |
| Income tax paid | (95 522) | (84 501) |
| Cash flow from investment activities | (310 892) | (437 378) |
| Purchase of property, plant and equipment | (138 845) | (241 473) |
| Proceeds on disposal of property, plant and equipment | 7 996 | 1 666 |
| Deposits made during the year | (4 500) | (106 419) |
| Acquisition of financial asset at fair value through other comprehensive income | – | (5 580) |
| Gross increase in loans | (5 931) | (34 821) |
| Acquisition of operations | (169 612) | (50 751) |
| Cash flow from financing activities | (195 137) | 89 554 |
| Increase/(decrease) in short-term borrowings | (425 445) | 293 938 |
| Increase in long-term borrowings | 450 000 | – |
| Repayment of instalment sale agreements | (22 063) | (14 277) |
| Lease payments | (11 149) | – |
| Interest paid | (123 231) | (107 088) |
| Dividends paid | (63 249) | (83 019) |
| Net (decrease)/increase in cash and cash equivalents | (11 552) | 6 155 |
| Cash and cash equivalents at the beginning of the year | 46 369 | 40 214 |
| Cash and cash equivalents at the end of the year | 34 817 | 46 369 |

Notes to the summarised consolidated financial statements

for the year ended 30 September

1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The summarised Group financial statements for the year ended 30 September 2020 have been prepared in accordance with the requirements of the JSE Limited ("JSE") for summary financial statements, and the requirements of the Companies Act of South Africa, Act 71 of 2008, as amended, applicable to summary financial statements. The Listings Requirements of the JSE require summary financial statements to be prepared in accordance with the framework concepts and the measurement and recognition of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council and also, as a minimum, to contain the information required by IAS 34 "Interim Financial Reporting".

The summarised Group financial statements are extracted from the audited information, but this summary report has not been audited. The Group annual financial statements for the year were audited by PricewaterhouseCoopers Inc., and their unmodified audit report on the consolidated annual financial statements, are available for inspection at the company's registered office and on the website, www.kaapagri.co.za. The Group's auditors have not reviewed nor reported on any comments relating to prospects.

The directors take full responsibility for the preparation of the summarised Group financial statements and that the financial information has been correctly extracted from the underlying financial records.

The summarised Group financial statements for the year ended 30 September 2020 were prepared by GC Victor CA(SA), the Group's financial manager, under supervision of GW Sim CA (SA), the Group's financial director.

2 ACCOUNTING POLICIES

The accounting policies applied in the preparation of the Group financial statements from which the summarised Group financial statements were derived, are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous Group annual financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these summarised Group financial statements, the significant judgements made by management in applying the Group's accounting policies of estimation uncertainty were the same as those that applied to the Group annual financial statements for the year ended 30 September 2020. The estimates and judgements 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 on the following page.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates

Properties

Properties are depreciated over their useful lives, taking into account their residual values at the end of their useful lives. The residual values and useful lives are estimated and assessed based on industry knowledge and past experience with similar assets, taking into account the location and current condition of the properties. Properties are continuously maintained and kept up to standard.

Loss allowance on trade receivables

In estimating the loss allowance on trade receivables, management makes certain estimates and judgements relating to the estimated recovery rate of debtors. This includes an assessment of current and expected future payment profiles and customer specific risk factors such as economic circumstances, geographical location and the value of security held.

Financial liabilities related to put options

The measurement of these financial instruments is based on various valuation calculations requiring estimated inputs and assumptions as disclosed in note 11.

Judgements

Management agreements

Retail Fuel & Convenience site acquisitions are at various stages of conclusion. On these sites the Group enters into management agreements while waiting for regulatory approval for the retail site licences. The group manages these sites under management agreements, but does not have the right to control the relevant activities. Therefore these sites are not consolidated in the Group.

Purchase price allocations

Judgement is used in determining the fair value of the identifiable assets within a purchase price allocation. Properties are valued by using experts through doing the net income capitalised approach and fair values are assigned to plant and equipment acquired through the business combination by applying a fair value to the items identified. Refer to note 17 for the synergies listed that results in the recognition of goodwill in the business combination transactions as well as the considerations applied to other intangible assets.

Inventory provisions

The Group makes certain judgements relating to the provision of inventory, based on the frequency of movement in different inventory types. This determines the rates applied per age bucket in calculating the inventory provision to be recognised.

Goodwill

The Group makes certain judgements relating to the impairment testing of goodwill, based on projections and assumed growth rates in income, expenses and terminal growth rates while using a pre-tax discount rate determined by management. These judgements are used to determine if an impairment of goodwill is applicable.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Judgements (continued)

Extension periods with regards to lease contracts

The Group makes certain judgements relating to the extension periods of leases during the IFRS 16 right-of-use asset and lease liabilities calculations. If it is more likely than not that the lease will be extended based on all the available factors, the extension option is taken into account in determining the lease. Most of the rent paid is for Agrimark stores and based on the history of the relationship with lessors and the Group's strategies with the stores, the contracts will be extended. Most of the store leases are renewed based on the fact that the stores are at strategic locations and most has been there for some time, it will disrupt business if moved to different locations. Where the lease is not beneficial to the Group, the extension option will not be applied. The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. As at 30 September 2020, future cash outflows for the next 12 months of R29,9 million are not included in the lease liability because it is not reasonably certain that it will be extended.

4 FAIR VALUE ESTIMATION

Financial instruments measured at fair value, are disclosed by level of the following fair value hierarchy:

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

The only financial instruments that are carried at fair value are derivative financial instruments held for hedging. The fair value is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price (Level 2). The investment in Signafi Capital (Pty) Ltd is a level 3 financial instrument based on the observable market data as these are unlisted shares.

Level 2 hedging derivatives comprise forward purchase and sale contracts and options. The effects of discounting are generally insignificant for Level 2 derivatives.

The fair value of the following financial instruments approximate their carrying amount at the reporting date:

- > Trade and other receivables
- > Loans
- > Trade and other payables
- > Short-term borrowings
- > Long-term borrowings
- > Instalment sale agreements

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

| | 2020 R'000 | 2019 R'000 |
|---|------------------|---------------|
| 5 PROPERTY, PLANT AND EQUIPMENT | | |
| Reconciliation of movements in carrying value: | | |
| Carrying value beginning of period | 1 375 392 | 1 097 159 |
| Additions | 148 227 | 259 638 |
| Land and buildings | 34 503 | 63 270 |
| Grain silos | 369 | 2 795 |
| Machinery and equipment | 29 132 | 21 011 |
| Vehicles | 10 228 | 15 376 |
| Office furniture and equipment | 9 047 | 16 748 |
| Leasehold properties | 408 | 10 264 |
| Assets under construction | 64 540 | 130 174 |
| Additions through business combinations | 97 911 | 79 361 |
| Leasehold improvements reclassified to right-of-use assets | (31 358) | – |
| Disposals | (5 122) | (1 312) |
| Depreciation | (59 372) | (59 454) |
| Carrying value end of period | 1 525 678 | 1 375 392 |
| Land and buildings | 1 092 958 | 947 087 |
| Grain silos | 24 737 | 27 022 |
| Machinery and equipment | 211 564 | 102 228 |
| Vehicles | 44 328 | 46 172 |
| Office furniture and equipment | 103 315 | 103 283 |
| Leasehold properties | – | 30 950 |
| Assets under construction | 48 776 | 118 650 |
| Vehicles include the following amounts where the group has instalment sale agreements: | | |
| Cost | 66 250 | 64 092 |
| Accumulated depreciation | (30 173) | (25 114) |
| Carrying value | 36 077 | 38 978 |
| Equipment include the following amounts where the group has instalment sale agreements: | | |
| Cost | 107 548 | – |
| Accumulated depreciation | (1 552) | – |
| Carrying value | 105 996 | – |
| 6 RIGHT-OF-USE ASSETS AND LEASE LIABILITY | | |
| Right-of-use assets | | |
| Buildings | 235 095 | – |
| Vehicles | 1 207 | – |
| | 236 302 | – |

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

| | 2020 R'000 | 2019 R'000 |
|--|---------------|---------------|
| 6 RIGHT-OF-USE ASSETS AND LEASE LIABILITY (CONTINUED) | | |
| Reconciliation of movements in carrying value: | | |
| Initial recognition of IFRS 16 | 166 395 | – |
| Additions | 60 051 | – |
| Leasehold improvements reclassified to right-of-use assets | 31 357 | – |
| Modification of lease contracts | 3 487 | – |
| Cancellations of lease contracts | (848) | – |
| Depreciation charge of right-of-use assets | (24 140) | – |
| Buildings | (23 522) | – |
| Vehicles | (618) | – |
| Carrying value at end of year | 236 302 | – |
| Lease liabilities | | |
| Current | 14 499 | – |
| Non-current | 220 642 | – |
| | 235 141 | – |
| Interest expense (included in finance costs) | 20 868 | – |
| Expense relating to short-term leases and low value assets (included in administrative expenses) | 12 169 | – |
| Cashflow expense for leases and low value and short term leases | (23 318) | – |

The group's leasing activities and how these are accounted for

The group leases various retail stores, storage sites and forklifts. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

7 INTANGIBLE ASSETS

Reconciliation of movements in carrying value:

| | 2020 R'000 | 2019 R'000 |
|---|---------------|---------------|
| Carrying value beginning of period | 298 169 | 168 165 |
| Additions through business combinations | 174 196 | 133 892 |
| Goodwill written off | – | (2 250) |
| Amortisation | (1 353) | (1 638) |
| Carrying value end of period | 471 012 | 298 169 |
| Goodwill | 455 532 | 281 337 |
| Tradenname | 12 480 | 12 740 |
| Customer relations | 3 000 | 4 092 |

To assess for impairment of goodwill, a value in use calculation was done per Cash Generating Unit ("CGU"). Using the budget as base data, income was increased with between 6% and 9.5% (2019: 6%) and expenses were increased between 5% and 9% (2019: 5%) for five years and a pre-tax discount rate of 9% to 11% (2019: 12% - 15%) was used. The pre-tax discount rate is lower as a result of a lower cost of capital. The growth rate is higher compared to the previous year based on strategic plans in place to focus on the growth of the sites in the clusters as well as having a lower base as starting point with the 2020 results of the clusters. The expenses were grown with a higher rate than in the prior year as a result of agreed regulatory costs increases, high increases in municipal tariffs, as well as consistent maintenance spend to maintain high standards of all facilities. No indicators were noted that the calculation is sensitive to a reasonable change in assumptions which would indicate impairment. The most significant clusters to which goodwill has been allocated include the Eastern Cape cluster (carrying value of goodwill: R42,4 million) (2019: R42,4 million) and the Northern Province's cluster (carrying value of goodwill: R254,9 million) (2019: R199,5 million) and Northern Cape cluster (carrying value of goodwill: R133,7 million) (2019: R15,0 million) calculated with a terminal growth rate of 6% (2019: 6%). The remaining clusters were also assessed for goodwill impairment and sufficient headroom noted. If the pre-tax discount rate is increased with 6% (2019: 10%), a portion of goodwill will be impaired. Even if the terminal growth rate is zero, no impairment is identified. The TFC acquisition strategy is cluster based, focusing on increasing scale in identified geographic locations, thus the goodwill is monitored for impairment based on these clusters. The fuel clusters are included in the Retail Fuel & Convenience segment.

The goodwill raised through the business combination with Partridge Building Supplies was tested for impairment using a value in use calculation. Using the budget as base data, income was increased between 9% – 12% (2019: 7% – 9%) and expenses were increased at 6% (2019: 6%) for five years and a discount rate of 10% (2019: 23%) and terminal growth rates of 6% (2019: 6%) were used. The pre-tax discount rate is lower as a result of a lower cost of capital. The growth rate is higher compared to the previous year based on strategic plans in place to focus on the growth of the business as well as having a lower base as starting point with the 2020 results. No impairment was noted. There is sufficient headroom and an impairment only becomes applicable when the discount rate is increased to 33%.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

| | 2020 R'000 | 2019 R'000 |
|---|------------------|---------------|
| 8 INVESTMENT IN JOINT VENTURE | | |
| <i>Kaap Agri (Namibia) (Pty) Ltd</i> | | |
| <i>Beginning of year</i> | 8 901 | 11 941 |
| Share in total comprehensive income | (2 359) | (2 327) |
| Effect of adopting IFRS 9 – Financial Instruments | – | (713) |
| | 6 542 | 8 901 |
| 9 TRADE AND OTHER RECEIVABLES | | |
| Trade debtors | 1 769 806 | 1 756 212 |
| Provision for impairment | (50 631) | (44 225) |
| | 1 719 175 | 1 711 987 |
| VAT | 34 780 | 38 759 |
| Deposits | 4 500 | 106 419 |
| Other debtors | 66 939 | 51 395 |
| | 1 825 394 | 1 908 560 |
| Trade and other receivables – current | 1 782 355 | 1 869 860 |
| Trade and other receivables – non-current | 43 039 | 38 700 |
| | 1 825 394 | 1 908 560 |
| 10 TRADE AND OTHER PAYABLES | | |
| Trade creditors | 1 218 752 | 1 235 009 |
| Employee accruals | 46 740 | 37 523 |
| Other creditors | 64 980 | 46 677 |
| | 1 330 472 | 1 319 209 |

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

| | 2020 R'000 | 2019 R'000 |
|--|-----------------|---------------|
| 11 FINANCIAL LIABILITIES | | |
| <i>Financial liability at amortised cost</i> | | |
| <i>Written Put Option</i> | | |
| <i>Partridge Building Supplies (Pty) Ltd</i> | (14 213) | (14 800) |
| Opening balance | (14 800) | – |
| Initial recognition at 1 October 2018 | – | (43 623) |
| Interest | (1 332) | (3 926) |
| Remeasurement through profit and loss | 1 919 | 32 749 |
| <i>Financial liability at fair value through profit and loss</i> | | |
| <i>Written Put Option</i> | | |
| <i>C-Max Investments (Pty) Ltd</i> | (76 600) | (79 100) |
| Opening balance | (79 100) | – |
| Initial recognition at 1 October 2018 | – | (70 200) |
| Remeasurement through profit and loss | 2 500 | (8 900) |
| | (90 813) | (93 900) |

Through the acquisition of the 60% shareholding in Partridge Building Supplies (Pty) Ltd in the prior year, the Group entered into a once-off written put agreement over the remaining 40% interest in the aforementioned company. The option is exercisable after the finalisation of the Financial Statements for the year ending 30 September 2021, and the consideration on exercise will be determined based on the growth ratio (determined as the actual/forecasted EBITDA divided by the targeted EBITDA over the period determined), net debt value and EBITDA figures of Partridge Building Supplies (Pty) Ltd at that time. The exercise price is formula based. In the current year valuation, a growth ratio of between 60% and 65% (2019: 60% – 65%) was used and an EBITDA multiple of 6.5 times (2019: 6.5 times) was used.

The amount that may become payable under the option on exercise date is initially recognised at the present value of the redemption amount. The corresponding charge is accounted for directly as a reduction in the parent's equity since the risks and rewards have not been transferred to the parent until the option is exercised. The liability is subsequently adjusted for changes in the estimated performance and increased/decreased up to the redemption amount that is payable at the date at which the option is exercised. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

Given that the fair value of the liability varies with non-financial variables that are specific to the parties in the contract, management has classified this put option as a financial liability at amortised cost.

A 10% increase in the growth ratio will change the liability and profit before tax by R3,9 million (2019: R4,2 million).

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

11 FINANCIAL LIABILITIES (CONTINUED)

As part of the asset-for-share transaction in the prior year, the Group entered into a once-off written put agreement, which became effective during the prior year, whereby C-Max Investments (Pty) Ltd may put their 23.5% shareholding in both TFC Operations (Pty) Ltd and TFC Properties (Pty) Ltd ("the TFC Companies") to Kaap Agri Bedryf Limited. This option shall not apply in the event that any of the TFC Companies are listed on the JSE. The put option is not exercisable prior to the end of the financial year ending 30 September 2021. The value of the put option is based on the lower of the market value of TFC Operations (Pty) Ltd (which has been calculated with reference to the enterprise value to EBITDA ("EV/EBITDA") multiple of comparable listed companies, adjusted for company-specific risk) and a value determined based on a recurring headline earnings multiple of the Kaap Agri Group (which has been performed by applying the current price to recurring headline earnings ("Price/RHEPS") multiple of Kaap Agri, to the forecasted profit after tax). In the current year valuation, a multiple of between 4 and 6 times (2019: 4 and 6 times) was used and a discount rate of 8% – 9% (2019: 10%). The market value of the shares in TFC Properties (Pty) Ltd is determined using a market-related capitalisation rate based on the underlying properties held. In the current year valuation, a capitalisation rate of 10% (2019: 10%) was used and a discount rate of 8% – 9% (2019: 10%).

The amount that may become payable under the option on exercise date is initially recognised at the present value of the value as determined in line with the principles outlined above. The corresponding charge is accounted for directly as a reduction in the parent's equity since the risks and rewards of the shares have not been transferred to the parent until the option is exercised. The liability is subsequently adjusted for changes in the estimated market value and increased/decreased up to the amount that is payable at the date at which the option is exercised. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

The financial liability has been designated at fair value through profit or loss because the put option obligation varies with changes in TFC's share price. Any changes in the future fair value of the liability will be accounted for in the income statement. A 1% change in the discount rate will change the liability and profit before tax by R2,6 million (2019: R3 million). A 0.5 change in the multiple will change the liability and profit before tax by R12 million (2019: R13.7 million).

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

12 INFORMATION ABOUT OPERATING SEGMENTS

Management has determined the operating segments based on the reports reviewed by the Executive Committee that are used to make strategic decisions. The Executive Committee considers the business from a divisional perspective. The performance of the following divisions are separately considered: Trade, Retail Fuel & Convenience, Grain Services as well as Manufacturing. The performance of the operating segments are assessed based on a measure of revenue and net profit before taxation.

Trade provides a complete range of production inputs, mechanisation equipment and services, and other goods to agricultural producers as well as the general public.

Retail Fuel & Convenience provides a full retail fuel offering to a diverse range of customers, including convenience store and quick service restaurant outlets.

Grain Services includes the sale of grain products and provides a complete range of services including storage and handling of grain products.

Manufacturing, manufactures dripper pipe, other irrigation equipment, food grade plastic bulk bins for the agricultural market and distributes franchise and other irrigation parts.

Corporate includes all assets and liabilities not specifically used by the other identified segments to generate income or expenses.

| | SEGMENT REVENUE | | SEGMENT RESULTS | |
|------------------------------------|------------------|---------------|------------------|---------------|
| | 2020 R'000 | 2019 R'000 | 2020 R'000 | 2019 R'000 |
| Segment revenue and results | | | | |
| Trade | 5 312 682 | 4 969 211 | 287 475 | 248 098 |
| Retail Fuel & Convenience | 2 309 904 | 2 457 152 | 88 330 | 101 275 |
| Grain Services | 759 681 | 840 830 | 56 466 | 50 479 |
| Manufacturing | 192 401 | 184 327 | 14 402 | 26 118 |
| Total for reportable segments | 8 574 668 | 8 451 520 | 446 673 | 425 970 |
| Corporate | – | – | (109 723) | (102 736) |
| Treasury | – | – | 46 923 | 58 934 |
| Share in profit of joint venture | – | – | (2 359) | (2 327) |
| Total external revenue | 8 574 668 | 8 451 520 | | |
| Profit before tax | | | 381 514 | 379 841 |
| Income tax | | | (102 336) | (98 562) |
| Profit after tax | | | 279 178 | 281 279 |

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

| | | SEGMENT ASSETS | | SEGMENT LIABILITIES | |
|-----------|---|------------------|---------------|-----------------------|---------------|
| | | 2020 R'000 | 2019 R'000 | 2020 R'000 | 2019 R'000 |
| 12 | INFORMATION ABOUT OPERATING SEGMENTS (CONTINUED) | | | | |
| | Segment assets and liabilities | | | | |
| | Trade | 1 748 810 | 1 622 061 | 1 233 115 | 1 058 776 |
| | Retail Fuel & Convenience | 1 214 656 | 900 710 | 194 875 | 152 759 |
| | Grain Services | 96 842 | 105 100 | 41 692 | 47 660 |
| | Manufacturing | 299 801 | 218 551 | 137 247 | 34 652 |
| | Total for reportable segments | 3 360 109 | 2 846 422 | 1 606 929 | 1 293 847 |
| | Corporate | 150 101 | 188 366 | 190 771 | 185 422 |
| | Trade debtors | 1 719 175 | 1 711 987 | – | – |
| | Investment in joint venture | 41 306 | 40 967 | – | – |
| | Short-term borrowings | – | – | 830 039 | 1 309 447 |
| | Borrowings | – | – | 418 750 | – |
| | Deferred taxation | 2 772 | – | 100 271 | 72 778 |
| | | 5 273 463 | 4 787 742 | 3 146 760 | 2 861 494 |
| | | | | 2020 R'000 | 2019 R'000 |
| 13 | CAPITAL COMMITMENTS | | | | |
| | Contracted | | | 9 821 | 89 382 |

These commitments have been approved by the Board of directors. The commitments will be financed by own and borrowed funds. The Group remains focused on disciplined cash management, specifically in the areas of working capital, capital expenditure and cost control.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

14 RECURRING HEADLINE EARNINGS

Kaap Agri considers recurring headline earnings to be a key benchmark to measure performance and to allow for meaningful year-on-year comparison.

These adjustments relate to non-recurring expenses, which consist predominantly of costs associated with acquisitions of new businesses, and the revaluation of put options.

| | 2020 R'000 | 2019 R'000 |
|---|-----------------------|---------------|
| Headline earnings | 277 109 | 283 274 |
| Attributable to equity holders of the holding company | 273 012 | 279 332 |
| Non-controlling interest | 4 097 | 3 942 |
| Non-recurring items | 3 344 | (14 721) |
| Non-recurring expenses | 6 432 | 5 202 |
| Revaluation of Put Options | (3 088) | (19 923) |
| Recurring headline earnings | 280 453 | 268 553 |
| Attributable to equity holders of the holding company | 275 810 | 263 428 |
| Non-controlling interest | 4 643 | 5 125 |
| Recurring headline earnings per share (cents) | 392,52 | 375,19 |

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

15 RESTATEMENT OF COMPARATIVE AMOUNTS

Reclassification between operating expenses and cost of sales

Internal distribution costs incurred by the distribution centre, included under operating, administration, selling and distribution expenses instead of cost of sales in the prior year have been reclassified to cost of sales to better reflect the nature of these expenses. The classification error had no impact on the profit for the prior year or on the costing of inventory as these costs were correctly included in the build up of inventory.

The effect on the income statement for 2019 is set out below:

| | Original balance R'000 | Restatement R'000 | Restated balance R'000 |
|--|------------------------------|----------------------|------------------------------|
| Effect on Statement of comprehensive income | | | |
| Cost of sales | (7 142 281) | (56 902) | (7 199 183) |
| Selling and distribution costs | (119 582) | 9 198 | (110 384) |
| Administrative expenses | (641 415) | 33 803 | (607 612) |
| Other operating expenses | (254 628) | 13 901 | (240 727) |
| Profit before tax | 379 841 | – | 379 841 |

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

16 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

The Group adopted IFRS 16 retrospectively from 1 October 2019, but has not restated comparatives for the 2019 reporting period as permitted under the specific transition provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 October 2019. The new accounting policies are disclosed in note 21 of the accounting policies.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 October 2019 being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group uses recent third-party financing received by the lessee as a starting point and adjusts the rate to reflect changes in financing conditions since the third-party financing was received. The Group also makes adjustments to the rate relating to the specific lease based on the term and security and nature of the asset. This was applied per asset to determine the value of the right-of-use asset and lease liability. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 October 2019 were as follows and applied to assets of similar nature:

Rates used based on type of asset 8,75% – 9,35%.

The lease liability is measured at the present value of the remaining lease payments over the period of the lease at the incremental borrowing rate measured at 1 October 2019. The right-of-use asset, for all leases, is measured using the IBR at the date of initial application, retrospectively as if IFRS 16 had always been applied with an adjustment to retained earnings.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

16 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Accounting for operating leases with a remaining lease term of less than 12 months at 1 October 2019 as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

For comparative purposes, the 30 September 2020 results are also presented on a pre-IFRS 16 basis. Below is a detailed reconciliation of the opening balance to provide detail of the impact of IFRS 16 on the annual financial statements and a more meaningful comparison of the current year's financial performance to the prior year to illustrate the impact should IFRS 16 not have been applied (removal of IFRS 16 and the reinstatement of IAS 17). The adjustments below regarding IFRS 16 are shown for illustrative purposes only and, because of their nature, may not fairly present Kaap Agri's financial position, changes in equity, results of operations or cash flows.

The pro forma financial effects are presented in accordance with the JSE Listings Requirements, the Guide on Pro Forma Financial Information issued by SAICA and the measurement and recognition requirements of International Financial Reporting Standards. The accounting policies applied in quantifying pro forma adjustments are consistent with Kaap Agri's accounting policies at 30 September 2020. The pro forma financial information is the responsibility of the directors.

An assurance report (in terms of ISAE 3420: Assurance Engagements to Report on the Compilation of Pro Forma Financial Information) has been issued by the Group's auditors in respect of the pro forma financial information included in this announcement. The assurance report is available for inspection at the registered office of the Company.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

16 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The table below illustrates the impact of reversing IFRS 16 from the reported results for the year ended 30 September 2020 and reinstating the impact of IAS 17:

| | Notes | As reported for year ended 30 September 2020* R'000 | Adjustment for IFRS 16 30 September 2020 R'000 | Pro forma after IFRS 16 adjustment for year ended 30 September 2020 R'000 | As reported for year ended 30 September 2019* R'000 | % Change on prior year |
|---|-------|--|---|---|---|---------------------------------|
| Group Financial Results summary | | | | | | |
| EBITDA | 1 | 587 544 | 32 017 | 555 527 | 550 016 | 1,0% |
| Profit after tax | 2 | 279 178 | (7 029) | 286 207 | 281 279 | 1,8% |
| Attributable to shareholders of the holding company | | 275 081 | (6 266) | 281 347 | 277 320 | 1,5% |
| Non-controlling interest | | 4 097 | (763) | 4 860 | 3 959 | 22,8% |
| Headline earnings | 2 | 277 109 | (7 029) | 284 138 | 283 274 | 0,3% |
| Attributable to shareholders of the holding company | | 273 012 | (6 266) | 279 278 | 279 332 | 0,0% |
| Non-controlling interest | | 4 097 | (763) | 4 860 | 3 942 | 23,3% |
| Recurring headline earnings | 2 | 280 453 | (7 029) | 287 482 | 268 553 | 7,0% |
| Attributable to shareholders of the holding company | | 275 810 | (6 266) | 282 076 | 263 428 | 7,1% |
| Non-controlling interest | | 4 643 | (763) | 5 406 | 5 125 | 5,5% |
| Earnings per share (cents) | 3 | 391,49 | | 400,40 | 394,98 | 1,4% |
| Headline earnings per share (cents) | 3 | 388,54 | | 397,46 | 397,85 | (0,1%) |
| Recurring headline earnings per share (cents) | 3 | 392,52 | | 401,44 | 375,19 | 7,0% |

* Extracted without modification from the Group's summarised financial statements for the year ended 30 September 2020.

1. EBITDA was adjusted with the actual lease payments (R32,0 million) to reinstate the lease payments in terms of IAS 17.
2. Profit after tax, Headline earnings and Recurring headline earnings were adjusted with the reinstatement of actual lease payments (R32,0 million) in terms of IAS 17 and the reversal of depreciation (R20,9 million) and interest expense (R20,8 million) and the relating tax effect (R2,7 million) in terms of IFRS 16.
3. Pro forma earnings per share, Headline earnings per share and recurring headline earnings per share are calculated on the same basis and using the same weighted average number of ordinary shares as per the summarised consolidated financial statements. Refer to the ratios on page 8 for earnings and headline earnings per share and note 14 for recurring headline earnings per share.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

16 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

| | 1 October 2019 R'000 |
|--|----------------------------|
| Measurement of lease liabilities (as at 1 October 2019) | |
| Operating lease commitments disclosed as at 30 September 2019 | 134 833 |
| – As per Kaap Agri Group financials – Operating lease commitments as at 30 September 2019 | 117 888 |
| – As per Partridge Building Supplies financials – Operating lease commitments as at 30 September 2019* | 16 945 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 72 129 |
| Adjustments as a result of different treatment of extension periods | 122 689 |
| (Less): short-term and low-value leases recognised on a straight-line basis as expense | (11 217) |
| Lease liability recognised as at 1 October 2019 | 183 601 |
| Non-current lease liability | 161 237 |
| Current lease liability | 22 364 |
| Measurement of right-of-use assets (as at 1 October 2019) | |
| Right-of-use assets were measured fully retrospectively as if IFRS 16 has always been applied | |
| The recognised right-of-use assets relate to the following type of assets: | |
| Buildings | 164 198 |
| Vehicles | 2 197 |
| | 166 395 |
| Adjustments recognised in the statement of financial position on 1 October 2019: | |
| Right-of-use assets | 166 395 |
| Deferred tax assets | 4 847 |
| Lease liabilities | (183 601) |
| Impact on retained earnings | (12 359) |

* The operating lease commitments for Partridge Building Supplies was omitted in the prior year disclosure.

The reconciliation was incorrectly disclosed in the unaudited condensed consolidated interim financial statements. The variance is due to a change in interpretation in applying the extension periods of lease payment values. The updated discounted cashflows indicated that no impairment of the right-of-use assets is required. The incorrect transition method was also mentioned in the interim financial statements, but correctly applied namely that right-of-use assets were measured fully retrospectively as if IFRS 16 has always been applied.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

17 BUSINESS COMBINATIONS

In line with the Group's growth strategy to acquire businesses in the fuel sector, certain retail fuel operations and in some instances accompanying retail fuel properties were acquired. If no property was acquired, the retail license was obtained and thus the operations was acquired and still treated as business combination under IFRS 3. Goodwill on acquisition was paid on these businesses which represents synergies within the Group and have future earnings potential.

The Retail Fuel & Convenience acquisition strategy is cluster based, focusing on increasing scale in identified geographic locations. This geographic scale allows for enhanced synergistic benefits which include, but are not limited to, the following:

- > Alignment and improvement of supplier and service provider trading terms and service level agreements, both fuel and non-fuel related
- > Ability to convert fuel brand offering to preferred supply
- > Enhanced logistics, both fuel and non-fuel related
- > Ability to add or convert convenience store and quick service restaurant offerings
- > Alignment of franchise trading terms
- > Utilisation of Group shared services, including information management, finance, human resources, property management and internal audit
- > Shared regional operational structures
- > Improved skills transfer and succession planning

Improved synergies contribute to either a lower cost per litre to serve or a higher cents per litre income thus enhancing returns on invested capital.

A purchase price allocation ("PPA") as required by IFRS 3 - Business combinations was performed and no intangible assets were identified, other than fuel site operating licenses. The site licenses are considered to be identifiable due to arising from contractual/legal rights, with an indefinite useful life. The site license useful life is assessed to be indefinite as there is no foreseeable limit to the period over which the assets are expected to generate net cash flows for the Group. The site licenses do not require any renewals or renewal payments and the Group expects to continue selling fuel products indefinitely from the businesses acquired. The licenses are grouped with the land that it relates to as one asset as these assets have similar useful lives, being indefinite. The Group assessed all intangible assets that can typically be expected in a business combination of this nature, the most relevant of which are tradenames and customer relations. No tradename was recognised as there was no tradename acquired as part of these transactions. In addition, any payments made in relation to the brand are considered to be market related. No customer relations were recognised as the Group did not acquire any customer list, they are commercial sites offering products to clients that could be purchased anywhere.

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

17 BUSINESS COMBINATIONS (CONTINUED)

The Group acquired the following assets through business combinations in the fuel sector:

Kathu QSR's – October 2019

Kimberley Ranch Motors service station – January 2020

Ventersdorp service station – February 2020

Elegant Kathu service station – June 2020

Engen Akasia Kathu service station – June 2020

Caltex Autostar Motors service station – July 2020

Caltex Gabros Motors service station – July 2020

Caltex Nova Motors – September 2020

The assets and liabilities at the date of acquisition can be summarised as follows:

| | Total R'000 | Kathu QSR's R'000 | Kimberley Ranch Motors R'000 | Venters dorp R'000 |
|-------------------------------------|----------------|-------------------------|---------------------------------------|--------------------------|
| Carrying value | | | | |
| Assets | | | | |
| Land and buildings | 82 600 | – | – | 14 000 |
| Plant and Equipment | 6 460 | 618 | 559 | 1 280 |
| Inventory | 11 252 | 274 | 2 011 | 1 557 |
| | 100 312 | 892 | 2 570 | 16 837 |
| Fair value | | | | |
| Assets | | | | |
| Land and buildings | 91 450 | – | – | 17 150 |
| Plant and Equipment | 6 460 | 618 | 559 | 1 280 |
| Goodwill | 174 196 | 9 382 | 37 441 | 17 872 |
| Inventory | 11 252 | 274 | 2 011 | 1 557 |
| Liabilities | | | | |
| Deferred taxation | (25 606) | – | – | (4 802) |
| Purchase consideration | 257 752 | 10 274 | 40 011 | 33 057 |
| – paid in cash (current period) | 169 612 | 1 274 | 2 011 | 14 157 |
| – paid in cash (previous period) | 88 140 | 9 000 | 38 000 | 18 900 |

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

| Elegant Kathu R'000 | Engen Akasia Kathu R'000 | Caltex Autostar R'000 | Caltex Gabros R'000 | Caltex Nova R'000 |
|---------------------------|-----------------------------------|-----------------------------|---------------------------|-------------------------|
| 32 600 | 22 000 | 14 000 | – | – |
| 2 036 | 985 | 471 | 188 | 323 |
| 1 917 | 3 040 | 874 | 489 | 1 090 |
| 36 553 | 26 025 | 15 345 | 677 | 1 413 |
| 36 200 | 23 600 | 14 500 | – | – |
| 2 036 | 985 | 471 | 188 | 323 |
| 35 900 | 36 023 | 11 089 | 12 812 | 13 677 |
| 1 917 | 3 040 | 874 | 489 | 1 090 |
| (10 136) | (6 608) | (4 060) | – | – |
| 65 917 | 57 040 | 22 874 | 13 489 | 15 090 |
| 59 577 | 51 640 | 20 474 | 9 589 | 10 890 |
| 6 340 | 5 400 | 2 400 | 3 900 | 4 200 |

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

17 BUSINESS COMBINATIONS (CONTINUED)

The land, inclusive of the site license are valued using the Net Income Capitalised Approach.

Buildings at the value of R24,1 million in the current year's PPA are valued at the replacement cost method and have a finite useful life. Depreciation is recognised over the useful life of the buildings.

The acquired businesses contributed as follows to the Group's results for the full financial year:

| | Total R'000 | Kathu QSR's R'000 | Kimberley Ranch Motors R'000 | Venters dorp R'000 |
|--|------------------------|----------------------------------|---|-----------------------------------|
| Revenue | | | | |
| – since acquisition date | 250 073 | 13 302 | 68 300 | 39 353 |
| – as if from the beginning of the year | 662 502 | 13 302 | 100 348 | 66 907 |
| Profit/(loss) before tax | | | | |
| – since acquisition date | 7 580 | 839 | (913) | 877 |
| – as if from the beginning of the year | 29 039 | 839 | (178) | 1 871 |

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

| Elegant Kathu R'000 | Engen Akasia Kathu R'000 | Caltex Autostar R'000 | Caltex Gabros R'000 | Caltex Nova R'000 |
|---------------------------|-----------------------------------|-----------------------------|---------------------------|-------------------------|
| 47 585 | 50 226 | 10 748 | 13 902 | 6 657 |
| 143 799 | 151 847 | 45 522 | 56 575 | 84 202 |
| 2 948 | 2 235 | 471 | 1 049 | 74 |
| 13 922 | 7 773 | 2 559 | 2 823 | (570) |

Notes to the summarised consolidated financial statements (continued)

for the year ended 30 September

18 EVENTS AFTER REPORTING DATE

The directors are not aware of any matter or circumstance that occurred since the end of the financial year up to the date of this report that has not been dealt with in the report or financial statements and which may have a significant influence on the activities of the group or the results of those activities.

Corporate information

Kaap Agri Limited

Incorporated in the Republic of South Africa

Registration number: 2011/113185/06

Income tax number: 9312717177

Share code: KAL

ISIN code: ZAE000244711

Directors

GM Steyn (Chairman)*#

S Walsh (Chief executive officer)

GW Sim (Financial Director)

BS du Toit*#

D du Toit*#

JH le Roux*

EA Messina*#

WC Michaels*#

CA Otto*#

HM Smit*#

JH van Niekerk†

I Chalumbira*

* Non-executive

Independent

† Retired as a member of the Board effective 13 February 2020

Transfer secretaries

Computershare Investor Services (Pty) Ltd

Registration number: 2004/003647/07

Rosebank Towers, 15 Biermann Avenue

Rosebank, Johannesburg, 2196

Private Bag X9000, Saxonwold, 2132

Fax number: 086 636 7200

Company Secretary

RH Köstens

Registered address

1 Westhoven Street, Paarl, 7646

Suite 110, Private bag X3041, Paarl, 7620

Telephone number: 021 860 3750

Fax number: 021 860 3314

Website: www.kaapagri.co.za

Auditors

PricewaterhouseCoopers Inc.

Sponsor

PSG Capital (Pty) Ltd

Registration number: 2006/015817/07

1st Floor, Ou Kollege, 35 Kerk Street,

Stellenbosch, 7600

PO Box 7403, Stellenbosch, 7599

and

2nd Floor, Building 3, 11 Alice Lane, Sandhurst,

Sandton, 2196

PO Box 987, Parklands, 2121

KAAP AGRI



www.kaapagri.co.za