KAP INDUSTRIAL HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1978/000181/06)
Share code: KAP
ISIN: ZAE000171963
("**the Company**")

OPERATIONAL UPDATE FOR THE PERIOD 1 JULY 2019 TO 30 NOVEMBER 2019

The following operational update is published in order to provide transparent guidance to stakeholders in relation to the performance of the Company. It is the Company's objective to publish an operational update of this nature every six months.

General

The macroeconomic and socio-political environment in South Africa remained challenging during the period under review with limited real economic growth, subdued consumer spending and high levels of unemployment.

Integrated Timber

The division's panel operations performed well for the period with production volume growth in anticipation of two major upgrade projects, which are planned for the second half of the year. These projects will expand particleboard capacity and improve efficiencies at both the Ugie and Piet Retief plants and are scheduled to be commissioned in February and March 2020 respectively. The recently commissioned MFB upgrading press performed above expectation, thereby supporting the division's strategy of increased value-added product sales. The resin operations performed well for the period, however production and sales volumes are likely to decline in the second half of the year due to the loss of a material contract.

Management in the division's forestry, sawmilling and pole operations in the southern Cape continued to successfully manage the impact of the 2017 and 2018 plantation fires, effectively completing the harvesting of all utilisable timber. A project to re-configure the processing plants to better utilise the future available timber in the region will be completed in the second half of the year. Demand for structural timber and agricultural poles remained stable.

Automotive Components

Following a strong first quarter, new vehicle assembly volumes slowed significantly during the second quarter with certain OEM's closing during November for an extended annual shutdown. Industry new vehicle assembly volumes are expected to reduce slightly for the full year as a result of subdued global vehicle demand and preparations for certain model replacements in South Africa.

The division's aftermarket accessories operations were successfully rationalised and restructured during the period. In this regard, the MAXE operations continued to perform well, despite subdued domestic vehicle sales volumes. The remaining aftermarket accessories operations were successfully disposed of with effect from 1 December 2019.

Integrated Bedding

The division operated well for the period. The Restonic mattress manufacturing operations were well prepared to manage and execute on elevated sales volumes during the Black Friday promotions, supported by increased production volumes. Vitafoam, the division's industrial foam operations, were negatively impacted by the lower volumes in the furniture sector. The DesleeMattex mattress fabric operations showed improvement post a restructure in July 2019, with increased focus on customer service, product management and plant efficiencies.

Polymers
The performance of the Polymers division continued to be adversely impacted by subdued global demand, production capacity expansions and global trade flows, all of which placed significant pressure on margins. The operational performance of the polymer plants remained strong, with stable production volumes and increased sales volumes for the period.

	PET		HDPE		PP	
	Period FY20	Period FY19	Period FY20	Period FY19	Period FY20	Period FY19
Sales volumes (tonnes)	93 505	79 235	68 921	61 927	53 562	49 696
Production volumes (tonnes)	84 902	84 887	65 902	70 562	51 640	49 677
Average R/USD exchange	14.75	14.17	14.75	14.17	14.75	14.17

PET – Polyethylene terephthalate | HDPE – High density polyethylene | PP – Polypropylene
Period refers to five months from 1 July to 30 November.

The continued variability in the raw material margins per ton is reflected as follows:

	Margin variance Period FY20 vs Period FY19#	Margin variance Period FY20 vs 2H19*
PET	(48%)	(22%)
HDPE	(35%)	1%
PP	4%	18%

- Five months ended 30 November 2019 compared to the five months ended 30 November 2018.
* - Five months ended 30 November 2019 compared to the six months ended 30 June 2019.

Significant progress was made in regaining local PET markets, which supported volume growth, however at significantly reduced margins. PET exports were scaled back significantly during the period due to deteriorating global selling prices and margins. Good progress was made in reducing inventory levels towards targeted levels. HDPE operations continued to feel the effects of expanded global production capacity with resultant lower global margins. Demand for HDPE remained strong and sales volumes improved. PP operations performed well for the period, showing increased volumes and improving margins.

Despite low global margins, the division remains profitable and cash generative and is well positioned to benefit from any cyclical upswing.

Contractual Logistics – South Africa
The recent restructure of the division has shown positive results during the period with slight revenue growth and margin improvement. With the restructure complete and the cost base reduced, management is focused on growing the contractual revenue base of the business through market share gains.

Contractual Logistics – Africa
This was a challenging period for the division with multiple contract renewal negotiations taking place in an environment of lower demand and increased competition. The division made good progress during the period in retaining existing contracts, although at lower margins. New contracts have been secured by the division which will allow it to expand operations during the second half of the year.

Passenger Transport
Escalating unemployment rates and subdued consumer spending have resulted in lower activity levels in the division. The commuter and personnel travel operations performed satisfactorily for the period. The intercity and tourism operations continued to experience low industry passenger numbers and aggressive competition. Renegotiation of onerous conditions and the restructure of operations in certain commuter contracts are ongoing.

Outlook
The economic environment is expected to remain depressed for some time. Management therefore remains focused on the execution of the Company's strategy, the optimisation of its operations, market share growth and generation of cash. The balance sheet of the Company remains strong, with sufficient capacity and liquidity to facilitate further capacity expansion opportunities and acquisitions, in line with the group's strategy to grow earnings and enhance shareholder returns. Management will drive organic expansion activities and will remain very selective in terms of acquisition opportunities at this time.

Stellenbosch
9 December 2019

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