



KPMG Services Proprietary Limited
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The Directors
PPC Limited
148 Katherine Street
Sandton
2146

13 March 2018

Dear Sirs

Independent expert report regarding the proposed Black Economic Empowerment (“BEE”) Top-up Transaction

Introduction [S5.8 (d)]

In an announcement published by PPC Ltd (“PPC”) on 14 December 2017, updated again on 29 January 2018 and on 12 March 2018, shareholders were advised that PPC intends to address non-compliance with the Mining Charter by entering into a BEE top-up transaction to restore its BEE equity shareholding in respect of the South African operations (the “Transaction”).

PPC is required to comply with, among other elements, equity shareholding requirements in respect of its South African mining operations in terms of the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry gazetted during 2004 by the Minister of Minerals and Energy in terms of section 100(2)(a) of the Mineral and Petroleum Resources Development of Act No. 28 of 2002 (“MPRDA”), as amended in September 2010 and as may be further amended from time to time (“Mining Charter”), as a condition to either apply for, maintain/retain or renew mining and/or prospecting mineral rights.

KPMG Services Proprietary Limited a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

KPMG Services Proprietary Limited is not a Registered Auditor in terms of the Auditing Profession Act, 26 of 2005 and does not provide audit services as defined in Section 1 of this Act.

Registration number 1999/012876/07

Chief Executive: N Dlomu
Directors: Full list on website

The company’s principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors’ names is available for inspection.



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Additionally, from a commercial perspective, PPC has to comply with, among other elements, equity shareholding requirements in respect of its South African manufacturing operation, in terms of the Broad-Based Black Economic Empowerment Act No. 53 of 2003 and the related Department of Trade and Industry (“DTI”) Codes, which allows the Company to tender competitively for business with government departments, state-owned entities and private sector companies.

PPC initially implemented two (2) BEE transactions as follows:

- a 2008 transaction at the PPC listed level, which resulted in 15.3% BEE equivalent equity shareholding of the South African operations (“BEE 1”); and
- a further 2012 transaction at PPC listed level, which resulted in the BEE equivalent equity shareholding of the South African operations increasing from 15.3% to 26.0% (“BEE 2”).

This resulted in BEE shareholding of 20.8% at the listed level, equivalent to 26% in respect of PPC’s SA operations.

However, in 2016, BEE equity shareholding in PPC was significantly reduced due to the following events, leaving PPC being non-compliant with the requirements of the MPRDA and the Mining Charter:

- the rights issue equity capital raising concluded at PPC listed level in September 2016, as the BEE 1 and BEE 2 shareholders were contractually restricted from following their rights; and
- the planned maturity of BEE 1 in December 2016, which resulted in the unwinding of a significant portion of the equity shareholding.

The Proposed BEE Transaction seeks to redress this non-compliance.

The Transaction will be effected as follows:

- New shares in PPC South Africa (“PPC SA BEE Shares”) will be issued to the PPC SA BEE Shareholders at a nominal price of ZAR0.01 per PPC SA share (“Subscription Price”), which will be funded by PPC SA.
- The 2018 Proposed BEE Transaction will be implemented through a notional vendor funding (“NVF”) structure based on the difference between the transaction value (R2.148 billion) and the aggregate Subscription Price at a fixed escalation rate equivalent to the South African Revenue Service’s official repurchase rate plus 100 basis points being 7.75%.
- The NVF will be serviced through dividends payable to the PPC SA BEE Shareholders. The PPC SA BEE Shareholders will be entitled to receive 20% of their dividends as a trickle cash payment during the term of the 2018 BEE Transaction, and to the extent that PPC SA declares a dividend.
- The outstanding balance on the NVF shall be settled at maturity through a repurchase by PPC SA of the PPC SA BEE Shares held by the PPC SA BEE Shareholders, based on a pre-agreed NVF formula and at the same nominal subscription price at which the PPC SA shares were issued in terms of the 2018 BEE Transaction



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Scope

Pursuant to the Listings Requirements of the JSE Limited (“the JSE Listings Requirements”) an independent expert report is required to be obtained by the board of Directors of PPC (“the Board”). As the transaction involves an issue of shares for cash by a subsidiary of a listed company, such issue requires that the transaction be categorised as if it were a transaction. As such, the 2018 BEE Transaction is a Category 2 transaction for PPC in terms of the JSE Listings Requirements.

The total participation by PPC directors in the 2018 BEE Transaction will, in aggregate, not be equal to or exceed 5% of the total 25.4% transaction size. A “related party transaction”, as defined in the JSE Listings Requirements, will therefore not be triggered.

In light of the above, KPMG Services (Proprietary) Limited (“KPMG”) has been appointed by the Board as the independent expert to advise on whether the terms and conditions of the Transaction are fair to the shareholders of PPC. The Board has been advised accordingly.

Our work and findings shall not in any way constitute recommendations regarding the completion of the Transaction.

Responsibility

The compliance with the JSE Listings Requirements is the responsibility of the Board. Our responsibility is to report on the terms and conditions of the Transaction.

Definition of the term “fair” [S5.8 (g)]

A transaction will generally be considered fair to a company’s shareholders if the benefits received by the shareholders, as a result of the transaction, are equal to or greater than the value surrendered by the shareholders.

The assessment of fairness is primarily based on quantitative issues. In this case, the Transaction may be considered fair if the value received by PPC is considered to be equal to or greater than the value surrendered by PPC in terms of the Transaction or if the quantifiable benefits received by PPC from the Transaction are equal to or greater than the costs of the Transaction.

Information utilised and procedures performed [S5.8 (f)], [S5.8h], [S5.8 (n)], [S5.8 (o)], [S5.8 (s)], [S5.10 (a)] and [S5.10 (b)]

Key quantitative considerations [S5.8 (i)], [S5.8 (j)] and [S5.8 (k)]

In arriving at our opinion we have undertaken the following procedures in evaluating the fairness of the Transaction:

- considered the rationale for the Transaction, based on discussions with the management of PPC and its advisors
- obtained an understanding of the structure, terms and conditions of the Transaction, based on the draft agreements available at the date of this opinion.



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- held discussions with the management of PPC to establish its strategy and considered such other matters as we consider necessary, including assessing the prevailing economic, legal and market conditions in the industry
- considered the historical performance of PPC SA with reference to its management accounts as at 31 January 2018 and PPC's audited financial statements for the financial years ended 30 September 2013 to 2016

Pre-Transaction valuation [S5.5]

- reviewed PPC SA's financial forecasts for the years 2018 to 2024 and the basis of the assumptions therein as well as the reasonableness of the outlook assumed. In this regard, we assessed the forecast trends in line with the historical performance of PPC SA, as well as held discussions with management to confirm the reasonableness thereof. In addition, we assessed the assumptions made against our analysis of future macro-economic factors, as well as the overall industry outlook. From these assessments, we have satisfied ourselves with the appropriateness and reasonableness of the underlying information and assumptions
- based on the above, performed a valuation of PPC SA pre-Transaction:
 - the discounted cash flow methodology as the primary valuation methodology supplemented by the capitalisation of maintainable earnings approach
 - taking cognisance of risk, market and industry factors affecting PPC SA. The key external value drivers, and the respective ranges thereof, are: the annual inflation rate (range: 4.1% to 5.5%) and GDP growth rate per annum (range: 0.6% to 2.1%).. Adjustments which we deem to be appropriate were made to the forecasts
 - the key internal value drivers considered in the valuation are: volumes, profit margins, and capital expenditure. Adjustments which we deem to be appropriate were made to the forecasts
 - Performed sensitivity analysis on the discount rate and terminal growth rates used to value PPC SA. Varying both inputs up and down by 1% each led to a range of values, with a lower limit of a 18.34% decrease in value and an upper limit of a 27.3% increase in value.
 - made adjustments for the environmental asset and NVF structure unwind in arriving at an equity value
 - made adjustments to ascertain what the cash flow impact would be on PPC SA assuming that the company was not empowered.
- The pre-Transaction valuation was completed on the assumption that PPC SA remained an un-empowered entity.



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Post-Transaction valuation

- determined the value of PPC SA post-Transaction by adjusting PPC SA pre-Transaction value with the costs and quantifiable benefits of the Transaction as follows:

Costs of implementing the Transaction:

- reviewed relevant agreements and held discussions with management as part of the procedures to determine the costs of implementing the Transaction
- considered the costs of implementing the Transaction as set out in the SENS announcement
- reviewed the International Financial Reporting Standards valuation of the costs of implementing the Transaction performed by Lydia Greef, Financial Modelling Agency, on behalf of PPC. We assessed the reasonableness of this valuation by recalculating the value of the costs using a recognised option pricing model, the Geometric Brownian Motion method with Monte Carlo simulations
- performed sensitivity analysis on the Lydia Greef valuation by varying the key input drivers of the model, being the yield curve, historic share price volatility and the cost of funding the NVF by 5% each, which lead to a variation in total Transaction costs ranging between an increase of 1.65% in costs and a decrease of 1.21% in Transaction costs.

Quantifiable Transaction benefits:

- held discussions with management to identify and understand the impact on PPC SA if the Transaction is not concluded. This comprised:
 - an analysis of the cost implications of having to source input material from outside suppliers owing to PPC SA losing its mining licenses as a result of non-compliance
 - an analysis of the loss of gross profits as a result of PPC SA not being able to tender for government contracts owing to non-compliance with BEE

Opinion [S5.6], [S5.7] and [S5.8 (q)]

KPMG has considered the terms and conditions of the Transaction and, based upon and subject to the conditions set out herein, is of the opinion that the terms and conditions of the Transaction are fair to the PPC shareholders.

Our opinion is necessarily based upon the information available to us up to 12 March 2018, including in respect of the financial, regulatory, securities market and other conditions and circumstances existing and disclosed to us at the date thereof. We have furthermore assumed that all conditions precedent, including any material regulatory, other approvals and consents required in connection with the Transaction have been or will be timeously fulfilled and/or obtained. Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.



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Limiting conditions [S5.8 (l)] and [S5.8 (p)]

This opinion is provided to the Board in connection with and for the purposes of the Transaction. This opinion is prepared solely for the Board and therefore should not be regarded as suitable for use by any other party or give rise to third party rights. This opinion does not purport to cater for each individual shareholder's perspective, but rather that of the general body of PPC shareholders. Should a PPC shareholder be in doubt as to what action to take, he or she should consult an independent adviser.

An individual PPC shareholder's decision as to whether to vote in favour of any transaction may be influenced by his particular circumstances. The assessment as to whether or not the Board decides to recommend the Transaction is a decision that can only be taken by the Board.

We have relied upon and assumed the accuracy of the information used by us in deriving our opinion. Where practical, we have corroborated the reasonability of the information provided to us for the purpose of our opinion, whether in writing or obtained in discussion with management of PPC, by reference to publicly available or independently obtained information. While our work has involved an analysis of, *inter alia*, the annual financial statements, and other information provided to us, our engagement does not constitute, nor does it include, an audit conducted in accordance with generally accepted auditing standards.

Where relevant, the forecasts of PPC relate to future events and are based on assumptions that may or may not remain valid for the whole of the forecast period. Consequently, such information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely the actual future results of PPC will correspond to those projected. Where practicable, we compared the forecast financial information to past trends and third party estimates as well as discussing the assumptions inherent therein with the management of PPC to the circumstances, we believe that the forecasts have been prepared with due care and consideration.

We have also assumed that the Transaction will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by, representatives and advisors of PPC and we express no opinion on such consequences. We have assumed that all agreements that will be entered into in respect of the Transaction will be legally enforceable.

Independence [S5.1 (b)] and [S5.8 (m)]

In terms of schedule 5.1 (a) of the JSE Listings Requirements, we confirm that we have no direct or indirect interest in PPC shares or the Transaction. In terms of schedule 5.1(b), we may confirm that we have no existing or continuing relationship with the issuer and/or any other parties involved in the transaction.

Furthermore, we confirm that our professional fees, of R400,000 is not contingent upon the success of the Transaction.



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*Independent expert report regarding the proposed Black Economic Empowerment ("BEE") Top-up Transaction
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Inspection [S5.8 (r)]

This letter will be available for inspection to the shareholders of PPC in the form and context in which it appears.

Yours faithfully

A handwritten signature in black ink that reads 'Heather Carswell'. The signature is written in a cursive style and is underlined with a single horizontal line.

Heather Carswell
Director
KPMG Services Proprietary Limited
KPMG Crescent
85 Empire Road
Parktown
2193