

METAIR

INVESTMENTS LIMITED

automotive | industrial | retail

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

18TH AUGUST 2016

STAKEHOLDER RELATIONSHIPS

ACCOUNTABLE

RESPONSIBLE

ETHICAL LEADERSHIP

QUALITY

TRANSFORMATION

COMPLIANCE



HUMAN CAPITAL

VISION

CORPORATE GOVERNANCE

LEGACY

INNOVATIVE

ENVIRONMENT

CREATIVE

AGENDA


- Commentary & results overview
- Completion of strategic redesign and renewal
- Financial review
- Operational overview
- Prospects

COMMENTARY & RESULTS OVERVIEW

Solid performance from energy storage vertical

Main trading
Observations:
Energy
Storage


- Operating profit improved by R20m to R234m
- Good performance from Rombat and Mutlu
- Secured multi-year supply contract with Daimler for EFB start-stop batteries - complete EMEA production requirement
- Improved export volumes to Russia, but at reduced margins
- Increased competition in SA aftermarket eroded FNB margin for the period



Main trading
Observations:
Automotive
Components


Challenged performance from automotive components vertical

- Launch of new model from major OEM customer
- Metair renewed all targeted replacement business for this model
- Launch support cost put the local OE segment into a loss position of (R8m)
- Due to the ramp-up profile, first half volumes down c.20% from previous period
- Intense customer support focus required at Hesto Harnesses
- Hesto impacted by higher content and derivatives complexity
- Overall segment result declined to R23m operating profit from R194m



Financials

- Interim results largely in line with prospect statement and trading update
- Good performance from Energy Storage Vertical arrested the decline in Automotive Components
- Combined result still positive with R108m attributable profit
- HEPS of 54cps down 51% from 111cps
- Improved cash generated from operations: R259m compared to R89m in previous period



Turkish operating environment

- Mutlu performed well during the period
- Played a key role in securing the Daimler multi-year contract
- Fortunate that none of our employees nor our business was directly negatively impacted during the failed coup
- Long term impact still to be determined
- Turkish Government showed great sensitivity – direct communication channel opened with the President
- President and his office remain committed to support foreign investment

COMPLETION OF STRATEGIC REDESIGN & RENEWAL

COMPLETION OF STRATEGIC REDESIGN AND RENEWAL

Phase 1 Local relevance

- First 3 X 5 strategy
- 2005 – 2010
- R5 billion turnover
- R500 million PBIT

DELIVERED

Phase 2 Interna- tionalisation


- Second 3 X 5 strategy
- 2011 - 2014
- 50% Aftermarket
- 50% OE
- 50% Batteries

DELIVERED

Phase 3 Globalisation


- Third 3 X 5 strategy
- 5 Continents
- 50 Million batteries
- In 5-years
- Energy Vertical takes strategic dominance
- Foundation laid to build on

COMPLETION OF STRATEGIC REDESIGN AND RENEWAL



Redesign
completed

- Energy Storage vertical generated 57% of interim segmental revenue
- Energy Storage vertical generated 91% of interim PBIT
- Secured significant multi-year start-stop contract with Daimler
- Strategic acquisition of ABMEAL in Kenya



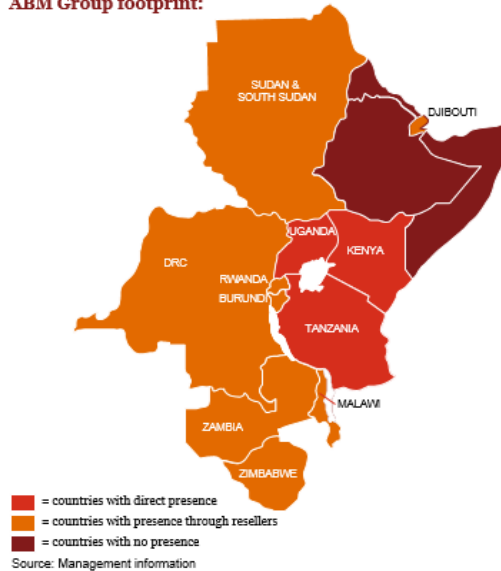
Renewal
achieved

- New model launched successfully
- Major portion of Automotive Components revenue secured for next 5 – 7 years business cycle
- Clearer vision of long-term volumes and margin expectation
- Long term benefits of total customer support focus complicates short-term margins

AFRICAN EXPANSION – ACQUISITION OF 25% OF ABM KENYA GROUP



ABM Group footprint:




Country Distribution centre location

Country	Distribution centre location
Kenya (x 13)	Nairobi (x 3)
	Mombasa
	Naivasha
	Nyahururu
	Nakuru
	Eldoret
	Kitale
	Kisumu
	Nyeri
	Embu
Tanzania (x 3)	Dar es Salaam
	Arusha
	Mwanza
Uganda (x 1)	Kampala

- Key African acquisition provide access to growth markets:
 - ABM owns the Chloride and Exide brands for the Tanzanian, Zambian, Ugandan and Kenyan markets. Battery sales of over 900,000 per annum.
 - Vertically integrated, purely aftermarket, No 1 brand in Kenya
 - Significant potential for synergies and technology transfer: maintenance free batteries for automotive and lithium batteries for solar

AFRICAN EXPANSION – ACQUISITION OF ABM KENYA



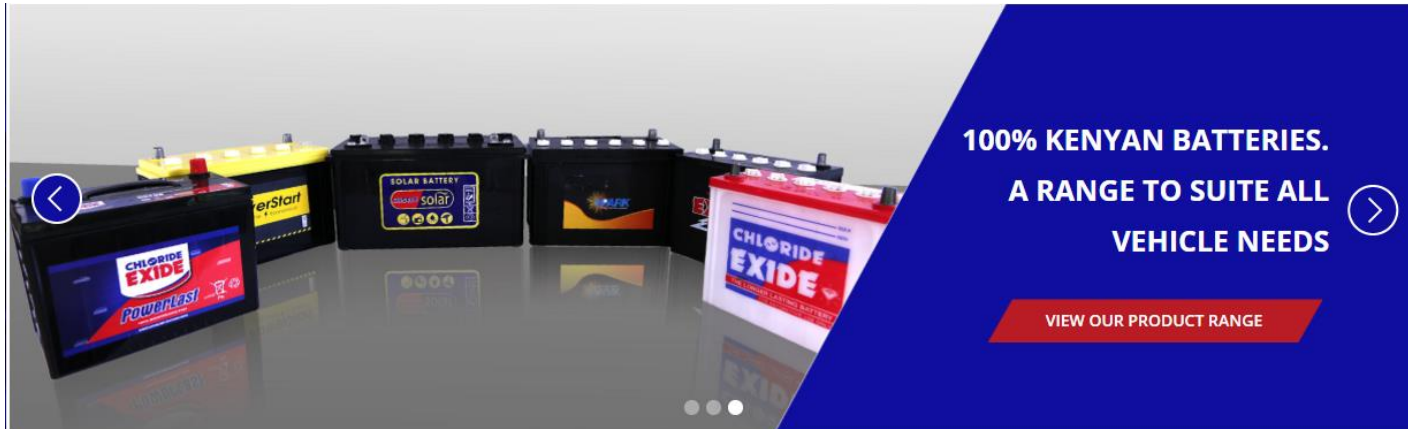
Acquisition rationale

- Strong Solar business: Solinc (Pty) Ltd
 - 8-10 Mega Watt Solar Voltaic cell manufacturing capacity per annum
 - Affordable, quality assured solar kit solutions to light homes, charge phones and TVs
 - Solar panels are generally sold in conjunction with a solar battery produced by ABM, battery technologies not available in Kenya can be supplied by FNB (AGM stand-by / Lithium)
 - More than 30% of total battery volumes sold by ABM Kenya relate to solar solutions to provide rural households with access to electricity
 - Kenya has 8m households, of which only 3m have access to the grid
 - Provides Metair access to cost competitive solar systems
- Alternative supply option for North Africa and Middle East
 - This acquisition gives us another alternative into the East and North Africa market as from SA and Turkey are challenged at the moment due to duty protection

AFRICAN EXPANSION – ACQUISITION OF ABM KENYA

Deal
valuation

- ABM Group EBITDA in 2016: \$6.5m
- Net Debt: \$2m
- Acquired 25% for effectively \$8.1m
- Valuation multiple: 4.5x EBITDA, below Metair trading multiple
- Expected to be accretive in first year of acquisition



100% KENYAN BATTERIES.
A RANGE TO SUITE ALL
VEHICLE NEEDS

[VIEW OUR PRODUCT RANGE](#)

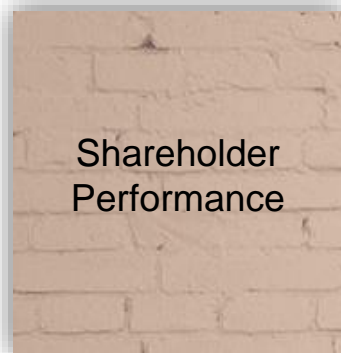
FINANCIAL OVERVIEW

Income Statement

ITEMS	Dec-15 R'million	Jun-15 R'million	Jun-16 R'million	Mvt.
Revenue	7 732	3 543	4 030	14%
EBITDA	1 092	502	390	(22%)
Operating profit	790	346	260	(25%)
Operating profit margin	10.2%	9.8%	6.5%	(3%)
Profit after tax	555	236	116	(51%)

Comments

- Revenue increase of R487m due to increased Energy Storage revenue, while Auto Components was flat on a consolidated basis:
 - Mutlu impact on revenue due to ZAR weakness was R134m, as the average reporting exchange rate moved 13% from 4.7 ZAR/TL to 5.3 ZAR/TL
 - Rombat exchange rate impact was R128m as the average exchange rate moved 28% from 3.00 ZAR/Lei to 3.83 ZAR/Lei
 - Balance of the increase relates to higher volumes and price increases
- EBITDA decreased 22% to R390m, while EBITDA margins contracted to 10% from 14% due to the impact of model change in the Automotive Components
- Similarly PBIT decreased by 25% to R260m, with margins reducing to 6.5% from 9.8%



ITEMS	Dec-15 R'million	Jun-15 R'million	Jun-16 R'million	Mvt.
Attributable profit	527	220	108	(51%)
Earnings per share	267	112	54	(52%)
Weighted avg. number of shares ('000)	197 216	197 066	198 121	0.54%
Headline earnings per share	248	111	54	(51%)
Net Debt	(1 398)	(1 684)	(1 747)	4%
Dividend per share(gross of WHT)	70 cps	80 cps	70 cps	(10 cps)



- Attributable profit reduced by R112m, with EPS down by 52% to 54cps
- Minimal headline adjustments, so HEPS also 54cps
- Net debt at similar levels as Jun-15, but increased by c.R350m from Dec-15 due to the acquisition of ABM Kenya of R110m and launch support
- Dividend per share paid was 70cps, slightly below 4X cover

INCOME STATEMENT

Operating Profit

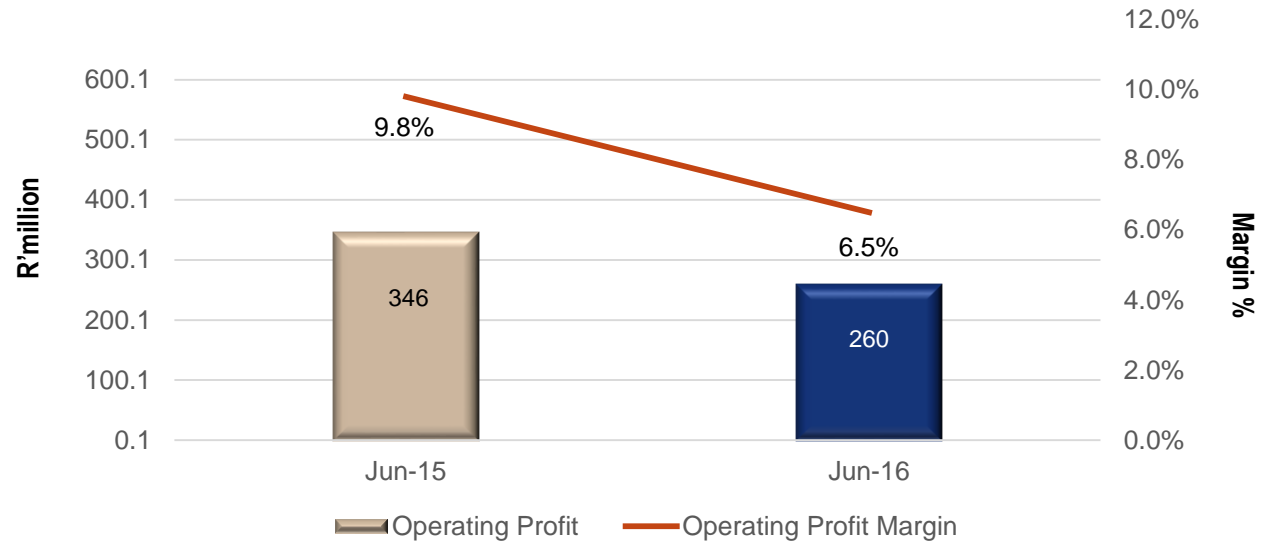
ITEMS	Dec-15 R'million	Jun-15 R'million	Jun-16 R'million
Revenue	7 732	3 543	4 030
Gross Profit	1 548	738	713
Other Operating Income	188	58	47
Distribution, Administrative & Other Expenses	947	450	500
Operating Profit	790	346	260

Profit for the period

ITEMS	Dec-15 R'million	Jun-15 R'million	Jun-16 R'million
Net interest expense	103	51	71
Share of results of associates	58	32	(17)
Profit before taxation	745	327	173
Taxation	190	90	57
Profit for the period	555	236	116
Effective tax rate	25.5%	27.6%	33.0%

Other items to note

- Other operating income which comprises mainly Government Grants in SA and Romania and derivative gains/losses, decreased to R47m due to mark to market valuation losses on foreign exchange cover derivatives (FEC's)
- Opex cost base increased due to the currency impact on Mutlu and Rombat, inflationary cost increases
- Net forex loss for the period was R12m (2015:R14m)
- Effective tax rate increased to 33% due to impact of non-deductible interest (on pref shares) on the lower earnings base for the 6-months, as well as impact of losses incurred on the associate earnings presented post-tax



- Operating profit decreased 25% to R260m and group operating margin declined to 6.5% (2015: 9.8%) due to:
 - Impact of new vehicle launch on the local Original Equipment segment of the Automotive Component Vertical
 - Overall local OE segment contracted from an operating profit of R157m (at a 10.3% margin) in 2015 H1 to a operating loss of R8m (at a (0.5%) margin) in 2016 H1
- Energy Storage Vertical – Automotive export margins contracted to 6.1% from 8.5% in 2015 H1 due to increased contribution from Rombat (at lower margins) and increasing Russian exports in 2016 H1 at low margins

BALANCE SHEET – ASSETS

Non-current Assets

ITEMS	Dec-15 R'million	Jun-15 R'million	Jun-16 R'million
Non-Current assets	4 926	4 145	4 936
Property, plant and equipment	3 327	2 746	3 280
Intangible assets	1 357	1 148	1 315
Other non-current assets	242	251	341

Current Assets

Current assets	4 115	3 563	4 029
Inventory	1 735	1 648	1 777
Trade and other receivables	1 575	1 455	1 547
Cash and cash equivalents	769	441	669
Other current assets	36	19	36
Total assets	9 041	7 708	8 965

Comparison to prior periods

- Non-current assets flat, with YTD capex at R186m offset by depreciation, amortisation and currency (FCTR) of (R129m)
- Inventory and trade and other receivables largely flat

BALANCE SHEET – EQUITY & LIABILITIES

Equity &
Non-Current
Liabilities

Current
Liabilities

Comparison to
prior periods

ITEMS	Dec-15 R'million	Jun-15 R'million	Jun-16 R'million
Total equity	4 975	3 988	4 773
Non-current liabilities	2 579	2 360	2 759
Borrowings	1 836	1 752	2 026
Post employment benefits	114	106	121
Deferred taxation	401	339	387
Deferred grant income	172	103	169
Provisions for liabilities and charges	56	60	56
Current liabilities	1 487	1 359	1 433
Trade and other payables	1 006	869	919
Borrowings	129	83	120
Provisions for liabilities and charges	113	108	113
Bank overdrafts	202	291	271
Other current liabilities	37	8	10
Total liabilities	4 066	3 719	4 192

- Gross borrowings increased to R2 146m from R1 965m, largely due to ABM Kenya acquisition, additional working capital investment and reduced cash generation in the Automotive Component Vertical.
- Remaining balance sheet largely similar to year-end 2015

Capital Structure

ITEMS	Dec-15	Jun-15	Jun-16
Debt*:equity	40%	47%	46%
Net debt**:equity	29%	43%	37%

Debt Levels

ITEMS	Dec-15	Jun-15	Jun-16
Net debt** (R'million)	1 398	1 684	1 747
Net debt**:EBITDA (LTM for interim)	1.28	1.43	1.78

Target Capital Structure

- Over time our target structure is c. 25% debt:equity
- May fluctuate short term especially during redesign phase
- Overall debt levels not to exceed 2 or 2,5 x EBITDA currently at 1.78
- Within covenants

* Debt only includes borrowings

** Net debt includes operational debt (overdrafts) and cash on hand

ITEMS (R'million)	Dec-15 R'million	Jun-15 R'million	Jun-16 R'million
Inventory	1 735	1 648	1 777
Trade & other receivables	1 575	1 455	1 547
Trade & other payables	(1 006)	(869)	(919)
Total	2 304	2 234	2 405

DAYS	Dec-15	Jun-15	Jun-16
Inventory	82	84	80
Trade & other receivables	74	74	69
Trade & other payables	(47)	(44)	(41)
Total	109	114	108

All days calculations based on turnover



- Overall working capital levels increased in line with revenue increases, with days largely flat compared to December, and 6-days improvement compared to Jun-15

ENERGY STORAGE

REVENUE
↑ 21%

R2.6 BILLION
57% Contribution

OPERATING PROFIT
↑ 9%

R234 MILLION
91% Contribution

PBIT : 9.1%

AUTOMOTIVE COMPONENTS

REVENUE
↑ 6%

R1.9 BILLION
43% Contribution

OPERATING PROFIT
↓ 88%

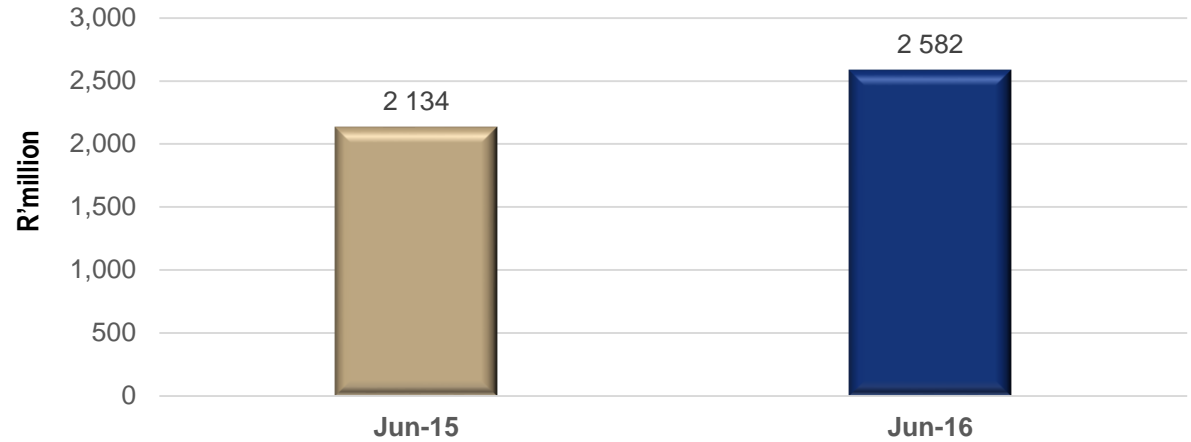
R23 MILLION
9% Contribution

PBIT : 1.2%

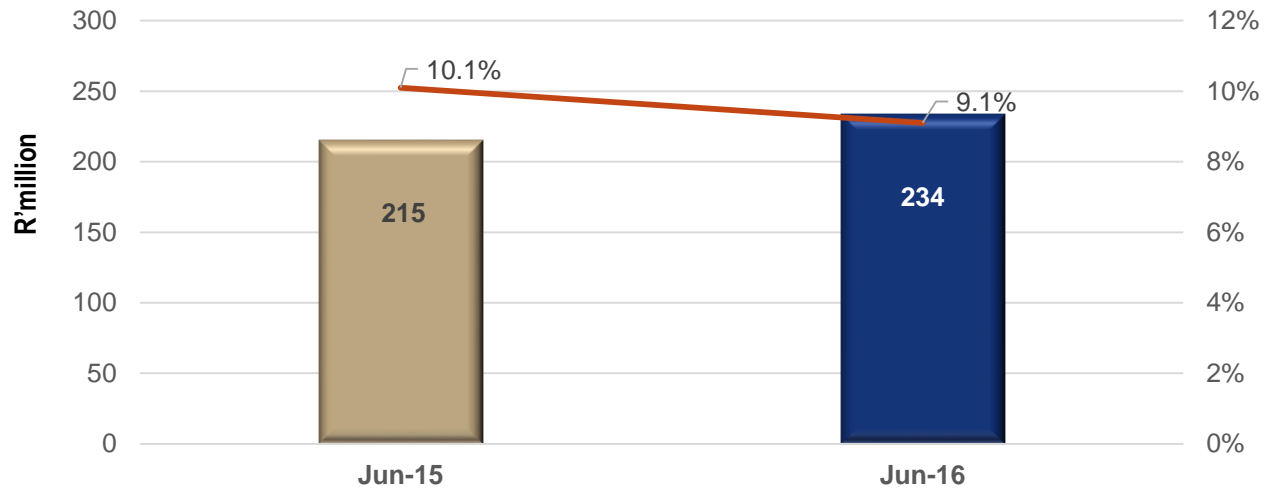
OVERALL SEGMENTAL REVIEW

ENERGY STORAGE VERTICAL

Energy Storage Revenue




Energy Storage PBIT



OVERALL SEGMENTAL REVIEW

ENERGY STORAGE VERTICAL

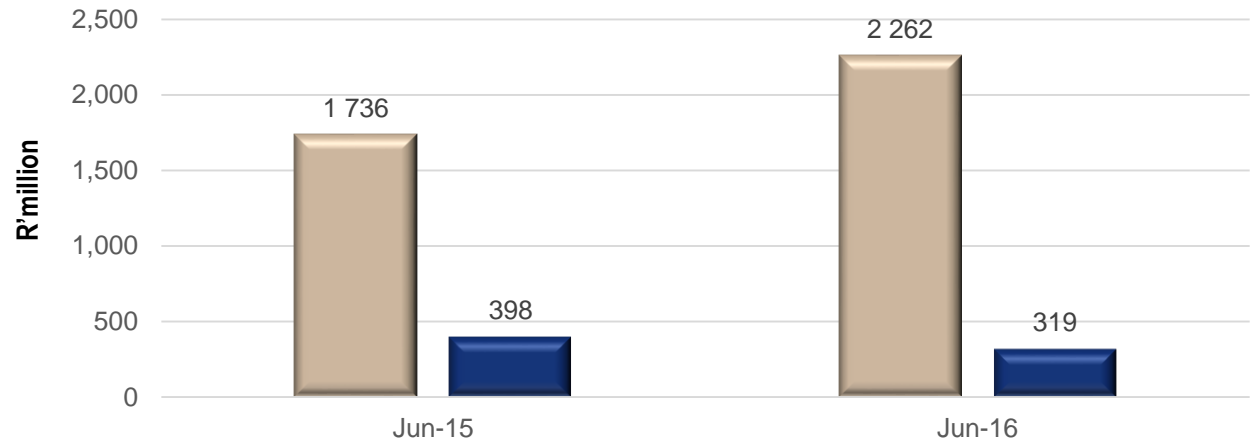


Summary of performance

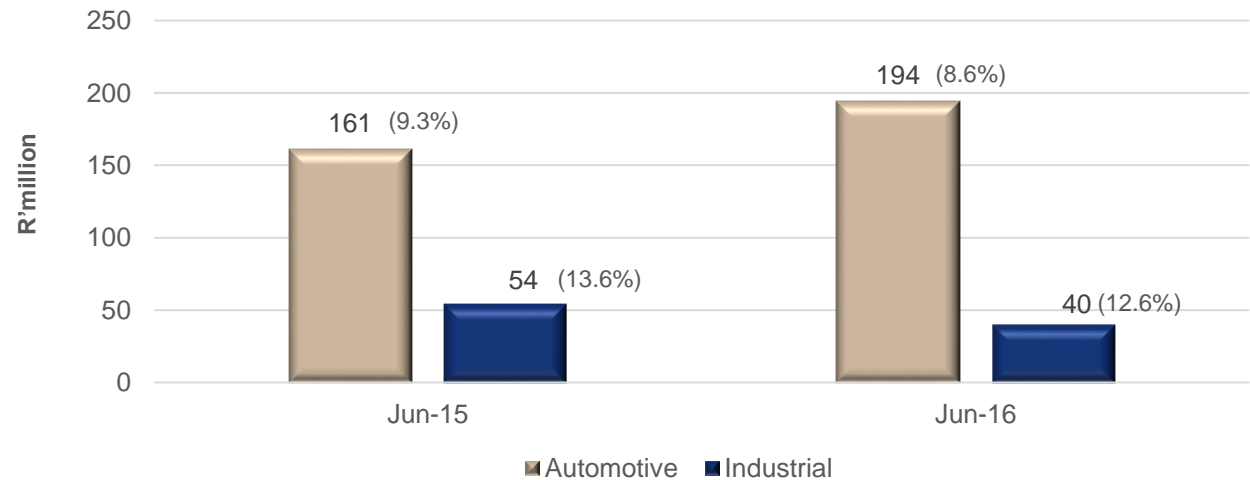
- Good contractual volumes, a slightly increased lead price and weaker ZAR contributed to improved results for Mutlu and Rombat
- Competition for market share intensified in the South African aftermarket and First National Battery had to defend its market position which resulted in lower aftermarket margins
- Overall automotive volumes increased 8%, while industrial volumes reduced by 28% due to the timing of contractual deliveries and tender awards at Mutlu and lower stand-by demand in South Africa

ENERGY STORAGE – AUTOMOTIVE (SELECTED INFORMATION)

Energy Storage Revenue

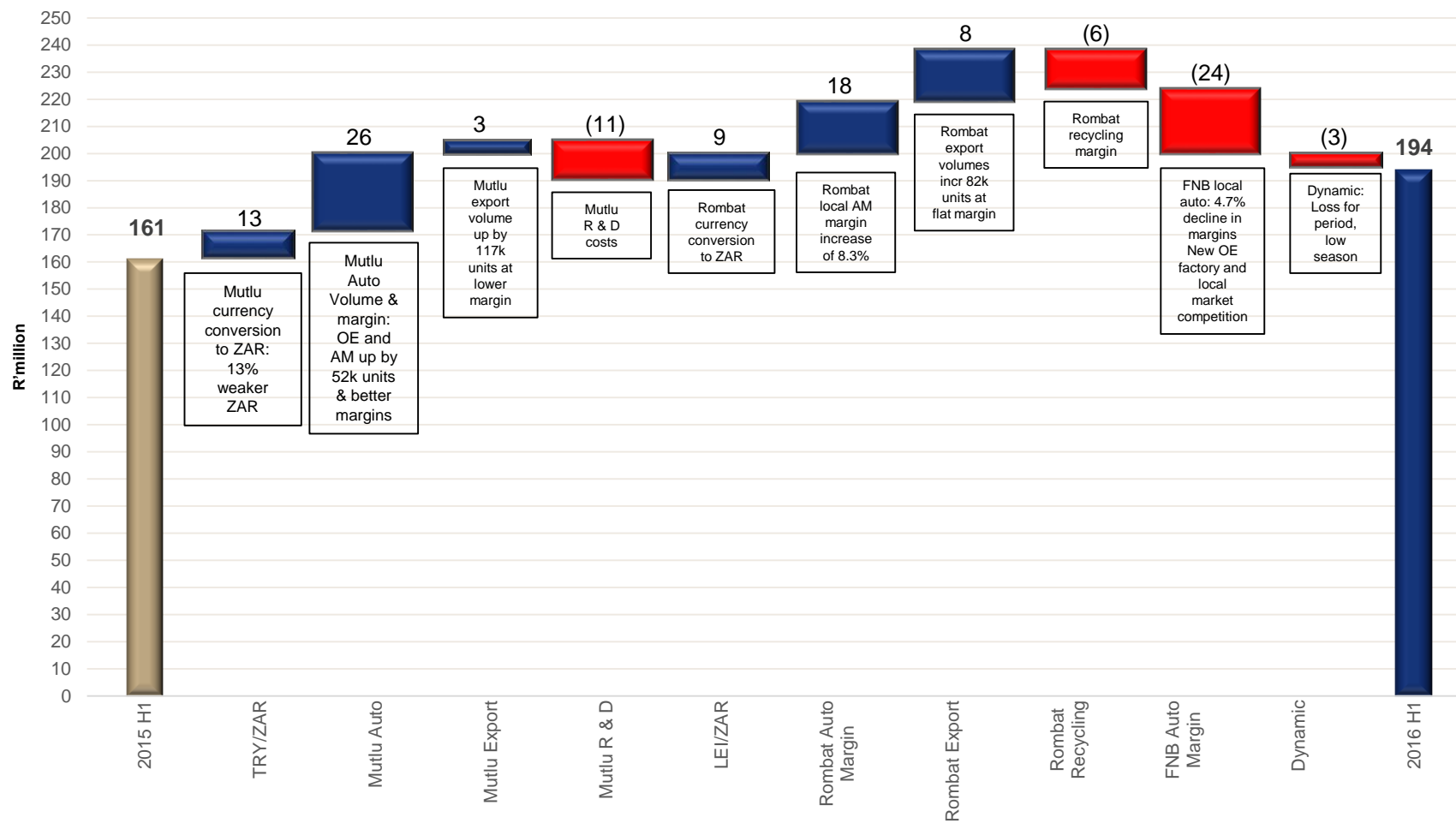


Energy Storage PBIT



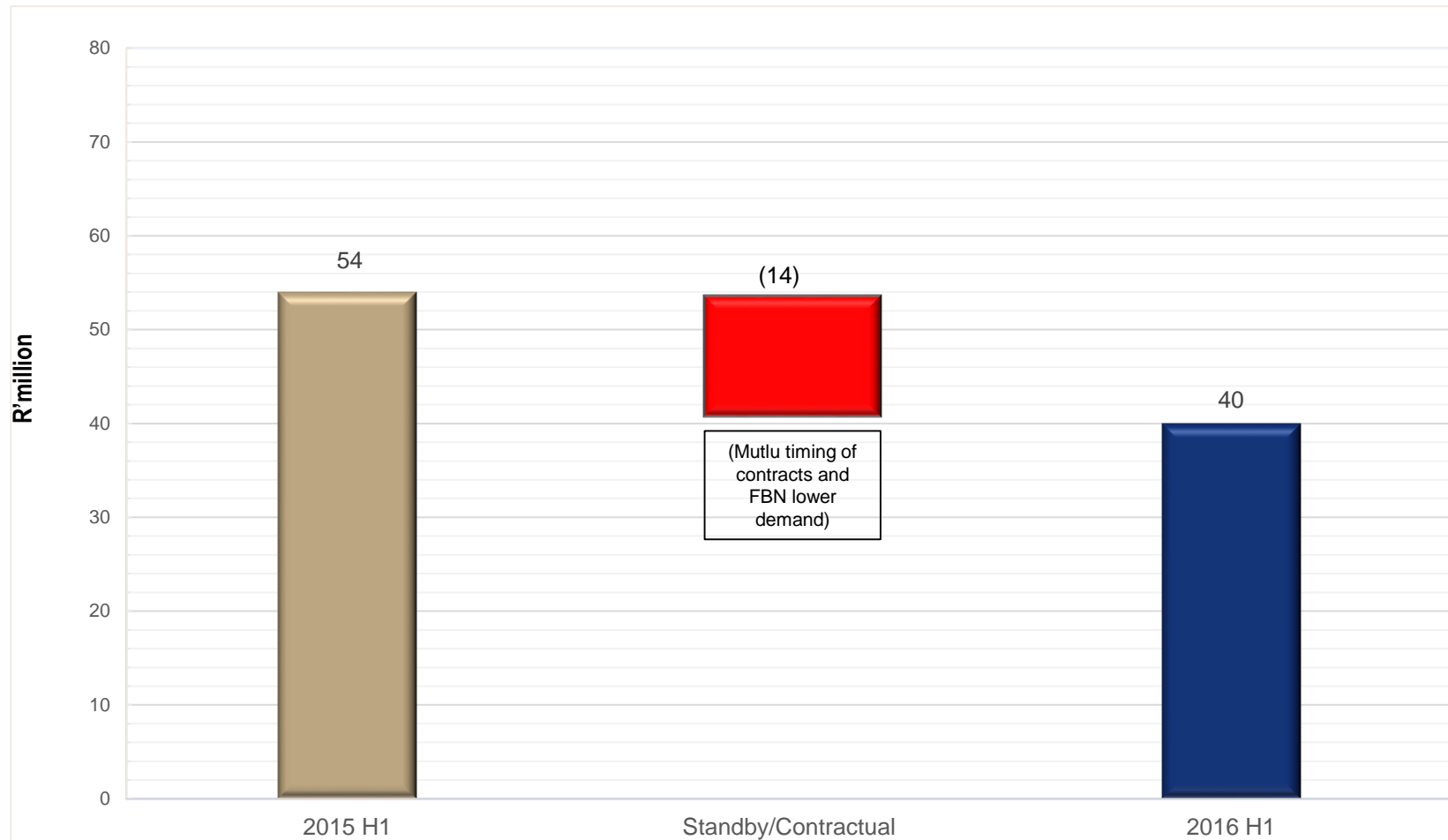
ENERGY STORAGE – AUTOMOTIVE (PBIT)

(SELECTED INFORMATION)



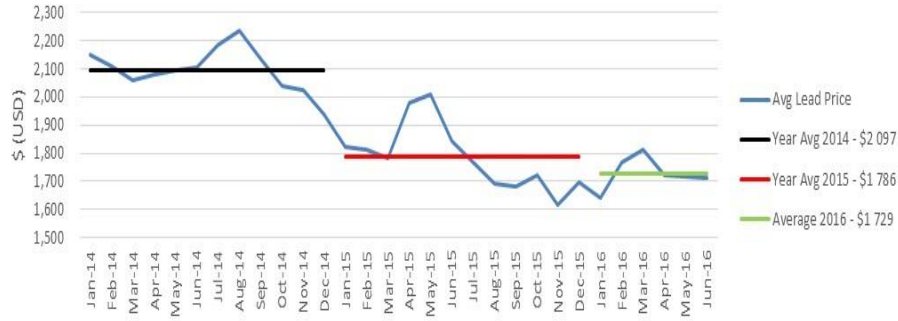
ENERGY STORAGE – INDUSTRIAL (PBIT)

(SELECTED INFORMATION)



LEAD PRICING FLUCTUATED SIGNIFICANTLY

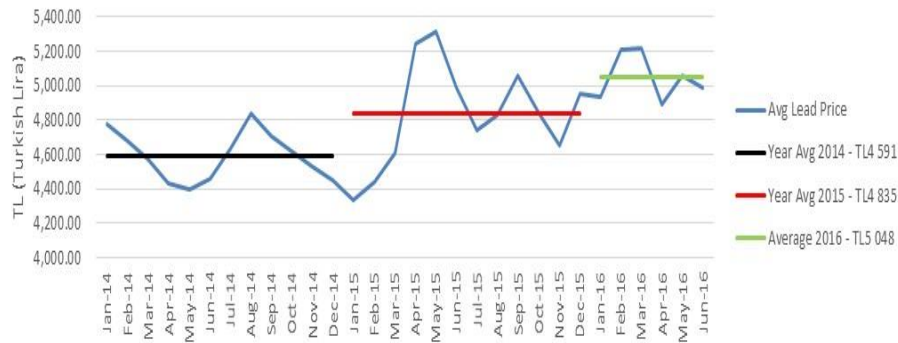
Average Lead price (USD)



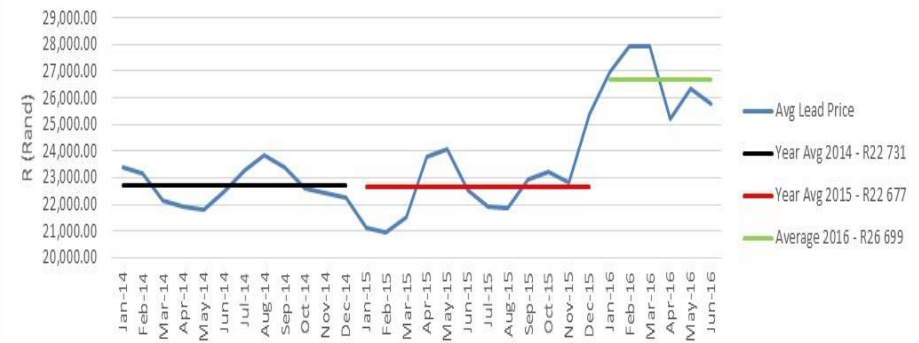
Average Lead price (RON)



Average Lead price (TL)



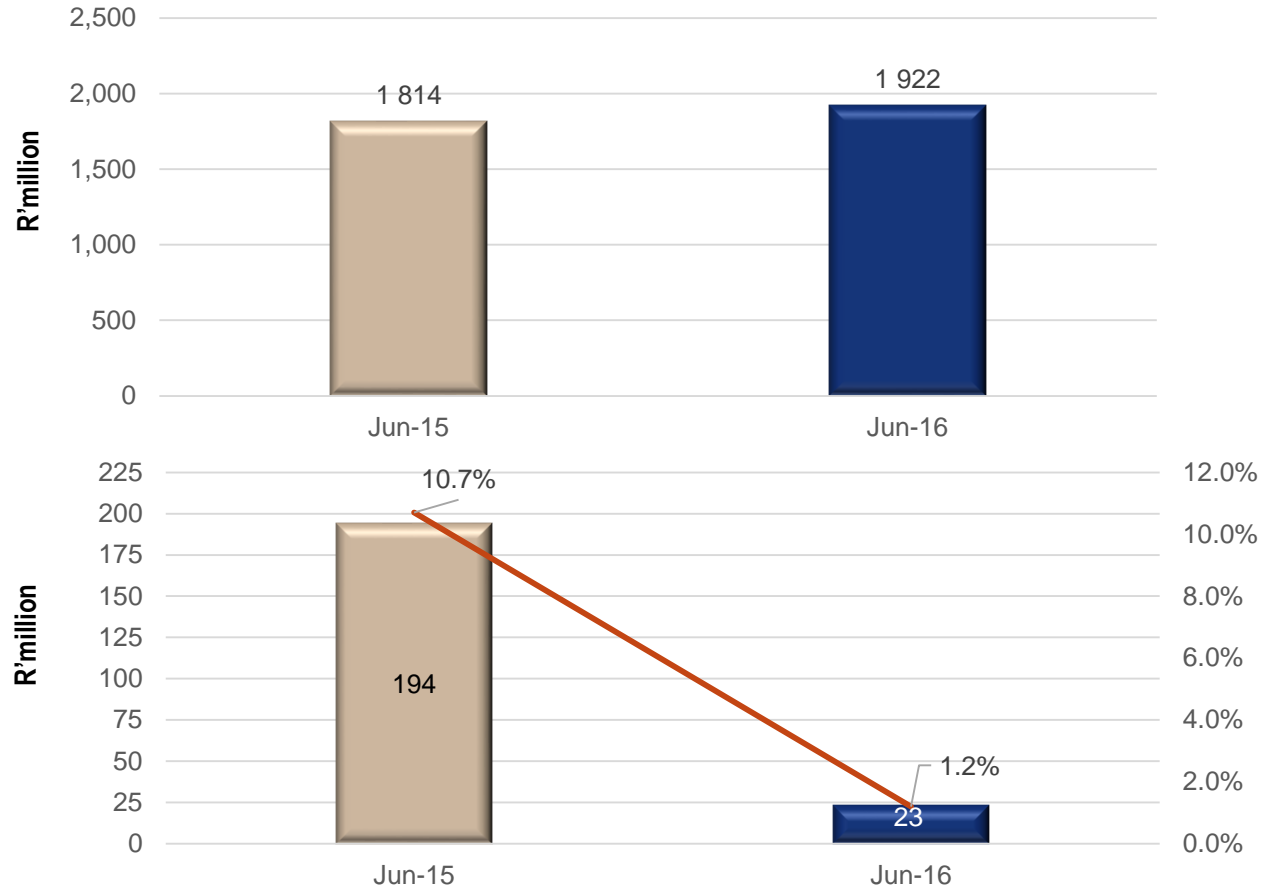
Average Lead price (R)



OVERALL SEGMENTAL REVIEW

AUTOMOTIVE COMPONENTS VERTICAL (INCL. MANAGED ASSOCIATE)

Automotive
Components
Revenue



Automotive
Components
PBIT

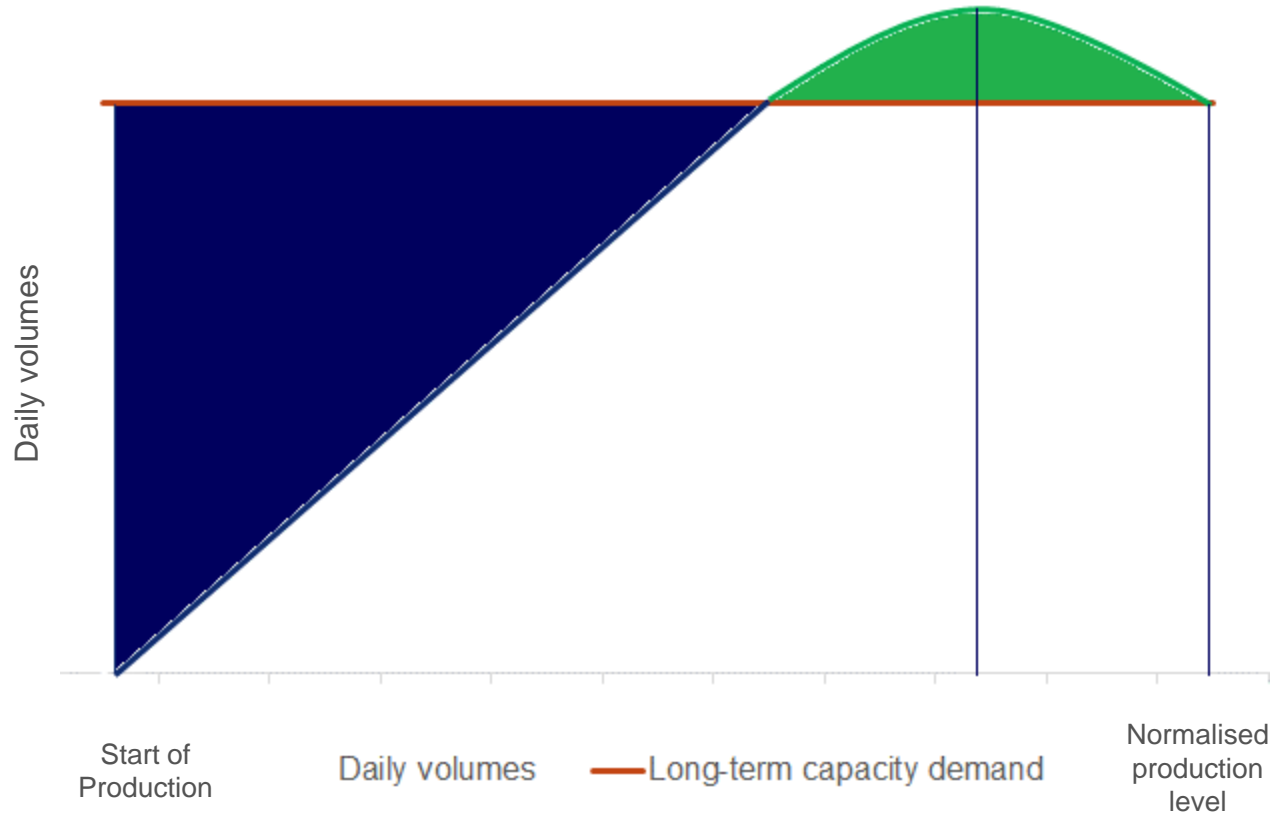


- The Automotive Component Vertical underwent its most disruptive phase since 2009 with the launch of our major customer's new model
- Overall, the component vertical achieved a PBIT of R23m, compared to R194m in 2015.

This was caused by the following factors:

- During the initial launch phase, production volumes were well below capacity; then
- Followed by a period of production in excess of capacity which resulted in significant overtime
- Excluding Hesto Harnesses, the local Automotive Component business margins declined to 4.2% from 12% in the prior year
- But adapting to the model mix specifically impacted Hesto capacity, as our facilities were not designed to handle the increased high work content export volumes
- This resulted in importing of harnesses from Thailand while facility layout is adjusted

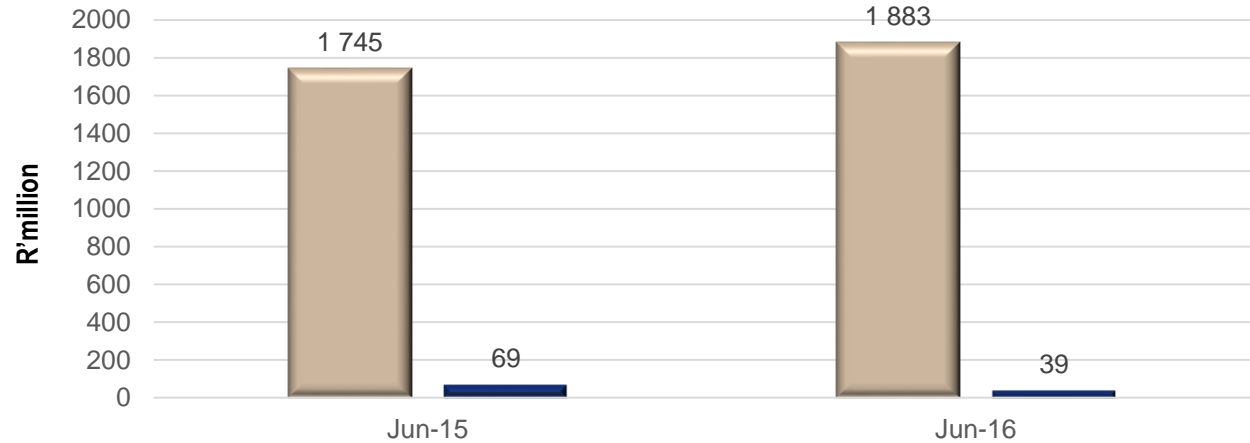
RAMP-UP PRODUCTION LEVELS



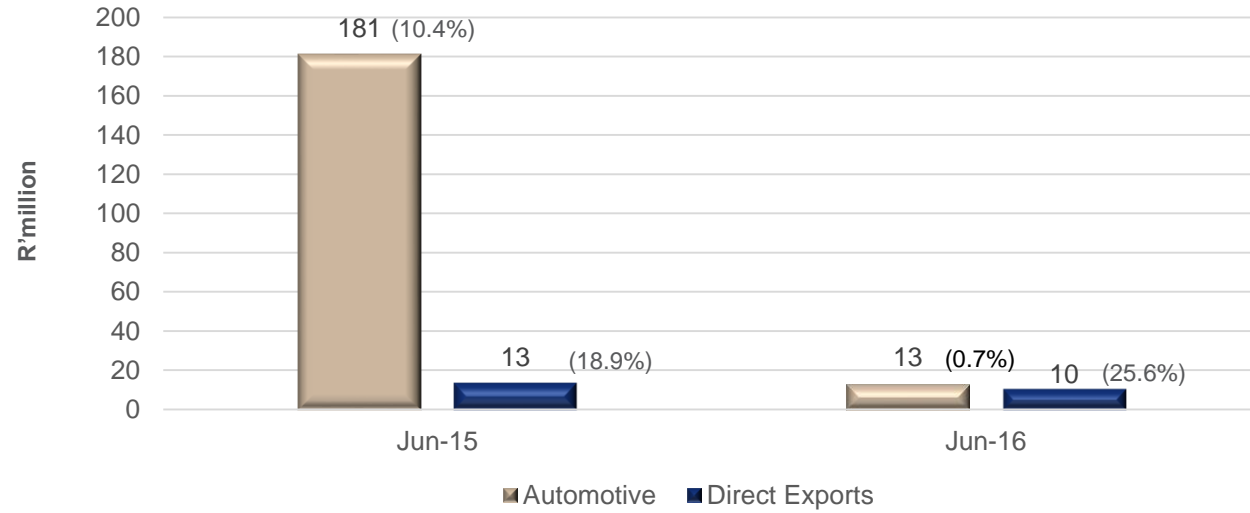
OVERALL SEGMENTAL REVIEW

AUTOMOTIVE COMPONENTS VERTICAL (INCL. MANAGED ASSOCIATE)

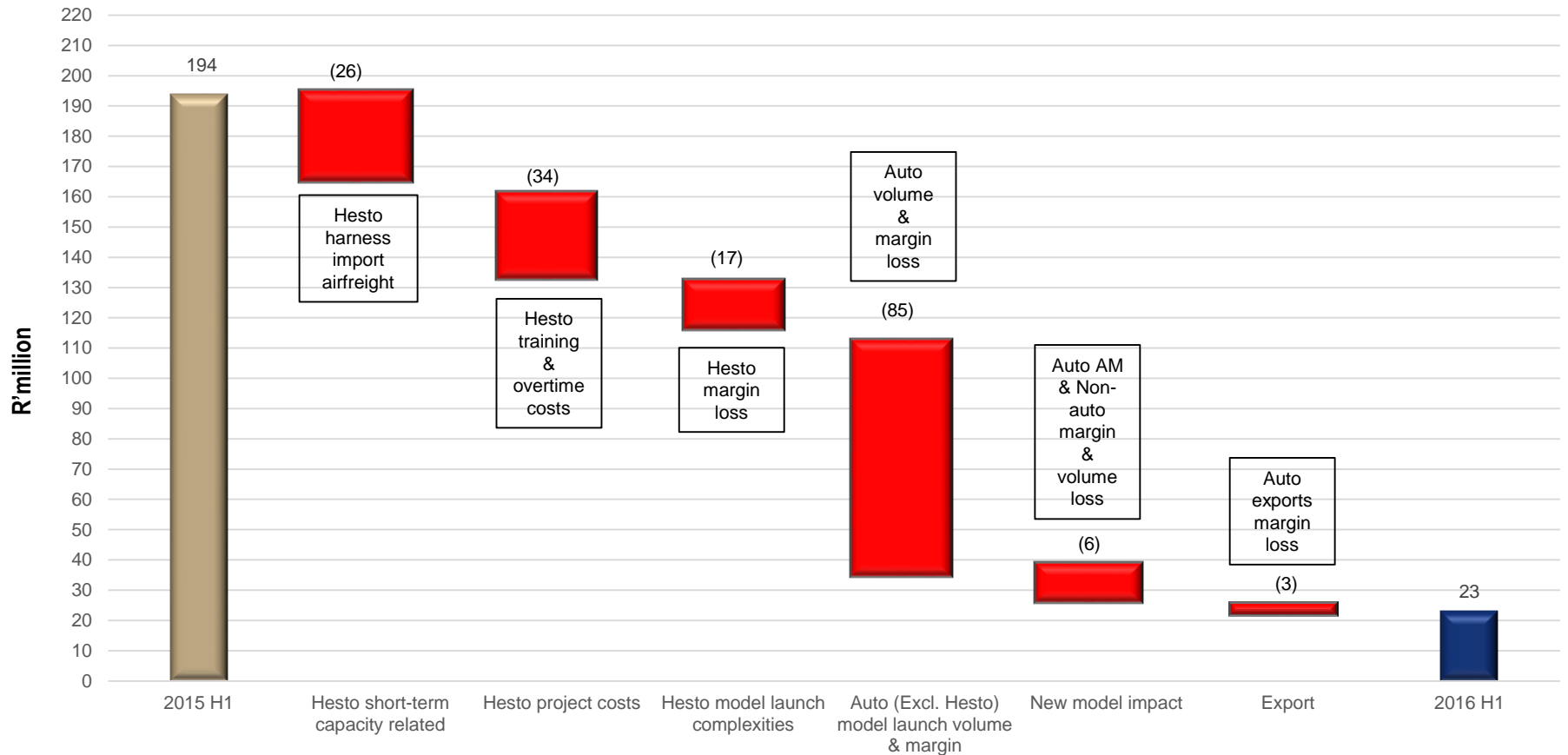
Local
Automotive
Components
Revenue



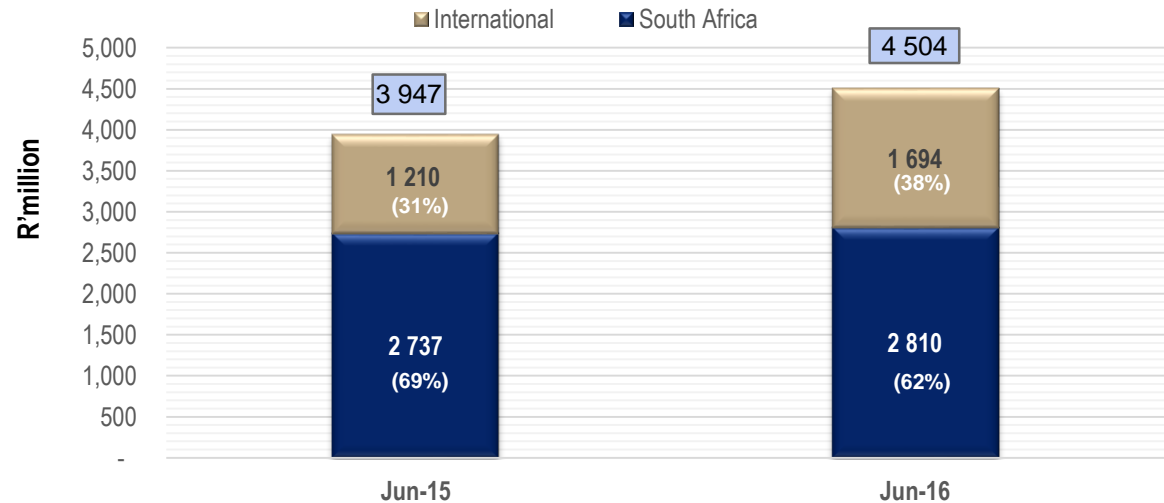
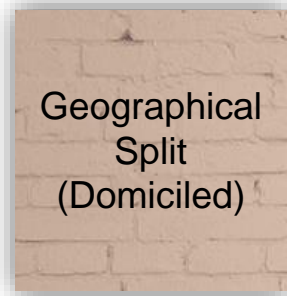
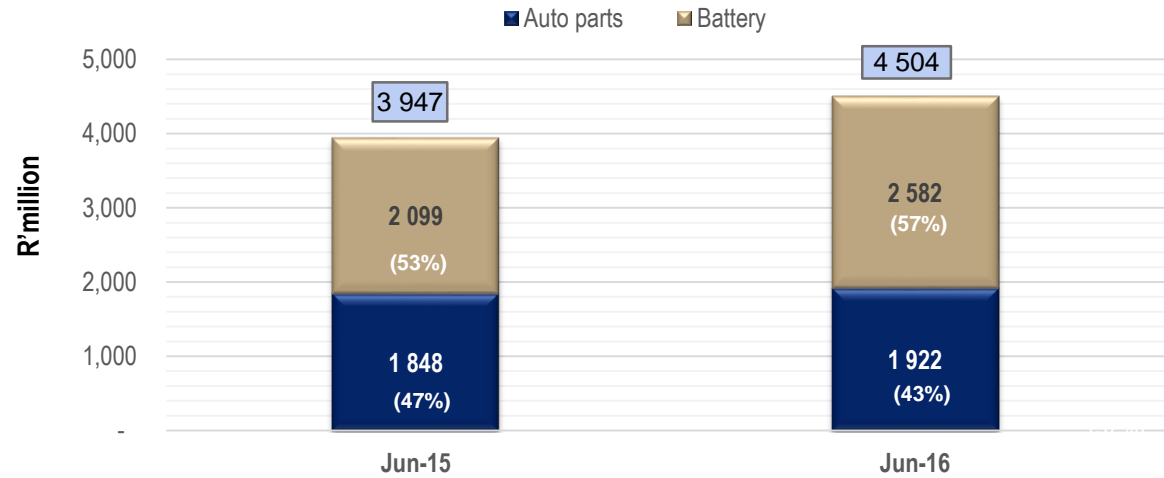
Local
Automotive
Components
PBIT



AUTOMOTIVE COMPONENTS PBIT OVERVIEW (SELECTED INFORMATION)



OVERALL ANALYSIS – ADDITIONAL INFORMATION (INCL. MANAGED ASSOCIATE)



ASSOCIATE ACQUISITION – ASSOCIATED BATTERY MANUFACTURERS (EAST AFRICA) GROUP ‘ABMEAL’

Acquisition Summary

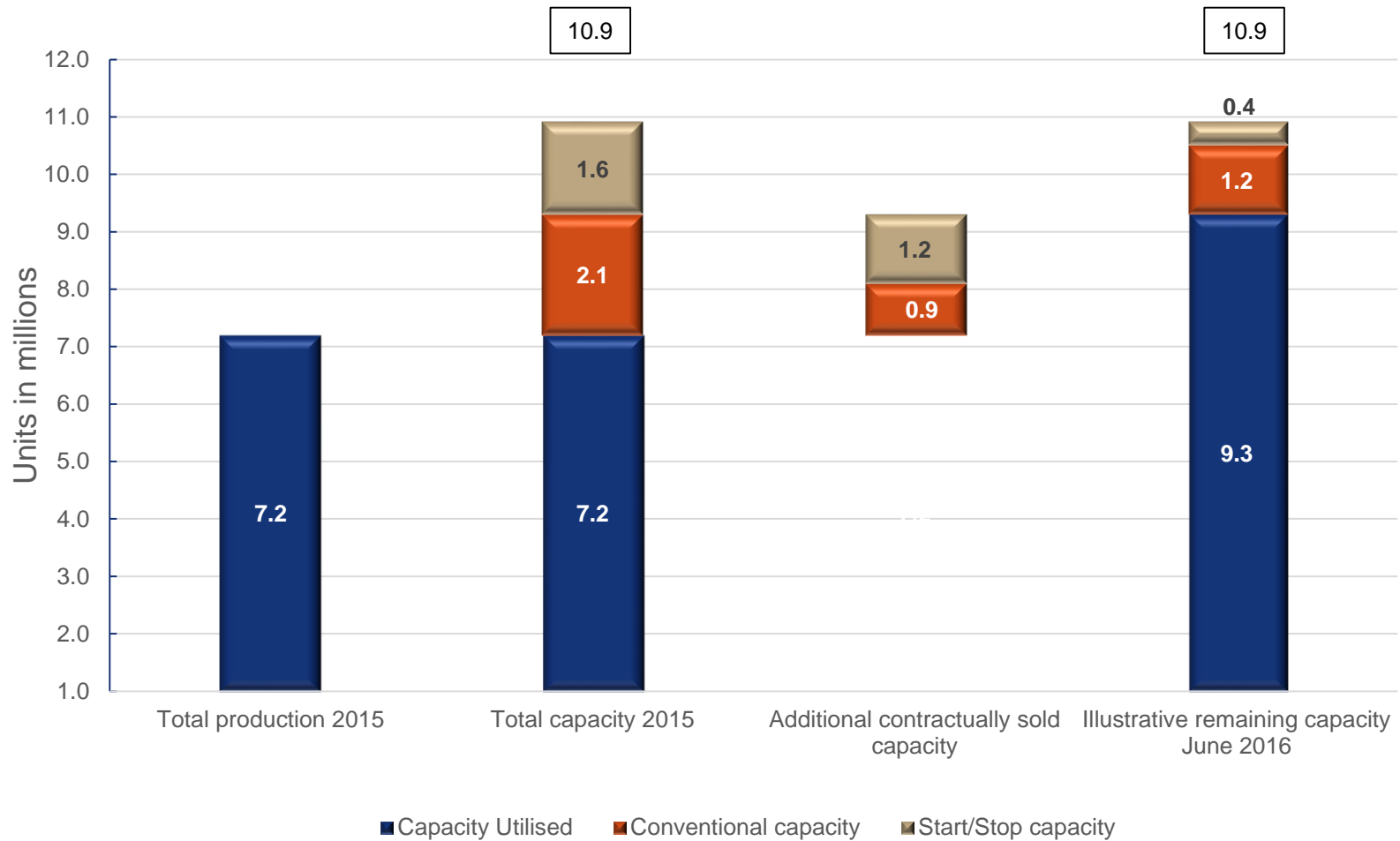
Investment - ZAR' million	June 2016
Total consideration for 25% equity (including shareholders loan)	122
Consideration for loan and shares (USD 7.3m)	108
Purchase price adjustment (USD 0.8m)	12
Transaction costs	2

Comments

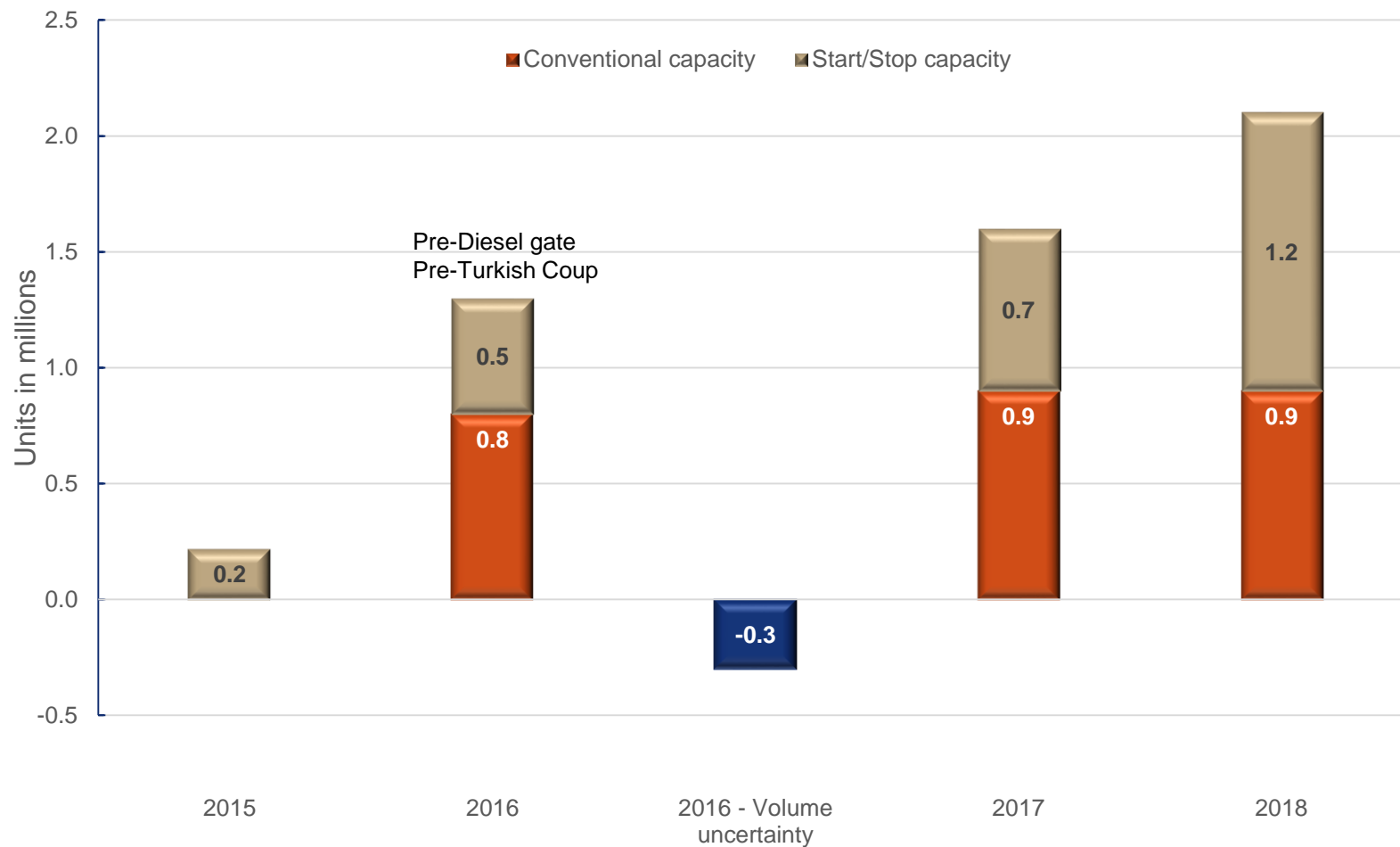
- Total acquisition cost of R122m, with R108 relating to purchase price and another R12m related to locked-box acquisition adjustment
- Acquisition concluded on 23 June 2016
- As the acquisition is treated as an associate (equity accounted), transaction costs of R2m were capitalised
- Acquisition multiple of 4.5x EBITDA

OPERATIONAL OVERVIEW

AUTOMOTIVE BATTERY PRODUCTION & CAPACITY TYPE



2015 & 2016 CONTRACTUALLY SOLD CAPACITY – TIMING & ANNUAL VOLUMES



COMBINED BATTERY VOLUMES (FNB, MUTLU & ROMBAT)

Original
Equipment
Market

Automotive Units	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
Original Equipment				
- Local	1 609 159	860 726	944 513	10%
- Export	264 808	66 720	112 357	76%
Total OE	1 873 967	927 446	1 056 870	14%

Aftermarket

Automotive Units	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
Aftermarket				
- Local	2 981 159	1 272 927	1 231 893	(3%)
- Export	2 355 561	918 828	1 071 202	17%
Total AM Volume	5 336 720	2 191 755	2 303 095	5%

Industrial

Industrial Volumes	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
- Local	389 571	207 540	148 310	(29%)
- Export	21 642	10 475	8 946	(15%)
Total Industrial Volumes	411 213	218 015	157 256	(28%)

Comments

- Overall auto volumes increased 7.7%, majority of the increase related to Turkey OE production and Rombat increased exports
- Local AM volumes largely flat. Rombat and FNB marginal increases offset by softer Turkish market
- Exports improved with Russian volumes increasing to 84k and Rombat exports increased by 6% due to contractual OES business
- Industrial business decline due to softer stand-by market in SA and timing of contractual business in Turkey

Original
Equipment
Market

Automotive Units	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
Original Equipment - Local	517 285	248 002	230 873	(7%)
Total OE	517 285	248 002	230 873	(7%)

Aftermarket

Automotive Units	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
Aftermarket - Local	1 088 741	588 464	592 427	1%
- Export	253 296	127 457	129 649	2%
Total AM Volume	1 342 037	715 921	722 076	1%

Industrial

Industrial Volumes	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
- Local	358 459	187 159	140 323	(25%)
- Export	19 935	9 546	8 595	(10%)
Total Industrial Volumes	378 394	196 705	148 918	(24%)

Comments

- FNB OEM volumes declined on the back of new model launch
- AM volumes flat due to increase competition from local competitors
- Export volumes flat due to currency shortages in export destinations
- Industrial volumes declined due to reduced stand-by demand with stabilization of Eskom supply

Original Equipment Market

Automotive Units	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
Original Equipment - Local	907 814	416 495	520 858	25%
Total OE	907 814	416 495	520 858	25%

Aftermarket

Automotive Units	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
Aftermarket - Local	1 505 701	536 936	485 106	(10%)
- Export	737 881	255 516	373 147	46%
Total AM Volume	2 243 582	792 452	858 253	8%

Industrial

Industrial Volumes	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
- Local	31 112	20 381	7 987	(61%)
- Export	1 707	929	351	(61%)
Total Industrial Volumes	32 819	21 310	8 338	(61%)

Comments

- Mutlu OE volumes increased in line with increased production, model change and new contracts secured
- Aftermarket was softer due to short-term lower demand, market share remained constant
- Export volumes increased largely due to increased Russian exports
- Industrial volumes impacted by timing of contractual business

ROMBAT VOLUMES

Original Equipment Market

Automotive Units	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
Original Equipment				
- Local	303 608	196 229	192 782	(2%)
- Export	145 260	66 720	112 357	68%
Total OE	448 868	262 949	305 139	16%

Aftermarket

Automotive Units	Actual Dec-15	YTD Jun-15	YTD Jun-16	Variance
Aftermarket				
- Local	383 422	147 527	154 365	5%
- Export	1 361 676	535 855	568 406	6%
Total AM Volume	1 745 098	683 382	722 771	6%

Comments

- Rombat OE volumes largely flat due to stable Renault/Dacia production
- Export volumes increased due to contractual business with PSA
- Local AM largely flat in line with general demand in Europe
- Export volumes improved due to contractual OES business with PSA

VEHICLE PRODUCTION PER OEM IN SOUTH AFRICA (NAAMSA)

OEM	2011	2012	2013	2014	Dec-15	YTD Jun-15	YTD Jun-16
BMW	52 908	44 229	66 087	71 004	72 165	37 149	34 885
MBSA	50 939	61 439	47 189	45 584	105 473	49 152	55 592
FMCSA	28 716	51 006	56 923	76 179	73 735	40 029	42 234
GM	32 530	38 199	40 019	41 491	41 209	20 493	15 416
NISSAN	43 743	54 657	46 443	43 268	36 179	20 119	13 402
VW SA	137 872	110 864	107 567	113 678	121 583	58 486	59 633
TOYOTA	153 052	149 252	151 392	142 739	133 497	64 954	55 369
Adjustments	720	968	-	1 133	1 713	702	982
TOTAL	500 480	510 614	515 620	535 076	585 554	291 084	277 513

VEHICLE PRODUCTION PER OEM IN TURKEY

OEM	2011	2012	2013	2014	2015	YTD Jun-15	YTD Jun-16
OYAK RENAULT	330 994	310 602	331 694	318 246	339 240	167 341	180 769
FORD	295 850	272 097	281 287	244 682	334 622	159 441	173 996
TOFAŞ	307 788	256 428	244 614	222 807	278 254	136 748	181 962
HYUNDAI	90 231	86 976	102 020	203 157	226 500	112 959	120 075
TOYOTA	91 639	76 925	102 260	131 504	115 893	59 137	46 685
TURK TRAKTOR	40 617	39 542	38 411	45 823	47 536	22 716	27 170
MERCEDES BENZ TURK	21 362	20 002	22 395	22 205	23 941	13 268	7 689
HONDA	12 341	21 850	14 813	11 633	12 667	6 763	6 090
OTHERS	43 815	30 811	28 549	-	-	-	-
AIOS(ISUZU)	4 324	4 763	4 907	7 680	11 162	5 037	2 722
OTOKAR	3 062	2 851	4 840	3 266	4 613	1 784	898
TEMSA	4 060	2 354	2 918	2 500	2 922	1 439	1 193
HATTAT TARIM	4 889	2 713	2 098	2 580	3 702	1 599	2 809
KARSAN	22 146	15 448	12 486	1 714	7 239	2 623	2 346
MAN	1 610	1 134	1 300	1 051	1 743	977	1 052
BMC	3 724	1 548	-	-	-	-	-
TOTAL	1 234 637	1 115 233	1 166 043	1 218 848	1 410 034	691 832	755 456

VEHICLE PRODUCTION PER OEM IN ROMANIA

OEM	2010	2011	2012	2013	2014	Dec-15	YTD Jun-15	YTD Jun-16
Renault Dacia	327 609	327 394	284 392	342 856	338 593	339 198	186 107	144 336
Ford	9 558	7 547	30 591	68 339	52 829	47 967	23 326	21 034
TOTAL	337 167	334 941	314 983	411 195	391 422	387 165	212 433	165 370

2016 CAPITAL EXPENDITURE COMMITMENTS

Group - Approved

Sector R'000	Maintenance	Expansion Efficiency	Total
Original Equipment	23 249	48 556	71 805
Aftermarket / Non-auto	37 293	54 037	91 330
Property	12 403	8 378	20 781
Total	72 945	110 971	183 916

Includes authorised and committed capex

PROSPECTS

Metair expects the international and local business environment to continue to be volatile and challenging, but the group remains committed to making further progress in its strategic redesign. Metair continues to seek acquisitions, however such acquisitions will only be considered provided they meet Metair's returns criteria and the board has comfort regarding the group's gearing and funding capacity.

The first six months of the new financial year will be particularly tough as new model launch production ramp up takes effect during this period. Earnings growth is unlikely in 2016 as the group is still in the process of redesign and product renewal driven by model changes. Every effort will be made to both optimize return on invested capital as well as cash flow. The board remains confident that successful implementation of our strategy will deliver sustainable growth and quality earnings over the medium term.

PROSPECTS

ENERGY STORAGE VERTICAL



- Combination of :
 - stronger seasonal demand in our winter markets (Mutlu and Rombat); and
 - geo-political stabilitycould support continued good performance in second half of 2016
- In South Africa we expect continued local market competition as we aim to increase market share

PROSPECTS

ENERGY STORAGE VERTICAL



- Challenge relates to production volumes and margins for next 5-7 years for new model
- Currently expect single digit revenue growth in the short term, with technology advancements, product expansion and weaker ZAR offsetting potential volume reductions
- We anticipate new model volumes over medium term to reduce by c. 10% compared to 2015 (run-out year)
- Achievement of targeted production efficiencies should restrict long term margin retraction on new business to 6 - 8% operating margin compared to 10 – 12% previously
- Over the short term, we expect:
 - To carry forward some of the efficiency challenges of the first half, as we balance our capacity and manning levels to volume outlook; and
 - Performance may be impacted by labour instability as our existing three year wage agreement expires in the second half of 2016

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