INTEGRATED REPORT 2022

BEING THE CHANGE

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About this report

This report allows us to share our progress toward delivering on our purpose of building businesses that deliver lasting, positive social and economic value and our strategy to drive sustainable, value-accretive growth for our stakeholders.

While this report, together with our broader reporting suite, is aimed primarily at providers of financial capital, it provides all our key stakeholders with the information to assess our ability to live our purpose and create value over time.

SCOPE AND BOUNDARY

The scope and boundary of our integrated report cover the risks, opportunities and outcomes that arise from the following:

- Our strategy
- Our business model
- Our stakeholder engagements
- Our external environment
- Our use of our key business inputs

We primarily report on the financial year from 1 July 2021 to 30 June 2022 ('FY22'), with comparisons made throughout the report to the financial year from 1 July 2020 to 30 June 2021 ('FY21').

OUR REPORTING SUITE, PRINCIPLES AND FRAMEWORKS AND ASSURANCE

Report	Frameworks applied
Integrated report	• Global Reporting Initiative ('GRI') Framework • JSE Limited ('JSE') Listings Requirements • King IV Report on Corporate Governance™ for South Africa, 2016 ('King IV™')[1] • Organisation for Economic Co-operation and Development ('OECD') regarding anti-corruption • The Broad-Based Black Economic Empowerment ('B-BBEE') Act • The Employment Equity ('EE') Act • The International <IR> Framework • United Nations ('UN') Sustainable Development Goals ('SDGs')
Consolidated and company annual financial statements ('AFS') Read more	• Companies Act, No. 71 of 2008 of South Africa ('the Companies Act') • International Financial Reporting Standards ('IFRS') • JSE Listings Requirements • King IV™
Corporate governance report Read more	• Companies Act • Companies Regulations, 2011 • JSE Listings Requirements • King IV Code on Corporate Governance™ ('King IV Code™')[2] • King IV™ • Other Good Practice Codes and Standards as espoused by institutions such as Corporate Secretaries International Association ('CSIA') and the Southern African Institute of Chartered Secretaries & Administrators ('CSSA') and the Institute of Directors South Africa ('IoDSA')

[1] *Copyright and trade marks are owned by the Institute of Directors in South Africa ('IoDSA') NPC.*

About this report continued

MATERIALITY

Material matters are economic, societal or environmental issues occurring in the internal or external operating environment that can either directly or indirectly impact the sustainability of the group and our ability to create value for shareholders and other stakeholders over time.

We identify key matters, as they arise, using our enterprise risk management ('ERM') framework, which provides the board and the executive committee with robust means of assessing the risks and material matters facing the group. An embedded ERM process supports and provides input into this framework.

Our material matters are shown below and are discussed throughout the report:

- Political instability and uncertainty
- Civil unrest
- Infrastructure failures
- KwaZulu-Natal floods
- Global supply chain disruptions
- Subdued macroeconomic environment and slowing consumer demand
- Commodity price escalations and volatility

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements about the group's financial condition, results, performance, operations, businesses and strategy. Such forward-looking statements involve inherent risk and uncertainty as they relate to future events and circumstances and are based on assumptions related to such future events and circumstances. As a result, the group's actual future financial condition, results and performance may differ materially from these forward-looking statements. Any forward-looking statement contained herein has not been reviewed or reported on by the external auditors. The group furthermore undertakes no obligation to update any forward-looking statement.

BOARD RESPONSIBILITY STATEMENT

The board is of the view that this report addresses all material issues relevant to the group and that it is reflective of the group's performance over the period, as well as our strategic plans.

This report has been prepared by management under the supervision of the board, which retains ultimate responsibility. This report has been subject to various internal and external assurance processes. Further detail can be found in the corporate governance report, published separately on our website (www.kap.co.za), as well as in the relevant sections of this report.

The board approved the KAP AFS on 23 August 2022, on recommendation of the audit and risk committee, and the KAP integrated report on 27 October 2022, on recommendation of a special ad hoc committee of the board.

Signed on behalf of the board

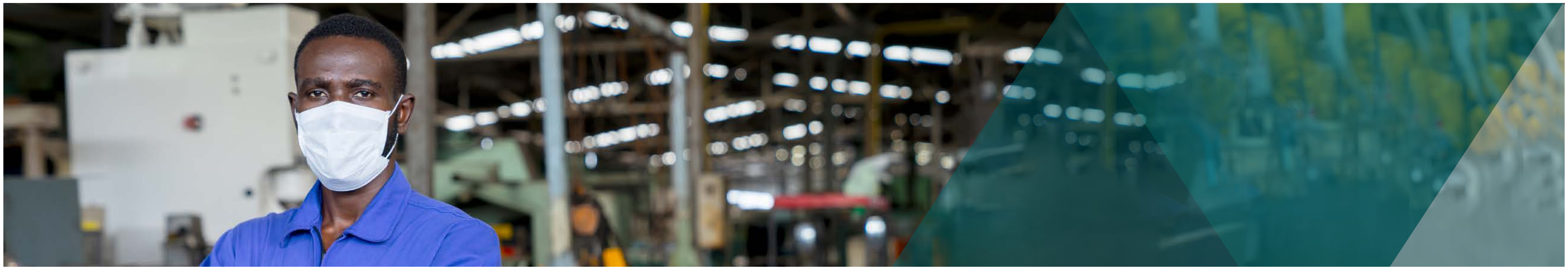
Patrick Quarmby
Chairperson

Gary Chaplin
Chief executive officer

Frans Olivier
Chief financial officer

FEEDBACK

We welcome any feedback on our integrated reporting suite. Please send any feedback to investors@kap.co.za.



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Who we are and what we do

OUR STRATEGY

WHO IS KAP?

KAP Industrial Holdings Limited ('KAP') comprises a diversified portfolio of businesses that operate in select sectors of wood-based decorative panels, sleep products, automotive components, polymers, supply chain and road safety.

OUR VISION

Our vision is to be recognised as the most inspiring listed company in Africa.

OUR PURPOSE

Our purpose is to inspire people through building exceptional businesses that create lasting economic and social value.

Our strategy is to deliver sustainable, value-accretive growth for our stakeholders through building a diversified portfolio of unlisted, market-leading businesses.

Our primary focus is to allocate capital according to the most value-accretive opportunities available to us, whether through organic growth of our existing businesses or through select corporate actions.

OUR VALUES

- to lead responsibly
- to respect society
- to value the environment
- to embrace diversity
- to respect our people
- to innovate relentlessly

OUR INVESTMENT CRITERIA

The following criteria guide our decisions on organic or acquisitive investments and form part of our ongoing review of our portfolio of businesses:

Environmental, social and governance ('ESG') and sustainability values

- We are intent on building sustainable businesses that create lasting economic and social value. Any new investment should reflect this.

Read more: Sustainability review, page 57

Economically attractive

- Our minimum hurdle rate for investments is an internal rate of return ('IRR') greater than our weighted average cost of capital ('WACC').
- Investments should generate attractive free cash flow to support growth.

Read more: Our capital allocation framework, page 6

Market leadership and market share growth

- We prefer to own businesses that are market leaders or have the potential to assume a market leadership position.
- Investments should raise barriers to entry and enhance our market position.

Diversification

- We endeavour to maintain a level of diversification in our portfolio to mitigate risk and secure growth through economic cycles.

Additional value

- We understand that as KAP, we need to add value to the businesses we own, whether it is through leveraging our balance sheet capability, applying our experience across multiple industries to provide strategic input, providing a governance framework with specialist centralised services, or through driving growth and expansion into existing and new markets.

Who we are and what we do continued

OUR STRATEGY continued

OUR BLUEPRINT FOR SUCCESS

To deliver on our strategy and purpose, the businesses we own (our divisions) focus on the four strategic priorities below. While we develop divisional operational strategies at a KAP level, these are implemented at a divisional level.

- **Grow revenue**
- **Enhance margins**
- **Improve returns**
- **Maximise cash flows**

These priorities are supported by pursuing the following:

Market differentiation: We innovate continuously, invest in the development of high-quality value-added products and solutions, as well as in our brands, and employ sustainable business practices.

Operational excellence: We endeavour to be the most efficient, lowest-cost producer/provider through ongoing investment in processes, technology, channels to market, backward integration and business innovation. We employ the best people, in the right roles, to instil a culture of excellence and place the customer at the centre of everything we do.

These two focus areas enable us to offer our customers fully integrated, fit-for-purpose products and solutions that are differentiated from our competitors, raise barriers to entry, and protect our revenue and margins.

OUR CAPITAL ALLOCATION FRAMEWORK

We follow a dynamic approach to capital allocation and, within the context of our strategy and investment criteria, we allocate to the most value-accretive opportunities available to us.

Maintaining the resilience of our balance sheet is a key priority, considered in any decision we make. Our dividend policy therefore remains flexible, which we believe is prudent in light of our pipeline of organic growth opportunities.

Capital allocation priorities

Debt repayment	Net debt/EBITDA* < 2.5 times
Maintenance and replacement capex	Maintain current asset base to ensure sustainability
Efficiency capex	Efficiency improvements (e.g. related to technology) to remain globally competitive and enhance competitive advantage
Capacity expansions	IRR target > WACC
Complementary bolt-on acquisitions	Subject to our investment criteria
Standalone corporate action	Subject to our investment criteria
Return cash to shareholders	Dividends or share buy-backs considered relative to other investment opportunities

** Earnings before interest, taxes, depreciation and amortisation*

LIVING OUR PURPOSE

As a signatory to the United Nations Global Compact ('UNGC'), we are aligned to the 17 UN SDGs. Although we make an impact on most of the SDGs through our business activities, our emerging SDGs are:

- 6 Our water usage in our operations
- 8 Creating a decent workplace for our employees
- 12 How we produce and manage waste
- 11 Community development
- 13 Greenhouse gas ('GHG') emissions
- 16 Local municipality capacity and service delivery

Read more: Sustainability review, page 57

Who we are and what we do continued

OUR STRATEGY continued

OUR DEFINITION OF SUCCESS

We define success as our ability to create and preserve value for our key stakeholders in line with our vision, purpose and strategy, balancing it with the need to retain and protect value internally to ensure the long-term sustainability of our group.

Investors, shareholders and debt providers

- Growth in net asset value ('NAV') and improvement in return metrics
- Growth in total shareholder return
- Robust balance sheet
- Investing in and growing our businesses in a responsible and sustainable manner, providing investors with access to high-quality unlisted businesses with leading brands and strong ESG values

Our financial targets

We aim to consistently deliver:

- Headline earnings per share ('HEPS') growth > gross domestic product ('GDP') growth + consumer price index ('CPI')
- Operating profit margin > 10%
- Cash flow conversion > 90%
- Return on capital employed ('ROCE') > 16%*^
- Net debt/EBITDA < 2.5 times

** ROCE – operating profit from continuing operations divided by average net operating assets*
^ FY27 target

Employees and trade unions

- Providing a safe, zero-harm work environment offering adequate training and development opportunities where our employees can grow and develop
- Recognising and rewarding our employees for outstanding performance
- Having a diverse and engaged workforce, with low employee turnover
- Fostering constructive and mutually beneficial relationships with organised labour

Suppliers

- Contributing to the growth of sustainable suppliers in South Africa, especially in the context of enterprise and supplier development ('ESD')
- Adhering to our supplier code of conduct to ensure ethical practices
- Collaborating with our suppliers to secure the sustainability of the supply chain and to deliver products with a lower environmental footprint

Customers and consumers

- Providing leading brands that customers and consumers respect and support
- Delivering innovative, fit-for-purpose products and solutions that meet our customers' needs and exceed their expectations
- Working with our customers to develop products that lower their environmental footprint

Communities and society

- Maintaining engaged and constructive relationships with our communities
- Providing socioeconomic development ('SED') that has a positive and lasting impact on the communities in which we operate
- Continuously reducing the impact of our operations on the natural environment
- Supporting and contributing to transformation in society

Government, regulators and industry bodies

- Establishing and maintaining engaged and constructive relationships with government, regulators and industry bodies to support positive and lasting economic and social change
- Adhering to the appropriate legislative and regulatory frameworks

Who we are and what we do continued

OUR VALUE-CREATING BUSINESS MODEL

The availability of quality resources and relationships enable our business activities

OUR KEY BUSINESS INPUTS

Key resources and relationships

Financial strength

We have a healthy balance sheet, strong cash generation across the group and access to diverse and flexible sources of capital and funding, which allow us to invest in and grow our portfolio.

Tangible assets

We have an operational footprint across 11 countries in sub-Saharan Africa and in Australia, own and/or operate 31 manufacturing plants using the latest technology, 137 depots and warehouses, and 4 734 vehicles, including application-specific vehicles. We also own 43 755 ha of forestry and agricultural land and provide road safety solutions in 37 countries globally.

Intangible assets

We have recognised and strong brands, research and development capabilities, favourable supplier relationships (of which some are evergreen), well-established systems and processes, strong governance and ethical conduct, which provide a solid base for differentiation and growth.

Read more: CFO's review, page 34

Input materials

We use large quantities of agricultural raw materials and residue, chemicals, textiles and textile waste, packaging materials, energy, fuel and water across our various businesses to produce and deliver our products, and/or to provide solutions to our customers.

Read more: Our group structure, page 12

Stakeholder relationships

We have 14 569 permanent employees in South Africa, and 4 856 permanent and seasonal employees outside of South Africa, whose well-being, knowledge, experience and skills enable us to deliver on our strategy and purpose. We also have a number of other key stakeholders, with whom we nurture constructive relationships, including trade unions, suppliers, customers, consumers, communities, society, government, regulators and industry bodies, which play a role in our success and sustainability.

Read more: Our stakeholder engagement, page 15

OUR KEY BUSINESS ACTIVITIES

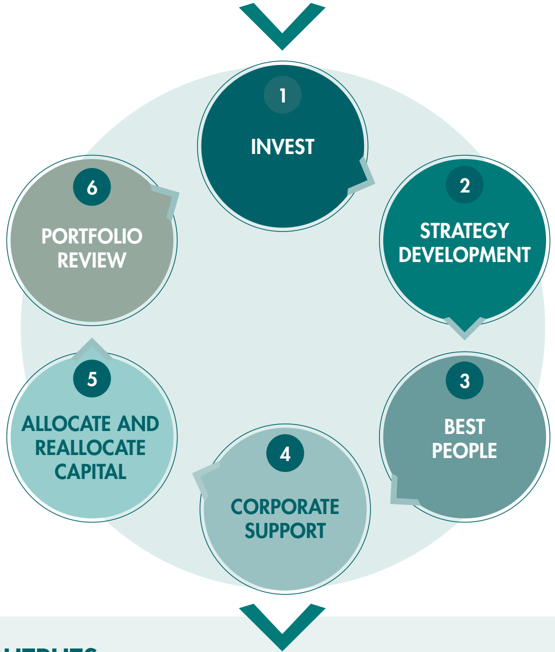
We aim to collectively preserve and create value by:

- acting consistently within the framework of our purpose, values and strategy;
- proactively identifying and managing risks;
- fostering innovation and maintaining a learning culture; and
- contributing to the fulfilment of the UN SDGs.

We apply this through the below process, with clearly defined strategic priorities, which, if effectively operated, will repeat itself to sustain growth and value over the long term.

Our strategic priorities

Read more on page 6



OUR KEY BUSINESS OUTCOMES

Our key business outcomes are analysed in terms of their impact on our relevant stakeholders on the following pages.

1. We invest in existing or new businesses according to our investment criteria.
2. We develop strategies to establish, grow and maintain market leadership positions and build competitive advantages for our businesses.
3. We employ the best management teams to implement, at a business level, the strategies we develop.
4. We provide strategic and corporate support to our businesses to ensure effective strategy implementation.
5. We allocate and reallocate capital to maximise our returns, grow earnings and protect our balance sheet.
6. We continuously review our portfolio of businesses according to our investment criteria to either remain invested or exit.

OUR KEY BUSINESS OUTPUTS

The output of our key inputs is a diverse portfolio of market-leading businesses that deliver exceptional products and solutions that are integrated into consumers' everyday lives.

Read more: Divisional review, pages 40 to 56

Who we are and what we do continued

OUR VALUE-CREATING BUSINESS MODEL continued

to deliver on our strategy and purpose to deliver economic and social value

OUR KEY BUSINESS OUTCOMES

Investors, shareholders and debt providers

We aim to deliver value-accretive earnings growth and to return cash to shareholders according to our capital allocation priorities and framework.

- Revenue: R27 979 million (FY21: R23 956 million)*
- Operating profit before capital items: R2 936 million (FY21: R2 102 million)*
- Headline earnings: R1 851 million (FY21: R1 099 million)*
- HEPS: 74.4 cents (FY21: 43.0 cents)*
- Investment in growth: R1 519 million (FY21: R899 million)
- Free cash flow: R22 million (FY21: R810 million)
- ROCE: 14.4% (FY21: 10.8%)*
- Dividends paid: R394 million (FY21: R27 million)
- NAV per share: 466 cents (FY21: 405 cents)
- Credit rating: A+(za) (unchanged)

** From continuing operations*

Actions to improve outcomes

- Divisional strategies are in place to pursue growth and improve returns, including investment in the expansion of existing and new operations, and the rationalisation of underperforming operations.
- Our capital allocation focus has been sharpened.
- Successful implementation of our group and divisional strategies will also collectively improve the outcomes for our other stakeholders.

Read more:
CEO's review, page 21
CFO's review, page 34

Employees and trade unions

Our success is tied to that of our people. We endeavour to employ the best people in the relevant industries and to provide them with opportunities to grow and develop.

- Annual employee remuneration (including benefits): R5.1 billion (FY21: R4.8 billion)*
- Training and development expenditure: R153 million (FY21: R125 million)
- Number of employees receiving leadership development: 338 (FY21: 372)
- Number of employees in talent development/training programmes: 1 100 (FY21: 925)
- We actively participate in the relevant industry bargaining structures.
- Number of employee fatalities while on duty, at place of work: 3 (FY21: 4)
- Disabling Injury Frequency Rate: 1.2 (FY21: 1.7)
- Net increase in permanent and seasonal employee numbers: 362
- Percentage of black employees and managers: 90% and 60%
- Percentage of female employees and managers: 19% and 26%

** From continuing operations*

Actions to improve outcomes

- We are in the process of implementing our human capital strategy, which is broadly aimed at creating a safe and supportive environment for our employees to grow and excel, and ensuring that outstanding performance and stewardship is recognised and rewarded.
- We have made significant progress in identifying and eliminating barriers to achieving our objective of a diverse and inclusive workforce across all employee grades, which will, together with the implementation of our human capital strategy, result in an improved outcome.
- Reducing road fatalities is a strategic imperative for us. Our DriveRisk business has an important role to play in this regard. Its solutions are utilised across most of our logistics operations.

Read more: Sustainability review, page 57

Who we are and what we do continued

OUR VALUE-CREATING BUSINESS MODEL continued

to deliver on our strategy and purpose to deliver economic and social value

OUR KEY BUSINESS OUTCOMES

Suppliers

Our suppliers are important to the sustainability of our group. In order to be globally competitive, delivering world-class products and solutions, we require sustainable, high-quality suppliers.

- Preferential procurement (qualifying spend*) on suppliers of Level 4 B-BBEE and higher: 75% (FY21: 74%)
- Contribution to enterprise development: R35 million (FY21: R17 million)
- Contribution to supplier development: R52 million (FY21: R24 million)

** Only South Africa, excluding imports*

Actions to improve outcomes

- We continue to build relationships with our suppliers in order to contribute to their continued sustainability and success.
- While we acknowledge the procurement benefits of scale, we also recognise the risk of concentrated sources of supply. Where possible, we actively diversify our suppliers in order to mitigate concentration risk without compromising the benefits of scale.
- We continue to expand our ESD initiatives with focus on areas in which we can have an impact.

Read more: Sustainability review, page 57

Customers and consumers

We aspire to be a collaborative partner to our customers, focused on creating lasting prosperity and collective benefit throughout the value chain.

- Expansion capital expenditure: R1 127 million (FY21: R899 million)
- Replacement capital expenditure: R1 067 million (FY21: R918 million)
- We supported customers affected by global supply chain disruptions and those that compete with downstream imports.
- We supported retail customers in the aftermath of the civil unrest and KwaZulu-Natal floods.
- We developed innovative solutions and products for our customers, such as polymers that lower the energy requirements for converters, increased use of recycled materials in sleep products, and integrated farming solutions that reduce fertiliser use and increase yield for farmers.
- We successfully stimulated decorative wood-based panel product demand in select informal markets, indirectly channeling sales to our customers.
- Our road safety solutions lower road user fatalities, improve efficiencies and reduce costs for fleets.

Actions to improve outcomes

- We strive to be the lowest-cost producer/provider of fit-for-purpose products/solutions to aid the growth and sustainability of our customers.
- We will continue to work with our customers on innovative ESG solutions and products that support their ESG strategic objectives.
- Our leading industry positions enable us to drive positive change that benefits our customers and consumers.

Who we are and what we do continued

OUR VALUE-CREATING BUSINESS MODEL continued

to deliver on our strategy and purpose to deliver economic and social value

OUR KEY BUSINESS OUTCOMES

Communities and society

By creating a culture of sustainability, we leverage our purpose-led businesses to create positive social and environmental change. Our success is tied to the sustainability of our communities and society.

- Employee remuneration that contributes to the sustenance of communities: R5.1 billion (FY21: R4.8 billion)
- Contribution to SED: R25 million (FY21: R14 million)
- We collected manufacturing waste from textile and clothing companies during the year and processed it for reuse in new fabrics.
- We continued to educate consumers around the responsible use of plastics, encouraging them to remove plastic waste from the environment.
- Our businesses were involved in several waste collection activities.
- Due to sustainable management practices, our plantations in the northeastern and southern Cape are net absorbers of carbon.
- B-BBEE rating: Level 4 (FY21: Level 5)

Actions to improve outcomes

- We are working with the Department of Trade, Industry and Competition ('dtic'), the Department of Cooperative Governance and Traditional Affairs ('CoGTA'), the South African Local Government Association ('SALGA') and local municipalities in areas where our businesses operate to support the provision of basic municipal services, maintenance of existing infrastructure and investment in new bulk infrastructure to enable municipalities to retain and attract businesses, create jobs and invest in community development.
- We increased our SED activities during the year. In order to have the most meaningful impact, we are in the process of consolidating our activities into a number of key focus areas.
- We prioritise active and sustained community engagement and partnership.
- We are committed to reducing our environmental footprint and have adopted energy, water and waste strategies to deliver on this initiative.

Read more: Sustainability review, page 57

Government, regulatory and industry bodies

We believe we have a pivotal role to play by working with government, regulatory and industry bodies to achieve our strategic objectives and drive positive socioeconomic change in South Africa.

- We adhered to regulatory requirements and maintained strong governance policies and procedures.
- We invested in local manufacturing capacity, which will support government's industrialisation strategy and localisation policy objectives and create jobs across both the forestry and furniture industry value chains.
- Corporate taxes paid to government: R803 million (FY21: R395 million)

Actions to improve outcomes

- We actively drive government partnership and industry leadership, which is gaining momentum following the creation of a corporate affairs executive role during the year.
- As a major local manufacturer, we play a key role in supporting government's localisation policy objectives. For example, we are evaluating a major project that could provide synergistic opportunities between two of our divisions and contribute significantly to government's Plastics Industry Master Plan and the South African Automotive Master Plan 2035 ('SAAM').
- We endeavour to deploy world-class technology and business intelligence to improve road safety in support of government's transport agencies.

Who we are and what we do continued

OUR GROUP STRUCTURE

Our current portfolio consists of the following businesses: PG Bison, Restonic, Feltex, Safripol, Unitrans and DriveRisk. Our businesses operate in the business-to-business ('B2B') space, with customers ranging from medium-sized regional operators to large multinational organisations.

PG BISON

PG Bison produces wood-based decorative panels, which are used for interior applications, with the objective of inspiring and enhancing beautiful living spaces.

FY22 contribution*

REVENUE	OPERATING PROFIT	NET OPERATING ASSETS
17%	28%	29%

Key inputs

- Key raw materials: timber, urea and methanol
- Energy
- People
- Raw materials sourced locally and imported

Key outputs

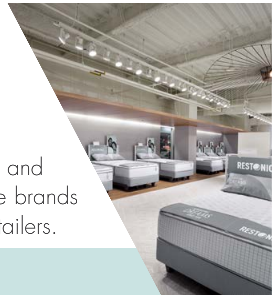
- Particleboard used in the downstream manufacture of furniture, storage applications and kitchens
- Medium-density fibreboard ('MDF') used in the downstream manufacture of higher-application furniture, kitchens, wall panels, display cabinets and storage applications

Key revenue drivers

- New home build and commercial development activity
- Home improvement and renovation in formal and informal markets
- Retail furniture demand

RESTONIC

SUPPORTING DREAMS SINCE 1938



Restonic is an integrated manufacturer of sleep products under the Restonic, iDream and Green Coil brands, as well as retail house brands for South African furniture and bedding retailers.

FY22 contribution*

REVENUE	OPERATING PROFIT	NET OPERATING ASSETS
6%	2%	7%

Key inputs

- Key raw materials: steel, timber, polypropylene ('PP'), polyester, low-density polyethylene, toluene diisocyanate ('TDI') and polyol
- Energy
- People
- Raw materials sourced locally and imported

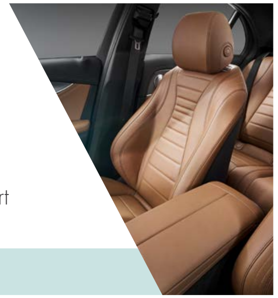
Key outputs

- Sleep products
- Flexible polyurethane foam
- Knitted and woven mattress fabrics
- Recycled fabrics

Key revenue drivers

- Marketing, brand and price
- Population growth and age profile
- New home development
- Retail category management and promotional activity

FELTEX



Feltex manufactures automotive components designed and applied to enhance the comfort and style of new vehicles.

FY22 contribution*

REVENUE	OPERATING PROFIT	NET OPERATING ASSETS
6%	1%	6%

Key inputs

- Key raw materials: TDI, methylene diphenyl diisocyanate ('MDI'), polyol, stainless steel, recycled fabric, PP, polyethylene terephthalate ('PET') and recycled PET
- Energy
- People
- Raw materials sourced locally and imported

Key outputs

- Trim, e.g. carpets, underlay, wheel arch liners, inner dash and engine room insulators
- Foam, e.g. seats, armrests and headrests
- Loose-lay mats and tonneau covers
- Nudge bars, roll bars, side steps and truck bars

Key revenue drivers

- SA automotive assembly volumes
- Light commercial vehicle ('LCV') and sports utility vehicle ('SUV') sales
- Heavy commercial vehicle ('HCV') and extra heavy commercial vehicle ('EHCV') sales

** Divisional contribution to group revenue, operating profit from continuing operations and net operating assets*

Who we are and what we do continued

OUR GROUP STRUCTURE continued

SAFRIPOL

shaping your world, responsibly

Safripol produces polymers that are used in a broad range of applications in sectors such as packaging, textiles, infrastructure, agriculture and homeware.

FY22 contribution*

REVENUE	OPERATING PROFIT	NET OPERATING ASSETS
36%	48%	22%

Key inputs

- Key raw materials: purified terephthalic acid ('PTA') and monoethylene glycol ('MEG'), ethylene and propylene
- Energy
- People
- Raw materials sourced locally and imported

Key outputs

- PET: Polyethylene terephthalate typically used for water and carbonated soft drink bottles and food containers
- HDPE: High-density polyethylene has a broad range of applications in packaging, pipes and containers
- PP: Polypropylene has a broad range of applications in packaging and consumer and household goods

Key revenue drivers

- Growth in infrastructure and general consumption (consumer goods)
- Safripol is leading the 'Let's plastic responsibly' campaign, which aims to promote sustainability and prevent plastics from entering the environment.

UNITRANS

Unitrans is a supply chain and operational services business providing customised solutions to clients in a diverse range of sectors, including food, agriculture, petrochemical, mining and commuter transport.

FY22 contribution*

REVENUE	OPERATING PROFIT	NET OPERATING ASSETS
34%	20%	34%

Key inputs

- Specialised equipment sourced from key original equipment manufacturers ('OEMs')
- Fuel and tyres
- People
- Business intelligence and operating systems

Key outputs

Solutions provided to the following sectors:

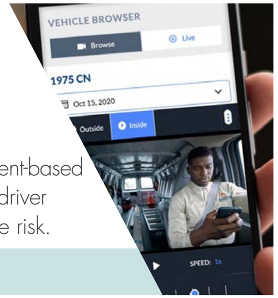
- Food
- Agriculture
- Mining
- Petrochemicals
- Commuter transport

Key revenue drivers

- General consumption (consumer goods)
- Economic activity

DriveRisk

MANAGE • MOTIVATE • MITIGATE



DriveRisk utilises leading global video telematics and predictive analytics to prevent road accidents and improve road safety.

Its unique user interfaces provide real-time event-based interventions, business intelligence tools and driver support to improve fleet efficiency and reduce risk.

FY22 contribution*

REVENUE	OPERATING PROFIT	NET OPERATING ASSETS
1%	1%	3%

Included for seven months

Key inputs

- Hardware sourced from leading global technology principles
- In-house technology platform and user interfaces
- Data storage and analytics
- People

Key outputs

- A range of hardware, including DriveCam, Surfsight, DriveAlert, and MobilEye, which is fully integrated into a single digital platform. This enables fleet operators to establish seamlessly structured solutions to improve driver behaviour management and fleet efficiency, thereby promoting general road safety.

Key revenue drivers

- Escalating ESG requirements of fleet owners to contribute to improved risk management (road safety)
- Competitive environment encouraging efficiency improvements (time and cost) and better risk management
- Low market penetration of advanced fleet management solutions

* *Divisional contribution to group revenue, operating profit from continuing operations and net operating assets*

Who we are and what we do continued

OUR GROUP STRUCTURE continued

WHAT DIFFERENTIATES US

Through the implementation of clearly defined operational strategies, set at a KAP level and implemented at a divisional level, we can build competitive advantages for our businesses, creating a platform for growth and securing long-term sustainability.

Read more: Divisional review, pages 40 to 56

The following characteristics differentiate our businesses:

Leading market positions: This gives us the capability to shape industry trends and provide scale benefits that lower costs. Most of our businesses have high barriers to entry, which protect their market position.

Vertical integration: Our strong level of vertical integration, where relevant to our businesses, improves efficiency and cost effectiveness and supports a stable and sustainable supply chain.

Best fit-for-purpose products/solutions at the lowest cost: The location of our assets, raw material supply contracts, vertical integration, scale, and continued investment in capacity, processes, innovation and technology enable us to provide the best fit-for-purpose products and solutions with high value-add, at the lowest cost.

Local manufacturer advantage: As a local manufacturer, we can innovate with our customers to deliver differentiated products, to contribute meaningfully to government localisation targets, and to promote sustainability efforts compared with imports.

Investment in our people: Our culture and values emphasise how important our people are to us and the significant role they play in our strategy implementation. This is reflected in our decentralised organisational structure, which gives management teams within the group ownership of their operational processes.

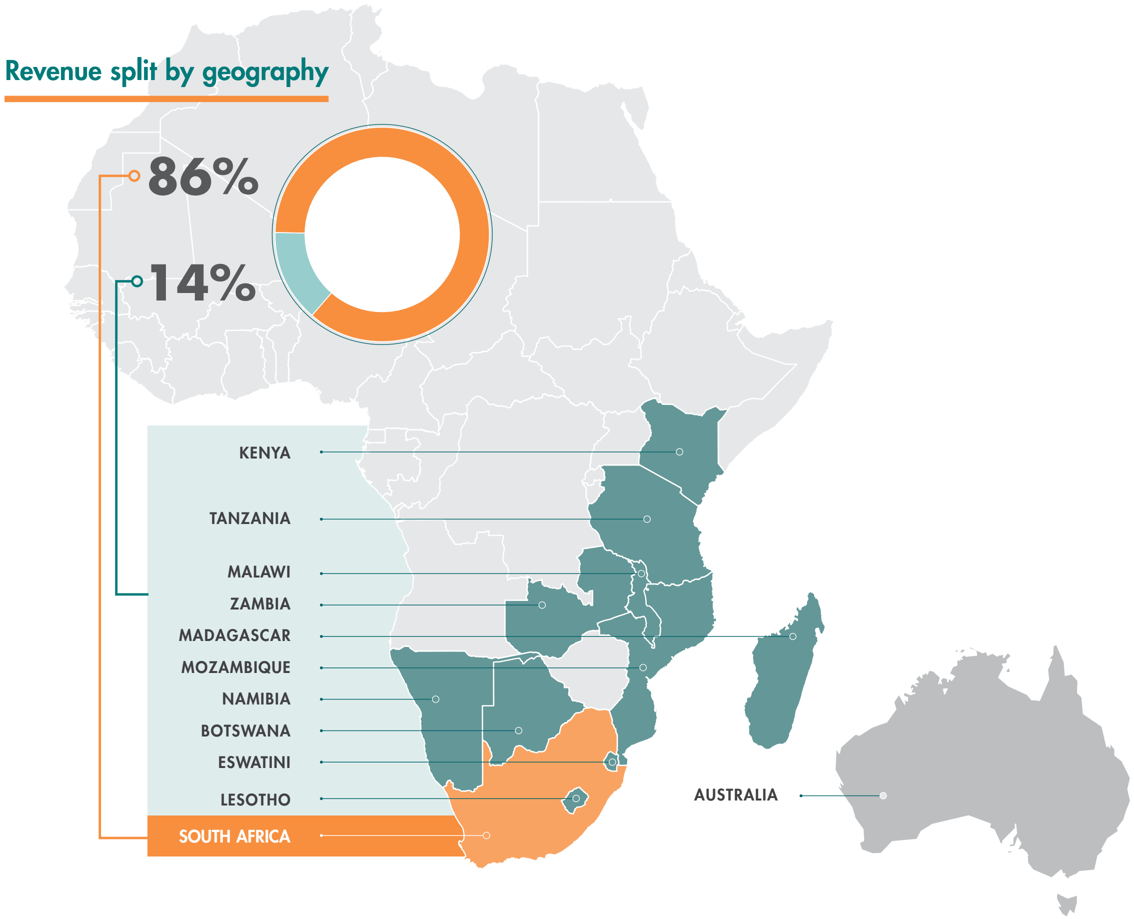
Diversification: The diversified nature of revenue and cash generation in our various businesses supports defensiveness and risk mitigation, and provides a level of self-funded organic expansion.

At a KAP level, using cash generated by the group, we are able to allocate capital to the most value-accretive opportunities available to us.

OUR GEOGRAPHIC PRESENCE

KAP has a footprint in 11 countries in sub-Saharan Africa and in Australia via our DriveRisk business.

At present, 86% of our revenue is generated in South Africa, while 14% is generated in the other markets we serve, either through a direct presence or via exports.



Our stakeholder engagement

Sustainable value creation is influenced by the successful engagement with our stakeholders at both group and divisional level. We aim to continuously improve our relationships with all our stakeholders by engaging with them on a proactive and consistent basis. The social and ethics committee, which supports the KAP board ('board') in fulfilling its governance role, oversees stakeholder engagement across the group.

The following stakeholder groups have been identified as key to the group:

Why we engage	How we engage	Areas of interest and our response
Investors, shareholders and debt providers **Level of engagement: High**		
Engagement with investors, shareholders and debt providers ensures that we understand their expectations and concerns, are transparent in our communications and reporting, and enhance trust in our business.	• We have one-on-one and group investor meetings and calls with KAP executive management and where applicable, divisional management. • We participate in broker and industry conferences and events. • We publish relevant information via JSE Stock Exchange News Service announcements. • We host annual and interim results presentations. • We conduct perception surveys. • We publish an annual integrated report. • We hold a face-to-face annual general meeting ('AGM'). • We have an information-rich website.	**Focus areas and topics of interest** • Capital allocation framework • Growth prospects • Market confidence and share price performance • ESG • Polymer cyclicality and prospects **Our response** • We hosted our first capital markets day to communicate our strategy, capital allocation framework and prospects, and to provide additional disclosure on our polymers business. • Our refreshed group and divisional strategies target improved growth and returns to ensure we deliver value for our shareholders and other stakeholders. • We appointed a dedicated investor relations executive and enhanced our market engagements and disclosures.

Why we engage	How we engage	Areas of interest and our response
Employees and trade unions **Level of engagement: High**		
Our employees are a valued part of our business and are integral to the implementation of our strategy. Regular engagements identify areas of concern, build trust, create a sense of belonging and shared purpose, and build our desired organisational culture.	• We use formal and informal channels to engage with employees, including CEO webcasts, operational management reports and engagement forums. • We conduct regular employee climate surveys. • We provide an independently managed and confidential reporting hotline. • We have employment equity forums across the group. • We work closely with trade unions and associated industry bargaining councils and employer organisations. • We conduct continuous and structured assessments of our human capital requirements to support the growth of the group.	**Focus areas and topics of interest** • Diversity and inclusion • Succession planning and leadership development • Role clarity • Personal strength profile and role alignment • Employee health, safety and well-being • Employee engagement and culture • Personal development and career growth • Wage negotiations **Our response** • We have refreshed our human capital strategy – the focus for the year was on values and culture, leadership and succession, role/personal strength profile alignment, and diversity and inclusion. • We continuously look for opportunities to improve the safety of our employees, including technology solutions in our logistics fleets to reduce road accidents. • We measure management on the achievement of their B-BBEE, employment equity, and health and safety targets. • We provide apprenticeships, learnerships, technical skills training and leadership development programmes for our employees. • We respect and value our employee rights. • We meet and/or exceed all legislated minimum wage requirements.

Our stakeholder engagement continued

Why we engage	How we engage	Areas of interest and our response
Suppliers **Level of engagement: Medium**		
Our suppliers play an important role in supporting sustainability in our businesses and equally, we support and develop emerging and black-owned suppliers to ensure their sustainability. Regular engagements build trust and also provide an opportunity to design innovative ideas that not only benefit our business but also society as a whole.	• We engage with our suppliers in a legal and ethical way. • We communicate with our suppliers about market trends and product innovation and work with them on product innovation and development. • We communicate our supplier code of conduct with suppliers.	**Focus areas and topics of interest** • Supplier development • Preferential procurement • Supplier concentration risk • Supply chain disruptions and security of supply • Environmental footprint **Our response** • We have various supplier development initiatives, including unsecured loans and operational support. • 75% of our local procurement (qualifying spend) is directed toward preferential suppliers of Level 4 B-BBEE and higher. • We continue to seek opportunities to backward integrate in order to control key raw materials. • We have widened our sources of raw material supply. • We pay our suppliers timeously. • We continuously explore supply chain improvements with our suppliers in order to lower our environmental footprint.

Why we engage	How we engage	Areas of interest and our response
Customers and consumers **Level of engagement: High**		
We believe that our success is dependent on the success and growth of our customers. As a key supplier to many industries, we believe we have a responsibility to continuously innovate and remain competitive in order to sustainably support the growth of our customers and their industries.	• Our dedicated and trained sales teams, supported by technical specialists where appropriate, continuously engage with direct customers and their consumers. • Senior operational management regularly engage with customers. • We develop and distribute regular digital communications. • We offer customer and consumer training, as well as workshops and events.	**Focus areas and topics of interest** • Responsibility of being the largest supplier in certain sectors • Research and development into new products and markets • Competitiveness and sustainability of our customers • Sustainability and growth of our customers' industries **Our response** • We hold annual competition law training for sales and senior executives. • We invest in the latest technologies to ensure that we offer competitive products and solutions. • We develop and invest in products. • We actively participate in industry forums to facilitate industry growth. • We offer credit facilities to our debtors/customers. • We create and promote market-leading brands. • We strive to create sustainable products.

Our stakeholder engagement continued

Communities and society

Level of engagement: Medium

Why we engage	How we engage	Areas of interest and our response
We acknowledge that in order to ensure our sustainability, we have a responsibility to positively engage with the communities in which we operate. We are committed to making a positive impact on society, and proactive and regular engagements help us to achieve this goal.	• We engage with communities regularly and organise community forums to determine their needs and to develop appropriate responses to them.	**Focus areas and topics of interest** • Sustainability, health and well-being of communities • Education opportunities in communities • ESD opportunities • Impact of waste on communities and society • Initiatives to support critical municipal infrastructure maintenance and investment **Our response** • We work with recognised non-governmental and non-profit organisations ('NPOs') and educators to implement socioeconomic development plans to support education and nutrition initiatives. • We offer learnerships, training, and development programmes to the community in general. • We fund several school and university programmes. • We implement several ESD initiatives. • We support local businesses. • We promote the responsible use of plastics and participate in waste clean-up initiatives. • We actively work to minimise our environmental footprint. • We are working with several government departments, associations and local municipalities in areas where our businesses operate to support critical municipal infrastructure maintenance and investment.

Government, regulators and industry bodies

Level of engagement: High

Why we engage	How we engage	Areas of interest and our response
It is important for us to work with government and regulators, both directly and through industry bodies, to participate in conversations that shape continental, regional and national trade and industrial policy outcomes to support our strategy.	• We engage through our active membership of relevant industry bodies and associations, with several KAP and divisional executives that serve on the boards of some of these. • We also directly engage National Treasury, the dtic, CoGTA, SALGA and local municipalities in areas where our businesses operate.	**Focus areas and topics of interest** • Compliance to regulations relevant to our various businesses • Promoting and supporting growth in the sectors in which we operate • SED that makes a lasting economic and societal impact **Our response** • Our membership of the relevant industry bodies and associations enables us to: – participate in various sector master plans to facilitate the achievement of the government's industrialisation strategy and trade policy objectives; and – support the implementation of South Africa's climate strategy and environmental and waste management legislation. • We have formulated a government relations strategy to enhance our interactions with government and regulatory institutions. • We are fully compliant with legislations. • We are committed to transparent reporting.

Our strategic context

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Chairperson's review

'Our board reviewed the continued applicability of the KAP strategy during the year and we believe that it is robust and that the successful execution thereof will deliver value for our stakeholders.'

Patrick Quarmby
Independent non-executive chairperson

Key messages

We are positive about the future of South Africa and support KAP's strategy and continued investments in the country.

We are also committed to collaborating with government to turn the economic tide in South Africa.

Our board has a wide range of skills and industry experience to guide KAP in the pursuit of our strategy.

Dear stakeholder,

I am proud to report that KAP delivered a robust performance for the 2022 financial year, with revenue, earnings and cash generated from operations reaching their highest levels in KAP's history. The balance sheet is strong, with debt levels well within our serviceability limits, notwithstanding continued investment in growth projects during the year.

Given the challenges faced this year, I believe the group's strong performance was attributable to the resilience of the KAP strategy and business model, the diversification of our portfolio and the strength of our people.

UNITING FOR A BETTER SOUTH AFRICA

As a board, we support KAP's continued investment in South Africa. Over the past ten years, KAP has spent R7.2 billion to expand capacity and deliver organic growth, and R4.1 billion on acquisitions (net of disposals). These investments have enabled the group to entrench its market leadership position in several sectors and have enhanced the global competitiveness of our manufacturing businesses. We are supportive of government's localisation objectives, designed to create much needed employment in the country, and we will continue to pursue opportunities to this effect.

While we are positive about the future of our country, we cannot ignore the reality that South Africa is facing many challenges. Of ongoing concern is the continued social and political instability, corruption and criminal activity, high unemployment and deteriorating national and municipal infrastructure. This affects the ease and cost of doing business in South Africa and undermines the safety and quality of life of our employees. Encouragingly, our government is progressing toward implementing reforms to stimulate economic growth, including several industry master plans and the deregulation of key sectors, such as electricity, water, digital communications and freight transport. However, the pace of progress of the implementation of these reforms is slow, hampered by bureaucratic red tape, and we urge government to accelerate the process.

We believe that the private sector should work alongside government to turn the economic tide. At KAP, we collaborate with government on infrastructure, trade and industrial policy matters. We participate in CoGTA's municipal infrastructure, maintenance and development initiatives, and engage on specific focus areas such as the

Chairperson's review continued

Country Investment Strategy and the dtic's Industrial Policy Action Plan. Through our membership of various industry associations, we also participate in the activities of the Public-Private Growth Initiative where we partner with the South African Presidency and other government departments to facilitate both public and private sector capital investments to achieve government's economic and employment growth objectives.

BOARD PRIORITIES OVER THE YEAR

Given the difficulties experienced over the past year, we identified two key priorities. Firstly, we focused on navigating the group through the ongoing volatility and uncertainty associated with the Covid-19 pandemic and related supply chain disruptions, the civil unrest during July 2021 and the severe floods experienced in KwaZulu-Natal during April and May 2022, to ensure the group's response remained appropriate and effective. The group responded well to these extraordinary challenges and we believe that the lessons learned and the systems, disciplines and processes put in place will stand us in good stead in dealing with future challenges.

Secondly, we reviewed the continued applicability of the KAP strategy, which was recently refreshed. Over the course of the year, the executive management team presented the board with strategic deep dives into KAP and each of the divisions. This included both organic and acquisitive expansion opportunities and these have been thoroughly considered, debated and challenged. We believe that the KAP strategy is robust and the successful execution thereof will deliver value for our stakeholders.

GOVERNANCE, LEADERSHIP AND A BALANCED BOARD

Especially during these difficult times, the board continued to uphold the highest corporate governance standards. This, together with the group's values, underpin the delivery of the group's vision, purpose and strategy. We are of the firm belief that adherence to good corporate governance principles based on ethical leadership will ensure the group's success and sustainability. We have dedicated a significant amount of time addressing ESG issues and have reviewed the group's policies and procedures, including combined assurance, and are satisfied that the group is addressing these issues appropriately.

The following changes were made to our board during the year: Jaap de Vos du Toit stepped down as chairperson of the board and the nomination committee after 10 years in these roles and I replaced him as chairperson of both committees. Jaap has remained on the board in an independent, non-executive capacity. After 17 years of service, Ipeleng Mkhari decided to retire from the board and did not stand for re-election at the AGM. We thank Jaap and Ipeleng for their tireless service and the valuable contribution they have made to the board in their respective roles. We welcome Penwell Lunga, KAP's corporate affairs executive, to the board. These changes resulted in a rebalancing of the board's various committees to ensure effective functioning and compliance. I am confident that we have a well balanced, independent and diverse board with a wide range of skills and industry experience to both discharge our governance and oversight role and steer and set the strategic direction of the group.

In line with our board diversity policy, which was adopted in 2021, we continue to pursue race and gender diversity at board level. Because we have several members with long service, we have embarked on a planned board succession process over the next four years to ensure a responsible transition of the board and its committees.

DIVIDEND

After taking into consideration the KAP strategy and its pipeline of organic growth opportunities and potential acquisitions, the board confirmed KAP's flexible dividend policy during the year. In view of the group's strong results, healthy balance sheet and expected future cash generation prospects, the board declared a dividend of 29 cents per share or 2.6 times cover, an increase of 93% from the 15 cents per share declared in the previous year.

The board will continue to evaluate the best way to reward shareholders, taking into consideration the capital allocation opportunities available to us.

APPRECIATION

I would like to extend my appreciation and gratitude to my colleagues on the board for their considerable contribution, guidance and advice over the past year, and to the executive management team, led by our CEO, Gary Chaplin. Their continued dedication, hard work and leadership enable us to deliver on our commitment to create shared value.

I would also like to thank our employees, who have shown remarkable resilience in often very trying circumstances. They have embraced the opportunity to look for new and innovative ways to do business to ensure that we continue to outperform our competitors and strengthen our market position. I am enormously proud of what they have achieved during the year and wish them every success in the execution of the group's strategy in the years ahead.

Lastly, I am deeply grateful to our shareholders, our funders and all our stakeholders for their continued support of KAP.

Patrick Quarmby
Independent non-executive chairperson

Chief executive officer's review

'We are in the fortunate position to have a number of attractive organic growth opportunities.'

Gary Chaplin
Chief executive officer

Key messages

Our approach to building businesses enables us to perform in a subdued economic environment.

Our sharpened capital allocation focus will enhance the value we deliver to our shareholders.

We are positive about KAP's prospects in the coming year and longer term.

Dear stakeholder,

It is my pleasure to reflect on the past year's performance and our commitment to pursue our strategy of delivering sustainable, value-accretive growth for our stakeholders through building market-leading businesses.

OUR STRATEGIC DIRECTION

Our approach to building businesses has been applied consistently over several years. We seek to invest in sectors and industries that we believe have growth potential, and design and implement strategies to assume market leadership positions in those sectors and industries, on a globally competitive basis. We often invest in industries that are overlooked and perhaps not considered exciting. However, by diligently focusing on technology, innovation, people, process and product, we are able to change the structure of these industries and thereby extract value for our stakeholders. Our financial targets are to consistently grow HEPS above nominal GDP growth and generate sufficient cash flows to support a high level of self-funded growth at attractive returns.

To enhance the value delivered to our shareholders, we are in the process of optimising our portfolio by allocating and reallocating capital to higher-return businesses and/or opportunities. This process includes both organic activities and potential corporate action and, as a result, our portfolio of businesses may evolve over time. In considering this, our businesses remain subject to the following criteria. They need to:

- meet our ESG and sustainability values;
- be economically attractive, with meaningful growth opportunities;
- be market leaders or have the potential to assume a market leadership position; and
- provide diversification benefits.

Importantly, we understand that, as KAP, we need to add value to the businesses we own, whether it is through leveraging our balance sheet capability, applying our experience across multiple industries to provide strategic input, providing a governance framework with specialist centralised services or through driving growth in existing markets and expansion into new markets.

A PLEASING FY22 FINANCIAL PERFORMANCE

The operating environment was challenging during the period, with several factors that influenced our performance:

- Global supply chain disruptions
- Global commodity price volatility
- Rising global inflation
- Civil unrest in South Africa and Eswatini during July 2021

Chief executive officer's review continued

- Floods in KwaZulu-Natal during April and May 2022
- Subdued economic growth and softening consumer demand

In response to the challenging and, at times, volatile operating environment, we invested in strategic inventory to ensure availability of raw material supply, supported our customers who were affected by the civil unrest and KwaZulu-Natal floods, restructured operations in Restonic and Unitrans, and remained focused on delivering products and solutions with higher value-add, at the lowest cost. We continued to invest in our businesses, in line with our strategy to deliver value-accretive growth and our strategic priorities to grow revenue, improve margins, maximise cash flows and enhance returns. The following key investments were made during the year:

- an expansion of PG Bison's eMkhondo particleboard plant, which increased total capacity (particleboard and medium-density fibreboard ('MDF')) by 14% to 2 400 m^3 and will further entrench our market leadership position;
- an expansion of value-add capacity at PG Bison's Boksburg plant with investments in a seventh melamine-faced board ('MFB') press and a second gloss-coating line, both of which will be commissioned during FY23;
- the acquisition of DriveRisk, which offers attractive growth opportunities in the road safety industry;
- the construction of a 10 MW photovoltaic ('PV') plant at Safripol Sasolburg commenced, being the first material investment in our broader energy strategy; and
- a project to produce higher-specification and higher-margin HDPE commenced, which included replacement of outdated equipment.

Our performance for the year was pleasing, supported by robust performances by PG Bison and Safripol, which offset weaker performances by Restonic, Feltex and Unitrans. HEPS from continuing operations grew by 73% to 74.4 cents and adjusted HEPS* from continuing operations by 37% to 62.3 cents, the highest HEPS recorded in KAP's history. Free cash flow of R22 million was R788 million below the prior year, as we continue to invest in future growth. Our ROCE of 14.4% ended below our target of > 16%, largely due to the performances of Restonic, Feltex and Unitrans and unproductive capital work-in-progress of R830 million.

While the global supply chain disruptions created a more favourable environment for PG Bison and Safripol due to constrained imports and commodity price volatility, their robust performances over the period were also supported by their underlying strategies, which are expected to have enduring benefit beyond the current market dynamics. PG Bison has invested considerable time and resources in generating strong end-consumer demand which, together with a focus on value-added products, has enabled it to outperform the broader market consistently over the past five years. Safripol equally has made notable progress in its strategy of beating the index and moderating cyclicality through improved raw material procurement and in shifting its basket of polymers to higher-specification, higher-margin polymers.

OUR FOCUS ON ESG

ESG is embedded in our purpose to inspire people through building exceptional businesses that create lasting economic and social value. This principle has been integrated into the commercial strategy of each of our businesses, in order to support an integrated approach to sustainability. Through our business activities, we make a significant contribution to the communities in which we operate, create employment opportunities, and invest in the future growth of South Africa. We are consciously working toward ensuring sustainable business practices, not only to minimise our environmental footprint, but also to support our objective of delivering products and solutions at the lowest cost.

We continue to utilise the UN SDGs as the framework through which we monitor and communicate our sustainability objectives. Our key focus areas relate to reduced greenhouse gas emissions, improved water management, improved waste management, the health and safety of our employees, constructive community relations, socioeconomic development, transformation and diversity, and our employee value proposition.

Over the past year, we have increased our expenditure on SED and ESD in line with our strategy, and improved our B-BBEE score to Level 4 from Level 5. We have also embarked on a process to consolidate our SED activities to focus on key areas of childhood nutrition, education and business development with the objective of having fewer, more impactful initiatives for the group. We believe that investment in these areas is critical to the sustainable development of South Africa.

We are committed to creating an environment of zero harm in our group. The deployment of road safety solutions provided by DriveRisk is instrumental in achieving this target, as most of the group's exposure to accidents and fatalities is related to road use.

Our governance structures were enhanced during the year with the consolidation of our various assurance activities into a single combined assurance framework, the formation of new governance committees, and the appointment of additional corporate services executives in key functional areas: strategy, enterprise risk management, investor relations and secretarial. Three further executive positions in the areas of financial reporting, taxation and sustainability were concluded post-year-end, which will serve to further strengthen our governance structures.

BUILDING A RESILIENT BUSINESS

Over the past year, our customers, suppliers and our own businesses have been affected to varying degrees by loadshedding, deteriorating national and municipal infrastructure in South Africa, as well as the disruptive events described earlier: the Covid-19 pandemic, the July 2021 civil unrest, and the April/May 2022 KwaZulu-Natal floods.

** Adjusted for the impact of non-recurring/one-off transactions during the year*

Chief executive officer's review continued

We have embarked on the development and implementation of a business resilience strategy, which includes an energy and water strategy to address specific South African risks, particularly related to energy and infrastructure, as well as other unforeseen events, to avoid the potential costs and business interruption associated with such events. Our business resilience strategy includes actively driving government partnership, industry leadership and community engagement, facilitated through our corporate affairs executive, Penwell Lunga.

Our energy strategy is already far advanced. In addition to the PV plant mentioned earlier, we are exploring further self-generation, cogeneration and storage opportunities across the group. These potential investments could be material for the group and are anticipated to yield required returns. We have also engaged with Eskom with the objective of assisting with the protection and maintenance of electricity infrastructure feeding our sites.

LOOKING AHEAD

We are in the fortunate position of having a number of attractive organic growth opportunities available to us. The most material approved ones relate to PG Bison's eMkhondo MDF capacity expansion, scheduled for commissioning in FY25 and aimed at supporting general demand growth and replacing imports, PG Bison's value-added product capacity expansions at Boksburg, a project at Safripol's HDPE plant to produce higher-specification and higher-margin polymers, and the PV plant at Safripol Sasolburg that will supply 50% of the site's electricity requirements during daylight hours, at attractive returns. We are also exploring certain acquisition opportunities, with a preference for bolt-on acquisitions in industries and territories that are familiar to us and in which we have expertise.

As we expect the subdued economic environment to persist in FY23, it is critical for us to grow through market share gains and into new markets, including export markets. By differentiating our products and solutions and pursuing world-class operational excellence to lower our cost base, we have been able to do this successfully for most of our businesses over the past five years. In addition, the global competitiveness of our manufacturing operations, particularly PG Bison and Safripol, enables us to compete effectively in the export markets and defend our markets against imports. This also affords us growth opportunities beyond South Africa, should local demand soften.

Considering the above, and our sharpened capital allocation focus, we remain confident about KAP's prospects in the coming year and longer term.

APPRECIATION

I would like to extend my gratitude to our employees, who continue to persevere in often difficult operating conditions, remaining focused on operational excellence and the execution of our strategy.

Our customers and suppliers have remained loyal and supportive over the period, for which I am grateful.

I would also like to thank our shareholders, bondholders and banking partners for their continued trust and support during the year.

Lastly, I would like to express my deep appreciation for my colleagues on the board for their guidance and support over the period.

CONDOLENCES

I am deeply saddened that three of our employees passed away while on duty during the past year, two in road accidents and one in a severe forest fire. I would like to extend my sincere condolences to their families, friends and colleagues.

Gary Chaplin
Chief executive officer

Our operating environment

Our operating environment was challenging throughout the year, characterised by three major themes which largely categorise our material matters for the period, and are likely to persist beyond 2022.

1 BUSINESS RESILIENCE IN A VOLATILE AND INCREASINGLY UNCERTAIN OPERATING ENVIRONMENT

Context

Over the past two to three years, South African companies have had to navigate a global pandemic, global supply chain disruptions and raw material shortages, significant commodity price volatility, widespread civil unrest, strike action, blockages of key trade routes in South Africa, deteriorating water, electricity and rail infrastructure, and severe floods. Some of these events are becoming business as usual, especially in the South African context.

Our strategic response

We have intensified our ERM activities to mitigate adverse events and to support the development of a business resilience strategy. Our approach is multifaceted and includes:

Government partnership and industry leadership: We are taking an active leadership position in the industries in which we operate and collaborating with government to drive socioeconomic change to support the delivery of our strategic priorities.

Business Retention and Expansion ('BRE') programme: Some of our manufacturing operations are located in communities with poor municipal infrastructure. This affects our ability to operate efficiently, and the quality of life of the communities and our employees who reside there. At our PG Bison Ugie operations, we have partnered with the municipalities in the surrounding area with great success to improve issues relating to socioeconomic development. We are therefore rolling out these initiatives in other areas of our operations, and broadening our efforts in line with the BRE programme.

Community engagement: We have developed a community engagement framework to enable our businesses to strengthen engagement with communities, proactively manage community relations, and address issues raised by community members. Strong relationships with our communities support the sustainability of our operations and mitigate potential community unrest close to our operations.

Security: We have strengthened the security at our sites and actively make use of technology to ensure that our drivers are safe.

Energy strategy: Our energy strategy is aimed at reducing consumption, mitigating interruptions and non-supply, self-generation, cogeneration and storage. We have several projects that are being investigated for self-generation, mostly through renewable energy, with our primary focus on four significant sites. The first major self-generation project approved is the Safripol Sasolburg PV plant, which will be completed in FY23 at a total cost of R165 million, of which R112 million was spent in the current year. The plant will have the capacity to supply 50% of the energy requirements at the site during daylight hours.

Water strategy: Our water strategy is in the early stages of development. Similar to our energy strategy, it is aimed at reducing consumption and mitigating interruptions and non-supply.

Raw material security: Our operations have embarked on a process to ensure sustainability of raw material supply. It includes an assessment of the sustainability of current suppliers, investigating a broader supplier base to reduce concentration risk, and maintaining strategic inventory.

Read more: Risks and opportunities, page 28

Our operating environment continued

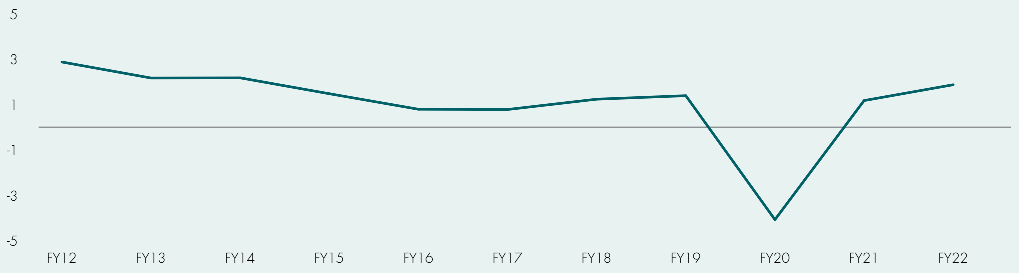
2 GROWING IN A SUBDUED SOUTH AFRICAN MACROECONOMIC ENVIRONMENT

Context

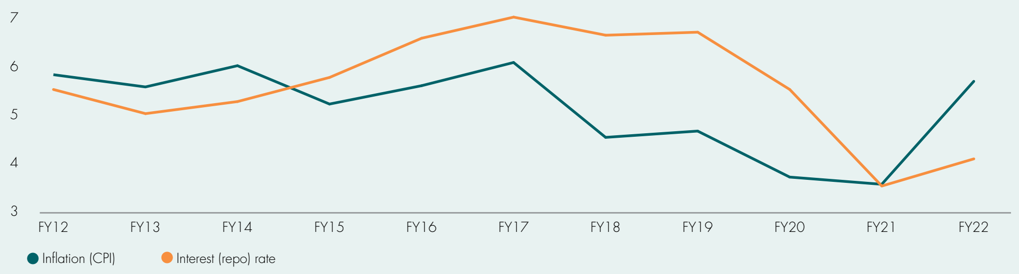
The outlook for the South African economy remains challenging, with National Treasury forecasting real GDP growth of 1.9% for 2022, and an average of 1.6% over the next three years. Rising inflation and interest rates could dampen consumer demand for non-discretionary products, and persistent loadshedding could impact the ability of local manufacturers to produce and sustain their operations. While our products and services are integrated into consumers' everyday lives, these factors are risks to delivering on our strategic priorities.

Key macroeconomic factors that affected our operations are reflected as follows:

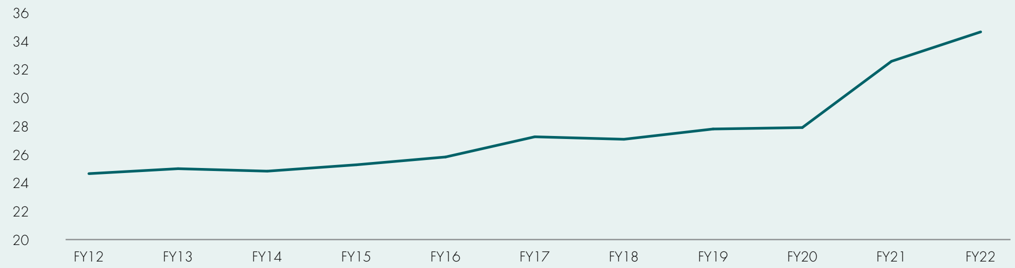
Average South Africa GDP growth (%)



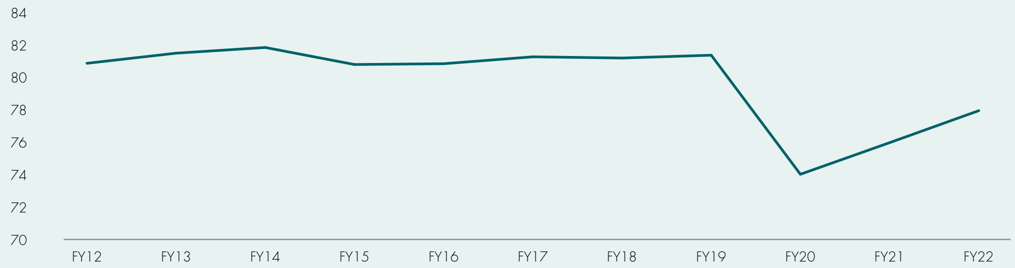
Average inflation and interest rates (%)



Average unemployment rate (%)



Average manufacturing utilisation (%)



Sources: Stats SA, Refinitiv Datastream, South African Reserve Bank

Our strategic response

Market share growth and expansion into new markets, including exports, is critical to performing in a subdued economic growth environment. The operational strategies we formulate at a KAP level, and implement at a divisional level, are targeted at enabling our divisions to outperform their peers and grow market share, regardless of the macroeconomic environment.

We recently refined our operational strategies to grow revenue, enhance margins, improve returns and maximise cash flow. Our strategies are supported by continuously pursuing market differentiation and operational excellence.

From a broader KAP capital allocation perspective, notwithstanding the challenging environment, we continue to invest organically where we see value-accretive growth opportunities in our existing businesses, and will pursue selective corporate actions in line with our investment criteria. The diversified nature of our portfolio provides us with resilience in a challenging macroeconomic environment.

Read more:
Our strategy, page 5
Divisional review, pages 40 to 56

Our operating environment continued

3 MANAGING VOLATILITY IN COMMODITY PRICES AND POLYMER MARGINS

Context

Many of the raw materials used in our operations are linked to global commodity prices, which have been volatile over the year, exacerbated by global supply and demand dynamics. While we endeavour to pass on raw material cost increases in the selling prices of our products, it is not always possible to do so in a timely manner, particularly if raw material prices escalate significantly over a short period of time, as witnessed at Restonic in the past year.

The length of the procurement-to-sales cycle in our operations can also affect margins (positively or negatively), depending on the volatility of raw material prices during the cycle.

Safripol is particularly exposed to volatility in raw material margins due to the movements of not just polymer prices, but also raw material prices. These may be subject to different supply and demand dynamics and therefore not move in tandem.

Our strategic response

- In Safripol, we have adopted a strategy to beat the index and moderate cyclicality. This is explained as follows:
  - We are transitioning our sales mix to more durable, higher-specification, higher-margin polymers to consistently beat indexed prices and margins.
  - We aim to maintain the procurement-to-sales cycle at a level where we minimise any index mismatches between raw material cost and product selling prices, thereby reducing volatility.
  - We have renegotiated a key raw material supply contract in Safripol to be more reflective of market dynamics and to limit the downside of HDPE margins, thereby moderating cyclicality.
- While the cyclicality in margins will remain, due to the global nature of polymers, our actions to date have resulted in an improved through-the-cycle operating profit margin and reduced cyclicality. We expect further improvement in the former as our sales mix transitions to higher-specification polymers.
- As part of our pursuit of operational excellence, we continue to drive efficiency improvements to reduce costs which help to offset inflationary increases. Initiatives linked to efficiency improvements include our energy strategy, waste strategy and water strategy. We are also driving efficiencies in our supply chain.

Read more:
Divisional review, page 40 to 56

Our key strategic trade-offs

The board and executive management consider the resources and relationships available to us to make decisions that support our group strategy to create sustainable, long-term value for our stakeholders. At times, this may result in near-term trade-offs.

Our key trade-offs during the year are described below:

1 BALANCING SHORT-TERM CASH FLOWS AND RETURNS AGAINST LONG-TERM VALUE CREATION AND SUSTAINABILITY

Most of our businesses are capital intensive in nature. We invest in capacity and technology to support our strategic priorities to grow revenue, enhance margins, improve returns and maximise cash flows. Operating on a globally competitive basis requires large-scale investments for some of our businesses, which often extend over more than one financial period. This affects our cash flows and returns in the near term, but delivers value over the longer term. Our capital work-in-progress investments at 30 June 2022, which are not yet revenue producing, amounted to R830 million (FY21: R749 million). While there are several examples of this in the group, one is prominent:

Over the past year, PG Bison expanded particleboard capacity at eMkhondo, started with the construction of an MDF plant at the same site, and increased value-added capacity at Boksburg, amounting to a collective investment of R465 million over the period. While these extended investments negatively impacted cash flows and returns over the period, the benefits will be realised over the longer term as they solidify PG Bison's market position and support growth. We expect returns and cash flows to improve as the expansion projects are completed and commissioned, capacity is absorbed by market demand and replacement capital expenditure falls below annual depreciation. Importantly, the particleboard and MDF expansions will result in the eMkhondo site producing products at the lowest cost in southern Africa and on a globally competitive basis, thereby creating export opportunities.

The board supports investments that promote the value creation and sustainability of our long-term vision for KAP beyond any single reporting period.

2 BALANCING GROWTH OPPORTUNITIES WITH PROTECTING OUR BALANCE SHEET

Sustainable growth and development of our businesses require continued investment to remain competitive. Our continued growth and expansion is primarily funded through internal cash generation and debt, which provides the leverage to improve returns to shareholders.

Maintaining a balanced and healthy balance sheet over the long term remains a key objective of the board and executive management, especially in relation to net debt levels and serviceability metrics. Our net debt/EBITDA was 1.7 times in FY22, well within our financial covenant of 3.2 times and our internal target of 2.5 times. Over the past 10 years (with the exception of FY20, for which financial performance was negatively impacted by Covid-19 and the resultant lockdown), we have consistently had a net debt/EBITDA ratio of below two times.

While we have headroom on our debt levels, we will continue to be responsible with our capital allocation, balancing the needs to maintain and grow our portfolio of businesses and return cash to shareholders, with that of a resilient balance sheet. We prefer to have a comfortable margin of safety on our debt levels should unforeseen and materially disruptive events such as the Covid-19 pandemic occur. We have several exciting organic growth opportunities, which will largely be funded from internal cash generation.

Risks and opportunities

Risks are those events that influence our ability to deliver on our strategy to create sustainable, value-accretive growth for our stakeholders.

RISK MANAGEMENT APPROACH

Our objectives with regard to risk management are three-fold. Firstly, to identify and manage all material risks that may prevent the group from achieving its value-creation objectives through prevention, mitigation and effective risk treatment. Secondly, to detect and rectify any weaknesses in our control environment designed to avoid risk. Thirdly, to create a culture of risk-intelligent decision-making, as for any given risk there may be possibilities to eliminate, transfer, mitigate, treat or tolerate the relevant risk.

Our approach is to set policy and methodology for risk management centrally, with a decentralised approach to implementation within our divisions. Guidance from the board on risk tolerance and appetite levels is provided to management, together with risk management methodologies and tools. Our divisions' compliance to risk tolerance and appetite, as well as the effectiveness of risk management implementation, is monitored through our various governance structures, and the use of our combined assurance framework.

Risk management in the group is comprehensively addressed through our governance framework, as reported through this integrated report, the corporate governance report, and the audit and risk committee report in the AFS. The board remains ultimately accountable for risk management, sets risk management policy, and determines risk tolerance and appetite levels. The audit and risk committee is tasked with the ongoing governance of risk management, which includes processes to ensure the effectiveness of risk management within the group. Management is responsible for the implementation of the risk management framework within their areas of responsibility. All the aforementioned reports are available on our website at www.kap.co.za.

BUSINESS RESILIENCE AND RISK

Whereas risk management is traditionally concerned with the prevention of unwanted future events, the concept of resilience expands our risk management capabilities, with the ability to react to, withstand the effects of, and quickly recover from unwanted events should they occur. This is related to risk management in the sense that risk management will implement both preventative and mitigating controls for identified risks; however, business resilience will also establish the ability to deal with unanticipated events.

Over the past two years, our group has faced a number of disruptive events. In light of the increasing frequency of these events, we are developing a resilience framework which will be implemented at a divisional level.

Several business resilience projects are already underway in the group, giving priority to projects that address some of the group's major risks related to infrastructure and energy security. Aspects of business resilience that relate to information and communications technology ('ICT') risks, such as disaster recovery and cyber threat protection, are also already established.

RISK TRANSFER AND INSURANCE

We maintain an insurance programme, including a degree of self-insurance, which provides financial protection against unwanted and unforeseen events that could result in material financial loss. The insurance programme includes a risk mitigation programme to avoid and minimise losses.

FY22 achievements

- Refreshed and updated all risk management governance documents
- Established a baseline for risk management maturity and an improvement action plan
- Set updated risk tolerance and appetite levels
- Improved the quality of risk management reporting

FY23 priorities

- Increase risk management visibility in management structures
- Apply updated risk tolerance and appetite levels at a divisional level
- Improve the quality of risk management data and reporting
- Embed risk management in the strategy setting processes
- Develop business resilience strategies

Risk tolerance: the boundaries of risk-taking outside of which the group is not prepared to venture to deliver on its strategy.
Risk appetite: the amount and type of risks that the group is willing to pursue or accept.

Risks and opportunities continued

GROUP RISK PROFILE

The following risks are considered material to the group:

External risks

Risk

Macroeconomic environment

Trend

The macroeconomic environment in South Africa remains depressed due to a number of factors, including policy uncertainty and limited execution capability, unreliable electricity supply, escalating social unrest, failing infrastructure, low business and consumer confidence, and increasing unemployment, exacerbated by the impact of the Covid-19 pandemic.

Risk mitigation areas and potential opportunities

We deploy strategies to ensure that we offer customers products and solutions that are locally, and where applicable, globally competitive. This includes lowering our cost base through ongoing investment in processes, technology and business innovation. In addition, we deliver fully integrated fit-for-purpose products and solutions, with high value-add, to differentiate from our competitors. This enables us to grow market share in a subdued growth environment and provides growth opportunities into new markets. Our decentralised operating model also enables us to respond timeously to the challenging macroeconomic environment.

Risk

Energy security

Trend

The poor quality of electricity supply, evidenced by recurring loadshedding and electricity interruptions, remains a key risk for the group. The repeated short-notice disruptions of electricity supply result in business interruptions, which not only affects our ability to produce product and supply our customers, but also impacts our customers' ability to operate effectively.

Risk mitigation areas and potential opportunities

Our large manufacturing sites procure electricity with curtailment arrangements from Eskom or municipalities, which provides us with the flexibility to reduce consumption without being cut off completely. While these arrangements are beneficial to us, the risk of sustainability of future supply remains.

In response, we have developed an energy strategy aimed at reducing consumption, mitigating interruptions and non-supply, self-generation, cogeneration and storage. We are well advanced in implementing various initiatives in line with this strategy, the first of which is a 10 MW PV project at our Safripol Sasolburg site. Through implementing the strategy, opportunities to supply electricity independently may materialise.

Risk

Infrastructure failure

Trend

Deteriorating national and municipal infrastructure in areas in which we have significant operations poses a risk to both the continued successful operations of our businesses as well as, in some cases, the quality of life of our employees.

Risk mitigation areas and potential opportunities

We actively drive government partnership and industry leadership. In addition, we are working with several government departments, associations and local municipalities in areas where our businesses operate to support the provision of basic municipal services, maintenance of existing infrastructure and investment in new bulk infrastructure.

Our engagements and collaboration with government are important to ensure the sustainability of our group and also afford us the opportunity to influence and shape government and industry policy in support of our strategic objectives.

Risk

Supply chain

Trend

We have material concentration risk emanating from dependencies on and potential disruptions of key supplies of raw materials. Local and international geopolitical, environmental, social and economic events, such as the global semiconductor shortage, have the potential to exacerbate the risk to supply chains of not only our divisions' manufacturing processes, but also of key divisional customers.

Risk mitigation areas and potential opportunities

We are implementing business development initiatives to broaden our supplier base and lessen dependence on key contracts and are also pursuing contract negotiations to ensure security of key raw materials.

We have made the strategic decision to increase stock holdings of strategic raw materials to mitigate potential shortages as a result of supply chain disruptions. This enables us to operate our plants without interruptions, which not only has efficiency benefits, but also ensures that we remain a reliable supplier to our customers, and provides opportunities to gain market share from imported products.

Risks and opportunities continued

Critical operational risks

Operational risks are identified, analysed and managed by divisional management using the ERM framework. The following risks, emanating from the divisional risk registers, are material at group level:

PG Bison

Risk

Project execution	Significant forest fires
The delivery of the eMkhondo MDF expansion project on time and within budget.	There is a risk of severe damage to the division's forestry assets from fires caused by either severe weather conditions or arson. Although the standing timber is insured, the effect of reduced availability of raw materials remains a key risk.

Controls

The division has a strong project management team with a solid execution track record. Project risk management principles are well entrenched in the division's daily operations with a continuous focus on securing the necessary infrastructure and utility supply and successful delivery and installation of equipment. Further focus areas include the employment and training of key production and technical employees and community liaison.	The division continues to invest in fire detection and firefighting capabilities and to implement and operate standard forestry fire prevention practices. In addition, the division continues to look for opportunities to increase its own resource base. Further focus areas include continued investment in community relations and education initiatives.

Safripol

Risk

Failure of key raw material supply	Exchange rate and commodity margin exposure
The division procures ethylene and propylene from a single supplier.	Prices of key raw materials and polymer products are impacted by global commodity prices and fluctuating supply and demand, which make the industry cyclical in nature. Furthermore, prices are determined in US dollar, which exposes the division's margins to exchange rate risk.

Controls

Ethylene and propylene are contractually secured on a long-term (evergreen) basis. In addition, raw materials are supplied from more than one source where possible and business interruption insurance is maintained.	The division does not hedge this exposure but rather manages this risk though a continued focus on initiatives to 'beat the index' and 'moderate cyclicality', which include optimising key raw material procurement, minimising the procurement-to-sales cycle, and increasing value-add by selling more durable and non-commodity grades. The division also concluded negotiations on the supply of ethylene using a new pricing formula that facilitates a fair market-related margin and moderates the cyclicality of margins. Diversification of risk is provided by the product mix of the three polymers and four primary raw materials.

Our performance

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Historical financial review

Ten-year review	Financial definition	10-year CAGR %[a]	2022 Rm	2021 Rm	2020 Rm	2019 Rm	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm
Extracts from income statement – continuing operations													
Revenue		10	**27 979**	23 956	21 591	25 602	22 813	19 783	16 047	15 664	14 471	13 513	10 481
EBITDA	1	10	**4 340**	3 419	2 703	3 713	3 944	3 361	2 797	2 450	2 230	2 050	1 727
Operating profit	2	10	**2 936**	2 102	1 419	2 527	2 901	2 499	1 997	1 666	1 480	1 309	1 098
B-BBEE cost			**13**	3	3	196	–	–	–	–	–	–	–
Net finance costs			**499**	466	654	707	697	515	312	289	327	364	381
Taxation expense/(benefit)			**578**	506	(395)	533	520	510	487	361	309	272	218
Headline earnings		14	**1 851**	1 099	460	1 237	1 646	1 431	1 172	969	801	658	485
Extracts from statement of financial position													
Goodwill and intangible assets			**3 046**	2 669	2 687	5 242	5 392	5 333	2 078	1 598	1 290	1 311	1 311
Property, plant and equipment and investment property			**14 130**	12 957	12 630	12 536	12 513	11 832	8 128	7 129	6 633	6 394	6 129
Right-of-use assets[b]			**426**	358	438	–	–	–	–	–	–	–	–
Consumable biological assets			**1 491**	1 565	1 754	1 900	1 919	1 978	1 890	1 824	1 875	1 761	1 656
Net working capital	3		**2 467**	1 925	1 911	1 132	1 330	623	(27)	352	170	267	689
Net operating assets	4	8	**21 555**	19 474	19 420	20 810	21 154	19 766	12 069	10 903	9 968	9 733	9 785
Gross interest-bearing debt			**9 189**	7 281	8 042	6 273	7 878	7 786	4 671	3 459	4 024	4 410	4 886
Interest-bearing loans and borrowings			**8 711**	6 884	7 576	6 273	7 878	7 786	4 671	3 459	4 024	4 410	4 886
Lease liabilities[b]			**478**	397	466	–	–	–	–	–	–	–	–
Cash and cash equivalents			**(1 730)**	(751)	(1 001)	(1 785)	(2 151)	(2 009)	(2 602)	(1 370)	(1 348)	(1 320)	(1 346)
Net interest-bearing debt			**7 459**	6 530	7 041	4 488	5 727	5 777	2 069	2 089	2 676	3 090	3 540
Equity attributable to owners of the parent		8	**11 531**	10 250	9 566	12 825	12 155	11 035	8 667	7 761	6 709	6 166	5 564
Extracts from statement of cash flows													
Cash generated from operations			**4 081**	3 485	2 076	4 033	3 308	2 958	3 285	2 275	1 888	2 249	1 906
Cash flows from investing activities[c]			**(2 736)**	(1 807)	(1 939)	(1 142)	(1 723)	(6 083)	(2 285)	(871)	(828)	(1 159)	(617)
Expansion capital expenditure			**(1 127)**	(899)	(671)	(420)	(811)	(1 050)	(735)	(509)	(403)	(594)	(419)
Replacement capital expenditure			**(1 067)**	(918)	(1 241)	(811)	(837)	(1 190)	(965)	(683)	(653)	(470)	(346)
(Acquisition)/disposal of investments			**(392)**	–	(13)	101	(29)	(3 781)	(573)	328	276	(38)	43
Other investing activities			**(150)**	10	(14)	(12)	(46)	(62)	(12)	(7)	(48)	(57)	105
Free cash flow before dividends	5		**22**	810	(791)	1 983	594	(4 006)	417	913	600	584	847

[a] *Compound annual growth rate*
[b] *IFRS 16 was adopted on 1 July 2019 on a forward-looking basis.*
[c] *Cash flow from investing activities has been restated from 2012 to 2016 to include capitalised interest in net finance costs. It was previously included in additions to property, plant and equipment.*

Historical financial review continued

Ten-year review	Financial definition	10-year CAGR %[a]	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Key information													
Headline earnings per share (cents)		12	**75.1**	37.9	13.7	42.9	59.8	54.2	47.8	40.2	33.8	29.1	24.2
Headline earnings per share (cents) – continuing operations		12	**74.4**	43.0	17.5	45.9	61.6	55.6	48.2	40.6	34.1	28.1	24.0
Dividends per share (cents)		17	**29**	15	–	23	23	21	18	15	12	8	6
Net asset value per share (cents)		7	**466**	405	372	474	454	415	355	320	286	263	238
Weighted average number of shares (million)		2	**2 487**	2 555	2 630	2 696	2 671	2 574	2 433	2 384	2 346	2 342	2 019
Shares in issue (million)		1	**2 472**	2 531	2 571	2 704	2 678	2 662	2 441	2 423	2 346	2 346	2 337
Ratios													
Operating margin – %	6		**10.5%**	8.8%	6.6%	10.6%	12.7%	12.6%	12.4%	10.6%	10.2%	9.7%	10.5%
EBITDA margin – %	7		**15.6%**	14.3%	12.5%	15.3%	17.3%	17.0%	17.4%	15.6%	15.4%	15.2%	16.5%
Effective tax rate – %	8		**24.6%**	29.8%	(17.0%)	31.2%	24.1%	26.0%	28.8%	26.9%	27.1%	27.8%	26.9%
Cash conversion ratio	9		**94%**	106%	77%	105%	85%	89%	118%	93%	85%	107%	110%
Gearing %	10		**65%**	64%	74%	35%	47%	52%	24%	27%	40%	50%	64%
Gearing % – gross debt	11		**80%**	71%	84%	49%	65%	71%	54%	45%	60%	72%	88%
EBITDA: interest cover (times)			**8.2**	7.3	4.1	5.3	5.7	6.5	9.0	8.5	6.8	5.6	4.5
Net debt: EBITDA (times)			**1.7**	1.9	2.6	1.2	1.5	1.7	0.7	0.9	1.2	1.5	2.0
Gross debt: EBITDA (times)			**2.1**	2.1	3.0	1.7	2.0	2.3	1.7	1.4	1.8	2.2	2.8
Return on capital employed ('ROCE') – %	12		**14.4%**	10.8%	7.1%	13.0%	14.2%	15.7%	17.4%	16.0%	15.0%	13.4%	12.4%
Return on equity ('ROE') – %	13		**17.2%**	9.8%	3.3%	10.8%	13.8%	14.2%	14.2%	13.3%	12.3%	11.6%	10.3%
Dividend cover (times)	14		**2.6**	2.5	–	1.9	2.6	2.6	2.7	2.7	2.8	3.6	4.0

Definitions
1. EBITDA – operating profit before depreciation, amortisation and capital items.
2. Operating profit before capital items.
3. Net working capital – consists of inventories, trade and other receivables, trade and other payables, employee benefits and provisions excluding assets and liabilities held for sale.
4. Net operating assets – consist of goodwill, intangible assets, property, plant and equipment, investment properties, right-of-use assets, consumable biological assets, net working capital and non-current derivative financial instruments.
5. Free cash flow before dividends – cash generated from operations plus dividends received less net finance costs, taxation paid and cash flow from investing activities.
6. Operating margin % – operating profit (before B-BBEE cost) from continuing operations divided by revenue from continuing operations.
7. EBITDA margin % – EBITDA (before B-BBEE cost) from continuing operations divided by revenue from continuing operations.
8. Effective tax rate % – taxation expense from continuing operations divided by profit before tax from continuing operations.
9. Cash conversion ratio % – cash generated from operations divided by EBITDA (before B-BBEE cost) from continuing and discontinued operations.
10. Gearing % – net interest-bearing debt divided by equity attributable to owners of the parent.
11. Gearing – gross debt % – gross interest-bearing debt divided by equity attributable to owners of the parent.
12. ROCE % – operating profit (before B-BBEE cost) from continuing operations divided by average net operating assets.
13. ROE % – headline earnings (before B-BBEE cost) from continuing and discontinued operations divided by average equity.
14. Dividend cover – headline earnings per share divided by dividends per share.

Chief financial officer's review

'Our diversified business model proved resilient.'

Frans Olivier
Chief financial officer

REVENUE
17%
R28 billion

OPERATING PROFIT BEFORE CAPITAL ITEMS
40%
R2.9 billion

CASH GENERATED FROM OPERATIONS
17%
R4.0 billion

Dear stakeholder,

The year under review was characterised by continued sociopolitical and macroeconomic volatility and uncertainty, with the following main themes evident:

- Global supply chain disruptions
- Global commodity price volatility
- Rising global inflation
- Civil unrest in South Africa during July 2021
- Floods in KwaZulu-Natal during April and May 2022
- Subdued economic growth and softening consumer demand

Our diversified business model proved resilient under these circumstances, and we produced a pleasing set of results for the year through a focus on market share gains, operational efficiencies, cash generation and capital efficiency. The results are underpinned by robust performances by Safripol and PG Bison.

Revenue increased by 17% to R27 979 million (FY21: R23 956 million) and operating profit before capital items increased by 40% to R2 936 million (FY21: R2 102 million) for the year. Cash generated from operations increased by 17% to R4 081 million (FY21: R3 485 million).

HEPS from continuing operations increased by 73% to 74.4 cents per share (FY21: 43.0 cents per share), while basic earnings per share ('EPS') from continuing operations increased by 60% to 70.3 cents per share (FY21: 44.0 cents per share).

Key metrics from continuing operations	FY22	FY21	% change
Revenue (Rm)	**27 979**	23 956	17
EBITDA (Rm)	**4 340**	3 419	27
Operating profit before capital items (Rm)	**2 936**	2 102	40
Headline earnings (Rm)	**1 851**	1 099	68
Headline earnings per share (cents)	**74.4**	43.0	73
Basic earnings per share (cents)	**70.3**	44.0	60
Cash generated from operations (Rm)	**4 081**	3 485	17
Free cash flow before dividends (Rm)	**22**	810	(97)

Chief financial officer's review continued

FINANCIAL PERFORMANCE

Revenue from continuing operations increased by 17% to R27 979 million (FY21: R23 956 million). The divisions were impacted to varying degrees, as illustrated below:

Revenue	Year ended 30 Jun 2022 Audited Rm	Year ended 30 Jun 2021 Audited Rm	% change
Diversified industrial	8 259	7 927	4
PG Bison	4 876	4 197	16
Restonic	1 612	1 731	(7)
Feltex	1 809	2 033	(11)
Interdivisional eliminations	(38)	(34)	
Diversified chemical	10 120	7 509	35
Safripol	10 120	7 509	35
Diversified logistics	9 757	8 828	11
Unitrans South Africa	5 754	5 207	11
Unitrans Africa	2 147	2 010	7
Unitrans Passenger	1 895	1 647	15
Interdivisional eliminations	(39)	(36)	
Road safety	242	–	–
DriveRisk	242	–	–
	28 378	24 264	17
Intersegmental eliminations	(399)	(308)	
	27 979	23 956	17

Operating profit before depreciation, amortisation and capital items ('EBITDA') from continuing operations increased by 27% to R4 340 million (FY21: R3 419 million). Operating profit before capital items from continuing operations increased by 40% to R2 936 million (FY21: R2 102 million), while operating margin increased to 10.5% (FY21: 8.8%). This includes a non-cash downward adjustment of R77 million (FY21: R190 million) to biological assets. The operating profit and margin performance was due to robust growth in PG Bison, Safripol and Unitrans South Africa, with the remaining divisions trading lower than the prior year. This is reflected as follows:

Operating profit and margin %	Year ended 30 Jun 2022 Audited Rm	30 Jun 2022 margin %	Year ended 30 Jun 2021 Audited Rm	30 Jun 2021 margin %	Operating profit change %	Margin change %
Diversified industrial	936	11.3	1 025	12.9	(9)	(1.6)
PG Bison	831	17.0	615	14.7	35	2.3
Restonic	69	4.3	254	14.7	(73)	(10.4)
Feltex	36	2.0	156	7.7	(77)	(5.7)
Diversified chemical	1 400	13.8	428	5.7	227	8.1
Safripol	1 400	13.8	428	5.7	227	8.1
Diversified logistics	578	5.9	649	7.4	(11)	(1.5)
Unitrans South Africa	382	6.6	249	4.8	53	1.8
Unitrans Africa	48	2.2	211	10.5	(77)	(8.3)
Unitrans Passenger	148	7.8	189	11.5	(22)	(3.7)
Road safety	22	9.1	–	–	–	–
DriveRisk	22	9.1	–	–	–	–
	2 936	10.5	2 102	8.8	40	1.7

Safripol's operating profit includes a R91 million benefit relating to a retrospective price adjustment for the 2021 financial year resulting from the successful conclusion of negotiations with a supplier during the year. The revenue and operating profit of Unitrans South Africa include an accrual of R107 million in relation to a R125 million termination penalty on a major contract that will be settled in FY23. The remainder of the penalty of R18 million will be recognised in FY23.

While insurance claims have been lodged in regard to the business interruption resulting from the KwaZulu-Natal floods in April and May 2022, these are still being assessed by our insurers.

No potential business interruption insurance income resulting from these events has been recognised in the results for the year.

Capital items from continuing operations of R109 million (FY21: R32 million income) comprise mainly an R80 million impairment of goodwill relating to the Maxe business unit, which forms part of the Feltex division. This resulted from an anticipated slower recovery post-Covid than previously estimated, due to the further impact of the civil unrest and the KwaZulu-Natal floods, which affected a key customer's operations. The prior year comprises mainly insurance income relating to accidental equipment damages.

Chief financial officer's review continued

The effective tax rate from continuing operations of 24.6% (FY21: 29.8%) was impacted by three primary factors: a reduction in the South African corporate taxation rate to 27%; the release of a R68 million provision relating to a section 12I tax allowance due to performance criteria achieved during the year; and impairments of R80 million which are not deductible for income tax purposes.

HEPS from continuing operations increased by 73% to 74.4 cents (FY21: 43.0 cents) and adjusted HEPS increased by 37% to 62.3 cents (FY21: 45.6 cents) after taking into account material and non-trading items which affected the results.

Adjusted headline earnings per share from continuing operations	FY22 Cents	FY21 Cents	% change
Reported	**74.4**	43.0	73
Safripol ethylene price adjustment	**(2.6)**	2.6	
Unitrans termination penalty	**(3.1)**	–	
Safripol section 12I tax allowance	**(2.7)**	–	
Change in corporate tax rate*	**(3.7)**	–	
Adjusted	**62.3**	45.6	37

* *Effect of the South African tax rate reduction to 27% on 30 June 2022 deferred tax balances*

Basic EPS from continuing operations increased by 60% to 70.3 cents (FY21: 44.0 cents). Both HEPS and EPS were positively impacted by a 3% reduction in the weighted average number of shares in issue compared to the prior year.

STATEMENT OF FINANCIAL POSITION

The group's balance sheet remains healthy. Although net debt increased during the year, the improved EBITDA resulted in the group improving its financial covenant ratios. The group remained comfortably within its financial covenant ratios during the year.

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

Asset base from continuing operations	FY22 Rm	% of total	FY21 Rm	% of total
Plant and machinery	**5 451**	**29**	4 856	28
Long-haul vehicles and buses	**4 974**	**26**	4 684	26
Land and buildings	**2 762**	**14**	2 581	15
Intangible assets	**2 363**	**12**	2 028	12
Biological assets	**1 491**	**8**	1 565	9
Goodwill	**683**	**4**	641	4
Right-of-use assets	**426**	**2**	358	2
Capital work-in-progress	**830**	**4**	749	4
Other assets	**113**	**1**	87	–
	19 093	**100**	17 549	100

Intangible assets include predominantly supplier relationships, patents and trademarks. These intangible assets secure access to strategic raw material inputs, create barriers to entry, and secure market leadership.

Disclosures of operating assets, operating liabilities and net operating assets per division, grouped by division, allow stakeholders to understand divisional performances and returns, such as ROCE. Net operating assets and ROCE by division are illustrated below:

Net operating assets/(liabilities) and returns (excluding B-BBEE cost)	Year ended 30 Jun 2022 Rm	30 Jun 2022 ROCE %	Year ended 30 Jun 2021 Rm	30 Jun 2021 ROCE %	ROCE change %
Diversified industrial	**9 108**	**10.6**	8 487	12.3	(1.7)
PG Bison	**6 336**	**13.5**	5 992	10.4	3.1
Restonic	**1 528**	**4.8**	1 340	19.2	(14.4)
Feltex	**1 244**	**3.0**	1 155	14.4	(11.4)
Diversified chemical	**4 791**	**30.6**	4 368	9.7	20.9
Safripol	**4 791**	**30.6**	4 368	9.7	20.9
Diversified logistics	**7 321**	**8.3**	6 842	9.4	(1.1)
Unitrans South Africa	**4 059**	**10.1**	3 755	6.7	3.4
Unitrans Africa	**2 384**	**2.1**	2 177	9.7	(7.6)
Unitrans Passenger	**878**	**16.6**	910	18.9	(2.3)
Road safety	**605**	**7.3**	–	–	–
DriveRisk	**605**	**7.3**	–	–	–
Corporate, consolidation and eliminations	**(270)**		(223)		
	21 555	**14.4**	19 474	10.8	3.6

ROCE is a key management focus area. While it increased from 10.8% to 14.4%, it remains lower than our targeted rate of more than 16%. Capital work-in-progress of R830 million (FY21: R749 million), which relates to projects not brought in to use, impacted ROCE negatively. ROE increased to 17.2% from 9.8%.

We remain focused on completing our various expansion projects with the objective of growing earnings, enhancing returns, and generating free cash flow.

Replacement capital expenditure is managed over time in relation to the annual depreciation charge. Depreciation and amortisation (excluding right-of-use asset depreciation) from continuing operations for the year amounted to R1 298 million (FY21: R1 208 million), while replacement capital expenditure amounted to R1 067 million (FY21: R918 million) net of proceeds from disposal, insurance proceeds and government grants received. Expansion capital expenditure of R1 127 million (FY21: R899 million), net of government grants received, was invested in the group's asset base to drive growth and efficiency benefits.

Chief financial officer's review continued

The split of capital expenditure per division is illustrated below:

Total capital expenditure	FY22 Rm	% of total	FY21 Rm
Diversified industrial	**846**	38	749
PG Bison	**597**	27	399
Restonic	**106**	5	116
Feltex	**143**	6	234
Diversified chemical	**257**	12	78
Safripol	**257**	12	78
Diversified logistics	**1 074**	49	997
Unitrans South Africa	**584**	27	478
Unitrans Africa	**452**	20	408
Unitrans Passenger	**38**	2	111
Road safety	**17**	1	–
DriveRisk	**17**	1	–
Corporate, consolidation and eliminations	**–**	–	(7)
	2 194	100	1 817

Net working capital increased by R542 million compared to the prior year. Inventory increased by R818 million, accounts receivable by R664 million, and accounts payable by R940 million. Net working capital was impacted by increased selling prices and cost escalations in the current year, as well as planned increases in inventory. The current net working capital balance is approaching a more normalised level compared to the prior year. Continuous focus is placed on optimising net working capital with due regard to the current global supply chain challenges.

The net asset value per share increased by 15% from 405 cents to 466 cents at 30 June 2022.

STATEMENT OF CASH FLOWS

Cash generated from operations of R4 081 million (FY21: R3 485 million) is R596 million more than the prior year, comprising R1 016 million more cash generated from trading, less R420 million more cash invested in working capital. The cash conversion ratio of EBITDA to cash flow from operations of 94% is above our internal target of 90%.

Free cash outflow (before dividends paid) of R22 million is R788 million below the prior year, mainly due to R408 million more taxation paid and R929 million more spent on investing activities, offset by R596 million more cash generated from operations. The investing activities include the acquisition of an effective 90% interest in DriveRisk Proprietary Limited and SingRisk Services Private Limited for R379 million, net of cash at acquisition.

Dividends of R394 million (FY21: R27 million) were paid during the year.

CAPITAL STRUCTURE

We are committed to maintaining a sound capital structure by maintaining appropriate gearing, and ensuring access to sufficient funding to sustain our operations and facilitate growth. Our debt funding is 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 within our internal targeted debt serviceability ratios.

The company repurchased and cancelled 65 million ordinary shares during the year. The total value of the share buy-back transactions amounted to R310 million.

Net interest-bearing debt increased by R929 million compared to the prior year as planned, resulting in a marginal increase in the net interest-bearing debt to equity (gearing) ratio to 65% from 64% in the prior year. Debt serviceability ratios for the year of net debt/EBITDA at 1.7 times and EBITDA/interest cover at 8.2 times remained well within our financial covenants of < 3.2 times and > 3.5 times, respectively. Net debt/EBITDA of 1.7 times improved as planned and is well within our internal target of < 2.5 times.

During the year, bonds to the value of R1 620 million were settled and new funding of R3 100 million was raised through bond issuances with maturities up to five years and at more favourable interest rates.

Global Credit Rating Co. Proprietary Limited reviewed KAP's credit rating in November 2021 and confirmed its rating as A+(za) with a stable outlook.

Chief financial officer's review continued

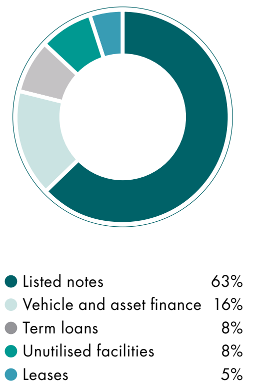
The debt structure, movement in net interest-bearing debt and financial covenant ratios are reflected as follows:

Debt structure and serviceability ratios	30 Jun 2022 Audited Rm	30 Jun 2021 Audited Rm
Loans and borrowings non-current	**6 681**	5 360
Loans and borrowings current	**2 049**	1 526
Lease liabilities non-current	**372**	311
Lease liabilities current	**106**	86
Non-interest-bearing loans and borrowings	**(57)**	(47)
Bank overdrafts	**38**	45
Cash and cash equivalents	**(1 730)**	(751)
Net interest-bearing debt	**7 459**	6 530
Movement in net interest-bearing debt		
Balance at the beginning of the year excluding lease liabilities	**6 133**	6 575
Interest-bearing loans and borrowings received/(repaid)	**1 760**	(720)
Net (increase)/decrease in cash and cash equivalents	**(965)**	226
Net acquisition of subsidiaries	**74**	–
Effects of exchange rate translations on cash and cash equivalents	**(21)**	52
Net interest-bearing debt excluding lease liabilities	**6 981**	6 133
Lease liabilities	**478**	397
Net interest-bearing debt	**7 459**	6 530
EBITDA[1, 2]	**4 340**	3 419
Net finance costs[2]	**529**	466
EBITDA: interest cover (times) > 3.5[3]	**8.2**	7.3
Net debt: EBITDA (times) < 3.2[3]	**1.7**	1.9
Gearing %	**65**	64

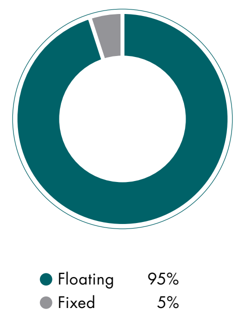
[1] *Operating profit before depreciation, amortisation and capital items.*
[2] *From continuing operations.*
[3] *Financial covenant triggers.*

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:

Funding structure

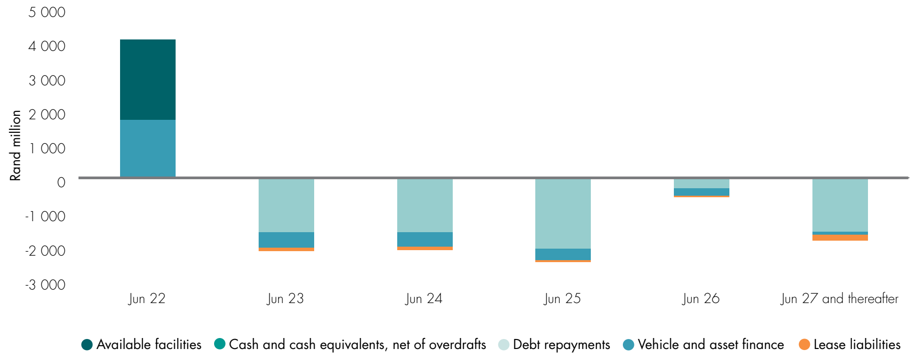


Fixed vs floating interest rate funding



These funding activities have resulted in an extended debt maturity profile, as reflected below. The company will comfortably be able to refinance or repay its debt when it becomes due.

Maturity of net interest-bearing debt as at 30 June 2022



Chief financial officer's review continued

DIVIDENDS

In view of the resilience that the KAP business has displayed, with strong results and balance sheet, and expected future earnings and cash generation prospects, the board of directors declared a dividend of 29 cents per share for the financial year ended 30 June 2022, which reflects a cover of 2.6 times. The dividend increased by 93% from the 15 cents per share paid in the previous year.

CORPORATE ACTIVITY

We concluded the following transactions during the year to support the group's strategic priorities:

- Effective 31 August 2021, KAP Automotive Proprietary Limited ('KAP Automotive') acquired the tufting carpet business from its equity-accounted joint venture company, Auria Feltex Proprietary Limited, for a total consideration of R13 million.
- Effective 30 November 2021, Unitrans Supply Chain Solutions Proprietary Limited acquired a minority 30% non-controlling interest in Ubunye Mining Services Proprietary Limited for a consideration of R20 million.
- Effective 1 December 2021, the group acquired an effective 90% interest in DriveRisk Holdings Proprietary Limited and SingRisk Services Private Limited (together with the underlying subsidiaries, collectively referred to as 'DriveRisk') for a purchase consideration of R404 million. This resulted in intangible assets of R241 million, net of deferred taxation being recognised and goodwill of R122 million being raised. The remaining 10% shareholding is retained by management.
- Effective 26 February 2022, KAP Automotive acquired a 48.95% shareholding in Auria South Africa Proprietary Limited ('Auria SA') for R46 million. The investment is treated as an associate and is accounted for using the equity method. In addition, KAP Automotive advanced a loan of R50 million to Auria SA.

GOVERNANCE

Our decentralised business model allows our divisions to operate autonomously and to cultivate an entrepreneurial culture within a governance framework established at centre by the company. It is through this framework that 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, in terms of both governance and providing effective support to enable divisional management to grow their businesses.

Internal audit, as an assurance provider, is a key component of our governance framework. In light of the escalating regulatory and reporting requirements, the speed of technological advancement, the increasingly specialised nature of internal audit, and the scale and complexity of the group, we decided to outsource our internal audit function to an independent specialist, effective 1 September 2022.

We acknowledge the importance of technology and the benefits that are unlocked through visibility of accurate information, as well as the improved control environment that is related to robust systems. Our divisions all operate on separate operating systems appropriate to their businesses. We initiated a strategic project during the year to develop divisional digital strategies incorporating process and capability improvements, intelligent use of data and system architecture. We regularly invest in upgrading these systems to ensure that they remain effective.

We receive detailed divisional management accounts within five business days of month-end, providing enhanced insight into the divisional results. The consolidated 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 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 that it provides daily visibility of all bank accounts in the group.

LOOKING AHEAD

We expect the challenging macroeconomic environment experienced during the year to persist in FY23, with softer consumer demand across a number of sectors related to higher inflation and interest rates. Furthermore, while we expect global supply chain disruptions to ease during the year, it is unlikely to fully resolve. We therefore anticipate that commodity price volatility will continue. In the South African context, we expect escalating sociopolitical instability leading up to the ANC national elective conference in 2022.

While this environment will no doubt prove challenging, we remain optimistic about KAP's prospects and management's ability to execute the group's strategy successfully.

We believe that PG Bison and Safripol will continue to benefit from global supply chain disruptions, which favour local manufacture and supply, given their direct and downstream exposure to imports. The high polymer margins experienced during FY22 are expected to moderate during FY23, in line with global indices and a moderating oil-price environment, but to remain at healthy levels.

Restonic, Feltex and Unitrans are expected to benefit from corrective management actions and an improvement in external factors specific to each division. We believe that DriveRisk will continue to grow the number of units and subscriptions sold to fleet operators by deploying its leading technology offering, which has a tangible impact on road safety and fleet efficiency.

We continue to pursue our strategic priorities in terms of revenue growth, which includes market share gains, capacity expansion and select corporate actions, as well as margin expansion, through increased value-add activities. We believe these will enable us to outperform the sectors in which we operate and continue to improve shareholder value over time.

Frans Olivier
Chief financial officer

Divisional review

PG BISON is the leading decorative wood-based panel producer in Africa, servicing the retail, construction, furniture, kitchen manufacturing and residential development markets, primarily in southern Africa. We have integrated forestry, timber and resin manufacturing operations, featuring both primary manufacturing and secondary upgrading processes.

Gerhard Victor
CHIEF EXECUTIVE OFFICER

'Our investments in technology and new capacity enhance our global competitiveness and positions us for growth.'

OUR VISION We aspire to be recognised globally as a leader in the decorative wood panel industry.

Key themes informing our strategy

- There is growth in the affordable housing segment in South Africa.
- The South African Furniture Industry Master Plan includes localisation targets for the furniture industry, with PG Bison being a key supplier to local manufacturers.
- Imports into South Africa are necessary to supplement current local capacity, particularly for MDF.
- The market has fragmented over time, which has supported our strategy to grow value-added product capacity.
- MDF is considered an alternative to hardboard, particularly in neighbouring countries, which provides export opportunities.

Our strategy

Our strategy is to secure sustainable growth through market share gains in existing and new markets. We aim to do this through product development and demand creation at consumer level, supported by capacity expansion and innovation to increase value-add, and customer enablement activities. We continue to target the lowest cost of production in the industry and pursue multiple initiatives to achieve this.

Our FY27 financial targets

- Revenue growth: 10% to 12% five-year CAGR
- Operating profit margin: 18% to 20%
- ROCE: 15% to 17%

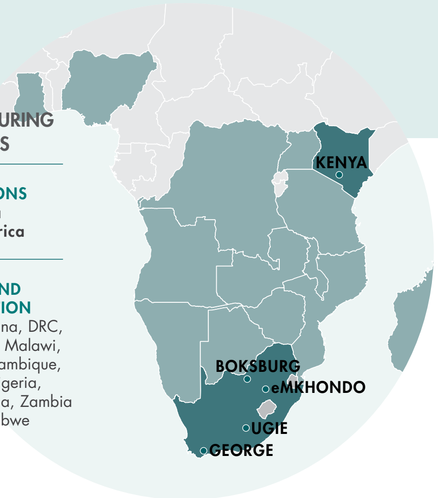
What differentiates us

- We have a competitive cost positioning relative to global peers, which allows us to effectively compete with imports and participate in the export market.
- We produce innovative, high-quality value-added products that reflect global consumer and design trends.
- We have an integrated supply chain, which ensures that we have access to sustainably sourced timber, resin, and paper that we use to manufacture our products.
- We adhere to international quality standards in all aspects of production.
- We believe in tailor-made customer propositions.

8
MANUFACTURING PLANTS

OPERATIONS
Kenya
South Africa

SALES AND DISTRIBUTION
Angola, Botswana, DRC, Ghana, Kenya, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Tanzania, Uganda, Zambia and Zimbabwe



Products and services

Forestry
Sawlogs, poles, pulpwood

Primary processing

Timber
Structural timber, poles

Board
Particleboard, MDF

Resin
Formaldehyde and urea formaldehyde resin

Treated paper
Used only in the wood-based panel industry to manufacture MFB

Secondary processing

Decorative panels
Gloss-coated board
Matt-coated board
MFB
Foil-faced board
Worktops

Key facts

- **> 4.9 million** trees planted annually
- Capacity during the year: **740 000 m³**
- Capacity at end of the year: **825 600 m³**
- Sales volumes: **721 104 m³**
- Value-added ratio: **67%**

Divisional review continued

PG BISON

PERFORMANCE REVIEW

Operating environment

- Robust demand
- Global supply chain disruptions supported local manufacture and supply
- Significant escalations in raw material prices

Financial and operational performance

	FY22	FY21	Change %
Revenue (Rm)	**4 876**	4 197	16
EBITDA (Rm)	**1 007**	786	28
EBITDA margin (%)	**20.7**	18.7	2.0
Operating profit (Rm)	**831**	615	35
Operating profit margin (%)	**17.0**	14.7	2.3
Net working capital (Rm)	**911**	933	(2)
Cash flow* (Rm)	**885**	575	54
Net operating assets (Rm)	**6 336**	5 992	6
ROCE (%)	**13.5**	10.4	3.1

* *Cash flow from operations less replacement capital expenditure*

The Covid-19 pandemic and lockdown restrictions resulted in people spending more time at home, supporting a trend toward making domestic environments as functional and comfortable as possible. Despite the easing of these restrictions, the trend continued into the current year, with increased expenditure on renovations and new home builds in the formal and informal sectors. Furthermore, imports of wood-based panels reduced by 12% due to global supply chain disruptions, as per South African Revenue Service data, increasing demand for locally supplied panels.

The global supply chain disruptions brought about by the pandemic were exacerbated by the Russian war on Ukraine, which had a knock-on effect on global commodity prices, resulting in significant price increases for key raw materials. To ensure continuity of raw material supply, we increased our inventory levels to full capacity.

PG Bison performed well throughout the year, supported by robust demand, our focus on innovation, high-quality value-added products and supply chain integration. We operated our plants at full capacity and maintained a sales allocation system to ensure service consistency to our customers, consistent with the prior year. Revenue increased by 16% and operating profit by 35%. The operating profit margin expanded from 14.7% to 17%. The raw material price increases during the year were offset by 3% higher production volumes, a lower downward adjustment in the plantation valuation, and increased selling prices.

Our exports reduced by 6% and we sold higher volumes of non-value-added product to support the local furniture manufacturing sector, at the expense of higher-margin value-added products. The annual maintenance shutdowns at all three our plants were successfully concluded during the second half of the year, impacting the division's operating profit compared to the first half.

Working capital was well managed, notwithstanding the increased inventory. Together with increased profitability, it supported a 54% increase in cash flow for the year. ROCE improved from 10.4% to 13.5%, below our target range of 15% to 17%. Capital work-in-progress of R333 million, mainly related to the construction of the new MDF plant at eMkhondo, which negatively impacted returns.

Production capacity

We commissioned a capacity expansion of our particleboard plant at eMkhondo in March 2022, adding 103 200 m^3 annual capacity. This increased our overall annual capacity (particleboard and MDF) by 14% to 825 600 m^3. The expansion and upgrade, to utilise the latest technology, has significantly improved the cost positioning and global competitiveness of the plant.

We have also commenced with the construction of a R1.9 billion new MDF plant at eMkhondo. The 273 780 m^3 plant is due for commissioning in July 2024. As MDF is in short supply in the South African market, our aim is to provide alternatives to imports upon commissioning. The expansion will also allow us to produce thinner panels at our existing Boksburg MDF line to target the traditional hardboard market, which we do not currently supply.

Highlights of FY22

- Completion of eMkhondo particleboard expansion on time and within budget
- Commencement of the construction of a new MDF plant at eMkhondo

Divisional review continued

PG BISON

INNOVATION AND VALUE-ADD

To remain relevant and sustainable, we constantly innovate. We regularly benchmark our products at international and local level, and actively engage with our customers and consumers in the formal and informal sectors.

We refresh our product range biannually, with the launch of a new range planned for October 2022. This new range embraces two main trends, including bold, clean designs and naturals to reflect the beauty of nature, both with the intention of inspiring beautiful living spaces. This will continue to strengthen our unique value-added product range and ensure that we meet the needs of our customers across the African continent.

A second gloss-coating line and an additional seventh MFB press line will also be added at our Boksburg MDF plant in FY23 to meet the growing demand for our high-quality value-added products.

FORESTRY

Our plantations are essential in securing sustainable timber supplies as a key raw material. We source 32% of our timber requirements from our plantations and the balance from sustainable suppliers through a mix of long-term contracts and spot purchases. We have secured sustainable long-term supply for all future investments.

The total value of our plantations decreased by R82 million during the year, mainly due to increased harvesting and transportation costs relative to selling prices. A fire in August 2021 damaged 3 174 hectares of our plantation in the northeastern Cape. The value of the affected plantations is R164 million. It is estimated that the entire value will be recovered through salvage operations and insurance proceeds.

Certification and accreditation

- All our panel production lines are ISO 9001 certified.
- Our northeastern Cape plantations in Ugie continue to be accredited by the Forest Stewardship Council.

Memberships

- South African Furniture Initiatives
- Proudly South African
- Kitchen South Africa
- Forestry South Africa
- The Manufacturing Circle

LOOKING AHEAD

We anticipate consumer disposable income and demand to be affected by increased inflation and interest rates in the coming year. However, as we supply a diverse customer base, we are buffered against a general slowdown in consumer demand. In particular, we are experiencing good demand for our products from the affordable housing sector. We also expect an increase in renovation activity to support demand as tourism rebounds and rebuilds follow the floods in KwaZulu-Natal. Increased localisation efforts in local furniture manufacturing could also support demand for our products.

Our focus remains on growing market share from our competitors (local suppliers and importers) by executing our strategy to increase capacity and value-add, and stimulating consumer demand. Because our products are globally competitive, we are able to keep our plants running at full capacity to increase exports, should local demand soften more than we expect.

Divisional review continued

RESTONIC is a leading manufacturer of sleep products in southern Africa, producing its Restonic, Green Coil and iDream brands, as well as house brands for major furniture and bedding retailers.

We also manufacture technical foams for the sleep and lounge furniture sectors under the Vitafoam brand, and produce speciality mattress fabrics under the DesleeMattex brand. In addition, we manufacture non-woven products for the furniture, hygiene and agricultural sectors, and recycle fabric waste for use in the furniture and automotive sectors.

Michael Borcherds
CHIEF EXECUTIVE OFFICER

SUPPORTING DREAMS SINCE 1938

'Continuous innovation in product development and delivery should support market share gains.'

OUR VISION We aspire to be recognised as the most inspiring and loved sleep brands in Africa.

Key themes informing our strategy

- South Africa's population is growing at about 1% per year, with 26% between the ages of 20 and 35, according to Stats SA, supporting demand for a first-time purchase of a bed.
- There is increased consumer awareness of the benefits of sleep.
- Near-term, the demand for sleep products has softened following a strong post-Covid-19 recovery.
- There is increased fragmentation in the market.

Our strategy

Our strategy is to grow our market share in current markets and to enter new markets. We aim to do this by developing innovative new products to extend our current product range, re-engineering low-margin product ranges, activating consumer demand through brand investment, enhancing our distribution platform to further support our customers and to drive operational efficiency, and leveraging our integrated supply chain to be the lowest-cost producer.

Our FY27 financial targets

- Revenue growth: 8% to 10% five-year CAGR
- Operating profit margin: 13% to 15%
- ROCE: 15% to 17%

What differentiates us

- We have well-established and respected brands, which create consumer demand and support retail sell-through.
- Our integrated value chain enables us to respond rapidly to changing market trends and conditions.
- Our focus on sustainable practices, which include the procurement and integration of recyclables and the recycling of factory offcuts to reduce waste and limit the consumption of new raw materials, gives our products a distinct competitive advantage.
- We have the most automated bedding factory in South Africa, which enables us to drive efficiencies and lower costs.
- We have a national manufacturing footprint which supports cost-effective delivery.

Products and services

Sleep products
Mattresses and base sets

Foam products
Flexible polyurethane foam

Mattress ticking
Knitted and woven fabrics for use in the sleep sector

Non-woven spunbond
Non-woven fabric for various household, industrial, and hygienic applications

Recycled products
Conversion of textile waste into fibres, primarily for use in the bedding, automotive, and construction sectors

Key facts

- **> 800 000** bedding units produced
- **> 7 million** linear metres of mattress ticking produced
- **6 000 tonnes** of foam produced

Certification and accreditation

- Our Marvelous Middle® and iDream product ranges are endorsed by the Chiropractic Association of South Africa.
- iDream and DesleeMattex have products that are certified by SEAQUAL®. SEAQUAL® Yarn is a high-quality 100% post-consumer recycled polyester yarn containing upcycled marine plastic.
- DesleeMattex products are ISO 9001: 2015 certified.

Divisional review continued

PERFORMANCE REVIEW

Operating environment

- Significant escalation in raw material costs
- Civil unrest in July 2021
- KwaZulu-Natal floods in April and May 2022
- Softening of consumer demand

Financial and operational performance

	FY22	FY21	Change %
Revenue (Rm)	**1 612**	1 731	(7)
EBITDA (Rm)	**120**	307	(61)
EBITDA margin (%)	**7.4**	17.7	(10.3)
Operating profit (Rm)	**69**	254	(73)
Operating profit margin (%)	**4.3**	14.7	(10.4)
Net working capital (Rm)	**203**	93	118
Cash flow* (Rm)	**(11)**	343	(103)
Net operating assets (Rm)	**1 528**	1 340	14
ROCE (%)	**4.8**	19.2	(14.4)

* *Cash flow from operations less replacement capital expenditure*

Highlights of FY22

- Our premium iDream footprint has continued to expand, specifically in the independent retail market.
- We introduced an entry-level Vita Sleep foam brand to assist with growth in new categories.
- The Restonic To the Stars television commercial won an international award at the Best Global Shorts festival.

The momentum in the household goods, furniture and electronics segment of South African retail sales, under which sleep products are categorised, slowed materially over the year. As reported by Stats SA, industry revenues were slightly up, compared with the prior year increase of 20%. Revenues at this level are 12% above pre-Covid-19 levels (FY19). The slowdown is a function of normalisation in demand following a strong post-Covid recovery and headwinds such as higher inflation and rising interest rates. In addition, the civil unrest significantly disrupted the operations of several retailers, as well as warehousing and distribution centres, which impacted their ability to distribute and retail products.

Restonic's performance reflected both the broader market slowdown and the impact of the civil unrest. In addition, we supported the market during the rebuilds following the civil unrest and the KwaZulu-Natal floods by holding prices stable where possible, increasing promotional offers and improving our distribution capability. In this context, the division did well to maintain sales volumes of bedding units at 6% lower than the prior year, which was a record year (25% up on FY20). Sales volumes of foam and textile products, key raw materials for the furniture manufacturing industry, were 17% and 12% lower respectively. Revenue declined by 7% and operating profit by 73%. Operating profit margins contracted from 14.7% to 4.3%, largely due to the lower volumes and escalations in raw material costs at short notice, which could not be passed on to customers timeously.

Divisional review continued

Cash flow declined by R354 million, due to lower profitability and an increase in working capital to more normalised levels. ROCE similarly declined from 19.2% to 4.8%, below our target of 15% to17%.

During the year, we closed our Vitafoam Gqerbeha facility due to challenging market conditions. We will service this region from our Cape Town and Durban facilities going forward.

INNOVATION AND VALUE-ADD

Innovation continues to be a key focus for the business, and is a significant differentiator in a rapidly evolving market environment.

We have implemented a Quick Ship warehouse programme in Johannesburg and Cape Town, which facilitates quicker deliveries of standard ranges and will support growth in the independent market. We are also expanding our Durban facility to improve capacity and efficiencies which will be followed by a Quick Ship programme in this region.

Our innovative product developments include:
- a new 2000 series pocket spring unit that increases the longevity of the product and provides more comfort and support; and
- a copper-infused memory foam that provides protection against bacteria and more comfort by absorbing heat.

LEADERSHIP TRANSITION

Michael Borcherds was appointed as new CEO of Restonic in August 2022, taking over from Restonic founder Mike Metz, who retired and remains at Restonic in an advisory capacity.

Memberships
- South Africa Furniture Initiatives
- Textile Federation

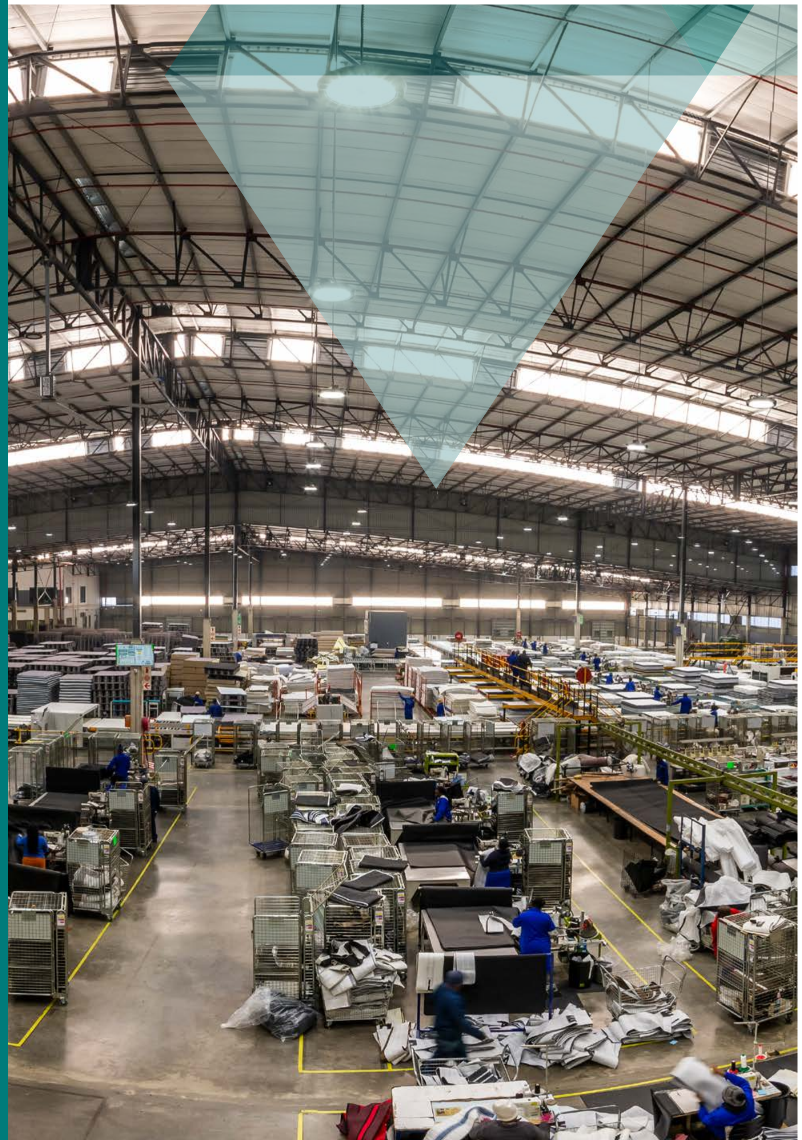
LOOKING AHEAD

As economic growth is likely to remain constrained throughout FY23, and consumers experience increased financial pressure from rising inflation and interest rates, we expect them to remain price conscious and to take advantage of retail promotions. With our integrated business model, we are suitably positioned to scale up promptly to meet the spikes in promotion-driven demand. Our business model also allows us to redesign and re-engineer products quickly to meet retailers' specific requirements and price points. This, in turn, enables them to be responsive to their market segments.

As part of our strategy to grow sales and gain market share in a subdued market, we have extended our range outside of our traditional markets. In addition, we are pursuing initiatives to lower costs. These include improving the efficiency of our delivery fleet and utilising new technologies and international best practices to reduce energy usage, water consumption and carbon emissions.

We have identified opportunities in other sectors, such as the geotechnical, agricultural and hygiene industries. We have configured our operations to expand our reach into these areas without losing focus on our core sleep business. This will enable us to continue growing market share in both existing and new markets.

We continue to produce products with a high level of recycled inputs. We have ordered a La Roche rag tearing line, which uses waste textiles to produce new product lines such as fibres that can replace virgin polyester. We have also ordered a La Roche Flex Loft line, which uses these fibres to produce thermo-bonded pads, used as insulation layers in all Restonic mattresses. This will allow us to produce increased volumes of key raw materials, thereby improving our quality and competitiveness, and increasing the recycled fibre content in our mattresses. Both lines are scheduled for commissioning in 1H23.



Divisional review continued

FELTEX is a leading manufacturer of automotive components used in the assembly of new motor vehicles. Working in conjunction with our international partners, we tender for and secure contracts to supply high-quality components for new vehicle models. Complementary to our component manufacturing operations, we also supply a wide range of aftermarket accessories to the retail market for leading LCVs and SUVs.

Ugo Frigerio
CHIEF EXECUTIVE OFFICER

'We are uniquely positioned to target localisation opportunities.'

OUR VISION We aspire to be recognised as the leading sub-Saharan manufacturer of automotive components, partnering with all major OEMs operating in the region.

Key themes informing our strategy

- The South African automotive industry is supported by SAAM, which targets an increase in vehicle production from 447 218 (2020) to 1.4 million (2035) and an increase in local content from 40% to 60%. It also places greater emphasis on B-BBEE credentials (minimum Level 4).
- South Africa is seeing continued investment by international OEMs in new models, which require local component manufacturers to be globally competitive. Over the past five calendar years, OEM investment in South Africa has amounted to more than R40 billion, as reported by the National Association of Automobile Manufacturers of South Africa ('NAAMSA').
- South Africa's major vehicle export markets incorporate new electric vehicles ('NEVs').
- While Feltex is a leading manufacturer in certain automotive components, it is possible to increase scale within the South African market.

Our strategy

Our strategy is to grow our market share per vehicle and OEM through the extension of existing products, development of new products, select acquisitions and strategic technology partnerships. This is supported by the localisation and B-BBEE requirements of SAAM and the migration to NEVs. We are also focused on technology investments and continuous improvement initiatives to lower our costs and reduce our impact on the environment.

Our FY27 financial targets

- Revenue growth: 8% to 10% five-year CAGR
- Operating profit margin: 10% to 12%
- ROCE: 16% to 18%

What differentiates us

- Our revenue composition is diverse with no customer comprising more than 25% of revenue.
- We have a market-leading position in select product categories.
- Our light, bulky product range is suited to local manufacture and protects us from import competition.
- We have long-standing OEM and Tier 1 relationships.
- Our B-BBEE Level 4 credentials are in line with SAAM requirements.
- We have established technology partnerships that provide us with access to the latest technology and support from global organisations.
- Our plants are in close proximity to the OEMs to support high levels of service and minimise logistics costs.
- We have manufacturing plants nationally, which mitigates concentration risk.

Key facts

- **30 million** automotive components produced
- **103 465** aftermarket accessories sold
- **R6.1 million** spent on research and development

Divisional review continued

Products and services

Feltex Automotive Trim
Textile-based automotive acoustic and soft trim components

Autoneum Feltex
Underfloor systems for thermal and underfloor protection
Aluminium heatshields

Caravelle
Overlay carpets/loose-lay vehicle mats and tonneau covers
Acoustically engineered tufted automotive carpet

Feltex Fehrer
Polyurethane moulded foam
Moulded seats
Conventional and pour-in-place headrests
Foam pads
Side bolsters and armrests

Feltex Foam
Polyester and polyether flexible, semi-rigid, and rigid thermoformable foams for use in vehicles and high-tech industrial products

Auria SA
Textile-based automotive acoustic and soft trim components

Maxe
Styling accessories such as nudge bars, roll bars, side steps, truck bars and tonneau covers

Customer mix by revenue

BMW	24%	Mercedes-Benz	9%
Toyota	22%	Other	5%
Ford	18%	Nissan	4%
Volkswagen	15%	Isuzu	3%

PERFORMANCE REVIEW

Operating environment

- Global supply chain disruptions and semiconductor chip shortages
- Significant escalations in raw material prices
- Steel and Engineering Industries Federation of Southern Africa steel industry strike
- Civil unrest in July 2021
- KwaZulu-Natal floods in April and May 2022
- Increase in inflation and interest rates impacting on global vehicle demand

Financial and operational performance

	FY22	FY21	Change %
Revenue (Rm)	**1 809**	2 033	(11)
EBITDA (Rm)	**116**	251	(54)
EBITDA margin (%)	**6.4**	12.3	(5.9)
Operating profit (Rm)	**36**	156	(77)
Operating profit margin (%)	**2.0**	7.7	(5.7)
Net working capital (Rm)	**157**	141	11
Cash flow* (Rm)	**14**	248	(94)
Net operating assets (Rm)	**1 244**	1 155	8
ROCE (%)	**3.0**	14.4	(11.4)

* *Cash flow from operations less replacement capital expenditure*

The global shortage of semiconductor chips continued to impact vehicle production during the year. The consequent global shortage of vehicles supported increased new and used vehicle prices, with global OEMs shifting towards premium models with higher margins. The South African automotive sector experienced additional setbacks, the most prominent being the civil unrest and flooding in KwaZulu-Natal, which curtailed the operations of a major OEM. South African new vehicle assembly volumes therefore decreased by 12.6% for the year. Passenger new vehicle sales (including SUVs) increased by 17.8%, while LCV vehicle sales decreased by 5.5%.

Reflective of the broader industry dynamics, our results were disappointing, with revenue and operating profit lower by 11% and 77% respectively. Operating profit margin declined from 7.7% to 2%, largely due to lower new vehicle assembly volumes, 23% to 34% lower sales of key LCV and SUV models due to dealer stock shortages, escalating raw material costs, and significant OEM demand-side volatility and uncertainty. This created considerable operational inefficiencies in our operations.

Divisional review continued

Highlights of FY22

- We delivered components into four new models: the Mercedes C-Class, the Corolla Cross, the Nissan Navara and the Isuzu pick-up.
- We concluded the acquisition of a 48.95% interest in Auria SA, which will increase component penetration into a key new model.

We also experienced technical challenges with the start-up of component production for a new vehicle model, which resulted in unplanned overtime, low production yields and excessive rejects. To maintain customer service during this time, components were imported and supplied at additional cost. Although we successfully supplied components into four new models during the year, following work won in the prior year, volumes were affected by the above factors.

Working capital was managed well during the year, despite higher raw material inventory levels, following lower production and increased raw material costs. Cash flow contracted materially due to the lower profitability. The latter also meant that ROCE was well below target at 3%.

During the year, we focused on securing work for two new models, the Ford Ranger, which is expected to launch in FY23, and the BMW X3, which is expected to launch in FY25. We also made progress against our strategy with the acquisition of a 48.95% share in Auria SA, which will support component supply into a key new model.

INNOVATION AND VALUE-ADD

We strive to be innovative in delivering components for new vehicle models at both manufacturing stage and in the aftermarket, in order to better service our customers, improve our efficiencies and reduce our costs.

As 60% of all South African OEM output is exported, we are working to ensure that the components we produce will be compliant with the new carbon emission standards that are set to be introduced in the European Union in 2025.

We also focus constantly on innovations that facilitate noise reduction, minimise heat transfer and reduce vibration in vehicles. This will be increasingly more relevant as markets evolve toward hybrid and electric vehicles. During the year, we successfully supplied components to a hybrid model highlighting our ability to make the conversion from an internal combustion engine to NEVs.

TRANSITIONING TO NEVS

While NEV sales are increasing globally, sales in South Africa are currently low in comparison to total vehicle sales. In an effort to increase local production of NEVs, the dtic published a Draft Auto Green Paper on the Advancement of New Energy Vehicles in South Africa in 2021. Our automotive component product range remains suitable should uptake of NEVs increase.

Certification and accreditation

- Our plants have a number of ISO certifications and 15 of our 16 plants also have IATF 16949 certification.

Memberships

- National Association of Automotive Component and Allied Manufacturers
- Retail Motor Industry
- African Association of Automotive Manufacturers ('AAAM')

FELTEX

LOOKING AHEAD

The policy framework for the South African automotive sector remains supportive under SAAM. The programme is designed to enable automotive component manufacturers to grow their value-adding capabilities to support the creation of additional employment throughout the value chain. With its Level 4 B-BBEE credentials, Feltex is well positioned to take advantage of the localisation opportunities presented by this programme.

In the rest of Africa, potential opportunities are being developed through the AAAM. Feltex is a member of the AAAM and our aftermarket accessories operations are most likely to benefit from expansion into African territories.

South African new automotive assembly volumes are expected to show a recovery in FY23, due to a non-recurrence of the specific South African interruptions encountered in FY22. NAAMSA expects a 13.5% increase in automotive assembly volumes for the 2022 calendar year and 11.2% for the 2023 calendar year, which will benefit both our automotive component manufacturing and aftermarket accessories operations. We further expect to benefit from secured work related to the Ford Ranger in FY23.

We remain focused on reducing our cost base and increasing our market share through new product development and by pursuing localisation opportunities. We are also evaluating opportunities for bolt-on acquisitions.

Divisional review continued

SAFRIPOL is a manufacturer of high-quality polymers that are used in a variety of sectors, including the infrastructure, agricultural, packaging, manufacturing and medical sectors. Polymers are used in a broad range of applications, including for piping, multipurpose containers, fibres, films, non-woven fabrics, packaging and bottling.

Nico van Niekerk
CHIEF EXECUTIVE OFFICER

SAFRIPOL
shaping your world, responsibly

'We are transitioning our product mix to higher-specification and higher-margin, more durable applications, which includes recycled products.'

OUR VISION We aspire to be recognised as the leading South African sustainable polymer producer.

Key themes informing our strategy

- Growth in the infrastructure, consumer products, packaging and automotive sectors are supportive of polymer demand.
- There is negative public sentiment toward single-use plastics and waste.
- The demand for recycled products and circularity is rising.
- Increased localisation efforts in South Africa could displace imported raw materials and finished goods.
- Global polymer prices and margins are inherently cyclical.

Our strategy

Our strategy is to beat the index and moderate cyclicality and to remain globally competitive in the production of high-quality polymers, thereby facilitating growth.

Our FY27 financial targets

- Revenue growth: 8% to 10% five-year CAGR, (subject to PP expansion)
- Through-the-cycle average operating profit margin: 7% to 9%
- ROCE: 15% to 17% (subject to PP expansion)

What differentiates us

- Safripol is the only producer of PET and HDPE in South Africa and one of two producers of PP. This adds significant value to our local clients as supply is readily available from plants that are close to their facilities, making them less vulnerable to supply chain disruptions and global supply and demand factors.
- Our use of the latest technologies enables us to compete globally on quality and costs, with our plants positioned in the lowest quartile of global cost curves.
- We have competitive raw material supply contracts.

Products and services

PET
Used primarily in the manufacture of bottles for water and carbonated soft drinks and food containers

HDPE
Used in a broad range of applications in packaging, pipe and containers

PP
Used in a broad range of applications in packaging and consumer goods

Key facts

- PET capacity: **237 000 tonnes** per annum
- HDPE capacity: **160 000 tonnes** per annum
- PP capacity: **120 0000 tonnes** per annum

Certification and accreditation

- All operations are ISO 9001 certified.
- Our Sasolburg plant is ISO 14001 certified for environmental standards and ISO 45001 certified for safety standards.
- We are in the process of obtaining ISO 14001 and ISO 45001 certification for our Safripol Durban plant.

Memberships

- PET Recycling Company ('PETCO')
- Polyolefin Recycling Company ('Polyco')
- Manufacturing Circle of SA
- The SA Plastics Pact
- Chemical & Allied Industry Association

Divisional review continued

PERFORMANCE REVIEW

Operating environment

- Robust consumer demand
- Global supply chain disruptions
- Significant escalations and volatility in polymer prices and raw material costs
- Civil unrest in July 2021
- KwaZulu-Natal floods in April and May 2022

Financial and operational performance

	FY22	FY21	Change %
Revenue (Rm)	**10 120**	7 509	35
EBITDA (Rm)	**1 590**	584	172
EBITDA margin (%)	**15.7**	7.8	7.9
Operating profit (Rm)	**1 400**	428	227
Operating profit margin (%)	**13.8**	5.7	8.1
Net working capital (Rm)	**964**	604	60
Cash flow* (Rm)	**1 100**	531	107
Net operating assets (Rm)	**4 791**	4 368	10
ROCE (%)	**30.6**	9.7	20.9

* *Cash flow from operations less replacement capital expenditure*

	PET		HDPE		PP	
Key metrics per polymer	**FY22**	FY21	**FY22**	FY21	**FY22**	FY21
Revenue (Rm)	**4 267**	2 690	**3 263**	2 840	**2 590**	1 979
Sales (tonnes)	**203 993**	180 864	**142 472**	154 845	**117 603**	107 645
Production (tonnes)	**195 860**	169 140	**146 457**	152 547	**118 363**	114 280
Average R/USD exchange rate	**15.21**	15.39	**15.21**	15.39	**15.21**	15.39

SAFRIPOL
shaping your world, responsibly

Highlights of FY22

- Safripol celebrated 50 years of manufacturing in South Africa
- Awarded 2022 PETCO Recycling Partnership Gamechanger award
- Awarded 2022 CAIA Responsible Care® runner-up award for collection and recycling projects
- Awarded the 2022 Caroline Reid Award for Clean-up Champion of the Year by Plastics SA for clean-up initiatives

The Covid-19 pandemic contributed to an increase in consumption of PET, HDPE and PP in hygiene and packaging applications. This trend continued in the current year and local demand for all three of our polymers was robust, with temporary interruptions caused by the civil unrest and the KwaZulu-Natal floods. Global supply chain disruptions provided a supportive environment for local manufacturers due to import constraints (raw materials and downstream products) and increases in global freight rates.

Against this backdrop, Safripol delivered a robust performance for the year with revenue up by 35% and operating profit up by 227%. Operating profit margins expanded from 5.7% to 13.8%.

Our PET operations benefited from an improved operational performance following a successful debottlenecking of the plant after the 2021 scheduled five-year maintenance shutdown. The plant operated at rated capacity and yield for extended periods during the year. We saw an improvement in index equivalent raw material margins, increased sales and production volumes and an improved product and regional sales mix. This offset inflationary increases in operating costs and contributed R390 million to the increase in operating profit. The higher sales volumes resulted in a notable increase in PET local market share.

Our HDPE sales volumes were negatively impacted in the first half of the year by temporary raw material supply constraints from a key supplier. Improved pricing, product range management and regional sales mix offset lower volumes, inflationary increases in operating costs and a deterioration in index equivalent raw material margins. This contributed R179 million to the increase in operating profit. The HDPE operating profit also includes a R91 million benefit relating to a retrospective price adjustment for the 2021 financial year which resulted from the successful conclusion of negotiations with a supplier during the year.

The PP operations performed well for the year, supported by a good operational performance. An improvement in index equivalent raw material margins, increased sales and production volumes and an improved product and regional sales mix offset inflationary increases in operating costs. This contributed R311 million to the increase in operating profit.

Divisional review continued

Index equivalent HDPE and PP raw material margins incorporate contractual raw material prices.

Cash flow improved by 107%, largely due to the increased profitability, offset slightly by an increase in net working capital. Net working capital increased due to substantial escalations in raw material costs and a strategic decision to increase our PTA inventory in light of the global supply chain disruptions. ROCE improved from 9.7% to 30.6% due to our increased profitability and is above our through-the-cycle target of 15% to 17%.

Innovation and value-add

Constant innovation is fundamental to our business model, as we believe that innovation fosters circularity. We work with converters, retailers and brand owners to develop solutions that not only improve efficiency and profitability, but also reduce environmental impact, for example, more energy-efficient grades such as our Aspire® T84 non-fast reheat resin.

Our focus on producing higher-specification, higher-margin polymers includes developing and optimising grades for specific applications. During the year, we developed an optimised grade of HDPE to supply the water tank market. We have also made progress in increasing the percentage of higher-grade PP (copolymer) in our sales mix. This enables us to compete effectively against higher-quality PP imports.

Our 'Let's plastic responsibly' campaign gives us an important vehicle to articulate the benefits of plastic, as well as to inform and educate the public about how to use plastic responsibly, which includes recycling.

LOOKING AHEAD

We expect demand to remain stable for FY23 with continued global supply chain disruptions supporting local supply. We further expect margins to decline from the cyclical highs experienced in FY22, due to increased global capacity and a gradual easing of supply constraints, but to remain at healthy levels.

Our commitment to drive the responsible use of plastics is embedded in our strategy to beat the index and moderate cyclicality through our development of durable higher-specification polymers (less single-use), our efforts to stimulate demand for recyclable polymers, such as PET, and to promote increased recycling.

We are in the process of conducting a feasibility study on a potential expansion of our Sasolburg PP plant by 60 000 tonnes per annum, together with downstream value-add (e.g. compounding for the automotive components and white goods sectors), which would target import replacement of higher-specification products. Such an expansion would be subject to the availability of propylene and required return hurdles.

We are also targeting a reduction of our energy costs and environmental footprint. The construction of a 10 MW PV plant at our Sasolburg operations, expected to be completed in November 2022, will supply a meaningful portion of the energy needs at the site.

Divisional review continued

UNITRANS is a supply chain and operational services business providing customised solutions to clients in a diverse range of sectors, including food, agriculture, petrochemical, mining and commuter transport.

Our business is evolving to provide integrated operational solutions, which complement our core logistics activities. For example, our solutions in the agricultural sector include fully integrated mechanisation of bulk load and haulage using specialised road trains, land preparation, fertiliser application, estate management and precision farming. Additionally, our solutions in the mining sector include bulk load and hauling services using specialised road trains, stockpile measurement and management, personnel transportation and road maintenance.

OUR VISION We aspire to be a leading integrated operational solutions provider, utilising innovative technologies and leveraging strategic partnerships with large-scale clients operating across selected sectors in sub-Saharan Africa.

Key themes informing our strategy

- Slow economic growth with rising inflation and constrained consumer spending affects the movement of goods in South Africa.
- The South African logistics and commuter transport sectors are fragmented, with increased competitive activity and lower regulatory compliance and enforcement.
- Customers are driving cost savings and optimising asset allocation by focusing on investment in core activities. This provides opportunities to outsource non-core activities.
- There are growth opportunities in Africa, as mining and agricultural activities increase.
- There is increased focus and awareness on road safety, as well as requirements for high-quality safety standards.
- The underinvestment in rail systems and infrastructure affects availability and reliability, supporting demand for road transport and commuter services.

Our strategy

Our strategy is to grow our revenue and improve margins and returns by rationalising revenue and resources to facilitate growth in key sectors with strategic clients, through providing integrated logistics and complementary operational services and solutions.

Our FY27 financial targets

- Revenue growth: 6% to 8% five-year CAGR
- Operating profit margin: 8% to10%
- ROCE: 12% to 14%

What differentiates us

- We have a long track record of superior safety standards, drivers and specialised assets, which is critical in highly regulated sectors like petrochemicals and mining.
- In South Africa, our logistics operations have Level 2 B-BBEE credentials with 60% black ownership, 38% black women ownership and 13% black youth ownership.
- We have sufficient scale and capacity to execute large projects quicky and effectively.
- Unitrans Africa is the largest supplier of sugar transportation solutions in southern Africa and fuel transportation solutions in Eswatini and Botswana.
- Unitrans Passenger is the only passenger transportation business in South Africa with three verticals: passenger, commuter and managed services. Its backward integrated model allows buses used in certain operations to be repurposed at end of life for use in lower specification operations to maximise asset utilisation and allow for increased returns.

Key facts

- **4 734 vehicles**
- **292 million** kilometres travelled
- **7 million tonnes** of sugar cane moved
- **4 billion litres** of fuel distributed

Divisional review continued

'Through the provision of integrated operational solutions, we free up our clients to focus on growing their businesses.'

Terry Bantock
CHIEF EXECUTIVE OFFICER, UNITRANS SOUTH AFRICA

Rob Hayworth
CHIEF EXECUTIVE OFFICER, UNITRANS AFRICA

Derek Lewis
CHIEF EXECUTIVE OFFICER, UNITRANS PASSENGER

Our businesses

Unitrans is currently managed as three separate businesses, which provide a geographic focus as follows:

Unitrans South Africa is a leading provider of integrated logistics, warehousing and supply chain-based solutions, operating primarily in the food, petrochemical, mining and general freight sectors in South Africa.

Unitrans Africa is a leading provider of logistics-based solutions, primarily in the agricultural, mining and petrochemical sectors in nine selected sub-Saharan Africa markets.

Unitrans Passenger is a solutions provider in the passenger transport sector, specialising in Commuter and Personnel transportation, in South Africa and Mozambique, as well as managed services in South Africa.

PERFORMANCE REVIEW

Operating environment

- Subdued South African economic environment
- Civil unrest and protest action in South Africa and Eswatini in July 2021 and November 2021 respectively
- Significant fuel price escalation
- Termination of a major contract in South Africa
- Adverse weather conditions
- Continued Covid-19 restrictions in Botswana and depressed fuel demand
- Contractual rate disputes related to fuel price recoveries in Commuter transport

Financial and operational performance

	FY22	FY21	Change %
Revenue (Rm)*	**9 757**	8 828	11
EBITDA (Rm)*	**1 464**	1 485	(1)
EBITDA margin (%)*	**15.0**	16.8	(1.8)
Operating profit (Rm)*	**578**	649	(11)
Operating profit margin (%)*	**5.9**	7.4	(1.5)
Net working capital (Rm)	**425**	389	9
Cash flow^ (Rm)	**928**	839	11
Net operating assets (Rm)	**7 321**	6 842	7
ROCE (%)*	**8.3**	9.4	(1.1)

* *From continuing operations*
^ *Cash flow from operations less replacement capital expenditure, includes discontinued operations*

Unitrans' revenue increased by 11% during the year. However, operating profit declined by 11%, largely due to a disappointing performance by Unitrans Africa and a non-recurring provision related to an internal review of previous years' tax treatment in Unitrans Passenger.

Cash flow increased by 11%, mainly due to the closure of the loss-making Intercity and Tourism operations and proceeds on the sale of the majority of their fleets. ROCE of 8.3% is below our target of 12% to 14%.

Divisional review continued

Highlights of FY22

- Unitrans South Africa received 2021 Africa Supply Chain Excellence Awards for outstanding performance in three categories
- Disposal of the Intercity assets was successfully concluded for R84 million
- Unitrans Africa secured key contracts for mechanised harvesting and drone services, as part of our smart farming solutions

Unitrans South Africa

South African industry road freight volumes and revenue increased by approximately 11% and 14% respectively over the year, as reported by Stats SA. However, volumes were still slightly below pre-Covid-19 levels (FY19), possibly due to the July 2021 civil unrest, the floods in KwaZulu-Natal in April and May 2022 and community related and truck driver protests. These events damaged infrastructure, caused traffic congestion and lengthy loading and offloading delays, which impacted on the ability to move goods.

Despite the challenging environment, Unitrans South Africa performed well for the year. Revenue and operating profit increased by 11% and 53% respectively, compared with a 7% decrease in kilometres travelled. The revenue and operating profit both include R107 million relating to a non-recurring termination penalty on a major contract. Excluding this, revenue and operating profit increased by 8% and 10% respectively on the prior year.

Excluding the early termination of the major contract referred to above, we renewed contracts to the value of R346 million in revenue, and secured net new contracts with an annualised revenue of R152 million. The terminated contract comprised 18% of our revenue for the year. There are no significant related closure costs. In view of disrupted global supply chains with resultant extended lead times and the increased cost of new vehicles and trailers, the assets related to this contract have been retained and incorporated into a fleet rental and managed services business in the division, with management committed to monetising these assets optimally.

Unitrans Africa

The worldwide shipping crises and, more recently, the effects of the war in Ukraine, have resulted in a general slowdown in the movement of goods and resources across the African territories in which we operate. This was more apparent during the second half of the financial year with significant escalations in fertiliser and fuel prices, as well as shortages of these commodities. In Botswana, a key market for us, the increased fuel prices, state of emergency (lifted October 2021), and lower tourism activity negatively affected fuel demand. In addition, several African territories experienced lower crop yields and delays in the planting season due to higher-than-average rainfall. This impacted our operational performance negatively. Cross-border movement was also affected by civil unrest in South Africa and Eswatini.

Unitrans Africa's performance was disappointing and reflected the very challenging operating environment. Revenue increased by 7% while operating profit declined by 77%. Operating profit margins contracted from 10.5% to 2.2%, largely due to weaker performances from our Road Freight and Agriculture operations. Our Rail operation, which is not material to the business, also struggled due to limited availability of containers in African corridors because of the global supply chain disruptions. The performance of our Mining operation was however satisfactory, supported by a new contract in Botswana.

We were successful in renewing contracts to the value of R256 million and secured net new contracts with an annualised revenue of R303 million.

Unitrans Passenger

The overall market for passenger transportation services remained challenging during the year. Excluding taxis and metropolitan buses, South African industry passenger journeys increased by approximately 9%, with industry passenger revenue up by 14%, as reported by Stats SA. Compared with pre-Covid-19 levels (FY19), journeys and revenue are approximately 26% and 16% lower respectively.

Unitrans Passenger's performance in this context was satisfactory. Our continuing operations increased revenue by 15%, largely due to special hires, increased kilometres travelled, increased cash ticket sales and fuel-cost recoveries. However, operating profit declined by 22%, primarily due to a non-recurring provision of R41 million related to an internal review of previous years' tax treatment. Good progress is being made on protracted contractual rate and capacity disputes on legacy contracts in the Commuter and Personnel operations to curtail marginal and loss-making operations in order to concentrate on profitable growth prospects.

Over the year, we successfully concluded the disposal of the Intercity assets for R84 million, R20 million lower than the impaired carrying value.

INNOVATION AND VALUE-ADD

We invest in and deploy technology to deliver innovative, value-added solutions to our customers. Key examples during the year include:

Unitrans South Africa

- We have completed a client-specific risk, health and safety initiative to minimise the risk of personal injury or damage to vehicles.
- We have continued to invest, via the Unitrans Control Tower, in a system to manage driver fatigue proactively. This enables us to monitor and minimise the occurrence of these events.
- We have introduced a route optimisation module to our control tower functionality, allowing for enhanced route planning as well as turn by turn expediting services.
- We have invested in a best-of-breed workshop system with expanded functional value-added opportunities embedded in the application.
- We have invested in the integration of various operational systems in order to provide a seamless experience for all stakeholders in the business, from operational data capturing and execution through to management reporting.

Divisional review continued

Unitrans Africa

- We have rolled out a leading transport management system, allowing real time visibility of all drivers and the various routes. This oversight has resulted in improved efficiencies across the business, with cross-border transportation delays reduced by up to 30%.
- We have developed smart farming solutions, which will make use of data analytics to assist our clients to increase crop yields and reduce costs, through improved visibility.

Unitrans Passenger

- We have rolled out driver tags and route optimisation as part of our continuous improvement initiatives.
- We are in the process of developing a digital cash collection solution, which will not only improve efficiencies, but also enhance our drivers' safety.

LEADERSHIP TRANSITION

Derek Lewis was appointed as new CEO of Unitrans Passenger during the year, taking over from Nico Boshoff who remains at the business in an advisory capacity.

Certification and accreditation

Our operations are certified and accredited according to the standards for relevant industries or sectors and include:

- ISO 9001 – Quality Management System
- ISO 14001 – Environmental Management System
- ISO 45000 – Occupational Health and Safety System
- ISO 22000 – Food Safety Management System
- ISO 9000 and NOSA – Certified driver and operator training programmes
- RTMS – Road Transport Management System for road-use self-regulation
- AFMA – Animal Feed Manufacturers Association for agricultural transportation protocols
- SQAS – CAIA accreditation for chemical transportation protocols

Memberships

- Road Freight Association

LOOKING AHEAD

Unitrans operates primarily in the food, agriculture, petrochemical, mining and commuter transport sectors, where we have a material footprint. Our operations are currently divisionalised and disclosed according to geographic (South Africa and Africa) and functional (logistics and passenger transport) parameters. We are making progress to increase our focus on these sectors, build increased expertise, and develop a more streamlined client interface to facilitate growth and improve returns. This will be further supported by consolidating our technology applications, which can minimise costs for our customers. This will enable increased centralisation of operational control, continuous business improvement, accelerated operational sustainability, operational risk management, SHEQ services and control of significant costs. The conclusion of this consolidation process will be a key focus for management in the coming year.

We expect trading conditions to remain challenging in our South African operations; however, we believe that because the sectors in which we operate are predominantly non-discretionary in nature, they will remain relatively resilient. We have not yet replaced the terminated contract mentioned earlier. However, net contract gains and expected income from our fleet rental and managed services business should offset a portion of the lost revenue and profits. The repurposing of assets from low margin activities into higher return operations and new growth opportunities should further assist to close this gap.

In our Africa operations, the recovery in cross-border and in-country fuel demand is beginning to gain momentum. We performed an aggressive restructuring of our Road freight operation towards the end of the year, which included the rightsizing of our fleets across Botswana, Mozambique, Eswatini and Namibia to improve asset utilisation. This, together with new contracts, an expected recovery in fuel demand and a favourable agricultural season, should improve our performance in the coming year. We will continue to execute our strategy to grow our integrated farming services across the African territories, and to explore opportunities in the mining space.

In our Passenger operations, our key focus areas for the coming year are to fix marginal and low-return legacy contracts and to finalise a material contract renewal in Mozambique. We sold R19 million of the remaining R47 million tourism coaches post-year-end and incorporated the balance into our fleets, servicing current contracts and doing ad hoc work.

Divisional review continued

DRIVERISK utilises leading global video telematics and predictive analytics to prevent road accidents and improve road safety. We provide solutions to customers in 37 countries across multiple industries, such as logistics, security, mining, agriculture, forestry, courier, and waste, with our primary operations in South Africa and Australia. We have more than 50 000 devices in operation.

We acquired DriveRisk on 1 December 2021 as an entry point into a new sector with attractive growth prospects and opportunity to assume a market leadership position in the road safety sector, leveraging off experience as a customer, gained through Unitrans.

Steve Ford
CHIEF EXECUTIVE OFFICER

DriveRisk
MANAGE • MOTIVATE • MITIGATE

'We offer a unique, holistic approach to reduce road safety risks.'

OUR PURPOSE We are committed to getting people home safely.

Key facts

We make use of three key technology solutions that are integrated into a single user interface:

- the Lytx DriveCam, an in-vehicle video-based risk management system that helps fleet owners to identify the root causes of risky behaviours;
- the DriveAlert fatigue and distraction monitoring solution; and
- the Mobileye advanced collision prevention and mitigation system.

DriveRisk and Lytx

- DriveRisk acquired sole distribution rights for the Lytx DriveCam in Africa (2005) and in Australasia (2018).
- Lytx is a private company with headquarters in San Diego, California, founded in 1998. It is the leading global provider of fleet management technologies which harness the power of video to empower drivers and fleet owners to be safer, more efficient, productive, and profitable.

Memberships

- Road Freight Association

Products and solutions

DriveRisk focuses on accident avoidance rather than post-event mitigation, offering a fully integrated high-technology solution that enables fleet owners to significantly reduce their public liability exposure, protect their employees and reduce costs. By using data collected from state-of-the-art video event recorders, on-road caller reports and other telematics-based solutions, DriveRisk provides real-time analysis of driver behaviour, predictive analytics, high-technology monitoring and warning systems, and effective coaching tools to help protect its customers' most valuable assets.

Performance

The division performed below expectations during the year due to supply chain disruptions resulting from semiconductor chip shortages. For the seven months from the effective acquisition date, it reported revenue of R242 million and operating profit of R22 million. Post year-end, we made a small bolt-on acquisition, Viewmetrics, to accelerate the development of unique user interfaces.

LOOKING AHEAD

The outlook for DriveRisk in the coming year is promising, and we expect a strong confirmed orderbook and sales pipeline to support revenue growth at acquisition feasibility levels. We are targeting increased market penetration into non-freight markets including mining, agriculture, security, waste management, and retail merchandising. We are also investing in people capacity to support our growth plans.

Sustainability review

OUR APPROACH TO SUSTAINABILITY

Our strategy is to deliver sustainable, value-accretive growth for our stakeholders through building a diversified portfolio of unlisted, market-leading businesses. Sustainability principles and practises are therefore increasingly integrated into our group and divisional operational strategies.

GOVERNANCE

Our board is ultimately responsible for sustainability in our group and delegates the oversight and monitoring of sustainability matters to the social and ethics committee. Appropriate policies related to ESG matters are set at a group level and adopted by our businesses. Read more in our corporate governance report on our website.

OUR SUSTAINABILITY JOURNEY

In October 2020, we became a signatory to the UNGC, the world's largest corporate sustainability initiative. We committed to integrate the UN's 10 Principles and 17 SDGs into our group and divisional operational strategies, our group culture and our day-to-day operations. We believe that the SDGs are the most comprehensive set of goals related to the ESG issues we face in business and society today.

We are on a journey to improve our contribution to the UN SDGs and our reporting on our sustainability impact. We follow the guidance of the World Business Council for Sustainable Development ('WBCSD').

Describe current alignment to the SDGs

Identify and prioritise opportunities for impact

Identify key actions and partnerships for delivery

Source: WBCSD SDG roadmap process

The first step in our journey was to complete a mapping of our contributions to the SDGs over the past three years. This showed that our focus has been directed largely at nine of the SDGs through our current business activities, although, we have made contributions to 15 of the 17 SDGs. Through this process, we realised that we do more as a group than our current reporting reflects. A key focus going forward is therefore holistic data management in support of our sustainability footprint, and the alignment with our digital transformation initiatives to capture and report our activities comprehensively.

Our next step is to develop an SDG roadmap for each of our divisions, taking into account the material issues relevant to each division, sector-specific requirements, JSE Sustainability Disclosure Guidance and our group SDG priorities, linked to the group strategy. Our SDG priorities are derived from our material sustainability matters and include: health and safety, transformation and diversity, our employee value proposition, GHG emissions, water consumption, waste management, community relations and socioeconomic development.

We can group these under the following six emerging SDGs we have identified as our focus going forward:

Our material sustainability matters

Our emerging SDGs

- 6 Our water usage in our operations
- 8 Creating a decent workplace for our employees
- 12 How we produce and manage waste
- 11 Community development
- 13 GHG emissions
- 16 Local municipality capacity and service delivery

Several key actions are in progress, both through our own resource allocation and partnerships with professional service providers.

ALIGNMENT WITH THE JSE SUSTAINABILITY DISCLOSURE GUIDANCE

The JSE Sustainability Disclosure Guidelines were finalised in June 2022. An assessment of how our current data availability aligns with these guidelines reveals we have reporting coverage of about 70% of the 160 suggested metrics, including 86 of the Core metrics and 23 of the Leadership metrics. We are still assessing alignment with the Climate Change Disclosure Guidelines. A major focus is accurate measurement and reporting and assurance of our internal data to fulfil our alignment with the JSE Guidelines.

ESG RATINGS

We have continued to use the FTSE4Good assessment as the company's ESG benchmark as it remains the methodology adopted by the JSE. In its final published assessment of KAP, we scored the same as in 2021, at 3/5 based on the ESG information that was in the public domain as of December 2021. KAP scored 3.9/5 for governance, 2.2/5 for environment and 3.3/5 for social. Our overall FTSE4Good score remains above the industrial sub-sector average as well as the South African average for industrial companies.

MSCI, a leading provider of investment tools and services to the global investment community, published their ESG assessment of KAP. Their rating remained the same as last year at 'AA'.

Our board and executive management have noted these scores. They are being addressed through our SDG journey as we consider ways to improve.

Sustainability review continued

OUR PEOPLE

We believe that a motivated and engaged workforce creates a sustainable competitive advantage for our business and benefits society. We are committed to attracting, developing and retaining the best people, providing a safe work environment for them, and creating a winning culture that embraces their diversity and celebrates their contribution.

Key SDGs impacted by our activities

Key facts

- We have **19 425** full-time and seasonal employees (FY21: 19 063)
- We paid **R5.1 billion** in remuneration and benefits (FY21: R4.8 billion)
- We invested **R2.5 million** in leadership development (FY21: R3.1 million)
- We invested **R153 million** in training and development (FY21: R125 million)
- A total of **6 702 employees** benefited from training during the year (FY21: 6 696)
- We have a **Level 4 B-BBEE** rating (FY21: Level 5)
- **90%** of our permanent employees are black (FY21: 91%)

HUMAN CAPITAL STRATEGY

We have recently developed a human capital strategy, which is currently in the implementation phase. Our aim is to attract the best people to create a high-performance culture in which our employees are engaged, motivated and equipped to support the achievement of our group strategy.

The core elements and objectives of our human capital strategy are:

- a positive and safe work environment that encourages a sense of well-being in our employees;
- meaningful work that fosters a sense of belonging and encourages professional and personal growth;
- growth opportunities that enable our employees to be leaders, and our leaders to grow and excel; and
- rewards for and recognition of outstanding performance and stewardship.

To support our human capital strategy, we have formulated an employee value proposition for each of our divisions. This defines the employee experience we aspire to offer both our current and future employees in return for their skills, capabilities and engagement.

We have also conducted employee climate surveys across the group to assess the levels of employee engagement. This enables us to develop a set of comprehensive people practices and frameworks to deliver on our objectives.

RESPONSIBLE EMPLOYMENT

As a group, we subscribe to the principles outlined in UNGC, the recommendations of the International Labour Organisation ('ILO'), and the regulatory framework defined by the OECD. We annually measure the group's practices against these benchmarks.

We meet or exceed all minimum wage requirements as legislated in South Africa and all the countries in which our businesses operate. Our employees have the option to participate voluntarily in both medical and health schemes. Membership of a retirement scheme is compulsory for permanent employees. We comply with the provisions of the Basic Conditions of Employment Act (No. 75 of 1997) and other labour laws, which prohibit forced labour, regulate hours of work, rest periods and overtime work, and we do not employ children under the age of 18 years. Overtime work is strictly monitored and reported on by each division to ensure that we have a healthy workforce and create a safe working environment for our employees.

CREATING AN ETHICAL CULTURE

The KAP code of ethics is made available and explained to all employees as part of their induction. Our code of ethics provides employees with information about the core principles of the group, including legal compliance, ethical dealings, labour practices, human rights, and gender and race diversity. We recognise the right of employees to freedom of association, organisation and collective bargaining.

As part of the process of monitoring our ethics, we have an anonymous whistle-blower hotline called KAPREF. This allows anyone to report illegal or unethical behaviour, including mismanagement, discrimination, harassment, vandalism, corruption, violence and theft. KAPREF is available to both national and international callers. Hotline activities are reported to the social and ethics committee, the audit and risk committee and the board. One hundred hotline calls and alternative disclosures were made during the year, with each one investigated through the appropriate channels.

Sustainability review continued

OUR PEOPLE continued

DIVERSITY AND INCLUSION

We are committed to creating a diverse workforce. We are fully compliant with the provisions of the Employment Equity Act (No. 55 of 1998) and have implemented policies which prohibit race, gender, and all other forms of discrimination in the workplace. We also comply with the provisions of the B-BBEE Act as well as with the amended B-BBEE Codes of Good Practice. As a group, KAP has a Level 4 B-BBEE rating, with divisions being rated individually between Levels 2 and 6. Our B-BBEE verification process is conducted independently by AQRate.

Our permanent workforce comprises predominately black employees, at 90.4% of total, slightly down from last year. On a senior management level, black employees comprise 15.6% of total positions, down from last year (16.4%). On a middle and junior management level, black employees comprised 31.7% and 68.4% of total positions respectively, compared with last year at 32.1% and 66.9% respectively.

We have internal targets to increase black representation across all managerial levels in line with the prescribed Economically Active Population statistics in terms of the provisions of the Employment Equity Act (No. 55 of 1998). Key managerial positions are becoming increasingly difficult to fill, regardless of race, highlighting the increasing risk related to skills shortages in South Africa.

Total permanent workforce

Managerial positions – junior management and higher*

** Reference to permanent workforce*

Gender diversity is also a key focus for us. Management has set internal targets to improve gender diversity in leadership positions over the next five years, and to improve female representation across all operations. At board level, 27% of the directors are female, with 18% of the total board composition comprising black females. While women comprise only 19% of our total permanent staff complement, they hold 26% of managerial positions (junior management and higher).

We are also committed to providing an accommodating work environment for people with disabilities. Of our employees, 103 are people with disabilities.

TRAINING AND DEVELOPMENT

It is essential to our success and sustainability as a group that we have leading technology and innovation capabilities in all our operations. Our divisions therefore engage in a continual process of identifying and tracking their scarce and critical skills, and investing appropriately in technical training and development initiatives.

We create a positive environment to encourage our employees' ongoing development by providing either financial assistance or time off to pursue degree or diploma courses.

	FY22 Rm	FY21 Rm
Actual training spend	**152.5**	125.1
Bursaries and institution-based training	**5.6**	8.2
Internships, learnerships and apprenticeships	**55.9**	54.5
Work-integrated learning	**6.8**	6.1
Informal training	**9.9**	5.7
Other in-house, related training cost	**74.3**	50.6
Leadership training (included in actual training spend)	**2.5**	3.1

We offered 1 100 internships, learnerships and apprenticeships to both employees and unemployed learners as part of our human capital development programme. This included 232 people with disabilities. Black people comprised 99% of the participants.

The learnership programmes provide both a theoretical and a practical learning environment, and all these programmes provide a pipeline of potential skilled artisans for our operations. We offer both on-site and off-site training by accredited training providers. When positions become available in the group, candidates are sourced first from this pool of learners. Wherever possible and applicable, we employ people from local communities.

LABOUR RELATIONS

Effective management of labour relations is critical to the sustainability of all our businesses. We have sound relationships with all stakeholders, including industry organisations and trade unions, and we create an environment conducive to achieving mutually beneficial outcomes and collective agreements with these unions. We also play a meaningful role in industry structures, including in the bargaining council structures and employer associations in the industries in which our divisions operate. We maintain relationships with key regulators. Approximately 59% of our workforce in South Africa belongs to collective bargaining units.

Sustainability review continued

OUR PEOPLE continued

Scheduled wage negotiations at KAP took place in five of our eight divisions during the year and new wage agreements were put in place. Unfortunately, we have had to restructure operations in Unitrans South Africa, mainly due to lost contracts, and in Unitrans Africa and Restonic, due to poor market conditions.

HEALTH AND SAFETY

Injuries and fatalities

GN Chaplin, the KAP CEO, is ultimately responsible for health and safety within the organisation, a responsibility he has delegated to specific individuals at divisional level. We are committed to a zero-harm environment for all our employees. Our efforts of instilling a safety-first culture within KAP are evident in the significant decrease in reportable injuries in terms of the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993) ('COID').

During the past year, our divisions continued to focus on preventing workplace injuries, illnesses and fatalities by mitigating hazards and continually improving workplace conditions, processes and systems, in line with our zero-harm target.

At an operational level, we have in place comprehensive safety management systems, processes and procedures aligned with the Occupational Health and Safety Act (No. 85 of 1993). Each business identifies, measures and reports on health and safety matters. Compliance is reported quarterly at the divisional audit and risk committee meetings. We also continuously train employees and contractors in health and safety procedures. Our divisions are regularly audited by accredited independent specialists to ensure compliance with statutory and legal requirements.

Our occupational health and safety ('OHS') procedures include a risk management plan that is supported by a legal, risk and incident register, which allows for the identification of hazards, as well as regular risk assessments, internal audits, safety training, management reviews and third-party audits. These are undertaken on both existing business and any new projects. Targets are set by each business and their performance is measured against these. In-depth investigations of all OHS incidents are conducted, and mitigation procedures are reviewed regularly.

Because the equipment and certain raw materials used at some of our manufacturing facilities can be potentially dangerous to our employees, they are trained to adhere strictly to all required health and safety regulations. In our logistics operations, road accidents present the most material risk to the safety of our employees. Road safety is therefore one of our top priorities. We continuously conduct driver training and roll out broad-based road transport safety campaigns. Our investment in technology to monitor our drivers' behaviour and levels of fatigue has contributed to reducing the number of road traffic incidents we record every year. Our DriveRisk business is also focused on improving safety on our roads by deploying leading global technologies.

Three employees fatalities occurred during working hours, at our employees' place of work, compared with four in the prior year. Two employees passed away in road accidents and one employee passed away as a result of a plantation fire at our northeastern Cape plantation in Ugie.

Total reportable COID injuries for the group		**FY22**	FY21	FY20	FY19
Employees	Lost-time injuries ('LTI')	**273**	339	235	379
	Occupational diseases	**9**	37	5	5
	COID, no lost time	**87**	140	139	233
	Total COID	**369**	516	379	617
Contractors	LTI	**17**	11	5	36

Health

Various programmes are in place to support the general health of our employees.

HIV/Aids is addressed in all divisional policies, and each division has a comprehensive, holistic programme in place to promote awareness, prevention and voluntary testing, as well as to provide support. Policies cover issues such as confidentiality and protection from discrimination. We are committed to implement programmes that are relevant and valuable to our employees in each division. Where applicable, local communities are involved in initiatives such as World Aids Day and HIV/Aids education.

Where appropriate, certain businesses have invested in on-site occupational and primary healthcare clinics for their employees. The clinics play a crucial role in dealing with injury-on-duty cases and offer first aid assistance. They are run by qualified nursing staff, who are assisted by medical doctors. The services they offer include workplace health risk assessments, chronic disease screening and management (including for tuberculosis), industrial hygiene and medical surveillance. They also offer primary healthcare medication and family planning guidance. Where there is no clinic on site, an occupational health practitioner is contracted to perform medical surveillance.

Within our transport environment, mobile clinics are available on the main routes we use. These clinics test for chronic conditions and dispense chronic and other primary care medication.

Sustainability review continued

OUR COMMUNITIES AND SOCIETY

We acknowledge our responsibility as a corporate citizen to support the communities in which we operate and to contribute to the socioeconomic development of South Africa.

Key SDGs impacted by our activities

Key facts

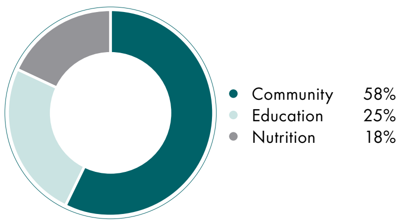
- We contributed **R25 million** to social development projects (FY21: R14 million)
- We invested **R35 million** in enterprise development (FY21: R17 million)
- We invested **R52 million** in supplier development (FY21: R24 million)
- Our ESD programmes support communities and small and black-owned businesses

SOCIOECONOMIC DEVELOPMENT

We work with several organisations to enhance our community development activities. Our focus is on childhood nutrition, education and enterprise development, with the objective of reducing poverty and unemployment. Importantly, some of our manufacturing businesses operate in communities that are negatively affected by unemployment, poverty, poor service delivery and related socioeconomic issues. As many of our employees live in these communities, we are deeply committed to ensuring that they are stable and sustainable. Our commitment goes beyond financial investment. We endeavour to build relationships with our communities that are mutually beneficial, respectful and lasting through an approach of transparency, social justice, integrity and accountability. We have formal structures to manage engagement with our communities in an open and collaborative way.

Over the course of the year, our spending on social development projects amounted to R25 million (1% of profit after tax), an increase of 79% on FY21.

Social development expenditure



Note: Percentages have been rounded

All of our divisions are involved in social and economic development projects, with the most material ones summarised below.

Community development and outreach

KAP sani2c

KAP has partnered with the sani2c initiative since its inception in 2004. sani2c is a three-day mountain bike event that attracts more than 2 000 riders per event and provides permanent and temporary employment for the local community. Sixteen local schools are recipients of the funds raised through entries to the race and sponsorships.

The sani2c Community Development Trust, in partnership with the Southern Lodestar Foundation's Breakfast Programme, feeds almost 2 000 school children daily along the sani2c route.

Sustainability review continued

OUR COMMUNITIES AND SOCIETY continued

PG Bison Safe-Hub

The Safe-Hub programme is an award-winning, world-class, evidence-based youth development programme that uses sport and education to intervene in the long-term trajectory of the participants' lives, creating hope and opportunity through training, education and pathways to work and leadership.

Safe-Hub, which is based on a social franchise model, was founded in Khayelitsha in Cape Town in 2008. It has since developed a national presence with Safe-Hub programmes operating in Gugulethu, Diepsloot, Tembisa, Alexandra, Soweto and Knysna.

The Knysna Safe-Hub aims to reach more than 1 500 young people from local communities every year, offering football and educational sessions twice weekly. The Safe-Hub programme has proved to assist in reducing crime, improving education and offering viable pathways to employment. The facility in Knysna employs 20 people from the local community every year, including 13 young people, who are placed in NQF level 4 learnerships and exit the programme into local employment. Through its contributions, PG Bison enjoys naming rights of the facility, the PG Bison Knysna Safe-Hub.

PG Bison – annual soccer tournament

PG Bison hosted its annual community knockout soccer tournaments in eMkhondo (inaugural) in May 2022 and in Ugie in April 2022. We provided food for more than 6 000 children and community members during these events.

Education

PG Bison – Ugie CREATE

Since 2009, PG Bison has partnered with Infundo to create and implement the Ugie CREATE Initiative education and community development project. Infundo is an independent Level 2 B-BBEE social enterprise consultancy specialising in educational development throughout the country, including the rural areas of Ugie and Maclear in the Eastern Cape, where PG Bison operates. The Ugie CREATE Initiative works directly with seven schools in the district, namely the ET Thabane Public School, Ugie High School, Umthawelanga Senior Secondary School, Jamangile, Maclear High, Maclear Methodist School and the Sibabale Senior Secondary School. Since the inception of the project, pass rates have improved significantly.

In the southern Cape, PG Bison works with the Knysna Educational Trust to manage two crèches in Brackenhill and Ruigtevlei. The division supplied and maintains the classrooms at these facilities and provides funding for three educators.

Safripol – Isphepho and the LUSA Community Chest Impact Fund ('LUSA')

Safripol has partnered with Isphepho to establish a schools recycling and education programme, which has been rolled out to township schools in Umlazi. Teaching material aligned with the national Curriculum Assessment Policy Statements curriculum has been developed for the Foundation, Intermediate and Senior phases. The programme has reached 3 690 children. In addition, 100 tonnes of recyclables have been collected from the 20 schools over the last six months.

Safripol also supports LUSA. LUSA is a public benefit organisation that leads, supports and participates in inclusive community efforts aimed at building capacity and mobilising resources to improve lives and facilitate long-term social change. It operates in the Vaal Triangle and focuses on providing training programmes for historically disadvantaged communities. Over the past year, it supported 65 NPOs, 30 families with food parcels and goods in kind, 1 000 children in youth care centres and 248 black beneficiaries though the Impact Fund, which focuses on capacity building and training programmes. More detail on Safripol's community initiatives can be found in its sustainability report on the Safripol website.

Read more

Sustainability review continued

OUR COMMUNITIES AND SOCIETY continued

Nutrition

Unitrans – FoodForward SA

In communities affected by poverty, nutritional support for vulnerable people, including young children and learners, is an invaluable social contribution. Unitrans South Africa therefore encourages our employees to volunteer one working day per month to repackage food for FoodForward SA. This NPO collects surplus food from manufacturers, wholesalers and retailers, and repackages it for distribution to early childhood development ('ECD') organisations, women's empowerment groups and day-care centres, reaching nearly 500 000 at-risk individuals. Unitrans maintains the truck we donated to FoodForward SA on an ongoing basis, and donated an amount towards the replacement of a 14-tonne refrigerated vehicle.

In addition, the division provides logistics assistance for the distribution of food parcels as part of the Feed the Nation campaign, as well as funding for meals at the Steinthal Children's Home in Tulbagh and Emmanuel Educare, which provides nutritional support for children in crèches.

PG Bison – Brackenhill and Ugie school feeding schemes

PG Bison in the southern Cape supports the local Brackenhill community, which has a feeding scheme for residents in need. The division has provided the scheme with gas stoves and supplies it with gas and ingredients that enable them to feed more than 60 children a day.

PG Bison has also partnered with an NPO called Judea Hope, as well as farmers and businesses to support a feeding scheme in the Ugie area. The scheme supports seven local crèches by distributing meals to more than 300 preschool children every day and distributing food parcels to the elderly in the community.

The five vegetable tunnels PG Bison established at ECD centres in the area produce vegetables that are used to supplement the food parcels. The tunnels have also created employment for the local community, and any excess vegetables are sold to generate income for the schools.

PG Bison – Ugie socio-agricultural vegetable project

The Ugie Socio-Agricultural Vegetable Project, established in 2013, is another successful collaboration between PG Bison and the local community. Several years ago, PG Bison and the local community identified the need to establish a reliable source of fresh vegetables. The division provided members of the community with access to nine hectares of land, implements, and the infrastructure necessary to grow vegetables for sale in the area. Seedlings are grown annually in PG Bison's nursery and, together with fertiliser, are supplied to two projects that have been established as sustainable cooperatives which employ 16 people.

ENTERPRISE AND SUPPLIER DEVELOPMENT

As one of the larger manufacturing companies in South Africa, we can have a meaningful impact on the sustainable growth of small businesses through our ESD programmes.

Over the past year, we have invested R87 million (FY21: R41 million) in ESD programmes to support small and black-owned businesses. We remain committed to support suppliers with the necessary B-BBEE credentials. Over the past year, more than 75% of our local procurement was directed to suppliers with Level 4 and better.

BUSINESS-ADOPTS-A-MUNICIPALITY ('BAAM') AND BUSINESS RETENTION AND EXPANSION ('BRE')

In 2011, PG Bison partnered with the Elundini local and Joe Gqabi district municipalities under the BAAM programme and implemented various socioeconomic development initiatives, which included disaster management, revitalisation of the small towns Maclear and Ugie, and setting up of a furniture factory. This successful partnership has directly benefited the communities, and indirectly benefited PG Bison's Ugie operations. In light of this successful partnership, we are involved in various Small-Town Regeneration ('STR') programmes with various municipalities in the areas in which we operate and have also adopted the broader BRE framework. The STR and BRE programmes are aimed at supporting municipalities in the provision of basic municipal services, maintenance of existing infrastructure, and investment in new bulk infrastructure to enable municipalities to retain and attract businesses, create jobs, and invest in community development.

HUMAN RIGHTS

KAP subscribes to the principles of human rights, as expressed in the Constitution of the Republic of South Africa (1996), the United Nations Universal Declaration of Human Rights (1948), and the 10 Principles set out in the UNGC (2000).

Human rights principles are incorporated in all our policies and practices, and are an integral component of our code of ethics. Compliance with human rights principles is monitored by the social and ethics committee, and we have a dedicated human rights policy in place.

A MORE FOCUSED APPROACH TO SED

In partnership with Infundo, we have initiated a process to coordinate the divisional initiatives into a single, coherent SED strategy that will enable us to structure and communicate the group's SED and community investment initiatives in accordance with our strategic themes. This will enable us to focus on fewer, larger and more impactful socioeconomic investments to create meaningful change in our surrounding communities.

Sustainability review continued

OUR ENVIRONMENT

We are committed to protecting our natural resources and reducing our environmental impact. This not only ensures the long-term sustainability of our operations, but also enables us to deliver fit-for-purpose products and services at the lowest cost.

Key SDGs impacted by our activities

Key facts

- Our Scope 1 and 2 emissions for the year were **940 561 tCO_2e** (FY21: 941 748 tCO_2e)
- Our electricity consumption for the year was **391 847 MWh** (FY21: 392 914 MWh)
- Diesel consumption across the divisions was **128 million litres** (FY21: 139 million litres)

GOVERNANCE

The ultimate responsibility for environmental matters resides with the board, who have collective responsibility and accountability for legislative and regulatory compliance, including the management of environmental risks and opportunities.

Our divisional statutory boards are responsible for environmental matters at a divisional level. Our group environmental policies and procedures are supported by environmental management systems including, where relevant, ISO certification for some divisions.

The identification and management of environmental risks are integrated into our group-wide ERM framework, which is overseen by the audit and risk committee, a board subcommittee.

CLIMATE CHANGE

Climate change risks

Climate change-related risks that have the potential to impact our operations and employees include extreme weather events (droughts and floods), increased wildfires, water constraints and increased temperatures.

Our most material near-term climate change-related risk is an increase in wildfires, which could negatively affect PG Bison's forestry operations. As a risk mitigation measure, we invest in fire detection and firefighting capabilities and implement standard forestry fire-prevention practices. We also conduct annual fuel load risk assessments and constantly engage with landowners, stakeholders and communities to manage this risk on a collaborative basis.

Our most material longer-term risk is the legislation of net zero targets. Many companies have set net zero targets by 2050, not just in their own operations, but also in their value chains. While we have not set such a target, we are engaged in analysing what net zero could mean for us, and how the transition can be achieved in a way that supports economic growth and job creation.

We are also exposed to transition risks such as increased carbon taxes. The National Treasury has announced its intention to increase the carbon tax rate to reach USD30/tonne carbon dioxide equivalent ('tCO_2e') by 2030. Some of our divisions are subject to carbon tax, which could increase our tax liability.

Climate change strategy

Despite any future legislative compliance requirements and disclosure commitments regarding climate change, we believe it is necessary to formulate a separate climate change strategy for the group.

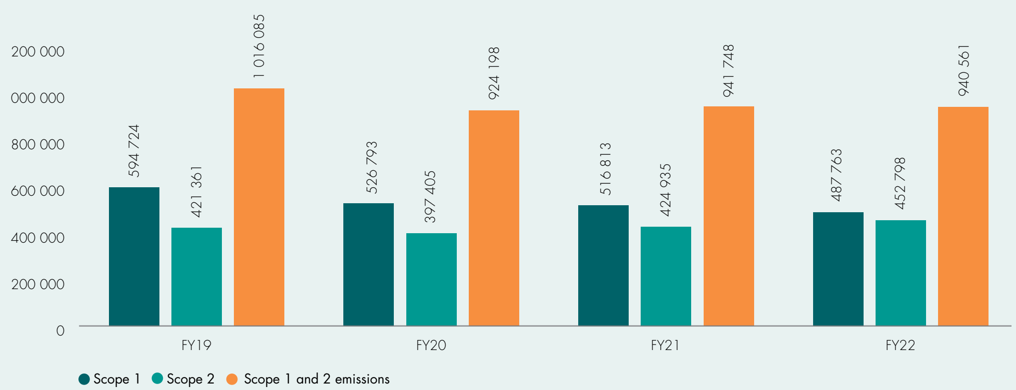
The main elements of a climate change strategy are adaptation and mitigation. The work being done at divisional level addresses both these elements, but is typically done as part of either risk management and sustainability initiatives or operational excellence programmes.

- Adaptation recognises that climate change is a reality, and that its effects on the group could threaten our ability to achieve our strategic goals and to create value. Our energy strategy is an example of an adaptation strategy currently being implemented by the group.
- Mitigation requires programmes to reduce and/or eliminate any future impact our group activities may have on the environment that could contribute to climate change. The group's energy strategy, for example, seeks to replace energy derived from fossil fuels with energy derived from renewable sources.

GHG emissions

Our carbon footprint is determined in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. We use emission factors from the Intergovernmental Panel on Climate Change 2006 Guidelines and the 2017 Technical Guidelines for Monitoring, Reporting and Verification of Greenhouse Gas Emissions by Industry of the Department of Forestry, Fisheries and Environment's ('DFFE'). Our GHG emissions are verified each year by an independent third party.

GHG emissions (tCO_2e)



Sustainability review continued

OUR ENVIRONMENT continued

Our Scope 1 and 2 emissions for the year were 940 561 tCO_2e, a slight reduction from last year, largely due to a reduction in diesel consumed by Unitrans South Africa.

Scope 1 emissions comprise 52% of our carbon footprint. Unitrans is the largest contributor, using diesel to provide customers with supply chain-based services. PG Bison uses biomass to generate heat, which significantly lowers its Scope 1 emissions.

Scope 2 emissions comprise 48% of our carbon footprint, with Safripol and PG Bison responsible for the bulk of the emissions. Safripol uses electricity and steam in the production of HDPE and PP, and electricity and gas in the production of PET. PG Bison uses electricity to power equipment used to manufacture its wood-based decorative panels. In March 2022, we successfully completed and commissioned the higher-capacity dryer and fibre preparation plant at eMkhondo, which will improve energy efficiency at the site.

Due to sustainable management practices, the plantations PG Bison owns in the northeastern and southern Cape regions are net absorbers of carbon. The DFFE has approved the carbon absorbed for the 2019, 2020 and 2021 calendar years as an offset against a carbon tax liability. During 2021, this was close to 200 000 tCO_2e, excluding the carbon stored in harvested wood products. In line with our sustainable management practices, a tree is planted for every tree harvested, and continues to absorb carbon as it grows. The division's wood-based decorative panels store carbon over a long lifespan. The carbon stored in our wood-based decorative panels for only three of our operations in the 2021 calendar year was more than 370 000 tCO_2e, and has been approved by the DFFE.

ENERGY CONSUMPTION

Energy strategy

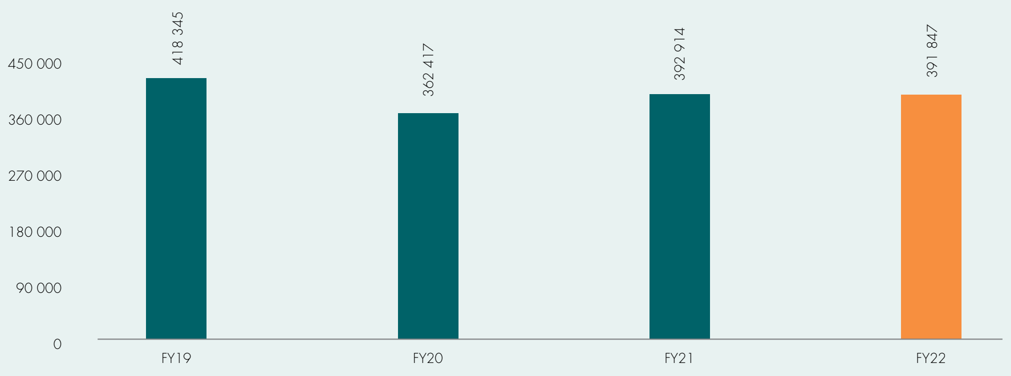
Interrupted and poor quality of electricity supply is a key risk for the group. As part of our broader group resilience strategy, we have developed an energy strategy which is aimed at reducing consumption, mitigating supply interruptions and non-supply, self-generation, cogeneration and storage. During the year, we undertook detailed energy assessments to identify initiatives to reduce electricity consumption and completed microgrid designs for all our sites. The development of these initiatives is underway and is at varying levels of maturity throughout the group. Safripol has initiated a project to construct a 10 MW PV plant at our Sasolburg operation to be completed in November 2022.

Electricity and diesel consumption

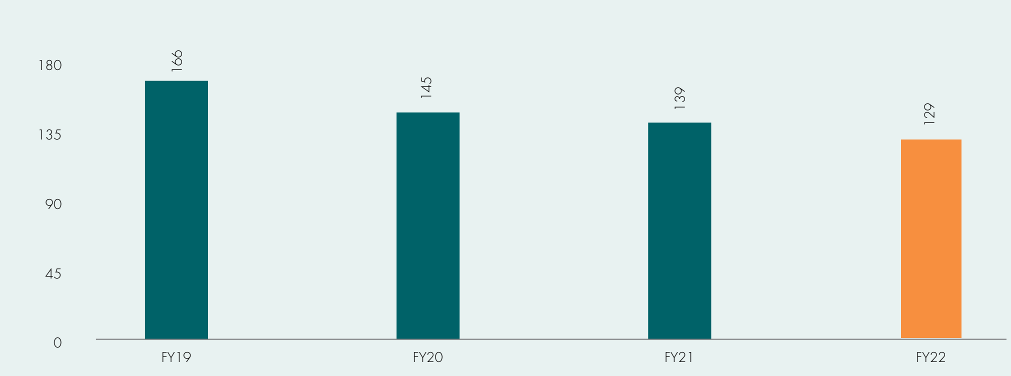
Our electricity consumption for the reporting year is 391 847 MWh, a slight reduction compared to last year. The major contributors to our electricity consumption are Safripol and PG Bison.

Diesel consumption across the divisions was 129 million litres in the reporting year, a 7.3% reduction. Unitrans uses the most diesel in the group and has invested in fuel efficiency and alternative fuel initiatives. These include performance-based standards vehicles at Unitrans Africa and South Africa, which consume 16.94% less fuel per tonne/kilometre than standard vehicles and the Unitrans Control Tower, which reduces fuel consumption through route optimisation and other initiatives.

Electricity consumption (MWh)



Diesel consumption (million litres)



Sustainability review continued

OUR ENVIRONMENT continued

WATER CONSUMPTION

Water usage is a key focus area for us. It is a scarce resource and critical for the sustainability of our operations. As part of our broader resilience strategy, we are developing a strategy around the sustainable supply, use and discharge of water, together with the required risk mitigation actions. We are committed to reduce, reuse and recycle water and our divisions have projects in place to achieve this.

Reliable measurement is a key element of our water strategy. We have made good progress over the period to improve the measurement and reporting of our water withdrawal and discharges. However, there is room for improvement. Where required, our divisions have water use licences, which specify the water usage parameters within which they must operate.

WASTE MANAGEMENT

We have made a commitment of zero waste to landfill. Accordingly, all our divisions have assessed their various waste streams to assess how best they can divert from landfill and apply the principles of the circular economy as part of their waste strategies.

The following are examples of our successes:

- PG Bison uses its waste biomass, a renewable source, to generate energy. The excess biomass is sent to third parties to provide energy or produce compost.
- Connacher Proprietary Limited, a company in the Restonic division, collects textile waste from the clothing and textile industries and shreds the waste into the reusable fibre used in the sleep products and automotive sectors.
- Safripol focuses on implementing the circular economy. We are designing polymers with reduce, reuse and recycling principles in mind, such as PET that can be used in refillable or returnable bottle applications. Internally, we have transitioned a portion of our pallet fleet from one-way wooden pallets to returnable plastic pallets in a closed-loop system – after each use, they are returned for repackaging of new products. At end of life, the plastic pallets are recycled into new pallets. We also use clear packaging material to maximise recycling opportunities.

In addition, Safripol launched our 'Let's plastic responsibly' campaign in 2021, aimed at encouraging consumers to remove plastic waste from the environment. We are involved in several waste collection and material recovery activities: the PETCO Bophelo Recycling, litter booms along the lower uMngeni River and Orange River, and the Green Corridors KwaMashu Materials Beneficiation Centre, a product development hub creating durable new products using low-value non-recyclable materials recovered from the environment.

BIODIVERSITY

PG Bison owns 96 157 hectares of land, 43 755 hectares of which are cultivated forestry land. The remaining area is used for agricultural activities, while part of it is a protected biodiversity area. Our northeastern Cape plantation accounts for 77% of our plantation area and is certified by the FSC (certificate number SGS-FM/COC-011207 and licence number FSC-C139494). PG Bison is also a member of Forestry South Africa, which oversees the environmental standards for forestry in South Africa.

PG Bison is committed to sustainable forestry practices and the sustainable management of the wildlife that resides in and adjacent to the plantations. For example, our northeastern Cape plantation maintains a large herd of cattle on the land, which plays a vital role in reducing the risk of fire. As part of the management process, we have introduced optimised grazing programmes that maintain the biodiversity. We have also reintroduced a variety of wild animal species into the plantation areas, including Burchell's zebra, Cape grysbok, blesbok, grey duiker and the black wildebeest. Threatened Red Data bird species are also found in the plantations, including blue crane, wattled crane and grey crowned crane.

How we are governed to create value

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Summarised corporate governance report 70

Our leadership

BOARD OF DIRECTORS AS AT 30 JUNE 2022

EXECUTIVE DIRECTORS

GN (Gary) Chaplin (52)
CA(SA)
CHIEF EXECUTIVE OFFICER

FH (Frans) Olivier (43)
CA(SA)
CHIEF FINANCIAL OFFICER

SP (Penwell) Lunga (47)
BJuris, LLB, MBA, MSc (HR)
CORPORATE AFFAIRS EXECUTIVE

- A Audit and risk committee
- S Social and ethics committee
- H Human capital and remuneration committee
- N Nomination committee
- I Investment committee
- ▲ Chairperson of committee

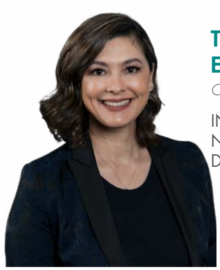
Roll your cursor over images for more detail. Full director CVs can be viewed on our website.

INDEPENDENT NON-EXECUTIVE DIRECTORS

PK (Patrick) Quarmby (68)
CA(SA) (Hons)
INDEPENDENT NON-EXECUTIVE CHAIRPERSON

KJ (Jo) Grové (73)
AMP (Oxford)
LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR

J de V (Jaap) du Toit (68)
BAcc, CA(SA), CTA, CFA
INDEPENDENT NON-EXECUTIVE DIRECTOR



TC (Tamara) Esau-Isaacs (46)
CA(SA)
INDEPENDENT NON-EXECUTIVE DIRECTOR

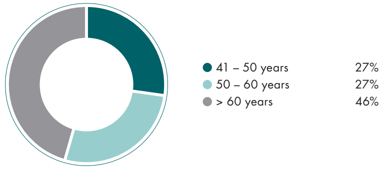
Z (Zellah) Fuphe (54)
BSocSci, CD(SA), GIBS GEDP
INDEPENDENT NON-EXECUTIVE DIRECTOR

KT (Ken) Hopkins (67)
BCom (Hons), CA(SA)
INDEPENDENT NON-EXECUTIVE DIRECTOR

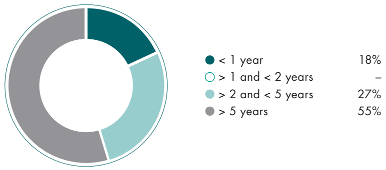
V (Viv) McMenamin (59)
MSc (Economics) (London)
INDEPENDENT NON-EXECUTIVE DIRECTOR

SH (Steve) Müller (61)
BAcc (Hons), CA(SA), Sanlam EDP
INDEPENDENT NON-EXECUTIVE DIRECTOR

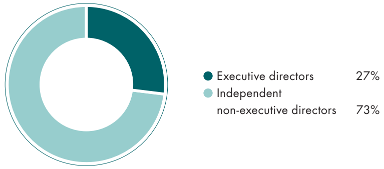
Board diversity – age



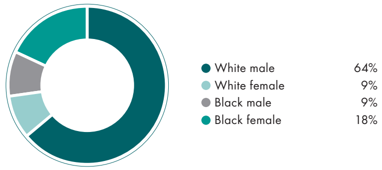
Board diversity – tenure



Executive and independent non-executive directors



Board demographics



Our leadership continued

EXECUTIVE MANAGEMENT AS AT 30 JUNE 2022

Full management CVs can be viewed on our website.

GN (Gary) Chaplin (52)

CA(SA)

CHIEF EXECUTIVE OFFICER

Gary qualified as a chartered accountant in 1995, after completing his articles with Deloitte. He was appointed as chief executive officer of PG Bison in 2011, appointed to the KAP Industrial Holdings Limited executive committee in 2012, and appointed as the chief executive officer of KAP in November 2014.

FH (Frans) Olivier (43)

CA(SA)

CHIEF FINANCIAL OFFICER

Frans qualified as a chartered accountant in 2004. He joined PG Bison in 2009, as the group financial manager, and was appointed as chief financial officer in 2010. Frans was promoted to the position of chief financial officer of the diversified industrial segment of KAP Industrial Holdings Limited in 2015 and, in April 2016, he was appointed as the chief financial officer of KAP.

SP (Penwell) Lunga (47)

BJuris, LLB, MBA, MSc (HR)

CORPORATE AFFAIRS EXECUTIVE

Penwell joined KAP Industrial Holdings Limited in 2012. In 2016, he was appointed as group stakeholder relations executive and a member of the executive committee. Penwell currently serves as corporate affairs executive and was appointed as an executive director on 18 November 2021.

H (Neels) Kornelius (49)

BEng (Chem), MBL

ENTERPRISE RISK EXECUTIVE

Neels has held positions in insurance and risk management across the financial services and mining sectors with Aon, Willis Towers Watson and Anglo American. In 2017, he became one of the first six South Africans to be awarded the Certified Risk Management Professional designation by the Institute of Risk Management South Africa. He was appointed to his current role in January 2022.

LML (Mike) Besteiro (53)

MSc (Industrial Engineering)

ICT EXECUTIVE

Mike started his career at ArcelorMittal South Africa, where he managed the implementation of factory planning and scheduling systems. In 2000, Mike joined i2 Technologies as a solution architect and worked on the implementation of supply chain systems across various industries in Europe and the United States. Mike joined PG Bison in 2004, and was appointed to his current role in 2018.

CH (Christina) Steyn (42)

BSc, BSc Hons (Physics), MSc (Physics), PhD (Physics), MBA

INVESTOR RELATIONS EXECUTIVE

Christina's early work experience included scientific research and management consulting (strategic finance). She was a rated sell-side equity research analyst and, over her 13 years in the equity markets, covered the diversified industrials, chemical, small cap and mining sectors. Christina joined KAP Industrial Holdings Limited as investor relations executive in October 2021.

R (Rentia) Venter (43)

BMus, BPolSci, MCom (Organisational Psychology), MBA

STRATEGY EXECUTIVE

Rentia has close to 20 years' professional advisory experience in strategy development and the execution of large-scale corporate transformation initiatives. She has worked with executives and leadership teams of large organisations on four continents, across multiple industries and sectors. Rentia joined KAP Industrial Holdings Limited as strategy executive in March 2022.

RH (Reino) Louw (48)

BCom (Law), LLB, LLM

TREASURY AND LEGAL EXECUTIVE

Reino joined the South African Reserve Bank as an in-house legal consultant in 1998. In 2003, he moved to Nedbank Limited as an in-house legal advisor. In 2004, he joined Citibank South Africa as in-house legal counsel, becoming the South African country counsel and a member of the management committee. Reino joined KAP Industrial Holdings Limited as treasury and legal executive in March 2018.

Summarised corporate governance report

At KAP we recognise that corporate governance forms an integral part of our strategy, ERM and overall sustainability.

Our corporate governance report contains details of the approach adopted by KAP in ensuring application of the principles contained in King IV™ during the financial year ended 30 June 2022. Please refer to this report to understand how KAP 'applies and explains' the principles contained in King IV™.

Read more

'Our holistic approach to corporate governance, at both divisional and group level, remains focused on ensuring that the businesses and affairs of the group are managed in a responsible and ethical manner, to assist with the creation of value in the short, medium and long term, for the benefit of all stakeholders.'

Gary Chaplin
Chief executive officer

GOVERNANCE APPROACH

KAP is committed to high standards of governance that are consistent with regulatory requirements and evolving best practices and are aligned with the company's strategy and risk appetite. Effective corporate governance is not only about overseeing the company's activities and practices, but also doing so in a way that creates enduring value for stakeholders.

It involves the board understanding the challenges and opportunities of a changing industry and economy, knowing our business and our risks, and setting robust standards and principles that will guide the company to ensure we are constantly enhancing value for our stakeholders.

We view corporate governance as integral to ensuring that KAP remains a good corporate citizen while we pursue our strategic objectives.

The corporate governance section in this integrated report provides a summary of our corporate governance framework and our approach to governance.

During the year under review, we maintained our FTSE4Good corporate governance score of 3.9/5 against the industry score of 3.4/5.

Application of King IV™

KAP maintains a high standard of corporate governance, as evidenced by the ratings of various ESG agencies and proxy-voting advisors. The general principles of the King Committee on Corporate Governance regime have been incorporated into the group's structures for many years. During the year under review, the group continued to apply the corporate governance principles and recommended practices as advocated in King IV™ on a holistic, substance-over-form basis. This approach serves KAP better than a mechanistic tick-box approach, in that it accommodates the achievement of the recommended King IV™ outcomes by applying, in some instances, practices other than those specifically detailed in King IV™.

The company has also applied the principle of materiality, as suggested by King IV™, in relation to the inclusion of information in this report and our integrated report, which could substantively affect the organisation's ability to create value over the short, medium and long term.

Where necessary, policies, procedures, terms of references, charters, frameworks and structures as approved by the board are amended from time to time to refine alignment with the latest prescripts of King IV™, changing statutory requirements, and business imperatives.

CORPORATE GOVERNANCE FRAMEWORK

The corporate governance framework provides an overview of the corporate governance structures of the board, which together enable KAP to meet its statutory and regulatory requirements. The purpose of the framework is:

- to provide the guiding principles and the statutory and regulatory framework that underpin the principles of effective corporate governance;
- to set out the governance structures and role players, including board committees, subsidiary boards and subsidiary board committees (which each has its own charter that clearly defines the responsibility, accountability and liability of each constituent and is regularly reviewed);
- to provide an approval framework for the board and the divisions through which authority is delegated to management and the concentration risk of decision-making is mitigated;
- to distinguish between the role of the holding company board and its subsidiary boards;
- to facilitate effective, balanced and transparent decision-making at all levels of the group; and
- to establish, maintain and monitor the system of internal controls.

Summarised corporate governance report continued

The graphic below highlights the structures that KAP has implemented to achieve the aforementioned:

KAP SHAREHOLDERS

BOARD OF DIRECTORS

- Audit and risk committee
- Social and ethics committee
- Human capital and remuneration committee
- Nomination committee
- Investment committee
- Guarantee and financial assistance subcommittee
- Treasury subcommittee

CHIEF EXECUTIVE OFFICER | **CHIEF FINANCIAL OFFICER**

CORPORATE MANAGEMENT COMMITTEES

- Executive committee
- ICT steering committee
- Compliance committee
- Combined assurance forum
- Tax compliance committee
- Employment and labour standards compliance committee
- B-BBEE compliance committee

SIGNIFICANT SUBSIDIARIES' BOARD OF DIRECTORS

- Audit and risk committee
- Human capital and remuneration committee
- ICT committee

Summarised corporate governance report continued

The KAP governance structures achieve the following governance outcomes in line with those recommended by King IV™.

Governance outcomes are the positive effects and benefits that organisations could realise if the underlying principles are achieved.

Ethical culture

Ethical culture means ensuring that the company entrenches its values in its decision-making, conduct and the relationships between the organisation, its stakeholders and the broader society.

Adequate and effective control

Adequate and effective control refers to the implementation of structures, people and processes to ensure the integrity of information used for internal decision-making and the integrity of financial and non-financial information that it reports.

Performance and value creation

Performance and value creation reflect an organisation's achievements relative to its strategic objectives, and its outcomes in terms of its effect on people, planet and profit.

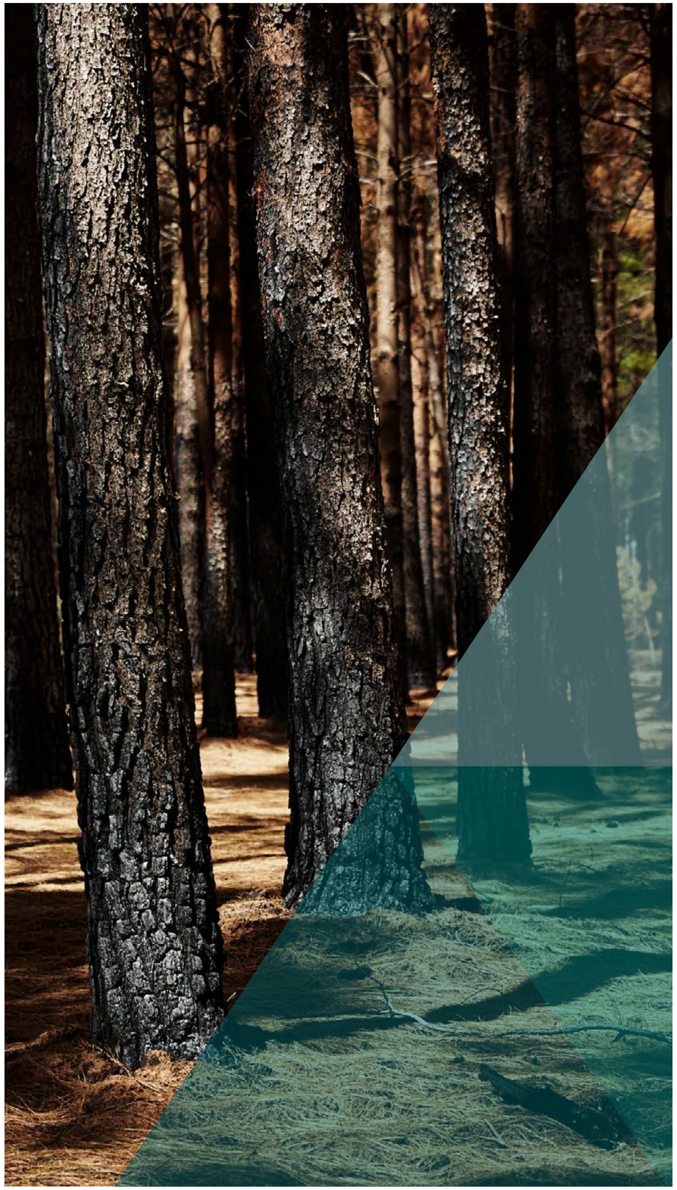
Trust, good reputation and legitimacy

Trust, good reputation and legitimacy mean that the company realises that it must be a good corporate citizen that plays an integral part in broader society.

BOARD OF DIRECTORS AND BOARD COMMITTEE STRUCTURES

The board provides leadership and strategic guidance to ensure value creation for all stakeholders. This is done within an ERM framework and an effective system of internal control. This approach makes it possible to assess and manage risk within defined levels of risk appetite and tolerances to ensure long-term sustainable development and growth. The board has ultimate accountability and responsibility for the performance and affairs of the company, and ensures that the group adheres to high standards of ethical behaviour in line with our values.

The board committees assist the board in the discharge of their duties and responsibilities. Each board committee has a formal charter that is reviewed annually. Formal annual work plans have been established to ensure that each committee monitors practically whether it is discharging its delegated duties and responsibilities.



Summarised corporate governance report continued

Governance structure	Purpose	Composition	Attendance	Key focus areas for 2022
Board of directors	The board plays a key role in setting the strategic direction of the company. It also provides continuous oversight of material matters, acting as an independent check and balance for the executive management team, whose main responsibility remains the management of the business. Refer to the board charter on our website for the detailed mandate. Read more	The board compromises 11 directors, three of whom are classified as executive directors and eight as independent non-executive directors. The independent non-executive directors have the required skills and experience to have objective judgement on matters of strategy, resources, transformation, diversity, employment equity, financial and operational performance and policies that impact the business.	92%	• Effective response to the Covid-19 pandemic • Effective response to the civil unrest in July 2021 • Review of the KAP strategy, which focuses on value creation for all our stakeholders
Audit and risk committee (ARC)	The main objective of the ARC is to assist the board in fulfilling its oversight responsibilities and to evaluate the adequacy and efficiency of accounting policies, internal controls, ERM, compliance and combined assurance arrangements, and financial reporting processes. In addition, the ARC assesses the effectiveness of the internal auditors, the independence and effectiveness of the external auditors, and considers and recommends the appointment of the latter. Refer to the ARC charter on our website for the detailed mandate. Read more	The ARC compromises four independent non-executive directors. In line with King IV™, the chairperson of the board is not a member and does not participate in the ARC.	100%	• Review of the group's going concern assessment and solvency and liquidity position • Impairment assessment of goodwill, indefinite useful life intangible assets and property, plant and equipment • Improvement of the combined assurance framework, model and processes • Oversight of the internal financial controls, effectiveness thereof and remedial actions implemented by management • Oversight of ICT risks, the ICT internal control framework and the ICT assurance plan • Improvement in the quality of the integrated report with a focus on materiality • Improvement of ERM which included the recommendation to the board of a new risk management policy and the approval of a revised ERM framework • Ensuring the effectiveness of the internal audit function and the external quality assurance process

Summarised corporate governance report continued

Governance structure	Purpose	Composition	Attendance	Key focus areas for 2022
Social and ethics committee (SEC)	The SEC plays a pivotal role in exercising oversight of organisational ethics, social and economic development, good corporate citizenship, regulatory compliance, environment, health and safety, stakeholder engagement and labour and employment issues. The purpose of the SEC is to ensure that the company's activities impact positively our many stakeholders, including employees, communities, members of the public and the environment, and to report on this to our shareholders on an annual basis.	The SEC comprises four independent non-executive directors, with the CEO as an additional member.	100%	• Overseeing the integration of ESG issues/matters into the KAP strategy • Reviewing the environmental and human rights policies • Overseeing the ethics programme, including interrogation of the ethics hotline calls received • Improving sustainability and integrated reporting • Overseeing ESG risks, including climate change risks
Human capital and remuneration committee (RemCom)	The purpose of the RemCom is to ensure that the remuneration policy is fair and reasonable, while remaining compliant with regulatory and governance requirements and that remuneration practices deliver shareholder value. It also ensures the establishment of an appropriate remuneration framework and adoption of remuneration policies that aim to attract and retain top talent, support the company's long-term strategy and drive sustainable performance.	The RemCom comprises three independent non-executive directors.	100%	• Reviewing the human capital strategy to support KAP's 2025 strategy • Executive salary benchmarking and adjustment • Benchmarking of non-executive directors' fees • Share rights scheme vesting and allocation • Executive succession planning • Enhancement of race and gender diversity
Nomination committee (NomCom)	The role of the NomCom is to review the composition of the board and the board committees and, where skills or experience appear to be lacking in a certain area, to identify how best to address this. The NomCom ensures succession planning for the board and board committees. It assesses the independence of directors and deliberates on directors' rotation at the AGM. Refer to the NomCom charter on our website for the detailed mandate. Read more	The NomCom comprises three independent non-executive directors.	88%	• Reviewing and updating the board succession plan • Reviewing and updating the director training and induction programme • Reviewing the classification of directors and evaluating the independence of the long-serving non-executive directors • Reviewing the board and board committee composition

Summarised corporate governance report continued

Governance structure	Purpose	Composition	Attendance	Key focus areas for 2022
Investment committee	The purpose of the investment committee is to consider and either support or oppose management's submissions to the board in respect of any mergers, acquisitions and/or disposals of companies, shares in companies and/or businesses and any significant capital projects or capital requirements. The committee must consider whether proposed investments are aligned with the board-approved strategy for the group.	The committee compromises four independent non-executive directors and the CEO and CFO.	92%	• Recommending the DriveRisk business acquisition • Reviewing the suitability of KAP's dividend policy • Considering the capital allocation framework, including share buy-backs • Black empowerment ownership considerations
Guarantee and financial assistance subcommittee	The guarantee and financial assistance subcommittee attends to the day-to-day obligations related to the granting of financial assistance by the company, including financial assistance to related or interrelated companies as contemplated by sections 44 and 45 of the Companies Act. All decisions of the committee are presented to the board for consideration and endorsement.	The subcommittee compromises one independent non-executive director and the CEO and CFO.	N/A	
Treasury subcommittee	The treasury subcommittee attends to the day-to-day obligations relating to general banking matters and transactions, including facilities and loans, guarantees, suretyships and other security documents. The committee also oversees the operation of KAP's domestic medium-term note programme.	The subcommittee compromises one independent non-executive director and the CEO and CFO.	N/A	

CONCLUSION

The directors of KAP confirm that, to the best of their knowledge, KAP has complied with the provisions of the Companies Act and has operated in accordance with its MOI during the reporting period.

Remuneration review

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Background statement

The KAP board is responsible for the group's remuneration policy, and is assisted by the KAP human capital and remuneration committee ('the committee'). The committee operates within the provisions of the human capital and remuneration committee charter and with authority granted to it by the board. The board therefore oversees the implementation and execution of the remuneration policy through the committee, which comprises three independent non-executive directors, one of whom is appointed as chairperson. The group chief executive officer and the group corporate affairs executive attend the committee meetings by invitation only and recuse themselves before any discussions take place or decisions are made which relate to them.

In terms of the recommendations of King IV™, board committees should have cross membership to ensure a balanced distribution of power and to enhance effective collaboration. In line with these recommendations, SH Müller, the chairperson of the committee, is also a member of the social and ethics committee, the audit and risk committee and the investment committee. Following 17 years on the board, IN Mkhari did not make herself available for re-election to the board at the company's AGM on 18 November 2021 and retired on the same date. Up until this date she was a member of the committee, the chairperson of the social and ethics committee, and a member of the nomination committee. V McMenamin was appointed to the committee on the same date in her stead. She is also a member of the social and ethics committee. KJ Grové is a member of the committee and the investment committee.

The committee meets formally at least once a year and more often on an ad hoc basis as required to fulfil its mandate. The committee chairperson provides feedback to the board after each committee meeting regarding key decisions and relevant discussions and attends the AGM to address questions by shareholders on the committee's areas of responsibility.

REMUNERATION PHILOSOPHY

We prefer to be market leaders in the sectors in which we operate, which requires us to invest continuously in technology, innovation, processes and products. This implies that we need to attract and retain the best people in the industry and improve their skills consistently as markets and technologies evolve.

As KAP has grown into market-leading positions, we have become increasingly exposed to and are benchmarked against global best practice. Although KAP is a South Africa-based company, we trade with businesses in different countries, earning approximately 14% of our revenue outside South Africa, and importing a significant proportion of our inputs. A further substantial proportion of our inputs are globally indexed in foreign currencies. We have international shareholders in certain divisions who actively participate in those businesses, and we have several technology agreements with international companies.

As a result, we expect our executives to have knowledge and experience across international borders and to be internationally mobile. KAP therefore competes for management and specialist skills and talent in a challenging global marketplace. Accordingly, our remuneration philosophy is to attract and retain the best people in the industry, and to improve their skills consistently as markets and technologies evolve. The success of our business is dependent on our people in order to maintain quality products and high standards of customer service in very competitive sectors.

STAKEHOLDER CONSIDERATIONS

Remuneration decisions are taken to ensure the group's long-term sustainability. The following macro factors formed part of the committee's considerations in September 2021 in relation to FY22:

- The challenging macroeconomic and sociopolitical environment in South Africa, which is characterised by low economic growth, unreliable electricity supply, increasing levels of unemployment and the risk of civil unrest.
- The impact of the Covid-19 pandemic on communities in the areas in which we operate, small businesses that are part of our enterprise development initiatives, our customers, and our suppliers, all of which had to endure an uncertain environment.
- The protracted social, economic and financial shock of Covid-19 resulting in contracting consumer spending in response to higher unemployment and lower levels of economic activity.
- The variability in the levels of restrictions implemented by governments, and the significant disruptions in global supply chains throughout the year, which resulted in volatility in the demand for our products, access to key raw materials, and commodity prices.
- The need to reward our employees appropriately for their contribution to the group's performance, taking into consideration the complex, uncertain and competitive operating environment, to ensure a balanced outcome for all stakeholders over the long term.
- The need to attract and retain skilled leadership and technical skills to support our strategy implementation.
- The escalating risk of loss of key personnel to competitors, other industries and emigration.

Background statement continued

FAIR AND RESPONSIBLE REMUNERATION

Each year, the committee reviews remuneration differentials across job grades to ensure that there are no disproportionate income differentials. Where disproportionate income differentials are detected, immediate corrective measures are implemented. Disproportionate income differentials refer to unfair and irrational differences in pay that cannot be justified based on the nature of the work performed, seniority, tenure, qualifications, ability, competence or any other relevant non-discriminatory factors. The committee is satisfied that no disproportionate pay differentials exist and that all pay differentials are justifiable and not attributable to gender or race bias.

In addition, guaranteed executive package increases are set by reference to, among others, the remuneration of the broader workforce. KAP divisions manage collective bargaining through industry bargaining councils and participate in centralised bargaining structures to establish sector-based conditions of employment wherever possible. There are also collective bargaining arrangements in the southern African countries in which Unitrans Africa operates. Careful measures are taken to ensure that wage increase settlements are appropriate within the context of local market and economic conditions.

The committee is satisfied that the remuneration of bargaining unit employees is appropriate relative to the sectors in which KAP's businesses operate, and that measures are in place to reduce and eliminate any unjustified pay differentials. In addition, the committee is satisfied that the remuneration of executive management is fair and responsible within the context of overall employee remuneration.

During the year under review, the committee met formally on 3 September 2021, with all the members present. The committee is satisfied that it has fulfilled its responsibilities during the year. Key focus areas included:

- a review of the group's human capital strategy and the strategic drivers of human capital and the alignment thereof with the vision and strategy of the company;
- a review of the workforce planning measures to ensure that the group has sufficient leadership and technical skills to support strategy implementation;
- an evaluation of the suitability of the group's job evaluation system and benchmarking methodology to ensure that the group's remuneration levels are competitive and appropriate within the group's specific markets and geographic areas of operation;
- a review of the group's approach to the Covid-19 pandemic and the various lockdown levels, and its impact on our employees in terms of remuneration, wellness and restructuring;
- a review of succession plans and the succession strategy across the group;
- a review of the risk associated with the loss of key personnel;
- a review and approval of the remuneration packages of executives, including annual and long-term incentives schemes;
- a review of the group's initiatives and progress in relation to gender, race, diversity, employment equity and income differentials;
- the fulfilment of delegated responsibilities in relation to the share-based incentive scheme;
- a review of the human capital management practices in place across the group to ensure fairness, responsibility, transparency, alignment with King IV™, and compliance with the specific requirements of the relevant labour legislation; and
- as recommended by King IV™, a reflection by the committee on its prior year self-assessment outcomes to determine whether the identified shortcomings have been addressed appropriately.

DIVISIONAL HUMAN CAPITAL AND REMUNERATION COMMITTEES

Due to the group's decentralised management structures, the committee has established divisional human capital and remuneration subcommittees ('the divisional subcommittees'). The divisional subcommittees are responsible for all human capital management and employee remuneration matters at divisional level, within the parameters set by the group's remuneration policy.

The divisional subcommittees are supported by established human capital practitioners at group, divisional and business unit level. They hold the responsibility for the implementation and management of human capital and remuneration strategies, policies and practices in line with those set by the committee. The divisional subcommittees comprise the KAP CEO, CFO and corporate affairs executive, and the divisional CEO and human capital executive. The KAP CEO chairs these subcommittees.

The divisional subcommittees make key considerations within the context of the KAP and divisional strategies, and include a review of:

- talent management and succession planning;
- leadership development and training;
- employment equity;
- employee relations management;
- pay structures and equitable base salary increases for all employees;
- performance incentive schemes;
- long-term incentive schemes; and
- risk associated with the loss of key personnel.

The meetings of the divisional subcommittees were held during June 2021 in relation to FY22.

Background statement continued

NON-BINDING ADVISORY VOTE AND SHAREHOLDER ENGAGEMENT

As per the recommendations of King IV™, in addition to the statutory requirement to obtain shareholder approval for the payment of fees to the non-executive directors, the remuneration policy and implementation report will be tabled each year for separate non-binding advisory votes by shareholders at the AGM. In the event that shareholders vote against either the remuneration policy or the implementation report by 25% or more of the total voting rights exercised at the AGM, the committee will issue an invitation to dissenting shareholders to engage with them in order to address legitimate and reasonable concerns.

The following reflects the non-binding advisory shareholder votes at the AGM held on 18 November 2021:

AGM held on 18 November 2021	Votes in favour %	Votes against %
Remuneration policy	91.96	8.04
Implementation report	98.19	1.81

As the non-binding advisory votes were passed by the requisite majorities, no further engagement with shareholders was required.

The committee believes that the KAP remuneration philosophy and policy remain market related and fit for purpose to achieve the high-level objectives of attraction, retention and performance motivation of our executives, managers and employees across all levels of the group. As a result, no changes were made to the remuneration policy presented to shareholders during the reporting period at the AGM held on 18 November 2021.

ACCESS TO INFORMATION AND ADVISORS

Members of the committee may access any information to inform their independent judgement on remuneration and related matters.

During the year under review, the committee received reports from both Willis Towers Watson Proprietary Limited ('Willis Tower Watson') and Remchannel Proprietary Limited ('Remchannel') to ensure that the group's remuneration levels are competitive and appropriate within the group's specific markets and geographic areas of operation. The committee is satisfied that both Willis Towers Watson and Remchannel are independent.

AREAS OF FOCUS FOR THE NEXT YEAR

The committee regularly assesses the remuneration market and governance frameworks to ensure the relevance of KAP's remuneration approach.

The committee anticipates focusing on the following areas during FY23:

- The implementation of a human capital strategy, informed by KAP's values, to ensure that KAP is an employer of choice with a culture, policies and procedures that set high expectations while simultaneously providing a stimulating and inclusive environment for our people.
- The implementation of workforce planning measures to build people leadership and technical capacity in order to support strategy implementation.
- The implementation of a mechanism to retain personnel who are key to the implementation of the group's strategy.
- The implementation of measures to further promote gender and race diversity.
- Talent mapping of critical and scarce leadership and technical skills to ensure that the group attracts and has access to sufficient external and internal skills to support strategy implementation.
- The monitoring of changes in executive remuneration in markets in which our businesses operate.
- The systematic phasing out of the Willis Towers Watson Global Grading (GG) job evaluation system and implementation of the Paterson grading system across all relevant levels of the organisation, as described in more detail in the implementation and remuneration disclosure section of this review.
- Independent benchmark and review of peer group comparatives applicable to non-executive directors' fees.
- Fair and responsible pay.

The remuneration philosophy serves as an essential catalyst in enabling our employees to deliver on KAP's strategic priorities, while supporting sustainable value creation for all our stakeholders. In this regard, we believe that our remuneration decisions are fair and remain appropriately aligned with shareholder and stakeholder interests over the long term.

Remuneration policy

The board carries ultimate responsibility for the remuneration policy. The committee operates in terms of a board-approved mandate. The committee therefore functions as a subcommittee of the board in terms of an agreed mandate and evaluates and monitors the company's remuneration philosophy and practices to ensure consistency with governance principles and corporate strategy.

The committee implements a remuneration policy, which is approved by the board, to assist in the achievement of the company's strategy. The remuneration policy is reviewed on an annual basis and is aligned with the recommendations of King IV™, based on the following principles:

- Remuneration practices throughout the company are aligned with the applicable business vision and strategy.
- Remuneration is set at levels that are competitive and appropriate within the specific markets, geographic areas, and industries in which the company operates.
- Incentive-based remuneration, which is applicable to management involved in determining and implementing the strategy of the company and/or divisions of the company, is determined with reference to financial performance targets, return targets, B-BBEE targets, internal control and compliance measures, and individual key performance indicators ('KPIs').
- Executive remuneration is fair, responsible and transparent within the context of the overall remuneration of the company.

ALIGNMENT BETWEEN REMUNERATION POLICY AND REMUNERATION PHILOSOPHY

KAP's remuneration philosophy is to attract and retain the best people in the industry, and to improve their skills consistently as markets and technologies evolve. The success of our business is dependent on our people's ability to deliver quality products and to maintain high standards of customer service in very competitive sectors. The KAP remuneration policy should be fit for purpose to achieve the high-level objectives of attraction, retention and performance motivation of our executives, managers and employees across all levels of the group.

ELEMENTS OF REMUNERATION

Benchmarking of the remuneration of executive managers and executive directors is undertaken annually, using the services of independent experts, in order to ensure that remuneration in all forms accruing to employees at all levels is market-related and equitably awarded under the remuneration systems and practices in place.

The committee aims to ensure an appropriate balance between the guaranteed and performance-related elements of managerial remuneration, and also between short-term performance and long-term sustainable stakeholder value creation. The committee considers each element of remuneration relative to the market and, in determining its quantum, takes into account the performance of the company and/or division, the management team, and the individual concerned.

The remuneration policy covers two elements of remuneration:

Guaranteed salary ('salary')

The salary element of remuneration incorporates all guaranteed cash benefits on a total cost-to-company ('CTC') basis, and is intended to provide employees with a competitive level of remuneration. The salary is subject to annual review and is intended to be competitive in relation to market practice in companies comparable in size, market sector, business complexity and geographic location, as well as to equally graded positions. The Paterson grading system is applied across the group in order to ensure uniform employee grading. Company performance, individual performance, general inflation and changes in responsibilities are also taken into consideration when determining annual base salaries.

The amount of the salary package is determined, with effect from 1 July each year, based on parameters approved by the board. Pay levels are based on individual and market factors, as follows:

- Job profiles are compiled for each approved position in the company, and these are graded using the Paterson grading system.
- A competency profile is also determined for each approved position. Performance reviews of employees against these profiles may lead to an employee receiving merit increments from time to time, which may result in an individual earning remuneration above the market median, but within market norms.
- The remuneration levels of key management categories are benchmarked annually, using the market median of independent salary surveys as reference.
- Inflationary remuneration adjustments are considered annually, taking into account relevant consumer price inflation indices.

The remuneration of employees, other than those represented by unions and other bargaining structures, is contracted on a 'total cost-to-company package' basis, which includes basic salary, allowances, and contributions by the company to retirement savings, risk insurance and medical schemes. In terms of this arrangement, a minimum level of healthcare cover is a condition of employment at certain levels. The company does not provide post-retirement healthcare benefits for employees. Employees throughout the group are able to contribute to various independently administered defined-contribution retirement schemes.

The company encourages union membership and collective bargaining among our employees in order to provide for responsible and structured engagement. Wages and substantive conditions of employment in relation to employees represented by trade unions or similar bargaining structures and similarly graded positions are negotiated from time to time with the applicable bargaining structures, preferably via collective bargaining processes. Changes to remuneration and benefits are negotiated in one-, two-, or three-year arrangements. Multi-year arrangements are favoured in terms of promoting stability and consistency in industrial relations. Access by these employees to suitable medical, retirement and associated insured benefits is also facilitated by the company, where appropriate.

Remuneration policy continued

Variable performance-related incentives ('incentives')

The principle underlying this policy is to ensure that senior executives and managers are rewarded for performance that advances the company's strategy. Consequently, they are offered a combination of guaranteed and variable pay to incentivise performance on a sustainable long-term basis.

Variable pay is designed to incentivise and reward both individual and team effort and serves as a tool to attract, motivate and retain employees of the calibre required to achieve the objectives of the business. This policy is also intended to ensure that top management is duly motivated to achieve organisational goals and strategic objectives to ensure the long-term sustainability of the company in a balanced and socially and environmentally responsible manner.

Annual incentive bonus ('AIB') scheme

The AIB is intended to incentivise short-term performance on an annual basis and is summarised as follows in terms of the measurement criteria, the weightings of these criteria, and the participation levels of executives and senior management.

The following criteria are applicable to KAP Corporate Services executives and senior management and are based on the performance of KAP:

Corporate

Measurement	Proportion		Participation levels
Core HEPS growth > GDP growth + CPI* Core HEPS growth > GDP growth + CPI + 1%* Core HEPS growth > GDP growth + CPI + 2%* Core HEPS growth > GDP growth + CPI + 3%*	15% 15% 15% 15%	Applied on a linear basis to participation levels	CEO and CFO at 200% CTC Executives at 50 – 100% CTC Senior management at 25 – 50% CTC
EBITDA cash flow conversion ≥ 90%	20%		
B-BBEE score against budget	10%		
Internal audit and compliance	10%		
	100%		

* *A polymer index is included together with GDP growth and CPI requirements in relation to Safripol's proportion of HEPS.*

The following criteria are applicable for divisional executives and are based on the performance of the divisions, independent of the performance of KAP:

Division

Measurement	Proportion		Participation levels
Core operating profit growth > GDP growth + CPI# Core operating profit growth > GDP growth + CPI + 1%# Core operating profit growth > GDP growth + CPI + 2%# Core operating profit growth > GDP growth + CPI + 3%#	15% 15% 15% 15%	Applied on a linear basis to participation levels	Divisional CEO at 150% CTC Divisional CFO/COO at 100% CTC Divisional Exco at 50 – 75% CTC
EBITDA cash flow conversion ≥ 90% (Logistics ≥ 95%)	20%		
B-BBEE score against budget^	10%		
Internal audit and compliance	10%		
	100%		

The inclusion of a polymer index in the measurement criteria is to protect shareholders from excessive management incentives during a polymer upcycle and to protect management from forfeiting incentives in a polymer downcycle, thereby rewarding management only for factors under their control. The polymer index eliminates the uncontrollable effect of movements in specific dollar-based raw material margins and exchange rates.

At operational level, each division has incentive schemes applicable to middle and junior management, which are aimed at achieving project, production, sales and similar operational targets.

Incentives are determined and paid in the financial year following that to which the performance relates and are disclosed in the company's remuneration policy implementation report with the applicable performance targets.

The committee retains discretion in terms of the award of AIB incentives, which is only exercised in exceptional circumstances and, when exercised, is accordingly reported in the annual remuneration policy implementation report.

Safripol includes a relevant polymer index together with GDP growth and CPI requirements.

^ *Unitrans Africa will replace B-BBEE measurement with the following: 'New revenue contracts secured > 8% of annual revenue'.*

Remuneration policy continued

Long-term incentive schemes

KAP competes for management skills and talent, and our approach to remuneration takes into account the need to retain key management over the long term. Long-term incentives are awarded with the primary aim of promoting the sustainable performance of the company through business cycles, aligning performance of key management with the interests of stakeholders, and retaining key management over the long term.

The long-term incentives are achieved through a shareholder-approved share rights scheme ('SRS'). Participation in the SRS is determined by the committee on an annual basis in terms of the rules of the scheme. It applies to individuals who are key to determining and implementing the long-term vision and strategy of the company and/or its divisions.

The measurement criteria, the weightings of these criteria, and the participation levels of executives and senior management in the SRS are summarised as follows in relation to KAP Corporate Services employees:

Corporate

Measurement	Proportion		Participation levels
Core HEPS growth > GDP growth + CPI* ROE > KAP WACC Achievement of individual KPIs	37.5% 37.5% 25.0%	Applied on a linear basis to participation levels	CEO and CFO at 167% CTC Executives at 67 –133% CTC Senior management at 33 – 67% CTC
	100%		

** A polymer index is included together with GDP growth and CPI requirements in relation to Safripol's proportion of HEPS.*

The measurement criteria, the weightings of these criteria and the participation levels of executives and senior management in the SRS are summarised as follows in relation to divisional employees:

Divisional

Measurement	Proportion		Participation levels
Core operating profit growth > GDP growth + CPI# ROCE > KAP WACC x 1.3 Achievement of individual KPIs	37.5% 37.5% 25.0%	Applied on a linear basis to participation levels	Divisional CEO 133% CTC Divisional Exco at 67 – 100% CTC Key senior management at 33 – 67% CTC
	100%		

 # Safripol includes a relevant polymer index together with GDP growth and CPI requirements.

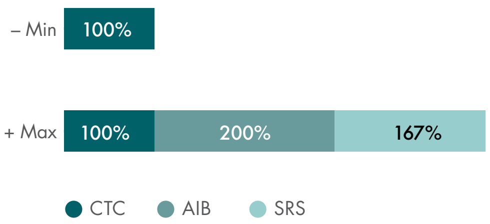
The inclusion of a polymer index in the measurement criteria is intended to protect shareholders from excessive management incentives during a polymer upcycle and to protect management from forfeiting incentives in a polymer downcycle, thereby rewarding management only for factors under their control. The polymer index eliminates the uncontrollable effect of movements in specific dollar-based raw material margins and exchange rates.

The performance criteria in relation to the SRS are measured over a three-year period, on a cumulative basis and are non-discretionary.

Remuneration policy continued

Single-figure remuneration relative to on-target remuneration mix

The table below illustrates the total potential remuneration for executive directors at different performance levels in terms of the policy:



Minimum shareholding requirements

In order to promote the long-term alignment of executives with the vision and strategy of the company and the interests of shareholders, executives who participate in the SRS will be required to maintain a minimum shareholding of KAP shares as a condition of participation in the scheme. Participants will be required to retain any shares that vest in terms of the KPI measurement criteria of the scheme until such time as the following minimum shareholdings are met:

- KAP CEO: three times annual CTC
- KAP CFO and divisional CEOs: twice annual CTC
- Other executives: annual CTC

Statement of fair and responsible remuneration

The committee must satisfy itself that the remuneration of executive directors and other senior executives takes appropriate account of the remuneration and employment conditions of other employees within the group. When salary increases are considered, the committee considers a report from management detailing pay practices across the group, including salary levels and trends, collective bargaining outcomes, and the approach management proposes to adopt for general employee increases. This information is considered in the committee's decisions regarding the remuneration of executive directors and other senior executives to ensure that the remuneration of executive management is fair and responsible within the context of overall employee remuneration.

Malus and clawback

To the extent that the measurement criteria of either the AIB or SRS are achieved as a result of intentional fraud, misstatement, misrepresentation or non-compliance with relevant legislation by any participant of these schemes, the effect of this fraud, misstatement, misrepresentation or non-compliance will be reversed in the consideration of whether the relevant qualifying criteria have been achieved. In addition, any participant directly involved in the fraud, misstatement, misrepresentation or non-compliance will not qualify for an incentive.

The company will pursue legal action for the recovery of any incentives paid as a result of intentional fraud, misstatement, misrepresentation or non-compliance with relevant legislation by any participant of these schemes. In addition, the company will pursue disciplinary action.

Service contracts

Executives' contracts are subject to terms and conditions of employment as governed by the South African Labour Relations Act (No. 66 of 1995, as amended). The contracts of the top executives or any other executive directors do not contain termination packages or excessive notice periods. In view of the scarcity of executive skills in South Africa, and in order to make provision for an orderly handover to successors, the CEO and CFO's notice periods are six calendar months, while the rest of the executive committee's notice periods are three months.

Payments on termination of employment, sign-on, retention or restraint payments, commissions, and allowances are limited to contractual, legal and/or negotiated obligations and any deviations from this policy in relation to senior executives requires appropriate motivation and the specific approval of the committee.

NON-EXECUTIVE DIRECTOR FEE POLICY

The non-executive directors receive fees for services rendered to the company. Non-executive directors' fees are reviewed annually, taking into account inflation and market benchmarks based on research into trends in non-executive director remuneration among companies of a similar size and complexity. The fee proposals endorsed by the board are presented at the AGM for shareholder approval, by special resolution, prior to payment for the following year. Fees are not linked to the company's share price, its share performance, or its results. Non-executive directors cannot participate in and therefore do not qualify for shares in terms of the KAP Performance SRS and do not hold share rights under this scheme.

REGULATORY COMPLIANCE

In line with the recommendations of King IV™, in addition to the statutory requirement to obtain shareholder approval for the payment of fees to the non-executive directors, the remuneration policy and implementation report will be tabled each year for separate non-binding advisory votes by shareholders at the AGM. In the event that shareholders vote against either the remuneration policy or the implementation report by 25% or more of the total voting rights exercised at the AGM, the committee will issue an invitation to dissenting shareholders to engage with them in order to address legitimate and reasonable concerns.

Implementation and remuneration disclosure

The committee applied the remuneration policy to ensure KAP's long-term sustainability in the context of a very challenging macroeconomic and sociopolitical environment during FY22.

GUARANTEED SALARY ('SALARY')

To ensure that the group remains competitive in the markets in which it operates, all elements of remuneration are reviewed each year against relevant market and peer data.

The group previously applied the Willis Towers Watson Global Grading ('GG') job evaluation system across the group in order to ensure uniform employee grading. During the year under review, the committee reviewed the suitability of the GG job evaluation system to ensure that the group's remuneration levels are competitive and appropriate within the group's specific markets and geographic areas of operation. The following was the basis for this comprehensive review:

- The group lost critical management skills to competitors and emigration and was finding it increasingly difficult to replace these executives at the group's benchmarked salary levels.
- As part of the group's strategic requirement to build people capacity to execute its long-term strategy, critical succession gaps were identified in leadership and technical positions. This required the company to implement measures to retain current and attract new executives to support strategy implementation.
- KAP adopted the GG system in 2014/2015 at a time when it was a member of the Steinhoff International Holdings Limited ('Steinhoff') group of companies as part of the latter's remuneration objective to establish a single global pay structure in all its global locations and to enable comparison of remuneration levels of equivalent positions across different global markets.

The committee considered job evaluation reports from both Willis Towers Watson and Remchannel and reached the following conclusions:

- The GG job evaluation system has a wide global application and was particularly used within multi-nationals with operations in more than one continent, whereas KAP is predominantly a southern African business.
- Since KAP businesses were graded as part of Steinhoff's global business, they were graded as low complex businesses when compared to the latter's other global companies. This was despite the fact KAP's businesses, although small in a global context, are considered large and complex businesses among their peers in the southern African market.
- KAP's peers use either the Paterson or other traditional South African grading systems as their primary job evaluation methodologies.

Following this comprehensive review, the committee resolved that to effectively apply the group's remuneration philosophy and enable KAP's businesses to attract, motivate and retain key talent, the group must:

- systematically phase out the GG system and implement the Paterson grading system as the group's primary job evaluation methodology;
- implement and use the Remchannel salary benchmark survey as the primary survey to ensure that KAP executive remuneration is benchmarked and set at levels that are comparable to the executive remuneration of companies of comparable size, market sector, business complexity and geographic location; and
- utilise the median of the Remchannel salary benchmark survey as the primary reference for all KAP and divisional executive base remuneration.

A comprehensive market positioning and benchmarking analysis of executives' salaries was previously conducted during 2018 according to the GG job evaluation system and executive remuneration was adjusted accordingly for FY19. During 2019, a high-level review was conducted using the PWC and PE Corporate Consultants as reference, and a market-related inflationary adjustment was implemented for FY20. As a result of the effects of the Covid-19 lockdown on the company, executive directors' salaries were reduced by 20% for three months during FY20, no benchmark review was conducted during 2020, and no salary increases were granted to executive directors for FY21.

For FY22, the committee received independent market positioning and benchmarking data from Remchannel in relation to KAP's executives, based on Paterson grading of the relevant positions. This market positioning data was validated against the remuneration levels of the following comparative peer group of companies based on metrics including revenue, number of employees, industry sector and organisational complexity.

Peer group comparatives

AVI Limited	Consumer staples
Barloworld Limited	Industrials
Bidvest Limited	Consumer discretionary
Imperial Logistics Limited	Industrials
Super Group Limited	Industrials
Motus Holdings Limited	Consumer discretionary
RCL Foods Limited	Consumer staples

Implementation and remuneration disclosure continued

The outcome of the above assessment showed that the guaranteed salaries of executive directors were materially below the market median and, as a result, the following guaranteed salary increases were awarded to executive directors with effect from 1 July 2021:

Executive directors	Total guaranteed salary 2022 R	Total guaranteed salary 2021 R	Increase in guaranteed salary
GN Chaplin	**10 290 000**	7 844 000	31%
FH Olivier	**6 500 000**	4 770 000	36%
SP Lunga[1]	**2 666 666**	–	
Total	**19 456 666**	12 614 000	

[1] *SP Lunga was appointed as an executive director to the board effective 18 November 2021 and, as a result, the remuneration disclosed only includes eight months. His full year guaranteed salary was R4 000 000.*

The same evaluation methodology and benchmark was implemented in respect of the guaranteed salaries of executive committee members. The following summarised salary increase was awarded with effect from 1 July 2021, which takes into account changes in the composition of the executive committee as follows: SP Lunga being disclosed as an executive director with effect from 18 November 2021, the appointment of DG Lewis to replace N Boshoff as the CEO of Unitrans Passenger with effect from 1 December 2021, and the appointment of SM Ford as the CEO of DriveRisk with effect from 1 December 2021.

Guaranteed remuneration paid to other Exco members is reflected below:

	Total guaranteed salary 2022 R	Total guaranteed salary 2021 R	Increase in guaranteed salary
Other Exco members	**43 943 418**	39 271 800	12%

Salary increases for bargaining unit employees were implemented for FY22 in line with the collective agreements of relevant bargaining unit structures, except where exemption was granted from such collective agreements.

ANNUAL INCENTIVE BONUS

During FY21, no AIBs were paid to any employees in relation to FY20, even in respect of non-financial measures which were achieved, as a result of the effects on the company of the Covid-19 lockdown. Following an improved performance during FY21, whereby the company successfully navigated the extreme challenges of Covid-19, AIBs were awarded during FY22 in line with the remuneration policy and stipulated allocation levels.

Executive directors and management qualified for AIB payments by meeting the applicable financial and non-financial measurements set out in the remuneration policy. The following measurements, based on the performance of KAP, were applied in respect of the AIBs paid to KAP executive directors:

Measurement	Proportion		Participation levels
Core HEPS growth > GDP growth + CPI*	15%	Applied on a linear basis to participation levels	CEO and CFO at 200% CTC Executives at 50 – 100% CTC Management at 25 – 50% CTC
Core HEPS growth > GDP growth + CPI + 1%*	15%		
Core HEPS growth > GDP growth + CPI + 2%*	15%		
Core HEPS growth > GDP growth + CPI + 3%*	15%		
EBITDA cash flow conversion ≥ 90%	20%		
B-BBEE score against budget	10%		
Internal audit and compliance	10%		
	100%		

** A polymer index is included together with GDP growth and CPI requirements in relation to Safripol's proportion of HEPS.*

Implementation and remuneration disclosure continued

AIBs paid during FY22 relate to the performance of the company and its divisions for the year ended 30 June 2021. The following table reflects the KAP performance against the abovementioned AIB measurements:

Measurement	Proportion	FY21 Measurement	FY21 Results	AIB target achieved
Core operating profit growth > GDP growth# + CPI^	15%	2.9%	>100%	✓
Core operating profit growth > GDP growth + CPI + 1%	15%	3.9%	>100%	✓
Core operating profit growth > GDP growth + CPI + 2%	15%	4.9%	>100%	✓
Core operating profit growth > GDP growth + CPI + 3%	15%	5.9%	>100%	✓
EBITDA cash flow conversion ≥ 90%	20%	90%	>100%	✓
B-BBEE score against budget	10%	Level 6 budgeted	Level 5 achieved	✓
Internal audit and compliance	10%	Satisfactory	Satisfactory	✓
	100%			

 # GDP growth rate = -0.7%

^ CPI rate = 3.6%

The committee approved the AIB awards following a detailed assessment of the relevant financial and non-financial measurements and is satisfied that the AIB awards are according to the approved measurement criteria applied to the group's performance for FY21. The committee also reviewed the performance of individual executive committee members against the target criteria set out in the remuneration policy and approved the award thereof, where target criteria were met.

The following AIBs were therefore paid to executive directors and other executive committee members during FY22 in relation to the performance of the company and its divisions for the year ended 30 June 2021:

	2022 R	2021 R
Executive directors		
GN Chaplin	**15 688 000**	–
FH Olivier	**9 540 000**	–
SP Lunga[2]	**–**	–
	25 228 000	–
Other Exco members	**43 280 080**	1 723 812

[2] SP Lunga was appointed as an executive director to the board effective 18 November 2021 and, as a result, the remuneration disclosed only includes eight months. His bonus was R3 200 000, which was paid in October 2021.

LONG-TERM INCENTIVES

During FY21, no long-term incentives were paid to any employees in relation to FY20, even in respect of non-financial measures which were achieved, as a result of the effects of the Covid-19 lockdown on the company. Following an improved operating performance whereby the company successfully navigated the extreme challenges of Covid-19, long-term incentives were awarded during the year in line with the vesting criteria in respect of the share rights granted in November 2018.

The following measurement criteria were applicable in respect of the share rights granted in November 2018, according to the measurement criteria of the SRS scheme approved by shareholders during the 13 November 2018 AGM:

Measurement	Proportion	Participation levels
Cumulative achievement of three-year financial targets	35%	CEO and CFO 167% CTC
Return on equity three-year targets	15%	Divisional CEOs and executives 100 – 133% CTC
Strategy execution targets	15%	Divisional Exco 50 – 67% CTC
ESG targets	10%	Key management 33 – 67% CTC
Retention	25%	
	100%	

Implementation and remuneration disclosure continued

The committee approved the partial vesting of the November 2018 share rights following a detailed assessment of the relevant financial and non-financial measurements over the three-year measurement period ended 30 June 2021.

The committee also reviewed the performance of individual executive committee members against the target criteria set out in the remuneration policy and approved the award thereof, where target criteria were met.

Measurement	Proportion	Cumulative measurement	Cumulative results	Target achieved
Achievement of financial targets				
• Cumulative three-year core HEPS • Cumulative three-year cash from operations, less net cash finance cost, less cash taxation, (less)/add any capex and investment (over)/ underspend	35%	139.1 cents per share R7 729 million	111.2 cents per share R8 136 million	×
• Return on equity over three years	15%	9.7%	7.4%	×
• Implementation of key strategic initiatives related to the strategic development and competitive positioning of KAP				✓
• Board-approved initiatives	15%	• Securing an appropriate and flexible capital and debt structure in order to minimise the risk of stressed debt or equity issuance in volatile economic environments	The following significant funding activities were concluded during FY19: R678 million bonds were settled at maturity, a R1 billion bond was settled prior to maturity date, R800 million of an existing term loan facility was settled prior to maturity date, and R700 million was raised through bond issuances with a three-year tenure. During FY20, the company purchased and cancelled 97 million of its ordinary shares. In addition, to reduce the effects of shareholder dilution resulting from the company's share rights scheme, the company procured shares for delivery to participants by acquiring 36 million of its ordinary shares in the market. These shares were accounted for as treasury shares. The following significant funding activities were concluded during the year: R874 million corporate bonds were settled at maturity, and R1 250 million corporate bonds, with tenures of between three and five years, were issued. 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 was a R500 million increase in the committed syndicated revolving credit facility, which increased this facility to R1 500 million, with maturity on 4 October 2021. These facilities provided the company with sufficient time and options to refinance bond maturities during FY20 and after. During FY21, bonds and term loans to the value of R2 394 million were settled, which included a fixed interest rate term loan of R450 million, at unfavourable interest rates. Funding of R1 652 million was raised during the year, through both bond issuances and term loan facilities, with maturities of three and five years at acceptable market-related interest rates. Global Credit Rating Co. Proprietary Limited reviewed KAP's credit rating and confirmed its rating as A+(za) with a stable rating outlook for all three years.	✓

Implementation and remuneration disclosure continued

Measurement	Proportion	Cumulative measurement	Cumulative results	Target achieved
		• Implementation of risk management policy and framework	The Covid-19 pandemic 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 its 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. KAP is a diversified business in terms of the sectors and the geographies in which we operate. We supply products and solutions that are integrated into consumers' everyday lives and seek backward integration in our supply chains. Although the impact of Covid-19 on the group was significant, KAP's business model proved to be resilient during this crisis. The group implemented various measures to reduce operating costs and to optimise cash flows 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 an optimisation of working capital. The company also implemented specific salary and wage cost reduction measures throughout our operations.	
		• Successful conclusion and implementation of strategic mergers, acquisitions and disposals	The group continued with strategic corporate activities to enhance our quality of earnings and sustainability into the future. In line with our key investment criteria, we entered into the following transactions: • The disposal of Glodina, a division of Vitafoam Proprietary Limited, was concluded on 22 February 2018 for R101 million and became effective on 3 September 2018. • Effective 3 September 2018, the company concluded a series of transactions and funding arrangements in order to facilitate greater than 51% 'black ownership' and greater than 30% 'black-women ownership' of our South African contractual logistics operations, Unitrans Supply Chain Solutions Proprietary Limited ('USCS'). • Effective 30 June 2019, PG Bison, a division of KAP Diversified Industrial Proprietary Limited disposed of its 44.33% interest in Manica Boards & Doors (Private) Limited to Takura Ventures (Private) Limited for a total purchase consideration of US$500 000. • 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 served as KAP's entry point into the recycling sector. Both Restonic and Feltex make 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. • Effective 1 September 2020, USCS acquired the remaining 36% minority share in Klipstone Transport Proprietary Limited. • Effective 30 June 2021, PG Bison Southern Cape Proprietary Limited disposed of its investment in associate, The Peter Allan Building Materials Trust.	

Implementation and remuneration disclosure continued

Measurement	Proportion	Cumulative measurement	Cumulative results	Target achieved
		• Implementation of growth initiatives, which do not necessarily benefit the year under review	Our diversified portfolio and focus on products and solutions that are integrated into consumers' everyday lives provided resilience through the Covid-19 crisis, and our decentralised management structures supported decision-making and effective implementation. Our prompt response to the crisis further provided us with the space and perspective to initiate a deep and broad strategy intervention across the group, which is expected to yield current and future opportunities. In terms of this, we had identified eight strategic workstreams that we intend to focus on and drive throughout the organisation as part of our KAP 2025 strategy. These workstreams encompass KAP's value realisation, operational strategies, organisational design, human capital strategy, ICT and digital strategy, the development of a clear brand strategy, new business development opportunities, and a communications strategy. Underpinning our strategy are our four strategic priorities of growing revenue, enhancing margins, improving returns, and maximising cash flows. With this, we have a pipeline of material opportunities to expand our existing businesses, develop new products, and enter complementary markets over the next few years.	
		• Other initiatives, such as B-BBEE, internal audit ratings, health and safety, succession planning, etc.	We are fully compliant with the provisions of the B-BBEE Act, as well as with the amended black economic empowerment codes of good practice. As a group, we improved our B-BBEE rating from a Level 6 in FY19 and FY20 to a Level 5 in FY21.	
Achievement of ESG targets				
• FTSE4Good Index measurement criteria	10%	2.9	3.1	✓
Retention				
• Continued employment through the measurement period with a clean disciplinary record on vesting date	25%	• Continued employment through the measurement period with a clean disciplinary record on vesting date	Measured and implemented individually.	✓
	100%			

The following share rights therefore vested for executive directors and other executive committee members during FY22 in relation to the performance of the company and its divisions for the three-year measurement period ended 30 June 2021.

Value of share rights exercised during the year	Number of rights exercised	Value of rights exercised R
2022		
Executive directors		
GN Chaplin	**789 145**	**3 724 764**
FH Olivier	**479 885**	**2 265 057**
SP Lunga[3]	**–**	**–**
	1 269 030	**5 989 821**
Other executive committee members	**2 243 131**	**10 587 578**

[3] *SP Lunga was appointed as an executive director to the board effective 18 November 2021 and as a result the share rights of 198 056 (R934 824) he exercised are included under other executive committee members.*

The market price of KAP Industrial Holdings Limited share rights exercised was R4.72 per share on 1 November 2021.
No share rights were exercised during the previous financial year.

Implementation and remuneration disclosure continued

Outstanding share rights of the executive directors at 30 June 2022 are reflected as follows:

Executive directors	Offer date	Vesting date	Number of rights as at 30 June 2021	Number of rights awarded during the year	Number of rights exercised during the year	Number of rights as at 30 June 2022	Market value of rights at grant date R	Market value of rights on vesting R	Market value of rights at 30 June 2022 R
GN Chaplin	November 2018	November 2021	789 145	–	(789 145)	**–**	–	3 724 764	**–**
	December 2019	December 2022	1 013 892	–	–	**1 013 892**	4 207 652	–	**4 461 125**
	December 2020	December 2023	5 137 051	–	–	**5 137 051**	15 154 300	–	**22 603 024**
	December 2021	December 2024	–	3 914 419	–	**3 914 419**	16 557 992	–	**17 223 444**
			6 940 088	**3 914 419**	**(789 145)**	**10 065 362**	**35 919 944**	**3 724 764**	**44 287 593**
FH Olivier	November 2018	November 2021	479 885	–	(479 885)	**–**	–	2 265 057	**–**
	December 2019	December 2022	616 556	–	–	**616 556**	2 558 707	–	**2 712 846**
	December 2020	December 2023	3 123 882	–	–	**3 123 882**	9 215 452	–	**13 745 081**
	December 2021	December 2024	–	2 472 665	–	**2 472 665**	10 459 373	–	**10 879 726**
			4 220 323	**2 472 665**	**(479 885)**	**6 213 103**	**22 233 532**	**2 265 057**	**27 337 653**
SP Lunga[4]	November 2018	November 2021	198 056	–	(198 056)	**–**	–	934 824	**–**
	December 2019	December 2022	288 236	–	–	**288 236**	1 196 179	–	**1 268 238**
	December 2020	December 2023	1 669 020	–	–	**1 669 020**	4 923 609	–	**7 343 688**
	December 2021	December 2024	–	1 211 845	–	**1 211 845**	5 126 104	–	**5 332 118**
			2 155 312	**1 211 845**	**(198 056)**	**3 169 101**	**11 245 892**	**934 824**	**13 944 044**
			13 315 723	**7 598 929**	**(1 467 086)**	**19 447 566**	**69 399 368**	**6 924 645**	**85 569 290**

[4] *SP Lunga was appointed as an executive director to the board effective 18 November 2021.*

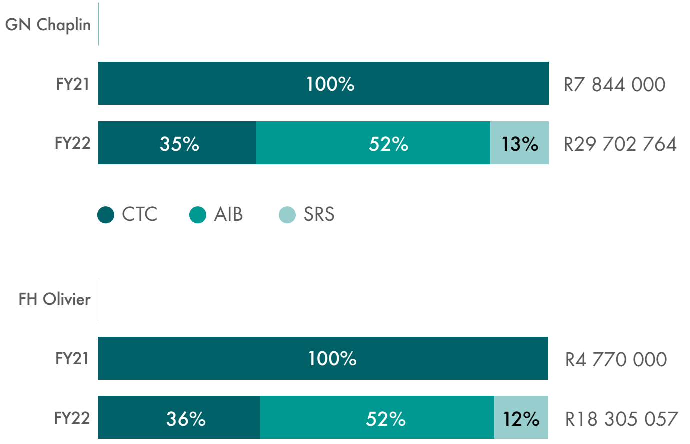
As a result of receiving less than 75% support from shareholders in relation to the company's remuneration policy at the 13 November 2019 AGM and after resultant engagement with shareholders, the committee recommended significant changes to the company's incentive schemes, which were accepted by the board and implemented for FY20. These changes were recommended to shareholders at the company's AGM on 18 November 2020 and were approved by 88.25%. These changes are reflected in the remuneration policy, which forms part of this review.

Shares rights issued in November 2018 and December 2019, which partially vested in November 2021 and which would potentially vest in December 2022, are based on the measurement criteria reflected in the company's remuneration policy presented at the 13 November 2019 AGM. Share rights issued in December 2020 and 2021, which potentially vest in December 2023 and 2024, are based on new measurement criteria approved by shareholders on 18 November 2020 and included in the remuneration policy, which forms part of this review.

Implementation and remuneration disclosure continued

DISCLOSURE OF SINGLE-FIGURE REMUNERATION RELATIVE TO ON-TARGET REMUNERATION MIX

The KAP executive directors received the following single-figure remuneration during FY21 and FY22 respectively:



FY21 single-figure remuneration

Following the board's approval of management's recommendation not to award AIB and SRS payments to any employees in the company in relation to FY20, executive directors were only paid their guaranteed salaries during FY21.

FY22 single-figure remuneration

The single figure remuneration for GN Chaplin and FH Olivier includes their guaranteed salary, the annual incentive bonus payment equivalent to 200% of the FY21 total cost-to-company remuneration in accordance with the remuneration policy, and the partial vesting of the share rights granted in November 2018.

SP Lunga was appointed as an executive director to the board effective 18 November 2021, and as a result, the remuneration disclosed only includes eight months. His full year guaranteed salary was R4 000 000, and he was paid an annual incentive bonus of R3 200 000 in October 2021.

STATEMENT OF FAIR AND RESPONSIBLE REMUNERATION

The committee is satisfied that the remuneration of executive directors and other senior executives takes appropriate account of remuneration and employment conditions of other employees in the group, and that the remuneration policy is fair and responsible in the context of overall employee remuneration.

The committee believes that the remuneration policy is fit for purpose and achieves the high-level objectives of attraction, retention and performance motivation of our executives, managers and employees across all levels of the group. The committee further believes that, in the context of a very challenging macroeconomic and sociopolitical environment, the remuneration matters have been managed appropriately and responsibly.

NON-EXECUTIVE DIRECTORS' FEES PAID FOR THE PERIOD UNDER REVIEW

Non-executive director fees are regularly reviewed against market benchmarks through research into trends and independent publications on non-executive director remuneration among companies of a similar size and complexity.

The committee submitted its proposals to the board for the forward-looking fees payable for the period from the date of the AGM in November 2021 to the November 2022 AGM. The proposed fee structure included a number of principle amendments as follows:

- To provide for per-meeting fees of certain committees.
- To provide for an hourly compensation for non-executive directors for input required on an ad hoc basis, beyond the scope of annual scheduled meetings.
- In view of the escalating global focus on ESG factors and the integration thereof into the company's strategy and daily operations, as well as the expanding oversight role and agenda of the company's social and ethics committee, its meetings were increased from one to two per annum. The base fee for the social and ethics committee was increased accordingly, in line with peer group companies and with that of the company's human capital and remuneration committee fees.

The following fees were paid to non-executive directors in line with the fee structure approved at the AGM held on 18 November 2021:

Non-executive directors' fees (excluding VAT)	2022 R	2021 R
J de V du Toit	**558 407**	1 171 900
TC Esau-Isaacs[5]	**962 221**	939
Z Fuphe	**945 407**	868 736
KJ Grové	**942 119**	967 100
KT Hopkins	**1 192 992**	1 076 660
V McMenamin	**581 151**	539 300
IN Mkhari[6]	**150 645**	729 100
SH Müller	**1 237 293**	1 095 936
SH Nomvete[7]	**–**	179 400
PK Quarmby	**1 354 363**	1 174 949
	7 924 598	7 804 020

[5] *Appointed as non-executive director on 30 June 2021.*
[6] *Retired effective 18 November 2021.*
[7] *Resigned effective 18 November 2020.*

The fee proposals endorsed by the board were proposed at the AGM for shareholder approval, by special resolution, prior to payment. They were approved with the required majority of more than 75% of the eligible votes cast.

Updated, forward-looking proposed non-executive directors' fees will be presented for shareholder approval at the AGM in November 2022.

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Shareholders' diary

Annual general meeting 2022	Monday, 21 November 2022
Announcement of interim results	Third week of February 2023
Announcement of year-end results	Third week of August 2023
Annual general meeting 2023	November 2023

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