**KAP INDUSTRIAL HOLDINGS LIMITED**
(Incorporated in the Republic of South Africa)
(Registration number: 1978/000181/06)
Share code: KAP
ISIN: ZAE000171963
LEI code: 3789001F51BC0045FD42
("**KAP**" or "**the company**" or "**the group**")

BEING THE CHANGE

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**OPERATIONAL UPDATE FOR THE PERIOD 1 JULY 2022 TO 30 NOVEMBER 2022 ("period")**

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## OPERATING ENVIRONMENT

The operating environment for the period was very challenging, dominated by continued global volatility and severe political instability, infrastructure failures and rising inflation in South Africa. Within this context, KAP continued to operate its businesses in accordance with the following key strategies:

- building resilience in a volatile and increasingly uncertain operating environment;
- achieving growth in a subdued South African macroeconomic environment; and
- managing volatility in commodity prices and polymer margins.

## PERFORMANCE OVERVIEW

The group's operational performance for the period was satisfactory and was supported by the diverse nature of its operations. The expected recoveries in Restonic and Unitrans Africa are however taking somewhat longer than anticipated, whereas the expected softening in Safripol's raw material margins has been less severe than anticipated.

**PG Bison** had a pleasing performance for the period, supported by robust demand for its products and market share gains following the 14% increase in total capacity in March 2022. All board plants operated at capacity. The value-added product ratio was lower than the prior period, due largely to the increased raw board capacity and lower melamine-faced board ('MFB') production during November 2022. The commissioning of the division's seventh MFB press, scheduled for September 2022, has been delayed to March 2023 due to global semi-conductor shortages. The division is making good progress in developing export markets to supplement domestic sales.

**Restonic** had a challenging start to the period due to subdued demand from retailers and continued operating profit margin pressure. Demand improved from September 2022, following increased marketing activities by the division and higher demand from retailers ahead of the peak trading season and Black Friday promotions. The division's sales relating to Black Friday were marginally better than the prior period. While the division was able to start passing on raw material cost increases from September 2022 onwards, operating profit margins remained well below the long-term guided range of 13-15%, mainly due to the raw material cost increases, higher fuel costs and increased marketing expenditure.

**Feltex** showed an improved performance for the period, supported by higher new vehicle assembly volumes and light commercial vehicle sales. The variability in OEM offtake however remained a challenge, impacting negatively on the operating profit margin. The division made good progress in achieving price adjustments to counter the effects of significant raw material cost escalations and insurance compensation related to lost production due to the KwaZulu-Natal floods. The operating profit margin therefore improved over the prior period.

**Safripol** experienced a decline in profitability compared with the prior period, largely due to lower PP raw material margins, as expected, and lower PET production volumes. PET and HDPE margins remained healthy, as expected. Customer demand in certain sectors was muted at the start of the period, affected by lower consumer demand, electricity supply interruptions, high inventory levels and excess global HDPE and PP supply.

An analysis of Safripol's sales and production volumes and raw material margin variance is shown below:

| | PET | | HDPE | | PP | |
|---|---|---|---|---|---|---|
| | Period FY23 | Period FY22 | Period FY23 | Period FY22 | Period FY23 | Period FY22 |
| Sales volumes (tonnes) | 76 559 | 92 621 | 54 447 | 60 635 | 53 006 | 53 529 |
| Production volumes (tonnes) | 75 828 | 81 673 | 62 892 | 60 461 | 50 963 | 51 411 |
| Average USD/R exchange | 17.34 | 14.85 | 17.34 | 14.85 | 17.34 | 14.85 |

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

The actual raw material margin trend for Safripol is analysed as follows:

| | Period FY23 vs Period FY22# | Period FY23 vs 2H22* |
|---|---|---|
| PET | 47% | (22%) |
| HDPE | 41% | 5% |
| PP | (24%) | (33%) |

# - Five months ended 30 November 2022 compared to the five months ended 30 November 2021.
* - Five months ended 30 November 2022 compared to the six months ended 30 June 2022.

Notes:
1. The actual raw material margin trend analysis includes Safripol's actual selling prices and actual raw material costs in rands.
2. The actual raw material margin trend analysis has been adjusted to account for the R91 million ethylene price adjustment in period FY22.

PET production volumes were lower for the period due to a failure of a major component, which resulted in a shutdown of the plant for 38 days. The division was able to maintain supply from inventory to all domestic customers. An investigation into the root cause of the component failure is underway and the financial impact is in the process of being quantified for insurance purposes.

**Unitrans** had a stable performance compared to the prior period in spite of the loss of a major food contract during the period. The anticipated strong recovery in the Rest-of-Africa division's performance did not materialise as expected due primarily to the South African government's moratorium on diesel exports to neighbouring countries and abnormal weather conditions affecting its agriculture operations. The operating profit margin therefore remained below the long-term guided range of 8-10% for the period.

**DriveRisk** was acquired effective 1 December 2021, hence there is no comparative period for review. The business has compelling growth prospects, however performed below expectations for the period due primarily to the sudden USD/Rand exchange rate weakness, with related pricing adjustments to customers still to take place.

**BUSINESS RESILIENCE**

In view of the escalating political uncertainty and failing state infrastructure and services in South Africa, the company has embarked on a business resilience strategy to avoid potential business interruption and costs associated with operating in this environment.

As part of its resilience strategy, the company has initiated an energy strategy aimed at reducing electricity consumption, mitigating cost escalations, supply interruptions and non-supply through self-generation, co-generation and storage. While the group has not yet been materially affected by load-shedding, material secondary effects are starting to emerge, including but not limited to the additional wear-and-tear on equipment due to electricity instability and unscheduled stoppages following power infrastructure failures.

The construction of a 10 MW photovoltaic ('PV') plant at the Safripol Sasolburg site was completed in November 2022 and is the company's first material energy investment. A 4 MW PV plant at the PG Bison Boksburg site was approved during the period. Significant renewable energy investments are being assessed across the group. These investments will contribute to the sustainability of the group's operations and will produce attractive returns in their own right.

Stellenbosch
19 December 2022

Sponsor
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