METAIR

INVESTMENTS LIMITED

automotive | industrial | retail

Post COVID-19 operating performance **ahead of expectations**

The **health, safety and wellbeing** of all employees and communities remains a top priority for Metair

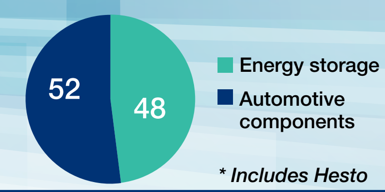
METAIR INVESTMENTS LIMITED

(Incorporated in the Republic of South Africa)
("Metair" or "the group" or "the company")

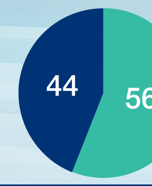
CONDENSED UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

(Reg No. 1948/031013/06)
Share code: MTA • ISIN code: ZAE 000090692

SEGMENTAL CONTRIBUTION REVENUE (%)*

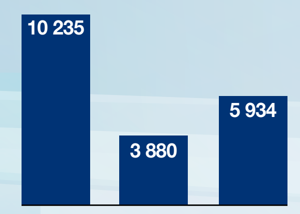


SEGMENTAL CONTRIBUTION PBIT (%)*

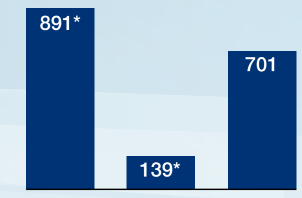


* Includes Hesto

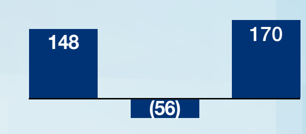
REVENUE – R'MILLION



EBITDA – R'MILLION
* before impairment of Moll



HEPS (CENTS)



CONDENSED UNAUDITED CONSOLIDATED INCOME STATEMENT	Six months ended 30 June 2021 R'000 Unaudited	Six months ended 30 June 2020 R'000 Unaudited	Year ended 31 December 2020 R'000 Audited
Revenue	**5 934 173**	3 880 043	10 234 706
Cost of sales	**(4 851 263)**	(3 415 856)	(8 642 047)
Gross profit	**1 082 910**	464 187	1 592 659
Other operating income	**74 386**	74 987	117 943
Distribution, administrative and other operating expenses	**(612 475)**	(557 243)	(1 149 940)
Operating profit/(loss)	**544 821**	(18 069)	560 662
Interest income	**19 472**	22 227	40 873
Interest expense	**(83 280)**	(113 194)	(204 731)
Share of results of associates	**3 130**	(7 656)	8 132
Impairment of associates		(108 168)	(108 168)
Profit/(loss) before taxation	**484 143**	(224 860)	296 768
Taxation	**(139 944)**	9 068	(111 491)
Profit/(loss) for the period	**344 199**	(215 792)	185 277
Attributable to:			
Equity holders of the company	**327 227**	(215 679)	174 184
Non-controlling interests	**16 972**	(113)	11 093
	344 199	(215 792)	185 277
Included in operating expenses above are:			
Depreciation and amortisation	**153 198**	164 604	322 340
Rentals on short term and low value assets	**9 856**	4 710	15 099
Impairment loss on trade receivables	**4 683**	45 379	15 726
Disaggregation of revenue from contracts with customers			
Primary geographical markets			
South Africa	**3 707 715**	2 209 998	5 609 981
Turkey and UK	**1 429 014**	1 088 582	3 201 392
Romania	**797 444**	581 463	1 423 333
	5 934 173	3 880 043	10 234 706
Major product and service lines			
Automotive batteries	**2 987 566**	2 232 096	5 887 128
Automotive components and parts	**2 542 127**	1 280 675	3 478 789
Automotive customer tooling	**124 778**	122 761	313 340
Industrial and non-automotive products	**279 702**	244 511	555 449
	5 934 173	3 880 043	10 234 706
Timing of revenue recognition			
Products transferred at a point in time	**3 362 611**	2 533 078	6 677 958
Products and services transferred over time	**2 571 562**	1 346 965	3 556 748
	5 934 173	3 880 043	10 234 706
Earnings per share			
Basic earnings/(loss) per share (cents)	**170**	(112)	91
Headline earnings/(loss) per share (cents)	**170**	(56)	148
Diluted earnings per share			
Diluted earnings/(loss) per share (cents)	**169**	(112)	91
Diluted headline earnings/(loss) per share (cents)	**169**	(55)	148
Number of shares in issue ('000)	**198 986**	198 986	198 986
Number of shares in issue excluding treasury shares ('000)	**192 717**	192 284	192 482
Weighted average number of shares in issue ('000)	**192 618**	191 942	192 118
Adjustment for dilutive shares ('000)	**1 372**	1 059	247
Number of shares used for diluted earnings calculation ('000)	**193 990**	193 001	192 365
Calculation of headline earnings			
Net profit/(loss) attributable to ordinary shareholders	**327 227**	(215 679)	174 184
Loss on disposal of property, plant and equipment – net	**242**	695	1 520
Impairment of associate		108 168	108 168
Headline earnings/(loss)	**327 469**	(106 816)	283 872

CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEET	Six months ended 30 June 2021 R'000 Unaudited	Six months ended 30 June 2020 R'000 Unaudited	Year ended 31 December 2020 R'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	**2 582 697**	2 861 488	2 618 197
Intangible assets	**404 502**	651 614	503 801
Investment in associates	**621 256**	622 285	624 185
Deferred taxation	**15 328**	18 673	13 812
	3 623 783	4 154 060	3 759 995
Current assets			
Inventory	**1 928 786**	2 033 924	1 695 429
Trade and other receivables	**1 944 053**	1 292 113	1 819 377
Contract assets	**279 459**	326 437	382 278
Taxation	**23 500**	44 197	17 653
Derivative financial assets	**3 181**	11 544	242
Cash and cash equivalents	**1 111 487**	1 279 295	1 623 696
	5 290 466	4 987 510	5 538 675
Total assets	**8 914 249**	9 141 570	9 298 670
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	**1 497 931**	1 497 931	1 497 931
Treasury shares	**(124 320)**	(131 322)	(128 126)
Reserves	**(1 841 110)**	(847 810)	(1 449 248)
Retained earnings	**4 365 925**	3 572 269	4 185 418
Ordinary shareholders' equity	**3 898 426**	4 091 068	4 105 975
Non-controlling interests	**114 899**	123 479	108 863
Total equity	**4 013 325**	4 214 547	4 214 838
Non-current liabilities			
Borrowings	**560 107**	1 589 212	519 311
Post-employment benefits	**85 696**	93 271	91 327
Deferred taxation	**217 880**	286 793	251 155
Deferred grant income	**117 368**	150 392	124 626
Provisions for liabilities and charges	**41 221**	41 852	41 677
	1 022 272	2 161 520	1 028 096
Current liabilities			
Trade and other payables	**1 895 298**	1 285 706	1 873 269
Dividends payable		238 783	
Contract liabilities	**105 797**	91 100	118 496
Borrowings	**1 693 719**	1 006 318	1 851 002
Taxation	**75 661**	5 809	53 364
Provisions for liabilities and charges	**72 252**	71 384	83 175
Derivative financial liabilities	**7 366**	5 065	17 857
Bank overdrafts	**28 559**	61 338	58 573
	3 878 652	2 765 503	4 055 736
Total liabilities	**4 900 924**	4 927 023	5 083 832
Total equity and liabilities	**8 914 249**	9 141 570	9 298 670
Net asset value per share (cents)	**2 023**	2 128	2 133
Capital expenditure	**253 401**	87 601	246 522
Capital commitments:			
– Contracted	**158 632**	49 496	341 388
– Authorised but not contracted	**567 938**	202 743	425 550

CONDENSED UNAUDITED CONSOLIDATED SEGMENT REVIEW	Revenue – Six months ended 30 June 2021 R'000 Unaudited	Revenue – Six months ended 30 June 2020 R'000 Unaudited	Revenue – Year ended 31 December 2020 R'000 Audited	Profit before interest and taxation – Six months ended 30 June 2021 R'000 Unaudited	Profit before interest and taxation – Six months ended 30 June 2020 R'000 Unaudited	Profit before interest and taxation – Year ended 31 December 2020 R'000 Audited
Energy storage						
Automotive						
Local	**2 047 589**	1 618 053	4 370 104	**209 148**	62 152	460 032
Direct export	**939 976**	614 043	1 517 024	**121 335**	29 741	161 034
	2 987 565	2 232 096	5 887 128	**330 483**	91 893	621 066
Industrial						
Local	**264 137**	231 482	511 658	**(2 348)**	(16 919)	(31 716)
Direct export	**8 352**	5 909	18 268	**(274)**	(854)	(937)
	272 489	237 391	529 926	**(2 622)**	(17 773)	(32 653)
Total energy storage	**3 260 054**	2 469 487	6 417 054	**327 861**	74 120	588 413
Automotive components						
Local						
Original equipment	**3 224 726**	1 656 184	4 410 129	**218 977**	(48 940)	45 556
Aftermarket	**227 135**	180 202	466 509	**30 621**	9 306	47 747
Non-auto	**7 213**	7 120	25 523	**80**	(1 255)	(2 125)
	3 459 074	1 843 506	4 902 161	**249 678**	(40 889)	91 178
Direct exports						
Original Equipment	**1 491**			**591**		
Aftermarket	**30 007**	15 674	42 247	**3 598**	(6 821)	(2 867)
	31 498	15 674	42 247	**4 189**	(6 821)	(2 867)
Total automotive components	**3 490 572**	1 859 180	4 944 408	**253 867**	(47 710)	88 311
Total segment results	**6 750 626**	4 328 667	11 361 462	**581 728**	26 410	676 724
Reconciling items:						
– Share of results of associates				**3 131**	(7 656)	8 132
– Impairment of associate					(108 168)	(108 168)
– Managed associates*	**(816 453)**	(448 624)	(1 126 756)	**150**	16 402	27 736
Amortisation of intangible assets arising from business acquisitions				**(9 104)**	(11 780)	(22 216)
Other reconciling items**				**(27 954)**	(49 101)	(121 582)
Total	**5 934 173**	3 880 043	10 234 706	**547 951**	(133 893)	460 626
Net interest expense				**(63 808)**	(90 967)	(163 858)
Profit/(loss) before taxation				**484 143**	(224 860)	296 768

* *Although the results of Hesto Harnesses Proprietary Limited (Hesto) do not qualify for consolidation, the full results of Hesto have been included in the segmental review. Metair has a 74.9% equity interest and is responsible for the operational management of this associate.*

** *The reconciling items relate to Metair head office companies.*

CONDENSED UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Six months ended 30 June 2021 R'000 Unaudited	Six months ended 30 June 2020 R'000 Unaudited	Year ended 31 December 2020 R'000 Audited
Profit/(loss) for the period	**344 199**	(215 792)	185 277
Other comprehensive (loss)/income:			
– Actuarial losses recognised – net			(7 496)
– Foreign exchange translation movements	**(399 569)**	349 278	(277 768)
Net other comprehensive (loss)/income	**(399 569)**	349 278	(285 264)
Total comprehensive (loss)/income for the period	**(55 370)**	133 486	(99 987)
Attributable to:			
Equity holders of the company	**(72 017)**	132 740	(111 278)
Non-controlling interests	**16 647**	746	11 291
	(55 370)	133 486	(99 987)

CONDENSED UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Six months ended 30 June 2021 R'000 Unaudited	Six months ended 30 June 2020 R'000 Unaudited	Year ended 31 December 2020 R'000 Audited
Balance at beginning of the period	**4 214 838**	4 310 786	4 310 786
Net profit/(loss) for the period	**344 199**	(215 792)	185 277
Other comprehensive (loss)/income for the period	**(399 569)**	349 278	(285 264)
Total comprehensive (loss)/income for the period	**(55 370)**	133 486	(99 987)
Share option scheme	**9 173**	8 787	29 040
Vesting of share-based payment obligation:			
– Estimated taxation effects of utilisation of treasury shares	**(187)**	271	160
Dividend*	**(155 129)**	(238 783)	(25 161)
Balance at end of the period	**4 013 325**	4 214 547	4 214 838

* *An ordinary dividend of R0.75 per share was declared in 2021 in respect of the year ended 31 December 2020. No ordinary dividend is being declared for the six months ended 30 June 2021 (30 June 2020: Rnil).*

CONDENSED UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS	Six months ended 30 June 2021 R'000 Unaudited	Six months ended 30 June 2020 R'000 Unaudited	Year ended 31 December 2020 R'000 Audited
Operating activities			
Operating profit/(loss)	**544 821**	(18 069)	560 662
Depreciation and amortisation	**153 198**	164 604	322 340
Equity earnings, before impairment	**3 130**	(7 656)	8 132
Net movement in provisions and similar items	**(20 875)**	(40 766)	(16 377)
Other items	**51 168**	67 090	55 204
Working capital changes	**(458 308)**	56 177	127 457
Cash generated from operations	**273 134**	221 380	1 057 418
Interest paid	**(85 707)**	(115 732)	(200 086)
Taxation paid	**(133 191)**	(50 016)	(91 513)
Dividends paid	**(155 129)**		(25 161)
Dividend income from associates	**4 924**	4 094	14 920
Net cash (outflow)/inflow from operating activities	**(95 969)**	59 726	755 578
Investing activities			
Interest received	**19 472**	22 227	40 873
Acquisition of property, plant and equipment	**(159 864)**	(82 404)	(225 031)
Increase in associate			(9 559)
Net cash utilised in other investing activities	**(1 747)**	(3 962)	(18 873)
Net cash outflow from investing activities	**(142 139)**	(64 139)	(212 590)
Financing activities			
Borrowings (repaid)/raised – net	**(142 495)**	363 537	259 519
Net cash utilised in other financing activities	**(187)**	(24 737)	(48 756)
Net cash (outflow)/inflow from financing activities	**(142 682)**	338 800	210 763
Net (derease)/increase in cash and cash equivalents	**(380 790)**	334 387	753 751
Cash and cash equivalents at beginning of the period	**1 565 123**	878 605	878 605
Exchange (loss)/gain on cash and cash equivalents	**(101 405)**	4 965	(67 233)
Cash and cash equivalents at end of the period	**1 082 928**	1 217 957	1 565 123

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

The condensed unaudited consolidated interim results for the six months ended 30 June 2021 have been prepared in accordance with and containing the information required by IAS 34 Interim Financial Reporting, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council. These condensed unaudited consolidated interim results should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the JSE Limited Listings Requirements and the requirements of the Companies Act, 71 of 2008 applicable to summary financial statements.

Accounting policies

The accounting policies applied in the preparation of the condensed unaudited consolidated interim results are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the 31 December 2020 consolidated annual financial statements. The interim results have not been reviewed or audited by the group's auditors.

Contingencies

Subsequent to period end, the company has provided a limited guarantee to the maximum of R636.7 million in favour of The Standard Bank of South Africa Limited for term loan and revolving credit facilities provided to Hesto. There has been no other material change in the group's contingent liabilities since period-end.

Borrowings

During the period the group repaid borrowings of R354.8 million (2020H1: R29.3 million) and raised borrowings of R234.4 million (2020H1: R392.8 million).

Post-balance sheet events

There has been no material change since period-end.

Changes to the committees of Metair

Mr Haffejee, the chief executive officer of the Company, was appointed as a member of the social and ethics committee on 21 May 2021.

The interim results presentation will be available on the company's website (www.metair.co.za) and will be broadcast today, 19 August 2021 at 14h00 (SAST). The webinar can be accessed through https://attendee.gotowebinar.com/register/4257982340604753166

REGISTRARS
Computershare Investor Services (Pty) Limited
Rosebank Towers, 15 Biermann Avenue,
Rosebank, 2196

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Signed on behalf of the Board in Johannesburg on 19 August 2021.

CMD Flemming – Chairman

R Haffejee – Chief Executive Officer

The condensed unaudited consolidated interim results were produced under the supervision of Mr S Douwenga (CFO) BCom (Hons), CA(SA).

EXECUTIVE DIRECTORS: R Haffejee (CEO); S Douwenga (CFO)
INDEPENDENT NON-EXECUTIVE DIRECTORS: CMD Flemming (Chairman); B Mathews; B Mawasha; TN Mgoduso (Lead Independent); N Mkhondo; MH Muell (German); A Sithebe; S Sithole (Zimbabwean); P Giliam
COMPANY SECRETARY: SM Vermaak

2021 INTERIM RESULTS COMMENTARY

The first half of 2021 was dominated by, *inter alia*, progress of the Covid-19 recovery in the Automotive and Energy Verticals, the progress of the major projects we are currently delivering for customers, the severe effect of global supply chain disruptions and the effect of semi-conductor shortages globally. The start of 2021 brought with it the aftermath of the second wave of Covid-19 in South Africa and was a devastating wave for the country. Subsequent waves hit European countries including Turkey in April. The tragic loss of life and income was again brought to the fore as it was in 2020. Our deepest sympathies go out to all the families who lost loved ones during this time. The vaccination programmes in Europe including Turkey, began earlier than in South Africa and with that we saw an improvement in economic recovery and less restrictions on the movement of people. South Africa has started late but seemingly has the chance to ramp up vaccinations faster in 2021H2. Again, as with 2020, the health and safety of our people was at the forefront of our minds.

The Metair Covid-19 recovery plan was met with success during the period, achieving a continued recovery in the Automotive Components Vertical, following a U-shaped path and a stronger recovery in the Energy Vertical following a V-shaped path. Both verticals performed better than expected due to higher volumes and stronger demand in the segments we operate in. The delivery of projects in both verticals was a key focus as was the ability to manage supply chains amid disruptive global shipping conditions, particularly in the first quarter of 2021.

Understanding and positioning Metair for the changing automotive environment is a priority and in doing so the ability to respond and satisfy our customers, changing needs remains top of mind. Working with all stakeholders specifically our customers, government and technical partners, has been essential as the need for agility intensifies in the industry. Capital allocation followed planned spend in accordance with key projects and maintenance items.

Original Equipment Manufacturers (OEM) volume in both the Automotive and Energy Verticals remained strong in line with recovery and although there have been some slight delays in model introductions, most volume commitments remain unchanged for the remaining year throughout all of our markets.

Our primary goal is to create financial value for all stakeholders and the important and legitimate interests of all stakeholders are taken into account in the way we do business. This goal is balanced with the longer term and sustainable interests of the group, which includes a responsible approach to social and environmental issues that aligns with our commitment to stewardship.

Results

Metair's results reflect a solid first half performance, where market demand and operating performance in all regions and business verticals were ahead of expectations. Group revenue increased by 53% to R5.9 billion (2020H1: R3.9 billion), reflecting the recovery in operational activity after the impact of the stringent lockdown measures in South Africa and other countries in the comparative period.

Group operating profit increased to R545 million (2020H1: R18 million loss) at an operating margin of 9.2% (2020H1: 0.5% loss). Group earnings before interest, taxation, depreciation and amortisation (EBITDA) (including equity earnings but excluding impairments) improved to R701 million (2020H1: R139 million) and the EBITDA margin recovered to 11.8% (2020H1: 3.6%). The group is going through an intensive capital expansion phase, with R1.6 billion in capital expenditure (including Hesto Harnesses) planned for 2021, of which R392 million has been spent. As such, the group continues to focus on cash preservation and liquidity management, in the context of this expansion phase ahead of planned new model launches. Net finance charges decreased to R64 million (2020H1: R91 million) due to the reduction in interest rates and average lower net debt levels. Headline earnings per share increased by 404% to 170 cps (2020H1: 56 cps loss). On a last twelve month basis, adjusted return on invested capital (ROIC) recovered to 11.6% (2020H1: 6.4%), and 16.3% (2020H1: 7.8%) on an unadjusted basis.

Segmental review

Automotive Components Vertical

The Automotive Components Vertical is directly dependent on South African OEM production, which has recovered in line with our expectations. Model launches, facelifts and general market recovery had a positive effect leading to improved first half volumes. However, the disruptive impact of Covid-19 on supply chains globally had a significant effect on production stability and variability which led to premium logistics costs especially during the first quarter of the year. Despite this, the vertical contributed R3.5 billion in revenue, an 88% improvement from 2020H1, with OEM production volumes increasing by 54% for the period, aided by increased export demand for locally produced vehicles. Manufacturing inefficiencies, premium logistics costs as well as project costs associated with planned new model launches for the future resulted in a slightly suppressed operating profit margin of 7.3% (2020H1: 2.6% loss) and operating profit of R254 million (2020H1: R48 million loss).

Energy Storage Vertical

The Energy Storage Vertical experienced strong local aftermarket, OEM and export demand in all regions. Overall automotive sales volumes increased by 42% to 3 961 000 units (2020H1: 2 787 000 units). This recovery was ahead of expectations, mainly due to improved export volumes from Mutlu Akü in Turkey. Revenue increased by 32% to R3.3 billion (2020H1: R2.5 billion), mainly as a result of improved volumes. Operating margins increased from 3.0% to 10.1% due to the rebound in activity levels and larger proportions of export volumes. The Energy Vertical delivered operating profit of R328 million (2020H1: R74 million). Mutlu Akü performed exceptionally well, with local currency earnings before interest and taxation (EBIT) approximately 495% higher than in the 2020 comparative period at an EBIT margin of 11.4% (2020H1: 3.5%), resulting in ZAR translated EBIT of R160 million (2020H1: R37 million) despite the Turkish Lira average devaluation of approximately 27%. First National Battery's (FNB) margins improved to 9.9% (2020H1: 1.7%) and operating profit increased to R103 million (2020H1: R13million). Rombat's operating profit increased by 167% to R64 million, at an operating margin of 7.7% (2020H1: 3.9%), also supported by stronger aftermarket automotive volumes.

Sales of industrial batteries improved to R272 million (2020H1: R237 million) and this segment incurred a loss of R3 million (2020H1: R18 million loss) as industrial volume demand remains challenging.

Financial position

Net asset value per share decreased to 2 023 cents per share (31 December 2020: 2 133 cents per share). Cash generated from operations increased to R273 million (2020H1: R221 million), but net working capital utilisation increased to R458 million (2020H1: R56 million generated) due to higher activity levels combined with our focus on mitigating the consequences of supply chain disruptions and availability of raw materials. Cash and cash equivalents on hand declined to R1.1 billion from R1.6 billion at 31 December 2020, while net debt increased to 1.2 billion (2020FY: R805 million). Group net debt to EBITDA amounted to 0.8 times (2020FY: 1.0 times) and lenders covenant requirements were comfortably met.

Unutilised and available finance facilities were R758 million in South Africa, R1 122 million combined equivalent at Rombat and Mutlu Akü, and a further R540 million of the revolving credit facility (RCF 2) South African facility.

Metair has also successfully negotiated the refinancing of R750 million in revolving credit facilities (RCF 1) maturing on 19 August 2021, to support our continued expansion. The new maturity date for this facility is 19 August 2026. In addition, R840 million in existing preference shares funding maturing in December 2021 has also been extended by 3 years. The agreements and final pricing will be concluded imminently.

Capital allocation

Total approved capital expenditure as at 31 December 2020 (including Hesto) for 2021 was R1.3 billion and a further R272 million was approved during the first half of 2021, reflecting the capital expansion phase ahead of new project launches in Automotive Components and absorbant glass mat (AGM) technology in Energy Storage.

During the first half of 2021, R91 million has been spent on maintenance, R295 million on expansion and R6 million on health and safety, improving the group's competitive position and efficiency. The remaining capital expenditure for 2021 will mainly be focused on new business expansion for the Automotive Components Vertical in facilities, tooling and machinery required to support planned new model launches and facelifts.

Insurance claims

Several recent court decisions set a precedent for business interruption insurance claims related to Covid-19 in South Africa. Metair continues to engage with its insurers to reach a conclusion on the potential claim value.

Impact of unrest and widespread looting experienced during July 2021

We are relieved to report that we had no physical damage to our properties, and very limited stock losses stored at third party sites. The majority of the impact was isolated to KwaZulu-Natal (KZN), and all of our businesses in the region remained closed for around nine days. Our affected operations and OEM customers returned to production from 20 July, apart from OEMs with unrelated planned shutdowns. As such, the impact was largely short term as our customers introduced catch back production plans to recover the lost production. The longer-term impact of such a profound event is concerning, and businesses from all industries have sent strong messages to Government regarding the safety and stability required to protect livelihoods and ensure that South Africa remains a viable investment destination.

Outlook and prospects

Metair's priority is to support flawless launches of new models and facelifts, while maintaining the positive momentum experienced in operating activity over the first half of 2021. For the remainder of the year, we will continue to drive effective project management and improve operating efficiencies to maintain our current base while investing in the future. Although no specific decision has been taken at this point, the strong performance and quick recovery in the Energy Storage business, combined with growth opportunities ahead for the Automotive Components Vertical is providing impetus for Metair to refresh its strategic approach around the Energy Storage Vertical. As such, management will take the second half of this year to go through that exercise. The Energy Storage Vertical will continue to focus on expanding our automotive battery product range. We have also evaluated the technology, market and demand shift effect on our industrial battery manufacturing business in South Africa (FNB) and will strategically shift to a trade focused model. The Automotive Components Vertical will enter a year of preparation and implementation as new projects are finalised and commissioned. Some of our subsidiaries enter a pre-production and prototype manufacturing phase for greenfield projects which will result in a slight shift in the normal replacement cycle and increased project costs ahead of model launches. The impact of increased supply chain costs as well as the project costs related to the investment in our future could result in margins dipping below the 7%-9% market guidance in the Automotive Components Vertical for the year, but with substantial longer term benefits. The outlook for the year is dependent on the continued availability of components and raw material throughout the global supply chain, as well as the logistical and port stability.

Appreciation

We would like to thank all of our employees including the head office staff, subsidiary executives and leadership teams for their significant contribution during the first half of the year. The dedication, resilience and problem-solving ability necessary to navigate the challenges we actively face is much appreciated. Our employees who use steel, aluminium, lead, copper, plastic, nylon and PVC to make, process, and deliver our many products have done a commendable job and our sincere thanks go to all our staff.

In closing, we wish to acknowledge Metair's previous leaders and our loyal customers and partners that have helped shape Metair into the company it is today. Thank you to our customers and partners for your business, trust and support. The opportunities ahead are exciting and provide for future growth.