



REUNERT

REUNERT LIMITED

UNAUDITED INTERIM
FINANCIAL STATEMENTS

2019

AND CASH DIVIDEND
DECLARATION FOR
THE SIX MONTHS ENDED
31 MARCH 2019

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GROUP PROFILE

Reunert comprises a diversified portfolio of businesses in the fields of electrical engineering, information communication technologies (ICT), and applied electronics. The group was established in 1888, by Theodore Reunert and Otto Lenz, and has contributed to the South African economy in numerous ways. Reunert was listed on the JSE in 1948 and is included in the industrial goods and services (electronic and electrical equipment) sector of the JSE. The group operates mainly in South Africa with minor operations in Australia, Lesotho, Mauritius, the USA, Zambia and Zimbabwe. Reunert's offices are located in Woodmead, Johannesburg, South Africa.

COMMENTARY

OVERVIEW

Revenue increased by 9%, from R4 841 million to R5 288 million, and operating profit increased by 8% from R567 million to R615 million. This was achieved despite a weak economic environment in South Africa and continued subdued demand specifically in the electrical engineering segment. Profit after tax (PAT) declined by 16%, from R448 million to R377 million. The decline in PAT was impacted by two non-recurring items:

- i) During the prior period, the group successfully defended an action brought by the South African Revenue Service which allowed the group to release a R42 million tax provision resulting in an abnormally low tax charge for that period of 21%; and
- ii) In March 2019, the group disposed of its controlling shareholding in Prodoc Svenska AB (Prodoc), the group's Swedish office automation business. The rationale for this disposal was the consistent low earnings from this business and the weakened strategic alignment of the business with the broader ICT segment strategy. This disposal realised a loss of R44 million.

Adjusting PAT* for the above non-recurring items, resulted in an increase of 4% in the adjusted PAT (refer to table below), which is a more appropriate reflection of the core performance of the group.

	6 Months to 31 March 2019	6 Months to 31 March 2018	% Change
PAT as reported	377	448	(16)
Less: impact of release of tax provision	–	(42)	9
Add: loss on disposal of Prodoc	44	–	10
Adjusted PAT*	421	406	4

FINANCIAL RESULTS

Financial performance group results and key earnings metrics	Units	6 Months to 31 March 2019	6 Months to 31 March 2018	% Change
Revenue	R million	5 288	4 841	9
Operating profit	R million	615	567	8
Operating margin	%	12	12	–
Profit for the period	R million	377	448	(16)
Basic earnings per share	Cents	227	275	(17)
Headline earnings per share	Cents	253	275	(8)
Normalised headline earnings per share	Cents	253	276	(8)

* This pro forma financial information has been prepared for illustrative purposes only in order to provide information on how the earnings adjustments highlighted have impacted on the financial results of the group. Because of its nature, this pro forma financial information may not be a fair reflection of the group's results of operations and is not intended to comply with the requirements of IFRS. The directors are responsible for compiling the pro forma financial information on the basis of the applicable criteria specified in the JSE Listings Requirements.

SEGMENTAL RESULTS

Electrical Engineering

Although depressed demand from key state institutions continued in the period under review, segment revenue increased by 14% from R2 431 million to R2 775 million with segment operating income improving by 3% from R219 million to R225 million.

CBI-Electric African Cables continues to contend with low demand from Eskom and some municipalities. To counter this, this business continues to actively pursue other segments of the cable market, although any such sales are generally at lower margins due to the type and length of cables produced.

The adverse liquidity environment in Zambia continued and limited progress was made in collecting overdue state debt by Zamefa, our Zambian power cable manufacturer. The business was managed to preserve cash by limiting manufacturing output to cash received. Positively, the draft legislation for the new general sales tax has been published and is expected to be promulgated this year which will result in the repeal of Value Added Tax (VAT). This should allow Zamefa to return to normal operating levels in 2020 as it should no longer be burdened by the slow settlement of VAT refunds arising on manufacturing inputs.

Subsequent to 31 March 2019, the rapid depreciation of the Zambian Kwacha against the United States Dollar (the currency in which the majority of Zamefa's liabilities are denominated), resulted in the technical insolvency of Zamefa. To remedy this, the group has subordinated its loan account of US\$20 million in favour of Zamefa's other creditors.

Orders for copper and fibre optic telecommunication cables partially recovered from the levels experienced in 2018, which together with reduction in the base cost at CBI-electricTelecom, a joint venture company, saw this business returning to profitability in the current reporting period.

Our circuit breaker business continued to make good progress in increasing export volumes to both Australia and the USA, thereby increasing factory throughput. The improved export performance resulted in the company improving their year-on-year performance, notwithstanding weak local market conditions.

Information Communication Technologies

This segment increased revenue by 3% from R1 670 million to R1 722 million and operating profit by 11% from R317 million to R351 million.

The Nashua Office Automation cluster continued to progress its strategy of evolving to a 'total workspace provider' with new services forming an increasingly important part of its revenue and profit mix. These revenues relieved some of the pressure on the lower sales of hardware units because of the prevailing economic conditions. Margins were maintained through a combination of increased service revenue and cost control resulting in a solid performance for this business.

Our voice over internet business, Electronic Communications Network, gained a record number of new customers, which largely offset the decline in usage per customer due to the economic environment and alternative technology offerings. To improve the operating efficiency of the business, we are migrating to a best-in-class industry standard software platform to manage the network.

SkyWire's integration into the ICT segment is complete. Connection rates are not yet at the required rate. However, the cash generation of the business remains in line with the investment case.

Applied Electronics

Revenue in this segment increased by 16% from R863 million to R999 million with operating profit increasing by 39% from R61 million to R85 million.

The increase in both revenue and operating profit was mainly as a result of increased exports and the recovery in our mining radar business.

The Communications business' revenue and operating profit increased substantially over the prior period. The business continued to achieve higher throughput and improved its operational efficiencies by optimising its production lines. The second tranche of the contract for the renewal of the South African National Defence Force's tactical communication system is currently being executed and the business was successful in securing and delivering export orders for its new range of digital tactical radios.

The fuze factory's exports increased in the period under review, although the mix of fuzes sold had a lower margin than in the prior year.

Our solar energy business continued to accelerate growth as the volume of contracts secured increased. Margins have come under some pressure as market competition increases.

The rest of the business units in the Applied Electronics segment did not materially contribute to the profit, primarily due to timing of their export contracts.

GROUP CASH RESOURCES

The group continued to generate positive operating cash flow and ended the period with R426 million in net liquid resources (30 September 2018: R572 million) after payment of the final dividend of 2018 amounting to R606 million.

NEW ACCOUNTING STANDARDS

The group adopted IFRS:15 Revenue from Contracts with Customers and IFRS: 9 Financial Instruments with effect from 1 October 2018. The new standards did not materially impact the results for the period under review and the transitional adjustments are set out in Note 15: changes in accounting policy.

DIRECTORATE

There were no changes to the Board during the period under review.

PROSPECTS*

The results from the national election and the anticipated improvements that are likely to ensue, should be positive for business confidence, foreign direct and local investment and improved management of state owned entities and municipalities. All of these factors are positive for the Reunert investment case and should result in improved economic activity as the changes are implemented.

The exact timing of this improvement in electrical infrastructure and investment remains uncertain and accordingly, the profitability of the Electrical Engineering segment in the second half of the financial year is expected to remain at current levels.

The ICT segment is expected to continue positively for the balance of the financial year with stronger business confidence, post national elections, hopefully creating an improved environment for asset investment by its customers.

The Applied Electronics segment commences the second half of the financial year with strong export orders and our solar energy business should continue its growth, which should result in a strong segment performance in the second half of the financial year.

Despite the above, the group is unlikely to match the performance of the second half of the prior financial year. However with our strong balance sheet and operational focus, we remain well positioned to benefit from any improvement in local economic conditions.

** Any forecast financial information is the responsibility of the directors and has not been reviewed or reported on by the group's auditors.*

CASH DIVIDEND

Notice is hereby given that a gross interim cash dividend No 186 of 130,0 cents per ordinary share (2018: 125,0 cents per share) has been declared by the directors for the six months ended 31 March 2019.

The dividend has been declared from retained earnings.

A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt from, or who do not qualify for a reduced rate of withholding tax. Accordingly, for those shareholders subject to withholding tax, the net dividend amounts to 104,0 cents per share (2018: 100,0 cents per share).

The issued share capital at the declaration date is 184 659 796 ordinary shares.

In compliance with the requirements of Strate Proprietary Limited and the Listings Requirements of the JSE Limited, the following dates are applicable:

Last date to trade (cum dividend)	Tuesday, 18 June 2019
First date of trading (ex dividend)	Wednesday, 19 June 2019
Record date	Friday, 21 June 2019
Payment date	Monday, 24 June 2019

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 19 June 2019 and Friday, 21 June 2019, both days inclusive.

On behalf of the board



Trevor Munday

Chairman



Alan Dickson

Chief Executive Officer



Nick Thomson

Chief Financial Officer

Sandton, 24 May 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 31 MARCH 2019

R million	Notes	Six months ended 31 March			
		2019 (Unaudited)	2018 (Unaudited)	% change	Year ended 30 September 2018 (Audited)
Revenue	2	5 288	4 841	9	10 492
EBITDA*		698	636	10	1 699
Depreciation and amortisation		(83)	(69)	20	(157)
Operating profit	3	615	567	8	1 542
Net interest (expense)/income and dividends	4	(4)	8	–	11
Loss on disposal of subsidiary	11	(44)	–		–
Empowerment transactions	5	–	(2)		(42)
Share of joint ventures' and associate's profit/(loss)		5	(6)		(1)
Profit before taxation		572	567	1	1 510
Taxation		(195)	(119)	64	(358)
Profit for the period		377	448	(16)	1 152
Profit attributable to:					
Non-controlling interests		11	3	267	(6)
Equity holders of Reunert		366	445	(18)	1 158
Cents					
Basic earnings per share	6,7	227	275	(17)	717
Diluted earnings per share	6,7	223	270	(17)	705

* Earnings before net interest income and dividends; taxation; depreciation and amortisation; loss on disposal of subsidiary, empowerment transactions and share of joint ventures' and associate's profit/(loss).

Other measures of earnings per share

Cents	Notes	Six months ended 31 March			Year ended
		2019 (Unaudited)	2018 (Unaudited)	% change	30 September 2018 (Audited)
Headline earnings per share	6, 7	253	275	(8)	703
Diluted headline earnings per share	6, 7	248	270	(8)	691
Normalised headline earnings per share	6, 7	253	276	(8)	687
Diluted normalised headline earnings per share	6, 7	248	271	(8)	675
Interim/total cash dividend per share		130	125	4	493

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 MARCH 2019

R million	Six months ended 31 March		
	2019 (Unaudited)	2018 (Unaudited)	Year ended 30 September 2018 (Audited)
Profit for the period	377	448	1 152
Other comprehensive income, net of taxation:			
Items that may be reclassified subsequently to profit or loss	5	(62)	(65)
Gains/(losses) arising from translating the financial results of foreign subsidiaries	2	(40)	(23)
Translation gain/(loss) on net investment in subsidiary*	3	(22)	(42)
Total comprehensive income	382	386	1 087
Total comprehensive income attributable to:			
Non-controlling interests	11	(2)	(9)
> Share of profit for the period	11	3	(6)
> Share of other comprehensive income	–	(5)	(3)
Equity holders of Reunert	371	388	1 096
> Share of profit for the period	366	445	1 158
> Share of other comprehensive income	5	(57)	(62)

* Translation gain/(loss) arising on the loan component of the group's net investment in a foreign subsidiary.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

R million	Notes	Six months ended 31 March		
		2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
Non-current assets				
Property, plant and equipment, investment properties and intangible assets		1 270	1 246	1 297
Goodwill	8	991	1 088	1 053
Investments and loans		55	61	56
Investment in joint ventures and associate		169	153	158
Rental and finance lease receivables		1 995	1 851	1 990
Deferred taxation		137	111	151
		4 617	4 510	4 705
Current assets				
Inventory		1 567	1 372	1 461
Rental and finance lease receivables		854	773	821
Accounts receivable and taxation		2 401	2 256	2 694
Derivative assets		4	16	7
Cash and cash equivalents		894	1 055	765
		5 720	5 472	5 748
Total assets		10 337	9 982	10 453
Equity attributable to equity holders of Reunert		7 125	6 896	7 438
Non-controlling interests		75	97	88
Total equity		7 200	6 993	7 526
Non-current liabilities				
Deferred taxation		141	112	156
Put option liability	9	125	125	120
Long-term borrowings	10	66	69	82
Share based payment liability		11	–	23
		343	306	381
Current liabilities				
Accounts payable, provisions and taxation		2 314	2 095	2 270
Derivative liabilities		11	26	65
Bank overdrafts and short-term loans		468	551	193
Current portion of long-term borrowings	10	1	11	18
		2 794	2 683	2 546
Total equity and liabilities		10 337	9 982	10 453

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 MARCH 2019

R million	Six months ended 31 March		
	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
Share capital	375	365	374
Balance at the beginning of the period	374	359	359
Issue of shares	1	6	15
Share-based payment reserves	243	198	256
Balance at the beginning of the period	256	176	176
Equity-settled share-based payments	26	24	79
Shares acquired for incentive scheme	(74)	(2)	–
Tax impact of cost of incentive shares charged to equity	12	–	–
Transfer to deferred tax	(8)	–	–
Transfer from retained earnings	31	–	1
Equity transactions/put option with non-controlling shareholders	(110)	(118)	(108)
Balance at the beginning of the period	(108)	(116)	(116)
Acquisition of businesses	–	(2)	(3)
Partial disposal of subsidiaries	(2)	–	–
Transfer to retained earnings	–	–	11
Empowerment shares ¹	(276)	(276)	(276)
Treasury shares ²	(342)	(312)	(342)
Balance at the beginning of the period	(342)	(227)	(227)
Shares bought back during the period	–	(85)	(115)
Foreign currency translation reserves	(11)	(38)	(23)
Balance at the beginning of the period	(23)	(3)	(3)
Other comprehensive income	2	(35)	(20)
Recycled to the statement of profit or loss on disposal of foreign subsidiary	10	–	–
Translation loss on net investment in foreign subsidiary	(39)	(22)	(42)
Balance at the beginning of the period	(42)	–	–
Current period gain/(loss)	3	(22)	(42)
Retained earnings	7 285	7 099	7 599
Balance at the beginning of the period	7 599	7 225	7 225
IFRS 9 and IFRS 15 transition	(56)	–	–
Profit for the period attributable to equity holders of Reunert	366	445	1 158
Cash dividends declared and paid	(593)	(571)	(772)
Transfer to reserves	(31)	–	(12)
Equity attributable to equity holders of Reunert (carried forward)	7 125	6 896	7 438

Six months ended 31 March

R million	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
Equity attributable to equity holders of Reunert (brought forward)	7 125	6 896	7 438
Non-controlling interests	75	97	88
Balance at the beginning of the period	88	105	105
IFRS 9 and IFRS 15 transition	(9)	–	–
Share of total comprehensive income	11	(2)	(9)
Dividends declared and paid	(13)	(5)	(9)
Net changes in non-controlling interests	(2)	(1)	1
Total equity at end of the period	7 200	6 993	7 526

¹ This is the cost of Reunert Limited shares held by Bargenel Investments Proprietary Limited (Bargenel), a company sold by Reunert to its empowerment partner in 2007. Until the amount owing by the empowerment partner is repaid to Reunert, Bargenel is consolidated by the group as the significant risks and rewards of ownership of the equity have not passed to the empowerment partner.

² Reunert shares bought back in the market and held by a subsidiary: 4 997 698 (2018: 4 604 380) (September 2018: 4 997 698).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 MARCH 2019

R million	Notes	Six months ended 31 March		
		2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
EBITDA		698	636	1 699
Decrease/(Increase) in net working capital		93	(269)	(498)
Other net non-cash movements		55	25	(79)
Cash generated from operations		846	392	1 122
Net cash interest income and dividends		1	12	20
Taxation paid		(205)	(210)	(445)
Dividends paid (including to non-controlling interests)		(606)	(576)	(781)
Net inflow/(outflow) from operating activities		36	(382)	(84)
Net outflow from investing activities		(131)	(351)	(597)
Capital expenditure		(59)	(54)	(162)
Net inflow arising from disposal of businesses		15	–	–
Gross cash flows on acquisition of businesses	11	–	(227)	(228)
Increase in total rental and finance lease receivables		(82)	(195)	(375)
Net other investments and loans repaid/(granted)		1	(6)	(3)
Investments net of other capital proceeds ¹		(6)	131	171
Net outflow from financing activities		(52)	(88)	(85)
Shares issued		1	6	15
Investment in treasury shares		–	(85)	(115)
Net long term borrowings raised/(repaid)		9	(4)	20
Shares acquired in terms of the Conditional Share Plan		(74)	(2)	(2)
Net transactions with non-controlling interests		12	(3)	(2)
Exercise of Ryonix put option		–	–	(1)
Decrease in net cash resources		(147)	(821)	(766)
Net cash resources at the beginning of the period		572	1 325	1 325
Net exchange translation adjustments to net cash resources²		1	–	13
Net cash resources at the end of the period		426	504	572
Cash and cash equivalents		894	1 055	765
Bank overdrafts		(175)	(344)	(126)
Short-term borrowings		(293)	(207)	(67)
Net cash resources at the end of the period		426	504	572

¹ In the prior period, this includes a withdrawal from investments in long-dated money market instruments (September 2018: R130 million).

² In March 2018, these effects were insignificant.

CONDENSED SEGMENTAL ANALYSIS

AT 31 MARCH 2019

Six months ended 31 March							
R million	2019 (Unaudited)	% of total	2018 (Unaudited)	% of total	% change	Year ended 30 September	
						2018 (Audited)	% of total
Revenue¹							
Electrical Engineering	2 775	51	2 431	49	14	5 139	48
ICT	1 722	31	1 670	34	3	3 443	32
Applied Electronics	999	18	863	17	16	2 198	20
Other	(21)	–	5	–		15	–
Total segment revenue	5 475	100	4 969	100	10	10 795	100
Revenue from equity accounted joint venture in Electrical Engineering segment	(170)		(114)			(271)	
Revenue from equity accounted associate in ICT segment	(14)		(14)			(29)	
Revenue from equity accounted joint venture in Other segment	(3)		–			(3)	
Revenue as reported	5 288		4 841		9	10 492	
Operating profit							
Electrical Engineering	225	36	219	39	3	440	29
ICT ²	351	56	317	57	11	792	51
Applied Electronics	85	14	61	11	39	380	25
Other	(38)	(6)	(38)	(7)	–	(73)	(5)
Total segment operating profit	623	100	559	100	11	1 539	100
Operating (profit)/loss from equity accounted joint venture in Electrical Engineering segment	(4)		9			9	
Operating profit from equity accounted associate in ICT segment	(2)		(1)			(3)	
Operating profit from equity accounted joint venture in Other segment	(2)		–			(3)	
Operating profit as reported	615		567		8	1 542	

¹ Inter-segment revenue is immaterial and has not been separately disclosed.

² The net interest charged on group funding provided to the group's in-house finance operation has been eliminated in line with the consolidation principles of IFRS. This interest amounted to R82 million (March 2018: R70 million) (September 2018: R146 million). Should this operation be externally funded, this would result in a reduction of ICT's operating profit by the quantum of the interest paid.

Condensed segmental analysis continued

AT 31 MARCH 2019

R million	Six months ended 31 March					
	2019 (Unaudited)	% of total	2018 (Unaudited)	% of total	Year ended 30 September 2018 (Audited)	% of total
Total assets						
Electrical Engineering	3 340	32	2 869	29	2 978	28
ICT	4 592	45	4 490	45	4 662	45
Applied Electronics	2 054	20	1 970	20	2 443	23
Other ¹	351	3	653	6	370	4
Total assets as reported²	10 337	100	9 982	100	10 453	100
Total liabilities						
Electrical Engineering	1 292	41	913	30	1 105	38
ICT	767	24	1 034	35	845	29
Applied Electronics	840	27	736	25	807	27
Other	238	8	306	10	170	6
Total liabilities as reported²	3 137	100	2 989	100	2 927	100

¹ In March 2019 and September 2018 this comprises mainly of properties. In March 2018 it comprised of both group treasury cash balances and properties.

² Intercompany receivables, payables and loans have been eliminated in line with the consolidation principles of IFRS.

NOTES

1 Basis of preparation

This unaudited interim financial report has been prepared in accordance with the framework concepts and the recognition and measurement requirements of International Financial Reporting Standards (IFRS) in effect for the group at 1 October 2018, and further complies with the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committees and the Financial Reporting pronouncements as issued by the Financial Reporting Standards Council. This interim financial report was prepared using the information as required by IAS 34 – Interim Financial Reporting, and complies with the Listings Requirements of the JSE Limited and the requirements of the Companies Act, No 71 of 2008, of South Africa. This report was compiled under the supervision of NA Thomson CA(SA) (chief financial officer).

The group's accounting policies applied for the six-month period ended 31 March 2019, were consistent with those applied in the prior financial year's audited consolidated annual financial statements, except for the impact of the first time adoption of IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments, the impact of which is set out in Note 15. These accounting policies comply with IFRS.

R million	Six months ended 31 March		
	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
2 Revenue			
Revenue from contracts with customers			
Sale of goods	4 467	3 680	8 243
Services	465	726	1 488
Contract revenue	103	104	302
Other			
Interest received on lease receivables	209	184	379
Rental and other revenue	44	147	80
Total	5 288	4 841	10 492

The Electrical Engineering segment earned the majority of its revenue in the sale of goods and services categories. The ICT segment earned revenue in each of the above categories. The Applied Electronics segment earned revenue in each category except for interest. Refer to the segmental analysis, for a disaggregation of the revenue contribution by each segment.

On adoption of IFRS 15 Revenue from Contracts with Customers, the revenue recognition relating to contracts and services has changed. Refer to Note 15.

Notes continued

R million	Six months ended 31 March		
	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
3 Operating profit			
Operating profit includes:			
– Cost of sales (excluding depreciation and amortisation)	3 653	3 323	6 999
– Other expenses (excluding depreciation and amortisation)	963	903	1 976
– Other income	26	21	82
– Fair value gain on contingent consideration*	–	–	100
– Depreciation and amortisation**	83	69	157
Included in other expenses above are:			
– Realised loss on foreign exchange and derivative instruments	(11)	(10)	(99)
– Unrealised gain/(loss) on foreign exchange and derivative instruments	23	(11)	21
– Auditors' remuneration	14	13	25

* For March 2019 and 2018, these amounts have been included in other income above due to their immateriality. September 2018 includes routine movements of R23 million and a non routine movement of R77 million arising from SkyWire.

** Depreciation and amortisation allocated to cost of sales in gross margin calculations is R30 million (2018: R27 million) (September 2018: R51 million). Depreciation and amortisation allocated to other expenses is R53 million (2018: R42 million) (September 2018: R106 million).

R million	Six months ended 31 March		
	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
4 Net interest income and dividends			
Interest income and dividends	23	31	60
Interest expense	(22)	(19)	(40)
Interest on unwinding of put option liability	(5)	(4)	(9)
Total	(4)	8	11

		Six months ended 31 March		
R million	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)	
5 Empowerment transactions				
IFRS 2 share-based payment cost of BBBEE transactions	–	–		32
Professional costs related to BBBEE transactions	–	2		10
Taxation thereon	–	–		–
Net empowerment transactions after taxation	–	2		42
6 Number of shares and earnings used to calculate earnings per share¹				
Weighted average number of shares in issue, net of empowerment and treasury shares, used to determine basic earnings, headline earnings and normalised headline earnings per share (millions of shares)	161	162		161
Adjusted by the dilutive effect of unexercised share options granted (millions of shares)	3	3		3
Weighted average number of shares used to determine diluted basic, headline and normalised headline earnings per share (millions of shares)	164	165		164

¹ The earnings used to determine earnings per share and diluted earnings per share is the profit for the period attributable to equity holders of Reunert, as per the statement of profit or loss, of R366 million (2018: R445 million) (September 2018: R1 158 million).

Notes continued

		Six months ended 31 March		
R million	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)	
7	Headline earnings			
7.1	Headline earnings			
	Profit attributable to equity holders of Reunert	366	445	1 158
	<i>Headline earnings are determined by eliminating the effect of the following items from attributable earnings:</i>			
	Net loss on disposal of subsidiary (after a tax charge of Rnil) (2018 Rnil) (September 2018 charge of Rnil)	44	–	–
	Net gain on disposal of assets (after a tax charge of R1 million and non-controlling interest (NCI) portion of Rnil) (2018: tax and NCI of Rnil) (September 2018: tax charge of R5 million and NCI of Rnil)	(2)	–	(23)
	Headline earnings#	408	445	1 135
7.2	Normalised headline earnings			
	<i>Normalised headline earnings are determined by eliminating the effect of the following items from headline earnings:</i>			
	Empowerment Transactions	–	2	42
	Once-off IFRS 2 share based payment cost of BBBEE transactions (tax and NCI of Rnil) (March and September 2018: tax and NCI of Rnil)	–	–	32
	Professional fees for BBBEE transactions (tax and NCI of Rnil) (March and September 2018: tax and NCI of Rnil)	–	2	10
	Acquisition transactions	–	–	(68)
	Recurring professional fees for acquisitions (tax and NCI of Rnil) (March and September 2018: tax and NCI of Rnil)	–	–	9
	Once-off contingent consideration fair value remeasurement (tax and NCI of Rnil) (March and September 2018: tax and NCI of Rnil)*	–	–	(77)*
	Normalised headline earnings	408	447	1 109

7 **Headline earnings** continued

7.2 **Normalised headline earnings**# continued

The pro forma financial information above has been prepared for illustrative purposes only to provide information on how the normalised earnings adjustments might have impacted on the financial results of the group. Because of its nature, the pro forma financial information may not be a fair reflection of the group's results of operations, financial position, changes in equity or cash flows.

The pro forma financial effects have been prepared in a manner consistent in all respects with IFRS, the accounting policies adopted by Reunert Limited as at 30 September 2018, the revised SAICA guide on pro forma financial information and the Listings Requirements of the JSE Limited.

There are no post balance sheet events that necessitate adjustment to the pro forma financial information.

The directors are responsible for compiling the pro forma financial information on the basis of the applicable criteria specified in the JSE Listings Requirements.

* In respect of the SkyWire acquisition in 2018.

R million	Six months ended 31 March		
	2019 (Unaudited)	30 September 2018 (Unaudited)	30 September 2018 (Audited)
8 Goodwill			
Carrying value at the beginning of the period	1 053	921	921
Acquisition of businesses	–	183	146
Disposal of business (Note 11)	(62)	–	–
Exchange differences on consolidation of foreign subsidiaries	–	(16)	(14)
Carrying value at the end of the period	991	1 088	1 053

Notes continued

R million	Six months ended 31 March		
	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
9 Put option liability			
As part of the Terra Firma and Ryonic acquisitions, the group granted put options in favour of the non-controlling shareholders for 25% of the issued share capital.			
<i>A reconciliation of the closing balance is as below:</i>			
Balance at the beginning of the period	120	121	121
Fair value remeasurements	–	–	(9)
Payment to option holder (Ryonic)	–	–	(1)
Unwinding of discount	5	4	9
Balance at the end of the period	125	125	120

The obligations were classified as level 3 instruments in the fair value hierarchy.

The Terra Firma obligation represents the fair value of the put option liability which has been determined using a discounted cash flow valuation technique based on the multiples stipulated in the sales and purchase agreement. Significant unobservable inputs include:

- > The 2020 forecast revenue and net profit after tax (NPAT) have been used. These forecasts are based on management's best estimate of the revenue and NPAT likely to be achieved in 2020.
- > The earnings multiples are as stipulated in the sales and purchase agreement.
- > The discount rate applied was 8.25%, being the average cost of borrowing.

If the key unobservable inputs to the valuation model being estimated were 1% higher/lower while all the other variables were held constant, the carrying amount of the put option liabilities would decrease/increase by R2 million respectively.

During the prior financial year the Ryonic put obligation was re-negotiated and settled.

R million	Six months ended 31 March		
	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
10 Long-term borrowings			
Total long-term borrowings (including finance leases)	67	80	100
Less: short-term portion (including finance leases)	(1)	(11)	(18)
	66	69 ¹	82

¹ Included in March 2018 is a share based payment liability of R15 million. From September 2018 this liability has been separately disclosed on the balance sheet.

R million	2019 (Unaudited)
11 Disposal of business	
During the current period the group made the following disposal:	
> Prodoc Svenska AB: With effect from 26 March 2019 the net assets and business of Prodoc Svenska AB, were sold at the fair value less cost to sell of R37 million.	
Net assets disposed:	
Property, plant and equipment and intangible assets	4
Goodwill	62
Rental and finance lease receivables	26
Inventory	32
Deferred tax	2
Trade and sundry receivables	79
Trade and sundry payables	(102)
Foreign currency translation reserve	10
Non controlling interests	(13)
Long term borrowings	(26)
Short term portion of long term borrowings	(15)
Book value of net assets disposed of	59
Consideration received:	15
Cash received on sale	37
Less: cash on hand	(22)
Loss on sale of business (net of taxation of Rnil)	44

2018

The group made no disposals in the prior period.

Notes continued

12 Unconsolidated subsidiary

The financial results of Cafca Limited (Cafca), a 70% owned subsidiary of the company incorporated in Zimbabwe, have not been consolidated into the group results as the group does not exercise management control because it does not have the ability to affect its variable returns through its powers over Cafca. This is supported by:

- > Reunert having not appointed a majority of the directors to the board of directors of Cafca and therefore does not control the board; and
- > The difficult economic circumstances in Zimbabwe have resulted in an ongoing liquidity constraint which impairs Reunert's ability to repatriate the economic benefits from Cafca (eg dividends).

The amounts involved are not material to the group's results. At 31 March 2019, Cafca's share capital and reserves amounted to US\$17 million (March 2018: US\$17 million).

13 Related party transactions

R million				Lease	Treasury	Amount
Counterparty	Relationship	Sales	Purchases	payments	shares	owed to related parties
All related-party transactions, trading account and loan balances are on the same terms and conditions as those with non-related parties.						
March 2019						
CBI-electric Telecom Cables Proprietary Limited						
Cables Proprietary Limited	A joint venture	1	30	–	–	7
Oxirostax Proprietary Limited (Nashua Winelands)	An associate	8	–	–	–	1
Bargenel Investments Proprietary Limited	Owns 18,5m Reunert shares	–	–	–	276	–
Lexshell 661 Investment Proprietary Limited	A joint venture	–	–	5	–	7
March 2018						
CBI-electric Telecom Cables Proprietary Limited						
Oxirostax Proprietary Limited (Nashua Winelands)	An associate	8	5	–	–	–
Bargenel Investments Proprietary Limited	Owns 18,5m Reunert shares	–	–	–	276	–
Lexshell 661 Investment Proprietary Limited	A joint venture	–	–	–	–	–

13 Related party transactions continued

R million							Amount owed to related parties
Counterparty	Relationship	Sales	Purchases	Lease payments	Treasury shares		
September 2018							
CBI-electric Telecom							
Cables Proprietary Limited	A joint venture	2	5	–	–		–
Oxirostax Proprietary Limited (Nashua Winelands)	An associate	16	2	–	–		–
Bargenel Investments Proprietary Limited	Owens 18,5m Reunert shares	–	–	–	276		–
Lexshell 661 Investment Proprietary Limited	A joint venture	–	–	5	–		4

14 Contingent purchase considerations

As part of the acquisitions of SkyWire and Dopptech undertaken in the prior year, the group recognised contingent purchase considerations on these acquisitions as follows:

R million	Six months ended 31 March		
	2019 (Unaudited)	2018 (Unaudited)	30 September 2018 (Audited)
Balance at the beginning of the period	37	–	–
Transfer in from provisions ¹	–	27	27
Raised at acquisition at fair value (SkyWire and Dopptech)	–	111	110
Fair value remeasurements	(2)	(11)	(100)
Balance at the end of the period ²	35	127	37

¹ In 2018, the Omnigo purchase consideration was transferred from provisions to the contingent consideration category under trade and other payables. The acquisition of SkyWire and Dopptech in 2018 resulted in additional contingent consideration. Due to the nature of the amounts on acquisition of these businesses, all contingent considerations are now separately disclosed.

² The balance of the contingent purchase consideration have been included in 'Accounts payable, provisions and taxation' on the balance sheet.

The balance of the contingent purchase consideration relates to R17 million for Dopptech, R16 million for SkyWire and R2 million for Omnigo.

Notes continued

14 **Contingent purchase considerations** continued

These were classified as level 3 instruments in the fair value hierarchy based on the following unobservable inputs:

For Omnigo, the fair value of the contingent purchase consideration is determined using a cash flow valuation technique and is based on earnings multiples stipulated in the purchase agreement.

The contingent purchase consideration for Omnigo was determined as 40% of the expected excess of profit before interest and tax (PBIT) exceeding a 25% return on expected average capital employed during the period.

The amount is assessed on an annual basis using forecasted average capital employed and PBIT.

The discount rate used is 9,1% (Jibar plus 2%).

For SkyWire, the contingent consideration is based on a defined business plan according to which the company has to achieve certain predefined strategic tasks and objectives within 12 months of the acquisition date.

The discount rate used is 9,1% (Jibar plus 2%).

For Dopptech, the contingent consideration is fixed and stipulated within the purchase agreement.

15 **Change in accounting policy**

IFRS 15 replaces both IAS 11 and IAS 18 as well as SIC 31, IFRIC 13, IFRIC 15 and IFRIC 18 and establishes a comprehensive framework for recognition of revenue from contracts with customers. Revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires a certain level of judgement.

On application of IFRS 15, the following material changes and considerations have been made:

Revenue category	Nature of material considerations and changes in accounting policy
Contract revenue	Due to the change in considerations for the recognition of revenue under IFRS 15, revenue relating to certain contracts have been recognised taking into consideration an appropriate allocation of revenue to multiple performance obligations.
Service revenue	The adjustment includes consideration relating to time value of money, and changes in the measure of progress.

IFRS 9 – Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

This standard replaces IAS 39: Financial Instruments: Recognition and Measurement.

15 **Change in accounting policy** continued

Classification and measurement of financial assets

IFRS 9 has reduced the number of categories required for classification and measurement however the adoption of IFRS 9 has not had a material impact on the group's accounting policies related to the classification and measurement of financial assets, financial liabilities and derivative financial instruments.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The group has 2 types of financial assets that are subject to the new ECL model:

- > trade receivables; and
- > rental and finance lease receivables.

The group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the group's retained earnings is disclosed below.

Trade receivables

The group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss model for all trade receivables. ECLs are calculated by applying a loss ratio to the age analysis of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/ payment profile of sales by applying historic write-offs to the payment profile of the sales population.

Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of trade receivables at the reporting date.

Rental and finance lease receivables

The group applies the IFRS 9 general approach to measuring expected credit losses which uses a 12-month expected loss allowance. This is calculated by applying a loss ratio to the balance at each reporting date.

The loss ratio for the rental and finance lease receivables is calculated according to the ageing/ payment profile by applying historic write-offs to the payment profile of the population.

The historic loss ratio is then adjusted for forward looking information to determine the ECL at the reporting date to the extent that there is a strong correlation between the forward looking information and the ECL.

Notes continued

15 Change in accounting policy continued

Critical accounting judgements and assumptions

The ECL for financial assets is based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the input to the impairment calculation, based on the group's past history, existing market conditions, as well as forward looking estimates at the end of each reporting period.

IFRS 15 and IFRS 9 transition

The group has applied both IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers using the modified retrospective approach, by recognising the cumulative effect of initially applying IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 October 2018.

Therefore the comparative information on the unaudited condensed group statement of financial position and unaudited condensed group statement of comprehensive income has not been restated for the adoption of these new standards and continues to be reported under the previously applied standards.

15 Change in Accounting Policy continued

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

The effect of the IFRS 9 and 15 transition on the statement of financial position is as follows:

R million	IFRS 9 adjustments	IFRS 15 adjustments
Condensed consolidated statement of financial position		
Non-current assets		
Rental and finance lease receivables	(19)	–
Deferred taxation	9	13
Current assets		
Accounts receivable and taxation	(20)	(20)
Equity		
Retained earnings	(27)	(29)
Non-controlling interests	(3)	(6)
Current liabilities		
Accounts payable, provisions and taxation	–	28

During the current period the impact of IFRS 9 on the statement of profit or loss and other comprehensive income was a R16 million increase in the profit for period (R12 million net of taxation).

16 Litigation

There is no material litigation being undertaken against or by the group. The group has made adequate provision against any cases where the group considers there are reasonable prospects for the litigation to succeed. The group has adequate resources and good grounds to defend any litigation it is aware of.

17 Events after reporting date

Subsequent to 31 March 2019, Zamefa, the group's Zambian energy cable manufacturer, became technically insolvent due to the rapid depreciation of the Zambian Kwacha against the United States Dollar (the currency in which a significant portion of Zamefa's liabilities are denominated). The group continues to support Zamefa and has subordinated such portion of its US\$ 20m loan to Zamefa as is required to restore the technical solvency of Zamefa in favour of Zamefa's other creditors.

ADDITIONAL INFORMATION

R million (unless otherwise stated)	Six months ended 31 March		
	2019 (Unaudited)	2018 (Unaudited)	Year ended 30 September 2018 (Audited)
Current ratio (:1)	2,0	2,0	2,3
Quick ratio (:1)	1,5	1,5	1,7
Dividend Yield (%)*	7,0	6,4	6,5
Return on capital employed (%)	16,3	15,5	19,5
Net number of ordinary shares in issue (million)	161	161	161
Number of ordinary shares in issue (million)	185	185	185
Less: Empowerment shares (million)	(19)	(19)	(19)
Less: Treasury shares (million)	(5)	(5)	(5)
Capital expenditure	59	54	162
– expansion	36	32	106
– replacement	23	22	56
Capital commitments in respect of property, plant and equipment	75	64	83
– contracted	42	43	35
– authorised not yet contracted	33	21	48
Commitments in respect of operating leases	214	231	252
Contingent liabilities**	–	–	–

* Calculated as the total dividend (interim 130 cents per share and prior year final 368 cents per share) (2018: 125 cents and 354 cents per share) (September 2018: 125 cents and 368 cents per share) divided by a Reunert share price of 7 100 cents (2018: 7 448 cents) (September 2018: 7 600 cents), being the closing market price on 29 March 2019.

** The directors are confident that Reunert Limited and its subsidiaries have no exposure arising from the guarantees and sureties in issue, beyond the liabilities recognised in the condensed consolidated statement of financial position at 31 March 2019.

Definitions of ratios and other financial terms are the same as those incorporated in the 2018 Integrated Report.

ADMINISTRATION

REUNERT LIMITED

Incorporated in the Republic of South Africa
Reg. No 1913/004355/06
Ordinary share code: RLO ISIN code: ZAE000057428
("Reunert" or "the group" or "the company")

Directors: TS Munday (chairman)*, T Abdool-Samad*, AE Dickson (chief executive officer), JP Hulley*, SD Jagoe*, S Martin*, M Moodley, Adv NDB Orleyn**, SG Pretorius*, T Matshoba-Ramuedzisi*, MAR Taylor, NA Thomson (chief financial officer), R Van Rooyen*

* *Independent non-executive* ** *Non-executive*

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Sponsor

One Capital Sponsor Services Proprietary Limited

Registered auditors

Deloitte & Touche

Secretaries' certification

In terms of section 88(2)(e) of the Companies Act, 71 of 2008, I, Karen Louw, duly authorised on behalf of the company secretary, Reunert Management Services Proprietary Limited (Registration number 1980/007949/07) certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission for the six-month period ended 31 March 2019 all such returns and notices as are required in terms of the aforesaid Act and that all such returns and notices are true and correct.

Karen Louw

for Reunert Management Services Proprietary Limited
Group Company Secretaries

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27 May 2019 (publication date)

