

UNAUDITED INTERIM RESULTS

For the six months ended 31 March 2018

REUNERT

REUNERT LIMITED

AGENDA

01 Salient features

02 Financial performance

03 Strategy

04 Segmental performance

05 Business outlook and prospects

SALIENT FEATURES

Challenging external environment negatively impacted two segments

- ▶ Applied Electronics and Electrical Engineering segments impacted
- ▶ Rapid appreciation of ZAR against US\$
 - ▶ Negative impact on 30% of non-ZAR revenue
- ▶ Financial constraints of SOEs and key municipalities
 - ▶ Material reduction in orders
- ▶ Country liquidity constraints in Zambia

Strategy execution yields new acquisitions

- ▶ Good progress in ICT segment strategy execution
 - ▶ Complementary revenue streams gaining traction
 - ▶ SkyWire providing national broadband connectivity
- ▶ Other acquisition concluded
 - ▶ Dopptech providing advanced fuze technology

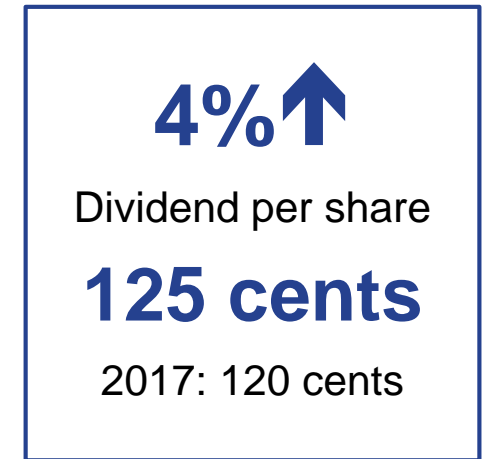
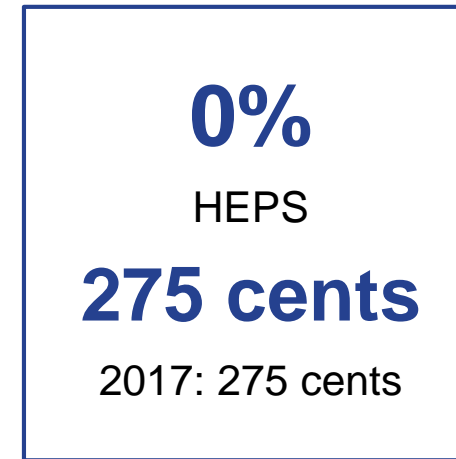
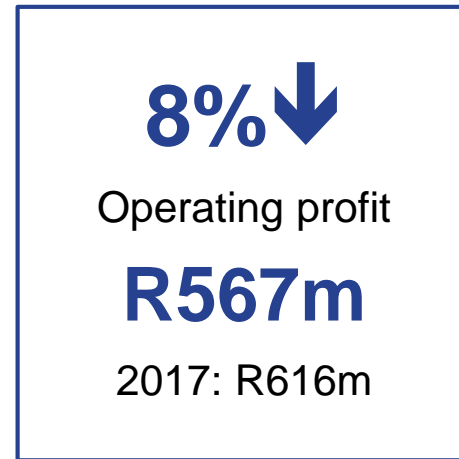
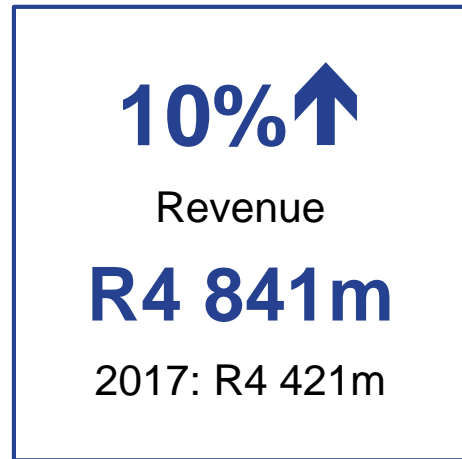
Improved cash returns for shareholders

- ▶ Share buyback programme:
 - ▶ 1,2 million shares acquired at R85,3 million
- ▶ Dividend up 4% to 125 cents
 - ▶ Reflecting stronger expectations for H2
 - ▶ Reunert remains well positioned for improved South African economic growth

EXTERNAL ENVIRONMENT

	RATE OF EXCHANGE	ZAMBIAN LIQUIDITY	CUSTOMER CONSTRAINTS
EVENTS	<ul style="list-style-type: none"> ▶ 9,9% stronger ZAR:US\$ ▶ Reduced earnings from foreign subsidiaries on translation ▶ Lower export margins on stronger sales ▶ Losses on foreign debtor and cash balances ▶ Work-in-progress losses on copper 	<ul style="list-style-type: none"> ▶ Increased country liquidity challenges impacting on Zesco and ZRA 	<ul style="list-style-type: none"> ▶ Fiscal constraints within SOEs, including Eskom and Denel, and key municipalities <ul style="list-style-type: none"> ▶ Materially lower order placement ▶ Telkom's destocking resulted in low fibre and copper cable orders
IMPACTS	<ul style="list-style-type: none"> ▶ Insufficient time to adjust cost base during six month period ▶ Margin degradation in AE and EE ▶ R61m operating profit impact on group results 	<ul style="list-style-type: none"> ▶ Zamefa's funding limits reached ▶ Scaled backed production to prioritise cash flow 	<ul style="list-style-type: none"> ▶ Under utilisation of factory capacity ▶ African Cables change in product mix to offset reduced orders, resulted in lower margins ▶ Telecom Cables JV generated an operating loss
OUTCOME	<div style="border: 1px solid black; padding: 10px; text-align: center;"> Electrical Engineering's operating profit 33% down </div>	<div style="border: 1px solid black; padding: 10px; text-align: center;"> Applied Electronics' operating profit flat despite revenue being 25% up </div>	

FINANCIAL PERFORMANCE



SIX MONTHS ENDED 31 MARCH

		1H2018	1H2017	Change %
Revenue	Rm	4 841	4 421	10
Operating profit	Rm	567	616	(8)
Profit for the period attributable to Reunert shareholders	Rm	445	452	(2)
HEPS	Cents	275	275	0



FINANCIAL PERFORMANCE

Nick Thomson

GROUP INCOME STATEMENT

	1H2018 Rm	1H2017 Rm	Change %
Revenue	4 841	4 421	10
EBITDA	636	681	(7)
Depreciation & amortisation	(69)	(65)	6
Operating profit before interest	567	616	(8)
Net interest income	8	44	(82)
Profit before empowerment transactions	575	660	(13)
Empowerment transactions	(2)	(20)	90
Tax	(119)	(188)	37
Profit after tax	454	452	0
Share of JV profit	(6)	17	
Profit for the period	448	469	(4)
Minorities	(3)	(17)	(82)
Profit for the period attributable to RLO	445	452	(2)
Headline Earnings Adjustment	0	(2)	
Headline Earnings	445	450	(1)
Normalised Headline Earnings Adjustment	2	29	(93)
Normalised Headline Earnings	447	479	(7)
EPS (Cents)	275	276	(0)
HEPS (Cents)	275	275	0
NHEPS (Cents)	276	292	(5)

Net interest lower due to

- ▶ Acquisitions: R468m
- ▶ Working capital investment: R439m
- ▶ Share buyback programme: R176m
- ▶ Loan to Zamefa R262m
 - interest reversed on consolidation

Tax

- ▶ Effective rate of taxation of 21% due to release of R40m provision on the successful outcome of NSN tax appeal

Share of JV

- ▶ Impact of reduced Telkom demand

Minorities

- ▶ Lower due to reduced profitability mainly at Prodoc and Zamefa

SUMMARISED FINANCIAL POSITION

	March 2018 Rm	March 2017 Rm	Sept 2017 Rm
PPE, investment properties and intangible assets	1 246	1 066	1 095
Goodwill	1 088	925	921
Other long term assets	2 176	1 879	2 001
Non-current assets	4 510	3 870	4 017
Inventory	1 372	1 430	1 439
Receivables	3 045	2 677	2 981
Cash and cash equivalents	1 055	1 832	1 652
Current assets	5 472	5 939	6 072
Total assets	9 982	9 809	10 089
Equity	6 993	6 956	7 243
Deferred taxation	112	96	112
Long-term borrowings and liabilities	194	42	194
Non-current liabilities	306	138	306
Payables	2 121	2 113	2 332
Current portion of long-term borrowings	11	203	11
Bank overdraft	551	399	197
Current liabilities	2 683	2 715	2 540
Total equity and liabilities	9 982	9 809	10 089

- ▶ Non-current assets higher due to impact of acquisitions and increase in the Rental and Finance Lease receivables in Quince

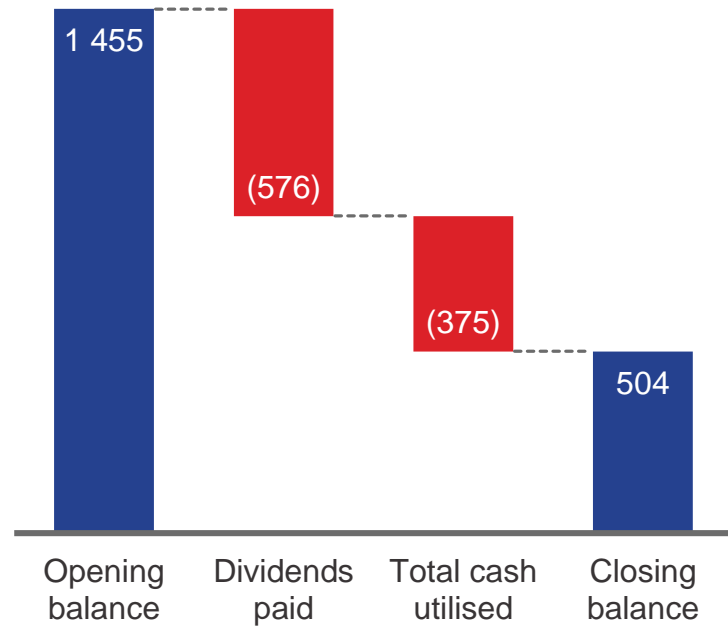
	SkyWire Rm	Dopptech Rm
Goodwill	146	37
Intangibles	113	-
PPE	69	1
Stock	2	1
Deferred tax	(32)	1
	298	40
Cash paid	205	20
Borrowings	-	2
Contingent purchase consid.	93	18
	298	40

- ▶ Increase in bank overdraft and short-term loans primarily due to purchase of SkyWire from short-term borrowings (R205m)

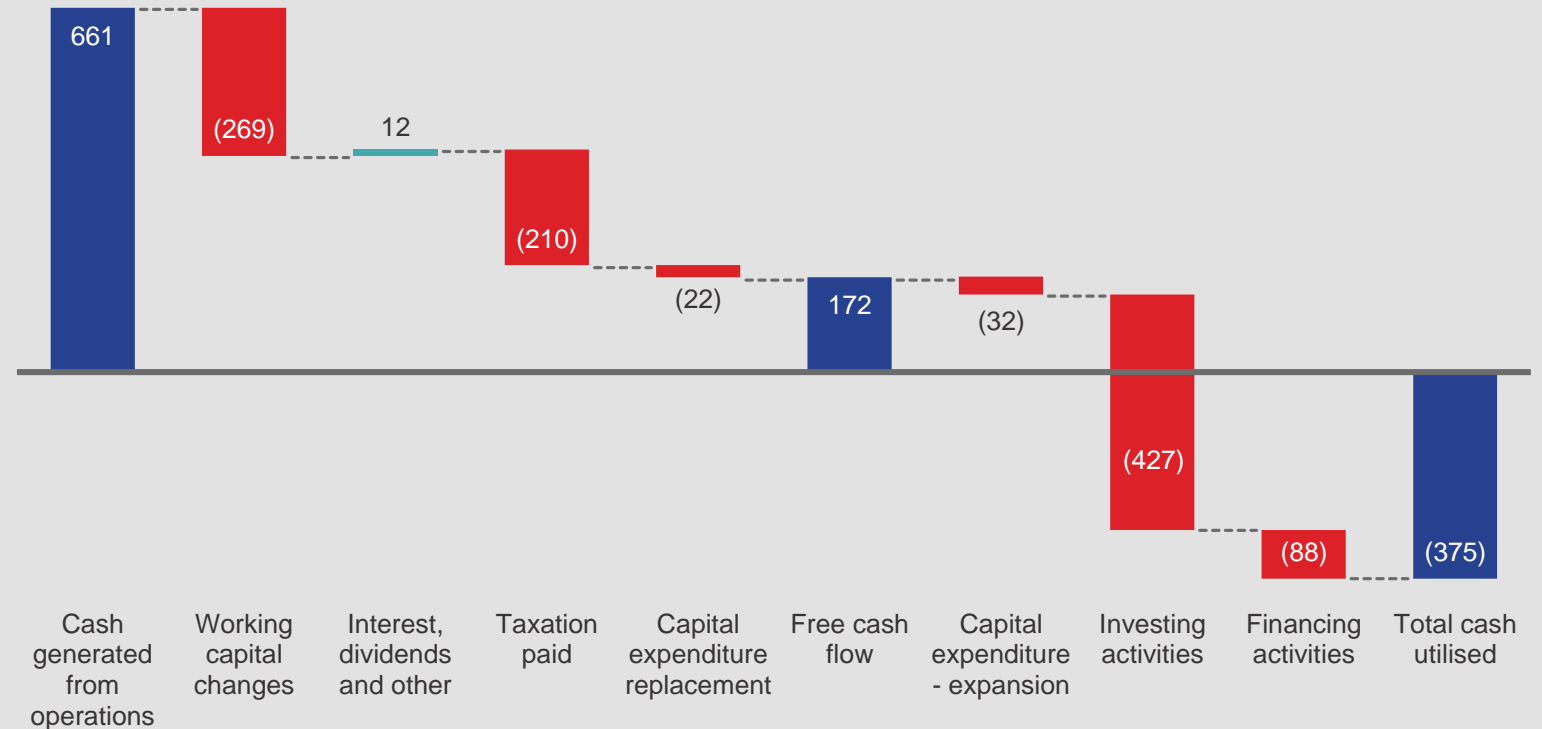
CASH FLOW

AT 31 MARCH 2018

MOVEMENT IN CASH FLOW (Rm)



	OB	CB
Cash resources	1 522	1 055
Long dated (>3 months)	130	-
	1 652	1 055
Bank overdraft	(197)	(551)
Total	1 455	504



▶ Investing activities

- ▶ Mainly related to movement in rentals and finance lease receivables (R195m) and acquisitions (R227m)

▶ Financing activities

- ▶ Mainly consists of repayment of external loans (R4m) and share buyback programme (R85m)

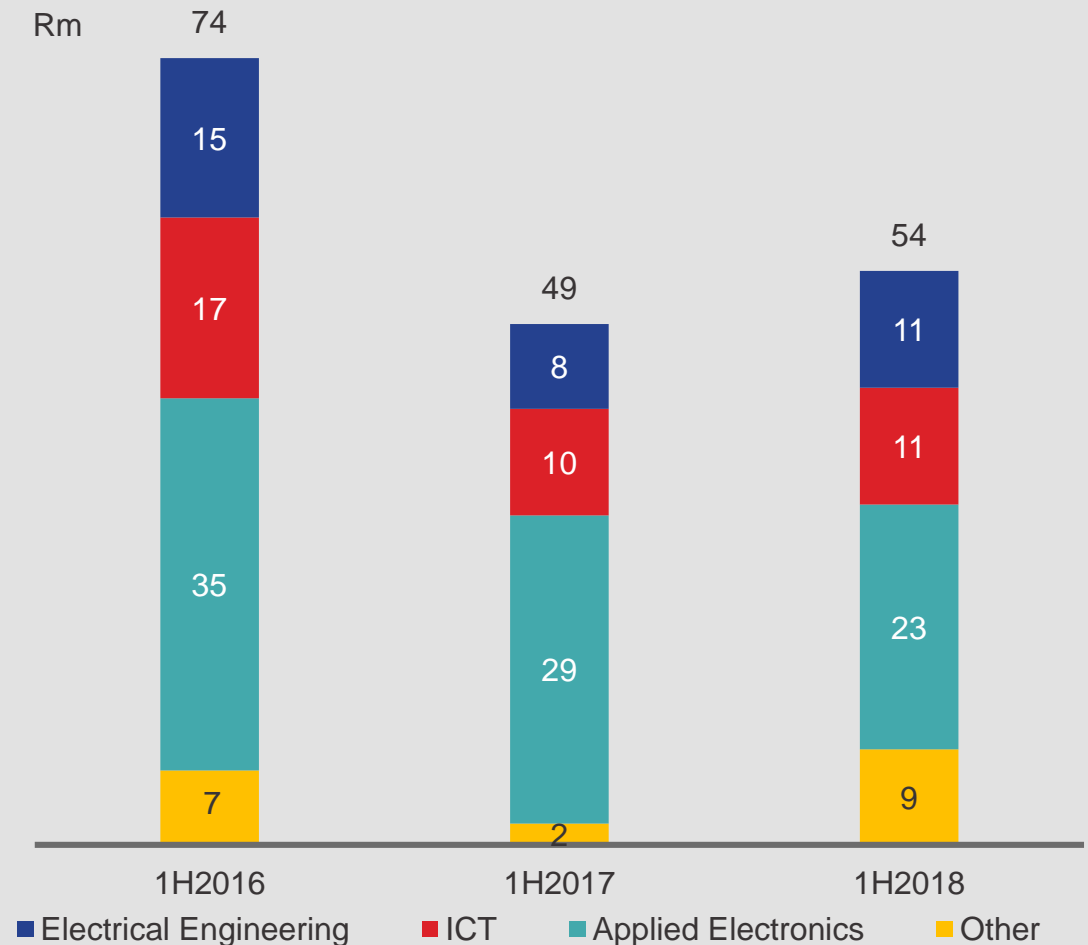
▶ Seasonality and ongoing working capital actions will lead to improved cash generation in H2

WORKING CAPITAL

WORKING CAPITAL MOVEMENT (Rm)	1H2018	FY2017
Decrease/(increase) in inventory	60	(144)
Decrease/(increase) in receivables	(98)	(284)
(Decrease)/increase in payables	(269)	258
(Decrease)/increase in advance payments	38	(55)
Net (outflow)/inflow	(269)	(225)

- ▶ Inventory decreased mainly due to
 - ▶ Focused programme of stock reduction in EE and ICT
 - ▶ Offset by build of raw material in AE for fuze orders and solar installations
- ▶ Accounts receivable increases are mainly due to
 - ▶ Increase in EE trade debtors due to liquidity issues in Zambia
 - ▶ 10% growth in revenue
- ▶ Accounts payable decreases are mainly due to
 - ▶ Reduction of activity and reduction of payment terms in Zambia from copper suppliers

CAPITAL EXPENDITURE



STRATEGY

Alan Dickson



STRATEGY | SKYWIRE ACQUISITION



ICT SEGMENT

- ▶ The segment's customer base creates a strong opportunity for both scale and new revenue streams
 - ▶ 55 000 customers with only a 20% cross sell
- ▶ Successful strategy execution is resulting in financial performance gaining momentum

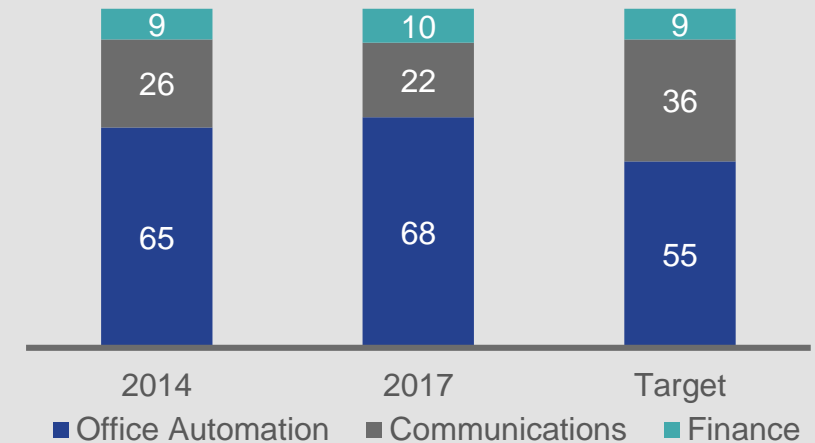
COMMUNICATIONS

- ▶ The cluster now provides vertically integrated communications and connectivity solutions to the ICT segment
 - ▶ **Voice:** ECN is the largest independent VoIP provider in the country. The customer base grew by 500 customers per month
 - ▶ **Data/Internet:** The ECN network upgrade now allows for the provision of broadband internet connectivity over fibre, wireless and copper
 - ▶ **Broadband connectivity:** SkyWire acquisition now provides a national footprint with an excellent overlap with our 300 dealers and 37 franchise partners
 - ▶ **Microwave licensed and unlicensed spectrum:** provides a backhaul for integrated voice and data offerings

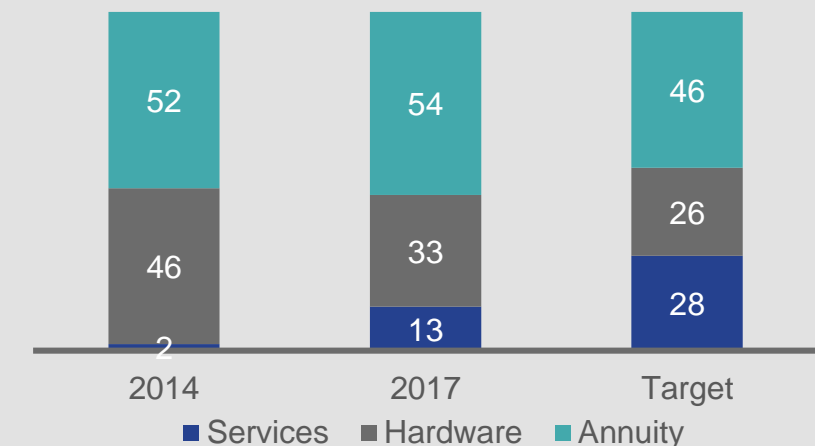
OFFICE AUTOMATION

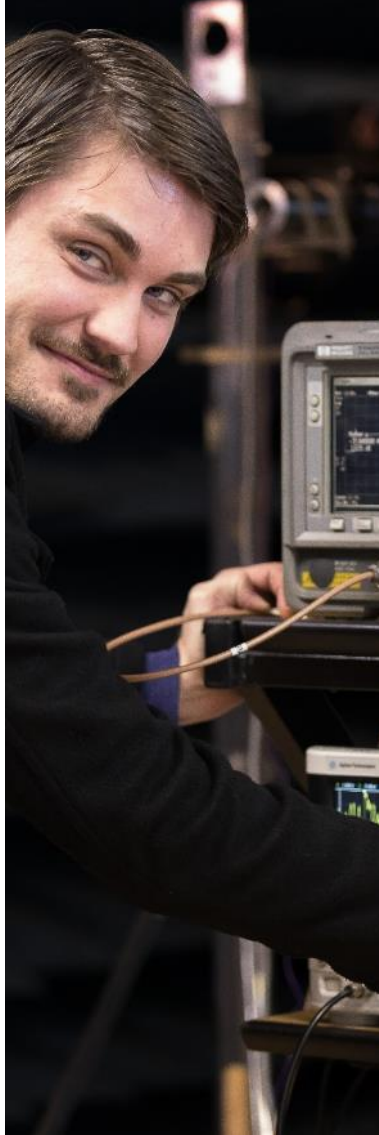
- ▶ Material improvement in evolving to a total office provider
 - ▶ New annuity revenue streams launched over the last 24 months now comprise 13% of Office Automation revenue

ICT SEGMENT REVENUE SPLIT (%)



OFFICE AUTOMATION REVENUE COMPOSITION (%)

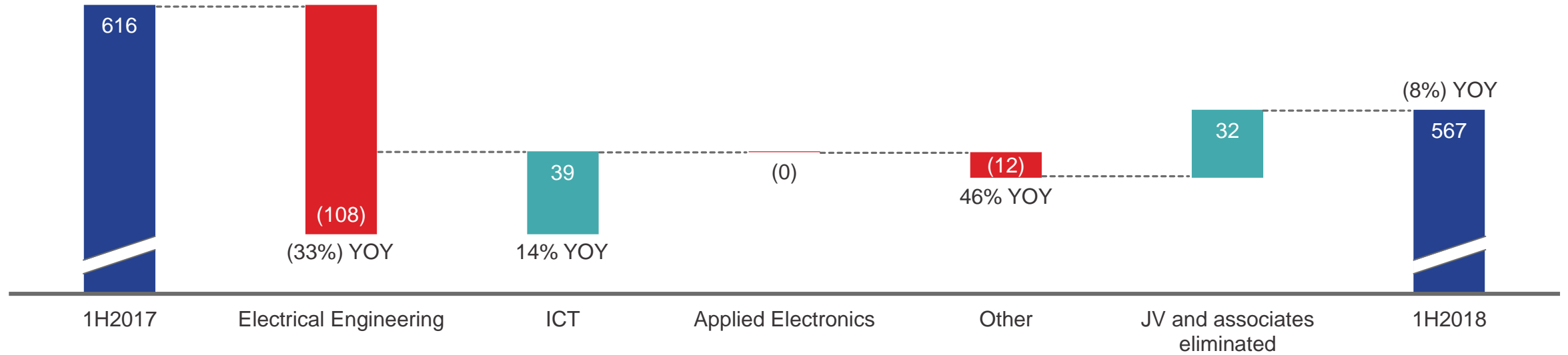




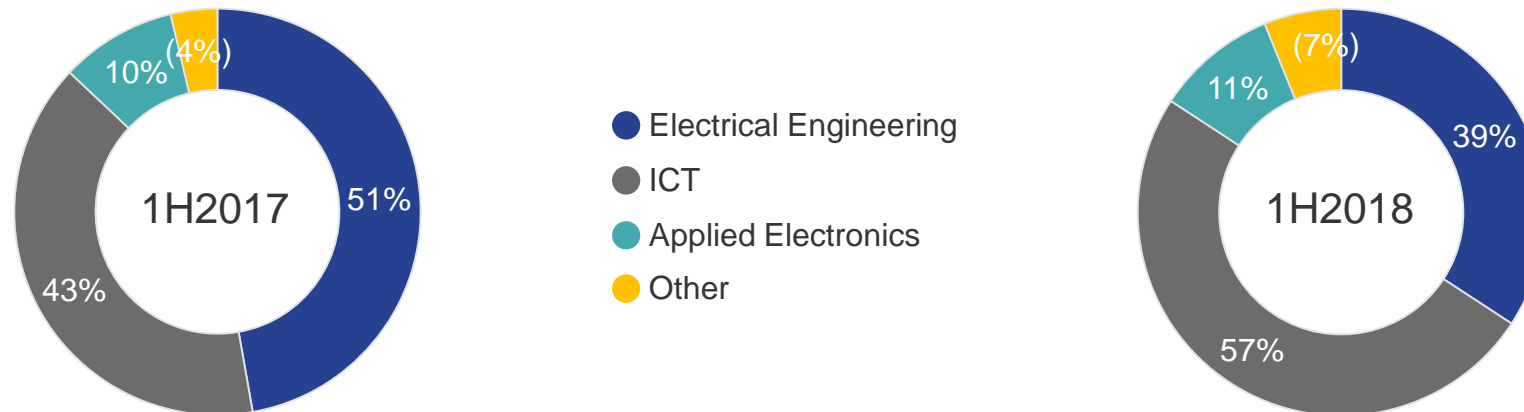
SEGMENTAL PERFORMANCE

OPERATING PROFIT ANALYSIS

MOVEMENT IN OPERATING PROFIT (Rm)



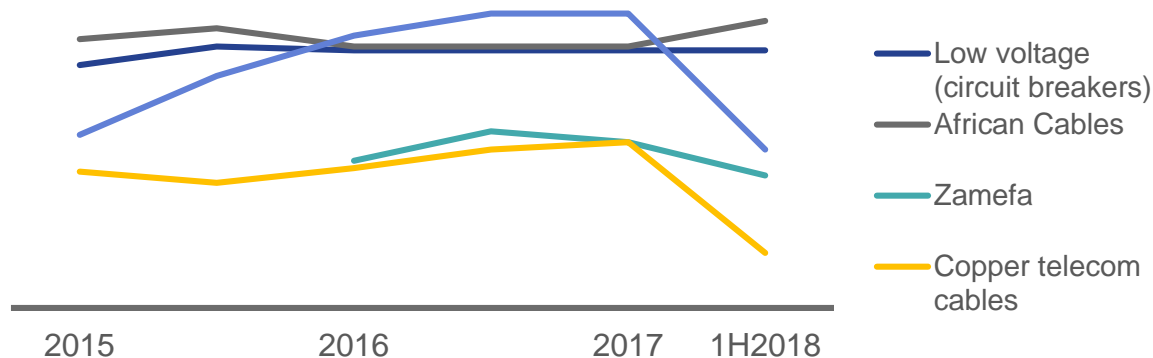
OPERATING PROFIT SEGMENTAL CONTRIBUTION (%)



ELECTRICAL ENGINEERING

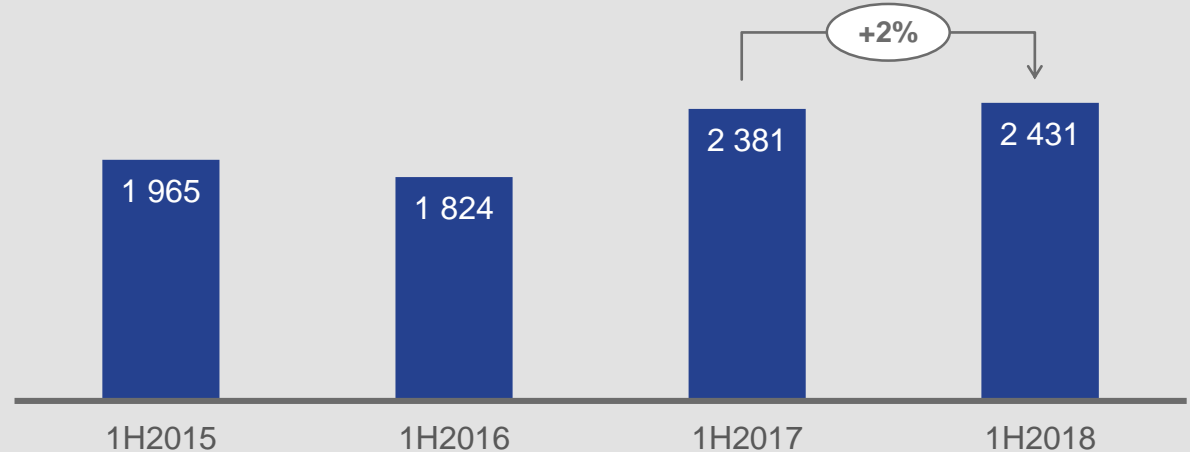
- ▶ Increased revenue as a result of pass through of higher copper prices
- ▶ Lower margins driven by
 - ▶ Under utilisation of manufacturing plants, specifically at Zamefa and Telecom Cables
 - ▶ Change of customer mix
 - ▶ Lower gross profit margins due to standard contract pricing formulae
 - ▶ Strong Rand on good circuit breaker export volumes
- ▶ Recovery of local electrical infrastructure investment is critical for improved performance of the segment
- ▶ Material improvement in financial performance is expected if volumes return to traditional norms

% FACTORY CAPACITY UTILISATION

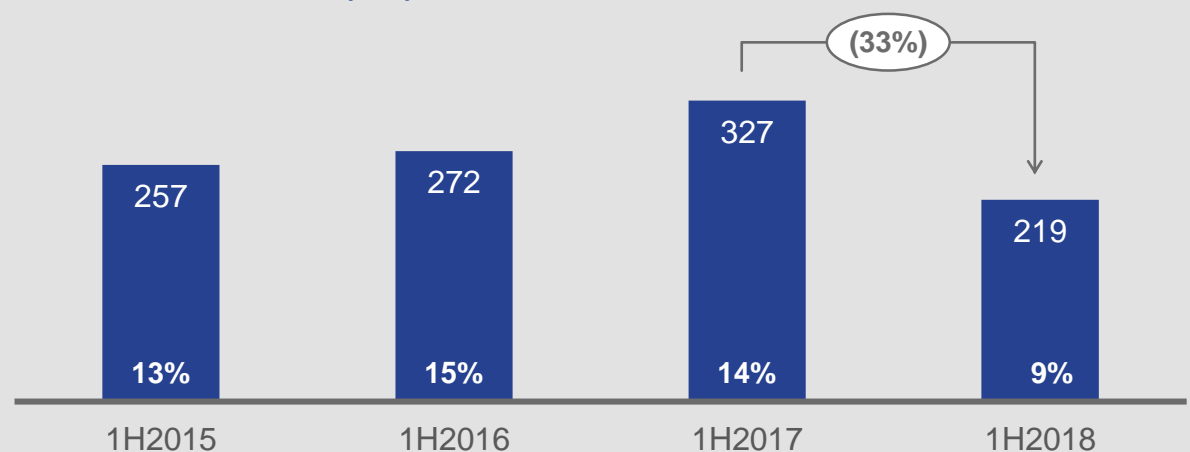


Reunert unaudited results for the six months ended 31 March 2018

REVENUE (Rm)



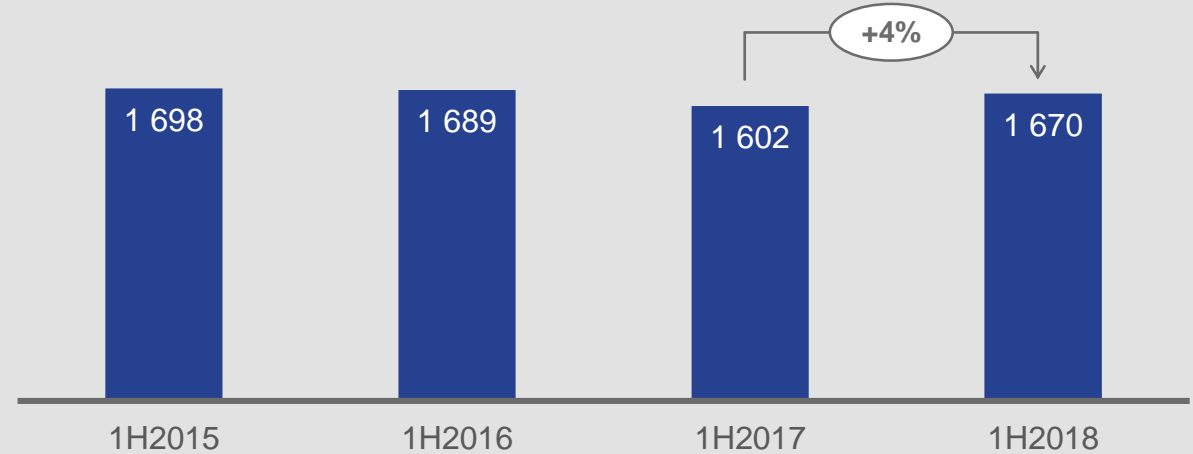
OPERATING PROFIT (Rm)



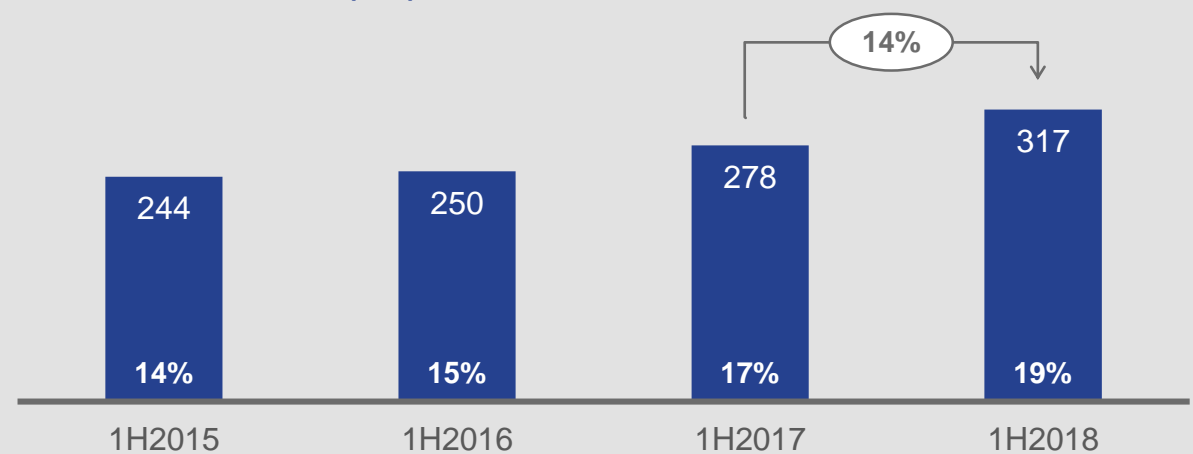
ICT

- ▶ Operating profit increased by 14%
- ▶ Increased volumes due to improved market share
 - ▶ 8% growth in units sold including higher capacity MFPs
 - ▶ Growth in number of voice customers
 - Lower average usage per customer
 - 3 000 new customers added YOY
 - ▶ Good uptake on cloud PBX
 - Doubled during period to over 8 000 ports
- ▶ Improved margins
 - ▶ Stronger ZAR benefited office automation
- ▶ Quince finance book increased to R2,6 billion on the back of strong sales in the franchise channel
 - ▶ Quality of book remains excellent

REVENUE (Rm)



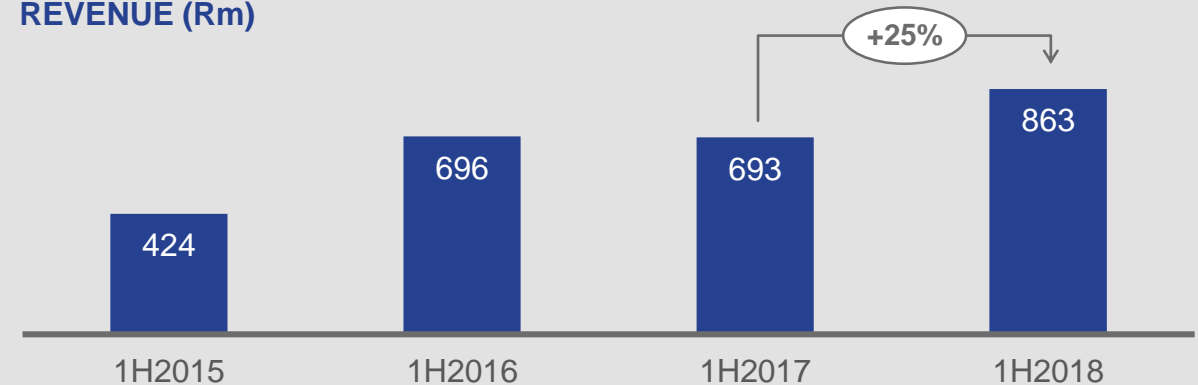
OPERATING PROFIT (Rm)



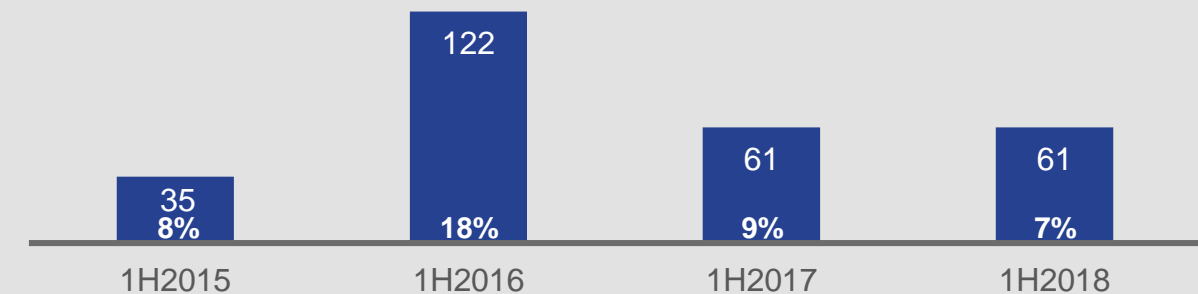
APPLIED ELECTRONICS

- ▶ **Strong revenue growth**
 - ▶ Fuchs and Reutech Communications had strong production output
 - ▶ Fuchs 1H2018 product mix biased towards lower margin products
 - ▶ Omnigo held back on local sales to SOEs and strong rand reduced planned growth, but sales still up on prior year
 - ▶ Improved radar defence sales
 - ▶ Planned export sales by Nanoteq to new territory delayed
 - ▶ Reduced demand for mining radars due to technical issues only resolved in late 1H2018
- ▶ **Segment's order books remain positive**
 - ▶ Reutech Solutions has secured the new local customer multi-year contract, albeit at lower margins
 - ▶ Good progress made on Reutech Communications production order from local customer
 - ▶ Fuchs has multi-year fuze orders at margins superior to 1H2018
- ▶ **Terra Firma servicing demand for corporate energy solutions**
 - ▶ Strong order receipt with significant project execution in 2H2018

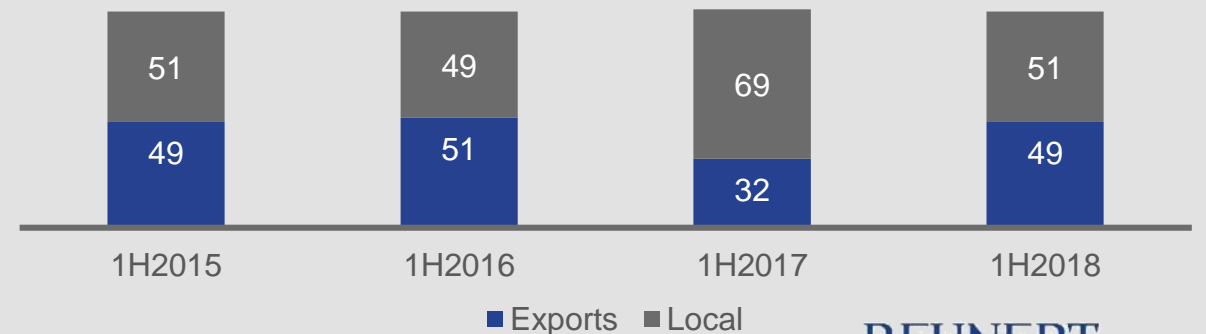
REVENUE (Rm)



OPERATING PROFIT (Rm)



REVENUE DISTRIBUTION (%)



■ Exports ■ Local

BUSINESS OUTLOOK AND PROSPECTS

IMPROVED OPERATIONAL PERFORMANCE EXPECTED IN 2H2018

ELECTRICAL ENGINEERING

- ▶ Improved product mix in power cable plants
- ▶ Telkom orders expected to resume, but at lower levels than FY2017
 - ▶ Right sizing operations for reduced offtake levels is nearing completion
- ▶ Improved Zambia liquidity would result in an improved performance from Zamefa from 4Q2018
- ▶ Cable factory capacity utilisation remains uncertain to year-end

ICT

- ▶ Continued growth expectations with cross-selling of products and services in ICT customer base
- ▶ SkyWire gaining access to franchise channel across South Africa and resultant financial impact over the next six months

APPLIED ELECTRONICS

- ▶ Full export order books
 - ▶ Radar
 - ▶ Fuzes (multi-year)
 - ▶ Communications (multi-year)
- ▶ Improved mix
 - ▶ Favourable fuze product mix
 - ▶ Communications increased export sales in 2H2018
- ▶ Terra Firma pipeline converting into operating profit

REUNERT WELL POSITIONED FOR SOUTH AFRICAN ECONOMIC RECOVERY

- ▶ Business risk remains to Reunert in terms of the Rand's strength, exchange rate volatility and from the fiscal and organisational capacity of key state and municipal customers to place orders at a normal rate
- ▶ Change in South African political administration and subsequent changes at key SOEs should result in improved economic growth rates and accelerate infrastructure projects
- ▶ Reunert is well positioned to capitalise on these expected improvements in South Africa