REPORTS TO STAKEHOLDERS

The year under review has been characterised by geopolitical conflict, which has significantly impacted global markets and trade, and strong social movements across the world.

Jaap du Toit – Independent non-executive chairman

CHAIRMAN'S REPORT

The year under review has been characterised by geopolitical conflict, which has significantly impacted global markets and trade, and strong social movements across the world. The effect of these issues has been sustained and escalated by increasingly open and unregulated media platforms. What has been most striking, in considering the past year, has been the speed and the extent of change. During the Covid-19 pandemic, the whole world stood still for a while. Previously, this would have been impossible for us to imagine. While the economic implications have been significant and, in many cases, devastating, I cannot help feeling that it was a valuable time for us to pause and reflect.

Having considered what we experienced as a society, it is interesting to look forward and contemplate where the new normal of social, political and economic behaviour will settle. There will always be winners and losers in any given circumstances. Those with the mental agility to adapt and modify quickly will prosper, while those lacking this ability will flounder and fail. But is this not the story of evolution? I believe we have always been exposed to life-altering changes. It just seems that we will be exposed to such life-altering changes more often in future.

Throughout all this change, reinvention and media storm, I believe there will be many companies that will adapt quietly and efficiently to the new environment and make the necessary changes to continue serving their customers, growing their businesses and providing returns to their shareholders. I believe KAP is one such company.

KAP navigated the last year very effectively, growing our position in the various markets that we serve, generating EBITDA of R2.7 billion, and maintaining our liquidity. This is a clear demonstration that our strategy of a diversified business model, operating across a number of sectors and geographies, supplying mainly non-discretionary goods and services, supported by backward integrated supply chains is robust and equal to the challenge.

The board and management addressed the impact of the Covid-19 Lockdown decisively and effectively by adopting a focused, risk-based approach. The effectiveness of a decentralised management structure enabled management to respond quickly in implementing numerous measures to reduce costs and maximise cash flows, in order to ensure continued liquidity and the sustainability of the group. It was fantastic to see how positively and energetically our management and employees responded to this crisis. I congratulate them on their achievements.

Board changes

The board functioned well during the year and had several constructive and productive interactions. Three new board members were appointed during the year: KT Hopkins on 6 December 2019, V McMenamin on 12 December 2019 and Z Fuphe on 1 March 2020. These new board members were also appointed to board subcommittees. KT Hopkins was appointed as the chairperson of the audit and risk committee from 1 September 2020. We are very pleased with these new directors, who have already contributed significantly to the board. The board's interactions with executive management also remained constructive and transparent during the year, which was invaluable in these circumstances.

Through the nomination committee, the board plans to manage a responsible transition to release long-serving board members, and to introduce new board members over the next four years. It is healthy and in the long-term interests of the company to bring fresh energy and perspectives to the deliberations of the board. The business environment is becoming increasingly regulated in all areas, and it is important that the board maintains the requisite skills to manage this effectively.

The board adopted a new broad diversity policy in May 2020, in which we set targets for race and gender diversity. We have already made good progress against these targets.

Remuneration policy

During 2018, the human capital and remuneration committee ('Remcom') implemented certain changes to the remuneration policy, which included executive incentives. This policy was strongly supported by shareholders at the company's 2018 annual general meeting ('AGM'). However, we experienced more than 25% dissenting votes on the same remuneration policy at the 2019 AGM. As a result, we provided a platform to consult with dissenting shareholders, in line with the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV™)*. As a result of these consultations, the Remcom recommended significant changes to our remuneration policy, which the board accepted and implemented.

I believe the recent changes to the remuneration policy will better align the interests of management with those of shareholders, and will drive the enhancement of value for all stakeholders. The primary measures of executive performance will be real growth in headline earnings per share, return on equity in excess of the company's cost of capital and cash flow conversion. Governance and individual key performance measures, including environmental, social and governance ('ESG') activities and sustainability, will continue to form part of the incentive measurement criteria. Management have embraced these new measurement criteria and have aligned divisional incentive structures accordingly.

Sustainability

We remain committed to responsible corporate citizenship. I am pleased that the company again improved its ESG score as rated by the FTSE4Good index. The focus on ESG does more than create a sustainable company; it is the right thing for all of us to do. Great progress has been made in pursuing a responsible and balanced approach to ESG with increasing levels of adoption throughout the organisation.

> **"The primary measures of executive performance will be real growth in headline earnings per share, return on equity in excess of the company's cost of capital and cash flow conversion.**

The development of our human capital as a key success factor and a strategic imperative for the company has been well demonstrated during the past year. Diversity will strengthen the organisation and it is therefore encouraging to see the focus being applied to develop and promote black employees, women and younger people in the company. This can only be positive for our future.

Dividend

While we acknowledge the value to shareholders of a consistent dividend flow, due to the impact of the Covid-19 Lockdown on the company and our employees, and in order to maintain the liquidity of the company, the board did not declare a dividend for the year. We are hopeful that the positive momentum felt during the first quarter of the 2021 financial year will continue and the company will be in a position to resume its annual dividend.

Share repurchases

During the year, the board approved a scheme for the company to purchase and cancel 97 million of its own shares in order to enhance shareholder value. We see enormous value in our various businesses and we will continue to consider share buy-backs in our investment decisions in future.

In addition, in order to eliminate the dilutionary effects of the company's share rights scheme, the board approved the purchase of 36 million shares to be held as treasury shares for delivery to the share rights scheme participants on the achievement of the relevant measurement criteria of the scheme.

The repurchase of both tranches of shares was successfully concluded by 28 February 2020.

Future prospects

The world faces an uncertain time with current and anticipated major events taking place which could significantly change the global sociopolitical and macroeconomic environment. In South Africa, we seem to be returning to some degree of stability and normality, albeit a new normal.

I am hopeful that we will experience a robust economic recovery, supported by more stable and transparent political leadership. I am encouraged by the focus of our Presidency on the elimination of corruption and on stimulating the economy through infrastructure development programmes. The effect of these two measures, together with the measures taken by the Reserve Bank, on investor and business confidence will be fundamental to our economic recovery.

KAP's strategy of a diversified model with decentralised management has proved to be resilient and remains intact. Our products and services are still in demand. Our ability to operate through exceptionally challenging circumstances and continue to generate cash and service debt has been demonstrated successfully. Our investments in recent years in product and market development, human capital and state-of-the-art manufacturing and logistics equipment provide competitive advantages and significant operational leverage to grow earnings and improve returns over time.

I am optimistic that, despite the weak economic environment and ongoing impact of the Covid-19 Lockdown regulations, the company is well positioned for growth.

Appreciation

I would like to thank our shareholders for their ongoing commitment and trust. I would also like to extend my appreciation to our customers, suppliers and banking partners for their ongoing support. The board's input and commitment has been invaluable, and I appreciate the additional time and effort they have given during the past year.

Finally, a special, heartfelt thank you to all our employees for their ongoing loyalty, passion and dedication to the company. The board and I are proud of your achievements and grateful for your significant personal and financial sacrifices to ensure the sustainability of the company. It is the mark of good leadership and the culture of the organisation that, when faced with adversity, we were able to overcome it and emerge stronger.

Jaap du Toit
Independent non-executive chairman

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The 2020 financial year has been extraordinary and has, at times, felt surreal. We have never before been exposed to a combined social, economic and financial shock of this scale and intensity. This created an enormously challenging environment for all of us, in all aspects of our lives.

Gary Chaplin – Chief executive officer

CHIEF EXECUTIVE OFFICER'S REPORT

The 2020 financial year has been extraordinary and has, at times, felt surreal. We have never before been exposed to a combined social, economic and financial shock of this scale and intensity. This created an enormously challenging environment for all of us, in all aspects of our lives. I am very proud of the group's achievements during this unprecedented time and the manner in which our people responded so positively to the challenge. While this has had a major impact on the financial results of the company, I am pleased to report that the group weathered the storm well, and has emerged as a stronger, more energised organisation.

Our financial year can be summarised by three primary factors, which had a major impact on the operational and financial performance of the group:

- The macroeconomic and sociopolitical environment in South Africa was extremely challenging during the year, with limited real economic growth, subdued consumer spending, unreliable electricity supply and increasing levels of unemployment.
- The cyclical imbalance in global polymer supply and demand had a significant impact on margins, resulting in a reduction of approximately R550 million in operating profit compared to the prior year.
- Covid-19 and the consequent national lockdown ('Covid-19 Lockdown'), imposed by the South African government with effect from 27 March 2020, was devastating to the economy and had a significant impact on our various operations. It resulted in an estimated reduction of approximately R800 million in operating profit for the year compared with our internal forecasts.

Our business model, with diversified operations in predominantly non-discretionary goods and services and decentralised management structures, has proved to be resilient and effective throughout this period. The group produced revenues of R22.2 billion, EBITDA of R2.7 billion and cash flow from operations of R2.1 billion for the year. Throughout the various levels of the Lockdown, we continued to produce positive EBITDA and generate positive cash flow from operations.

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It is unfortunate that the above-mentioned factors have overshadowed what would otherwise have been a good performance by the group in a very subdued economic environment. Excluding the impact of the cyclical polymer imbalance and the estimated impact of the Covid-19 Lockdown, the group would have ended the year 9% above prior year EBITDA of R3.7 billion, which is very pleasing.

Covid-19 Lockdown

The devastating social and economic impact of the Covid-19 Lockdown has been widely reported on various media platforms. The financial and operational impact on the group has also been comprehensively reported in the company's year-end reporting. However, there were several positive outcomes which have not been reported and will have enduring benefit for the group. These outcomes are reflected as follows:

- The Covid-19 crisis has created unity among our people with increased communication, engagement and understanding at all levels.
- Consistent and transparent stakeholder engagement has led to stronger relationships, especially with customers, suppliers and banking partners, and has resulted in market share gains and increased access to funding.
- While we have consistently invested in new technology and state-of-the-art plant and equipment, this crisis has accelerated a far broader adoption of digital technology in our operations, which has improved communication, transparency and visibility. This has also improved performance and is expected to facilitate growth.
- The crisis has exposed certain inefficiencies in our various operations and has accelerated management intervention to rectify these inefficiencies, which will ultimately improve performance and returns for the group.
- We initiated widespread cost-saving and efficiency-improvement initiatives during the Covid-19 Lockdown, which have continued into FY21 and will support margins.
- Finally, and most importantly, we have learnt an enormous amount and we have been inspired into action to apply these learnings to improve the group in a number of tangible ways.

Navigating the Covid-19 pandemic has been extremely challenging and, at times, traumatic for the business and our employees. However, KAP has emerged as a better business post-Covid-19, with a more focused and motivated management team and more committed employees.

Strategy

As we would expect in times characterised by enormous change and uncertainty, we have interrogated the appropriateness of KAP's strategy. The current strategy has proved to be successful through this period and remains relevant and intact.

We have been effective in the past in operational execution and our objective of maintaining the lowest cost of product and service to market, which has made the various divisions very competitive over time. Together with increased customer focus, this has enabled us to expand our operations consistently through market share growth. This internal execution discipline and culture is now firmly entrenched in all aspects of our operations, and we will continue to pursue it.

Looking forward, senior management will increase their focus on brand development, product development, consumer demand creation and market penetration activities. We own several market-leading brands, many of which are already household names. We believe that, although our operations are business to business, increased focus on consumer behaviour and preferences will create longer-term growth opportunities for our various operations and customers.

The focus of senior management will therefore evolve from an internal execution focus towards a market and product-led focus in order to drive revenue growth. In line with this, we have used the recent months to interrogate the individual strategies of our various divisions. We have developed an exciting pipeline of material opportunities to expand our existing businesses, develop new products, and enter complementary markets over the next few years.

Human capital

At half-year, we reported several senior and executive management changes in our various operations. The focus of these changes was to position the right people in the right jobs according to the strategy of each division. Fortunately, these changes were fully implemented and allowed to settle before the Covid-19 Lockdown. These changes have proved to be successful and have facilitated strong leadership during a challenging period.

Key to these changes was the reconstitution of the KAP executive committee ('Exco') in order to include a more diverse range of skills and experience and greater depth of executive management. The following long-serving senior management were appointed to the Exco: SP Lunga (human capital executive), LM Besteiro (ICT executive), RH Louw (treasury and legal executive), GM van der Merwe (investor relations and sustainability executive) and K Gey von Pittius (group financial manager). Two divisional executive changes were also made, with the appointment of R Hayworth as the CEO of the Contractual Logistics – Africa division, and the appointment of N van Niekerk as the CEO of the Polymers division. The Exco is functioning effectively, as are each of the individual executives in their respective functional roles.

Leadership development and succession will be a key focus area for the group going forward, with the emphasis initially at divisional executive and senior management levels. We employ an amazingly talented pool of people with enormous potential. We would like to prepare them suitably to lead our organisation in the future. The constitution of our divisional executive committees and the related succession planning will continue to be a key focus area for me, as this will provide the best platform from which to execute our strategic plans.

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KEY POINTS OF OUR STRATEGY SUMMARISED

1. Our objective of maintaining the lowest cost of product and service to market has made the various divisions very competitive over time.
2. Together with increased customer focus, operational expansion through market share growth has been possible.
3. Senior management will increase their focus on brand development, product development, consumer demand creation and market penetration activities.
4. Although our operations are business to business, an increased focus on consumer behaviour and preferences will create longer-term growth opportunities for our various operations and customers.
5. Senior management will evolve from an internal execution focus towards a market and product-led focus in order to drive revenue growth.
6. We have developed an exciting pipeline of material opportunities to expand our existing businesses, develop new products, and enter complementary markets over the next few years.

During the year, the KAP human capital and remuneration committee amended the KAP remuneration policy, following input from various shareholders and a peer review. I believe that these changes are positive, and will drive the right behaviour of management, with a real focus on the metrics that drive shareholder value. Management have embraced these changes, and have immediately realigned their focus accordingly.

Diversity

As an organisation, we see value in the varied perspectives that diversity of race, gender, age, skills and backgrounds provides. This is reflected in the adoption by the board of the broad diversity policy, which now includes race and gender targets, the appointment of three new board members during the year, and the reconstitution of our Exco. Our focus on diversity has also resulted in a number of women, black employees, and younger people assuming leadership positions in the group, which is very exciting.

Sustainability

We continued to focus on environmental, social and governance ('ESG') activities during the year and to monitor our progress in this regard through the FTSE4Good Index. The group's score increased by 10% from 3 out of 5 to 3.3 out of 5 and also improved in a peer comparison. It is pleasing that our governance score remained high at 3.9 out of 5 as this has been a real focus area for the board and management.

While FTSE4Good is used as an ESG measurement mechanism, the principle of sustainability is being adopted in a broader context and is becoming integrated into the group's strategy, products, markets and processes. Sustainability is therefore at the core of KAP's business philosophy and operating model.

Future prospects

The impact of the Covid-19 Lockdown regulations will have far-reaching economic implications, the effects of which, I suspect, will be felt across the economy for several years. We had, fortunately, concluded an extensive process of streamlining our various operations in line with our strategy before the onset of Covid-19, and we are therefore competitively positioned to grow in the current environment through market share gains and by entering new markets.

> **"The sectors in which the company operates have shown steady improvement as Lockdown restrictions have been relaxed.**

The sectors in which the company operates have shown steady improvement as Lockdown restrictions have been relaxed. The operational leverage provided by the scale of the group's operations facilitates the ability to scale up rapidly to grow revenue and improve margins as economic conditions improve further.

Our short-term focus is to reach 31 December 2020 with our financial covenants intact, which we are confident we will achieve. Then we will focus on 30 June 2021, with the objective of growing earnings and margins, improving returns, and bringing debt levels down to achieve our targeted gearing ratio of 50%. This should enable the company to resume its annual dividend policy.

Beyond this, we are excited about the pipeline of expansion opportunities which I have referred to above, each of which is tangible and deliverable over the next few years and will allow us to continue growing, in spite of a potentially subdued economic outlook.

Condolences

It is with deep regret that we lost two of our employees in terrible road accidents during the year. One employee also passed away due to Covid-19. We express our sincere condolences to their respective families, friends and colleagues.

Appreciation

We have been blessed by the support and encouragement of our shareholders, bond holders and banking partners throughout this challenging period. This support has enabled the continued and sustainable funding of our operations, for which we are extremely grateful.

We have endeavoured to remain close to our customers and to support them through this uncertain period. I express my sincere gratitude for their loyalty and continued support of our various operations.

This has also been a challenging period for our board, especially in view of the escalating regulatory requirements of listed companies and with three new independent members being appointed shortly before the Covid-19 Lockdown. The guidance, encouragement and perspective provided by our non-executive directors during this year has been invaluable and is greatly appreciated.

FY20 has been the most challenging year that many of our almost 18 500 employees have ever experienced. I am humbled by the resilience, commitment, loyalty and positivity with which our employees have responded. All our employees made significant financial sacrifices during this time, which affected each of their personal circumstances, to ensure the financial sustainability of our group. I express my deepest gratitude and appreciation to our employees who each, in their own way, contribute to the success of our organisation.

Gary Chaplin
Chief executive officer

KAP was able to produce positive EBITDA and cash flow from operations throughout the various levels of the Covid-19 Lockdown and generated EBITDA of R2.7 billion for the year.

Frans Olivier – Chief financial officer

CHIEF FINANCIAL OFFICER'S REPORT

The macroeconomic and sociopolitical environment in South Africa was challenging during the year under review with limited real economic growth, subdued consumer spending, increasingly unreliable electricity supply and increasing levels of unemployment. This depressed economic environment was significantly exacerbated by the Covid-19 pandemic and the consequent Lockdown ('Covid-19 Lockdown') during the fourth quarter. These factors, together with a severe cyclical imbalance in global polymer supply and demand, had a material impact on our operational and financial performance, including the impairment of goodwill, intangible assets and property, plant and equipment.

Despite the significant impact on the group, we were able to produce positive EBITDA and cash flow from operations throughout the various levels of the Covid-19 Lockdown and generated EBITDA of R2.7 billion for the year. This is due to our diversified nature, operating across a number of sectors and geographies, and supplying non-discretionary goods and services supported by backward integrated supply chains.

Revenue from our continuing operations was 13% lower, while operating profit before capital items decreased by 47% and headline earnings per share decreased by 68%. Earnings per share from continuing operations were impacted by the impairment of assets amounting to R2 537 million net of taxation during the year, resulting in a loss of 82.5 cents per share (FY19: profit of 41.4 cents per share).

Key metrics from continuing operations	FY20	FY19	% change
Revenue (Rm)	**22 166**	25 602	(13)
EBITDA (Rm)	**2 707**	3 713	(27)
Operating profit before capital items (Rm)	**1 344**	2 527	(47)
Headline earnings (Rm)	**388**	1 237	(69)
Headline earnings per share (cents)	**14.8**	45.9	(68)
(Loss)/earnings per share (cents)	**(82.5)**	41.4	(299)
Cash generated from operations (Rm)	**2 076**	4 033	(49)
Free cash flow before dividends (Rm)	**(791)**	1 983	(140)

Covid-19 Lockdown

The Covid-19 pandemic has had a devastating effect on the global economy and society in general. The South African government imposed national lockdown regulations with effect from 27 March 2020. Since March 2020, the board and management have addressed the impact of the pandemic with a risk-based approach. This included identifying the following key risk categories, and designing and implementing mitigating actions and controls to protect the company and our various stakeholders:

- immediate and medium-term liquidity;
- corporate funding capacity and financial covenants;
- sustainability of revenue;
- sustainability of customers and associated credit risk;
- sustainability of suppliers and potential supply chain interruptions; and
- sustainability of operations, including the effect on employees.

The decentralised management structure of the group enhanced our ability to respond quickly and effectively by implementing numerous measures to minimise the impact of the Covid-19 Lockdown. The group implemented various measures to reduce operating costs and to optimise cash flows in order to ensure continued liquidity during the Lockdown period and thereafter. These measures included the suspension of all non-essential operating expenditure and uncommitted capital expenditure, and the optimisation of working capital. We also implemented specific salary and wage cost reduction measures throughout our operations.

Our internal management forecast prepared in March 2020, before the Covid-19 Lockdown, included eight months of actual results and four months of forecast results. In assessing the group's actual performance for the year compared to this, it is estimated that the impact of the Covid-19 Lockdown was a reduction in revenue of approximately R2.5 billion and a reduction in operating profit of approximately R800 million. Although the impact of the Covid-19 Lockdown on the group has been significant, our business model has proved to be resilient during this crisis.

Financial performance

Revenue from continuing operations decreased by 13% to R22 166 million (FY19: R25 602 million). The segments and divisions were impacted to varying degrees as illustrated below:

Revenue	Year ended 30 Jun 2020 Audited Rm	Year ended 30 Jun 2019 Audited Rm	% change
Diversified industrial	**6 205**	7 777	(20)
Integrated Timber	**3 208**	4 031	(20)
Automotive Components	**1 725**	2 202	(22)
Integrated Bedding	**1 286**	1 551	(17)
Interdivisional revenue eliminations	**(14)**	(7)	
Diversified chemical	**7 301**	8 690	(16)
Polymers	**7 301**	8 690	(16)
Diversified logistics	**8 967**	9 433	(5)
Contractual Logistics – South Africa	**4 954**	5 144	(4)
Contractual Logistics – Africa	**1 865**	2 011	(7)
Passenger Transport	**2 179**	2 382	(9)
Interdivisional revenue eliminations	**(31)**	(104)	
	22 473	25 900	(13)
Intersegmental revenue eliminations	**(307)**	(298)	
	22 166	25 602	(13)

Operating profit before depreciation, amortisation and capital items ('EBITDA') from continuing operations of R2 707 million is 27% lower than the prior year (FY19: R3 713 million). Operating profit before capital items from continuing operations of R1 344 million is 47% lower than the prior year (FY19: R2 527 million).

The International Financial Reporting Standards ('IFRS') accounting treatment of the Unitrans B-BBEE transaction, concluded in the prior year, resulted in a non-cash and non-trading B-BBEE cost of R3 million (FY19: R196 million). The impact on earnings in the prior year is material and therefore the B-BBEE cost is disclosed separately in the financial results. Core headline earnings and core headline earnings per share exclude the B-BBEE cost.

Operating profit before depreciation, amortisation, B-BBEE cost and capital items ('core EBITDA') from continuing operations decreased by 31% to R2 710 million (FY19: R3 909 million).

Operating profit before B-BBEE cost and capital items ('core operating profit') from continuing operations decreased by 51% to R1 347 million (FY19: R2 723 million).

Core operating margin decreased to 6.1% (FY19: 10.6%). Core operating profit and core operating margin by segment and division are illustrated below:

Core operating profit and margin %	FY20 core operating profit Rm	FY20 margin %	FY19 core operating profit Rm	FY19 margin %	Core operating profit change %	Margin change %
Diversified industrial	582	9.4	1 311	16.9	(56)	(7.5)
Integrated Timber	323	10.1	806	20.0	(60)	(9.9)
Automotive Components	88	5.1	266	12.1	(67)	(7.0)
Integrated Bedding	171	13.3	239	15.4	(28)	(2.1)
Diversified chemical	160	2.2	751	8.6	(79)	(6.4)
Polymers	160	2.2	751	8.6	(79)	(6.4)
Diversified logistics	605	6.7	661	7.0	(8)	(0.3)
Contractual Logistics – South Africa	225	4.5	161	3.1	40	1.4
Contractual Logistics – Africa	214	11.5	283	14.1	(24)	(2.6)
Passenger Transport	166	7.6	217	9.1	(24)	(1.5)
	1 347	6.1	2 723	10.6	(51)	(4.5)

Capital items from continuing operations of R3 284 million (FY19: R144 million) include the following items:

Capital items	FY20 Gross Rm	FY20 Net[1] Rm	FY19 Gross Rm	FY19 Net[1] Rm
Impairments	3 255	2 537	132	111
Goodwill	617	617	37	37
Intangible assets	1 959	1 425	74	59
Property, plant and equipment and investment property	679	495	21	15
Loss on disposal of property, plant and equipment and investment property	34	24	21	15
Other capital items	(5)	(4)	(9)	(5)
	3 284	2 557	144	121

[1] *Net is the value after the impact of taxation and non-controlling interests' portion of capital items.*

The group performs annual impairment assessments on all assets in line with the requirements of IFRS 36 – *Impairment of Assets*. Due primarily to the effects of the Covid-19 Lockdown, the continued imbalance in global polymer supply and demand, and its impact on expected future cash flows, we accounted for the following significant impairments in the current financial year:

- In the Automotive Components division, the goodwill and intangible assets recognised on the Maxe business unit, as part of the Autovest acquisition effective 1 April 2016, were impaired by an amount of R320 million. This was as a result of the disruptions caused by the Covid-19 pandemic in the global and South African automotive sector and the resultant subdued outlook for automotive retail.
- In the Polymers division, the goodwill and intangible assets recognised as part of the Safripol acquisition effective 1 January 2017, were impaired by an amount of R2 147 million. This is as a result of the cyclical imbalance in global polymer supply and demand, further impacted by the Covid-19 pandemic, which now indicates that the cyclical polymer recovery could be slower than previously forecast.
- In the Polymers division, the PET plant and equipment were impaired by an amount of R472 million. This was mainly as a result of capital expenditure overruns on the recent expansion of the plant and the continued imbalance in global polymer supply and demand, exacerbated by a collapse in the oil price and the Covid-19 pandemic.
- In the Passenger Transport division, the intercity and tourism fleets were impaired by an amount of R179 million. This was as a result of the impact of the Covid-19 Lockdown and the expected negative impact on international tourism and intercity travel.

Net finance costs from continuing operations decreased by

4% to R676 million

Net finance costs from continuing operations decreased by 4% to R676 million (FY19: R707 million), benefiting from the reduction in interest rates during the current year, despite the additional finance costs related to the implementation of IFRS 16 – *Leases* of R43 million and the increase in net interest-bearing debt.

The effective tax rate from continuing operations changed to a benefit of 18.2% compared to an expense of 31.2% in the prior year. In the current year, the tax rate is impacted by impairments of R685 million (7.4%), which are not deductible for income tax purposes, and a provision of R68 million (2.6%) raised due to the expectation of not achieving the required performance measures in relation to the section 12I tax allowances claimed previously. In the prior year, the tax rate was impacted by a B-BBEE cost of R196 million (3.2%), which is not deductible for income tax purposes.

Earnings attributable to owners of the parent from continuing operations reflected a loss of R2 169 million (FY19: R1 116 million profit), due to the impairment of assets. Headline earnings decreased by 69% to R388 million (FY19: R1 237 million) as illustrated below:

Reconciliation of headline earnings from continuing operations	FY20 Rm	FY19 Rm	% change
Earnings attributable to owners of the parent	(2 169)	1 116	(294)
Capital items	3 284	144	
Impact of taxation and non-controlling interests' portion	(727)	(23)	
Headline earnings (Rm)	388	1 237	(69)

Core headline earnings per share from continuing operations decreased by 72% to 14.9 cents (FY19: 53.2 cents), mainly as a result of 51% lower core operating profit, which resulted from the material financial impact of the Covid-19 Lockdown and polymer margin weakness.

Headline earnings per share from continuing operations decreased by 68% to 14.8 cents (FY19: 45.9 cents). The weighted average number of ordinary shares decreased by 2% to 2 630 million shares (FY19: 2 696 million shares), which is attributed to the repurchase of 133 million ordinary shares in issue during the year.

> "The group's balance sheet remains strong in spite of significant impairments and increased net interest-bearing debt.

Discontinued operations

The group disposed of the Autovest operation with effect from 1 December 2019. It formed part of the Automotive Components division and comprised the manufacture and distribution of various aftermarket accessories. This operation is accordingly disclosed as a discontinued operation on the group's income statement for FY20 and FY19, while the related assets and liabilities were shown as assets and liabilities held for sale in the prior year.

The Glodina operation, which was disposed of on 3 September 2018, is also disclosed under discontinued operations in the prior year.

Statement of financial position

The group's earnings are underpinned by a diverse asset base of land holdings, forestry assets, infrastructure, plant, machinery and vehicles. This strong base of new technology assets will support future competitiveness and growth.

Asset base from continuing operations	FY20 Rm	% of total	FY19 Rm	% of total
Plant and machinery	4 944	28	5 331	27
Long-haul vehicles and buses	4 820	27	4 634	24
Land and buildings	2 380	14	2 297	12
Intangible assets	2 046	12	3 996	20
Biological assets	1 754	10	1 900	10
Goodwill	641	4	1 246	6
Right-of-use assets	438	3	–	–
Capital work in progress	394	2	156	1
Other assets	92	–	118	–
	17 509	100	19 678	100

The reduction in the goodwill and intangible assets balances is mainly attributable to impairments of R2 576 million during the year. Intangible assets predominantly include supplier relationships, patents and trademarks. These intangible assets secure access to strategic raw material inputs, create barriers to entry, and secure market leadership.

The group continued to increase its disclosure of financial and operational information to allow stakeholders to understand the group and its divisions better. These additional disclosures include operating assets, operating liabilities and net operating assets per division, grouped by segment. This allows stakeholders to calculate divisional returns, such as return on capital employed (operating profit divided by net operating assets). Net operating assets by segment and division are illustrated below:

Net operating assets	FY20 Rm	FY19 Rm	% change
Diversified industrial	**8 137**	8 111	–
Integrated Timber	**5 821**	5 659	3
Automotive Components	**1 011**	1 216	(17)
Integrated Bedding	**1 305**	1 236	6
Diversified chemical	**4 461**	6 733	(34)
Polymers	**4 461**	6 733	(34)
Diversified logistics	**7 032**	6 075	16
Contractual Logistics – South Africa	**3 774**	3 149	20
Contractual Logistics – Africa	**2 164**	1 854	17
Passenger Transport	**1 094**	1 072	2
Corporate, consolidation and elimination	**(210)**	(109)	
	19 420	20 810	(7)

We remain focused on completing our various expansion projects with the objective of market share growth, margin enhancement and the generation of cash.

Replacement capital expenditure continues to be managed over time in relation to the annual depreciation charge. Depreciation (excluding right-of-use asset depreciation) for the period amounted to R1 218 million, while replacement capital expenditure amounted to R1 241 million net of proceeds on disposal, insurance proceeds and government grants. Expansion capital expenditure of R671 million was invested in the group's asset base to drive growth and efficiency benefits.

The split of capital expenditure per division and segment is illustrated in below:

Split of capital expenditure per division	FY20 Rm	% of total	FY19 Rm
Diversified industrial	**439**	**23**	225
Integrated Timber	**309**	**16**	77
Automotive Components	**82**	**4**	75
Integrated Bedding	**48**	**3**	73
Diversified chemical	**75**	**4**	83
Polymers	**75**	**4**	83
Diversified logistics	**1 398**	**73**	917
Contractual Logistics – South Africa	**756**	**39**	242
Contractual Logistics – Africa	**459**	**24**	472
Passenger Transport	**183**	**10**	203
Corporate, consolidation and elimination	**–**	**–**	6
	1 912	**100**	1 231

Net working capital levels were impacted by the Covid-19 Lockdown, which resulted in lower economic activity, disruptions to supply chains and resultant adjustments to net working capital planning. Net working capital therefore increased by R766 million to R1 911 million. Inventories only decreased by R169 million due to an inventory build in preparation for a planned PET plant shutdown. Accounts receivable decreased by R614 million, while accounts payable decreased by R1 549 million, in line with expectation.

The net asset value per share decreased by 22% to 372 cents from 474 cents as a result of the above-mentioned impairments.

Statement of cash flows

Cash generated from operations decreased by 49% to R2 076 million (FY19: R4 033 million), mainly as a result of a R1 199 million reduction of core EBITDA, primarily emanating from the impact of the Covid-19 Lockdown and lower polymer margins, and R741 million invested (FY19: R158 million released) in working capital.

The free cash flow before dividends was an outflow of R791 million (FY19: R1 983 million inflow). This was negatively impacted by the lower cash generated from operations and the increased investment in capital expenditure of R681 million.

The cash conversion ratio of core EBITDA before capital items into cash generated from operations was 77% (FY19: 105%).

Capital structure

It is imperative that the group maintains a sound capital structure by maintaining conservative gearing and having access to sufficient funding to support our operations and to facilitate growth. The capital management strategy is to maintain an optimal level of capital (both equity and debt), diversified in nature, at competitive rates, and from a variety of funding sources. Our central treasury function supports operations and monitors gearing on a group-wide basis, ensuring that our treasury and funding requirements operate in line with internal debt capacity ratios set by the board.

The company purchased and cancelled 97 million of its ordinary shares during the year. In addition, in order to reduce the effects of dilution on shareholders resulting from the company's share rights scheme, the company procured shares for delivery to participants by acquiring 36 million ordinary shares in the market. These shares are accounted for as treasury shares. The total value of the share buy-back transactions amounted to R544 million.

Net interest-bearing debt increased by R2 553 million to R7 041 million, including lease liabilities recognised in terms of IFRS 16 – *Leases* of R466 million at 30 June 2020. Net interest-bearing debt was largely impacted by the decrease in cash generated from operations from the prior year of R1 957 million, as well as increased capital expenditure and the share buy-back transactions during the year.

The net debt/equity (gearing) ratio increased from 35% to 74% as a result of increased net interest-bearing debt and decreased equity (due to impairments and share buy-backs). Both the cyclical polymer downturn and the impact of the Covid-19 Lockdown affected operational results. However, the group generated sufficient EBITDA and cash to remain within both the target levels of the net debt to EBITDA ratio and the EBITDA interest cover ratio at 2.6 times and 4.0 times respectively. Our financial and cash flow forecasts continue to indicate that we will remain within our existing banking facilities and will not breach relevant financial covenant ratios for the foreseeable future.

The debt structure and capacity ratios are reflected as follows:

Debt structure and capacity ratios	FY20 Rm	FY19 Rm
Loans and borrowings	**7 604**	6 311
Lease liabilities	**466**	–
Non-interest-bearing loans and borrowings	**(45)**	(38)
Bank overdrafts and short-term facilities	**17**	–
Cash and cash equivalents	**(1 001)**	(1 785)
Net interest-bearing debt	**7 041**	4 488
EBITDA[1, 2]	**2 707**	3 713
Net finance costs[2]	**676**	707
EBITDA: interest cover (times)	**4.0**	5.3
Net debt: EBITDA (times)	**2.6**	1.2
Gearing %	**74**	35

[1] *Operating profit before depreciation, amortisation and capital items*
[2] *From continuing operations*

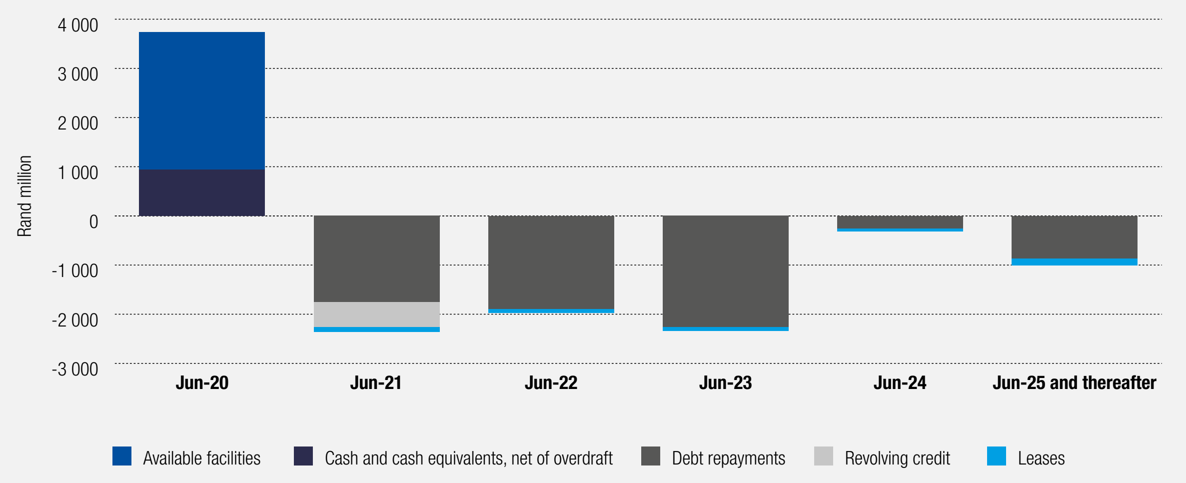
The following significant funding activities were concluded during the year:

- R874 million corporate bonds settled at maturity; and
- R1 250 million corporate bonds issued with tenures of between three and five years.

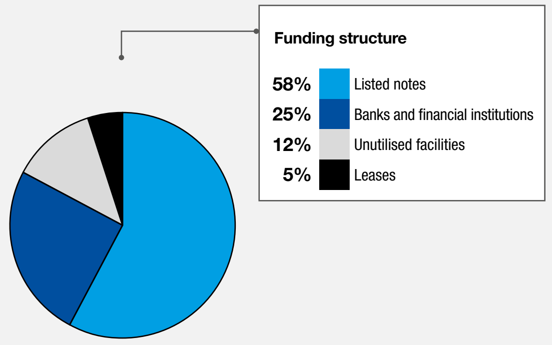
Additional facilities of R950 million were raised during the Covid-19 Lockdown as a contingency and to improve the short-term liquidity of the group. Included in the additional facilities is a R500 million increase in the committed syndicated revolving credit facility, bringing this facility to R1 500 million, which matures on 4 October 2021. These facilities provide the company with sufficient time and options to refinance recent and upcoming bond maturities.

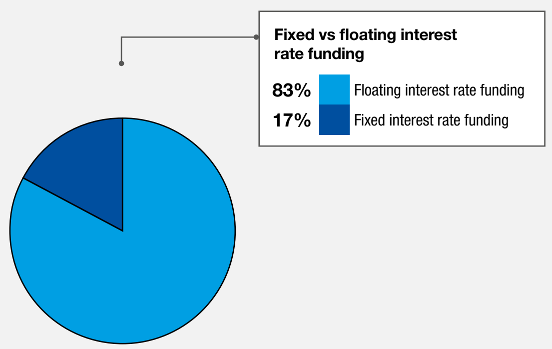
These funding activities have resulted in an extended debt maturity profile, which is comfortably within the company's capabilities, as reflected below:

Maturity of net interest-bearing debt as at 30 June 2020



We finance our operations through cash generated from operations and a mix of short-, medium- and long-term bank credit facilities, bank loans and domestic medium-term notes. This provides us with a balanced range of funding sources as reflected below:





Global Credit Rating Co. Proprietary Limited reviewed our credit rating in November 2019, and confirmed our rating as A+(za) with a stable rating outlook.

Dividends

In view of the Covid-19 pandemic and its impact on the economy, the company and our employees, the board has decided not to declare a dividend for the current financial year. The board has taken the decision to preserve cash in the light of the current uncertain economic environment. In the prior year, a dividend of 23 cents per share was declared and paid to shareholders on 23 September 2019.

Accounting policies

During the current year, we adopted the new and revised standards that are relevant to our operations and effective for annual reporting periods beginning on 1 July 2019. The following new IFRS had a material impact on the annual financial statements:

IFRS 16 – *Leases*

We elected to apply IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initial application is recognised in retained earnings at 1 July 2019, with no restatement of comparative information. There was no adjustment to our opening retained earnings balance on 1 July 2019.

The implementation resulted in the recognition of R395 million right-of-use assets and R406 million lease liabilities at 1 July 2019. Additional depreciation of R119 million, additional finance costs of R43 million, and a reduction of operating lease expenses of R144 million were recognised compared to the prior year.

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date when the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period, which results in a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Corporate activity

We continued with strategic corporate activities during the year to enhance the group's quality of earnings and its sustainability into the future. In line with its key investment criteria, we concluded the following transactions in the diversified industrial segment:

- Effective 1 December 2019, KAP Bedding Proprietary Limited acquired 75% of the shares and loan claims of Connacher (Natal) Proprietary Limited and Recyclotex Proprietary Limited (collectively 'Connacher') for a purchase consideration of R31 million. This acquisition serves as our entry point into the recycling sector. Both the Integrated Bedding division and the Automotive Components division are making use of recycled material produced by Connacher in the production of their products, thereby supporting the group's integration strategy.
- Effective 1 December 2019, KAP Automotive Proprietary Limited disposed of the Autovest operations, which manufactured and retailed various aftermarket vehicle accessories.

In the prior year, the company concluded a series of transactions and funding arrangements ('Unitrans B-BBEE transaction') in order to facilitate greater than 51% black ownership and greater than 30% black-women ownership of its South African logistics operations, Unitrans Supply Chain Solutions Proprietary Limited ('USCS'). The B-BBEE cost is non-cash and is accounted for as a charge to earnings with corresponding credit to reserves. An amount of R196 million of the B-BBEE cost was expensed in the prior year. The remaining R19 million will be expensed equally over the seven-year contract period, with R3 million expensed in FY20.

In the prior year, the company concluded a series of transactions and funding arrangements ('Unitrans B-BBEE transaction') in order to facilitate greater than

51%

black ownership and greater than

30%

black-women ownership of its South African logistics operations, Unitrans Supply Chain Solutions Proprietary Limited ('USCS')

Governance

We employ a decentralised business model, which allows our divisions to operate autonomously, with a strong entrepreneurial culture, within a governance framework established by the group, through which compliance with policies, procedures and internal controls is monitored. The primary control environment of the company is key to the success of our decentralised model, both in terms of governance and providing effective support to divisional management to grow their businesses.

> **"Our mature financial reporting systems proved invaluable for regular scenario planning and cash management during the Covid-19 Lockdown.**

We acknowledge the importance of technology and the benefits that are unlocked through accuracy and visibility of information, as well as the improved control environment that is related to robust systems. Our divisions all operate on separate enterprise resource management ('ERM') systems appropriate to their businesses. Regular investment in and upgrades are done to these systems to ensure that they remain up to date. Detailed divisional management accounts are reported within five days of month-end, providing enhanced insight into the divisional results. The consolidation reporting system improves the reliability and accuracy of the financial reporting of the group.

We operate a centralised treasury function, which raises funding according to the group's requirements. The divisional funding structures and divisional balance sheet structures are determined centrally, according to the requirements of each division. Cash management is controlled and reported centrally to ensure that it is managed effectively and provides daily visibility of all bank accounts in the group.

Our mature financial reporting systems proved invaluable for regular scenario planning and cash management during the Covid-19 Lockdown.

The KAP corporate services function was restructured in December 2019, to ensure more effective execution of functions, which include corporate finance, secretarial, legal, taxation and internal audit services. The focused corporate services function has strengthened the governance structures of the group and improved the overall internal control environment.

Looking ahead

Due to the material financial effects of the Covid-19 Lockdown, a key short-term focus area for us remains liquidity, compliance with financial covenants and reducing gearing. Regardless of these short-term effects, we remain focused on the execution of our strategy, the optimisation of our operations, market share growth and generation of cash to further strengthen our balance sheet to provide a platform for growth. We remain optimistic that the diverse operational and geographic nature of our operations will provide support in the current challenging economic environment.

Frans Olivier
Chief financial officer