

# Integrated report

The Board of Directors acknowledges its responsibility to ensure the integrity of the Integrated Report. The Board has accordingly applied its mind to the Integrated Report and, in the opinion of the Board, the Integrated Report addresses all material issues, and presents fairly the integrated performance of the organisation and its impacts. The Integrated Report has been prepared in line with appropriate best practices pursuant to the recommendations of the King III Code.

## REPORT SCOPE AND BOUNDARY

The Integrated Report (the Report) covers in its scope both the legal entities and physically located branches making up the distribution, sales and administrative infrastructure of the Group.

The Report covers the financial year ended on 31 March 2014, but due to the contiguous nature of business and reporting, the Report implicitly takes cognisance of the end of the previous and the first quarter of the subsequent financial year.

The Group has always been run on an operationally decentralised basis due to the complementary, but often different nature of the main operational pillars making up the Group. Based on this principle of decentralised operations, the Group's role is that of providing a strategic, financial and strong directional role for operations, with the Managing Directors and the CEOs of the main operational pillars having direct reporting and executive responsibility on the Board.

## ORGANISATIONAL OVERVIEW, BUSINESS MODEL AND GOVERNANCE STRUCTURES

The Group has always seen its distribution, sales and support network as a key strategic asset, enabling it to create value on a sustainable basis, while also constituting barriers of entry to competitors on a national basis. The extent and number of the Group operational outlets are highlighted on pages 14 to 31 of the 2014 Integrated Annual Report.

Further to the above, the Group sees its management and staff as a key factor in a business which is effectively selling, supporting and advising on a wide range of industrial consumable products.

The Group, besides having a Remuneration Committee and an Audit Committee at Group level, has maintained these same management and governance disciplines at the main operational pillars to ensure policies and direction are effectively cascaded down, at the same time allowing for effective reporting up. Details of Group management and governance committees, are provided in more detail in the Corporate Governance Report (page 32), the Remuneration Report (page 48) and Audit Committee Report (page 66).

## OPERATIONAL CONTEXT

The Group can be seen as an efficient proxy for the South African economy, with a clear delayed correlation between commodity and resources performance and the Group's outperformance thereof.

The Group imports almost all of the products it supplies and thus the effects of exchange rate fluctuations need to be effectively managed through operational buying departments, under the Group's policy of hedging all material exchange rate exposures through the use of Forward Exchange Contracts.

Employment and logistic costs are the main domestic cost elements that make up a significant element of the overhead base of the Group.

## STAKEHOLDER RELATIONSHIPS

The Group continues to view its employees as a key stakeholder group, and endeavours to, on an ongoing basis, develop not only training, but improved communication processes within the operations.

The Group has made a conscious effort to address its community and social responsibility spending by developing a more clearly focused programme of initiatives, which it supports. With the Group holding key agency and distribution agreements for world-class brands with international principals, ongoing relationship building with these suppliers is seen as a key element of the current and future success of the Group, as the network and range of suppliers increase.

Shareholders, through their actions, continue to give the Board and management a mandate to run the Group, whose ongoing support and beneficence is seen as the utmost test of superior performance by the Group.

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### Stakeholders' material issues

The following table sets out the stakeholders identified, together with the material issues and communication to stakeholders:

Stakeholders	Relationship	Material issues	Communication forum
Private shareholders and institutional investors	Shareholders	<ul style="list-style-type: none"> <li>• Share price, dividend policy, return on investment, profitability</li> <li>• Management competence</li> <li>• Growth strategy</li> <li>• Acquisitions</li> <li>• Management remuneration</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated and interim reports</li> <li>• Results presentations</li> <li>• Website</li> <li>• Annual general meeting</li> <li>• Press interviews</li> </ul>
Bankers	Financiers	<ul style="list-style-type: none"> <li>• Statements of financial position, comprehensive income and cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated and interim reports</li> <li>• Annual credit reviews</li> </ul>
End-users of products	Customers	<ul style="list-style-type: none"> <li>• BEE credentials</li> <li>• Brand</li> <li>• Product quality</li> <li>• Technical support</li> <li>• Service turnaround</li> <li>• Pricing</li> <li>• Reputation</li> </ul>	<ul style="list-style-type: none"> <li>• Personal contact</li> <li>• Product marketing</li> <li>• Product technical specifications</li> <li>• Service information bulletins</li> <li>• BEE scorecard</li> <li>• Operational websites</li> <li>• Technical training forums</li> </ul>
Management of business	Management	<ul style="list-style-type: none"> <li>• Brands, association with quality products</li> <li>• Synergies within Group</li> <li>• Management and resource support from centre for growth</li> <li>• Leadership succession planning, careers, knowledge management systems</li> <li>• Remuneration</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated report</li> <li>• Management conferences</li> <li>• Personal contact</li> <li>• Internal news/information communication and divisional broadcasts and e-mails</li> </ul>
Principals	Suppliers	<ul style="list-style-type: none"> <li>• Market shares</li> <li>• Sales forecasts</li> <li>• Stockholding and ordering processes</li> <li>• Distribution strengths</li> <li>• Customer base</li> <li>• Credit-worthiness</li> </ul>	<ul style="list-style-type: none"> <li>• Regular meetings</li> <li>• Integrated report</li> <li>• Operational websites</li> <li>• Interactive electronic ordering and communication</li> </ul>
Employees at operational level	Staff	<ul style="list-style-type: none"> <li>• Career development</li> <li>• Leadership succession planning</li> <li>• Remuneration</li> <li>• Skills retention and development</li> <li>• BEE</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated report</li> <li>• Personal contact</li> <li>• Retirement fund reports</li> <li>• Wellness communication and interventions</li> <li>• Internal news/information communication and divisional broadcasts and e-mails</li> </ul>

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## STRATEGIC DIRECTION

The Group continues to look for acquisitions which fit the distribution and sales model that it has successfully developed over the last decade. Further consideration will also be given to opportunities that are based outside South Africa, which not only fit with the Group's expertise, but which also provide a natural hedge against some of the currency exposures the Group faces.

## PERFORMANCE

The Group continues to outperform its own return benchmarks and has, at a trading level, grown by more than 20% per annum cumulatively for more than nine years.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>									
Revenue	10 465	7 558	5 599	4 534	3 969	4 524	3 335	2 663	1 908
Operating profit	1 043	884	601	505	453	497	360	281	198
Net finance costs less dividends received and income from associate	(192)	(65)	(50)	(54)	(24)	(22)	3	(25)	(19)
Profit before taxation	851	819	551	451	429	475	363	256	179
Taxation	(141)	(76)	(72)	(25)	(64)	(112)	(63)	(38)	(54)
Profit after taxation	710	743	479	426	365	363	300	218	125
Non-controlling interest	(64)	(28)	(23)	(72)	(44)	(50)	(37)	(2)	-
Preference shareholders	(66)	(22)	-	-	-	-	-	-	-
Attributable earnings	580	693	456	354	321	313	263	216	125
Items not included in headline earnings	(17)	(51)	(8)	(6)	(9)	(2)	(8)	(24)	1
Headline earnings	563	642	448	348	312	311	255	192	126
Weighted average number of ordinary shares ('000)	73 592	72 588	70 405	70 211	70 779	71 536	74 007	74 007	73 861
Earnings per share (cents)	788	955	647	504	453	437	356	292	170
Headline earnings per share (cents)	765	885	637	496	441	434	345	260	170
Normalised earnings per share (cents)	788	737	647	-	-	-	-	-	-
Dividend per share (cents)	287	268	254	183	151	138	138	104	68
<b>STATEMENTS OF FINANCIAL POSITION</b>									
Property, plant and equipment	1 171	1 010	391	354	313	229	155	118	123
Goodwill	624	593	358	305	245	242	219	199	191
Other intangible assets	168	181	58	58	10	11	11	12	13
Financial instruments, finance lease and long-term receivables including current portion	2 323	4 080	2 564	2 129	1 692	1 528	1 350	-	5
Guaranteed purchase liabilities including current portion	(3)	(6)	(11)	(13)	-	-	-	-	-
Deferred taxation	218	136	101	64	55	44	23	18	20
Inventories	3 479	2 913	2 085	1 382	1 299	1 646	1 074	875	634
Trade and other receivables	1 844	1 620	869	698	671	688	728	372	287
Trade and other payables and provisions	(2 298)	(2 049)	(1 802)	(1 205)	(1 020)	(1 295)	(1 267)	(829)	(450)
Taxation	(90)	(11)	(25)	1	(13)	35	(26)	(13)	2
Shareholders for dividends	(37)	(29)	(2)	(7)	(3)	-	-	-	-
Net operating assets	7 399	8 438	4 586	3 766	3 249	3 128	2 267	752	825
Investment in associate	8	6	2	2	2	-	-	-	-
Financial investments including current portion	2 884	786	1 097	1 195	1 195	1 195	1 195	1 195	1 195
Net financial liabilities	-	(8)	(2)	(3)	(3)	(4)	-	2	-
Net cash	140	488	586	409	215	(131)	210	195	(79)
Employment of capital	10 431	9 710	6 269	5 369	4 658	4 188	3 672	2 144	1 941
Non-controlling interest	482	405	59	244	170	130	92	45	2
Equity	3 077	2 690	1 895	1 855	1 613	1 336	1 118	931	718
Long-term payables including current portion	6 872	6 615	4 315	3 514	3 045	2 852	2 554	1 213	1 223
Total capital employed	10 431	9 710	6 269	5 369	4 658	4 188	3 672	2 144	1 941

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	2014	2013	2012	2011	2010	2009	2008	2007	2006
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>STATEMENTS OF CASH FLOWS</b>									
Cash generated from trading	1 159	998	680	601	487	543	388	280	221
(Increase)/ decrease in working capital	(444)	(266)	(191)	96	103	(455)	(96)	85	(123)
Cash generated from operations	715	732	489	697	590	88	292	365	98
Finance costs	(828)	(652)	(598)	(545)	(433)	(383)	(209)	(163)	(40)
Dividends paid	(281)	(198)	(156)	(115)	(96)	(113)	(94)	(55)	(46)
Taxation paid	(143)	(161)	(62)	(48)	(25)	(194)	(58)	(25)	(59)
Interest and dividends received	634	531	547	490	408	360	212	137	21
Net cash from operating activities	97	252	220	408	444	(242)	143	259	(26)
Investment in property, plant and equipment	(249)	(150)	(105)	(62)	(47)	(48)	(17)	5	5
Investment in operations	(416)	(2 537)	(655)	(627)	(228)	(346)	(1450)	16	(1559)
Net cash from investing activities	(665)	(2 687)	(760)	(689)	(275)	(394)	(1467)	21	(1554)
Increase in long-term borrowings including guaranteed repurchase liabilities	238	1 755	718	475	177	295	1337	(9)	1204
Share appreciation rights (settled) issued	(40)	(227)	9	-	-	-	-	-	-
Shares cancelled	-	-	(10)	-	-	-	-	-	-
Shares issued	-	809	-	-	1	4	271	-	-
Net cash from financing activities	198	2 337	717	475	177	295	1338	(5)	1475
Net increase (decrease) in cash and cash equivalents	(370)	(98)	177	194	346	(341)	14	275	(105)

Key and carefully selected acquisitions as well as excellent management are the primary drivers of the Group's success.

The Group continues to benchmark return on working capital as a key factor.