

***Provisional
condensed reviewed
consolidated financial
statements***

*and cash dividend
declaration for the year
ended 30 September 2020*



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Commentary

Overview

Reunert's 2020 financial performance, as set out in the provisional condensed reviewed consolidated financial statements, has been negatively impacted by three distinct issues:

> the primary issue was the COVID-19 pandemic, which disrupted the Group's operations during the national lockdown.

This, together with the predicted future impact of COVID-19 on the Group's businesses, gave rise to the need to raise provisions for impairments and expected credit losses (ECL) in terms of the forward-looking requirements of International Financial Reporting Standards (IFRS);

> underperformance of the Electrical Engineering segment; and

> a once off abnormal credit write-off at Quince Capital (Pty) Ltd (Quince), the Group's in-house rental finance provider.

These three issues were the drivers of the Group's lower financial performance when compared to the prior year.

Importantly, the operational and financial performance of the Group, subsequent to recommencing operations under COVID-19 regulations after the national lockdown levels 5 and 4, have been more positive than originally anticipated. In the fourth quarter of the 2020 financial year, the Group achieved 90% of the core operating profit¹ earned in the comparative quarter of the 2019 financial year. Free cash flow (FCF)² generation, measured as a percentage of earnings before interest, tax, depreciation and amortisation (EBITDA), has also returned to pre-COVID-19 levels. Whilst recognising that there remains much economic uncertainty ahead, management is of the view that the fourth quarter performance represents the strength of Reunert's underlying businesses in the economic conditions our key markets are likely to face.

¹ Core operating profit = operating profit as reported, adjusted for the impact of items such as profit and loss on disposal of assets, credit write-offs and ECLs recognised. See table below.

² Free cash flow = Cash generated from operations less (cash interest paid plus cash tax paid) plus cash interest and dividends received less replacement property, plant and equipment and intangible assets.

Group results

Reunert's 2020 financial performance was adversely affected by the three issues described above and the Group's revenue decreased by 24,9% to R8 046 million (2019: R10 714 million). The Group's operating profit decreased by 77,4% to R307 million (2019: R1 361 million), with headline earnings per share of 115 cents (2019: 573 cents) and earnings per share of 29 cents (2019: 490 cents).

The Group's efforts to manage costs and conserve cash were successful and FCF recovered strongly after COVID-19 lockdown levels 5 and 4 were lifted. The full year cash conversion of the Group remained in line with its historical norms and R946 million of FCF (2019: R1 313 million) was achieved, a conversion ratio of 83,5% (2019: 84,8%) of EBITDA before impairments of financial assets.

Key earnings metrics

	Measurement criteria	2020	2019	% change
Revenue	Rm	8 046	10 714	(25)
Operating profit	Rm	307	1 361	(77)
Profit for the year	Rm	7	804	(99)
Earnings per share	cents	29	490	(94)
Headline earnings per share	cents	115	573	(80)
Total cash dividend per share for the year	cents	257	513	(50)

Reconciliation of core operating profit to operating profit per segment

For the year ended 30 September 2020

Rm	EE	ICT	2020 AE	Other	Total	EE	ICT	2019 AE	Other	Total
Core operating profit/(loss)	28	604	268	(33)	867	320	770	359	(73)	1 376
Profit on sale of assets	3	–	1	–	4	–	–	2	2	4
Segment operating profit/(loss)	31	604	269	(33)	871	320	770	361	(71)	1 380
Credit write-off and expected credit losses	(26)	(541)	(19)	–	(586)	3	(22)	(3)	–	(22)
Operating loss/(profit) from equity accounted joint ventures	30	–	–	(5)	25	11	–	–	(4)	7
Operating profit from equity accounted associate	–	(3)	–	–	(3)	–	(4)	–	–	(4)
Operating profit per the statement of profit or loss	35	60	250	(38)	307	334	744	358	(75)	1 361

Fourth quarter financial performance

Reunert's businesses have fully embraced the realities of operating under the constraints of COVID-19. All the Group's businesses have implemented South African Government regulations and guidelines. In accordance with these regulations, the recommended health monitoring, screening procedures and social distancing practices have been implemented. To create a safe working environment all employees have been provided with hand sanitisers and the required Personal Protective Equipment (PPE) to perform their job functions. Up to the year end, Reunert had 126 employees who tested positive for COVID-19, very fortunately, there had also been a full recovery of 96% of the employees so affected and no fatalities.

The Group's businesses have adapted quickly and increased their resilience as they met their customer and market demands whilst ensuring its employees were managed with empathy in safe and healthy working environments. The Company's Business Continuity Plans are comprehensive, and Reunert believes them to be adequate in the event of a second wave of COVID-19 infections.

All three of the Group's segments performed well during the fourth quarter and were profitable. The Group delivered a core operating profit of R463 million (2019: R515 million) for the fourth quarter, which is 90% of the comparable quarter in the prior year. This performance reflects the strength of the Group's businesses and the resilience and responsiveness they have demonstrated since the lockdown restrictions were lifted.

The Group's cash flow recovered strongly in the fourth quarter resulting in FCF of R837 million (2019: R798 million) due to strict cash and cost management implemented since the COVID-19 lockdown was declared.

COVID-19 impact

The COVID-19 pandemic impacted Reunert through:

- > a material loss of revenue during the third quarter of the 2020 financial year when the national state of disaster lockdown levels 5 and 4 were in place;
- > depletion of cash resources in order to support the Group's operations and employees during the lockdown levels 5 and 4 when normal operations were suspended;
- > mark-to-market losses on export hedge instruments as the rand weakened rapidly; and
- > the impact of the IFRS forward-looking requirements resulting in the impairment of goodwill and property, plant and equipment at the cable factories and increased ECL recognised at Quince.

Abnormal credit write-off

An abnormal credit write-off resulted from an external fraud perpetrated against Quince by a non-connected, independent third-party dealer. A comprehensive external forensic investigation has been completed by Bowmans and has resulted in a credit write-off of R298 million, which was reported as part of the interim financial results for the six months ended 31 March 2020.

In the period since the interim reporting, the following actions have been completed:

- > the forensic investigation determined that no Quince employee had a material non-disclosed conflict of interest or that any criminal or deliberate misconduct facilitated the external fraud;
- > the Group commissioned an independent review of the enterprise risk management framework at Quince to ensure the risk governance and control framework is appropriate. The outcome from this investigation identified various areas where functions and processes within Quince's Credit Management could be strengthened to improve monitoring and oversight. These recommendations are in the process of being implemented.

> finally, a detailed assessment of the balance of Quince's lease book is being undertaken. At the date of publishing, R1 660 million (61% of the Quince lease book) has been assessed and the review of the remainder is scheduled to be completed by 31 March 2021. No material incorrect information has been found. An immaterial number of administrative omissions were identified, which have subsequently been corrected. The collections, since 1 June 2020, have continued at the rate that Quince was achieving prior to the COVID-19 lockdown.

The in-depth assessment of the Quince loan book has validated the performance thereof and the risk governance and control framework improvements will strengthen Quince's resilience.

Cable businesses

The cable businesses suffered a material underperformance in the 2020 financial year, primarily due to a seven-week labour disruption at African Cables in the first quarter, significant foreign exchange losses at Zamefa in Zambia, and weak infrastructure investment demand across the businesses' key Southern African markets. During the second half of the financial year, the financial performance of the cable businesses was negatively impacted due to the inability to manufacture during lockdown levels 5 and 4.

Pleasingly, post lockdown all cable businesses recovered well and the efficiencies achieved in the factories have enabled profitable performances despite moderate market volumes.

Disposal of subsidiaries

In July 2020, the Group disposed of its shareholding in PanSolutions. The legacy consumer electronic business was no longer aligned to the Group's ICT Segment Strategy and has made an immaterial contribution to the Segment's financial results for several years.

The Group has received a binding offer to dispose of 18% of its unconsolidated Zimbabwean cable operations. The Group is in the process of concluding the transaction and the action is commensurate with the Group's objective to reduce its exposure to its African power cable operations in Zambia and Zimbabwe.

Capital expenditure

During the year under review, the Group invested R32 million (2019: R56 million) in the replacement of property, plant and equipment and a further R138 million (2019: R102 million) to expand operations. All expenditure was financed out of internal cash generation and represented 17,3% (2019: 11,5%) of FCF before replacement capital expenditure.

Cash resources and cash liquidity

Considerable effort was put into managing the statement of financial position, and in particular working capital, to mitigate the impact of COVID-19 on the cashflow of the businesses. This resulted in a R21 million release from working capital despite having to restart the working capital cycle after the hard national lockdown. This enabled the Group to generate R946 million (2019: R1 313 million) in FCF despite the significant operational and other challenges as outlined above.

At the financial year end, the Group's net cash resources amounted to R323 million (2019: R616 million) which, together with the significant lines of credit available to it, ensures that the Group is well positioned to take advantage of opportunities and has the financial strength to address further softening in economic conditions that may arise.

Segmental review

Electrical Engineering (EE)

The cable businesses faced significant challenges during the reporting year as previously described. This resulted in the segment's revenue decreasing by 30,9% to R3 767 million (2019: R5 457 million) with a core operating profit of R28 million (2019: R320 million).

In Zambia the liquidity position remained constrained. The Government removed input value added tax (VAT) on copper cathode with effect from 1 January 2020, resulting in Government receivables no longer increasing due to VAT refunds on copper cathode purchases.

During most of the financial year, the repayment of the outstanding Zambian Government receivables (primarily VAT refunds) to Zamefa was slow, resulting in the company's external, hard currency, borrowings remaining at inflated levels. Consequently, Zamefa suffered material foreign exchange losses as the exchange rate weakened from ZMW13,10:1US\$ to ZMW20,05:1US\$, over the reporting period. These foreign exchange losses reduced the segment's operating results by R101 million.

During the financial year, the shareholder loan was restructured with the result that the risk of significant foreign exchange losses, should the kwacha depreciate further against the dollar, has been reduced. Post the financial half year, the receipt of government receivables accelerated and a total of ZMW154 million was received. The total outstanding government debt by year end accordingly decreased to ZMW96 million (2019: ZMW250 million) which provides Zamefa with an opportunity to slowly increase throughput as working capital improves.

Segmental review *continued*

EE continued

The telecoms factory continues to face challenges due to low volumes and continues to focus on operational efficiencies, cost reduction and cash protection.

The circuit breaker business had a solid year. Local volumes continued to be under pressure although, the export performance has been excellent and more than replaced the decrease in local volumes. Our subsidiaries in both Australia and the USA performed materially better than the prior year and the exports into Europe and China also continued to grow significantly. This business' telecommunication solutions division, specifically, had a strong year as the pandemic led to a significant investment in this market.

Information Communication Technology (ICT)

The COVID-19 hard lockdown had a material impact on the segment's performance and the ICT segment's strong operational performance in the first half of the financial year, weakened in line with the reduced activity in the second half of the 2020 financial year. The segment's core operating profit fell by 21,6% to R604 million (2019: R770 million) while revenue decreased by 22,0% to R2 524 million (2019: R3 236 million).

The Office Automation Cluster secured pleasing hardware sales as the company continued to improve its market share. The Total Workspace Provider strategy accelerated with the addition of Energy Solutions' and PC-as-a-Service's revenues for the first time, which augmented existing revenue streams and resulted in an increase of 19% in complementary revenues through the channel over the corresponding period.

The Communications Cluster delivered a positive performance despite the interruptions from the COVID-19 lockdown. New fixed line voice deals continued to grow strongly with record new sales concluded in the 2020 financial year. ECN successfully implemented the new best-in-class operational system and the benefits of the operational efficiencies were realised in the 2020 financial year. ECN's diversified revenue streams of the cloud-based Virtual PBX (VBX) and last mile broadband connectivity sales both continued to accelerate and augment the company's core fixed-line voice income. Skywire expanded its operational network and entered 19 new regions during the financial year. It continues to operate in line with its investment case and growth is expected to accelerate in the 2021 financial year.

The Finance Cluster's gross lease and loan book at the financial year end was R2 783 million (2019: R3 016 million). The book initially grew on the back of the improved hardware and complementary product sales in the Office Automation channel but was impacted by the credit write-off of R298 million. No further increase in ECL beyond what was recognised in the interim results for the six months to 31 March 2020, was considered necessary at year end.

Applied Electronics Segment (AE)

Although the AE segment rebounded strongly, after the COVID-19 lockdown, revenue for the year decreased by 16,8% to R1 951 million (2019: R2 346 million) while core operating profit for the year decreased by 25,3% to R268 million (2019: R359 million).

Reutech Communications and Reutech Radar Systems both delivered an excellent year-on-year improvement in their financial performance as they continue to deliver against their strong export order books. Reutech Communications delivered another record year as operational efficiencies and good export volumes continue to support the local demand.

Fuchs' performance reduced, as expected, due to the large export order that did not repeat in the year under review. Despite this the company delivered a profit, as sales into new geographies lifted its performance.

Both Nanoteq and Omnigo delivered strongly into their export orders which resulted in them each contributing a positive financial performance. Good export orders have been received for the ensuing financial year and their strong performance is therefore expected to continue.

Terra Firma was materially impacted by the COVID-19 pandemic as a lack of site access delayed project recommencement well into June 2020. The market fundamentals and associated demand for distributed generation are exciting and the company is expected to continue to grow strongly.

Directorate

With effect from 1 November 2020, Mr M Husain was appointed as an independent non-executive director. Mr M Husain will serve on the Investment Committee, Nomination and Governance Committee and Remuneration Committee. Mr Husain is also appointed as the chair-elect of the Board and will assume this role by no later than the annual general meeting of Reunert to be held in February 2022, as agreed between the Nomination & Governance Committee, the current chair (Mr TS Munday) and Mr Husain. Mr Husain will be provided with the opportunity to familiarise himself with the Board and the Reunert group of companies during the months ahead, before he succeeds to the role of chair.

With effect from 31 December 2020, Ms Karen Louw, who is primarily responsible for the company secretarial function of the Company, through its registered company secretary, being Reunert Management Services Proprietary Limited, has tendered her resignation.

Appreciation

We owe our performance to the dedication and drive of the teams at each of our business units. These attributes were particularly evident this year where our employees faced multiple challenges and we thank them for their efforts and commitment. To all our customers, we value your continued support and commit to continue to create value in the years ahead. To our suppliers and other stakeholders, we value your continued support. To the Board, thank you for your wise counsel and support in a year where we faced new and unique challenges whilst ensuring our governance standards remained high.

Prospects

Reunert has recovered well from the business interruption of COVID-19. The fourth quarter financial and operational performance compares favourably against performance in the comparable period of last year and reflects the strength of the underlying businesses. The statement of financial position remains strong and cash flow generation supports the execution of the Group's strategic and operational objectives.

Whilst recognising that there remains much economic uncertainty ahead, the Group's businesses have robust business models and are likely to recover to prior-COVID-19 financial performances as the economy recovers and the government's infrastructure expenditure improves. In addition, the Group is serving markets that are anticipated to offer good structural growth and opportunities, including:

- > the renewable energy businesses;
- > the strong export businesses in the AE Segment and at CBI electric: Low Voltage; and
- > the ICT businesses, specifically the Communications Cluster, the Total Workspace Provider offerings, and the newly launched 4th Cluster, all of which focus on the provision of business-to-business solutions that support the future of work in our country.

Cash dividend

Whilst cognisant of the economic uncertainty going forward, the Group's FCF generating capacity remains intact. The actions taken by the Company to increase its resilience enable Reunert to declare a final dividend, albeit at a reduced level. Therefore, notice is hereby given that a gross final cash dividend No. 189 of 192,0 cents per ordinary share (September 2019: 383,0 cents per ordinary share) has been declared by the directors for the year ended 30 September 2020.

The dividend has been declared from retained earnings, bringing the total dividends declared for the year to 257,0 cents per ordinary 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 153,6 cents per ordinary share (September 2019: 306,4 cents per ordinary share).

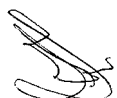
The issued share capital at the declaration date is 184 969 196 ordinary shares.

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

Last date to trade (<i>cum dividend</i>)	Tuesday, 19 January 2021
First date of trading (<i>ex dividend</i>)	Wednesday, 20 January 2021
Record date	Friday, 22 January 2021
Payment date	Monday, 25 January 2021

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 20 January 2021 and Friday, 22 January 2021, both days inclusive.

On behalf of the Board



Trevor Munday

Chair



Alan Dickson

Chief Executive Officer



Nick Thomson

Chief Financial Officer

Sandton, 23 November 2020

Condensed consolidated statement of profit or loss

For the year ended 30 September 2020

Rm	Notes	Reviewed 2020	Audited 2019 ¹	% change
Revenue	2	8 046	10 714	(25)
EBITDA before impairment of financial assets		1 133	1 548	(27)
Credit write-off	5	(298)	—	100
Expected credit losses	5	(288)	(22)	1 209
Impairment of financial assets	5	(586)	(22)	2 564
EBITDA ²		547	1 526	(64)
Depreciation and amortisation		(240)	(165)	45
Operating profit	3	307	1 361	(77)
Interest and dividend income	4	41	44	(7)
Interest expense	4	(83)	(59)	41
Profit before impairment of non-financial assets, loss on disposal of subsidiaries and empowerment transactions		265	1 346	(80)
Impairment of non-financial assets				
Impairment of goodwill	6	(75)	(67)	12
Impairment of property, plant and equipment	6	(4)	(40)	(90)
Loss on disposal of subsidiary	7	(20)	(44)	(55)
Empowerment transactions		—	(3)	(100)
Profit before tax		166	1 192	(86)
Tax		(82)	(387)	(79)
Profit after tax		84	805	(90)
Share of joint ventures' and associate's loss		(77)	(1)	7 600
Profit for the year		7	804	(99)
(Loss)/profit for the year attributable to:				
Non-controlling interests		(40)	14	(386)
Equity holders of Reunert		47	790	(94)
Earnings per share (cents)				
Basic	8,9	29	490	(94)
Diluted	8,9	29	484	(94)

¹ Due to the significance of the credit write-off and expected credit losses for the current year, the Group has provided additional disclosure by separately disclosing these. The movements in expected credit losses is re-presented on the face of the statement of profit or loss. This is for year on year disclosure comparability.

² Earnings before net interest, tax, depreciation and amortisation, impairment of goodwill and property, plant and equipment, loss on disposal of subsidiary and empowerment transactions. EBITDA includes interest income received in Quince Capital.

	Notes	Reviewed 2020	Audited 2019	% change
Other measures of earnings per share (cents)				
Headline	8,9	115	573	(80)
Diluted headline	8,9	115	566	(80)
Total cash dividend per share for the year (cents)		257	513	(50)

Condensed consolidated statement of other comprehensive income

For the year ended 30 September 2020

Rm	Reviewed 2020	Audited 2019
Profit for the year	7	804
Other comprehensive income, net of tax:		
Items that may be reclassified subsequently to profit or loss	(56)	5
Translation differences of foreign businesses	30	12
Recycled to the statement of profit or loss on disposal of foreign business	–	(10)
Translation loss on net investment in subsidiary*	(87)	(5)
Fair value remeasurement of financial asset	1	8
Total comprehensive income	(49)	809
Total comprehensive income attributable to:		
Non-controlling interests	(62)	16
– Share of (loss)/profit for the year	(40)	14
– Share of other comprehensive income	(22)	2
Equity holders of Reunert	13	793
– Share of profit for the year	47	790
– Share of other comprehensive income	(34)	3

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

Condensed consolidated statement of financial position

As at 30 September 2020

Rm	Notes	Reviewed 2020	Audited 2019 ¹
Non-current assets			
Property, plant and equipment		795	823
Investment property		31	39
Right-of-use assets	12	186	–
Intangible assets		445	430
Goodwill	6	924	999
Other investments and loans		61	60
Investments in joint ventures and associate		74	154
Leases and loans receivable		1 778	2 082
Deferred tax assets		172	143
		4 466	4 730
Current assets			
Inventory		1 483	1 376
Leases and loans receivable		795	893
Trade and other receivables		1 895	2 293
Tax receivable		46	63
Derivative financial assets		12	10
Cash and cash equivalents		1 029	939
		5 260	5 574
Total assets		9 726	10 304
Equity attributable to equity holders of Reunert		6 505	7 312
Non-controlling interests		38	119
Total equity		6 543	7 431
Non-current liabilities			
Deferred tax liabilities		89	138
Equity forward contract		59	–
Long-term loans		15	57
Lease liabilities	12	162	–
Share-based payment liability		–	14
		348	209
Current liabilities			
Put option liability	10	–	120
Equity forward contract		16	–
Current portion of long-term loans		1	3
Lease liabilities	12	56	–
Share-based payment liability		6	18
Derivative financial liabilities		28	16
Provisions		123	154
Tax liabilities		50	28
Contract liabilities		255	242
Trade and other payables		1 594	1 760
Bank overdrafts and short-term facilities		706	323
		2 835	2 664
Total equity and liabilities		9 726	10 304

¹ In the interest of clear presentation certain of the comparative numbers have been disaggregated into their component parts. Accordingly the comparatives have been re-presented.

Condensed consolidated statement of cash flows

For the year ended 30 September 2020

Rm	Reviewed 2020	Audited 2019
EBITDA	547	1 526
Cash paid to settle the Group's deferred bonus plan	(22)	—
Non-cash items*	611	(66)
Cash generated from operations before working capital changes	1 136	1 460
Decrease in net working capital	21	318
Cash generated from operations	1 157	1 778
Cash interest and dividends received	41	44
Cash interest paid	(75)	(50)
Tax paid	(145)	(403)
Dividends paid (including to outside shareholders in subsidiaries)	(727)	(817)
Net cash inflow from operating activities	251	552
Net cash outflow from investing activities	(333)	(418)
Replacement and expansion of property, plant and equipment and intangible assets	(170)	(158)
Acquisition of subsidiaries and businesses	—	(32)
Disposal of subsidiaries and businesses	(4)	15
Cash invested in loans receivable	(172)	(252)
Repayment of other investments and loans receivable	3	—
Other investments and loans granted	(1)	(1)
Dividend received from joint venture	3	3
Proceeds from disposal of property, plant and equipment	8	7
Net cash outflow from financing activities	(255)	(92)
Funds provided by equity holders of Reunert	1	14
Long-term loans raised	2	12
Long-term loans settled	—	(10)
Shares acquired for equity settled incentive scheme	(54)	(74)
Contingent consideration paid	(15)	(16)
Proceeds on disposal of shares to non-controlling interests	—	12
Purchase of additional shares in terms of a call option with non-controlling interests	(1)	(30)
Put option liability settled	(131)	—
Lease liabilities settled	(57)	—
(Decrease)/increase in net cash and cash equivalents	(337)	42
Net cash and cash equivalents at the beginning of the year as reported in the Statement of Financial Position	616	572
Net cash and cash equivalents at the end of the year before translation adjustments	279	614
Cash and cash equivalents	1 029	939
Bank overdrafts and short-term facilities	(706)	(323)
Bank overdrafts	(122)	(154)
Short-term facilities	(584)	(169)
Net cash and cash equivalents at the end of the year as reported in the Statement of Financial Position	323	616
Net exchange translation adjustments to net cash and cash equivalents	(44)	(2)
Net cash and cash equivalents at the end of the year before translation adjustments	279	614

* Includes credit write-off of R298 million and expected credit losses of R288 million (2019: R22 million).

Condensed consolidated statement of changes in equity

For the year ended 30 September 2020

Rm	Reviewed 2020	Audited 2019
Share capital	389	388
Balance at the beginning of the year	388	374
Issue of shares	1	14
Share-based payment reserves	217	229
Balance at the beginning of the year	229	256
In terms of conditional share plan (CSP)	9	1
Shares acquired to settle CSP	(54)	(74)
In terms of the empowerment transaction	—	3
Transfer from retained earnings	33	43
Equity transactions/put option with non-controlling shareholders	—	(108)
Balance at the beginning of the year	(108)	(108)
Net changes in non-controlling interests	14	(27)
Transfer from retained earnings	94	27
Empowerment shares ¹	(276)	(276)
Treasury shares ²	(342)	(342)
Equity forward contract ³	(75)	—
Balance at the beginning of the year	—	—
Recognised during the year	(75)	—
Foreign currency translation reserves	16	(11)
Balance at the beginning of the year	(11)	(23)
Other comprehensive income	27	2
Recycled to the statement of profit or loss on disposal of foreign subsidiary	—	10
Translation loss on net investment in foreign subsidiary	(109)	(47)
Balance at the beginning of the year	(47)	(42)
Other comprehensive income	(62)	(5)
Fair value reserve	7	6
Balance at the beginning of the year	6	—
Other comprehensive income	1	6
Retained earnings	6 678	7 473
Balance at 30 September 2018	—	7 599
IFRS 9 and 15 transitional adjustments	—	(56)
Balance at the beginning of the year	7 473	7 543
Profit for the year attributable to equity holders of Reunert	47	790
Cash dividends paid	(723)	(803)
Tax deduction in terms of CSP	8	13
Transfer to reserves	(127)	(70)
Equity attributable to equity holders of Reunert	6 505	7 312
Non-controlling interests	38	119
Balance at 30 September 2018	—	88
IFRS 9 and 15 transitional adjustments	—	(9)
Balance at the beginning of the year	119	79
Share of total comprehensive income	(62)	16
Cash dividends paid	(4)	(14)
Subscription for shares by non-controlling shareholder	—	43
Net changes in non-controlling interests	(15)	(5)
Total equity at the end of the year	6 543	7 431

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.

² Ordinary Reunert shares bought back in the open market and held by a subsidiary: 4 997 698 shares (2019: 4 997 698 shares).

³ At the end of the financial year, the Group, on behalf of the CSP, entered into a hedging forward contract with an independent third party in terms of which 2 346 930 Reunert ordinary shares will be acquired by the independent third party for purposes of hedging the Group's potential obligation to deliver Reunert ordinary shares to CSP participants.

Notes

For the year ended 30 September 2020

1. Basis of preparation

These provisional condensed reviewed consolidated financial statements ('condensed 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 2020;
- > South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides, as issued by the Accounting Practices Committee;
- > Financial Reporting pronouncements as issued by the Financial Reporting Standards Council;
- > Listings Requirements of the JSE Limited; and
- > the requirements of the Companies Act, No. 71 of 2008, of South Africa.

These condensed consolidated financial statements contain the minimum information as required by IAS 34 Interim Financial Reporting and were compiled under the supervision of NA Thomson CA(SA) Chief Financial Officer.

The Group's accounting policies applied for the year ended 30 September 2020, were consistent with those applied in the prior year's audited consolidated annual financial statements, except for the impact of the first time adoption of IFRS 16 Leases, the impact of which is set out in Note 13, and IFRIC 23. IFRIC 23 did not have an impact on the 2020 financial year. These accounting policies comply with IFRS.

The condensed consolidated financial statements for the year ended 30 September 2020 have been reviewed by Deloitte & Touche who have expressed an unmodified review conclusion.

Rm	Reviewed 2020	Audited 2019
2. Revenue		
Revenue from contracts with customers:		
Category of revenue		
Products	6 014	8 703
Services	1 581	1 482
	7 595	10 185
Timing of revenue recognition:		
Revenue recognised at a point in time	6 215	8 732
Revenue recognised over time	1 380	1 453
Total revenue from contracts with customers	7 595	10 185
Other revenue:		
Interest received on leases and loans receivable	412	425
Rental revenue	39	104
Total	8 046	10 714

Refer to the segmental analysis, for a disaggregation of the total revenue contribution by each segment.

Rm	Reviewed 2020	Audited ¹ 2019
3. Operating profit		
Included in operating profit are the following:		
Cost of sales	5 377	7 457
Less: depreciation and amortisation included in cost of sales ²	(58)	(58)
Cost of sales before depreciation and amortisation	5 319	7 399
Other income ³	35	80
Fair value remeasurement on contingent consideration	2	4
Total operating expenses	1 813	1 958
Impairment of financial assets		
Credit write-off	298	–
Expected credit losses	288	22
Less: depreciation and amortisation included in operating expenses ²	(182)	(107)
Total operating expenses before depreciation and amortisation	2 217	1 873
Included in cost of sales, other income or expenses:		
Profit on disposal of property, plant and equipment	4	2
Auditors remuneration		
– Audit fees	28	24
– Other fees	1	3
	29	27
Realised forex losses ⁴	42	66
Unrealised forex losses/(gains) ⁴	48	(92)
Net forex losses/(gains)	90	(26)
Research and development expenditure:		
Externally funded	153	132
Internally funded	19	20
	172	152
Employee costs (included in cost of sales and other operating expenses):		
Salaries and wages ⁵	1 600	1 874
Pension and provident fund contributions ⁵	192	198
Other staff costs	81	94
	1 873	2 166
Share-based payment expense ⁵	7	21
Write-down of inventory	5	2

¹ Additional disclosures have been incorporated to ensure alignment between this note and the annual financial statements. There have been no changes to actual numbers disclosed in the prior year.

² Depreciation and amortisation of property, plant and equipment and intangible assets that is considered to be part of cost of sales amounts to R50 million (2019: R58 million).
Depreciation of right-of-use assets considered to be part of cost of sales is R8 million (2019: not applicable).
Depreciation and amortisation of property, plant and equipment and intangible assets included in other expenses is R119 million (2019: R107 million).
Depreciation of right-of-use assets included in other expenses is R63 million (2019: not applicable).

³ Includes a put option liability fair value remeasurement loss of R3 million (2019: R9 million gain).

⁴ Transactions denominated in a foreign currency are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognised in the statement of profit or loss in the period in which they arise. Derivative instruments are initially measured at fair value at the date the derivative contract is entered into and are subsequently stated at fair value at each reporting date. The resulting gains or losses are recognised in the statement of profit or loss.

⁵ Payments to defined contribution retirement plans are charged as an expense as they fall due.

⁶ Included in share-based payment expense is a release of R3 million (2019: a charge of R9 million) relating to the Deferred Bonus Plan. This is classified as a cash-settled, share-based payment with the equivalent amount included in liabilities.

Rm	Reviewed 2020	Audited 2019
4. Interest income and dividends		
Dividend income	3	–
Interest earned on financial assets analysed by category of asset:		
Bank deposits	31	34
Other assets	7	10
Total interest income and dividends	41	44
Interest expense		
Loans, bank overdrafts and short-term facilities	(53)	(50)
Lease liability interest	(22)	–
Unwinding of discount of put option liability	(8)	(9)
Interest expense as per the statement of profit or loss	(83)	(59)
External interest expense in Quince (included in Group cost of sales as Quince is a finance business)	(28)	(13)
Total interest expense using the effective interest rate method	(111)	(72)
5. Impairment of financial assets		
Credit write-off in Quince	298	–
Expected credit loss	288	22
	586	22

Analysis of movement in the ECL

Rm	Opening balance	Raised during the year through the statement of profit or loss	Utilised during the year	Fx	Closing balance
2020					
Leases and loans receivable	41	219	(50)	–	210
Trade and other receivables	150	69	(14)	(13)	192
Credit write-off for leases and loans receivable		298			
Total impairment of financial assets disclosed in the statement of profit or loss		586			

The credit write-off resulted from an external fraud perpetrated against Quince Capital (Quince) by a non-connected independent third party dealer. A comprehensive external forensic investigation has been completed and has resulted in a credit write-off of R298 million, which was reported as part of the 31 March 2020 financial results. In the period since the 31 March 2020 published results the following actions have been completed:

- > An independent forensic investigation was conducted at Quince. This investigation, conducted by one of the country's leading legal firms, determined that no Quince employee had a material non-disclosed conflict of interest or that any criminal or deliberate misconduct facilitated the external fraud; and
- > The Group commissioned an independent review of the enterprise risk management framework at Quince to ensure the risk governance and control framework are appropriate. The outcome from this investigation identified areas where functions and processes within Quince's Credit Management can be strengthened to improve monitoring and oversight. These recommendations are in the process of being implemented.

Rm	Revised opening balance*	Raised during the year through the statement of profit or loss	Utilised during the year	Fx	Closing balance
2019					
Leases and loans receivable	38	12	(9)	–	41
Trade and other receivables	152	6	(8)	–	150
Credit write-off for trade and other receivables		4			
Total impairment of financial assets disclosed in the statement of profit or loss		22			

* After the IFRS 9 transitional adjustment.

5. Impairment of financial assets *continued*

Leases and loans receivable

The gross leases receivable relate to the present value of rental agreements discounted at the interest rate implicit in the agreements. These are entered into between Group-owned office automation franchises and the customer, which are repayable over varying periods up to a maximum of five years from inception of the agreement.

Notwithstanding that Quince purchases the underlying leases, and that ownership of the underlying asset is transferred to Quince on this acquisition, the arrangement between Quince and the non-owned franchise is for accounting purposes treated as a loan.

The Group applies the IFRS 9 general approach to measuring the expected credit losses (ECL) for leases and loans receivable.

This is calculated by applying a historical loss ratio to the balance of leases and loans receivable at each reporting date. The loss ratio for the leases and loans receivable 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.

Impact of COVID-19

Historical levels of credit impairment are now not considered representative of what is expected in terms of future defaults due to the COVID-19 pandemic. The impact of the national lockdown and the related significant reduction in economic activity and consequential predicted increase in business failures have made the estimation of future credit losses complex.

Historical methods used in the past have been modified due to changes in the macro economic conditions and the inter-relationship between key economic variables. For example, in the past when interest rates declined this would have been expected to have resulted in fewer defaults occurring. However, under COVID-19, defaults are expected to significantly increase despite the substantial decrease in interest rates.

Credit losses which rose by a factor of 2 post the 2008 financial crisis are expected to increase by factors of between 2 and 4 due to the impact of COVID-19.

In South Africa, the decline in economic activity is expected to be longer and recovery is forecast to be slower when compared to the global financial crisis. This impact is predicted to be particularly severe for smaller and medium-sized enterprises, which underpin a material portion of Quince's rental book.

Assets on which the loans and leases are based are likely to be less valuable and take longer to realise as more assets may become available into an environment of both weak demand due to the weakened economy and stretched balance sheets as a result of the COVID-19 pandemic.

The Group has considered the factors outlined above and used the following key assumptions in estimating the ECL as at 30 September 2020

Probability of default (PD)	9,3%
Loss given default (LGD)	63%
Exposure at default (EAD)	Exposure of receivables at 30 September 2020

In estimating the PD the following estimates and judgements were applied:

- > The Moody's expected rate of credit defaults which has increased from 3,5% pre-COVID-19 to 9,3% post-COVID-19 (11,5% at 31 March 2020).
- > This rate was tested for reasonableness and appropriateness by reference to data from external market information e.g. credit rating agencies.
- > Due to the uncertainty that COVID-19 brings to the impact on future economic activity, the estimates made involve a high degree of judgement. Economists have forecasted different scenarios in terms of the extent and period of recovery over the short and medium term. These recoveries range between U-shaped (base case) and L-shaped (worst case scenario). The Group has used the U-shaped scenario (base case) as its best estimate of the extent and period of recovery for its various operations and consequently for its customers.

The PD estimate of 9,3% is further corroborated by the following:

- > Reserve Bank predictions of the COVID-19 impact on the economy.
- > Economic forecasts of somewhere between a 10% to 12% decline in GDP in 2020, with a gradual U-shaped recovery thereafter.
- > Commentary by economists, who indicated that the low GDP growth in 2019 and the contraction in Q4: 2019 and Q1:2020 had already stretched the cash flows of small businesses before COVID-19.

The LGD rate used was obtained from the quoted recovery rate of the World Bank for South African debt of 37%. This was corroborated against the Moody's recovery rate for emerging markets. Due to the uncertainty of the impact for South Africa, this is currently the best independent and credible information available.

In estimating the expected LGD and given the scale of the predicted credit losses, the Group has increased the LGD to 63%.

5. Impairment of financial assets *continued*

Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition. In making this assessment, the Group considers quantitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In assessing the stage categorisation, receivables that are 30 days overdue are classified as stage 2 and receivables that are 90 days overdue are classified as stage 3.

Due to the impact of COVID-19 and the resulting increase in credit risk as well as the known events, the following is a categorisation of the different stages in accordance with IFRS 9.

Rm	Gross carrying amount before credit write-off and ECL	Expected credit loss			Net carrying amount after credit write-off and ECL
		Stage 1	Stage 2	Stage 3	
September 2020	2 783	(68)	(92)	(50)	2 573
September 2019	3 016	(41)	–	–	2 975

Trade and other 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 using a provision matrix and applying a loss ratio to an age analysis of trade receivables and contracts, which have been aggregated into groupings that represent, to a large degree, how the Group manages its receivables and contract assets, major risk type and similarities in risk and this also illustrates the spread of credit risk 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. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations.

6. Impairment of goodwill and property, plant and equipment

Goodwill

Goodwill represents amounts arising on business combinations and is measured as the sum of the consideration transferred to the seller, plus the amount of any non-controlling interests recognised through the transaction, and the fair value of the Group's previously held equity interest in the acquiree, if any; less the net of the acquisition date fair value of the identifiable assets acquired (including any intangible assets) net of the fair value of any liabilities and contingent liabilities assumed.

Rm	Reviewed 2020	Audited 2019
Carrying amount at the beginning of the year	999	1 053
Impairment of goodwill	(75)	(67)
Disposal of business	–	(62)
Acquisition of businesses	–	76
Exchange rate difference on consolidation of foreign subsidiaries	–	(1)
Carrying amount at the end of the year	924	999

Impact of COVID-19

The forecasts for this assessment were developed using consensus economic forecasts covering the period 2021 to 2023 which incorporated the impact of the COVID-19 pandemic on the South African economy, modified for our business units knowledge and understanding of expected customer requirements and their capacity to continue to transact.

6. Impairment of goodwill and property, plant and equipment *continued*

The Group impaired the goodwill which arose on acquisition of two of its subsidiaries: African Cables (R61 million) and Dynateq International (R14 million) and R4 million of property, plant and equipment in Polybox. In 2019, the Group impaired goodwill which arose on acquisition of two of its subsidiaries: Metal Fabricators of Zambia Plc (Zamefa) (R57 million) and Polybox (R10 million) and R40 million of property, plant and equipment in Zamefa.

African Cables

African Cables delivered a subdued performance for the 2020 financial year, primarily due to the following:

- > The low level of demand for power cable.
- > Weak level of investment by Government into infrastructure.
- > A seven-week labour disruption at African Cables during October and November 2019 which negatively impacted revenue and profitability.
- > Loss of sales due to COVID-19 and the resulting lockdown.

Although the business has secured framework tenders at Eskom and various municipalities, the impact of the reprioritisation of Government's expenditure on infrastructure due to the impact of COVID-19 remains uncertain. Management is of the view that this business is likely to continue to experience pressure on volumes over the medium term and have therefore used forecasts taking this uncertainty into consideration.

Dynateq

Dynateq's revenue is largely driven by securing contracts in the global defence sector. The business is dependent on the export market in various economies including the Middle East and Europe. Although a portion of the short-term order book is secured, management is of the view that this business is likely to experience pressure on volumes over the medium term.

The following information summarises the individual assumptions used to test for impairment of goodwill at a cash generating unit (CGU) level, using the value-in-use method.

Measurement currency	2020 Discount rate (pre-tax) %	2019 Discount rate (pre-tax) %	2020 Terminal growth rate %	2019 Terminal growth rate %	GROUP Goodwill		
					2020 Rm	2019 Rm	
Significant CGUs							
EE							
African Cables ¹	ZAR	22,1	21,3	4,0	4,0	–	61
ICT							
Nashua Office Automation	ZAR	20,3	18,0	4,0	4,0	203	203
Quince	ZAR	11,4	22,2	4,0	4,0	124	124
ECN	ZAR	20,6	17,8	4,0	4,0	140	140
SkyWire Technologies	ZAR	18,9	22,3	4,0	3,0	170	170
AE							
Omnigo	ZAR	22,1	19,7	4,0	4,5	40	40
Terra Firma Solutions	ZAR	21,0	19,4	4,0	4,0	88	88
Nanoteq	ZAR	22,7	19,6	4,0	4,0	69	69
Dynateq ¹	ZAR	20,7	19,5	4,0	4,0	–	14
Blue Nova Energy	ZAR	22,6	19,9	4,0	3,0	53	53
						887	962
Other ²	ZAR	20,6 – 22,5	19,2 – 20,7	4,0	4,0	37	37
Net carrying amount						924	999
Gross goodwill carrying amount						1 066	1 066
Less: accumulated impairment loss						(142)	(67)

¹ The recoverable amount is determined using the value-in-use approach. The recoverable amount is stated before the deduction of the carrying amount. The recoverable amount of African Cables and Dynateq are R856 million and R32 million respectively.

² Due to the COVID-19 pandemic being an impairment indicator in the current year, impairment testing was performed over the Reutech Communications entity as a CGU to ensure that the property, plant and equipment, intangible assets and right-of-use assets are appropriately assessed for impairment. In the prior year, it was performed a lower CGU level to which the goodwill is allocated. Due to this separate calculation Reutech comms was excluded from the aggregate balances.

6. Impairment of goodwill and property, plant and equipment *continued*

The following additional assumptions were used in the impairment tests at 30 September 2020.

The basis for the value-in-use calculations is the management approved budget for 2021.

The discount rate used is calculated as the weighted average cost of the different components of capital, being debt and equity (WACC). This is consistent with international best practice and covers the different industries in which the Reunert group operates. The discount rate is then converted to pre-tax discount rate as required by IAS 36 using an appropriate methodology.

The terminal growth rate is calculated using the South African consumer price index (CPI) as a basis and thereafter adjusted for various risk factors. This is used to extrapolate the cash flow projections beyond the period covered of 5 years.

Under the economic conditions that have arisen during the pandemic, revenue growth is a key consideration. Accordingly, management has undertaken a sensitivity analysis of the consequence of a 5% reduction in revenue on the cash flow from forecasts.

The results of the sensitivity analysis were that additional impairments would be required for African Cables (R152 million), Skywire (R53 million), Reutech Radar (R32 million) and Blue Nova Energy (R2 million).

If the terminal growth rates were decreased by 1%, no impairment would be required.

If the discount rates were increased by 1%, no impairment would be required.

The forecasted cashflows used in the impairment models were determined based on assumptions made with regards to revenue growth. These include an assessment of the level of secured and unsecured orders, recurrence of existing revenue contracts and potential tenders to be applied for.

Investment in joint venture

The outlook for CBI Telecoms remains uncertain due to a limited order book and combined with significant margin degradation due to competition. Declining volumes contributed to weak cash flow forecasts over the short to medium term. These factors together with the substantial loss to date have resulted in the management of CBI Telecoms impairing the carrying amount of its property, plant and equipment, intangible assets and right-of-use assets by R147 million. The impact of the impairment is included in the equity-accounting earnings from joint ventures for the year at R42 million (after tax).

A discount rate of 17% and a terminal value of 4% was used in the value-in-use calculation.

7. Disposal of business

Sale of Pansolutions Holdings Proprietary Limited (Pansolutions)

With effect from 1 July 2020 Reunert ICT Holdings sold the Pansolutions shares it owned for R1.

Rm	Reviewed 2020
Net assets disposed in Pansolutions:	
Leases and loans receivable	3
Inventory	20
Current and deferred tax	4
Trade and other receivables	12
Trade and other payables	(20)
Long-term loans	(2)
Short-term portion of long-term loans	(1)
Net carrying amount of assets disposed of	16
Consideration received	(4)
Cash received on sale	—
Less: cash on hand	4
Loss on disposal of subsidiary (net of tax of Rnil)	20

2019

Refer to 2019 Group audited annual financial statements.

Rm	Reviewed 2020	Audited 2019
8. Number of shares used to calculate earnings per share¹		
Weighted average number of shares in issue, net of empowerment and treasury shares, for basic earnings and headline earnings per share (millions of shares)	161	161
Adjusted by the dilutive effect of unexercised share options granted (millions of shares)	1	2
Weighted average number of shares for diluted basic and headline earnings per share (millions of shares)	162	163

¹ The earnings used to determine earnings per share and diluted earnings per share is the profit for the year attributable to equity holders of Reunert of R47 million (2019: R790 million).

Rm	Reviewed 2020	Audited 2019
9. Headline earnings		
Profit for the year attributable to equity holders of Reunert	47	790
Headline earnings are determined by eliminating the effect of the following items from attributable earnings:		
Goodwill impairment	75	67
Impairment of non-financial assets in a joint venture (after a tax credit of R14 million)	42	—
Loss on disposal of subsidiary	20	44
Impairment of property, plant and equipment (2019: after a tax credit of R6 million and NCI portion of R8 million)	4	26
Net gain on disposal of assets (after a tax charge of R1 million and NCI portion of R1 million) (2019: after a tax charge of R1 million and NCI portion of Rnil)	(2)	(3)
Headline earnings	186	924
10. Put Option Liability		
As part of the Terra Firma acquisition in 2017, the Group granted put options in favour of the non-controlling shareholders for 25% of the issued share capital. The put option was exercised in the current year.		
A reconciliation of the closing balance is as below:		
Balance at the beginning of the year	120	120
Fair value remeasurements	3	(9)
Unwinding of discount	8	9
Settlement	(131)	—
Balance at the end of the year	—	120
Less: current portion	—	(120)
Non-current portion	—	—

The majority of the put option for Terra Firma was settled in the current year resulting in the Group's shareholding increasing from 62,49% to 89,94%.

The obligation was classified as a level 3 instrument in the fair value hierarchy.

The put obligation represented the fair value of the put option liability which was determined using a discounted cash flow valuation technique based on the multiples stipulated in the sale and purchase agreement. Significant unobservable inputs include:

- > The 2020 forecast revenue and net profit after tax (NPAT);
- > The earnings multiples stipulated in the sale and purchase agreement; and
- > The discount rate of 8,0%.

Rm	Reviewed 2020	Audited 2019
11. Contingent considerations		
Reconciliation of carrying amount of contingent consideration financial liability		
Balance at the beginning of the year	41	37
Raised at acquisition at fair value	–	24
Settlement	(15) ¹	(16)
Fair value remeasurements	(2) ²	(4)
Balance at the end of the year³	24	41

¹ During the current year the Oculus R12 million contingent consideration was settled in full and R3 million settlement was made in respect of DoppTech contingent consideration.

² Arises on the remeasurement of the DoppTech purchase consideration.

³ The balance of the contingent consideration has been included in 'Trade and other payables,' on the statement of financial position.

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

Contingent considerations still in effect

DoppTech: the remaining contingent consideration for this business of R12 million is based on the achievement of specific key performance indicators as stipulated in the purchase agreement. R5 million of the contingent consideration has been settled in the current financial year, R3 million related to a cash settlement and R2 million to a fair value measurement.

Blue Nova Energy: a contingent consideration payable up to an amount of R12 million is based on the achievement of a future EBITDA target and key performance indicators stipulated within the purchase agreement. During the 2020 financial year the measurement period for the contingent consideration was extended by a further 12 months.

12. Change in Accounting Policy

IFRS 16 Leases

IFRS 16 specifies how leases will be recognised, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases either as operating or finance leases, with IFRS 16's approach to lessor accounting being substantially unchanged from its predecessor, IAS 17.

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The most significant impact for the Group of the adoption of the new standard has arisen from the various properties the Group leases and from its network site operating leases.

The Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated.

The Group reviewed contracts previously classified as leases under IAS 17 to determine whether the contract contains a lease on adoption date, and evaluated whether any significant contracts not previously accounted for as leases contained a lease under IFRS 16. The Group also reviewed whether any lease terms needed to be revised under IFRS 16.

The majority of leases to customers in the Group are contained in the ICT segment and are initiated through the Nashua channel. The franchise purchases the equipment from Nashua and this equipment is rented to the customer. A rental agreement is entered into with a customer (the lessee) to rent the equipment for a period of time and the contract is signed between the Nashua franchise or dealer and the customer.

12. Change in Accounting Policy *continued*

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. Where there is a lease, the Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones), with a monetary threshold of R100 000 per asset. For short-term and low value leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

For most contracts there is limited judgement needed to determine whether an agreement contains a lease; however, where the Group has contracts for the use of Fiber and other fixed telecommunications lines, judgement has been applied to determine whether the Group controls the line and therefore has a lease.

The lease liability and right-of-use asset are initially measured at:

- > the present value of the lease payments that are not paid at the commencement date, discounted by using its incremental borrowing rate; and
- > any initial direct costs incurred.

Judgements and assumptions made by management in applying the related accounting policies for IFRS 16:

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Subsequently, the lease liability is measured on the amortised cost basis using an effective interest method and the interest expense is allocated over the lease term.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and accumulated impairment losses, adjusted for remeasurements of the lease liability.

Depreciation is calculated on a straight-line basis over the lease term.

Right-of-use assets are assessed for impairments according to the impairment requirements of IAS 36. Right-of-use assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the statement of profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Lease modifications are defined as a change in the scope of a lease or the consideration for a lease, that was not part of the original terms and conditions of the lease. The Group differentiates between scenarios resulting in the remeasurement of existing lease assets and lease liabilities that are not lease modifications (for example, a change in lease term resulting from the exercise of an option to extend the lease when that option was not included in the original lease term) and those resulting in a lease modification (for example, a change in the lease term resulting from changes to the terms and conditions of the original lease).

The Group further distinguishes between those lease modifications that, in substance, represent the creation of a new lease that is separate from the original lease and those that, in substance, represent a change in the scope of, or the consideration paid for, the existing lease.

A lease modification is accounted for as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration paid for the lease increases by an amount commensurate with the stand alone price for the increase in scope. For lease modifications that do not result in a separate lease, the existing lease liability is remeasured using a discount rate determined at the effective date of the modification.

If the modification decreases the scope of a lease, the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, and a corresponding gain or loss is recognised in the statement of profit or loss. For all other lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The applicability of the lease modifications within the Group arises mainly in the ICT segment where terms of the rental contract are changed.

12. Change in Accounting Policy *continued*

Practical expedients applied

In applying IFRS 16 for the first time and moving forward, the Group has and will continue to use the following practical expedients permitted by the standard:

- > the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- > reliance on previous assessments on whether leases are onerous;
- > the accounting for operating leases with a remaining lease term of less than 12 months as at 1 October 2019 as short-term leases;
- > the accounting for operating leases of low value assets (asset with a cost of R100 000 or lower) when new on 1 October 2019; and
- > the use of current knowledge and plans to determine the lease term where the contract contains options to extend or terminate the lease.

Adjustment recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 October 2019. The rate applied is 10%.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

Lease liabilities

Rm	1 October 2019
Operating lease commitments disclosed as at 30 September 2019	(249)
Adjusted for changes in lease terms as at 1 October 2019	(26)
Adjusted operating lease commitments as at 1 October 2019	(275)
Impact of discounting using the lessee's incremental borrowing rate at the date of initial application	44
	(231)
Less: low-value leases recognised on a straight-line basis as an expense	2
Less: contracts reassessed as service agreements	7
Lease liability recognised as at 1 October 2019	(222)
Current lease liabilities	(64)
Non-current lease liabilities	(158)

Right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 September 2019.

Rm	1 October 2019
Properties	185
Plant	26
Motor vehicles	4
Total carrying amount of right-of-use assets	215

Rm	1 October 2019	IFRS 16 impact	30 September 2019
The change in accounting policy affected the following items in the balance sheet on 1 October 2019:			
Right-of-use assets	215	215	–
Deferred tax assets*	143	–	143
Trade and other payables	(2 177)	7	(2 184)
Lease liabilities	(222)	(222)	–
Deferred tax liabilities*	(138)	–	(138)
	(2 179)	–	(2 179)

* The recognition of the right-of-use assets gave rise to a R62 million deferred tax liability and the recognition of the lease liability gave rise to a R62 million deferred tax asset. There was no net impact on the Group's deferred tax on 1 October 2019.

12. Change in Accounting Policy *continued*Adjustment recognised on adoption of IFRS 16 *continued*

Lease liabilities

Rm	Reviewed 2020
Reconciliation of lease liabilities as at 30 September 2020:	
Balance at 1 October 2019 (2019: finance lease liabilities)	18
Lease liability recognised on initial adoption of IFRS 16	222
Borrowings raised	44
Settlements	(79)
Interest accrued	22
Termination of lease liability	(5)
Remeasurement of lease liability	(4)
Balance at 30 September 2020	218
Less: current portion	(56)
Non-current portion	162

Rm	Reviewed 2020	Audited 2019
Secured – at amortised cost		
Lease liabilities (2019: Finance lease liabilities)	218	18
Less: current portion	(56)	(3)
Total secured	162	15
Amounts payable under leases		
Total minimum lease payments	257	22
< 1 year	71	4
1 – 5 years	181	18
> 5 years	5	–
Less: future finance charges	(39)	(4)
< 1 year	(15)	(1)
1 – 5 years	(24)	(3)
> 5 years	–	–
Present value of minimum lease payments	218	18
< 1 year	56	3
1 – 5 years	157	15
> 5 years	5	–

The Group's obligations under the lease liabilities (2019: finance lease liabilities) are secured by the lessor's title to the leased assets.

The fair value of the lease liabilities is approximately equal to their carrying amounts because they have been determined by discounting the future cash flows of these liabilities back to present values using interest rates for equivalent duration instruments.

Right-of-use assets

The carrying amounts and depreciation of right-of-use assets are as follows as at 30 September 2020.

Rm	Gross Carrying amount	Accumulated Depreciation	Net Carrying Amount
Properties	234	73	161
Plant	33	10	23
Motor Vehicles	4	2	2
	271	85	186

13. Litigation

There is no material litigation being undertaken against or by the Group.

14. Events after reporting date

In November 2020, the Group introduced a strategic partner in the ICT segment's 4th cluster and launched +One^x Solutions. +One^x Solutions is a cloud systems integrator targeting enterprise and mid-market segments with new age digital systems.

15. Going concern

Due to the COVID-19 pandemic, the Group focused on liquidity and cash flow preservation. Various measures that were implemented included cost optimisation and working capital initiatives.

The Group continues to have sufficient available banking facilities to support business activities as it recovers to more normal levels of trading in the short to medium term.

The directors have reviewed the Group's financial position, existing credit facilities and available cash resources and are satisfied that the Group will continue as a going concern for at least the next 12 months from the date of this report.

16. External auditors review opinion

Deloitte & Touche has issued an unmodified review report on the reviewed condensed consolidated financial statements for the year ended 30 September 2020. The review was concluded in accordance with ISRE 2410 – Review of Interim Financial Information performed by the independent auditor of the entity. A copy of their unmodified review report is available for inspection at Reunert's registered office. The auditor's review report does not necessarily report on all information contained in this announcement. Investors 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 from Reunert's registered office. Any reference to future performance included in this announcement has not been reviewed or reported on by the auditors.

Condensed segmental analysis

For the year ended 30 September 2020

Rm	Reviewed 2020	% of total	Restated 2019	% of total	% change
Revenue¹					
Electrical Engineering (EE)	3 767	46	5 457	50	(31)
Information Communication Technologies (ICT)	2 524	30	3 236	29	(22)
Applied Electronics (AE)	1 951	24	2 346	21	(17)
Other	17	—	16	—	—
Total segment revenue	8 259	100	11 055	100	(25)
Equity-accounted joint venture in EE segment	(179)		(307)		
Equity-accounted associate in ICT segment	(28)		(29)		
Equity-accounted joint venture in Other segment	(6)		(5)		
Revenue as reported in the statement of profit or loss	8 046		10 714		(25)
Operating profit					
EE	31	4	320	23	(90)
ICT ²	604	69	770	56	(22)
AE	269	31	361	26	(25)
Other	(33)	(4)	(71)	(5)	(54)
Total operations	871	100	1 380	100	(37)
Operating loss from equity-accounted joint venture in EE segment	30		11		
Operating profit from equity-accounted associate in ICT segment	(3)		(4)		
Operating profit from equity-accounted joint venture in Other segment	(5)		(4)		
Operating profit before credit write-off and expected credit losses	893		1 383		(35)
Expected credit losses in EE segment	(26)		3		
Expected credit losses and credit write-off in ICT segment	(541)		(22)		
Expected credit losses in AE segment	(19)		(3)		
Operating profit as reported in the statement of profit or loss	307		1 361		(77)

¹ Inter-segment revenue has been eliminated, however it 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 IFRS 10 – Consolidated Financial Statements. The interest eliminated amounted to R134 million (2019: R170 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.

Rm	As at 30 September		Audited 2019	% of total
	Reviewed 2020	% of total		
Total assets				
EE	2 420	25	2 820	27
ICT	4 328	44	4 678	45
AE	2 500	26	2 322	23
Other	478	5	484	5
Total assets as reported in the statement of financial position¹	9 726	100	10 304	100
Total liabilities				
EE	1 007	32	1 131	39
ICT	1 037	32	748	26
AE	793	25	789	28
Other	346	11	205	7
Total liabilities as reported in the statement of financial position¹	3 183	100	2 873	100

¹ Intercompany receivables, payables and loans have been eliminated in line with the consolidation principles of IFRS.

Impact of restatement

The reason for the restatement is to highlight the significant impact of the credit write-offs and expected credit losses on the result for 2020 financial year. This has resulted in additional disclosure for 2019 in order to reflect the comparative.

2019 Rm	Operating profit for total operations as previously reported	Expected credit losses previously incorporated in operating profit for total operations	Operating profit for total operations as reported now
EE	323	(3)	320
ICT	748	22	770
AE	358	3	361
Other	(71)	—	(71)
	1 358	22	1 380

Additional information

Rm (unless otherwise stated)	Reviewed 2020	Audited 2019
Net number of ordinary shares in issue (million)	161	161
Number of ordinary shares in issue (million)	185	185
Less: Empowerment shares (million)	(19)	(19)
Less: Treasury shares (million)	(5)	(5)
Capital expenditure	170	158
– expansion	138	102
– replacement	32	56
Capital commitments in respect of property, plant and equipment	122	60
– contracted	27	30
– authorised, not yet contracted	95	30
Commitments in respect of leases	*	249
Contingent liabilities	–	–
Unreviewed and unaudited		
Current ratio (:1)	1,9	2,1
Quick ratio (:1)	1,3	1,6
Dividend yield (%)**	9,0	7,4
Return on capital employed (%)	4,5	17,8

* With effect from 1 October 2019 with the adoption of IFRS 16 Leases, lease commitments are included as current or non-current liabilities in the statement of financial position as required by IFRS 16.

** Calculated as the total dividend (interim 65 cents per share and final 192 cents per share) (2019: 130 cents and 383 cents per share) divided by a Reunert share price of 2 863 cents (2019: 6 900 cents), being the closing market price on 30 September 2020.

Definitions of ratios and other financial terms will be incorporated into the Integrated Report and are consistent with those contained in the 2019 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", "the Group" or "the Company")

Directors : T S Munday (Chair)*, T Abdool-Samad*, A B Darko*, A E Dickson (Chief Executive Officer), L P Fourie (Chair of the audit committee)*, J P Hulley*, S D Jagoe*, S Martin*, MT Matshoba-Ramuedzisi*, MJ Husain* (appointed: 1 November 2020), M Moodley, Adv N D B Orleyn**, N A Thomson (Chief Financial Officer)

* *Independent non-executive*

** *Non-executive*

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9100/101/71/7P

Transfer secretaries

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Rosebank Towers
15 Biermann Avenue
Rosebank, 2196
P O 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 Group 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 2020 all such returns and notices as are required in terms of the aforesaid Companies Act and that all such returns and notices are true and correct.

Karen Louw
for Reunert Management Services Proprietary Limited
Group Company Secretary

Investor enquiries

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For additional information log on to the Reunert website at www.reunert.com.

24 November 2020 (publication date)

