



# REUNERT

REUNERT LIMITED

AUDITED PRELIMINARY SUMMARISED  
CONSOLIDATED RESULTS

**2018**

AND CASH DIVIDEND  
DECLARATION FOR THE YEAR  
ENDED 30 SEPTEMBER 2018

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## GROUP PROFILE

Reunert manages 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, Sweden, the USA, Zambia and Zimbabwe. Reunert's offices are located in Woodmead, Johannesburg, South Africa.

# COMMENTARY

## OVERVIEW

Reunert achieved positive growth in the 2018 financial year with group revenue increasing by 7% to R10 492 million (2017: R9 773 million). Pleasingly, in a volatile Rand environment, operating profit grew by 3% from R1 497 million to R1 542 million. This was achieved despite a sharp decline in Electrical Engineering's profitability, driven by improved earnings in both the ICT and Applied Electronics segments.

Electrical Engineering's decline in profitability resulted from the recessionary pressures in the key infrastructure markets serviced, reflecting as reduced demand from key state institutions, and the poor results of Zamefa (the Zambian power cable manufacturer). Zamefa was adversely impacted by Zambia's liquidity constraints and the 27% devaluation in the Zambian currency to the US Dollar.

The ICT and Applied Electronics segments performed well, particularly in the second half of the year. The ICT segment improved sales in high category multi-functional printers and had good growth in new total workspace solution sets. Applied Electronics growth was driven by record export sales, the benefit of a weakening Rand in the second half and the rapid expansion of the renewable energy business.

This improvement in profitability, combined with the reduction in the number of shares in issue (due to the continuation of the share buyback programme) resulted in headline earnings per share growing by 4%.

## FINANCIAL PERFORMANCE

### Group results

#### Key earnings metrics

	Units	2018	2017	% Change
Revenue	Rm	10 492	9 773	7
Operating profit (before net interest income, dividends and empowerment transactions)	Rm	1 542	1 497	3
Profit for the year	Rm	1 152	1 142	1
Earnings per share	cents	717	680	5
Headline earnings per share	cents	703	679	4
Normalised headline earnings per share	cents	687	697	(1)
Total cash dividend per share for the year	cents	493	474	4

## SEGMENTAL RESULTS

### Electrical Engineering

Following a record financial year in 2017, Electrical Engineering encountered strong headwinds in the year under review. The segment's revenue was down 2% at R5 139 million. Operating profit decreased by 37% to R440 million.

The local cable factories experienced a significant reduction in demand from Eskom, municipalities and Telkom. The power cable factory secured alternative orders, but the change in product mix led to reduced margins. The reduction in Telkom volumes led to a reduction in capacity utilisation at the CBI Telecoms joint venture which returned a loss for the year.

## *Commentary continued*

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Zamefa experienced serious challenges as liquidity in Zambia came under further pressure. Key state institutions materially extended the time to settle amounts due to Zamefa which put its available credit facilities under pressure. The Zamefa Board accordingly took a decision to reduce throughput to address this working capital burden. This reduction in activity, together with foreign exchange losses due to the rapid 27% devaluation of the Zambian Kwacha against the US Dollar, caused a substantial loss at this business unit.

We are pleased to note that the Zambian government will replace value added tax (VAT) with general sales tax (GST) on 1 April 2019. This should allow Zamefa to substantially increase its throughput, returning the company to profitability once the new GST legislation is enacted.

All three cable business units completed restructuring exercises during the year that have aligned their cost bases to expected medium-term volumes.

Our circuit breaker business exported similar product volumes as in the prior financial year. The stronger Rand in the first half of the year negatively impacted both export revenue and profit. The local market remained under pressure due to the general economic environment with fewer projects being executed.

We made significant progress in our transformation strategy. We are especially pleased that a second empowerment transaction at our local power cable business unit has grown our direct black ownership above 51%, including the flow through from Reunert Limited. This development is in keeping with the requirements of the segment's key customers and should enable a continuation of our market access as the government's infrastructure expenditure increases. The non-cash IFRS: 2 (Share-Based Payments) charge resulting from this transaction was R32 million.

### **ICT**

The ICT segment had another pleasing year as it continues to implement its strategy. Revenue increased by 4% to R3 443 million and operating profit increased by 25% to R792 million, including a fair value gain of R77 million as a result of the remeasurement of the SkyWire contingent purchase consideration. Excluding the fair value remeasurement, the operating profit increased by 13% to R715 million. The remeasurement arose from the finalisation of the probable achievement of the earn-out threshold in the SkyWire purchase agreement.

The office automation cluster continued to produce strong product sales. Revenue from products and services grew by 7% and this year generated 13% (2017: 13%) of total revenue. The franchise channel performed strongly and the adoption rate of the new total workspace products and services continues to increase.

The communications cluster performed well as ECN's increased voice traffic translated into improved operating profit. SkyWire should underpin continued growth in the cluster despite further regulated interconnect rate decreases and increased pressure on voice minute volumes being expected in the 2019 financial year.

The group's finance book increased in line with the improved sales of office automation equipment. The loan book closed at R2 811 million (2017: R2 428 million) and delivered another good performance as bad debt remained at low levels.

### **Applied Electronics**

Revenue in Applied Electronics increased 28% to R2 198 million while operating profit increased by 38% to R380 million, inclusive of the capital profit of R28 million generated on the sale of a property no longer

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required by the segment. Excluding this capital profit, the segment's operating profit grew by 28% to R352 million.

Full year revenue and operating profit increased considerably at the export-orientated fuze factory and at our renewable energy solution provider. The balance of the business units in this segment generally had results in line with the prior year.

Our pipeline of contracts remains positive. The fuze factory has a near-full production order book for 2019, albeit at lower margins than in the 2018 financial year. In August 2018, our secure communication cluster successfully concluded contracts for the next multi-year rollout of digital tactical communication systems into the South African National Defence Force. This will ensure a strong baseload over the next 18 months. We foresee good export orders as our new digital platforms continue to gain acceptance in export markets.

The pipeline for local and export defence radars is considerably stronger than the last few years, supported by the recent conclusion of a combined radar, communications and self-levelling (Rogue) platform order for the Navy's new frigates.

## **GROUP CASH RESOURCES**

At year-end the group had combined money market deposits and other liquid resources totalling R572 million (2017: R1 455 million). This, together with existing short-term facilities, provides the funds required to continue executing our strategy.

As our current banking facilities generally have a tenure of one year (before requiring renewal) we have started the process of arranging a longer-term syndicated loan facility for R2 500 million, comprising facilities with a blend of 3-5 and 7-year tenures.

The substantial reduction in cash on hand reflects both the working capital increase resulting from the extremely high revenue generation in the last quarter which will convert into cash during the first half of 2019, and the continued implementation of our strategy.

## **SHARE BUYBACK PROGRAMME**

The share buyback programme continued, increasing the number of shares purchased from 3,4 million in 2017 to a total of 5 million shares by the end of September 2018. This process returned a further R115 million to shareholders.

## **GROUP EMPOWERMENT STRUCTURE**

Reunert exercised its option to extend the tenure of the Bargenel empowerment arrangement (18,5 million Reunert shares which are eliminated on consolidation) for a further four years. No IFRS: 2 charge resulted from this extension, as the option value was incorporated in the initial value of the IFRS: 2 charge provided for at the inception of the arrangement 10 years ago.

## **TAXATION**

Reunert was successful in a tax appeal heard at the Supreme Court of Appeal in Bloemfontein. The favourable ruling allowed the group to release a provision for normal taxation of R42 million, which together with non-taxable fair value gains, resulted in the effective rate of tax incurred for the year of 24%.

## CAPITAL EXPENDITURE

Capital expenditure on replacement assets across the group amounted to R56 million (2017: R45 million) and on expansionary capital R106 million (2017: R98 million). This expenditure was funded from internal cash resources and represented 23% (2017:12%) of free cash flow before capital expenditure.

## NEW ACCOUNTING STANDARDS

We undertook a significant exercise to evaluate the impact of and to prepare for the introduction of two new accounting standards being IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers. Both of these standards will be effective for the group from the 2019 financial year and will be applied from 1 October 2018. The cumulative impact will be reflected as an adjustment to opening retained income in the 2019 financial year.

The table below reflects the maximum expected potential transitional adjustment.

	Gross Impact Rm	Tax Effect Rm	Effect on opening retained income Rm
Increase in impairment provision for uncollectible receivables (IFRS 9)	35	(10)	25
Difference arising from applying different revenue recognition criteria (IFRS 15)	105	(30)	75
Total reduction in opening retained income	140	(40)	100

## DIRECTORATE

With effect from 1 July 2018 John Hulley was appointed to the Board as an independent non-executive director. John will also serve on the Risk and Remuneration Committees.

There were no other changes in the Directorate since our last report issued on 25 May 2018.

## PROSPECTS

The recent government commitments to increase infrastructure investment bode well for a recovery in the Electrical Engineering segment although uncertainty as to the timing and extent prevails.

The Applied Electronics segment has solid order books in most business units and we continue to anticipate good growth in our renewable energy business. However, the fuze factory's profitability will reduce in the coming financial year due to the product mix in its export contracts. The ICT segment is anticipated to continue to deliver a good performance as its strategy execution continues and the SkyWire acquisition bolsters the growth of the segment.

Subject to no significant changes in local socio-economic conditions, the implementation of GST, as planned, in Zambia and moderate currency volatility, the group should deliver another solid performance in the 2019 financial year.

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## CASH DIVIDEND

Notice is hereby given that a gross final cash dividend No 185 of 368,0 cents per ordinary share (2017: 354,0 cents per share) has been declared by the directors for the year ended 30 September 2018.

The dividend has been declared from retained earnings, bringing the total dividends declared out of 2018 profit for the year to 493,0 cents per share.

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 294,40 cents per share.

The issued share capital at the declaration date is 184 585 396 ordinary shares.

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

Last date to trade (cum dividend)	Tuesday, 15 January 2019
First date of trading (ex dividend)	Wednesday, 16 January 2019
Record date	Friday, 18 January 2019
Payment date	Monday, 21 January 2019

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 16 January 2019 and Friday, 18 January 2019, both days inclusive.

On behalf of the board



**Trevor Munday**

*Chairman*



**Alan Dickson**

*Chief Executive Officer*



**Nick Thomson**

*Chief Financial Officer*

Sandton, 19 November 2018

# INDEPENDENT AUDITOR'S REPORT ON SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF REUNERT LIMITED

## Opinion

The summarised consolidated financial statements of Reunert Limited, which comprise the summarised consolidated statement of financial position as at 30 September 2018, the summarised consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Reunert Limited for the year ended 30 September 2018. In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements of Reunert Limited, in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, set out in note 1 to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

## Summarised Consolidated Financial Statements

The summarised consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summarised consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of Reunert Limited and the auditor's report thereon.

## The Audited Consolidated Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 19 November 2018. That report also includes the communication of other key audit matters as reported in the auditor's report of the audited financial statements.

## Directors' Responsibility for the Summarised Consolidated Financial Statements

The directors are responsible for the preparation of the summarised consolidated financial statements in accordance with the requirements of the Companies Act of South Africa as applicable to summary financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the summarised consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and to also, as a minimum, contain the information required by IAS 34, *Interim Financial Reporting*.

## Auditor's Responsibility

Our responsibility is to express an opinion on whether the summarised consolidated financial statements are consistent, in all material respects, with the consolidated audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.



## Deloitte & Touche

Registered Auditors  
Per: James Welch  
Partner  
19 November 2018

# SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

R million	Notes	Audited 2018	Audited 2017	% change
<b>Revenue</b>		<b>10 492</b>	9 773	7
EBITDA*		<b>1 699</b>	1 635	4
Depreciation and amortisation		<b>(157)</b>	(138)	14
Operating profit (before net interest income and dividends, and empowerment transactions)	2	<b>1 542</b>	1 497	3
Net interest income and dividends	3	<b>11</b>	65	(83)
Profit (before empowerment transactions)		<b>1 553</b>	1 562	(1)
Empowerment transactions	4	<b>(42)</b>	(20)	
Profit before taxation		<b>1 511</b>	1 542	(2)
Taxation		<b>(358)</b>	(437)	(18)
Profit after taxation		<b>1 153</b>	1 105	4
Share of joint ventures' and associate's profit		<b>(1)</b>	37	
<b>Profit for the year</b>		<b>1 152</b>	1 142	1
<b>Profit attributable to:</b>				
Non-controlling interests		<b>(6)</b>	30	
Equity holders of Reunert		<b>1 158</b>	1 112	4
<b>Cents</b>				
Basic earnings per share	5, 6	<b>717</b>	680	5
Diluted earnings per share	5, 6	<b>705</b>	670	5

## Other measures of earnings per share

Cents	Notes	Audited 2018	Audited 2017	% change
Headline earnings per share	5, 6	<b>703</b>	679	4
Diluted headline earnings per share	5, 6	<b>691</b>	670	3
Normalised headline earnings per share	5, 6	<b>687</b>	697	(1)
Diluted normalised headline earnings per share	5, 6	<b>675</b>	687	(2)
<b>Total cash dividend per share for the year</b>		<b>493</b>	474	4

\* Earnings before net interest income and dividends; taxation; depreciation and amortisation; and empowerment transactions

# SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2018

R million	Audited 2018	Audited 2017
<b>Profit for the year</b>	<b>1 152</b>	1 142
<b>Other comprehensive income, net of taxation:</b>		
Items that may be reclassified subsequently to profit or loss	(65)	8
(Losses)/gains arising from translating the financial results of foreign subsidiaries	(23)	8
Translation loss on net investment in subsidiary*	(42)	–
<b>Total comprehensive income</b>	<b>1 087</b>	1 150
<b>Total comprehensive income attributable to:</b>		
Non-controlling interests	(9)	34
> Share of profit for the year	(6)	30
> Share of other comprehensive income	(3)	4
Equity holders of Reunert	<b>1 096</b>	1 116
> Share of profit for the year	<b>1 158</b>	1 112
> Share of other comprehensive income	(62)	4

\* Translation loss arising on the loan component of the group's net investment in a foreign subsidiary.

# SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2018

R million	Notes	Audited 2018	Audited 2017
<b>Non-current assets</b>			
Property, plant and equipment, investment properties and intangible assets		1 297	1 095
Goodwill	7	1 053	921
Investments and loans		56	55
Investment in joint ventures and associate		158	159
Rental and finance lease receivables		1 990	1 682
Deferred taxation		151	105
		<b>4 705</b>	4 017
<b>Current assets</b>			
Inventory		1 461	1 439
Rental and finance lease receivables		821	747
Accounts receivable and taxation		2 694	2 222
Derivative assets		7	12
Money market instruments		–	130
Cash and cash equivalents		765	1 522
		<b>5 748</b>	6 072
<b>Total assets</b>			
		<b>10 453</b>	10 089
Equity attributable to equity holders of Reunert			
		7 438	7 138
Non-controlling interests			
		88	105
<b>Total equity</b>			
		<b>7 526</b>	7 243
<b>Non-current liabilities</b>			
Deferred taxation		156	112
Long-term borrowings	8	82	73
Put option liability	9	120	121
Share-based payment liability		23	–
		<b>381</b>	306
<b>Current liabilities</b>			
Accounts payable, provisions and taxation		2 270	2 304
Derivative liabilities		65	28
Bank overdrafts and short-term loans		193	197
Current portion of long-term borrowings	8	18	11
		<b>2 546</b>	2 540
<b>Total equity and liabilities</b>			
		<b>10 453</b>	10 089

# SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2018

R million	Audited 2018	Audited 2017
Share capital	374	359
Balance at the beginning of the year	359	343
Issue of shares	15	16
Share-based payment reserves	256	176
Balance at the beginning of the year	176	136
Equity-settled share-based payments	79	40
Transfer to retained earnings	1	–
Equity transactions/put option with non-controlling shareholders	(108)	(116)
Balance at the beginning of the year	(116)	–
Put option	–	(116)
Acquisition of businesses <sup>1</sup>	(3)	–
Transfer to retained earnings <sup>1</sup>	11	–
Empowerment shares <sup>2</sup>	(276)	(276)
Treasury shares <sup>3</sup>	(342)	(227)
Balance at the beginning of the year	(227)	(28)
Shares bought back during the year	(115)	(203)
Shares used for incentive scheme	–	4
Foreign currency translation reserves	(23)	(3)
Balance at the beginning of the year	(3)	(7)
Other comprehensive income	(20)	4
Translation loss on net investment in foreign subsidiary	(42)	–
Balance at the beginning of the year	–	–
Current period loss	(42)	–
Retained earnings	7 599	7 225
Balance at the beginning of the year	7 225	6 843
Profit for the year attributable to equity holders of Reunert	1 158	1 112
Cash dividends declared and paid	(772)	(730)
Transfer from reserves	(12)	–
Equity attributable to equity holders of Reunert (carried forward)	7 438	7 138

<b>R million</b>	<b>Audited 2018</b>	Audited 2017
Equity attributable to equity holders of Reunert (brought forward)	<b>7 438</b>	7 138
Non-controlling interests	<b>88</b>	105
Balance at the beginning of the year	<b>105</b>	81
Share of total comprehensive income	<b>(9)</b>	34
Dividends declared and paid	<b>(9)</b>	(15)
Net changes in non-controlling interests	<b>1</b>	5
<b>Total equity at end of the year</b>	<b>7 526</b>	7 243

<sup>1</sup> In respect of the acquisition of further interests in Terra Firma Solutions (3,38%). Refer to note 10 – other transactions. R3 million of the transfer to retained earnings relates to the Terra Firma acquisition and R8 million relates to the finalisation of the put option in Ryonix Robotics.

<sup>2</sup> These are 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.

<sup>3</sup> Reunert shares bought back in the market and held by a subsidiary: 4 997 698 (2017: 3 392 422).

# SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

R million	Notes	Audited 2018	Audited 2017
EBITDA		1 699	1 635
Increase in net working capital		(498)	(225)
Other net non-cash movements		(79)	60
Cash generated from operations		1 122	1 470
Net cash interest income and dividends		20	70
Taxation paid		(445)	(375)
Dividends paid (including to non-controlling interests)		(781)	(745)
Net (outflow)/inflow from operating activities		(84)	420
Net outflow from investing activities		(597)	(21)
Capital expenditure		(162)	(143)
Net inflow arising from disposal of businesses		–	15
Gross cash flows on acquisition of businesses	10	(228)	(241)
Increase in total rental and finance lease receivables		(375)	(231)
Net other investments and loans (granted)/repaid		(3)	(2)
Dividends received from joint venture		–	30
Investments net of other capital proceeds <sup>1</sup>		171	551
Net outflow from financing activities		(85)	(386)
Shares issued		15	16
Investment in treasury shares		(115)	(203)
Net long-term borrowings raised/(repaid)		20	(199)
Shares acquired in terms of retention scheme		(2)	–
Net transactions with non-controlling interests		(2)	–
Exercise of Ryonix put option		(1)	–
<b>(Decrease)/increase in net cash resources</b>		<b>(766)</b>	<b>13</b>
<b>Net cash resources at the beginning of the year</b>		<b>1 325</b>	<b>1 312</b>
<b>Net cash resources at the end of the year</b>		<b>559</b>	<b>1 325</b>
Cash and cash equivalents		765	1 522
Foreign exchange translation adjustments on cash and cash equivalents <sup>2</sup>		11	–
Bank overdrafts		(126)	(138)
Foreign exchange translation adjustments on bank overdrafts <sup>2</sup>		(24)	–
Short-term borrowings		(67)	(59)
<b>Net cash resources at the end of the year</b>		<b>559</b>	<b>1 325</b>

<sup>1</sup> This includes R130 million withdrawal from investments in long-dated money market instruments (2017: R540 million).

<sup>2</sup> In the prior year, these effects were insignificant.

# SUMMARISED SEGMENTAL ANALYSIS

AT 30 SEPTEMBER 2018

R million	Audited 2018	% of total	Audited 2017	% of total	% change
<b>Revenue<sup>1</sup></b>					
Electrical Engineering	5 139	48	5 247	51	(2)
ICT	3 443	32	3 307	32	4
Applied Electronics	2 198	20	1 720	17	28
Other	15	–	14	–	7
<b>Total segment revenue</b>	<b>10 795</b>	100	10 288	100	5
Revenue from equity accounted joint venture in Electrical Engineering segment	(271)		(489)		–
Revenue from equity accounted associate in ICT segment	(29)		(26)		
Revenue from equity accounted joint venture in Other segment	(3)		–		
<b>Revenue as reported</b>	<b>10 492</b>		9 773		7
<b>Operating profit</b>					
Electrical Engineering	440	29	696	45	(37)
ICT <sup>2</sup>	792	51	635	41	25
Applied Electronics	380	25	276	18	38
Other	(73)	(5)	(59)	(4)	(24)
<b>Total segment operating profit</b>	<b>1 539</b>	100	1 548	100	(1)
Operating loss/(profit) from equity accounted joint venture in Electrical Engineering segment	9		(48)		
Operating profit from equity accounted associate in ICT segment	(3)		(3)		
Operating profit from equity accounted joint venture in Other segment	(3)		–		
<b>Operating profit as reported</b>	<b>1 542</b>		1 497		3

<sup>1</sup> Inter-segment revenue is immaterial and has not been separately disclosed.

<sup>2</sup> 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 elimination amounted to R146 million (2017: R125 million).

Should this operation be externally funded, this would result in a reduction of ICT's operating profit by the quantum of the external interest paid.

## Summarised segmental analysis continued

AS AT 30 SEPTEMBER 2018

R million	Audited 2018	% of total	Audited 2017	% of total
<b>Total assets</b>				
Electrical Engineering	2 978	28	3 115	31
ICT	4 662	45	3 952	39
Applied Electronics	2 443	23	1 854	18
Other <sup>3</sup>	370	4	1 168	12
<b>Total assets as reported</b>	<b>10 453</b>	100	10 089	100
<b>Total liabilities</b>				
Electrical Engineering	1 105	38	1 153	41
ICT	845	29	740	26
Applied Electronics	807	27	744	26
Other	170	6	209	7
<b>Total liabilities as reported</b>	<b>2 927</b>	100	2 846	100

<sup>3</sup> This mainly comprises properties and in the prior year mainly comprised properties and group treasury cash balances.

# NOTES

## 1 Basis of preparation

These preliminary summarised consolidated financial statements have been prepared in compliance with the framework concepts and the recognition and measurement requirements of International Financial Reporting Standards (IFRS) in effect for the group at 30 September 2018, and further comply with the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and the Financial Reporting pronouncements as issued by the Financial Reporting Standards Council. These summarised consolidated financial statements contain the minimum information as required by IAS 34 – Interim Financial Reporting, and comply 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 year ended 30 September 2018, were consistent with those applied in the prior year's audited consolidated annual financial statements. These accounting policies comply with IFRS.

R million	Audited 2018	Audited 2017
<b>2 Operating profit</b>		
Operating profit includes:		
– Cost of sales (excluding depreciation and amortisation)	6 999	6 309
– Other expenses (expenses excluding depreciation and amortisation)	1 976	1 859
– Other income	82	30
– Fair value gain on contingent purchase consideration	100*	–
– Depreciation and amortisation	157**	138**
– Included in other expenses above are:		
– Realised loss on foreign exchange and derivative instruments	(99)	(20)
– Unrealised gain on foreign exchange and derivative instruments	21	1
– Auditors' remuneration	25	24
<b>3 Net interest income and dividends</b>		
Interest income and dividends	60	113
Interest expense	(40)	(43)
Interest on unwinding of put option liability	(9)	(5)
Total	11	65

\* Includes routine movements of R23 million and a non routine movement of R77 million arising from the SkyWire fair value remeasurement.

\*\* Depreciation and amortisation allocated to cost of sales in gross margin calculations is R 51 million (2017: R57 million). Depreciation and amortisation allocated to other expenses is R106 million (2017: R81 million).

Notes continued

R million	Audited 2018	Audited 2017
<b>4 Empowerment transactions</b>		
IFRS 2 share-based payment cost of BBBEE transactions**	32	20
Professional costs related to BBBEE transactions	10	–
Taxation thereon	–	–
Net empowerment transactions after taxation	42	20
<b>5 Number of shares and earnings used to calculate earnings<sup>1</sup> per share</b>		
Weighted average number of shares in issue, net of treasury and empowerment shares, used to determine basic earnings, headline earnings and normalised headline earnings per share (millions of shares)	161	164
Adjusted by the dilutive effect of unexercised share options granted (millions of shares)	3	2
Weighted average number of shares used to determine diluted basic, headline and normalised headline earnings per share (millions of shares)	164	166
<b>6 Headline earnings</b>		
<b>6.1 Profit attributable to equity holders of Reunert</b>	<b>1 158</b>	1 112
<i>Headline earnings are determined by eliminating the effect of the following items from attributable earnings:</i>		
Net gain on disposal of assets (after a tax charge of R5 million and non-controlling interest (NCI) portion of Rnil) (2017: tax and NCI of Rnil)	(23)	(1)
<b>Headline earnings</b>	<b>1 135</b>	1 111

\*\* Included in the prior year charge is a donation to an empowerment structure for R1 million.

<sup>1</sup> The earnings used to determine earnings per share and diluted earnings per share are the profit for the year attributable to equity holders of Reunert of R1 158 million (2017: R1 112 million). (Refer to the statement of profit or loss.)

R million	Audited 2018	Audited 2017
<b>6</b>		
<b>6.2</b>		
<b>Headline earnings continued</b>		
<b>Normalised headline earnings<sup>1</sup></b>		
Headline earnings	1 135	1 111
<i>Normalised headline earnings are determined by eliminating the effect of the following items from headline earnings:</i>		
Empowerment transactions	42	20
Once-off IFRS 2 share-based payment cost of BBBEE transactions (tax and NCI of Rnil) (2017: tax and NCI of Rnil)	32	19
Professional fees for BBBEE transactions (tax and NCI of Rnil) (2017: tax and NCI of Rnil)	10	–
Once-off donation to empowerment structure (2017: tax and NCI of Rnil)	–	1
Acquisition transactions	(68)	9
Recurring professional fees for acquisitions (tax and NCI of Rnil) (2017: tax and NCI of Rnil)	9	9
Once-off contingent consideration fair value remeasurement (tax and NCI of Rnil) (2017: tax and NCI of Rnil) <sup>2</sup>	(77)	–
<b>Normalised headline earnings</b>	<b>1 109</b>	<b>1 140</b>

<sup>1</sup> 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 operation, 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.

The pro forma financial information should be read in conjunction with the unmodified Deloitte & Touche independent reporting accountants' reasonable assurance report thereon, which is available for inspection at the Company's registered office.

<sup>2</sup> In respect of SkyWire (refer to note 10). At year end the contingent purchase consideration was adjusted to R16 million, resulting in a fair value remeasurement gain of R77 million. This is disclosed in EBITDA in the statement of profit or loss.

Notes continued

R million	Audited 2018	Audited 2017
<b>7 Goodwill</b>		
Carrying value at the beginning of the year	921	737
Acquisition of businesses <sup>1</sup> (Note 10)	146	171
Adjustment to goodwill on finalisation of acquisition made in prior financial year	–	33
Disposal of a controlling interest in a subsidiary	–	(12)
Disposal of businesses	–	(9)
Exchange differences on consolidation of foreign subsidiaries	(14)	1
Carrying value at the end of the year	1 053	921
<b>8 Long-term borrowings</b>		
Total long-term borrowings (including finance leases)	100	84
Less: short-term portion (including finance leases)	(18)	(11)
	82	73

<sup>1</sup> At 30 September 2018, the purchase price allocation of the acquisitions made in 2018 have not been finalised and therefore the amounts reported are provisional and subject to change.

R million	Audited 2018	Audited 2017
<b>9 Put option liability</b>		
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. During the current year the Ryonic put obligation was re-negotiated and settled.		
<i>A reconciliation of the closing balance is as below:</i>		
Balance at the beginning of the year	121	–
Raised at acquisition at fair value	–	116
Fair value remeasurements	(9)	–
Payment to option holder (Ryonic)	(1)	–
Unwinding of discount	9	5
<b>Balance at the end of the year</b>	<b>120</b>	<b>121</b>

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

For Terra Firma, the fair value of the put option liability has been determined using a discounted cash flow valuation technique and is 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%, 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.

## Notes continued

R million	Audited 2018
<b>10 Acquisition of businesses</b>	
During the current period the group made the following acquisitions:	
> <b>SkyWire Proprietary Limited:</b> With effect from 1 March 2018, the group acquired 100% of the business and related assets of SkyWire, a provider of broad band connectivity, in an asset transaction. The R146 million in goodwill arising from the acquisition is attributable to the expected high growth in this business and the ability to harvest significant synergies through the ICT segment's distribution network. As the ICT segment in the Reunert group is seeking to diversify its product offerings, and its existing services depend on reliable high-speed data connections, SkyWire data-access products provide a natural extension of the segment's service offering. Synergies will also be obtained from the vertical integration with the group's other businesses in the ICT Segment. A contingent purchase consideration amounting to R93 million was raised on acquisition <sup>1</sup> . This is disclosed in note 13.	205
> <b>Dopptech Proprietary Limited:</b> With effect from 1 March 2018, the group acquired 100% of the share capital of Dopptech Proprietary Limited. An intangible asset of R51 million was valued on acquisition attributable mainly to the customer relationships in key geographic regions not accessible to the group as well as patents currently in use. The company has a well-developed R&D capability in electro-mechanical engineering that will assist with product development within the Applied Electronics segment. A contingent purchase consideration amounting to R17 million was also raised on acquisition. This is disclosed in note 13.	20
> <b>Other transactions:</b>	
– During the current year the group increased its holding in Terra Firma Solutions Proprietary Limited from 51% to 54,38%.	4
– The group purchased the remaining 25,1% of Ryonic Robotics Proprietary Limited from the existing non-controlling shareholder.	1
Direct cash cost	230
Net borrowings acquired on acquisition	3
Net cash flows on acquisition of businesses <sup>2</sup>	233
Contingent purchase considerations	110
<b>Total purchase consideration</b>	<b>343</b>

<sup>1</sup> This contingent purchase consideration was finalised and remeasured to R16 million at the financial year end (refer to note 6).

<sup>2</sup> Reflected in the statement of cash flows in the following lines:

– gross cash flows on acquisition of business

– incorporated as part of net transactions with non-controlling interests

– exercise of Ryonic put option

R228 million

R4 million

R1 million

R million	Audited 2018
<b>10 Acquisition of businesses continued</b>	
<i>Gross assets acquired and liabilities taken over:</i>	
Property, plant and equipment and intangible assets	235
Inventory	2
Receivables	2
Payables	(1)
Deferred taxation	(46)
Goodwill	146
Non-controlling interests	1
Transactions with non-controlling interests	3
Put option liability	1
<b>Net assets acquired</b>	<b>343</b>
Revenue since acquisition	71
Profit after taxation since acquisition <sup>1</sup>	1
Revenue for the 12 months ended 30 September 2018 as though the acquisition dates had been 1 October 2017	119
Profit after taxation for the 12 months ended 30 September 2018 as though the acquisition dates had been 1 October 2017 <sup>2</sup>	2

The value of uncollectible accounts receivable at acquisition was negligible.

## 2017

Refer to 2017 published results.

<sup>1</sup> Includes the after tax effect of R13 million of additional depreciation and amortisation since acquisition. The additional depreciation and amortisation relate to the revalued plant and equipment and intangible assets on acquisition.

<sup>2</sup> Includes the after tax effect of R22 million of depreciation and amortisation as noted in 1 above had the acquisition been 1 October 2017.

## Notes continued

### 11 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 (e.g. dividends).

The amounts involved are not material to the group's results.

At 30 September 2018, Cafca's share capital and reserves amounted to US\$16 million (2017: US\$15 million) after the declaration in 2018 of a dividend of US\$3.5 million. Reunert has applied for the repatriation of its portion of the dividend, but permission has not yet been received. If permission is not received, the cash proceeds will be re-advanced to the company as a shareholder loan.

### 12 Related party transactions

R million					Lease	Treasury
Counterparty	Relationship	Sales	Purchases	payments	shares	
All related-party transactions, trading account and loan balances are on the same terms and conditions as those with non-related parties.						
<b>September 2018</b>						
CBI-electric Telecom						
Cables Proprietary Limited	A joint venture	2	5	–	–	
Oxirostax Proprietary Limited (Nashua Winelands)	An associate	16	2	–	–	
Bargenel Investments Proprietary Limited	Owns 18,5m Reunert shares	–	–	–	–	276
Lexshell 661 Investment Proprietary Limited	A joint venture	–	–	5	–	
<b>September 2017</b>						
CBI-electric Telecom						
Cables Proprietary Limited	A joint venture	3	35	–	–	
Oxirostax Proprietary Limited (Nashua Winelands)	An associate	2	22	–	–	
Bargenel Investments Proprietary Limited	Owns 18,5m Reunert shares	–	–	–	–	276
Lexshell 661 Investment Proprietary Limited	A joint venture	–	–	1	–	

R million	Audited 2018	Audited 2017
<b>13 Contingent purchase considerations</b>		
As part of the acquisitions of SkyWire and Dopptech (note 10), the group recognised contingent purchase considerations on these acquisitions as follows:		
Balance at the beginning of the year	–	–
Transfer from provisions <sup>1</sup>	27	–
Raised at acquisition at fair value (SkyWire and Dopptech)	110	–
Fair value remeasurements	(100)	–
<b>Balance at the end of the year<sup>2</sup></b>	<b>37</b>	–

<sup>1</sup> In 2018, the Omnigo purchase consideration was transferred to the contingent consideration category under trade and other payables. The acquisition of SkyWire and Dopptech in 2018 resulted in additional contingent consideration for the current year. Refer to note 10. Due to the materiality of the amounts on acquisition of these businesses, all contingent considerations have been separately disclosed.

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

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 year.

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.

## Notes continued

### 14 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.

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### 15 Events after reporting date

No events have occurred after the reporting date that require additional disclosure or adjustment to the results presented.

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### 16 Audit opinion

These summarised consolidated financial statements were derived from the consolidated financial statements and are consistent in all material respects with the group's consolidated financial statements. The directors take full responsibility for the preparation of the summarised consolidated financial statements. The auditors, Deloitte & Touche, have issued unmodified audit opinions on the consolidated financial statements and on these summarised consolidated financial statements for the year ended 30 September 2018 and the audit opinions and consolidated financial statements are available for inspection at Reunert's registered office. The audit was conducted in accordance with the International Standards on Auditing. The auditor's report does not necessarily report on all information contained in this announcement. Shareholders are, therefore, advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of that report together with the accompanying financial information from Reunert's registered office. Any reference to future performance included in this announcement has not been reviewed or reported on by the auditors.

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# ADDITIONAL INFORMATION

<b>R million (unless otherwise stated)</b>	<b>Audited 2018</b>	Audited 2017
Current ratio (:1)	<b>2,3</b>	2,4
Quick ratio (:1)	<b>1,7</b>	1,8
Dividend yield (%)*	<b>6,5</b>	7,0
Return on capital employed (%)	<b>19,5</b>	19,8
Net number of ordinary shares in issue (million)	<b>161</b>	162
Number of ordinary shares in issue (million)	<b>185</b>	185
Less: Empowerment shares (million)	<b>(19)</b>	(19)
Less: Treasury shares (million)	<b>(5)</b>	(4)
Capital expenditure	<b>162</b>	143
> expansion	<b>106</b>	98
> replacement	<b>56</b>	45
Capital commitments in respect of property, plant and equipment	<b>83</b>	39
> contracted	<b>35</b>	20
> authorised not yet contracted	<b>48</b>	19
Commitments in respect of operating leases	<b>252</b>	126
Contingent liabilities**	<b>–</b>	–

\* Calculated as the total dividend out of 2018 profits (interim 125 cents per share and final 368 cents per share) (2017: 120 cents per share and 354 cents respectively) divided by a Reunert share price of 7 600 cents (2017: 6 772 cents), being the closing market price on 28 September 2018.

\*\* 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 summarised consolidated statement of financial position at the financial year end.

Definitions of ratios and other financial terms are incorporated in the Integrated Report.

# ADMINISTRATION

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## **REUNERT LIMITED**

Incorporated in the Republic of South Africa  
Reg. No 1913/004355/06  
Ordinary share Code: RLO ISIN code: ZAE000057428  
("Reunert", "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*

## **Registered office**

Nashua Building  
Woodmead North Office Park  
54 Maxwell Drive  
Woodmead, Sandton  
PO Box 784391  
Sandton, 2146  
Telephone +27 11 517 9000

## **Income taxation reference number**

9100/101/71/7P

## **Transfer secretaries**

Computershare Investor Services Proprietary Limited  
Rosebank Towers  
15 Biermann Avenue  
Rosebank, 2196  
PO Box 61051  
Marshalltown, 2107

## **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 financial year ended 30 September 2018 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*

## **Investor enquiries**

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For additional information log on to the Reunert website at [www.reunert.com](http://www.reunert.com).

20 November 2018 (publication date)