INTEGRATED INTO EVERY DAY

KAP

KAP is a diversified industrial business focused on growth in African markets

KAP INDUSTRIAL HOLDINGS LIMITED Unaudited results for the six months ended 31 December 2016

FINANCIAL REVIEW

These are the unaudited results for the six months ended 31 December 2016.

Revenue and operating profit before capital items

Revenue increased by 10% to R9 033 million (H1:16 R8 189 million). Operating profit before capital items increased by 24% to R1 112 million (H1:16 R898 million). Operating margin increased to 12.3% (H1:16 11.0%) as a result of divisional integration benefits, continued operational streamlining and recent capital investments.

Headline earnings per share (HEPS)

HEPS increased by 18% to 25.2 cents (H1:16 21.4 cents).

Tax rate

The effective tax rate increased to 29.2% (H1:16 28.4%) mainly as a result of withholding taxes emanating from the implementation of the group's policy to routinely repatriate surplus funds from non-South African territories.

Cash flow

Cash generated from operations increased by 27% to R495 million (H1:16 R391 million), supported by earnings growth and improved working capital management. The cash flow cycle remains unchanged with a seasonal investment in working capital for the period to 31 December each year. In line with historic performance this working capital investment is expected to normalise by 30 June.

Working capital

Net working capital decreased by R180 million to R1 125 million despite the impact of the various acquisitions concluded. Inventories increased by R98 million and accounts receivable increased by R334 million, while accounts payable increased by R612 million.

Capital expenditure

Replacement capital expenditure continues to be managed in relation to the annual depreciation charge and amounted to R640 million for the period. Expansion capital expenditure of R581 million resulted from continued investment in the group's asset base to drive growth and efficiency benefits.

Capital expenditure was mainly directed towards continued progress on an upgrade of the PG Bison Piet Retief particleboard plant; expansion of the Hosaf PET plant; construction of a new integrated bedding facility; and logistics and passenger transport vehicles.

Capital structure

In order to facilitate the various expansion activities of the group while maintaining a healthy capital structure to facilitate future growth for KAP, the following funding activities were concluded during the period:

- R1 500 million equity raised through a fully subscribed rights issue;
- R1 374 million raised through a combination of private and public bond issuances with 3 and 5 year tenures, with a mix of fixed and floating interest rates; and
- R2 800 million new facilities secured as a combination of term debt and revolving credit facilities with 3 and 5 year tenures, with a mix of fixed and floating interest rates.

Net interest-bearing debt decreased by R584 million to R2 617 million and the gearing ratio improved to 25% (H1:16 40%). The debt structure and cover ratios are reflected as follows:

Debt structure and cover ratios	31 Dec 2016 Rm	31 Dec 2015 Rm
Interest-bearing long-term liabilities	6 449	2 920
Interest-bearing short-term liabilities	527	1 059
Bank overdrafts and short-term facilities	164	276
Cash and cash equivalents*	(4 523)	(1 054)
Net interest-bearing debt	2 617	3 201
Total equity (excluding non-controlling interests)	10 294	8 037
Net interest-bearing debt: equity	25%	40%
EBITDA	1 552	1 323
Net finance charges	198	151
EBITDA: interest cover (times)**	8.4	9.4
Net debt: EBITDA (times)**	0.9	1.2

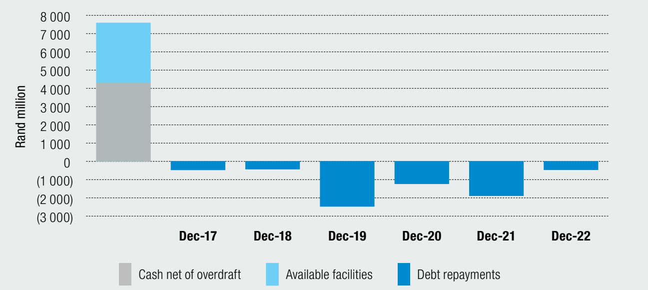
* *Cash and cash equivalents were increased in order to facilitate the payment of R4 100 million for Safripol on 3 January 2017*

** *Rolling 12 months*

Debt maturity profile

The net interest-bearing debt maturity profile of the company improved during the period as a result of the replacement of existing facilities with longer dated facilities.

MATURITY OF NET INTEREST-BEARING DEBT AS AT 31 DECEMBER 2016



Net asset value (NAV)

The NAV per share increased by 17% to 387 cents from 330 cents.

ACQUISITIONS

The group concluded the following transactions during the period in accordance with its strategy:

Safripol Holdings (Pty) Ltd (Safripol)

The group acquired 100% of the equity and claims in Safripol for R4 100 million, effective 1 January 2017. Safripol is engaged in the manufacture of polypropylene and high density polyethylene, which are used in the manufacture of a broad range of plastic injection and blow moulded products. This business operates with a similar business model to that of Hosaf and manufactures products which are complementary to those manufactured by Hosaf.

Lucerne Transport (Pty) Ltd (Lucerne)

The group acquired 100% of the equity and claims in Lucerne effective 1 September 2016. Lucerne's operations are complementary to those of Unitrans, specifically in terms of bulk liquid tanker transport of chemicals and edible oils.

Xinergistix (Pty) Ltd (Xinergistix)

The group acquired a controlling interest in Xinergistix effective 1 July 2016. Xinergistix operates in the logistics sector, providing complementary services to those of Unitrans.

OUTLOOK

Management continues to focus on optimising and expanding its existing operations and on growing its market share in all areas of operation and remains optimistic that these activities will provide a solid platform for continued growth, despite the current challenging economic environment.

The acquisition and integration of Lucerne and the increased shareholding in Xinergistix have produced new opportunities for the diversified logistics segment and will facilitate increased intragroup trade within KAP. Improved efficiencies and reduced costs resulting from the recent rationalisation of the contractual logistics division continue to support the competitiveness of the division in terms of contract renewals, extensions and the procurement of additional contracts. The contractual nature of both the contractual logistics and passenger transport divisions continues to provide underlying support through the current economic cycle.

In the diversified industrial segment, the current momentum of existing operations is expected to continue in the second half of the financial year. Certain key projects, including an expansion of the Hosaf PET operation, an upgrade of the PG Bison Piet Retief particleboard plant and the construction of a new integrated bedding facility, are progressing on schedule and will support revenue and operating profit growth in FY2018. The acquisition of Safripol is expected to bring scale benefits to the chemical division as it is exposed to exciting new markets.

INTERIM DIVIDEND

In line with the group's policy, the board has not declared an interim dividend.

APPRECIATION

The board of directors records its appreciation for the continued support and loyalty of the group's employees, shareholders, customers and suppliers.

On behalf of the board

J de V du Toit	KJ Grové	GN Chaplin
Independent non-executive chairman	Non-executive deputy chairman	Chief executive officer
13 February 2017		

KAP Industrial Holdings Limited ("KAP" or "the company" or "the group")

Non-executive directors: J de V du Toit (Chairman)*, KJ Grové (Deputy chairman), MJ Jooste, AB la Grange, IN Mkhari*, SH Müller*, SH Nomvete*, PK Quarmby*, DM van der Merwe, CJH van Niekerk* **Executive directors:** GN Chaplin (Chief executive officer), FH Olivier (Chief financial officer)
Registration number: 1978/000181/06 **Share code:** KAP **ISIN:** ZAE000171963 **Registered address:** 28 6th Street, Wynberg, Sandton, 2090 **Postal address:** PO Box 18, Stellenbosch, 7599 **Telephone:** 021 808 0900 **Facsimile:** 021 808 0901 **E-mail:** info@kap.co.za **Transfer secretaries:** Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Bierman Avenue, Rosebank, 2196 **Company secretary:** Steinhoff Secretarial Services Proprietary Limited **Auditors:** Deloitte & Touche **Sponsor:** PSG Capital Proprietary Limited
*Independent non-executive directors

JCB.E

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OPERATIONAL REVIEW

The group continued to grow through investment in strategically aligned businesses and operations with high barriers to entry, which enhance the group's quality of earnings in respect of sustainability, solid margins and strong cash conversion. The disciplined execution of the group's strategy produced pleasing operational results for the period.

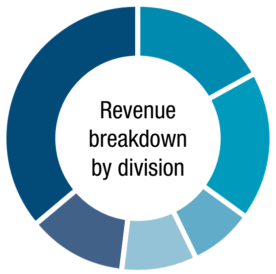
Revenue up by	Operating profit up by	Headline earnings per share up by	Cash generated from operations up by	Net asset value up by
10% to R9bn	**24%** to R1.1bn	**18%**	**27%**	**17%**

Diversified logistics: **48%** of revenue

Diversified industrial: **52%** of revenue

CONTRACTUAL LOGISTICS 36%
Specialised contractual supply chain and logistics services

PASSENGER TRANSPORT 12%
Personnel, commuter, intercity and tourism transport



16% **INTEGRATED TIMBER**
Forestry and timber manufacturing operations with primary and secondary processing

17% **CHEMICAL**
Manufacture of PET, UF resin and impregnated paper

11% **AUTOMOTIVE COMPONENTS**
Manufacture of components used in new vehicle assembly and after-market vehicle accessories

8% **INTEGRATED BEDDING**
Manufacture of foam, fabrics, springs, bases and mattresses

Revenue for the diversified logistics segment increased by 9% to R4 473 million while the operating profit of the segment increased by 2% to R488 million.

The contractual logistics division performed well for the period in spite of subdued industrial activity and drought conditions in southern Africa. This weighed on revenue and operating margin as a result of lower volumes in the infrastructure and mining, agriculture and petrochemical sectors. Activity in the food and specialised warehousing sectors remained stable. Strong cost control and efficiency improvements continued to support the overall operating margins and the competitiveness of the division.

The passenger transport division performed well, with increased activity and contract growth in the commuter, personnel and tourism transport sectors and continued growth in its Mozambique operations. Slower activity in the intercity travel environment impacted on both revenue and operating margin of the division's operations in this sector.

Revenue for the diversified industrial segment increased by 12% to R4 637 million while the operating profit of the segment increased by 49% to R624 million.

The integrated timber division performed well for the period with revenue growth and margin improvement resulting from its recent investments, including an expansion to its MDF (medium-density fibreboard) plant, continued focus on its value-add strategy and further improvement in its forestry, sawmilling and pole operations.

The chemical division also performed well with revenue growth and margin improvement resulting mainly from a value-add paper impregnation plant installed at its Woodchem operation, while its Hosaf operation continued to benefit from sustained demand for PET.

The automotive components division performed well for the period due to stable vehicle assembly volumes supported by robust export volumes and successful new model introductions in the domestic market. Technology investments, continuous improvement projects and the streamlining of Autovest operations supported operating margin.

The integrated bedding division continued to drive integration synergies and the roll-out of their decentralised model for mattress assembly and distribution, which provided strong operating margin improvement from a stable revenue base.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated income statement

	Notes	Six months ended 31 Dec 2016 Unaudited Rm	Six months ended 31 Dec 2015 Unaudited Rm	% change	Year ended 30 Jun 2016 Audited Rm
Revenue		9 033	8 189	10	16 232
Operating profit before depreciation, amortisation and capital items		1 552	1 323	17	2 790
Depreciation and amortisation		(440)	(425)		(806)
Operating profit before capital items		1 112	898	24	1 984
Capital items	1	4	(8)		(20)
Earnings before interest, dividend income, associate and joint-venture earnings and taxation		1 116	890	25	1 964
Net finance charges		(198)	(151)		(313)
Share of profit of associate and joint-venture companies		10	10		24
Profit before taxation		928	749	24	1 675
Taxation		(271)	(213)		(482)
Profit for the period		657	536	23	1 193
Attributable to:					
Owners of the parent		629	513	23	1 147
Non-controlling interests		28	23		46
Profit for the period		657	536	23	1 193
Headline earnings per ordinary share (cents)		25.2	21.4	18	47.8
Fully diluted headline earnings per ordinary share (cents)		25.0	21.1	18	47.2
Basic earnings per ordinary share (cents)		25.3	21.2	19	47.1
Fully diluted earnings per ordinary share (cents)		25.1	20.8	21	46.5
Number of ordinary shares in issue (m)		2 662	2 441	9	2 441
Weighted average number of ordinary shares in issue (m)		2 487	2 424	3	2 433
Earnings attributable to ordinary shareholders (Rm)		629	513	23	1 147
Headline earnings attributable to ordinary shareholders (Rm)	2	626	519	21	1 163

Additional information

	Six months ended 31 Dec 2016 Unaudited Rm	Six months ended 31 Dec 2015 Unaudited Rm	Year ended 30 Jun 2016 Audited Rm
Note 1: Capital items			
Loss on disposal of property, plant and equipment and investment property	–	(5)	(8)
Gain on bargain purchase	4	–	–
Loss on disposal of investments and impairments	–	(3)	(12)
	4	(8)	(20)
Note 2: Headline earnings attributable to ordinary shareholders			
Earnings attributable to owners of the parent	629	513	1 147
Adjusted for:			
Capital items (note 1)	(4)	8	20
Taxation effects of capital items	–	(2)	(3)
Non-controlling interests' portion of capital items (net of taxation)	1	–	–
Capital items of associate and joint-venture companies (net of taxation)	–	–	(1)
	626	519	1 163

Condensed consolidated statement of changes in equity

	Six months ended 31 Dec 2016 Unaudited Rm	Six months ended 31 Dec 2015 Unaudited Rm	Year ended 30 Jun 2016 Audited Rm
Balance at beginning of the period	8 862	7 930	7 930
Changes in ordinary stated share capital			
Net shares issued	1 456	–	–
Changes in reserves			
Total comprehensive income for the period attributable to owners of the parent	575	606	1 198
Dividends and capital distributions paid	(439)	(363)	(363)
Share-based payments	35	33	71
Changes in non-controlling interests			
Total comprehensive income for the period attributable to non-controlling interests	27	25	48
Dividends and capital distributions paid	(12)	(13)	(22)
Acquired on acquisition of subsidiaries	2	–	–
Arising on acquisition of subsidiaries	102	–	–
Balance at end of the period	10 608	8 218	8 862
Comprising:			
Ordinary stated share capital	8 774	7 318	7 318
Reverse acquisition reserve	(3 952)	(3 952)	(3 952)
Distributable reserves	5 208	4 362	5 018
Share-based payment reserve	234	161	199
Other reserves	30	148	84
Non-controlling interests	314	181	195
	10 608	8 218	8 862

Condensed consolidated statement of financial position

	31 Dec 2016 Unaudited Rm	31 Dec 2015 Unaudited Rm	30 Jun 2016 Audited Rm
ASSETS			
Non-current assets			
Goodwill and intangible assets	2 204	1 603	2 078
Property, plant and equipment and investment properties	9 404	7 600	8 128
Consumable biological assets	1 971	1 844	1 890
Investments in associate and joint-venture companies	74	152	124
Investments and loans	3	1	3
Deferred taxation assets	99	89	105
	13 755	11 289	12 328
Current assets			
Inventories	1 364	1 266	1 286
Accounts receivable and other current assets	3 172	2 838	2 677
Short-term loans	4	23	2
Taxation receivable	50	53	44
Cash and cash equivalents	4 523	1 054	2 602
	9 113	5 234	6 611
Total assets	22 868	16 523	18 939
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated share capital	8 774	7 318	7 318
Reserves	1 520	719	1 349
	10 294	8 037	8 667
Non-controlling interests	314	181	195
Total equity	10 608	8 218	8 862
Non-current liabilities			
Interest-bearing long-term liabilities	6 449	2 920	4 204
Deferred taxation liabilities	1 614	1 196	1 368
Other long-term liabilities and provisions	130	92	93
	8 193	4 208	5 665
Current liabilities			
Accounts payable, provisions and other current liabilities	3 333	2 714	3 899
Interest-bearing short-term liabilities	527	1 059	431
Taxation payable	43	48	46
Bank overdrafts and short-term facilities	164	276	36
	4 067	4 097	4 412
Total equity and liabilities	22 868	16 523	18 939
Net asset value per ordinary share (cents)	387	330	355
Net interest-bearing debt to equity (%)	25%	40%	24%

Condensed consolidated statement of cash flows

	Six months ended 31 Dec 2016 Unaudited Rm	Six months ended 31 Dec 2015 Unaudited Rm	Year ended 30 Jun 2016 Audited Rm
Operating profit before capital items	1 112	898	1 984
Depreciation and amortisation	440	425	806
Net fair value adjustments of consumable biological assets and decrease due to harvesting	(4)	(15)	(43)
Other non-cash adjustments	36	45	111
Cash generated before working capital changes	1 584	1 353	2 858
Increase in inventories	(74)	(98)	(73)
Increase in receivables	(296)	(288)	(21)
(Decrease)/increase in payables	(719)	(576)	521
Changes in working capital	(1 089)	(962)	427
Cash generated from operations	495	391	3 285
Dividends received	–	2	13
Dividends paid	(452)	(379)	(385)
Net finance charges	(198)	(151)	(313)
Taxation paid	(120)	(159)	(266)
Net cash (outflow)/inflow from operating activities	(275)	(296)	2 334
Additions to property, plant and equipment	(1 221)	(840)	(1 717)
Acquisition of investments	(227)	–	(573)
Other investing activities	(25)	(23)	(12)
Net cash outflow from investing activities	(1 473)	(863)	(2 302)
Net cash (outflow)/inflow from operating and investing activities	(1 748)	(1 159)	32
Net cash inflow from financing activities	3 686	804	1 174
Net increase/(decrease) in cash and cash equivalents	1 938	(355)	1 206
Effects of exchange rate changes on cash and cash equivalents	(17)	39	26
Cash and cash equivalents at beginning of period	2 602	1 370	1 370
Cash and cash equivalents at end of period	4 523	1 054	2 602

Condensed consolidated statement of comprehensive income

	Six months ended 31 Dec 2016 Unaudited Rm	Six months ended 31 Dec 2015 Unaudited Rm	Year ended 30 Jun 2016 Audited Rm
Profit for the period	657	536	1 193
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign subsidiaries	(55)	95	53
Total comprehensive income for the period	602	631	1 246
Total comprehensive income attributable to:			
Owners of the parent	575	606	1 198
Non-controlling interests	27	25	48
Total comprehensive income for the period	602	631	1 246

Segmental analysis

	Six months ended 31 Dec 2016 Unaudited Rm	Six months ended 31 Dec 2015 Unaudited Rm	% change	Year ended 30 Jun 2016 Audited Rm
Revenue				
Diversified logistics	4 473	4 099	9	7 899
Diversified industrial	4 637	4 142	12	8 440
	9 110	8 241	11	16 339
Intersegment revenue eliminations	(77)	(52)		(107)
	9 033	8 189	10	16 232
Operating profit before capital items				
Diversified logistics	488	478	2	1 006
Diversified industrial	624	420	49	978
	1 112	898	24	1 984

	31 Dec 2016 Unaudited Rm	%	31 Dec 2015 Unaudited Rm	%	30 Jun 2016 Audited Rm	%
Total assets						
Diversified logistics	7 153	39	6 151	40	6 267	39
Diversified industrial	11 018	61	9 066	60	9 814	61
	18 171	100	15 217	100	16 081	100

Reconciliation of total assets per statement of financial position to total assets per segmental analysis

	31 Dec 2016 Unaudited Rm	31 Dec 2015 Unaudited Rm	30 Jun 2016 Audited Rm
Total assets per statement of financial position	22 868	16 523	18 939
Less: Cash and cash equivalents	(4 523)	(1 054)	(2 602)
Less: Investments in associate and joint-venture companies	(74)	(152)	(124)
Less: Interest-bearing long-term loans receivable	(2)	–	(2)
Less: Interest-bearing short-term loans receivable	(1)	(23)	–
Less: Related party receivables	(97)	(77)	(130)
Total assets per segmental analysis	18 171	15 217	16 081

Geographical information

	Six months ended 31 Dec 2016 Unaudited Rm	%	Six months ended 31 Dec 2015 Unaudited Rm	%	Year ended 30 Jun 2016 Audited Rm	%
Revenue						
South Africa	8 029	89	7 170	88	14 315	88
Rest of Africa	1 004	11	1 019	12	1 917	12
	9 033	100	8 189	100	16 232	100
Non-current assets						
South Africa	12 609	92	10 117	90	11 112	90
Rest of Africa	1 146	8	1 172	10	1 216	10
	13 755	100	11 289	100	12 328	100

Fair values of financial instruments

	Fair value as at 31 Dec 2016 Unaudited Rm	Fair value as at 31 Dec 2015 Unaudited Rm	Fair value as at 30 Jun 2016 Audited Rm	Fair value hierarchy
Derivative financial assets	2	54	15	Level 2
Derivative financial liabilities	(59)	–	(26)	Level 2

Level 2 financial instruments are valued using techniques where all of the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. These inputs include published interest rate yield curves and foreign exchange rates.

KAP

Selected explanatory notes

1. **Statement of compliance**
   The condensed consolidated interim financial information has been prepared and presented in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited, the information as required by IAS 34: *Interim Financial Reporting* and the requirements of the South African Companies Act, No. 71 of 2008. The consolidated interim financial information has been prepared using accounting policies that comply with IFRS which are consistent with those applied in the financial statements for the year ended 30 June 2016.
2. **Basis of preparation**
   The condensed interim financial statements are prepared in millions of South African Rands (Rm) on the historical cost basis, except for certain assets and liabilities, which are carried at amortised cost, and derivative financial instruments and biological assets, which are stated at their fair values. The preparation of the condensed interim financial statements for the six months ended 31 December 2016 was supervised by Frans Olivier, the group's chief financial officer.
3. **Change in accounting policies**
   The accounting policies adopted in the preparation of the condensed interim financial information are consistent with those of the annual financial statements for the year ended 30 June 2016.
4. **Financial statements**
   These results have not been reviewed or reported on by the group's auditors. The results were approved by the board of directors on 13 February 2017.
5. **Post-balance sheet events**
   With the exception of the Safripol acquisition referred to elsewhere in this announcement, no significant events have occurred in the period between the end of the period under review and the date of this report.
6. **Changes to the board/board committees**
   There were no changes to the board of directors during the period under review. With effect from 1 January 2017 Mr KJ (Jo) Grové retired and as a result will now fulfil the position of non-executive deputy chairman.