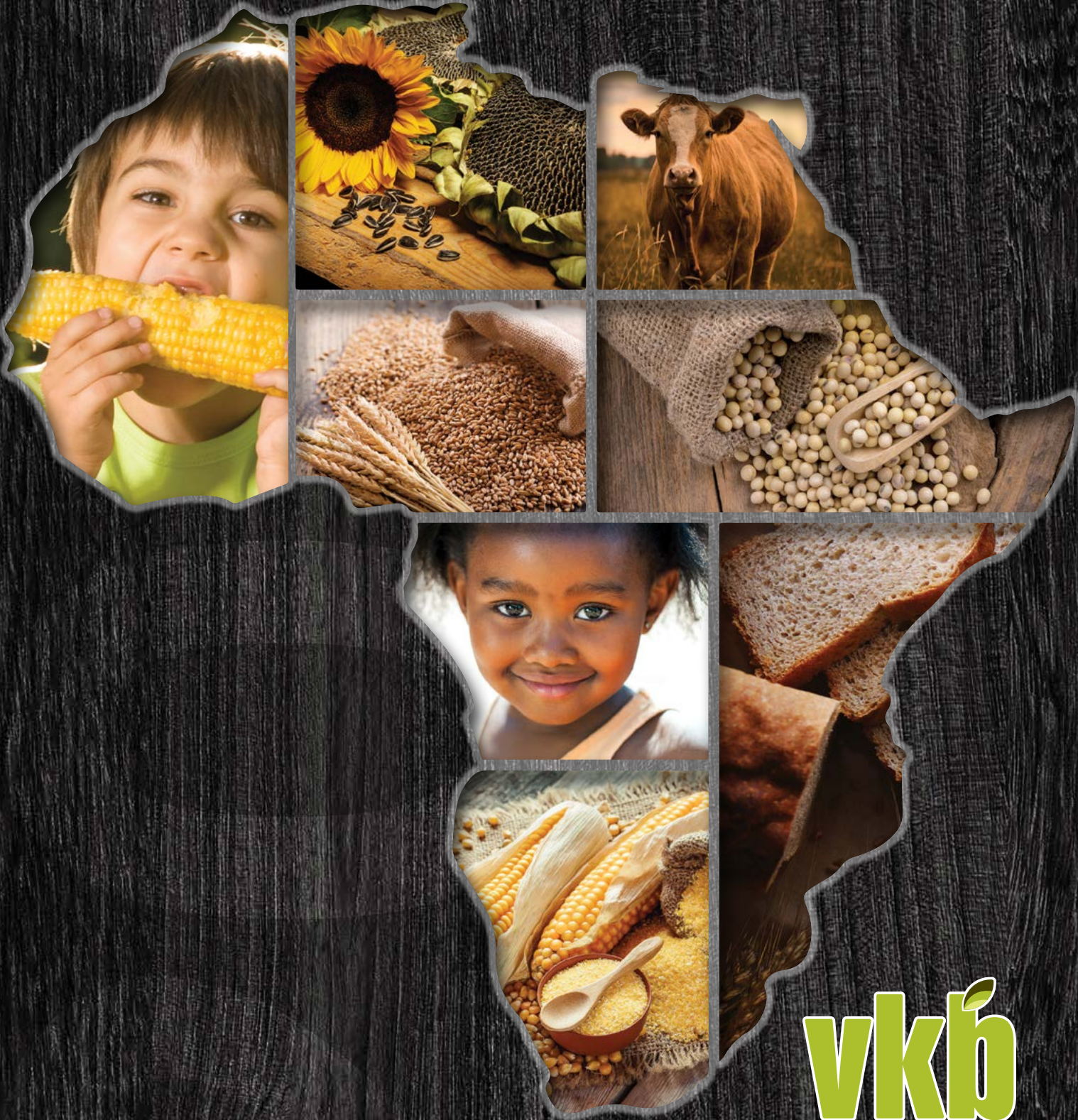


It's all about  
**feeding** our **nation**



**vk<sup>b</sup>**  
Integrated Report  
**2020**



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## VKB BELEGGINGS (PTY) LTD

**REGISTRATION NUMBER:**  
2011/007000/07

**REGISTERED ADDRESS**  
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REITZ  
9810

**POSTAL ADDRESS**  
PO Box 100  
REITZ  
9810

**CONTACT NUMBERS**  
Tel.: 087 358 8111

**WEBSITE**  
[www.vkb.co.za](http://www.vkb.co.za)

**BANKERS**  
Standard Bank  
Absa Bank

**AUDITORS**  
Enslins Bethlehem  
Incorporated  
PO Box 357  
BETHLEHEM  
9700

**vkb**  
for the  
**LOVE**  
of the  
**LAND**



# VKB GROUP

## FIVE-YEAR OVERVIEW

## VKB GROUP FIVE-YEAR OVERVIEW

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2016 12 months R'm	2017 12 months R'm	2018 12 months R'm	2019 12 months R'm	2020 12 months R'm
Sales	8 779	9 764	10 446	10 736	11 660
Operating profit	489	355	724	604	624
Results of associates	14	(1)	5	8	11
Finance cost	(168)	(241)	(205)	(231)	(284)
Investment income	11	9	10	24	6
<b>Profit before incentive discount</b>	<b>346</b>	<b>123</b>	<b>534</b>	<b>406</b>	<b>356</b>
Incentive discount	(200)	(215)	(260)	(250)	(210)
<b>Profit before tax</b>	<b>146</b>	<b>(92)</b>	<b>274</b>	<b>156</b>	<b>146</b>
Tax	4	47	(59)	(86)	(46)
<b>Profit after tax</b>	<b>150</b>	<b>(46)</b>	<b>215</b>	<b>69</b>	<b>100</b>
Incentive discount	200	215	260	250	210
Dividends declared Class 2 preference shares	30	0	40	30	20
Dividend rate Class 2 preference shares	2,88%	0,00%	3,09%	2,12%	1,27%
Dividend rate Class 4 preference shares					4,00%

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Non-current assets	1 581	1 922	1 910	2 143	2 655
Current assets	4 261	4 372	4 587	4 770	5 467
<b>Total assets</b>	<b>5 842</b>	<b>6 294</b>	<b>6 497</b>	<b>6 913</b>	<b>8 123</b>
Share capital	1 525	1 665	1 829	1 911	2 027
Reserves	371	222	395	437	456
Minority interest	92	66	80	69	82
<b>Total equity</b>	<b>1 988</b>	<b>1 953</b>	<b>2 304</b>	<b>2 417</b>	<b>2 566</b>
Non-current liabilities	386	543	718	614	578
Current liabilities	3 468	3 798	3 475	3 883	4 979
<b>Total equity and liabilities</b>	<b>5 842</b>	<b>6 294</b>	<b>6 497</b>	<b>6 913</b>	<b>8 123</b>

### PROFITABILITY AND PRODUCTIVITY

Return on total assets	9%	6%	11%	9%	8%
Return on shareholders' equity	17%	6%	23%	17%	14%
Asset turnover ratio (number of times)	1,76	1,56	1,82	1,67	1,55
Operating profit as % of income	6%	4%	7%	6%	5%

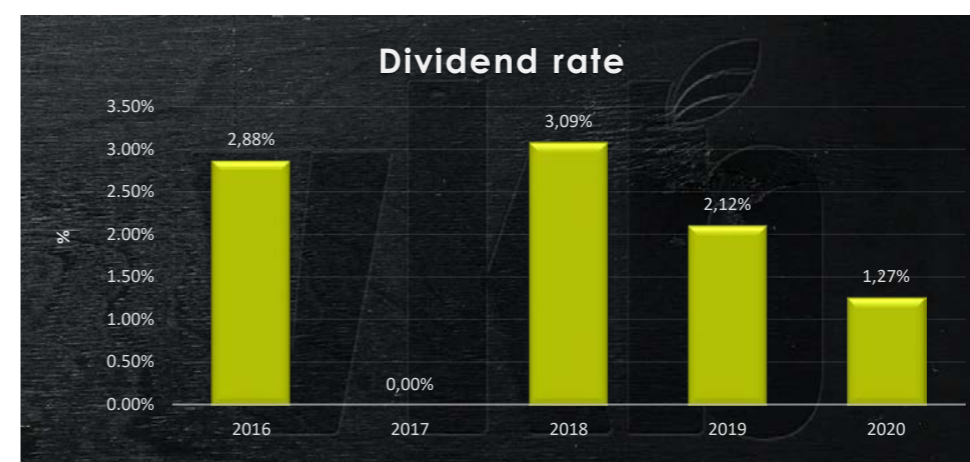
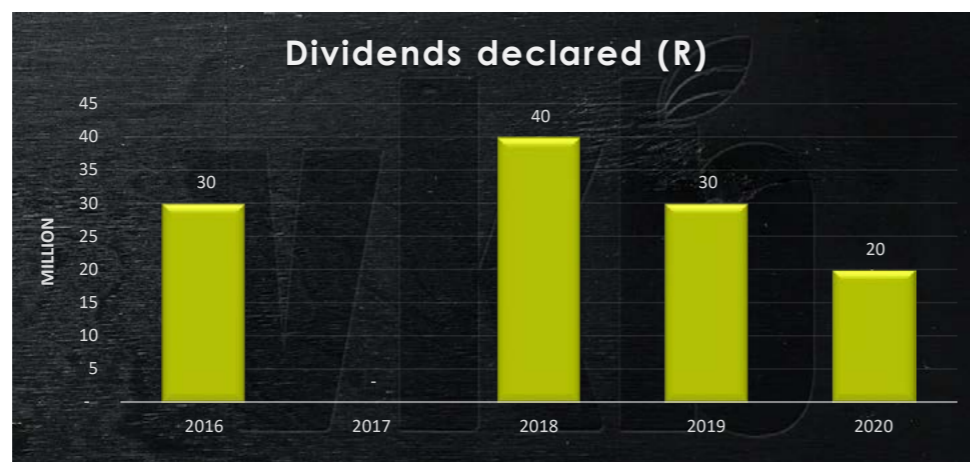
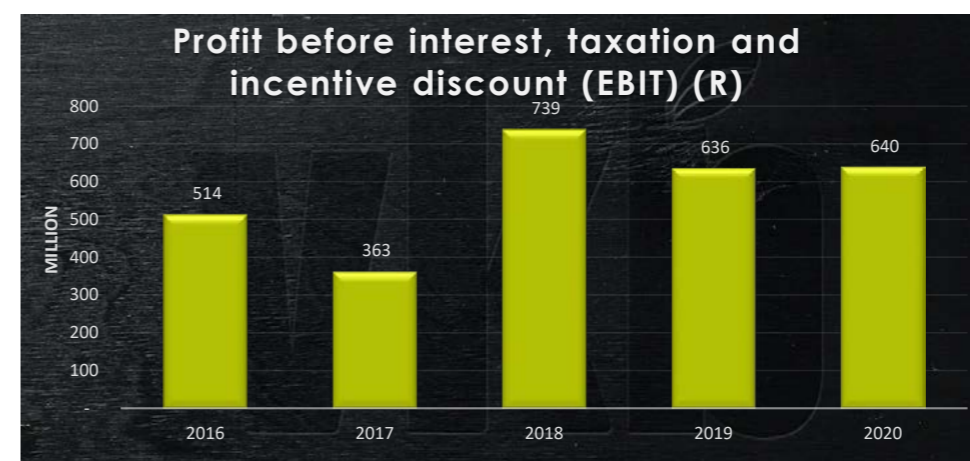
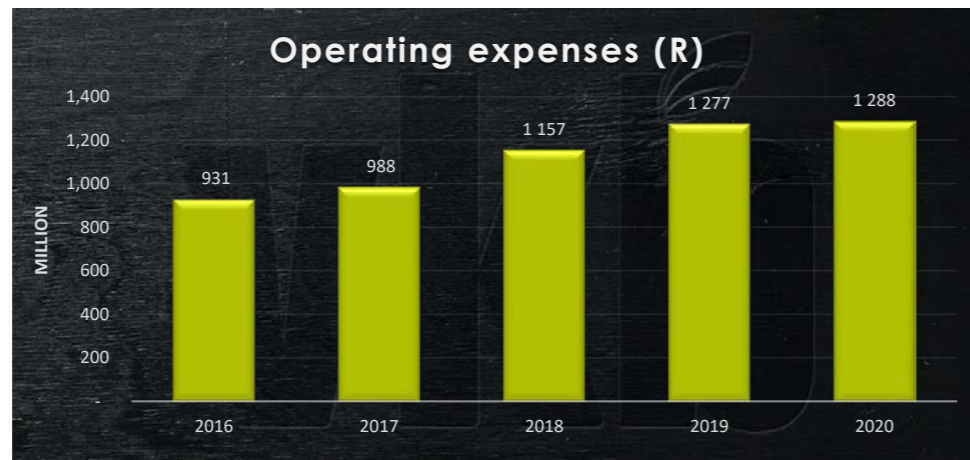
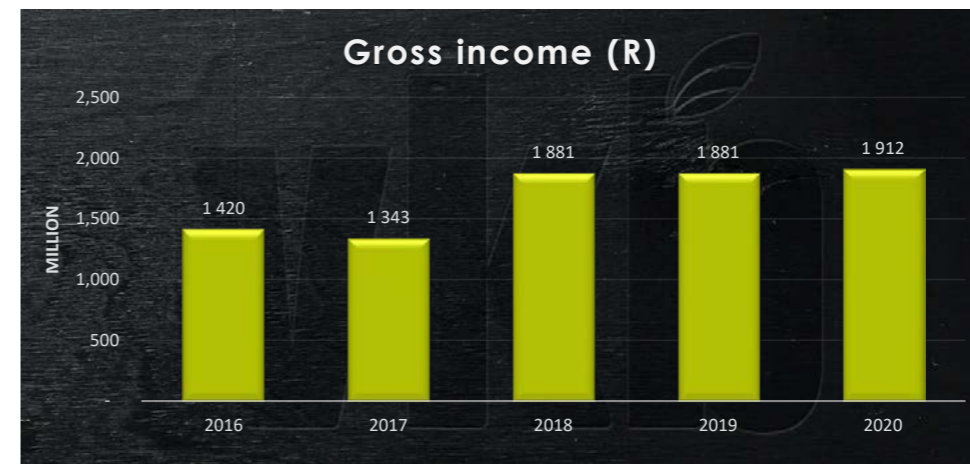
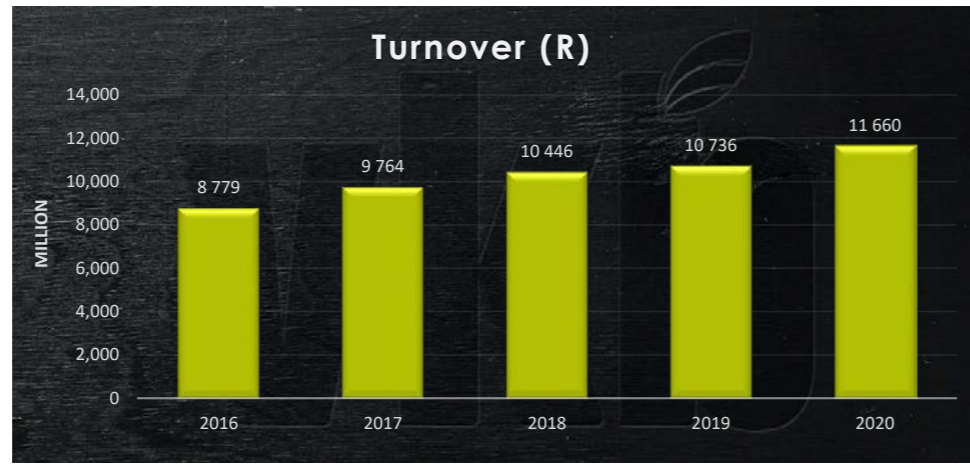
### SOLVENCY AND LIQUIDITY

Own capital ratio	34%	31%	35%	35%	32%
Total assets to total liabilities	1,52	1,45	1,55	1,54	1,46
Interest cover (number of times)	3,06	1,51	3,60	2,76	2,25
Operating capital ratio	1,23	1,15	1,32	1,23	1,10
Acid test ratio	0,84	0,84	0,99	0,93	0,84

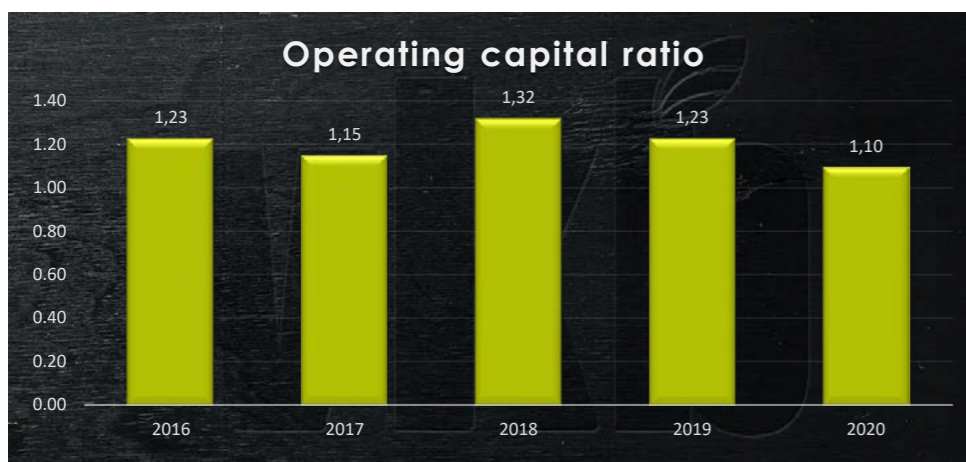
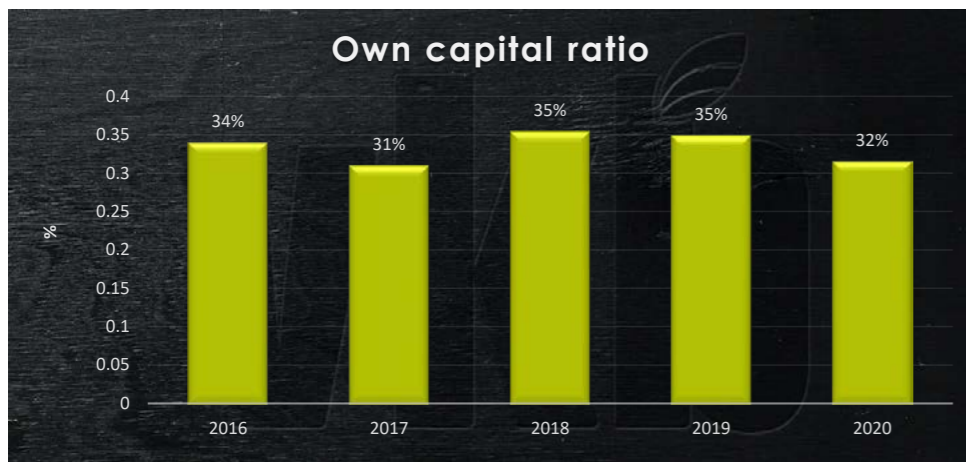
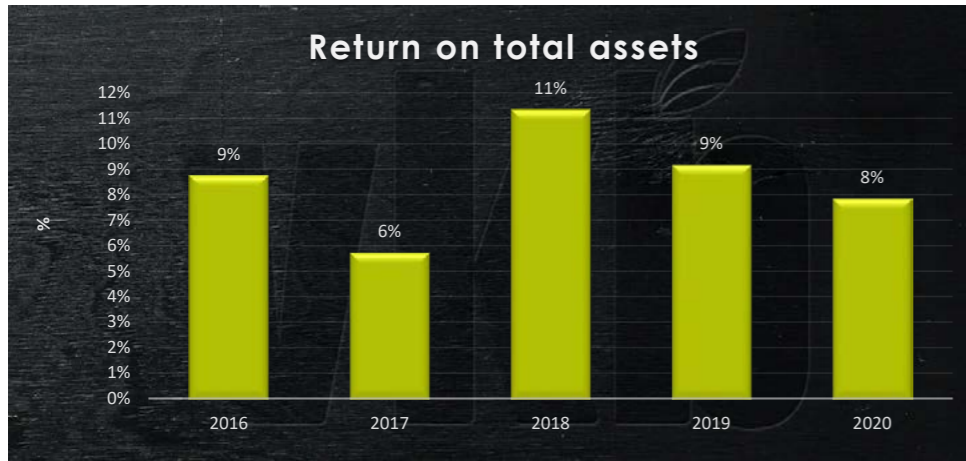
#### Note:

Ratios were adjusted to 12 months, where applicable.

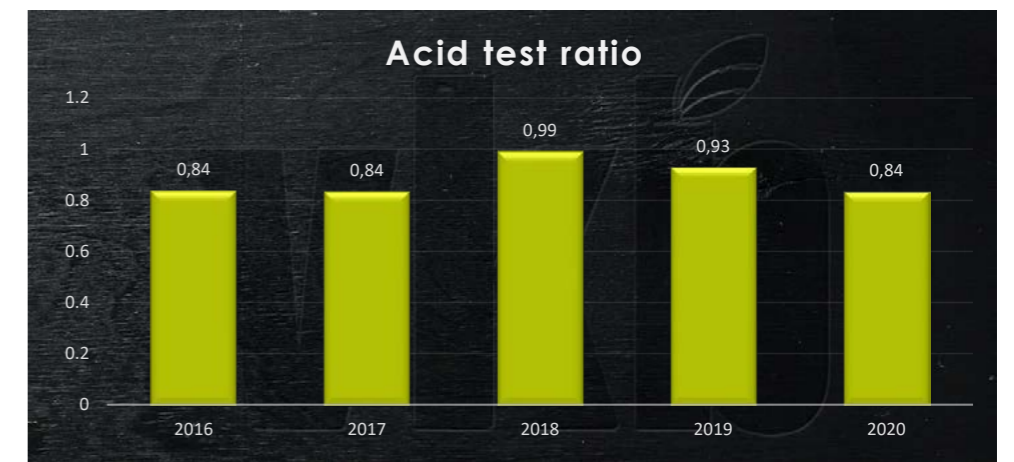
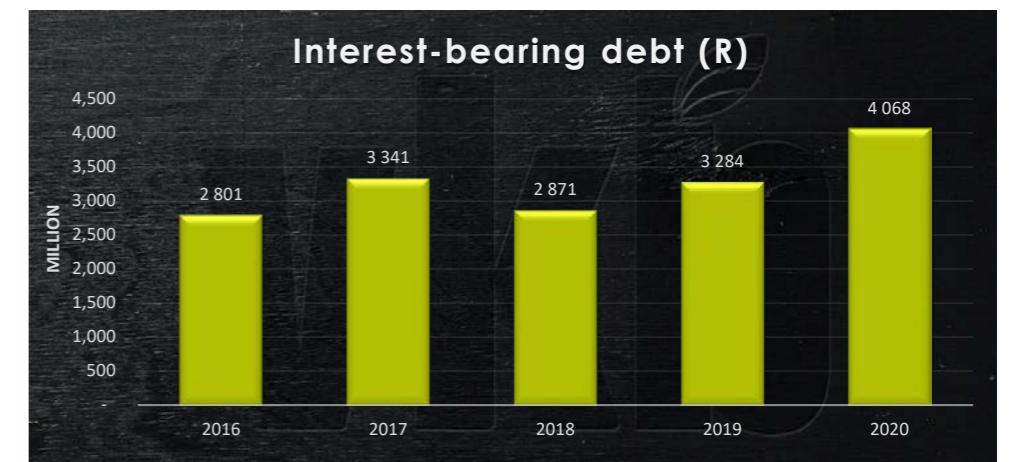
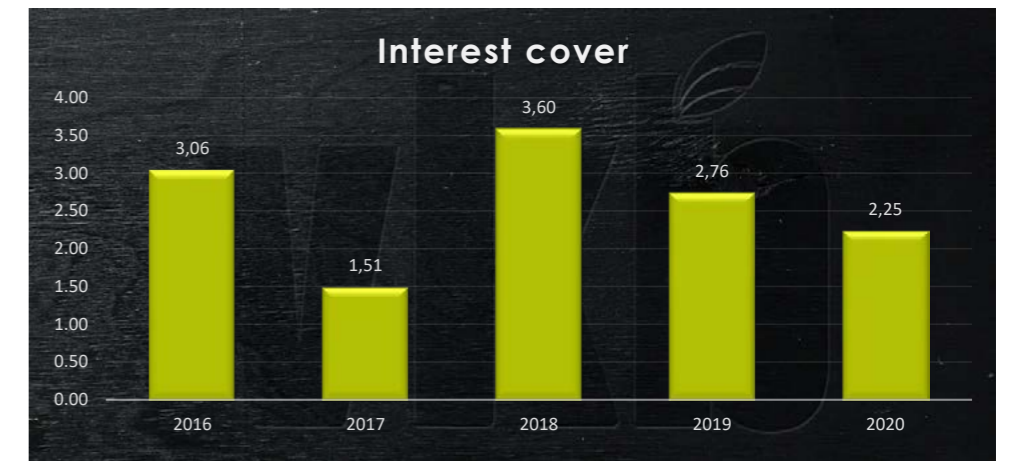
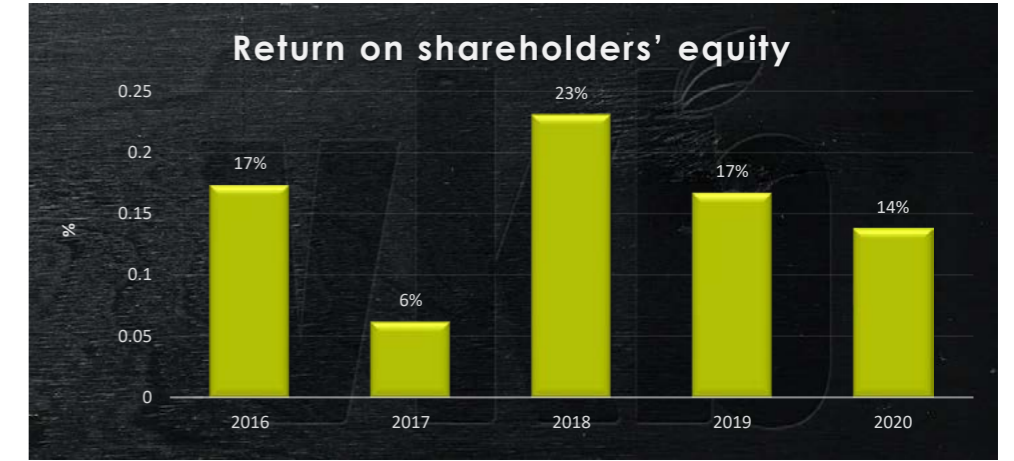
# FINANCIAL HIGHLIGHTS



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**FINANCIAL HIGHLIGHTS**



# BOARD OF DIRECTORS



## BOARD OF DIRECTORS – VKB BELEGGINGS (PTY) LTD

<p><b>Paul Carshagen</b></p> <p>Ward 1 • Chairperson • Human Resources Committee • Nominations Committee</p>	<p><b>Coenraad Fick</b></p> <p>Ward 1 • Vice-chairperson • Audit, Risk and Opportunity Management Committee • Nominations Committee</p>	<p><b>Dirk Viljoen</b></p> <p>Ward 2 • Social and Ethics Committee</p>	<p><b>Izak Dreyer</b></p> <p>Ward 3 • Audit, Risk and Opportunity Management Committee</p>	<p><b>Sakkie Bosman</b></p> <p>Ward 4 • Human Resources Committee</p>
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<p><b>Ben Greyling</b></p> <p>Ward 5 • Human Resources Committee</p>	<p><b>Dan Kriek</b></p> <p>Ward 6 • Human Resources Committee • Social and Ethics Committee • Nominations Committee</p>	<p><b>Stephan Fourie</b></p> <p>Ward 7 • Audit, Risk and Opportunity Management Committee</p>	<p><b>Phillip Cronjé</b></p> <p>Ward 8 • Social and Ethics Committee</p>	<p><b>Human du Preez</b></p> <p>Ward 15 • Social and Ethics Committee</p>
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<p><b>Leon Eksteen</b></p> <p>Ward 15 • Audit, Risk and Opportunity Management Committee</p>	<p><b>Japie van der Goot</b></p> <p>Ward 15 • Social and Ethics Committee</p>	<p><b>Gert Nel</b></p> <p>Independent Specialist Consultant • Audit, Risk and Opportunity Management Committee • Human Resources Committee</p>	<p><b>Koos Janse van Rensburg</b></p> <p>Managing Director: VKB Group</p>	<p><b>Markus Mittermaier</b></p> <p>Executive Director: Finance VKB Group</p>
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## BOARD OF DIRECTORS – VKB LANDBOU (PTY) LTD

<p><b>Koos Janse van Rensburg</b></p> <p>Managing Director: VKB Group</p>	<p><b>Markus Mittermaier</b></p> <p>Executive Director: Finance VKB Group</p>	<p><b>Francois Swanepoel</b></p> <p>Executive Director: Commercial Services</p>	<p><b>Francois Froneman</b></p> <p>Executive Director: Agricultural Services</p>	<p><b>Moses Maine</b></p> <p>Director: Transformation</p>
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## BOARD OF DIRECTORS – VKB AGRI PROCESSORS (PTY) LTD

<p><b>Koos Janse van Rensburg</b></p> <p>Managing Director: VKB Group</p>	<p><b>Markus Mittermaier</b></p> <p>Executive Director: Finance VKB Group</p>	<p><b>Sas Kasselman</b></p> <p>Managing Director: VKB Agri Processors (Pty) Ltd</p>	<p><b>Moses Maine</b></p> <p>Director: Transformation</p>	<p><b>Nhlanhla Madalane</b></p> <p>Independent non-executive director</p>
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**PG Strauss**

Independent co-opted non-executive director



# CHAIRPERSON'S REPORT



PAUL  
CARSHAGEN



## INTRODUCTION

The times currently experienced are certainly the most challenging encountered by VKB during its 100-year existence. In recent years we have become accustomed to fast-changing circumstances, which are influenced daily by factors beyond human control.

The past financial year the VKB Group ("the Group") achieved mixed results, which can largely be attributed to these uncontrollable factors. Despite the disappointing results, we are still grateful that the year could be concluded with a profit of R356 million before tax. It is less than the previous year's R406 million and much lower than expected. The results were made possible by the consistent performance of VKB Landbou (Pty) Ltd ("VKB Landbou"), building on its performance of the previous number of years. Unfortunately, VKB Agri Processors (Pty) Ltd ("VKB Agri Processors") experienced an extremely disappointing year and was unable to make any significant contribution to the Group's results.

The disappointing results of VKB Agri Processors are partly due to totally unexpected misfortunes that were experienced by some of the industries. Free State Oil (Pty) Ltd ("FSO") and Grain Field Chickens (Pty) Ltd ("GFC") in particular were adversely affected by this. In addition, VKB Flour Mills (Pty) Ltd ("VKB Flour Mills") was unable to expand its market share due to very intense market competition and operations had to be scaled down to adapt to the lower volumes.

The return on the investment in BKB Limited ("BKB") was negatively affected by the poor international economy, which resulted in a decline of demand for luxury products, including wool. Foot-and-mouth disease delayed the export of wool, affected wool auctions negatively and subsequently

**“Currently in this world where it seems as though everything has come to a standstill and where nothing is ‘normal’ anymore, the one thing that we have learned is the importance of basic things that really matter, which is emphasised by this quote of Albert Einstein: “A calm and modest life brings more happiness than constant pursuit of success combined with constant restlessness.”**

— PAUL CARSHAGEN —

resulted in the suspension of livestock auctions in a large part of the country for an extended period.

The contribution of VKB to the continued existence of rural communities was confirmed again in the past year. Several projects contributed to continued service delivery and maintenance of infrastructure in various towns.

At the end of the financial year, COVID-19 placed a final damper on the likelihood of reasonable results for the Group. Apprehensive markets adversely affected certain financial instruments and also resulted in auctions being suspended, while the pandemic and accompanying lockdown period caused a decrease in sales in various business segments.

## ECONOMIC CLIMATE

The entire world economy is in a state of slowdown. Recessions occur in nearly every developed country and the growth of developing economies is flattening due to the lack of growth in developed countries.

South Africa's economy has already been battling for some time to get back on track. The downgrading of the country's credit rating to junk status during the year placed a further damper on the economy. Although the downgrading was not unexpected and has, to a large extent, already been discounted in the markets at that stage, it has a long-term detrimental effect on the economy. It also created short-term uncertainties, resulting in the unpredictability of the rand's value and commodity prices.

The ongoing trade war between the United States of America and China has a detrimental effect on many innocent bystanders. Especially developing economies are hardest hit by the crossfire. The customary demand and supply of products does not apply anymore and the stability in markets is undermined by retaliation between the two major powers.

## FINANCIAL PERFORMANCE

VKB Landbou continued improving on its excellent, stable performance of the past few years. Although the results are slightly weaker than that of previous years, it was expected given the lower maize harvest of the 2019 season, as well as the deteriorating South African economy. The results are, therefore, satisfactory given the economic circumstances, and both the Free State and Limpopo areas produced fair results.

Unfortunately, the effect of the weaker economy can be observed in the debtors' repayments of their production facilities. The growth in the debtors' book as well as slower payments resulted in the agricultural operations using more cash than they have generated and, as a result, intensive focus must be placed on the financial ratios in future.

VKB Agri Processors, unfortunately, experienced a very disappointing year. The maize mill at Mokopane (Potgietersrus) is achieving fair results, despite increased costs due to the theft of part of the railway line at Mokopane, which is utilised for the transport of grain to the mill. The new maize mills at Louis Trichardt and Mashishing (Lydenburg) are not being utilised to their full manufacturing capacity and, consequently, do not yet fully contribute to VKB Milling's results. Milling activities at the Vhembe Mill were discontinued due to the equipment's age and standard, as well as the mill's unfavourable location for the acquisition of raw materials. The discontinuation of the milling activities at the mill has a once-off negative effect on the financial results, but in the long term will bring about better results for VKB Milling. Volumes grow consistently and the new mills should make a reasonable contribution to the results in the foreseeable future.

GFC's profit of the past year is disappointing compared to expectations. Imported chicken still places a damper on the local market. Unfortunately, the results were further adversely affected by the collapse of a portion of the shelves in the cold storage room, resulting in the company operating under abnormal conditions for the greatest part of the year, with subsequent increased operational costs. A

## TRIBUTE:

## MR ISAAC MOTAUNG

The year, unfortunately, also brought some sorrow with it. On 19 September 2019 VKB was deeply touched by the tragic passing of Mr Isaac Motaung, and it is with great respect that we pay tribute to him. Isaac made a profound impact on VKB and the community. Not only was he a shareholder and producer of VKB since 2006, but since 2015, after his retirement as director of Pick n Pay, he served on various Boards and Committees in the VKB Group, where he made a valuable contribution. He was a beloved, humble person with great wisdom. Isaac had a remarkable road of life – from a career that started off as a packer at Pick n Pay, to director of the company and a leading role player in numerous community initiatives. We mourn Isaac's passing but are proud, together with his next of kin and friends, to have been part of his life and legacy.



new cold storage room is currently being built. Due to the drought as well as the maintenance shutdown of the Katse Dam, which affected the Liebenbergsvlei River system, the company was compelled to incur additional expenses to ensure water supply to the abattoir in Reitz. During the period under review, the performance of the broiler growers was also weaker, producing lower slaughtering weights, which affected the abattoir negatively.

FSO's results for the year were adversely affected by a manufacturing defect on the boiler, which was discovered during the annual inspection. It resulted in production loss of more than a month and subsequent increased production costs. The year's performance was furthermore significantly impacted by hedging instruments that were affected by the uncertain market conditions due to COVID-19, resulting in unrealised losses that had to be provided for at year end according to accounting requirements. New press capacity established in the country increases the demand for soya beans and has increased soya bean prices to non-sustainable levels. The market will have to find an equilibrium for presses to continue sustainably with production in future.

Even though significant operational improvements were made by VKB Flour Mills, the financial performance was unsatisfactory, which negatively affects the VKB Agri Processors Group's results. The company failed to increase its bread sales in a competitive market. Substantial losses were suffered in the wheat milling and baking operations. To limit the losses, bakery operations were discontinued in Durban, Polokwane and Ga-Rankuwa. The retrenchment cost and closure of these bakeries had a further negative impact on the results, giving rise to the company almost equalling the previous year's poor results. However, lower overhead cost due to the discontinuation of the bakeries, as well as an increase in milling volumes to industrial flour customers, improves the prognosis for the future.

QPro Feeds (Pty) Ltd's ("QPro Feeds") combined results were also not favourable and can be attributed to the deterioration of the dairy industry in the Free State. However, good results were achieved by QPro Feeds in Vrede, which mainly produces feed for monogastric animals.

## PROGNOSIS FOR THE FUTURE

VKB is still a producer business, as it has been for the past 100 years. Everything that is being done, is done for the benefit of the agricultural producer, which is the primary reason for VKB's existence. It is and remains the focus of the business and determines the strategy of all its operations.

The lockdown measures for COVID-19 were announced just before the end of the financial year. No one could predict how detrimental the effect of this virus would be on the global economy, the South African economy as well as the results of the Group. It almost brought the global economy to a standstill due to governments' attempts to prevent it from spreading by implementing restrictions on movement. Predictions by the World Bank indicate that the gross national product could be reduced with as much as 5,3% during 2020. This is the greatest shrinking in the past eight decades. The recession in developing economies may last longer due to poor local health infrastructure, a loss of tourism and trade, reduced capital influx and difficult economic circumstances, with state debt growing rapidly. Although agricultural markets worldwide are well-supplied, trade restrictions and interruptions in the supply chain can still bring about food security issues in some areas.

In the longer term, the effect of the pandemic can result in lower fixed investment, social deterioration due to permanent loss of jobs and training, as well as a fragmentation of global trade and the supply chain. The recovery of the global economy after the recession will, however, be inadequate to restore the economic growth to the same levels as before the pandemic. This economic recovery can also take several years. A change in government policy and extensive stimulus packages will be essential to ensure the long-term recovery of the global economy.

It is expected that the South African economy will shrink with 7,2% in 2020. Predictions by the National Treasury indicate an annual economic growth of less than 3% for the next three years. Due to the shrinking in the economy it is expected that government's budget deficit will increase to 14,6% of the gross domestic product. This sharp increase in the deficit is the combined effect of reduced tax collections, interest cost and increased spending.

The impact of COVID-19 on the vast majority of local agricultural operations has so far not been substantial, since agriculture was classified as an essential service sector during the lockdown period. Sectors such as the red meat, chicken and potato industries were, however, negatively affected due to the prohibition imposed on the sale of takeaways, as well as the closure of restaurants. The demand for wool is adversely affected by poor foreign demand, which is an indication of the general state of the world economy. The weakening of the economy, with the accompanying increase in unemployment (levels of up to 50% are predicted), will put a damper on the disposable income of the consumer. Processed food products, red meat and chicken will probably be mostly affected, whilst the demand for wool may also slow down.

COVID-19 will certainly have an impact on VKB's results for the 2021 financial year. The volatility in financial markets makes it almost impossible to plan for the short and medium term. Apart from abnormal production costs, the world markets for oil were adversely affected by the aviation and transport industries that were almost completely forced to a standstill. The demand for oil decreased dramatically, thereby adversely affecting the market for vegetable oil as well. The closure of the restaurant and fast-food industry, and the length of time it will probably take for consumers to resume their former lifestyle, place a damper on the feedlot and broiler industries. The oversupply of frozen chicken puts pressure on the price of the product. Fuel sales were negatively affected by fewer vehicles on the road. The consumer also has a lower disposable income.

It is uncertain to what extent all these negative factors will affect the Group, but we remain optimistic about the coming year, given the large maize crop and reasonable soya bean crop harvested during the winter of 2020. This once more creates a stable platform for VKB Landbou to perform well.

VKB Agri Processors should produce reasonable results with certain adjustments being made. VKB Milling should perform satisfactorily due to the great demand for maize meal in neighbouring countries that are still burdened with droughts and locust plagues, as well as the increased local demand as consumers return to staple food due to reduced disposable income.

The government announced antidumping tariffs on the import of chicken meat, which should stabilise the local price of frozen chicken meat, creating a positive market for GFC for the coming year once the detrimental effect of COVID-19 has been recovered from.

QPro Feeds should also perform better than the previous year. The company will benefit in the new financial year from the focused marketing of the QPro Feeds brand through VKB's own commercial branch network. Adjustments were also made at the Bethlehem factory to reduce dependence on the dairy industry.

The expectation is that the rationalisation of the bakery operations at VKB Flour Mills will result in a major improvement in the results. As soon as the industrial customers supplying the fast-food industry are fully operational again, the mill's performance should also drastically improve compared to the previous year.

Unfortunately, the prognosis for the oil industry is still very uncertain, which may have an adverse effect on FSO and the Group's results.

As requested by the shareholders, VKB is currently considering a mechanism that will offer shareholders access to tradeable shares so that they can convert their preference shares or a part thereof into cash in a shorter period.

In rapidly changing circumstances, businesses that can improvise and adapt quickly are the businesses that will survive. The Board of Directors is aware of this and is constantly guiding the Group to remain a key role player in the provision and processing of agricultural products in South Africa for the next 100 years.

## ACKNOWLEDGMENTS

Although we are disappointed with the past year's results, we are blessed to have a stable, profitable business. We are extremely thankful to our Heavenly Father for the unmerited blessings He bestows on our business.

I would also like to express my gratitude to the producers for their loyal support, which forms the strong basis of our business. It is your support that ensures VKB Landbou's good results every year.

I would also like to express my gratitude to my fellow directors for their excellent team spirit, as well as their support, guidance and cooperation that make VKB a successful business.

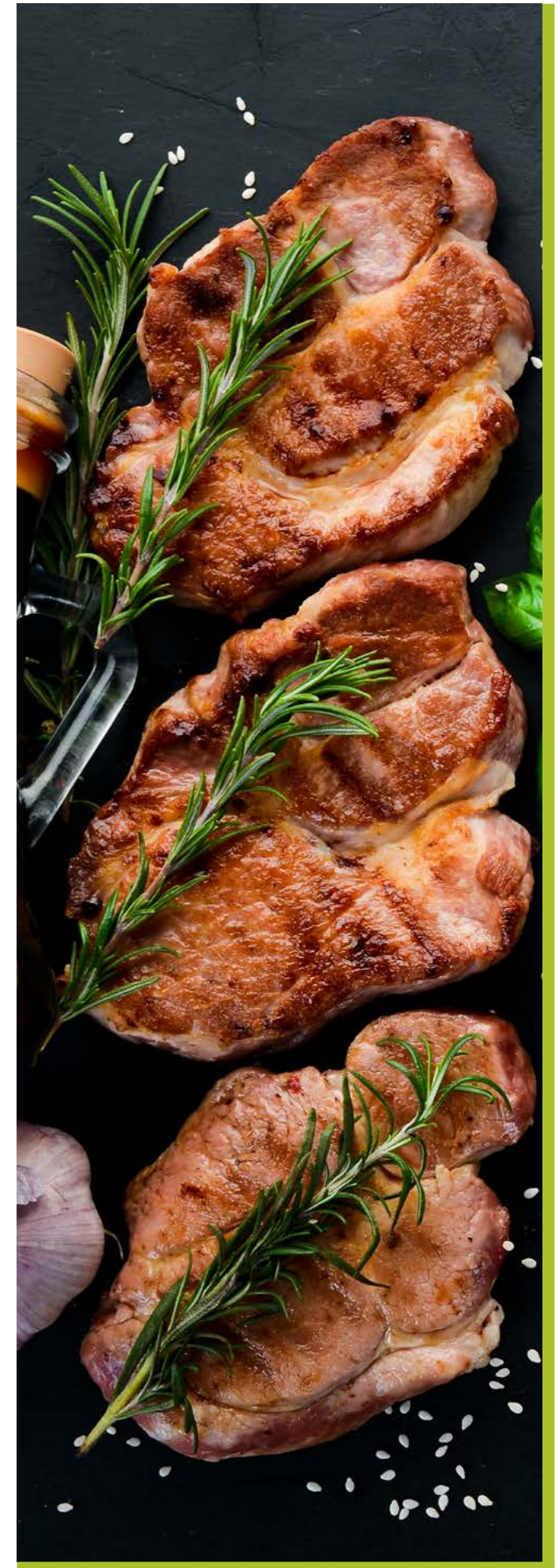
Sincere appreciation is extended to VKB's staff who do their utmost best in the interest of VKB and our producers. We acknowledge that this service is sometimes provided under difficult circumstances, for which they do not always get the credit they deserve.

To all other VKB stakeholders, our suppliers, and the community in which we do business, we want to express our gratitude for the manner in which you support VKB.



**PG CARSHAGEN**

Chairperson: VKB Group







**KOOS  
JANSE VAN RENSBURG**

# MANAGEMENT OVERVIEW

for the financial year ending 31 March 2020

“ **Begin with the end in mind.** ”  
**KOOS JANSE VAN RENSBURG**

Although the results of the VKB Group (“VKB”) for the period under review are not as good as the previous year’s results, it is still satisfactory given the difficult economic circumstances in which it was achieved.

Despite a smaller grain harvest, the VKB Landbou Group again achieved excellent results.

The VKB Agri Processors Group’s performance was disappointing, largely due to losses incurred at the wheat mill and the oil press. The year started off well for the processing plants with a large crop forecast that usually results in lower raw material prices and fair margins. However, this positive outlook dwindled with the deterioration of the exchange rate, resulting in increased local grain prices and putting margins under pressure. Volumes at some of the plants are also not yet at maximum capacity and there is room for growth. The lower margins and volumes, therefore, negatively influenced the profitability of the industries. VKB’s chicken abattoir and animal feed factories also did not perform as well as expected. The maize mill entity realised a fair performance.

### GROUP RESULTS

For the financial year ending 31 March 2020, VKB’s consolidated net profit before tax and incentive discount amounted to R356 million compared to the previous year’s R406 million.



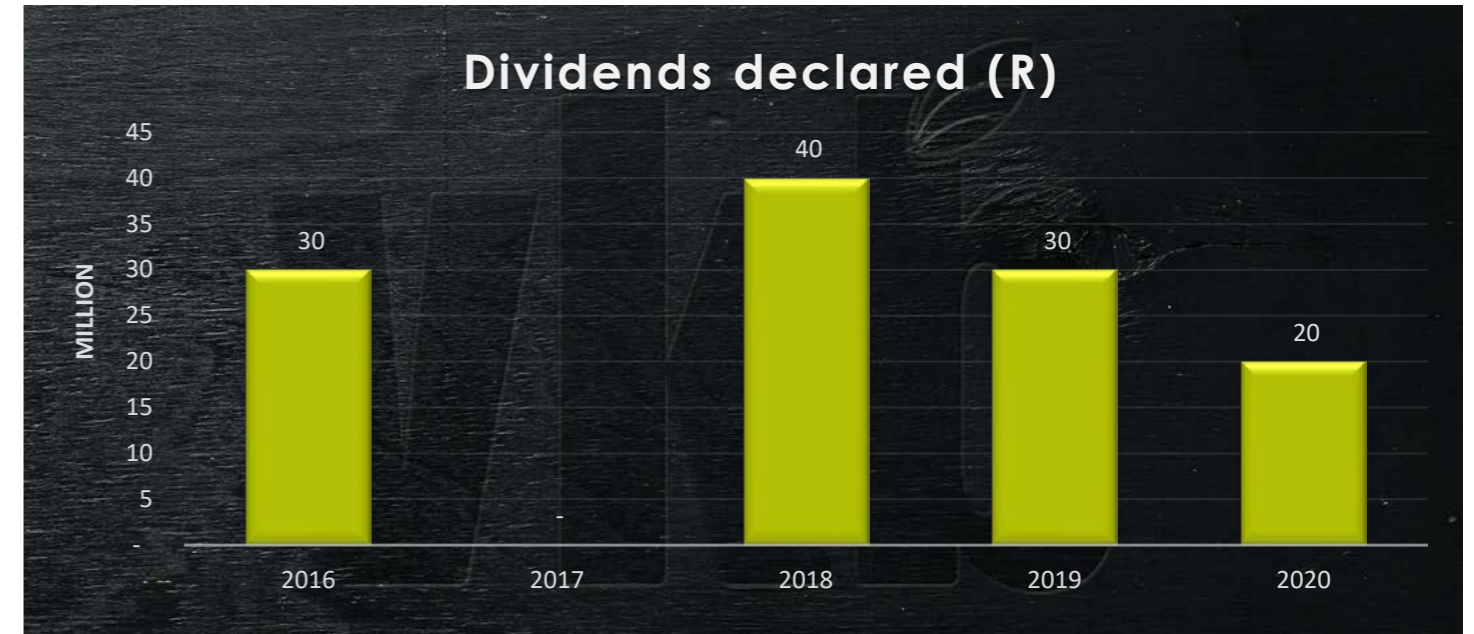
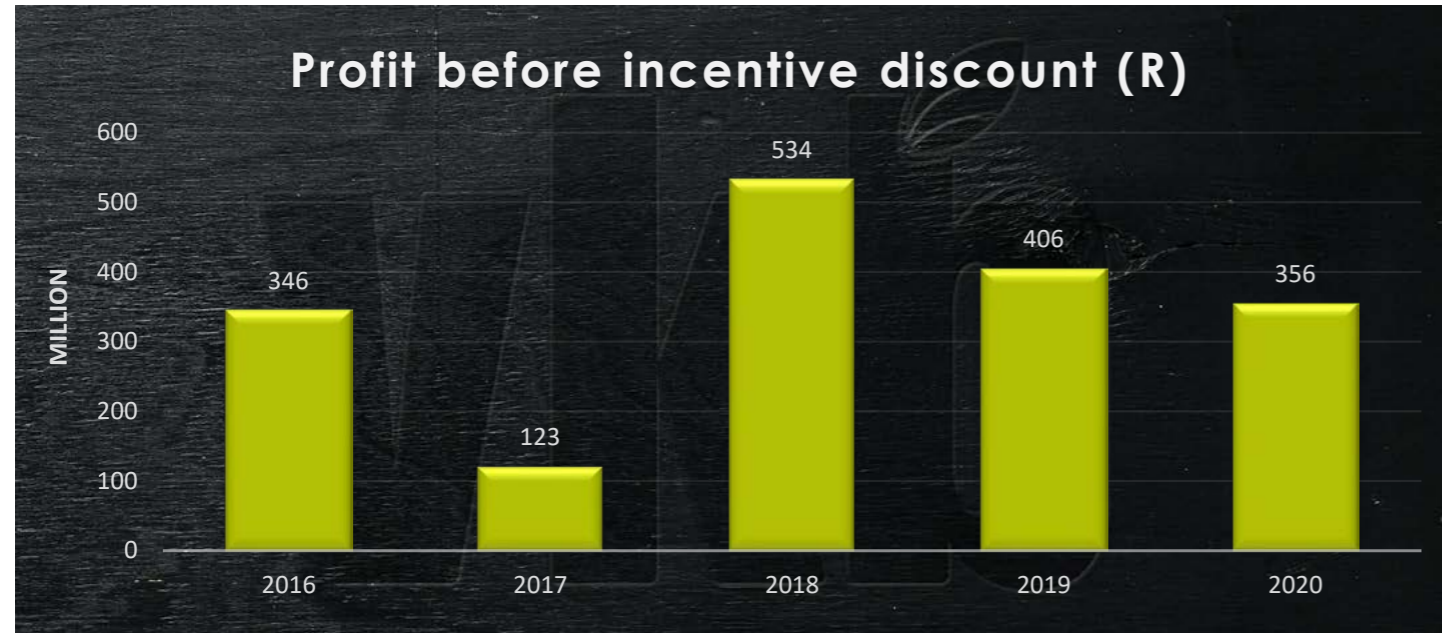
Name	Shareholding (%)	Profit/(Loss) 2019 (R)	Profit/(Loss) 2020 (R)
VKB Beleggings (Pty) Ltd	100	29,1 million	40,0 million
VKB Landbou (Pty) Ltd	100	317,4 million	274,1 million
Grain Field Chickens (Pty) Ltd	100	72,9 million	26,8 million
VKB Milling (Pty) Ltd	100	30,1 million	30,0 million
Vhembe Milling (Pty) Ltd	57,7	(0,5 million)	(5,1 million)
Free State Oil (Pty) Ltd	100	27,9 million	(19,9 million)
VKB Flour Mills (Pty) Ltd	100	(57,1 million)	(47,1 million)
QPro Feeds (Pty) Ltd	100	1,8 million	7,9 million
Crown Bag (Pty) Ltd	100	(2,8 million)	4,4 million
AE Solutions (Pty) Ltd	33,7	9,1 million	14,0 million
VKB Brokers (Pty) Ltd	100	11,2 million	10,7 million
Farmpack (Pty) Ltd	51	22,2 million	18,4 million
Multi Green (Pty) Ltd	53	9,1 million	21,7 million
VKB Graan (Pty) Ltd	100	0,7 million	0,6 million
VKB Auction Centre (Pty) Ltd	100	0,2 million	(1,3 million)
VKB Fuels (Pty) Ltd	100	(3,1 million)	4,2 million
Bethal Koelkamers (Pty) Ltd	100	(0,1 million)	(1,5 million)

Table 1: Profit/(loss) before tax of VKB’s subsidiaries and related companies for the past two years



**MARKUS  
MITTERMAIER**

“ **Work hard in silence, let success make the noise.** ”  
**MARKUS MITTERMAIER**



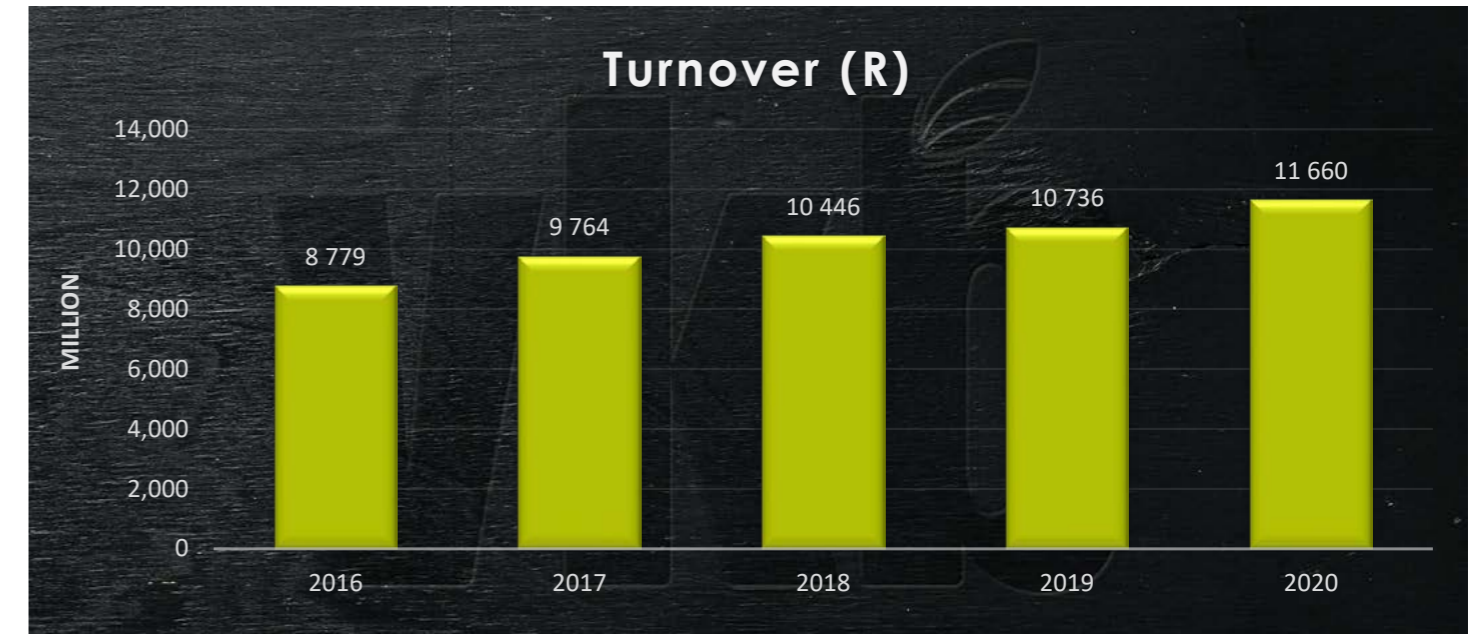
## INCENTIVE DISCOUNT

Given the excellent performance of VKB Landbou (Pty) Ltd ("VKB Landbou"), the Board of Directors approved the allocation of R210 million as incentive discount to clients. Incentive discounts are awarded from the profit generated by VKB Landbou, while dividends are declared from profits generated by the other entities within the VKB Group. The incentive discount is based on the client's participation in the agricultural business activities of the past year.



## OPERATIONAL RESULTS

VKB's turnover of R11,7 billion represents an increase of 9% compared to the previous year. Despite a smaller harvest, the VKB Landbou Group's turnover increased. The VKB Agri Processors Group also experienced an increase in turnover as a result of inflation adjustments and minor capacity expansions.

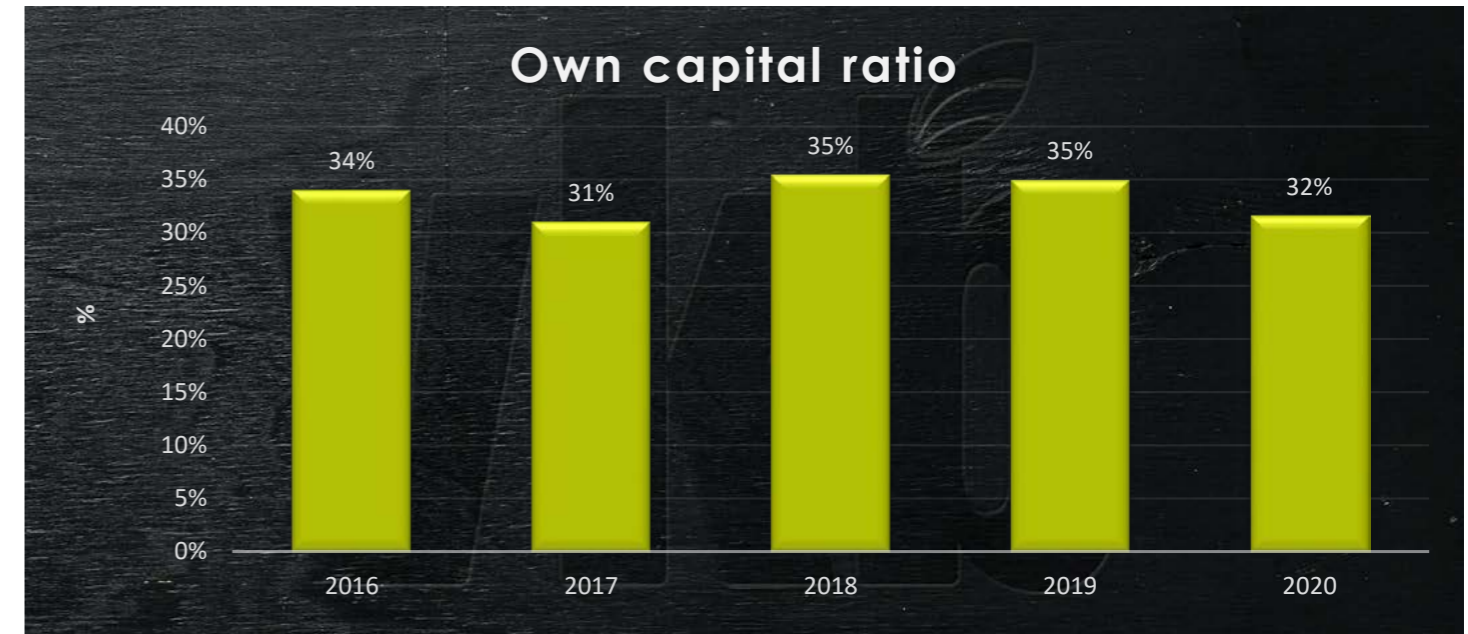
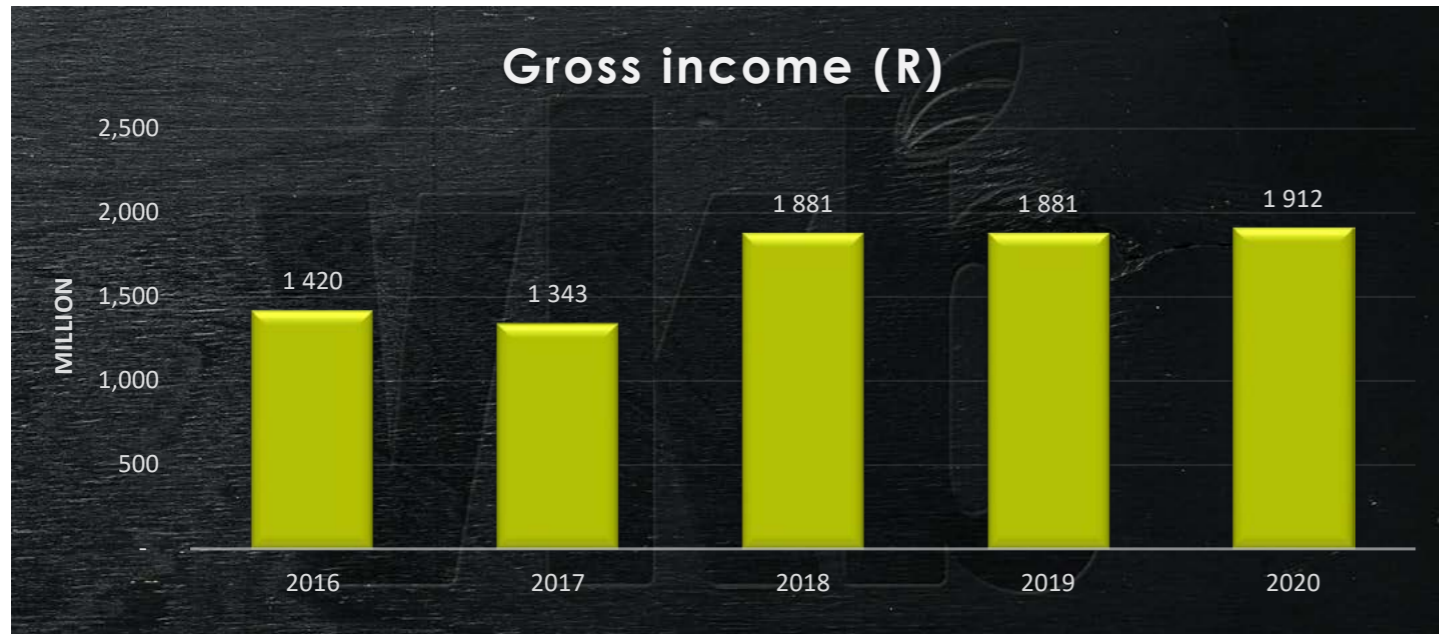


## DIVIDENDS DECLARED

The total dividends declared over the past seven years amount to R150 million. Dividends are declared from entities within the VKB Group and eventually become dividends received by the shareholders of VKB Beleggings (Pty) Ltd ("VKB Beleggings"). For the past year, dividends of R20 million were declared and paid to VKB Beleggings' shareholders, who benefit from the dividends they receive as well as the further processing of their products.

## GROSS INCOME

In general, margins were under pressure and especially the VKB Agri Processors Group realised lower margins than in the previous year. In the VKB Landbou Group, expansions contributed to a fair increase in gross income.



**EXPENSES**

Expenses are managed stringently, which resulted in a significant decrease in the Group's expenditure measured against the previous year, taking inflation into consideration. Operational expenses increased with 1% compared to the previous year.



An analysis of VKB's expenditures indicates that some items showed an increase or decrease for specific reasons. Interest paid is higher than the previous year, mainly due to the investment in BKB Limited ("BKB") and because, for the greater part of the year, VKB Landbou's debtors' book was higher than the previous year. Investments in fixed assets are funded mainly with term loans. Increased operating capital, on the other hand, is financed by creditors, overdraft facilities and own funds.

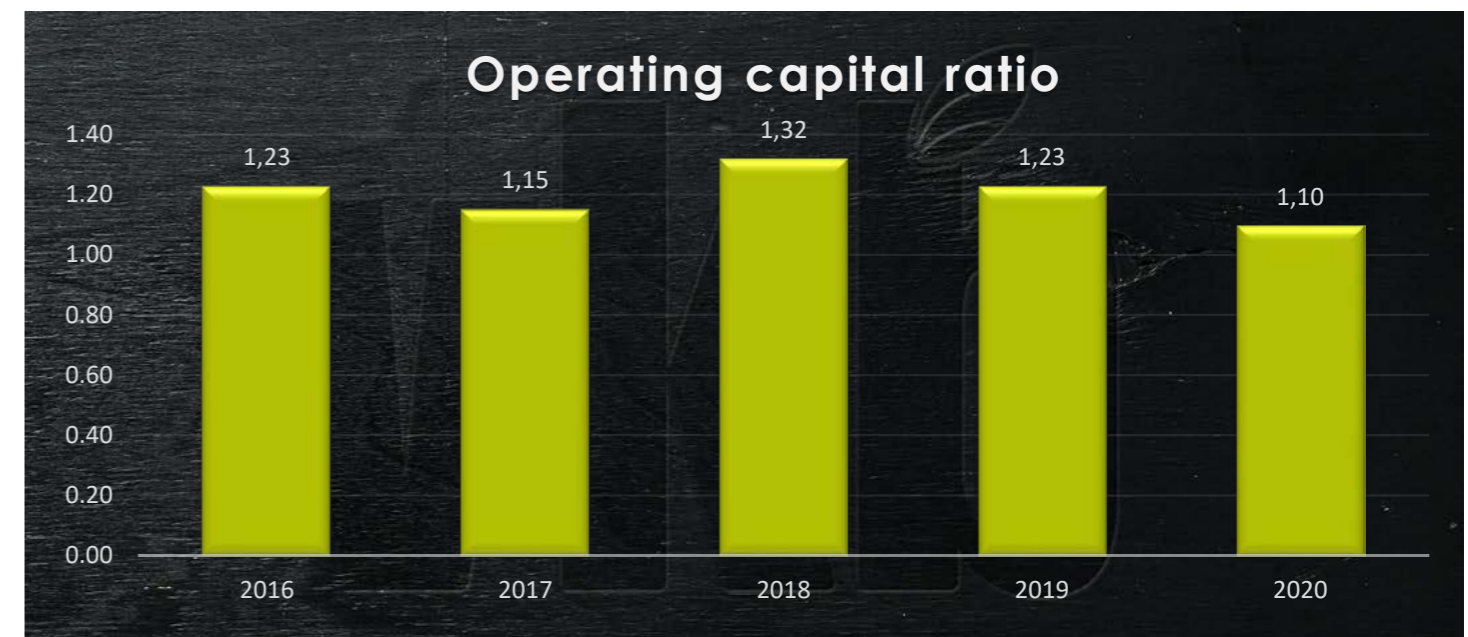
**CAPITAL RESOURCES**

The following chart indicates the own-capital-to-total-capital ratio that is used within VKB. As reported previously, VKB's deliberate growth strategy required major capital investments over the past few years, which temporarily distort the capital ratio. A significant improvement was noted in 2018 and 2019, but the investment in BKB resulted in the ratio declining again. The goal remains to restore the own capital ratio to a minimum level of 35%.

Investment in capital-intensive projects is done within conservative norms set for balance sheet ratios. The current capital ratios are at acceptable levels and all new expansions are invested in selectively. VKB's statement of financial position should in future remain one of its strengths.

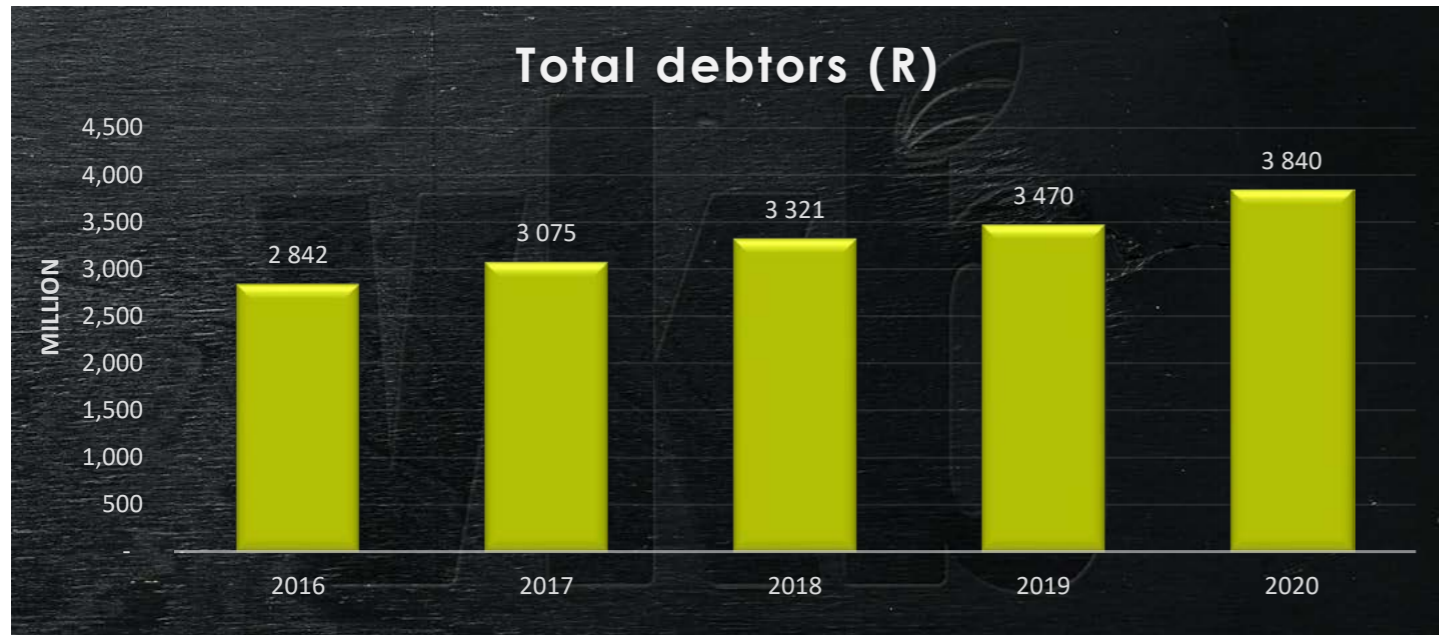
**OPERATING CAPITAL AND LIQUIDITY RATIOS**

Optimal levels of operating capital are maintained and VKB's liquidity is at healthy levels. Although the operating capital ratio has weakened slightly, it is still at acceptable levels.



The debtors' cycles of the industries are much shorter than those of the agricultural production cycles, which in turn reduce the total average number of debtors' days to the benefit of VKB's cash flow. The increase in VKB's debtors compared to the previous year was largely due to an increase in the agricultural debtors' book.

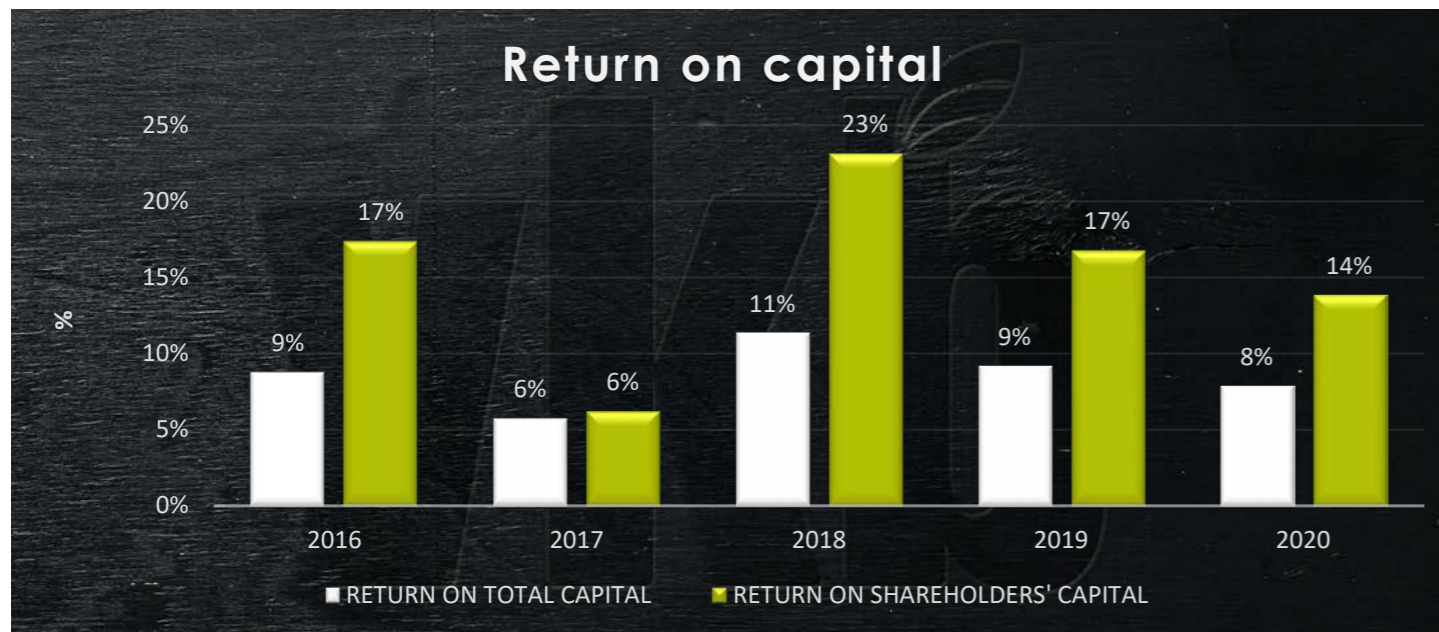
The quality of the debtors' portfolio remains very good, but further growth is strictly managed. However, a moderate adjustment in the provision for bad debt was necessary.



**RETURN ON TOTAL AND SHAREHOLDERS' CAPITAL**

The return on total and shareholders' capital decreased due to the smaller profit that was realised, mainly as a result of the weaker performance of the VKB Agri Processors Group. VKB is still confident about its diversification strategy, although it is currently challenging to achieve and maintain the profitability levels of all the entities within the Group. Besides a few smaller investments, VKB made a major investment in BKB in the past year. It remains a requirement that the return on all capital investments should be higher than the average return on total capital. Although the investment in BKB resulted in an immediate capital outflow of R428 million, the return on the investment is only expected over the medium to long term.

The return on total and shareholders' capital is still satisfactory, although the company's goal is slightly higher. The return still compares well to the industry as well as the economy as a whole and indicates that VKB utilises its borrowed funds productively.



**FIXED ASSETS**

The Group's capital expenditure amounted to R232 million. Of this, the expenditure on land and buildings amounted to R19 million; plant, equipment and furniture R68 million; vehicles R24 million, computer equipment R18 million and capital projects in progress R103 million. Depreciation for the year amounted to R134 million. Capital expenditure was incurred mainly at existing businesses.

**CASH FLOW**

The operating activities of VKB resulted in a cash outflow of R99 million. The net movement from investment activities resulted in an outflow of R721 million, of which the once-off investment in BKB amounted to R428 million. The finance activities of VKB resulted in an outflow of R65 million. In total, there was a net decrease in cash of R885 million, which increased the cash deficit at the beginning of the year. Management of cash and the improvement of the cash deficit is a strong focal point for the new year.

**SUSTAINABILITY**

VKB strives to manage all its business activities as efficiently as possible and to be profitable, even during unfavourable economic times. VKB's statement of financial position is structured conservatively. Because the debtors' book is partly financed with own capital, an increase in finance costs does not pose any risk for the company and an increase in interest rates may even contribute to better results. Investments in new business units are pursued only if the projected results meet certain predetermined norms. This is also done only if synergy exists with existing operations, which contributes to the competitive advantage of the new business. In view of the aforesaid, the enterprise is positioned excellently to perform sustainably in the long term.

**KOOS JANSE VAN RENSBURG**  
Managing Director: VKB Group

**MARKUS MITTERMAIER**  
Executive Director: Finance VKB Group





FRANCOIS FRONEMAN



FRANCOIS SWANEPOEL

# REPORT: VKB LANDBOU GROUP



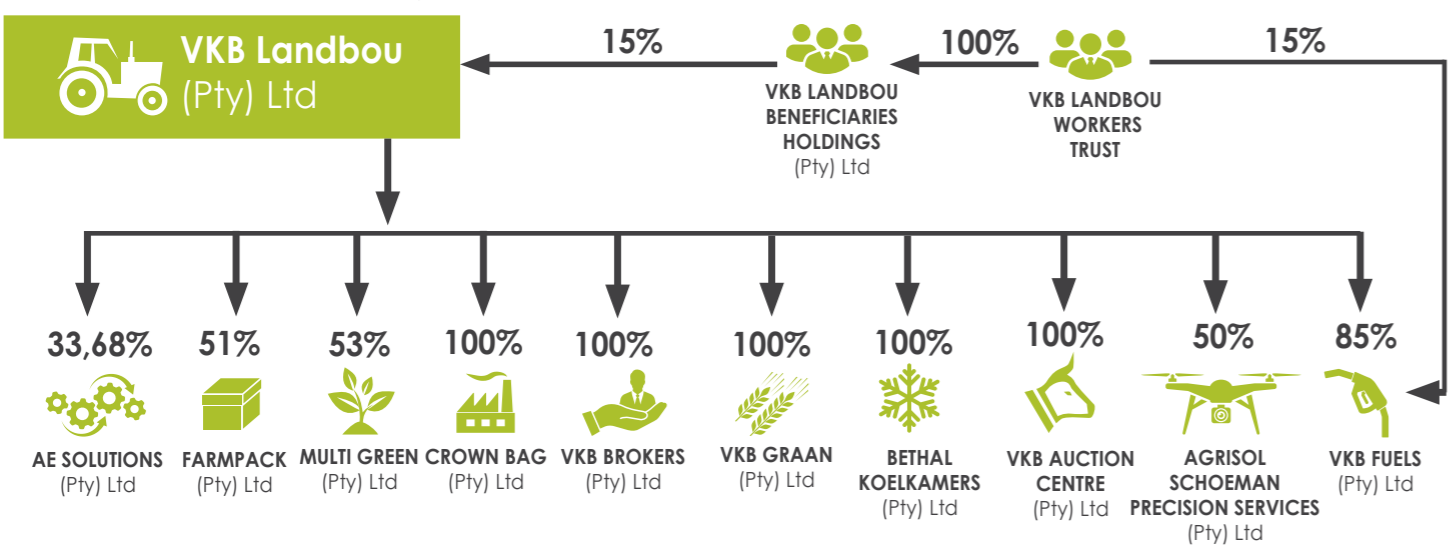
“ Choose a job you love, and you’ll never work a day in your life. ”  
FRANCOIS SWANEPOEL

“ Challenging times are inevitable and come around from time to time to shape our character. One of the most exciting attributes of these times is the opportunity to lead and inspire those around you. ”  
FRANCOIS FRONEMAN

## STRATEGY

VKB Landbou (Pty) Ltd's ("VKB Landbou") primary strategy remains to support producers to farm more efficiently and profitably by reducing input costs and optimising the value of products produced by them. The traditional agricultural divisions are operated within the company itself.

VKB Landbou's business activities are conducted throughout the Eastern Free State and Limpopo as well as in parts of Mpumalanga, Gauteng and KwaZulu-Natal. The current VKB Landbou Group structure is as follows:



The company consists of the following divisions and subsidiaries, all contributing significantly to the success of VKB Landbou.

## DIVISIONS

### Commercial Division

VKB Landbou's Commercial Division comprises of a network of 54 retail outlets in the Eastern Free State, KwaZulu-Natal, Limpopo and Mpumalanga. Products on offer include fuel, fertiliser, chemicals, seed, medication for livestock, animal feed, irrigation, steel, fencing, building material, packaging material, hardware, groceries and general consumer goods.

In the Free State, VKB Landbou's Commercial Division performed very well. The excellent results of various projects invested in over the past few years are now bearing fruit and had a substantial effect on the growth in turnover and net profit. During the year, a concerted effort was made to increase the market share of direct inputs, with specific reference to seed and fertiliser. This increase in market share had a significant influence on the growth in net profit.

In Limpopo, the Commercial Division experienced a good year. The year was characterised by increasing pressure on turnover as well as margins but, despite this, a double-digit growth percentage in profit was still achieved due to cost savings. A new distribution centre ("DC") was opened in Mokopane during the year. This DC significantly improved the region's stock supply, as well as the availability of complete ranges in the Limpopo commercial branches. Besides these benefits, the DC also realised an additional profit of R6 million that was allocated to the branches at year end, based on purchases through the DC.

The standardisation and offering of complete product ranges within VKB's Commercial Division is still a major priority for VKB. To ensure that the offering of products to clients is constantly improving and thereby ensuring customer satisfaction, systems are tested and upgraded on an ongoing basis.

To improve service delivery to clients, two VKB Foods stores were opened during the year in Petrus Steyn and Warden, adjacent to the existing commercial branches. These stores offer a complete range of groceries to clients, which is of great value to customers in the countryside.

The branch in Oranjeville was also upgraded with new floors and shelves. The return on this investment can already be observed in the growth of the branch's net profit. The building of the commercial branch in Morgenzon was purchased during the year, which will enable VKB to upgrade the branch in future to the same standard set for all VKB's commercial branches.

### Mechanisation

Mechanisation service centres consist of 12 mechanisation workshops and parts centres, serviced by 10 marketers in the Eastern Free State and Limpopo. Some of the product ranges offered include Case, Jupidex, Rovic Leers, Falcon, AgriCAD, Equalizer and Amazone. VKB Mechanisation experienced a better year, although some challenges are still experienced as a result of pressure on margins and the uncertain economic climate, which limit capital investment.

## Grain Division

The Grain Division comprises of 23 grain facilities, of which 15 are situated in the northeastern Free State and 8 in Limpopo. The grain facilities are equipped to receive and safely store various grains and oil seed products. Various grain services are offered at the grain facilities, including drying and cleaning facilities to receive wet or contaminated grain. The facilities are being upgraded on an ongoing basis to deliver a faster and more efficient service to producers and buyers.

The past agricultural year's grain received in the northeastern Free State and Limpopo was 11% less than the previous season and 7% less than the five-year average. The profitability of the Grain Division is a function of the normal course of business, the utilisation of opportunities offered by the market and a strong focus to utilise resources strategically and more efficiently. During the period under review, VKB Landbou continued its capacity expansion with additional delivery points and storage capacity, thereby increasing the existing offloading tempo considerably. These facilities not only improve the intake speed and storage capacity during harvest time, but also create the opportunity to utilise existing storage facilities more effectively and to unlock value for the benefit of stakeholders.

## Grain Marketing

VKB's Grain Marketing Division focuses on providing a comprehensive service to producers, grain traders, millers, animal feed plants, international traders and other processors, and is supported by effective systems, procedures and a Safex seat operated within VKB Graan (Pty) Ltd.

Although a below average harvest was realised during the summer production year, the grain markets created some opportunities during the past financial year, which had a positive effect on the results of the division.

## Financing

VKB Landbou is a registered credit provider and complies with the Code of Conduct and regulatory requirements of the National Credit Regulator. The primary function of the division is to provide credit to producers to enable them to acquire the necessary production inputs to produce agricultural products in a successful and sustainable manner.

VKB offers various competitive and suitable financing products to the producer, including production loans, term loans, monthly accounts and contract growth financing. With a debtors' book of more than R3 billion, the division makes a substantial contribution to enable South African commercial and developing farmers to produce profitably. The successful financing of developing producers increased since the previous year and a further increase is envisaged for the coming year.

Relationships and personal contact are of the utmost importance and a team of 16 proficient credit managers manages the interests of producers. They devote themselves to provide appropriate and affordable financing solutions to serve the diverse needs of the producers.

## SUBSIDIARIES

### VKB Brokers (Pty) Ltd ("VKB Brokers")

VKB's Insurance Division is operated within VKB Brokers and consists of 12 offices with 14 trained and experienced

advisors. Various products, including personal, asset and crop insurance, are offered. Insurers whose products are marketed, include Santam, Old Mutual Insurance, Hollard, One Commercial and Landmark.

The performance of crop insurance and the acquisition of the SAPCOR agency's Bethlehem and Harrismith offices were some of the highlights of the company for the past year. Crop insurance commission showed good growth and was supported by the higher grain prices.

### VKB Fuels (Pty) Ltd ("VKB Fuels")

The expansion of VKB's fuel offering is a focus area for the business. VKB's 24-hour filling stations are operated within VKB Fuels. Besides the upgrading of existing facilities, the company also manages fuel delivery to producers' farms.

The approval of the fuel licences for Vrede, Senekal and Bethlehem filling stations is currently awaited for the construction of the three new filling stations to commence. VKB Fuels is looking forward to the opening of the first Steers fast food restaurant at the Reitz filling station, as well as the further expansion of this brand to the other 24-hour filling stations.

### Crown Bag (Pty) Ltd ("Crown Bag")

The company's factory in Harrismith in the Free State produces packaging material, which is in line with the Group's strategy to focus on integration opportunities in the agricultural value chain and to remain true to its identity as a producer business. The factory has the capacity to produce seven million potato bags and one million charcoal bags per month. The economy of scale arising from this ensures cost-effective procurement of raw materials and not only strengthens the company's competitive position in the market, but also contributes to the reduction of input costs for producers.

### Farmpack (Pty) Ltd ("Farmpack")

Farmpack is located in the vicinity of Mbombela, Mpumalanga, and supplies packaging material to the agricultural and commercial sectors. The company produces and distributes a variety of boxes to clients across the country and in Mozambique.

VKB Landbou holds 51% of the shares in the company.

### Multi Green (Pty) Ltd ("Multi Green")

VKB Landbou expanded its product range in 2019 by acquiring the majority shareholding (53%) in Multi Green, a fertiliser mixing plant in Villiers. The company is well established and well known in the farming community and the fertiliser industry, and has an extensive client base in, amongst others, the Free State and Mpumalanga. Multi Green experienced an exceptionally good year with a substantial increase in granular fertiliser sales, which had a significant effect on the company's profitability.

### Bethal Koelkamers (Pty) Ltd ("Bethal Koelkamers")

Bethal Koelkamers is a cooling facility for potato seed, located in Bethal, Mpumalanga. It has been rendering a storage service to the potato industry for more than 40 years.

The facility was further upgraded during the year under review with the installation of new shelves and has a storage capacity of 140 400 bags of potato seed, or 3 120 pallets.

Bethal Koelkamers delivers a quality service to producers at competitive tariffs, thereby reducing input costs for producers.

### Agrisol Schoeman Precision Services (Pty) Ltd ("Agrisol")

Agrisol, with its head office in Potchefstroom, was founded in 2010. The company developed an advanced geographic information system which, inter alia, includes grid samples, soil data, satellite images and weather statistics for agricultural properties and areas in South Africa. It services producers in various regions, such as North West, the Free State, KwaZulu-Natal and Zambia. Agrisol functions independently of suppliers of fertiliser and foliar feeding, and strives to provide a solution for each producer's unique circumstances, based on scientific principles. The company provides a practical approach and collaborates in direct partnership with the producer to achieve purposeful solutions. Agrisol's ultimate goal is to assist the producer to farm sustainably by improving the condition of his soil, as well as lowering his input costs. The company has its own internal software development team, working in close collaboration with VKB's Information & Technology Department.

VKB obtained a 50% shareholding in the company during the period under review.

### AE Solutions (Pty) Ltd ("AES")

The company, with its head office in Centurion, specialises in the sale, service and support of analytical equipment in mainly the agricultural industry and has more than 30 years' extensive experience in this field. VKB Landbou holds 33,68% of the shares in AES.

Trained specialists provide full support in respect of the application and development of instruments and methods for all analyses and laboratories. A team of dedicated service technicians provides fast and cost-effective maintenance

and technical support in all the regions where the company operates, including South Africa, Sub-Sahara Africa, Mauritius, Madagascar and the Seychelles. This network of expertise enables them to make the best use of the latest technology and innovation in variable circumstances and conditions.

### VKB Auction Centre (Pty) Ltd ("VKB Auction Centre")

In accordance with VKB's strategic objectives and the company's focus on integration opportunities in the agricultural value chain, VKB Landbou procured an auction centre near Frankfort in October 2018. The business, which hosts auctions of livestock, is being operated in a company called VKB Auction Centre (Pty) Ltd. The outbreak of foot and mouth disease, which brought auctions across the country to a standstill, had a very negative effect on the company's profitability during the period under review.



FRANCOIS FRONEMAN

Executive Director: Agricultural Services



FRANCOIS SWANEPOEL

Executive Director: Commercial Services





SAS KASSELMAN

# REPORT:

## VKB AGRI PROCESSORS GROUP

“ If an egg is broken by an outside force, life ends. If broken by an inside force, life begins. Great things begin on the inside. ”

SAS KASSELMAN

### STRATEGIC GOAL

The Board of Directors of VKB Beleggings (Pty) Ltd resolved in 2010 to integrate further in the value chain. The focus of this strategy is to add value to the products produced in VKB's service area, with the aim to take the product through the most effective market channels to the consumer, and to grow market share through quality products and service, as well as established, trustworthy trademarks.

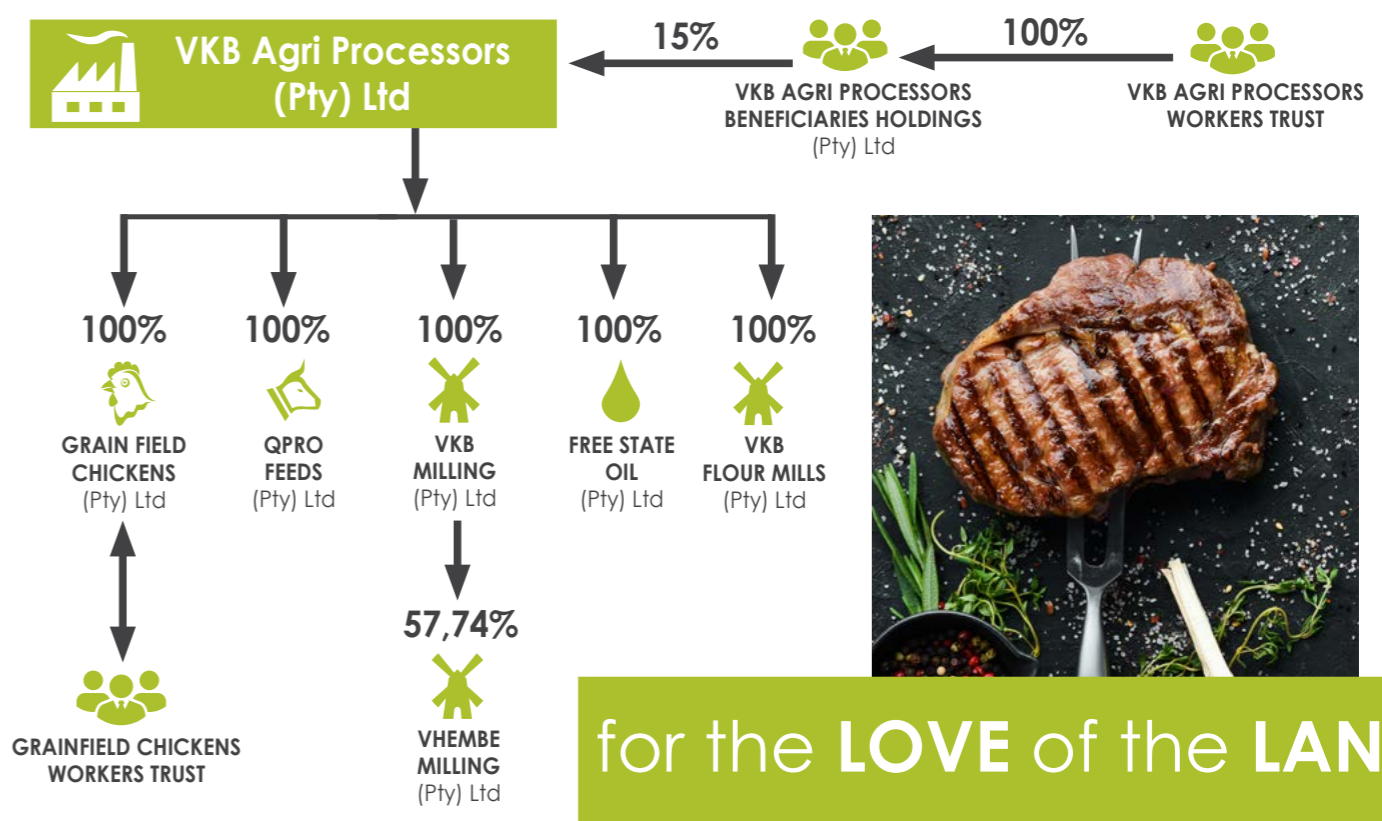
The past year was a difficult year for VKB Agri Processors (Pty) Ltd ("VKB Agri Processors"), with mixed performance by the respective industries. The higher raw material prices put most of the industries under pressure, with gross margins being lower than expected. The South African economy experienced a difficult year in which consumer spending was under pressure even before the outbreak of COVID-19.

A total of 705 000 tons of products were produced and processed by the VKB Agri Processors Group ("the Group") during the past year, including the following primary products:

- Yellow maize
- White maize
- Soya beans
- Wheat
- Chicken



The current Group structure is as follows:



for the LOVE of the LAND

The Group concluded the year with a pre-tax loss of R16 million. Grain Field Chickens (Pty) Ltd experienced a below average year and although it is still profitable, the performance is not according to expectation. Free State Oil (Pty) Ltd experienced a poor year due to production problems and raw material positions contributing to a disappointing performance. VKB Milling (Pty) Ltd performed reasonably in an extremely competitive market. Organisational changes that were implemented at VKB Flour Mills (Pty) Ltd do not yet reflect in the financial results and the company's performance remains disappointing. QPro Feeds (Pty) Ltd experienced an average year, with the Vrede factory performing well and the Bethlehem factory in a transition phase and still struggling to make progress.

### MARKET OVERVIEW

#### VKB Milling (Pty) Ltd ("VKB Milling")

VKB Milling experienced an average year with a performance that is reasonably aligned with the previous year's performance, and succeeded in growing volumes with 9% for a second consecutive year. However, margins came under pressure during the year due to a very competitive market and increasing raw material costs.

The market experienced a strong demand during the last quarter. VKB Milling capitalised on the demand and increased its capacity utilisation, despite challenges to obtain enough white maize for the mills due to supply problems experienced country-wide.

During the year, an in-principle agreement was reached with the major partner in Vhembe Milling (Pty) Ltd to acquire its shareholding and discontinue production at the mill. This resulted in better utilisation of milling capacity within the

Group. Focal areas for the coming year remain the continuous development of brands and communication to consumers to increase the footprint of the Magnifisan trademark in South Africa's retail market.

#### Grain Field Chickens (Pty) Ltd ("GFC")

GFC experienced a difficult year, with some abnormal factors negatively influencing the company's performance. A portion of the racking in the cold storage room collapsed, which resulted in increased cost and double handling since outside storage facilities had to be used. Unexpected expenses also had to be incurred during the year to ensure water supply to the abattoir and Reitz, as well as some of the surrounding towns, during the maintenance shutdown of the Katse Dam which affected the Liebenbergsvlei River system.

During the past year GFC successfully expanded its business relationship with KFC and developed a segment of the market in which it was not previously involved. Focus to further expand this relationship to the benefit of both parties remains a priority.

The growers' model was amended to better suit the business focus. The production performance of the broilers was, after an initial satisfactory period, not as envisaged for the latter part of the year. A great deal of attention is given to identify and address the deviation in performance.

The conclusion of the Master Poultry Plan between the industry, the government and other stakeholders in the chicken industry on 6 November 2019 was a highlight and should in future contribute to a more sustainable industry. The announcement in March 2020 of an increased import tariff will probably also contribute to control the dumping of chicken by major international role players.

### QPro Feeds (Pty) Ltd ("QPro Feeds")

The merger of the two animal feed factories (Nu-Pro Feeds [Pty] Ltd and TripleV Animal Feeds [Pty] Ltd) into one company, namely QPro Feeds (Pty) Ltd, took place during the year. The overall performance of the feed factories was fair. The Vrede plant performed as expected, however, there is still room for improvement at the Bethlehem plant. During the year, a depot was established in Limpopo to better serve and develop the Limpopo market. Changes were also made to the staff structure of QPro Feeds to create a more market-directed approach and improve client contact. Optimal supply to VKB's commercial branches and the establishment of the new trademark, "QPro Feeds", are currently receiving a lot of attention.

### Free State Oil (Pty) Ltd ("FSO")

FSO experienced a disappointing year, starting off with boiler problems, which necessitated the hiring of an additional boiler. However, production with the hired boiler was not at the same standard and capacity. As a result, 25% less own product was produced, and product had to be bought in at a higher cost to honour agreements.

The crush margins were under pressure during the year due to the South African soya beans being more expensive for a large part of the year compared to international beans. Since the selling price of soya oilcake is a derivative of international oilcake prices, it has also put the crush margin under pressure.

At the end of the year, raw material positions taken up for the new year were realised in the income statement because international prices had declined sharply, and the positions were therefore ineffective. This had a large influence on the year-end results of FSO.

### VKB Flour Mills (Pty) Ltd ("VKB Flour Mills")

VKB Flour Mills experienced another disappointing year as expectations were not met, and a substantial loss was realised. During the past year focus was placed on changing the structure of the business and to simplify the model. If a year-on-year comparison is made, there is indeed an improvement on the previous year's operational performance but, unfortunately, it does not yet reflect in the financial results. Ga-Rankuwa Bakery was converted to a depot during the year and all production was discontinued. Production currently takes place at Frankfort and Taung

Bakeries, which significantly improves capacity utilisation and brings it to approximately 75%. This resulted in cost cuttings but, unfortunately, substantial retrenchment costs were incurred during the year.

Good progress has been made with the development of the industrial flour market and several new clients were gained during the year. Substantial growth in volume of existing clients was also achieved. The flour market remains extremely competitive but VKB Flour Mills is building a good reputation for consistent quality, which is essential in the market.

### WAY FORWARD

The primary focus for the new year is to stabilise VKB Flour Mills and to improve the performance to more acceptable levels. FSO faces the additional challenge of new role players entering this market, resulting in increased production capacity and fierce competition in the market. There will be strong focus on improving FSO's performance.

A continuous improvement programme was launched at all the industries to capitalise on economies of scale, streamline processes and contribute to structured management. The challenges presented by COVID-19 and the lockdown, as well as the impact it has on the economy, will have to be managed on an ongoing basis throughout the year and adjustments will have to be made to manage the uncertain times.

The sales structure within VKB Agri Processors was centralised in the current financial year, with more focus on the target market, which should create new market opportunities for the different products. The new structure will improve focus on retail, wholesale and industrial markets.

VKB Agri Processors will focus to restore and improve profitability and sustainability at all the industries in the new year through margin improvement, operational efficiency, sustainable client relationships and the strengthening of trademarks.



**SAS KASSELMAN**

Managing Director: VKB Agri Processors (Pty) Ltd



we **love** it when things come together...  
...and we make it all happen

from farm to table | integrated agricultural value chain solutions



**vkb**

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for the **LOVE** of the **LAND** | [www.vkb.co.za](http://www.vkb.co.za)



**RINA  
ERASMUS**



## CORPORATE GOVERNANCE REPORT

### COMMITMENT TO CORPORATE GOVERNANCE

The VKB Group ("VKB") is committed to responsible corporate citizenship and effective corporate governance. To achieve this, VKB endorses the recommendations of the King Codes of Corporate Governance, which are based on the principles of transparency, integrity, sustainability, fairness and accountability. These principles are, therefore, fundamental to VKB's Strategic Plan. Organisational structures are constantly reviewed to ensure that they support the above principles, establish best practices and align the business with international standards.

The Board of Directors ("the Board") is the focal point of VKB's corporate governance and is responsible to all stakeholders for the efficient and ethical operation and performance of the business. A corporate culture of compliance with legislation, policies and procedures is fostered within the Group. The Board has a Whistle-blowing Policy to identify malpractices, combat corruption and theft, and to protect persons who report irregularities.

VKB supports the management outcomes and practices as embedded in the King Code IV, namely Ethical Culture, Performance and Value Creation, Adequate and Effective Governance, Trust, Good Reputation, and Legitimacy. The King Code IV emphasises holistic and integrated thinking, management and reporting, whilst constantly focusing on stakeholders, transparency and disclosure. The "triple context" (economy, society and environment) is integrated within the "six capitals" (financial, manufactured, intellectual, human, social and relational, and natural capital).

**“ All mankind shares the most fundamental instinct: survival. It is therefore crucial that we nurture the common cause between us in unity. It is by giving that we receive. ”**

**RINA ERASMUS**

### THE BOARD OF DIRECTORS

During the year under review, the Board of Directors of VKB Beleggings (Pty) Ltd ("VKB Beleggings") consisted of 12 non-executive directors, two executive directors and one independent specialist consultant. The 12 non-executive directors are nominated and elected by shareholders of the relevant wards (Free State – nine and Limpopo – three) ("ward directors"). In accordance with the company's Memorandum of Incorporation, a third of the ward directors rotate every year. The Nominations Committee

("the Committee") assists with the identification of suitable candidates for election as ward directors to ensure that the Board consists of directors with the necessary expertise.

Due to the expiry of the terms of office of non-executive directors, vacancies arose in Wards 2, 4, 6 and 15 during the year under review. Nominations were requested and Messrs DP Viljoen, ID Bosman and J van der Goot were nominated unopposed by their respective wards (Wards 2, 4 and 15) and declared elected by the Board for a term of office of three years. During a ward election held on 13 August 2019, Mr DJ Kriek was re-elected as director for Ward 6. Mr GJ Nel was co-opted by the Board for a term of one year as independent specialist consultant. Messrs JF Janse van Rensburg, Managing Director: VKB Group, and MJ Mittermaier, Executive Director: Finance VKB Group, serve as executive directors on the Board.

The Directors' Report contains comprehensive information regarding the Board.

The Chairman and Vice-chairman of the Board are elected at the first Board meeting held after the Annual General Meeting of Shareholders, or as otherwise required. For the year under review, Mr PG Carshagen was elected as Chairman and Mr CF Fick as Vice-chairman. The Chairman and Vice-chairman are independent, non-executive directors.

The balance within the Board is sound and the role of the Chairman is separate from that of the Managing Director. The Chairman is responsible for leadership within the Board and facilitates constructive liaison between the Board, Management and stakeholders. The Managing Director of the VKB Group is primarily responsible for leading Management in the implementation of the strategy and the daily business operations.

### DUTIES AND RESPONSIBILITIES

The Board, as Governing Body, exercises effective control over VKB by means of appropriate governance structures. The duties and responsibilities of the Board are contained in legislation and VKB's Board Charter. The Board determines the strategy of the business and is responsible for leading the Group to execute this strategy and its associated goals and objectives. In accordance with the King Code IV, applicable legislation and the provisions of the Board Charter, committees assist the Board in the performance of its duties. The delegated authority of the committees and Management does not absolve the Board from its responsibilities. The performance of the business against set goals and objectives is monitored and compared to previous years' performance on an ongoing basis and, where applicable, industry norms. The Board also monitors the solvency and liquidity of the Group and the individual entities on an ongoing basis.

It is the responsibility of Executive Management to implement the resolutions of the Board. A Delegation of Authority Framework, approved by the Board, delegates certain duties and responsibilities to different levels of Management. The Board is also responsible for ensuring that VKB, its subsidiaries and related entities act as, and are seen as, responsible corporate citizens protecting and extending the sustainability of the company, community and natural environment, and conduct its operations based on an ethical corporate culture.

At the end of each year, the Board prepares a comprehensive year planner for the following year to ensure that adequate attention is given to all aspects of the business. The Board

meets at least four times a year and additional meetings are scheduled, as necessary, to fulfil its duties and responsibilities.

The directors have unlimited access to all information, records and resources of the business to fulfil their responsibilities.

### INDEPENDENCE OF THE BOARD

Directors are expected to act objectively and independently in the performance of their duties. A director of VKB who has an interest in a proposed contract that VKB is considering to enter into, or acquires an interest in a contract after it has been entered into by VKB, must disclose full particulars of the nature and extent of his/her interest and may not vote in respect of such contract or proposed contract with VKB, or any matter arising therefrom, and if he/she so votes, his/her vote will not be counted. Directorships and interests declared by directors are recorded in a register maintained for this purpose.

### EVALUATION AND TRAINING OF DIRECTORS

The Board evaluates its own performance as well as the performance of committees, management structures and individual directors on an ongoing basis, and if shortcomings are identified, it is appropriately addressed. Newly appointed directors undergo a comprehensive induction process to acquaint them with the business's structure, strategy, policies and procedures, and directors' duties and responsibilities, as well as individual and joint liability.

The Board is kept informed on an ongoing basis of new legislation and developments affecting the business. During the year under review, the Board and Management received training on applicable legislation and corporate governance.

The Nominations Committee is responsible for succession planning of directors and makes recommendations to the Board on the representation of non-executive directors on the Boards of subsidiaries and committees. The Committee further ensures that the performance of the Board, its committees and directors is continuously evaluated. Based on the outcome of these evaluations, the Committee makes recommendations to the Board.

### BOARD COMMITTEES

The following committees of the Board facilitate effective decision making and assisted the Board and Management during the year under review in the performance of their duties:

- Audit, Risk and Opportunity Management Committee ("Audit Committee")
- Human Resources Committee
- Nominations Committee
- Social and Ethics Committee

The composition of the committees complies with the requirements of the Companies Act, Act No. 71 of 2008, and the provisions of the King Code IV. The committees support the Board in the effective execution of its mandate and responsibilities. Each committee is chaired by an independent, non-executive director. The chairpersons and members of the various committees are elected by the Board, on the recommendation of the Nominations Committee,

taking into consideration their expertise in a specific field. The majority of committee members are independent, non-executive directors, as prescribed by the King Code IV. The committee members jointly have the ability and expertise to carry out their duties and responsibilities. Executive and Senior Management members attend committee meetings to report on their respective areas of responsibility.

The committees function in accordance with approved Terms of Reference, which are reviewed from time to time by the Board and which include their mandate, duties and responsibilities. Unless authorised thereto by legislation or otherwise, the committees do not have decision-making powers and only make recommendations to the Board. The various chairpersons present the deliberations and recommendations of the committees to the Board for approval and implementation.

## SHAREHOLDING

VKB Beleggings is owned by 4 530 shareholders who are all bona fide farmers in the Free State, Limpopo, KwaZulu-Natal and Mpumalanga. The company follows a unique dividend and incentive discount model.

The VKB Group's operations are conducted in two separate divisions. The traditional agricultural business (incentive discounts and dividends) is grouped together in a holding company called VKB Landbou (Pty) Ltd ("VKB Landbou"), and the industries (dividends) in a holding company called VKB Agri Processors (Pty) Ltd ("VKB Agri Processors").

To participate in the incentive discount scheme as well as the dividends, a client must be a shareholder of VKB Beleggings. To become a shareholder, an applicant must be a bona fide farmer and has to purchase 5 000 ordinary shares in VKB Beleggings. These ordinary shares cannot be sold or transferred and remain in the shareholder's possession until he/she passes away or resigns as a VKB Beleggings shareholder, after which the company repurchases the ordinary shares. The ordinary shares also earn no interest or dividends.

### Agriculture (Incentive discount) ("Cooperative" system)

VKB declares a substantial part (average 85%) of the profits generated in VKB Landbou as incentive discounts to the shareholders. This means that for every R100 profit generated, VKB awards an average of R85 (85%) to clients in the form of incentive discounts. The annual incentive discount differs from shareholder to shareholder, depending on the divisions within VKB Landbou with which the shareholder did business and the extent of this business. The incentive discount is taxable in the hands of the shareholder in the year of tax declaration. Of the annual discount, approximately 10% is paid out in cash. The remaining 90% is utilised to issue Class 2 preference shares in VKB Beleggings to the shareholder. These Class 2 preference shares are redeemable after a minimum period of five years and a maximum period of fifteen years. The shares of a shareholder who, at the time of the awarding of a specific year's shares, is 55 years or older, will be redeemed at the age of 70 years, subject to a minimum period of five years. The shareholder has the option to convert his/her Class 2 preference shares at the redemption date into Class 4 preference shares, rather than to redeem it. Class 4 preference shares offer the shareholder the benefit of sharing in a guaranteed return.

### Industries and other agricultural entities (Dividends) ("Corporate" system)

VKB Beleggings declares dividends annually from the profits generated by the entities on the industries' side (VKB Agri Processors Group), as well as the other agricultural entities, except VKB Landbou itself, from which an incentive discount is declared. These dividends are declared based on the number of Class 2 preference shares that a shareholder owns on the date of the dividend declaration. The more Class 2 preference shares the shareholder owns, the greater the portion that he receives from the dividends that are declared from the profits of the industries and the other agricultural entities.

### Benefits of the business model

The combined model of incentive discount ("Cooperative" system) and dividends ("Corporate" system) ensures that the VKB shareholder can build a hefty nest egg by merely doing business with VKB. VKB's unique incentive discount and dividend model makes the business a preferred supplier in its business environment. VKB is convinced that this model remains the most effective value-creating mechanism which, on a balanced basis, serves the needs of both the company and its clients.



## RISK MANAGEMENT AND SUSTAINABILITY

The company manages its risks proactively by way of a comprehensive Risk Management Policy. A scheduled programme of risk assessment is followed annually, during which risks are quantified, prioritised and included in a Risk Management Plan.

The Board determines the risk appetite of the company. Although the responsibility for the development, implementation and assessment of the Risk Management Plan has been delegated to Management, the Board approves the Risk Management Plan and ensures that the Plan is formally documented. The Audit Committee evaluates the effectiveness of the plan on an ongoing basis, monitors the implementation thereof and compliance thereto, and provides feedback to the Board. Management is also continuously focusing on risk management, business continuity management and crisis management, and these are standing items on the agenda of Management meetings. The Board, with the assistance of the Audit Committee, ensures on an ongoing basis that sustainable and effective control measures are established and implemented to ensure effective control within the Group. The Internal Audit Department plays a critical role in the company's internal control and risk management.

Risk and opportunity are managed in such a way that it supports VKB in defining its primary goals and objectives, and in setting and achieving strategic goals. To provide assurance to the Board, risk management practices affecting VKB's operations are continuously identified, assessed and addressed through action plans and regular monitoring and reporting to Management, the Audit Committee and the Board.

The sustainability of VKB remains the most important aspect of the Board's responsibilities. The Board adopted a long-term strategy to give effect thereto. Information affecting sustainability is continuously provided to the Board and is critically evaluated to ensure that the information and forecasting provide a proper understanding of the key drivers that will enable the company to achieve its goals and objectives, that the information is reliable and that there are no discrepancies in the disclosed financial information.

## COMPLIANCE WITH LEGISLATION

The Board is responsible to ensure compliance with all applicable legislation and regulatory requirements, and adopted a formal Compliance Policy for this purpose. The Legal Department continuously addresses the critical regulatory risk areas as part of the established risk management process. Continuous awareness, training and liaison within the Group regarding compliance with legislation take place and assurance is provided to the Board through the committee structures.

## INFORMATION AND TECHNOLOGY ("I&T") GOVERNANCE

As an integral part of the risk management framework, the Board ensures oversight and active management of I&T governance processes by a team of knowledgeable I&T staff and specialists. To comply with the requirements of legislation and the King Code IV, an Information & Technology Executive Management Committee executes the following, as included in its mandate:

- Execute the Board's strategy and approved policies and procedures relating to information and technology governance.
- Report to the Board, enabling it to perform its oversight function on the adequacy and effectiveness of information and technology governance within the organisation, as well as information security management.

I&T management is also a standing item on the agenda of the Audit Committee and the review of I&T-related controls is included in the Internal Audit Plan. Extensive business and I&T disaster recovery processes have been established within the business.

## SOLVENCY AND LIQUIDITY

The Board, with the assistance of the Audit Committee, monitors the solvency and liquidity of the individual entities and VKB on an ongoing basis, taking into account available information and all reasonably foreseeable financial and other factors that may affect the company and the Group.

## RELATIONSHIP WITH STAKEHOLDERS

The Board adopted a Stakeholder Engagement Policy to ensure an inclusive approach that promotes transparent, comprehensive and targeted interaction with its stakeholders.

Various channels regulate the communication, relationships and liaison of VKB with its shareholders, employees, clients, suppliers, the community and the government. VKB's website, [www.vkb.co.za](http://www.vkb.co.za), and bimonthly magazine, *Die Pad Saam*, as well as the Integrated Report, social media, regular information meetings, a mass SMS service and messages on producers' statements, are used as communication media.

The Annual General Meeting of Shareholders is preceded by a series of information meetings in the Free State and Limpopo service areas, during which shareholders are informed of developments within the business.

VKB has a customer service centre managed by the Group's Liaison Officer.

## DECLARATION BY THE BOARD

The Board confirms and acknowledges its responsibility to ensure the integrity of the Integrated Report. The Board accordingly considered the 2020 Integrated Report and is of the opinion that it addresses all the material aspects and is a fair account of the integrated performance and sustainability of the business.

The Integrated Report was prepared in all material respects in accordance with good practice emanating from the recommendations of the King Code IV for Good Corporate Governance. The Board hereby authorises the issuance of the 2020 Integrated Report.

**RINA ERASMUS**

Group Company Secretary: VKB Group

DAN  
KRIEK

## SOCIAL AND ETHICS COMMITTEE REPORT

**“ The number one lesson the agricultural sector teaches us is: When life hands you lemons, make lemonade. While the country recorded three consecutive quarters of economic decline, agriculture recorded rock star growth of 27,8% in the first quarter of 2020. The sector has limitless potential to help rebuild the economy and address our social challenges. ”**

DAN KRIEK

This report incorporates the statutory responsibilities of social and ethics committees, as prescribed by Section 72 and Regulation 43 of the Companies Act, Act No. 71 of 2008. This committee acted as the Social and Ethics Committee (“the Committee”) for entities within the VKB Group (“VKB”).

### COMPOSITION

During the year under review, the Committee consisted of five non-executive directors, namely Messrs DJ Kriek, PJ Cronjé, JH du Preez, J van der Goot and DP Viljoen. In addition to the members, the Chairperson of the Board of Directors (“the Board”), the Managing Director: VKB Group and other members of Executive Management also attend meetings of the Committee. The Chairperson of the Committee in turn attends the Annual General Meeting of Shareholders and reports on the Committee’s activities.

### MANDATE AND RESPONSIBILITIES

The Committee monitors the following activities of VKB, taking into consideration relevant legislation, other legal requirements and/or applicable codes of best practice:

- 1) Social and economic development and empowerment, including the Employment Equity Act, Act No. 55 of 1998, and the Broad-Based Black Economic Empowerment (“BBBEE”) Act, Act No. 53 of 2003.
- 2) Good corporate citizenship, including the company’s:
  - a) promotion of equality, prevention of unfair discrimination and elimination of corruption.
  - b) contribution to the development of the communities in which VKB conducts its operations and markets its products and services.
  - c) sponsorships, donations and welfare contributions.
- 3) The environment, health and public safety, including the impact of VKB’s operations on the environment.
- 4) Relationships with consumers, including VKB’s marketing and communication, public relations and compliance with consumer legislation.

- 5) Labour and performance, including:
  - a) VKB’s position in relation to the *International Labour Organisation Protocol* on labour and working conditions.
  - b) VKB’s relationships within the workplace and its contribution to the educational development of its employees.
  - c) inputs on VKB’s Remuneration Policy.

The Committee, together with the Board and other committees, gave effect to its mandate during the year under review.

### Social and economic development

VKB makes a significant contribution, through various social and economic development activities and sport development programmes, to improve the quality of life of the communities in which it conducts its business. Farmer development forms the cornerstone of VKB’s enterprise development initiatives. During the past year, VKB supported numerous developing farmers, engaging in a diverse range of crop and livestock farming activities. VKB offers these producers advice, financial support and mentorship on an ongoing basis.

In the Free State, VKB was involved with 60 developing farmers during the year under review. These farmers collectively planted 3 847 hectares of grain during the 2019/20 summer season, consisting of maize, soya beans, dry beans, sunflower and asparagus.

In Limpopo, VKB was involved with 52 developing farmers during the year under review. These farmers are mostly involved in intensive crop production, such as potatoes (70 hectares), peppadews (51 hectares), sugar beans (84 hectares), peanuts (13 hectares) and sunflower (230 hectares). A Potato Business Development Unit was established during the year under review with the aim to coordinate the development of joint potato production projects between VKB, Potato SA and developing farmers.

A major milestone in VKB’s strategy to contribute toward sustainable agriculture was achieved during the year under review with the launch of VKB’s Centre for Land Reform and Development (“the Centre”). The Centre, which will be operated and managed by farmers, will focus mainly on cooperation and partnerships between commercial and developing farmers.

VKB is still involved in other initiatives and joint development projects in association with the Jobs Fund, Grain Farmer Development Association (GFADA) and the Department of Agriculture, Land Reform and Rural Development (DALRRD) as its main partners.

### Sponsorships, donations and welfare contributions

VKB has a Corporate Social Investment Policy to make provision for the support of initiatives that have a positive impact in the communities in its service area. These include sponsorships, donations and welfare contributions.

During the year under review, VKB Landbou (Pty) Ltd (“VKB Landbou”) supported 14 schools in the Free State and 18 schools in Limpopo through sponsorships and donations. VKB is the name sponsor of a municipal football league and

various rugby weeks in the Eastern Free State, and is the main sponsor of the VKB Knights Cricket Team. An amount of R2,2 million of this sponsorship was used for cricket development.

During the annual VKB Fundraising Golf Day, funds in the amount of R656 522 were raised in collaboration with VKB’s suppliers. These funds are allocated to organised agriculture, mainly for the purpose of supporting rural security.

VKB is also the main sponsor of the Farmers4Change/Food For Mzansi initiative, which creates a national media channel focusing on the importance of the agricultural sector for future food security in the country, as well as the ability of agriculture to promote nation-building and social cohesion. The sponsorship amounts to R3 000 000. During the year under review, numerous projects were undertaken, such as the Food For Mzansi career days that reached approximately 10 000 learners across four provinces, from Phuthaditjhaba in the Free State to Tzaneen in Limpopo, focusing on promoting school learners’ exposure to agriculture.

Ward directors of VKB Beleggings (Pty) Ltd are also actively involved in their respective regions with the support of needy and deserving institutions on behalf of VKB. During the year under review, a total amount of R461 724 was distributed for this purpose.

VKB provides support to numerous farmers’ days, auctions, fairs and festivals in its service area. In many cases, the VKB sponsorship is also critical for the survival of these festivals and to preserve the various communities. VKB is the name sponsor of the Reitz Bieliemielie Festival and the Liebenbergsvlei Canoe Marathon, and act as sponsor for the joberg2c cycle race and the Surrender Hill Marathon.

VKB Landbou participated in various Expo initiatives in the Free State and Limpopo in collaboration with suppliers and the respective commercial branches.

Significant grain donations were also made during the year toward drought relief, as well as flour products to farm workers.

With its strategy primarily focused on the farmer-producer, VKB aims to be actively involved in supporting farmers’ associations in the Eastern Free State and Limpopo (54 in the Eastern Free State and 36 in Limpopo). The Limpopo Division’s sponsorship also includes sponsorships for study groups, district agricultural unions and breeder groups. Other diverse VKB sponsorships include the Land Summit, Landbouweekblad’s annual Agricultural Conference, the Landbouweekblad Conservation Agriculture Conference (main sponsor), Red Meat Producers Organisation, Agbiz and organised agriculture.

VKB Agri Processors (Pty) Ltd and its subsidiaries also provided various sponsorships and donations during the year under review. Free State Oil (Pty) Ltd (“FSO”) donated cooking oil to the joberg2c cycle race. VKB Milling (Pty) Ltd (“VKB Milling”) and Vhembe Milling (Pty) Ltd supported projects in their local communities, including various daycare centres, disability centres and old age homes, community feeding projects, education and sport development institutions, business forums in their areas of operation and the VKB Rugby Week in Reitz.

Grain Field Chickens (Pty) Ltd (“GFC”) continued with its community kitchen projects at the Petsana Primary School and Leifo Iziko Primary and Secondary Schools in Petsana, Reitz. These projects provide food to approximately 1 800

schoolchildren. GFC also donated chicken products to Solidarity, churches and other deserving institutions in the Reitz, Villiers and Frankfort areas. Several sponsorships were also made to charities and community projects, such as the raising of the dam wall at Reitz where GFC spent an amount of R2,3 million at the waterworks to ensure uninterrupted water supply to Reitz, Tweeling, Lindley and Petrus Steyn during the maintenance shutdown of the Katse Dam, which affected the Liebenbergsvlei River system.

### Employment Equity

Plans with goals are compiled annually and approved by the Board, after which they are submitted to the Department of Labour. VKB complies with the applicable legislation and makes a concerted effort to continuously make progress in this regard.

### Broad-Based Black Economic Empowerment

Transformation is an integral part of VKB's business strategy and supports the growth strategy. Through transformation, VKB undertakes to create an ethical culture and environment that promote continuous development. VKB's transformation strategy is based on the principles of resoluteness, sustainability, equity and transparency. VKB complies with the legal requirements and is also constituted with employee trusts as co-shareholders in some of the operating entities. Continued efforts are being made to promote BBEE. As a result of VKB's investment in skills development and socioeconomic development, the maximum points were scored on these pillars during the year under review.

### Good corporate citizenship

#### Code of Ethics

VKB's operations are conducted according to a Code of Ethics that is communicated to stakeholders on an ongoing basis. Healthy relationships with all stakeholders are pursued and adequate and appropriate consideration is given to the recognition of human rights, fair labour practices, the impact of the business on the environment and the prevention of fraud, theft and corruption.

The latter is adequately and appropriately addressed within VKB by:

- internal and external communication (including the Integrated Report, website, social media and information meetings) to promote the transparency of VKB's activities;
- adequate internal control and control measures;
- applicable accounting practices;
- an independent external audit; and
- a Whistle-blowing Policy.

#### Policies

The Committee monitored, amongst others, the execution of the following policies within VKB:

- Internal Audit Reporting Policy
- Tender and Procurement Policy
- Environmental Policy
- Occupational Health and Safety Policy
- Corporate Social Investment Policy
- Remuneration Policy
- Language Policy
- Energy Management Policy
- Information & Technology Management Policy
- Stakeholder Engagement Policy/Interest Groups Interaction Policy
- Compliance Policy

#### Procurement

VKB follows a Tender and Procurement Policy that prescribes fair, honest, transparent and price-competitive procurement processes, with specific measures to prevent fraud, theft and corruption.

#### Compliance Policy

VKB is committed to conduct all its business activities in accordance with the relevant legislation and applicable compliance principles, legal practices and ethical and policy standards. In support of VKB's compliance culture, VKB's Legal Department, as main custodian and executioner of the Compliance Policy, provides regular training to staff to ensure that they are fully aware of, and comply with, the legislation applicable to their operations.

### The environment, health and public safety, including the impact of VKB's operations, products or services

VKB has an Environmental Policy, according to which it is committed to protect the environment and reduce the impact of the Group's activities on the environment. These include, amongst others, energy efficiency, waste management, recycling and the efficient use of resources. The business also complies with the Occupational Health and Safety Act and is committed to provide its employees with a safe and healthy work environment. During the year, the Committee monitored the implementation of health, safety and wellness programmes. Safety performance, occupational health and wellness, resource and rehabilitation management as well as energy management are constantly monitored and improved.

#### VKB Occupational Health and Safety

VKB's Occupational Health and Safety Division implemented VKB's Occupational Health and Safety systems at all business units in the Group, and has made significant progress with the implementation of PPCB Food Safety Systems, ISO 22000 Food Safety Systems, ISO 45001 Occupational Health and Safety Systems, and RSR railway safety systems, where applicable. Effective digital reporting of injuries and non-compliance is provided by the CURA Digital System.

#### VKB medical surveillance and management of COVID-19

A total of 2 272 medical examinations were conducted during the financial year by VKB Medical Team, and the state of employees' health is very good.

VKB implemented all prescribed measures to ensure the safety of its employees and the public to comply with all legislation pertaining to COVID-19. These have been fully documented and adhered to throughout the VKB Group.

#### Establishment and implementation of VKB Group Environmental Management System

Due to the extent of VKB's diverse operations, as well as the future implications of carbon taxation, renewed focus was placed on compliance with the National Environmental Management Act during the year under review. The implementation of a VKB Environmental Management System is progressing well. Projects undertaken include recycling and disposal, including recycling of used oil, oil filters and oil sludge at all mechanisation branches, the safe disposal of fluorescent tubes and recycling of paper and other recyclable products produced or used by the Group.

#### Energy management

VKB is committed to responsible energy management as part of its sustainable environmental strategy and the continuous improvement of its energy efficiency performance. The main purpose of this strategy is to reduce costs and the environmental impact, optimise profitability, strengthen the Group's competitive position and support VKB's local communities.

The company adopted an Energy Management Policy to monitor energy consumption, improve cost efficiency, productivity and working conditions, and to protect the environment. An Energy Management Plan was implemented to give effect to the policy's long-, medium- and short-term goals, including the action plans to achieve the goals, as well as the support and resources needed to implement the plan. Other energy sources, such as coal, diesel, gas and polyfuel, were quantified for the first time this year for purposes of the new greenhouse gas reporting regulations.

The implementation of the Energy Management Policy resulted in a reduction of total energy costs. The VKB Landbou Group had an 11% decrease in electricity consumption for 2019. Overall electricity cost for the same period decreased with 5,3%.

The Carbon Tax legislation requires companies to report on emissions. Besides the carbon tax, companies that conduct greenhouse gas-emitting activities above a certain threshold must do mandatory greenhouse gas reporting. VKB's total carbon dioxide emissions from stationary combustion were calculated to be 30 642 tons of CO<sub>2</sub> for the 2019 calendar year. The foremost source of CO<sub>2</sub> emissions is coal used in boilers. Coal usage contributed to almost 92% of VKB's total carbon dioxide emissions. Carbon tax will be actively managed in future. Greenhouse gas reduction strategies, such as alternative fuels, more efficient equipment and carbon offsetting, will be investigated to lower VKB's carbon footprint and carbon tax.

A high-level energy efficiency assessment conducted at GFC's abattoir in Reitz was part of the 20 Keys continuous improvement initiative to conserve and optimise resources required for production. Since basic energy-saving measures have already been implemented, focus was placed on other energy-consuming processes and utilities, such as the generation of hot water and compressed air. The assessment also considered optimal use of the time-of-use electricity tariff structure. Several energy efficiency opportunities with good financial savings were identified and implemented, resulting in an estimated cost saving of R150 830 per year.

The Energy Management Plan is currently being reviewed to identify new energy-saving opportunities and refine the strategy. A preliminary evaluation indicated that power purchase agreements for solar projects, instead of self-financing, may be more beneficial.

### Labour and employment

VKB supports the principles of the *International Labour Organisation Protocol* on good work and working conditions, which include the following:

- Freedom of association and recognition of the right to collective bargaining
- Avoidance of all forms of forced labour
- Prohibition of child labour
- Avoidance of all forms of discrimination

#### Remuneration Policy

The Human Resources Committee considered the management, fairness, responsibility and transparency of VKB's Remuneration Policy and Remuneration Implementation Plan, which was accordingly approved by the Board. The Remuneration Policy and Remuneration Implementation Plan is available on the VKB website at <https://bit.ly/2Q864qS>.

#### Training of staff

VKB strives for continuous improvement and believes in investing in the educational development of its staff. During the year under review, training, skills development and social assistance programmes were offered to 2 457 employees who received formal training. The Group also offers ongoing learnerships, and students who successfully complete these programmes are subsequently considered for permanent employment. A total of 266 pupils were trained during the year under review and all were employed upon completion thereof.

#### Bursaries

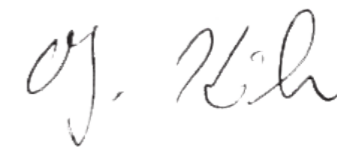
A total of 45 internal bursaries were approved for employees of VKB for the 2020 year at a cost of R1 232 918. External tertiary bursaries are also provided to increase the talent pool for the VKB Group. During the year under review, four existing external bursaries were extended for a further year at a cost of R80 000 each.

### IMPACT OF COVID-19

The Committee monitors the impact of COVID-19 on the VKB Group on an ongoing basis.

### REPORT

The Committee performed all the duties and responsibilities within its mandate, as set out above.

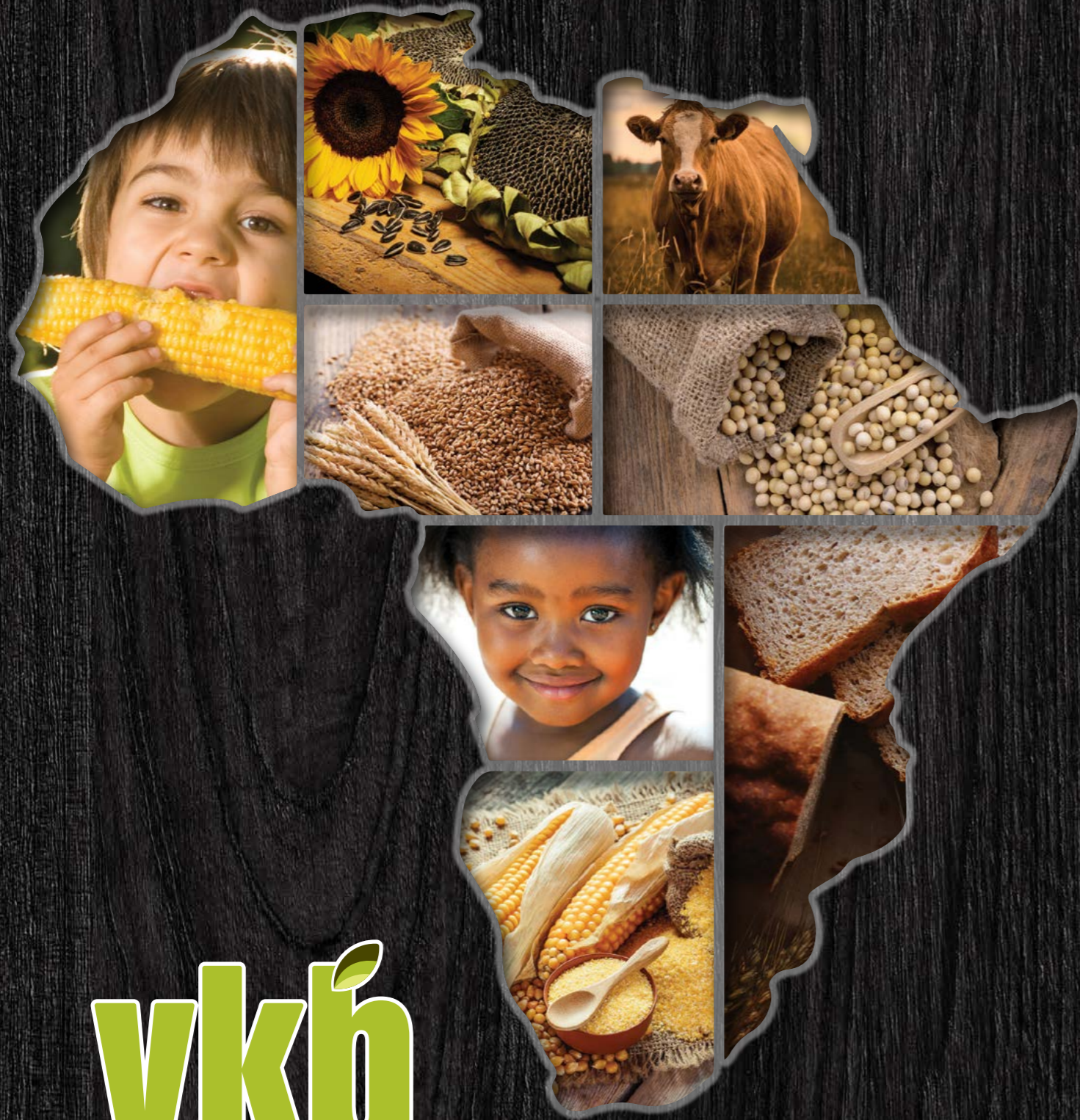


DAN KRIEK

Chairperson: Social and Ethics Committee



It's all about  
**feeding our nation**



for the  
**LOVE**  
of the  
**LAND**

**vkb**  
www.vkb.co.za

**COENRAAD  
FICK**



## AUDIT, RISK AND OPPORTUNITY MANAGEMENT COMMITTEE REPORT

**“Extraordinary times require renewed focus and trust in ourselves and our Creator. Our comeback should always be stronger than the setback.”**

**COENRAAD FICK**

This report incorporates the statutory responsibilities of the audit committee, as stipulated in Section 94 of the Companies Act, Act No. 71 of 2008 (“the Act”). This committee acted as the Audit, Risk and Opportunity Management Committee (“the Committee”) for entities within the VKB Group (“the Group”) during the year under review.

### COMPOSITION

The Committee consists of at least three directors appointed at the Annual General Meeting of Shareholders on recommendation of the Board of Directors (“the Board”). The Board may, from time to time, co-opt specialists to the Committee or appoint them as members of the Committee.

During the year under review, the Committee consisted of four non-executive directors and one co-opted specialist consultant (Messrs CF Fick – Chairperson, ID Dreyer, LJ Eksteen and JBS Fourie; co-opted – GJ Nel). The composition of the Committee complies with the requirements of the Act and the provisions of the King Code IV. The Chairperson of the Board, Managing Director: VKB Group, Executive Director: Finance

VKB Group, Executive Manager: Audit, representatives of the independent external auditors and Internal Audit, as well as Senior Management, also attend the meetings of the Committee. The Committee met three times during the year under review, during which the Budgets, Annual Financial Statements and Risk Management Plan were considered, in addition to other matters.

The internal and external auditors have unrestricted access to the Chairperson of the Committee and continuously report to the relevant structures within the Group. The Chairperson and the independent external auditors attend the Annual General Meeting of Shareholders to answer any questions relating to the business’s financial affairs and Annual Financial Statements.

### MANDATE AND RESPONSIBILITIES

The Committee has the following duties and responsibilities:

- 1) To ensure that the business’s financial planning, management and reporting are correct and effective, and in accordance with appropriate accounting policies and international financial reporting standards.

- 2) To consider and review the financial statements, the accounting practices, policies and procedures, as well as the effectiveness of internal financial controls.
- 3) To make recommendations on the appointment of the independent external auditors, ensure that the appointment of the auditors complies with the provisions of the Act and other legislation, and determine their fees.
- 4) To consider the independence and effectiveness of the external auditors, consider any non-audit work by such auditors and determine whether the provision of such services may influence their independence. To pre-approve any proposed agreement with the auditors for the provision of non-audit services to the company.
- 5) To prepare a report, to be included in the Annual Financial Statements for that financial year:
  - i) describing how the Audit Committee carried out its functions;
  - ii) stating whether the Audit Committee is satisfied that the auditors were independent of the company; and
  - iii) commenting in any way the Committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company.
- 6) To receive and deal appropriately with any concerns or complaints, whether from within or outside the company, or on its own initiative, relating to:
  - i) the accounting practices and internal audit of the company;
  - ii) the content or auditing of the company’s financial statements;
  - iii) the internal financial control of the company; or
  - iv) any other related matter.
- 7) To make submissions to the Board on any matter concerning the company’s accounting policies, financial control, records and reporting, and to perform such other oversight functions as may be delegated or requested by the Board.
- 8) To accept the annual audit plan and audit budget.
- 9) To evaluate and assess the effectiveness of management information, the annual audit, internal audit programme and internal control system, and oversight of the management of information and technology.
- 10) To ensure that the roles of internal and external audit have been appropriately defined and separated.
- 11) To ensure compliance with applicable legislation and monitoring of regulatory aspects.
- 12) To consider the Integrated Report.
- 13) To ensure proper disclosures, reporting and communication with stakeholders.
- 14) To assist the Board to ensure that an effective strategy for risk management is in place to give effect to the business’s strategic goals and, furthermore, ensure that the disclosure of the risks is complete, timely and relevant.
- 15) To continuously consider the solvency and liquidity of the company and the Group, considering all reasonably foreseeable financial circumstances.
- 16) To provide independent oversight of, amongst others:
  - i) the effectiveness of the organisation’s assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function; and

- ii) the integrity of the Annual Financial Statements and, to the extent delegated by the Board, other external reports issued by the organisation.
- 17) To meet annually with the internal and external auditors respectively, without Management being present, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.



### REPORT

The Committee performed all duties as set out above. The Committee is furthermore satisfied that the 2020 audit conducted by the external auditors was independent and agrees with the audit reports issued in respect of the Group.

In addition, the Committee considered the Integrated Report and is satisfied that:

- 1) All the factors and risks, which may have an impact on the integrity of the Integrated Report, have been considered.
- 2) The Annual Financial Statements reflect the position of the business and the Group correctly.
- 3) The financial function as well as the internal financial and other controls is adequate and functioning effectively.
- 4) The sustainability opportunities disclosed in the Integrated Report are reliable and are not in conflict with financial information.
- 5) The reporting of risk management, as included in the Integrated Report, is timely, complete and relevant.
- 6) The level of assurance provided in the Integrated Report gives effect to an adequate and efficient control environment.
- 7) The integrity of the Integrated Report gives effect to informed decision making.

**COENRAAD FICK**

Chairperson: Audit, Risk and Opportunity Management Committee

# DIRECTORS' RESPONSIBILITIES AND APPROVAL



reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operational risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by Management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors reviewed the Group's cash flow forecast for the year until 1 March 2021 and, in view of this review and the current financial position, they are satisfied that the Group has or will have access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group's financial statements. The financial statements were examined by the Group's external auditors and their report forms part of the comprehensive Annual Financial Statements.

The abridged financial statements set out on pages 43 to 47, which have been prepared on the going concern basis, were approved by the Board on 18 June 2020 and were signed on their behalf by:

  
**PG CARSHAGEN**  
Chairperson

  
**CF FICK**  
Vice-chairperson

Declaration of responsibility by the Group Company Secretary:

In terms of Section 88(2)(e) of the Companies Act, Act No. 71 van 2008, it is certified that the company submitted the prescribed returns and notices in terms of the act, and that such returns and notices are considered to be just, correct and up to date.

  
**SC ERASMUS**  
Group Company Secretary

The directors are required in terms of the Companies Act, Act No. 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the VKB Group ("the Group") as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards ("IFRS"). The external auditors were engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with IFRS and are based on appropriate accounting policies applied consistently and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors ("the Board") sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that, in all reasonable circumstances, is above

# DIRECTORS' REPORT

The directors have pleasure in submitting their report on the abridged financial statements of the Group for the year ending 31 March 2020.

## 1. NATURE OF BUSINESS

VKB Beleggings (Pty) Ltd is a private company incorporated in South Africa, with interests in the agricultural industry. The company does not trade, and all its activities are undertaken through its subsidiaries, associates and joint arrangements. The Group conducts its operations in South Africa.

There have been no material changes to the nature of the Group's business from the previous year.

## 2. REVIEW OF FINANCIAL RESULTS AND ACTIVITIES

The consolidated financial statements were prepared in accordance with IFRS and the requirements of the Companies Act, Act No. 71 of 2008. The accounting policies have been applied consistently.

Full details of the financial position, results of operations and cash flows of the Group are set out in these consolidated financial statements

## 3. SHARE CAPITAL

	Number of shares	
	2020 '000	2019 '000
<b>Authorised</b>		
Ordinary shares	100 000	100 000
Class 2 preference shares	10 000 000	10 000 000
Class 3 preference shares	1 000 000	1 000 000
Class 4 preference shares	10 000 000	10 000 000
	Number of shares	
	2020 R'000	2019 R'000
<b>Issued</b>		
Ordinary shares	22 685	22 180
Class 2 preference shares	1 761 791	1 637 534
Class 3 preference shares	230 170	240 959
Class 4 preference shares	4 518	2 887
Debentures	7 970	7 111
	<b>2 027 134</b>	<b>1 910 671</b>

## 4. DIVIDENDS

The Board recommends the approval of a dividend of R20 million (2019: R30 million).

## 5. DIRECTORATE

The directors in office at the date of this report are as follows:

Non-executive	Ward	Changes
PG Carshagen – Chairman	Ward 1 – Reitz	
CF Fick – Vice-chairman	Ward 1 – Reitz	
DP Viljoen	Ward 2 – Bethlehem, Daniëlsrus, Kestell and Qwaqwa	
ID Dreyer	Ward 3 – Vrede, Memel, Natal (North), Cornelia, Woudzicht and Ascent	
ID Bosman	Ward 4 – Petrus Steyn, Heilbron, Senekal and Lindley	
JJB Greyling	Ward 5 – Warden, Verkykerskop, Harrismith and Natal (South)	
DJ Kriek	Ward 6 – Frankfort and Tweeling	
JBS Fourie	Ward 7 – Jim Fouché, Oranjeville and Windfield	
PJ Cronjé	Ward 8 – Villiers, Grootvlei, Balfour, Standerton and Delmas	
J van der Goot	Ward 15 – Limpopo	
JH du Preez	Ward 15 – Limpopo	
LJ Eksteen	Ward 15 – Limpopo	
GJ Nel	Independent	Retired 20 September 2019 and co-opted as specialist consultant.
<b>Executive</b>		
JF Janse van Rensburg	Managing Director: VKB Group	
MJ Mittermaier	Executive Director: Finance VKB Group	

## 6. SPECIAL RESOLUTIONS

No special resolutions, the nature of which might be significant to the shareholders in their appreciation of the state of affairs of the Group, were made by the Group or any of its subsidiaries during the period covered by this report.

## 7. EVENTS AFTER THE REPORTING PERIOD

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses were being forced to cease or limit operations for long or indefinite periods. The extent and duration of the current restrictions on trade remain uncertain and it is too early to determine the exact impact of the pandemic on the performance of the Group for the 2021 financial year.

VKB, its main suppliers and most of its customers were deemed as essential services during the lockdown in South Africa. The effect of COVID-19 trade and travel restrictions on the Group was, therefore, limited to the effect of a decrease in the general buying power of the end users of our products. This will undoubtedly have a negative impact on the turnover and profits for the 2021 financial year. However, Management does not regard the impact attributable to COVID-19 experienced thus far to be material.

The Board determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations for the year ending 31 March 2020 have not been adjusted to reflect their impact.

## 8. GOING CONCERN

The directors are satisfied that the Group has adequate financial resources to continue in operation for the foreseeable future and accordingly the consolidated financial statements were prepared on a going concern basis. The Group is in a sound financial position and has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the Group. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation that may affect the Group.

## 9. LITIGATION STATEMENT

From time to time the Group becomes involved in various claims and lawsuits incidental to the ordinary course of business. The Group is not currently involved in any such claims or lawsuits which, individually or in the aggregate, are expected to have a material adverse effect on the business or its assets.

## 10. AUDITORS

Enslins Bethlehem Incorporated ("Enslins") continued in office as auditors for the company and its subsidiaries for 2020.

At the Annual General Meeting of Shareholders, the shareholders will be requested to reappoint Enslins as the independent external auditors of the company and to confirm Mr EE Bakker CA(SA) as the designated audit partner for the 2021 financial year.

## 11. SECRETARY

The Group Company Secretary is Adv. SC Erasmus.

### Postal address:

PO Box 100  
REITZ  
9810

### Business address:

31 President CR Swart Street  
REITZ  
9810

## 12. SOLVENCY AND LIQUIDITY

The directors performed the solvency and liquidity test as prescribed by the Companies Act, Act No. 71 of 2008.

## 13. ABRIDGED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The abridged consolidated Annual Financial Statements were compiled by Mr M Julyan AGA(SA). The comprehensive Annual Financial Statements are available on request at the offices of the Group Company Secretary. The information in this report was not subjected to an independent audit or overview.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
<b>ASSETS</b>				
<i>Non-current assets</i>				
Property, plant and equipment	1 845 288	1 750 780		
Right-of-use assets	23 431			
Investment property			377 229	321 534
Goodwill	136 877	127 572		
Intangible assets	8 581	5 478		
Investments in subsidiaries			1 524 549	1 908 085
Investments in associates	429 485	7 655	417 949	
Other financial assets	20 421	30 271		
Finance lease receivables	22 133	29 676		
Deferred tax	163 305	185 787	360	308
	<b>2 649 521</b>	<b>2 137 219</b>	<b>2 320 087</b>	<b>2 229 927</b>
<i>Current assets</i>				
Inventory	1 308 971	1 153 574		
Loans to group companies	1 880		34 137	17 636
Loans receivable	11 089	6 194		
Trade and other receivables	3 801 447	3 417 091	4 839	2 645
Other financial assets	134 596	35 731		
Finance lease receivables	16 309	22 793		
Current tax receivable	9 426	8 117	3 406	
Cash and cash equivalents	183 529	126 398	68	16
	<b>5 467 247</b>	<b>4 769 898</b>	<b>42 450</b>	<b>20 297</b>
Assets held for sale	5 866	5 866		23 663
<b>Total assets</b>	<b>8 122 634</b>	<b>6 912 983</b>	<b>2 362 537</b>	<b>2 273 887</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Share capital	2 027 134	1 910 671	2 027 134	1 910 671
Reserves	9 611	(1 057)		
Retained income	446 577	438 047	300 024	332 918
<i>Equity attributable to equity holders of parent company</i>	2 483 322	2 347 661	2 327 158	2 243 589
Non-controlling interest	82 363	68 851		
	<b>2 565 685</b>	<b>2 416 512</b>	<b>2 327 158</b>	<b>2 243 589</b>
<b>LIABILITIES</b>				
<i>Non-current liabilities</i>				
Borrowings	281 356	321 615		
Financial liabilities at fair value	2 721	3 037		
Finance lease liabilities	11 968	6 033		
Retirement benefit obligation	75 768	80 983		
Deferred tax	205 953	202 012	12 763	8 228
	<b>577 766</b>	<b>613 680</b>	<b>12 763</b>	<b>8 228</b>
<i>Current liabilities</i>				
Trade and other payables	860 898	802 417	22 616	1 449
Loans from group companies				18 742
Loans from shareholders	545 759	557 307		
Borrowings	206 291	253 784		
Financial liabilities at fair value	159 210	10 644		
Finance lease liabilities	13 374	3 606		
Income tax payable	981	678		674
Provisions	339	1 387		
Dividends payable	3 430	6 300		
Bank overdraft	3 188 901	2 246 668		
	<b>4 979 183</b>	<b>3 882 791</b>	<b>22 616</b>	<b>20 865</b>
Liabilities of disposal group				1 205
<b>Total liabilities</b>	<b>5 556 949</b>	<b>4 496 471</b>	<b>35 379</b>	<b>30 298</b>
<b>Total equity and liabilities</b>	<b>8 122 634</b>	<b>6 912 983</b>	<b>2 362 537</b>	<b>2 273 887</b>



	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
<b>Continuing operations</b>				
Revenue	11 659 718	10 735 654	43 116	32 488
Cost of sales	(10 000 203)	(9 163 152)		
<b>Gross profit</b>	<b>1 659 515</b>	<b>1 572 502</b>	<b>43 116</b>	<b>32 488</b>
Incentive discount	210 000	250 000		
<b>Gross profit before incentive discount</b>	<b>1 869 515</b>	<b>1 822 502</b>	<b>43 116</b>	<b>32 488</b>
Other operating income	71 662	87 408	5 330	24 822
Other operating profit/(loss)	(29 299)	(28 658)		549
Other operating expenses	(1 288 125)	(1 277 122)	(26 151)	(18 767)
<b>Operating profit</b>	<b>623 753</b>	<b>604 130</b>	<b>22 295</b>	<b>39 092</b>
Investment income	6 046	23 874	11 963	189 951
Finance cost	(284 127)	(230 729)	(1 685)	(9 620)
Income from equity-accounted investments	10 771	8 474	7 700	
Other non-operating income/(expenses)	(309)	17	(309)	(532)
<b>Profit before incentive discount</b>	<b>356 134</b>	<b>405 766</b>	<b>39 964</b>	<b>218 891</b>
Incentive discount	(210 000)	(250 000)		
<b>Profit/(loss) before taxation</b>	<b>146 134</b>	<b>155 765</b>	<b>39 964</b>	<b>218 891</b>
Taxation	(46 204)	(86 404)	(6 854)	(5 195)
<b>Profit from continuing operations</b>	<b>99 930</b>	<b>69 362</b>	<b>33 110</b>	<b>213 696</b>
<b>Discontinued operations</b>				
Profit/(loss) from discontinued operations	(5 376)			(483)
<b>Profit for the year</b>	<b>94 554</b>	<b>69 362</b>	<b>33 110</b>	<b>213 213</b>
<b>Other comprehensive income:</b>				
Items that will not be reclassified to profit or loss:				
Remeasurements on net defined benefit liability/asset	3 600	5 777		
Share of comprehensive income of equity-accounted investments	(15 824)		(15 824)	
Income tax relating to items that will not be reclassified	(1 008)	(1 618)		
<b>Total items that will not be reclassified to profit or loss</b>	<b>(13 232)</b>	<b>4 159</b>	<b>(15 824)</b>	
Items that may be reclassified to profit or loss:				
Gains/(losses) on cash flow hedges not subject to basis adjustments	22 394	(45 104)		
Income tax relating to items that may be reclassified	(6 270)	12 629		
<b>Total items that may be reclassified to profit or loss</b>	<b>16 124</b>	<b>(32 475)</b>		
<b>Other comprehensive income for the year net of taxation</b>	<b>2 892</b>	<b>(28 316)</b>	<b>(15 824)</b>	
<b>Total comprehensive income for the year</b>	<b>97 446</b>	<b>41 046</b>	<b>17 286</b>	<b>213 213</b>
<b>Profit attributable to:</b>				
<b>Owners of the parent company:</b>				
From continuing operations	71 340	43 682	33 110	213 696
From discontinued operations	(5 376)			(483)
	<b>65 964</b>	<b>43 682</b>	<b>33 110</b>	<b>213 213</b>
<b>Non-controlling interest:</b>				
From continuing operations	28 590	25 680		
<b>Total comprehensive income attributable to:</b>				
Owners of the parent company	68 856	15 366	17 286	213 213
Non-controlling interest	28 590	25 680		
	<b>97 446</b>	<b>41 046</b>	<b>17 286</b>	<b>213 213</b>

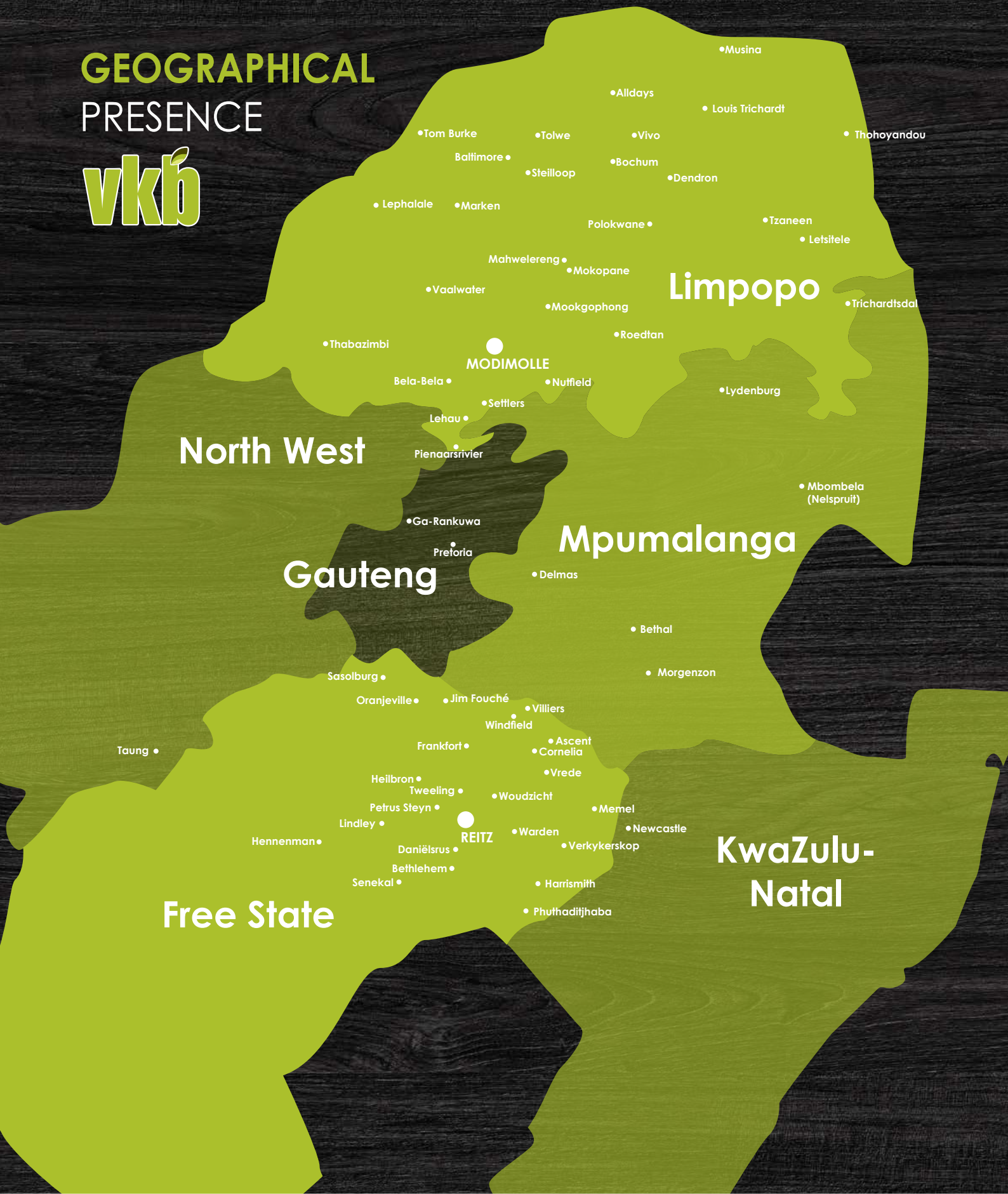
## CONSOLIDATED STATEMENT OF CASH FLOW

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<i>Cash generated from/(used in) operations</i>	205 447	377 214	46 173	40 898
Interest income	5 978	23 806	4 025	142
Dividends received (trading)	68	68	7 938	189 809
Finance costs	(284 127)	(230 729)	(1 685)	(9 620)
Tax paid	(26 793)	(22 154)	(7 346)	(3 523)
<b>Net cash from operating activities</b>	<b>(99 427)</b>	<b>148 205</b>	<b>49 105</b>	<b>217 706</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>				
Purchase of property, plant and equipment	(220 711)	(459 315)		
Sale of property, plant and equipment	20 328	38 748		
Property, plant and equipment classified as held for sale	(13 750)			
Purchase of investment property			(55 695)	(25 230)
Sale of investment property				7 228
Purchase of other intangible assets	(3 285)	(1 141)		
Sale of other intangible assets		134		
Finance lease receipts	14 027	31 040		
Loans to group companies repaid		26 687		
Loans advanced to group companies	(1 880)	5 309	(16 500)	(16 932)
Sale of investments at fair value	(309)	17	(309)	(532)
Receipts from loans receivable at amortised cost	(4 895)	(2 574)		
Sale of financial assets	(89 015)	(20 286)		
Purchase of other assets		(8 384)		
Net cash flows of discontinued operations			18 448	
Investment in subsidiaries/associates	(421 830)	(27 946)	(42 545)	(184 100)
<b>Net cash from investment activities</b>	<b>(721 320)</b>	<b>(417 711)</b>	<b>(96 601)</b>	<b>(219 566)</b>
<b>CASH FLOWS FROM FINANCE ACTIVITIES</b>				
Proceeds on share issuance	505	895	505	895
Proceeds on debentures/redeemable preference share issuance	1 657	1 059	(24)	
Redemption of debentures/redeemable preference shares	(74 691)	(145 279)	115 990	81 408
Repayment of loans from group companies			(18 742)	(79 959)
Repayment of borrowings	(87 752)	(87 168)		
Repayment of financial liabilities at fair value through profit/(loss)	148 250	(49 282)		(483)
Repayment of shareholders' loan	(11 548)	74 453		
Payment on lease liabilities	15 703	12 946		
Dividends paid	(56 481)	6 300	(50 181)	
<b>Net cash from finance activities</b>	<b>(64 357)</b>	<b>(185 018)</b>	<b>47 548</b>	<b>1 861</b>
<b>Total cash movement for the year</b>	<b>(885 104)</b>	<b>(454 524)</b>	<b>52</b>	<b>1</b>
Cash at the beginning of the year	(2 120 268)	(1 665 746)	16	15
<b>Total cash at the end of the year</b>	<b>(3 005 372)</b>	<b>(2 120 270)</b>	<b>68</b>	<b>16</b>

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# GEOGRAPHICAL PRESENCE



Commercial branches 48 • Trade depots 6 • Distribution centres 3 • Mechanisation branches 12

Grain facilities 23 • Filling stations 7 • Fuel retail outlets 38 • Tyre outlet 1 • Transmissions 2

Logistics 1 • Packaging plants 2 • Seed processing plants 2 • Cold storage 1 • Auction centre 1

Fertiliser mixing plant 1 • Precision agronomic services 1 • Insurance 13 • Maize mills 4 • Maize meal depots 17

Wheat mill 1 • Bakeries 2 • Bakery depots 2 • Broiler abattoir 1 • Animal feed factories 2

Soya bean crushing plant 1 • VKB Foods 2