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

**OPERATIONAL UPDATE FOR THE PERIOD 1 JULY 2020 TO 30 NOVEMBER 2020**

This operational update, as set out below, provides high level insight into the Company's operational performance for the first five months of the 2021 financial year to 30 November 2020 ("**period**").

**DIVISIONAL OPERATIONAL REVIEW**

The **Integrated Timber division** performed well for the period with strong demand for its products, which has enabled it to operate all its production facilities at full capacity. The division has a full order book for December and the third quarter, indicating that the current momentum will continue into the second half of the financial year. The board of directors of KAP recently approved a R1.4 billion investment into a new medium density fibreboard (MDF) plant, which will enable the division to continue growing its market position. This investment will be funded through cash generated from operations.

The **Automotive Components division's** volumes remained subdued due to lower global and domestic new-vehicle assembly demand associated with Covid. While these volumes are approximately 23% lower than the prior period, they were better than the division initially anticipated. The division successfully completed significant restructuring activities during the first quarter in order to right-size its operations. This should materially improve earnings in the second quarter.

The **Integrated Bedding division** performed well for the period with strong demand for its mattress brands, which enabled it to operate its production facilities at full capacity and to leverage off its integrated raw material supply chain. The division was well prepared to effectively manage the recent Black Friday promotional peak, thereby achieving volume growth on the prior year Black Friday peak. The division's order book remains full for December, leading into the year-end trading peak.

The **Polymers division** performed well for the period with strong demand for all three polymers. Sales volumes were limited only by production capacity and inventory. The division successfully completed its five-year statutory maintenance shut and completed its final debottlenecking project to improve efficiencies and yields at its PET facility. This resulted in 43 days of lost PET production, as reflected in the table below.

| | PET | | HDPE | | PP | |
|---|---|---|---|---|---|---|
| | Period FY21 | Period FY20 | Period FY21 | Period FY20 | Period FY21 | Period FY20 |
| Sales volumes (tonnes) | 80 310 | 93 505 | 71 474 | 68 921 | 49 271 | 53 562 |
| Production volumes (tonnes) | 61 045 | 84 902 | 68 345 | 65 902 | 50 709 | 51 640 |
| Average R/USD exchange | 16.54 | 14.75 | 16.54 | 14.75 | 16.54 | 14.75 |

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

PET margins improved significantly over the prior period, while both HDPE and PP margins remained fairly stable. Margins on all three polymers showed improvement for the period compared to the second half of FY20. This 17-month analysis indicates a positive margin trend, which will hopefully continue into the second half of FY21.

| | Margin variance Period FY21 vs Period FY20# | Margin variance Period FY21 vs 2H20* |
|---|---|---|
| PET | 70% | 54% |
| HDPE | 0% | 58% |
| PP | 2% | 17% |

# - Five months ended 30 November 2020 compared to the five months ended 30 November 2019.
* - Five months ended 30 November 2020 compared to the six months ended 30 June 2020.

The **Contractual Logistics – South Africa division** has experienced a steady monthly improvement in demand and activity levels from July to November, with November representing full capacity. The division continued to focus on operational efficiencies and asset utilisation during the period in order to offset the impact of lower volumes. This has produced encouraging results for the period.

The **Contractual Logistics – Africa division** performed well for the period with the exception of its activities in Botswana. The Covid restrictions in Botswana and the related border delays negatively impacted asset utilisation and efficiency levels in this territory. However, these restrictions are being relaxed over time, commencing from December 2020. The division's recent contract renewals and new contracts secured have been fully implemented and are operating well.

The performance of the **Passenger Transport division** has been disappointing for the period. The intercity and tourism operations were severely impacted by Covid-related restrictions and incurred significant losses. The Company will exit the intercity and tourism sectors during the financial year. The commuter and personnel operations performed satisfactorily, but below expectations due to lower passenger numbers. The Gautrain operations remained stable, while activities in Mozambique continued to expand.

## FINANCIAL AND LIQUIDITY REVIEW

The Company's performance for the period and forecast for December 2020 strongly indicate that the Company will remain well within its existing banking facilities and relevant financial covenant ratios. Global Credit Rating Co. Proprietary Limited reviewed KAP's credit rating in November 2020 and confirmed its rating as A+(za) with a stable outlook.

## OUTLOOK

The Company's strategy and diversified business model have proven to be resilient through the Covid crisis and its divisions have responded quickly to take advantage of improved market demand as Covid restrictions have been relaxed. Management is optimistic that this positive momentum will continue into the second half of the financial year.

By order of the Board
KAP Secretarial Services Proprietary Limited

Stellenbosch
10 December 2020

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