# REUNERT

REUNERT LIMITED

# HEADLINE EARNINGS PER SHARE + 14% DIVIDEND PER SHARE +7%

# Interim report to shareholders

FOR THE SIX MONTHS ENDED 31 MARCH 2003

#### **GROUP INCOME STATEMENT**

	31 I 2003	March 2002	30 Sept 2002		
Notes	R million (Unaudited)	R million	% change	R million (Audited	
Revenue	3 047,5	2 469,4	23	5 062,9	
Earnings before interest, tax, depreciation and amortisation (EBITDA)	380,5	242,9	57	559,7	
Depreciation Amortisation of goodwill	22,1 25,1	23,8 14,0	(7)	46,2 41,4	
Operating profit 1 Net interest and dividend income 2	333,3 21,2	205,1 15,5	63 37	472,1 36,5	
Profit before abnormal item	354,5	220,6		508,6	
Abnormal item 3 Profit before taxation	354,5	220,6	61	(18,7	
Taxation Profit after taxation	124,8 229,7	79,2 141,4	58 62	177,3 312,6	
Share of associate companies' (losses)/profits	(21,3)	48,3		89,6	
Profit after tax including associate companies Earnings attributable to outside shareholders	208,4	189,7	10	402,2	
in subsidiaries  Earnings attributable to ordinary shareholders	16,4	14,5	13	31,6	
in Reunert Limited  Basic earnings per share (cents) 4	192,0 102,1	175,2 93.7	10	370,6 198,	
Diluted basic earnings per share (cents) 4	100,6	92,0	9	194,6	
Headline earnings per share (cents) 5 Diluted headline earnings per share (cents) 5	115,4 113,6	101,2 99,2	14 14	229,5 225,4	
Dividend per ordinary share proposed/declared for the period (cents)	32,0	30,0	7	118,0	
Taxation rate excluding amortisation and abnormal items (%)	33,0	33,8		32,2	
EBITDA as a % of turnover  Note 1	12,5	9,8		11,1	
OPERATING PROFIT Operating profit is stated after:					
- Other income	2 172,2 (20,1)	1 795,6 (16,4)		3 639,7 (21,8	
- Other expenses excluding depreciation and amortisation	507,5	447,3		885,3	
- Net losses on financial instruments (AC 133)  Note 2	7,4				
Net interest and dividend income Interest received	37,2	43,9		55,8	
- from RC&C Finance Company - external	20,8 16,4	32,5 11,4		23,0 32,8	
Interest paid	(16,0)	(31,5)		(22,7	
Dividend income other than from associates  Total	21,2	3,1 15,5		36,5	
Dividend income from associates included in share	,-				
of associate companies' profits  Note 3		16,4		108,4	
ABNORMAL ITEM The group's attributable share of the impairment					
of fixed assets in an equity accounted associate Taxation	-	-		(18,7	
Total	-	-		(18,7	
Note 4 Basic earnings per share and diluted basic earnings per share					
The earnings used to determine both basic earnings per share and diluted earnings per share being earnings attributable to ordinary shareholders in Reunert (Rm)	192,0	175,2		370,6	
The weighted average number of shares in issue used to determine basic earnings per share and headline earnings per share (millions of shares)	188,0	186,9		187,0	
Adjusted by the dilutive effect of unexercised share options					
granted to certain group employees (millions of shares)  Weighted average number of shares used to determine diluted earnings per share and diluted headline earnings	2,9	3,6		3,4	
per share (note 5) (millions of shares)	190,9	190,5		190,4	
Note 5 HEADLINE EARNINGS PER SHARE AND DILUTED					
HEADLINE EARNINGS PER SHARE Headline earnings per share and diluted headline earnings per share have been calculated using the weighted average number of shares in issue as detailed in note 4.					
Headline earnings are determined by eliminating the effect					
of capital items in attributable earnings as follows: Earnings attributable to ordinary shareholders	192,0	175,2		370,6	
Amortisation of goodwill Attributable portion of impairment (note 3)	25,1	14,0		41,4 18,7	
Other (net)	(0,2)	(0,1)		(1,4	
Headline earnings	216,9	189,1		429,3	
Note 6 GOODWILL	0/	40.0			
Carrying value at the beginning of the period Add: Acquisitions of businesses, associates and subsidiaries	360,0 3,5	10,9 389,1		10,9 390,5	
Less: Adjustment to the purchase price of a business acquired in the prior year	(7,2)	***			
Less: Amortisation for the period	(25,1)	(14,0)		(41,4	
Carrying value at the end of the period  The goodwill is written off over periods varying between	331,2	386,0		360,0	
one and ten years.  Note 7					
INDITE 7 INVESTMENTS Cost plus equity accounted earnings excluding goodwill	80,2	237,9		151,6	
At directors' valuation	520,0	653,0		586,9	
Note 8 Finance company accounts receivable		<b>4</b>			
Collectable within one year Collectable after one year	399,8 715,0	278,0 554,9		338,2 615,7	
	1 114.8	832.9		953,9	

Accounts receivable mainly consists of discounted deals that comprise the present value of discounted rental agreements which are repayable over varying periods up to a maximum of five years from the balance sheet date.

# Note 9

ACCOUNTING POLICIES
Reunert has adopted the South African Statements of Generally Accepted Accounting Practice (SA GAAP) which became effective during the current financial year. This has resulted in changes to accounting policies. The main change involves the adoption of AC 133 on financial instruments. In terms of the transitional provisions of this statement the comparative figures do not need to be restated, however the statement does require be balances at the end of the previous financial year to be valued in terms of the statement. This has resulted in an increase in the group's accumulated profit of R6,7 million. (See statement of changes in equity.) The effect in the current year has been to reduce operating profit by R7,4 million, the tax charge by R2,7 million, earnings attributable to outside shareholders in subsidiaries by R1,4 million and earnings attributable to ordinary shareholders by R3,3 million.

The group's accounting policies are in accordance with SA GAAP and, except for the above changes, are consistent with those of the prior period. The group's results have been prepared in accordance with SA GAAP applicable to interim financial reporting.

# Note 10

In December 2002 the group acquired Marconi Plc's 51% shareholding in ATC (Pty) Limited at a cost of R43,3 million, which represented a discount to net asset value of R11,0 million. This brought the group's total effective shareholding in ATC to 89,5%. Reunert has agreed to sell to Kgorong Investments Limited, a black-owned group, an effective 25,1% of ATC, once certain conditions have been met. This will reduce the Reunert group's holding in ATC to 64,4%.

Hierdie verslag is ook in Afrikaans beskikbaar.

visit our website at WWW.reunert.com

#### **GROUP BALANCE SHEET**

N	lotes	31 March 2003 R million (Unaudited)	31 March 2002 R million (Unaudited)	30 Sept 2002 R million (Audited)
Non-current assets		<u> </u>	<u>, , , , , , , , , , , , , , , , , , , </u>	<u> </u>
Property, plant and equipment		223.3	152.2	157,1
Goodwill	6	331,2	386,0	360,0
Investments	7	80,2	237,9	151,6
RC&C Finance Company accounts receivable	8	1 114,8	832,9	953,9
Deferred taxation assets		25,9	41,3	25,9
		1 775,4	1 650,3	1 648,5
Current assets				
Inventory and contracts in progress		640,2	509,6	659,8
Accounts receivable		832,1	673,2	712,9
Cash and cash equivalents (net)		338,7	197,5	280,7
		1 811,0	1 380,3	1 653,4
Total assets		3 586,4	3 030,6	3 301,9
Shareholders' funds				
Ordinary		1 345,1	1 162,4	1 305,0
Reunert Limited shares bought by a subsidiary		(234,6)	(234,6)	(234,6)
Preference		0,7	0,7	0,7
		1 111,2	928,5	1 071,1
Outside shareholders in subsidiaries		103,8	94,8	103,5
		1 215,0	1 023,3	1 174,6
Non-current liabilities				
Deferred taxation liabilities		46,3	49,0	45,9
Long-term borrowings		-	1,8	
		46,3	50,8	45,9
Current liabilities				
RC&C Finance Company short-term borrowings		1 014,6	734,6	838,0
Accounts payable, provisions and taxation		1 310,5	1 221,9	1 243,4
		2 325,1	1 956,5	2 081,4
Total equity and liabilities		3 586,4	3 030,6	3 301,9

#### **SEGMENTAL ANALYSIS**

	Six months ended 31 March				Year ended 30 Sept			
	2003 2002 R million R million				2002 % R million			
	(Unaudited)	% (	(Unaudited)	%	change	(Audited)	%	
Revenue								
Electronics								
Office systems	445,3	12	419,8	12	6	876,6	12	
Consumer products and services	1 572,4	41	1 386,7	41	13	2 782,1	39	
Telecommunications	771,0	20	866,9	25	(11)	1 959,5	27	
Reutech	362,4	9	186,4	5	94	375,3	5	
Total electronics	3 151,1	82	2 859,8	83	10	5 993,5	83	
Electrical engineering and cables								
Low voltage electrical	328,3	9	268,9	8	22	555,2	8	
Cables	364,3	9	295,6	9	23	629,9	9	
Total electrical engineering								
and cables	692,6	18	564,5	17	23	1 185,1	17	
Total operations Less: Reunert's attributable portic	3 843,7 in	100	3 424,3	100	12	7 178,6	100	
of associate companies' revenue	(796,2)		(954,9)			(2 115,7)		
Revenue as reported	3 047,5		2 469,4	23		5 062,9		
Operating profit before goodwill amortisation Electronics								
Office systems	76,7	22	70,9	23	8	147,2	21	
Consumer products and services	115,8	33	78,4	25	48	175,2	25	
Telecommunications	3,8	1	100,3	33	(96)	209,0	30	
Reutech	66,0	18	12,0	4	450	38,5	6	
Total electronics	262,3	74	261,6	85	-	569,9	82	
Electrical engineering and cables								
Low voltage electrical	64,7	18	41,9	13	54	94,8	14	
Cables	28,2	8	6,0	2	370	27,6	4	
Total electrical engineering								
and cables	92,9	26	47,9	15	94	122,4	18	
Total operations	355,2	100	309,5	100	15	692,3	100	
Reunert's attributable portion of associate companies' net								
operating loss/(profit)	3,2		(90,4)			(178,8)		
Operating profit before amortisat of goodwill as reported	ion 358,4		219,1		64	513,5		

# **GROUP CASH FLOW INFORMATION**

		oths ended March 2002 R million (Unaudited)	Year ended 30 Sept 2002 R million (Audited)
EBITDA	380,5	242,9	559,7
Increase in net working capital	(123,0)	(2,7)	(366,0)
Increase in RC&C Finance Company accounts receivable Other working capital changes (net)	(160,9) 37,9	(87,8) 85,1	(208,8) (157,2)
Cash generated from operations	257,5	240,2	193,7
Net interest and dividends received (including associates)	21,2	31,9	144,9
Taxation paid	(121,5)	(165,4)	(209,0)
Dividends paid (including outside shareholders)	(178,5)	(143,7)	(201,0)
Net cash outflow from operating activities	(21,3)	(37,0)	(71,4)
Net asset additions	(19,7)	(12,9)	(38,2)
Other (net)	2,6	3,9	29,5
Net cash outflow from operations	(38,4)	(46,0)	(80,1)
Other acquisitions	(80,2)	(456,8)	(442,9)
Net decrease in cash and cash equivalents	(118,6)	(502,8)	(523,0)
Net borrowings at beginning of the period	(557,3)	(34,3)	(34,3)
Net borrowings at end of the period	(675,9)	(537,1)	(557,3)
Cash resources of the group			
- Deposit on call with RC&C Finance Company	158,7	110,6	-
- Other cash reserves	180,0	86,9	280,7
Borrowings of the group	338,7	197,5	280,7
RC&C Finance Company borrowings	(1 014,6)	(734,6)	(838,0)
Net borrowings at end of the period	(675,9)	(537,1)	(557,3)

The deposits on call with RC&C Finance Company are repayable on demand. RC&C Finance Company has total long-term banking facilities of R900 million which can be utilised to replace part of these deposits. The banks who have granted these facilities are contractually bound to provide these on a long-term basis but they may give notice to run down these facilities. Once notice has been given these facilities reduce in line with the reduction in the underlying rental debtors to zero after a maximum of five years.

#### GROUP STATEMENT OF CHANGES IN EQUITY

	Six months ended 31 March		Year ended 30 Sept	
	2003 R million (Unaudited)	2002 R million (Unaudited)	2002 R million (Audited)	
Balance at beginning of period as previously reported Adjustment to opening accumulated profit due to changes	1 071,1	878,5	878,5	
in accounting policies (note 9)	6,7			
Net profit for the period	192,0	175,2	370,6	
Dividends paid	(166,0)	(125,2)	(181,4)	
Shares issued in terms of the Reunert Share Option Scheme	7,4	-	2,8	
Translation reserve movement during the year	-	-	0,6	
Balance at end of period	1 111,2	928,5	1 071,1	

#### SUPPLEMENTARY INFORMATION

R million (unless otherwise stated)	Unaudited	Unaudited	Audited
	March	March	Sept
	2003	2002	2002
Net asset value per share (cents) including goodwill  Net asset value per share (cents) excluding goodwill  Current ratio including short-term portion of RC&C Finance Company	589	497	572
	414	290	380
accounts receivable (:1)	1,7	1,3	1,6
	188,6	186,9	187,3
Number of ordinary shares in issue (million)	205,8	204,1	204,5
Less: Held by subsidiary	(17,2)	(17,2)	(17,2)
Capital expenditure	20,0	13,2	42,0
<ul><li>- expansion</li><li>- replacement</li></ul>	12,8	9,0	26,1
	7,2	4,2	15,9
Capital commitments	15,7	14,6	18,9
<ul><li>contracted</li><li>authorised not yet contracted</li></ul>	2,1	7,7	9,4
	13,6	6,9	9,5
Commitments in respect of operating leases	80,2	53,7	65,2
Contingent liabilities	0,2	3,7	0,3

#### **REVIEW OF RESULTS**

Headline earnings per share increased by 14% for the period despite the contribution from associate companies being significantly down.

# **REVIEW OF OPERATIONS**

#### **ELECTRONICS**

The Office Systems businesses were affected by the strengthening rand but were able to post higher turnover and profit. Both the Finance Company and Royce performed above expectation during the period under review.

Consumer Products and Services increased turnover and margins, mainly as a result of the growth achieved by Nashua Mobile without a commensurate increase in the cost base. The consumer market was difficult and the strength of the rand had a negative effect on margins.

The orders secured by Reutech during the previous financial year have resulted in higher turnover and a major profit improvement. Again, the strong rand is having a negative impact and it is unlikely that this performance will be matched in the second half.

The dollar denominated revenue stream of associate Siemens Telecommunications, where a large portion of costs were in rands, resulted in the business incurring significant losses. Most of these loss making contracts will be  $completed \ in \ the \ current \ financial \ year. \ Hedging \ mechanisms \ have \ been \ put \ in \ place \ to \ protect \ future \ revenue.$ 

# **ELECTRICAL ENGINEERING AND CABLES**

The low voltage business performed strongly due to both turnover growth and operating improvements.

African Cables enjoyed buoyant demand for its products. This, together with improvements in efficiencies and sound control of overheads, resulted in a significant improvement in profits.

ATC's position has weakened in line with the continuing downturn in demand for telecommunication cables. The  $outlook\ for\ this\ business\ is\ uncertain\ and\ of\ concern.\ During\ the\ period,\ Reunert\ acquired\ Marconi's\ 51\%\ share$ increasing its effective interest to 89,5%. As set out in Note 10, 25,1% of ATC has been sold to Kgorong.

# **PROSPECTS**

 $The operations \ managed \ directly \ by \ Reunert \ performed \ particularly \ well \ in \ the \ first \ six \ months. \ Should \ the \ rand$ stay at current levels, the rate of growth in profits in the second half of the year for these businesses will be substantially lower than that achieved in the first half.

Associate company, Siemens Telecommunications, should perform better in the second half. Nevertheless, profits will be significantly lower than those achieved last year.

Assuming some weakening of the rand, growth in headline earnings per share for the year is expected to be modest.

Notice is hereby given that an interim dividend No. 154 of 32 cents per share (2002; 30 cents per share) has been declared by the directors for the half year ended 31 March 2003. In compliance with the requirements of Strate the following dates are applicable:

Last date to trade (cum dividend) Friday, 20 June 2003 First date of trading (ex dividend) Monday, 23 June 2003 Friday, 27 June 2003 Payment date Monday, 30 June 2003

Share certificates may not be dematerialised or rematerialised between Monday, 23 June 2003 and Friday, 27 June

On behalf of the board

Derek Cooper. Chairman Gerrit Pretorius, Chief Executive

Sandton, 7 May 2003

# SECRETARIES' CERTIFICATION

FOR THE SIX MONTHS ENDED 31 MARCH 2003

The company has lodged with the Registrar all such returns as are required by a public company in terms of the

# R G Drakes

For Reunert Management Services Limited

Company Secretaries

# REUNERT LIMITED

Incorporated in the Republic of South Africa (Reg No 1913/004355/06) Share code: RLO ISIN: ZAE000005914

Directors: DE Cooper (Chairman)\*, G Pretorius (Chief Executive), BP Connellan\*, BP Gallagher, SD Jagoe\*, KJ Makwetla\* GJ Oosthuizen, DJ Rawlinson, MJ Shaw\*, CL Valkin\*, Dr JC van der Horst\*

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Transfer secretaries:

Sponsor: Rand Merchant Bank Corporate Finance