

Financial review

Revenue

Revenue from continuing operations increased by 9% to R7 832 million (1H13: R7 208 million) due to growth across all major divisions.

Operating profit before capital items

The group operating profit from continuing operations of R710 million increased from R650 million in the comparative period due to a good operational performance.

- The Logistics division's operating profit increased to R392 million from R354 million due to an 11% growth in revenue, with margins remaining constant at 10%.
- The Integrated Timber division improved its operating profit to R172 million from R154 million primarily through a margin improvement of 1%, and through cost savings resulting from its recent restructure.
- The Manufacturing division's operating profit increased to R146 million from R142 million, with a good performance by the PET division limiting the impact of lower vehicle build in the automotive division.

Cash flow

Cash generated before working capital changes increased from R989 million to R1 070 million, which constitutes 151% of operating profit before capital items and 97% of EBITDA for the period.

Consistent with previous interim periods, the first half of the financial year saw a seasonal investment in working capital.

Debt structure and finance costs

The group's net interest-bearing debt of R3 404 million (1H13: R3 832 million) equates to a gearing ratio of 54% (1H13: 66%), of which the group's controlling shareholder (Steinhoff) accounts for R1 840 million (1H13: R3 494 million). The group is investigating the potential benefits of replacing the remaining Steinhoff shareholder's loan with external debt.

Management remains confident of the serviceability of the debt as indicated by the improving EBITDA/interest cover ratio at 6.3 times (1H13: 5.5 times).

Headline earnings per share (HEPS) and earnings per share (EPS)

HEPS from continuing operations increased by 16% to 16.0 cents from 13.8 cents in the comparative period. The disposal of non-core assets (disclosed as capital items) led to the EPS decreasing by 1% to 15.1 cents from 15.2 cents.

Net asset value (NAV)

The NAV per share increased by 9% to 271 cents from 248 cents in the comparable period.

Corporate action

The Bull Brand Foods and Brenner Mills sale transactions were completed during the period.

Strategic update

KAP's strategy is to be an emerging African market industrial group focused on being market leaders in the industries we serve, with high barriers to entry, sustainable earnings, solid margins, strong cash flow generation and African growth.

In line with this strategy, the group has made good progress in the last 6 months, and has:

- disposed of various non-core assets which were generating low returns e.g. the food assets,
- invested in new manufacturing capacity at PG Bison which will generate higher returns, and
- continued to allocate capital to existing logistics partnerships with our customers.

High return investments remain core to the group and we continue to investigate a number of options for organic growth.

We remain confident that our investment in technology and the group's focus on its core competitive advantages will continue to increase market share and enhance returns.

Outlook

Economic conditions in South Africa remain subdued.

Under these circumstances, management has increased its focus on controllable factors such as costs, productivity and the retention and growth of market share.

Both the Supply Chain Solutions and Passenger divisions maintain ongoing focus on growth in developing African markets. The restructuring of the USCS business has been favourably received by its customer base, and is expected to continue to deliver efficiencies.

In the Integrated Timber division, the new Medium Density Fibreboard plant and restructured cost base is expected to further improve results in the second half of the financial year.

In the Manufacturing division, Hosaf is expected to continue to benefit from growth in the PET industry, and Feltex is expected to recover lost vehicle build by the end of the financial year. The three-year wage agreement in the automotive sector is expected to have a positive effect on stability in the industry.

Appreciation

KAP is now a well-established diversified emerging market industrial group. We remain grateful to our employees, shareholders, customers and suppliers for their continued support.

Interim dividend

In line with historical policy, the group has not declared an interim dividend.

On behalf of the Board.

J de V du Toit
Independent non-executive Chairman

KJ Grové
Chief Executive Officer

17 February 2014

KAP Industrial Holdings Limited

("KAP" or "the company" or "the group")

Non-executive directors: J de V du Toit (Chairman)*, MJ Jooste, AB la Grange, JB Magwaza*, IN Mkhari*, SH Müller*, SH Nomvete*, PK Quarmy*, DM van der Merwe, CJH van Niekerk

Executive directors: KJ Grové (CEO), JP Haveman (CFO)

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Company secretary: Steinhoff Africa Secretarial Services Proprietary Limited

Auditors: Deloitte & Touche

Sponsor: PSG Capital Proprietary Limited

*Independent non-executive directors

www.kap.co.za

HEADLINE EARNINGS PER SHARE FROM CONTINUING OPERATIONS

UP by **16%**

TO **16.0 CENTS**
(1H13: 13.8 CENTS)

CASH GENERATED BEFORE WORKING CAPITAL OF

R1 070 MILLION

NET INTEREST-BEARING DEBT REDUCED

by **R428 MILLION**

SINCE 1H13



LOGISTICS

Unitrans comprises a specialist supply chain business which designs, implements and manages supply chains and logistics for a wide range of customers on a long-term contractual basis in selected African countries. In addition, this segment includes the Unitrans Passenger division which provides transport to the public, tourist and personnel market segments throughout Southern Africa.

INTEGRATED TIMBER

PG Bison's operations comprise forestry plantations and various manufacturing and upgrading plants which manufacture and/or distribute sawn timber, poles, wood-based panel products, decorative laminates, resin and solid surfacing materials to a diverse customer base in Southern Africa.

MANUFACTURING

The Manufacturing division produces a number of key industrial products such as polyethylene terephthalate (PET) resin, vehicle components, footwear, and furniture and bedding-related products.

INDUSTRY IN MOTION™

Operational review

LOGISTICS

Unitrans Supply Chain Solutions (USCS)

The restructuring of the USCS division has largely been completed, with the structure now comprising two divisions rather than three. Substantial costs have been taken out of the operations.

- The Fuel, Agriculture and Mining division delivered a good performance for the six months, with African operations and the Fuel division again contributing to growth.
- The Freight and Logistics division experienced difficult trading conditions due to pressure on its South African customer base.

Unitrans Passenger

The Passenger division continued to deliver good returns and cash flows despite increases in the fuel price.

- The commuter operations continue to deliver good results, and management is focused on diversifying its customer base.
- The tourism division continues to deliver acceptable returns, as the tourism market is showing signs of recovery, due partially to the weakness of the currency.
- Intercity operations experienced a competitive environment, and the South African consumer remains under pressure.
- The Gautrain feeder and distribution services continued to produce results and growth in line with expectations and again exceeded required service levels.

INTEGRATED TIMBER

The new Medium Density Fibreboard plant was commissioned during the period, and is producing significantly improved quality board at improved margins.

In view of subdued market conditions, the division focused on cost containment, margin improvement and on exploring new markets to facilitate running its integrated value chain at capacity.

MANUFACTURING

The PET resin manufacturing operation (Hosaf) delivered another pleasing performance on the back of growing demand.

The Automotive components operation (Feltex) lost volumes due to lower vehicle build.

The Furniture and Bedding division showed a strong turnaround, but the smaller divisions continue to experience a difficult trading environment, with consumers experiencing significant pressure.

Financial statements

CONDENSED CONSOLIDATED INCOME STATEMENT

	Six months ended 31 Dec 2013 Unaudited Rm	Six months ended 31 Dec 2012 Unaudited ⁽¹⁾ Rm	% change	Year ended 30 June 2013 Audited ⁽¹⁾ Rm
Revenue ⁽¹⁾	7 832	7 208	9	14 320
Operating profit before depreciation, amortisation and capital items	1 097	1 026	7	2 075
Depreciation and amortisation	(387)	(376)		(751)
Operating profit before capital items	710	650	9	1 324
Capital items	(30)	42		20
Earnings before interest, dividend income, associate and joint venture earnings and taxation	680	692	(2)	1 344
Net finance charges	(174)	(187)		(368)
Share of profit of associate and joint-venture companies	4	5		14
Profit before taxation	510	510	–	990
Taxation	(141)	(139)		(273)
Profit for the period from continuing operations	369	371	(1)	717
Profit/(loss) for the period from discontinued operations	1	14		(6)
Profit for the period	370	385	(4)	711
Attributable to:				
Owners of the parent	354	370	(4)	677
Non-controlling interests	16	15		34
Profit for the period	370	385	(4)	711
From continuing and discontinued operations:				
Headline earnings per ordinary share (cents)	16.1	14.4	12	29.1
Fully diluted headline earnings per ordinary share (cents)	16.0	14.2	13	29.0
Basic earnings per ordinary share (cents)	15.1	15.8	(4)	28.9
Fully diluted earnings per ordinary share (cents)	15.0	15.6	(4)	28.8
From continuing operations:				
Headline earnings per ordinary share (cents)	16.0	13.8	16	28.5
Fully diluted headline earnings per ordinary share (cents)	15.9	13.7	16	28.4
Basic earnings per ordinary share (cents)	15.1	15.2	(1)	29.2
Fully diluted earnings per ordinary share (cents)	15.0	15.0	–	29.1
Number of ordinary shares in issue (m)	2 346	2 346	–	2 346
Weighted average number of ordinary shares in issue (m)	2 346	2 338	–	2 342
Earnings attributable to ordinary shareholders (Rm)	354	370	(4)	677
Headline earnings attributable to ordinary shareholders (Rm)	377	337	12	682

⁽¹⁾ A reallocation of R136 million was done in December 2012 between revenue and cost of sales in the Logistics segment to bring prior year disclosure in line with current year disclosure.

ADDITIONAL INFORMATION

	Six months ended 31 Dec 2013 Unaudited Rm	Six months ended 31 Dec 2012 Unaudited ⁽¹⁾ Rm	Year ended 30 June 2013 Audited ⁽¹⁾ Rm
Note 1: Capital items			
From continuing operations:			
(Loss)/profit on disposal of property, plant and equipment and investment property	(18)	34	49
(Loss)/profit on disposal of investments and impairments	(12)	8	(29)
	(30)	42	20
From discontinued operations:			
Profit on disposal of property, plant and equipment and investment property	–	1	1
Loss on disposal of investments and impairments	(3)	–	(25)
	(3)	1	(24)
	(33)	43	(4)
Note 2: Profit for the period from discontinued operations			
Revenue	218	538	1 026
Operating profit before depreciation, amortisation and capital items	2	26	27
Depreciation and amortisation	–	(5)	(6)
Operating profit before capital items	2	21	21
Capital items	(3)	1	(24)
Earnings before interest, dividend income, associate and joint venture earnings and taxation	(1)	22	(3)
Net finance charges	–	(2)	(3)
(Loss)/profit before taxation	(1)	20	(6)
Taxation	2	(6)	–
Profit/(loss) for the period from discontinued operations	1	14	(6)
Note 3: Headline earnings attributable to ordinary shareholders			
Earnings attributable to owners of the parent	354	370	677
Adjusted for:			
Capital items (note 1)	33	(43)	4
Taxation effects of capital items	(10)	10	1
	377	337	682

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 31 Dec 2013 Unaudited Rm	Six months ended 31 Dec 2012 Unaudited ⁽¹⁾ Rm	Year ended 30 June 2013 Audited ⁽¹⁾ Rm
Profit for the period	370	385	711
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign subsidiaries	(3)	(4)	62
Other comprehensive (loss)/income for the period	(3)	(4)	62
Total comprehensive income for the period	367	381	773
Total comprehensive income attributable to:			
Owners of the parent	352	366	739
Non-controlling interests	15	15	34
Total comprehensive income for the period	367	381	773

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 31 Dec 2013 Unaudited Rm	Six months ended 31 Dec 2012 Unaudited ⁽¹⁾ Rm	Year ended 30 June 2013 Audited ⁽¹⁾ Rm
Balance at the beginning of the period	6 301	5 683	5 683
Changes in ordinary stated share capital			
Net shares issued	–	2	1
Changes in reserves			
Total comprehensive income for the period attributable to owners of the parent	352	366	739
Dividends and capital distributions paid	(188)	(141)	(156)
Share-based payments	25	30	(25)
Other reserve movements	–	(8)	43
Changes in non-controlling interests			
Total comprehensive income for the period attributable to non-controlling interests	15	15	34
Dividends and capital distributions paid	(8)	(14)	(18)
Balance at the end of the period	6 497	5 933	6 301
Comprising:			
Ordinary stated share capital	6 970	6 970	6 970
Reverse acquisition reserve	(3 952)	(3 952)	(3 952)
Distributable reserves	3 269	2 760	3 105
Share-based payment reserve	49	86	24
Other reserves	19	(51)	19
Non-controlling interests	142	120	135
	6 497	5 933	6 301

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 Dec 2013 Unaudited Rm	31 Dec 2012 Unaudited ⁽¹⁾ Rm	30 June 2013 Audited ⁽¹⁾ Rm
ASSETS			
Non-current assets			
Goodwill and intangible assets	1 302	1 332	1 311
Property, plant and equipment, investment properties	6 496	6 269	6 394
Consumable biological assets	1 811	1 706	1 761
Investments in associate and joint-venture companies	146	114	138
Investments and loans	33	30	25
Deferred taxation assets	66	66	68
	9 854	9 517	9 697
Current assets			
Inventories	1 490	1 443	1 382
Accounts receivable, short-term loans and other current assets	2 593	2 642	2 370
Cash and cash equivalents	1 296	1 084	1 320
Assets classified as held for sale	–	–	351
	5 379	5 169	5 423
Total assets	15 233	14 686	15 120
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary stated share capital	6 970	6 970	6 970
Reserves	(615)	(1 157)	(804)
	6 355	5 813	6 166
Non-controlling interests	142	120	135
Total equity	6 497	5 933	6 301
Non-current liabilities			
Interest-bearing long-term liabilities – external	913	618	948
Interest-bearing long-term liabilities – shareholder	1 494	3 275	2 971
Deferred taxation liabilities	923	769	852
Other long-term liabilities and provisions	70	53	77
	3 400	4 715	4 848
Current liabilities			
Accounts payable, provisions and other current liabilities	3 043	3 015	3 413
Interest-bearing short-term liabilities, bank overdrafts and short-term facilities – external	1 947	804	221
Interest-bearing short-term liabilities and short-term facilities – shareholder	346	219	270
Liabilities classified as held for sale	–	–	67
	5 336	4 038	3 971
Total equity and liabilities	15 233	14 686	15 120
Net asset value per ordinary share (cents)	271	248	263
Net interest-bearing debt to equity (%)	54%	66%	50%

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 31 Dec 2013 Unaudited Rm	Six months ended 31 Dec 2012 Unaudited ⁽¹⁾ Rm	Year ended 30 June 2013 Audited ⁽¹⁾ Rm
Cash generated before working capital changes	1 070	989	2 021
Increase in inventories	(113)	(84)	(137)
Increase in receivables	(209)	(177)	(62)
(Decrease)/increase in payables	(380)	(83)	427
Changes in working capital	(702)	(344)	228
Cash generated from operations	368	645	2 249
Dividends paid	(196)	(154)	(158)
Net finance costs	(174)	(189)	(372)
Taxation paid	(61)	(67)	(132)
Net cash (outflow)/inflow from operating activities	(63)	235	1 587
Additions to property, plant and equipment – expansion	(197)	(277)	(599)
Additions to property, plant and equipment – replacement, net of proceeds and government grants received	(316)	(194)	(448)
Other investing activities	256	(42)	(114)
Net cash outflow from investing activities	(257)	(513)	(1 161)
Net cash inflow/(outflow) from financing activities	294	34	(476)
Net decrease in cash and cash equivalents	(26)	(244)	(50)
Effects of exchange rate changes on cash and cash equivalents	2	(2)	40
Cash and cash equivalents at the beginning of the period	1 320	1 330	1 330
Cash and cash equivalents at the end of the period	1 296	1 084	1 320

FAIR VALUES OF FINANCIAL INSTRUMENTS

	Fair value as at 31 Dec 2013 Rm	Fair value as at 31 Dec 2012 Rm	Fair value as at 30 June 2013 Rm	Fair value hierarchy
Derivative financial assets	33	4	52	Level 2
Derivative financial liabilities	–	(1)	–	Level 2

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

SEGMENTAL ANALYSIS

	Six months ended 31 Dec 2013 Unaudited Rm	Six months ended 31 Dec 2012 Unaudited ⁽¹⁾ Rm	% change	Year ended 30 June 2013 Audited ⁽¹⁾ Rm
Revenue from continuing operations				
Logistics ⁽¹⁾	3 916	3 535	11	7 042
Integrated Timber	1 231	1 177	5	2 392
Manufacturing	2 799	2 558	9	5 036
	7 946	7 270	9	14 470
Inter-segment revenue eliminations	(114)	(62)		(150)
	7 832	7 208	9	14 320
Operating profit before capital items from continuing operations				
Logistics	392	354	11	686
Integrated Timber	172	154	12	347
Manufacturing	146	142	3	291
	710	650	9	1 324

⁽¹⁾ A reallocation of R136 million was done in December 2012 between revenue and cost of sales in the Logistics segment to bring prior year disclosure in line with current year disclosure.

RECONCILIATION OF TOTAL ASSETS PER STATEMENT OF FINANCIAL POSITION TO TOTAL ASSETS PER SEGMENTAL ANALYSIS

	31 Dec 2013 Unaudited Rm	31 Dec 2012 Unaudited ⁽¹⁾ Rm	30 June 2013 Audited ⁽¹⁾ Rm
Total assets per statement of financial position	15 233	14 686	15 120
Less: Cash and cash equivalents	(1 296)	(1 084)	(1 320)
Less: Investments in associate and joint-venture companies	(146)	(114)	(138)
Less: Interest-bearing long-term loans receivable	(33)	(30)	(30)
Less: Interest-bearing short-term loans receivable	(5)	–	–
Less: Related party receivables	(49)	(71)	(77)
Total assets per segmental analysis	13 704	13 387	13 555

GEOGRAPHICAL INFORMATION

	Six months ended 31 Dec 2013 Unaudited Rm	Six months ended 31 Dec 2012 Unaudited ⁽¹⁾ Rm	Year ended 30 June 2013 Audited ⁽¹⁾ Rm
Revenue			
Southern Africa	7 832	7 208	14 320
Non-current assets			
Southern Africa	9 854	9 517	9 697

⁽¹⁾ Prior period disclosure has been restated to account for the adoption of new and revised accounting standards as well as re-presented to reflect discontinued operations.

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance

These condensed interim financial statements have been prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the listings requirements of the JSE Limited, the information as required by IAS 34: Interim Financial Reporting and the requirements of the South African Companies Act 71 of 2008 as amended.

2. Basis of preparation

The condensed interim financial statements are prepared in millions of South African Rands (Rm) on the historical cost basis, except for certain assets and liabilities which are carried at amortised cost, and derivative financial instruments and biological assets which are stated at their fair values. The preparation of the group's condensed consolidated financial results for the six months ended 31 December 2013 was supervised by John Haveman, the group's chief financial officer.

3. Changes to comparative numbers

Prior period (December 2012 and June 2013) disclosure has been restated to account for the adoption of new and revised accounting standards, in particular the required equity accounting of joint ventures. In addition, the December 2012 income statement was re-presented to reflect the discontinued Food operations, which were disposed of during the current period.

4. Financial statements

These results have not been reviewed or reported on by the group's auditors. The results were approved by the board of directors on 17 February 2014.

5. Changes in accounting policies

The accounting policies adopted in the preparation of the condensed interim financial information are consistent with those of the annual financial statements for the year ended 30 June 2013, except for the adoption of the following standards during the period:

IFRS 10 - Consolidated Financial Statements,

IFRS 11 - Joint Arrangements,

IFRS 12 - Disclosure of Interests in Other Entities,

IFRS 13 - Fair Value Measurement,

IAS 19 (revised) - Employee Benefits

IAS 27 - Consolidated and Separate Financial Statements,

IAS 28 - Investment in Associates and Joint Ventures,

Only IFRS 11 and IAS 28 had an effect on the group's results and required the restatement of prior periods, but the restatement is immaterial and therefore no separate disclosure of the restatement is required.

6. Post-balance sheet events

No significant events have occurred in the period between the end of the period under review and the date of this report.

7. Changes to the board

There were no changes to the board of directors during the period under review.

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