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

OPERATIONAL UPDATE FOR THE PERIOD 1 JULY 2020 TO 31 MAY 2021

This operational update, as set out below, provides high level insight into the Company's operational performance for the first eleven months of the 2021 financial year to 31 May 2021 ("**period**").

Covid-19 ("**Covid**") created an extremely complex and uncertain environment during the period from global socio-political and macro-economic dynamics, to impacting on the daily transactional execution of the products and services that we deliver to our customers and on the personal safety and wellbeing of our employees. We are very proud of the manner in which each one of our employees have risen to these challenges and sincerely grateful for their loyalty and commitment to the Company.

DIVISIONAL OPERATIONAL REVIEW

The **Integrated Timber** division has continued to perform well with strong demand for our products, supported by increased home-related consumer spend, especially in the value-added product category of decorative panels, which supported revenue and margin growth. We operated all of our production facilities at full available capacity throughout the period. The scheduled annual maintenance shutdowns at our Boksburg medium-density fibreboard and Ugie particleboard plants will be completed during June 2021 as planned. During these maintenance shutdowns we are able to fulfil our order book from inventory and maintain market share. Our forward order book remains strong. The particleboard expansion project at our eMkhondo (Piet Retief) production facility is progressing well and remains on schedule for commissioning during January 2022, thereby increasing our total production capacity.

The **Automotive Components** division continued to experience an improvement in activity levels during the second half of the year, albeit still below pre-Covid levels. Industry new vehicle assembly volumes increased by 8%, while new vehicle sales (passenger and light commercial vehicles) in South Africa decreased by 1% compared to the previous period. The division was restructured during the period in line with lower industry activity which has contributed to improved margins. We are well prepared for a significant new model introduction and related increased activity levels due to commence in July 2021.

The **Integrated Bedding** division has continued to perform well with strong demand for our range of sleep products, in line with the traditional seasonality of the retail sector. Our integrated raw material value chain continued to provide access to key raw materials, thereby protecting margins and ensuring a sustainable supply to our customers. We continued to capitalise on opportunities to also sell our raw material-related products into adjacent sectors in order to further grow revenue and expand margins.

The **Polymers** division continued to perform well with robust demand for all three polymers. Global supply chain disruptions and a significant increase in global shipping rates have supported increased demand for local polymer manufacture and supply. These supply chain disruptions unfortunately interrupted the supply of PTA, a key raw material required in the production of PET, which resulted in a PET production stoppage from 11 February 2021 to 8 March 2021. We continued to supply the market from PET inventories during this period to maintain market share. Our HDPE and PP plants both operated at full available capacity throughout the period.

Sales and production volumes are reflected as follows:

	PET		HDPE		PP	
	Period FY21	Period FY20	Period FY21	Period FY20	Period FY21	Period FY20
Sales volumes (tonnes)	164 915	178 962	144 863	143 276	98 827	102 009
Production volumes (tonnes)	150 865	189 296	141 702	140 754	104 001	104 021
Average R/USD exchange	15.53	15.54	15.53	15.54	15.53	15.54

PET – Polyethylene terephthalate | HDPE – High density polyethylene | PP – Polypropylene.
Period refers to eleven months from 1 July 2020 to 31 May 2021.

Raw material margins on all three polymers continued to strengthen during the period, impacting positively on the performance of the division. Improvements in the raw material margins of each polymer are reflected as follows:

	Margin variance Period FY21 vs Period FY20#	Margin variance Period FY21 vs 1H21*
PET	74%	23%
HDPE	28%	4%
PP	18%	19%

- Eleven months ended 31 May 2021 compared to the eleven months ended 31 May 2020.
* - Five months ended 31 May 2021 compared to the six months ended 31 December 2020.

The **Contractual Logistics – South Africa** division has performed well for the period. General economic activity levels, while still subdued, have shown improvement in most sectors in which we operate. While the competition remains robust, we have been effective in growing revenue and margins during the period and maintaining a strong pipeline of potential future contract opportunities.

The **Contractual Logistics – Africa** division has performed well in most of our relevant territories and markets, showing sufficient growth on the prior period to offset the continued poor performance of our fuel distribution activities in Botswana. Botswana still remains in a state of emergency due to Covid and, as a result, these fuel distribution activities are being restructured within a broader road freight strategy, which will better utilise available resources in future. We were able to successfully expand into new mining-related activities in Botswana during the period.

The **Passenger Transport** division performance remained disappointing for the period. Our operations in South Africa were broadly impacted by Covid-related restrictions and associated lower passenger numbers in the personnel and commuter transport sectors. Our activities in Mozambique were largely unaffected by Covid-related restrictions and terrorist activity in the northern region and produced a pleasing performance. Our intercity and tourism operations were closed during the period.

OUTLOOK

While Covid will continue to evolve and present unprecedented social and economic challenges and uncertainty, our employees and business model have proven to be agile and resilient during the period. The operational leverage of our operations provides us with the ability to adjust rapidly as markets evolve and our strict safety protocols at all of our operations provide a safe working environment to ensure the wellbeing of our employees and the continuity of our operations. We remain optimistic that our government has refined its approach to managing a resurgence of Covid infections in a manner which will minimise the economic impact thereof.

Market demand for our products remains robust and we are therefore confident that the Company will continue to perform well. We are focused on a number of strategic initiatives in order to provide revenue growth, margin improvement and improved returns beyond 2021.

By order of the Board
KAP Secretarial Services Proprietary Limited

Stellenbosch
29 June 2021

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