

# Unaudited condensed consolidated interim results

for the six months ended 30 September 2014

## Financial and other highlights

- » Revenue up 92,8% to R897,8 million (2013: R465,7 million)
- » HEPS up 33,3% to 15,2 cents (2013: 11,4 cents)
- » Operational EBITDA up 73,2% to R84,3 million (2013: R48,7 million)
- » Muhanga coal processing plant acquisition unconditional
- » Acquired mining right for Intibane phase 2
- » Funding secured for the Elandspruit project



# WESCOAL

# 2014

Wescoal Holdings Limited (Incorporated in the Republic of South Africa) (Registration number 2005/006913/06) (JSE code: WSL ISIN: ZAE000069639) ("Wescoal" or "the Group")

The unaudited interim results for the six months ended 30 September 2014, with comparative unaudited results for the six months ended 30 September 2013 and the audited results for the year ended 31 March 2014 are presented below:

## Condensed consolidated statement of comprehensive income

	Unaudited results for six months ended 30 September 2014 R'000	Unaudited results for six months ended 30 September 2013 R'000	Audited results for the year ended 31 March 2014 R'000
<b>Continuing operations</b>			
Revenue	897 791	465 679	1 147 444
Gross profit	120 356	53 867	125 529
Other operating income	412	419	(1 174)
Profit on sale of assets	64	71 273	75 773
Operating costs	(72 418)	(27 577)	(81 259)
<b>Operating profit</b>	<b>48 414</b>	<b>97 982</b>	<b>118 869</b>
Investment income	1 470	202	265
Finance costs	(9 927)	(3 175)	(9 615)
<b>Profit before taxation</b>	<b>39 957</b>	<b>95 009</b>	<b>109 519</b>
Taxation	(11 892)	(18 301)	(22 839)
<b>Profit for the year from continuing operations</b>	<b>28 065</b>	<b>76 708</b>	<b>86 680</b>
<b>Total comprehensive income</b>	<b>28 065</b>	<b>76 708</b>	<b>86 680</b>
<b>Attributable to:</b>			
Owners of the parent	28 065	58 806	69 764
Non-controlling interest	-	17 902	16 916
<b>Profit for the period/year</b>	<b>28 065</b>	<b>76 708</b>	<b>86 680</b>
<b>Headline earnings reconciliation:</b>			
Net profit for the period/year	28 065	76 708	86 680
Less: Profit on sale of assets	(64)	(58 651)	(60 030)
<b>Headline earnings for the period/year</b>	<b>28 001</b>	<b>18 057</b>	<b>26 650</b>
<b>Ordinary shares in issue (000's)</b>			
- Total at period/year end	183 571	157 931	184 771
- Weighted average shares in issue	184 287	157 931	170 067
- Fully diluted weighted average shares in issue (Note 1)	186 443	160 638	173 484
Basic earnings per ordinary share (cents):	15.2	37.2	41.0
Fully diluted basic earnings per ordinary share (cents):	15.1	36.6	40.2
Headline earnings per ordinary share (cents):	15.2	11.4	15.7
Fully diluted headline earnings per ordinary share (cents):	15.0	11.2	15.4
<b>Reconciliation of EBITDA:</b>			
Operating profit	48 414	97 982	118 869
Depreciation - included in cost of sales	29 733	11 159	41 483
Depreciation and amortisation - included in operating costs	6 208	10 791	4 729
<b>Earnings before interest, taxation, depreciation and amortisation ("EBITDA")</b>	<b>84 356</b>	<b>119 932</b>	<b>165 081</b>
Profit on sale of assets	(64)	(71 273)	(75 773)
<b>Operational EBITDA</b>	<b>84 292</b>	<b>48 659</b>	<b>89 308</b>

Note:  
(1) Fully diluted earnings per share information reflected shows the potential effect of dilution for 14,8 million options held in terms of the share incentive trust by the directors and employees of the Group.

## Condensed consolidated statement of financial position

	Unaudited results for six months ended 30 September 2014 R'000	Unaudited results for six months ended 30 September 2013 R'000	Audited results for the year ended 31 March 2014 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>386 204</b>	<b>239 341</b>	<b>355 752</b>
Property, plant and equipment	135 314	69 246	116 004
Investment property	709	709	709
Investments	9 714	3 199	6 664
Investment in associates	-	-	19 365
Goodwill and intangible assets	107 882	51 209	111 722
Mineral rights and coal reserves	118 644	113 744	101 118
Other receivables	13 772	-	-
Deferred taxation	169	1 234	170
<b>Current assets</b>	<b>397 450</b>	<b>300 114</b>	<b>368 391</b>
Inventories and work in progress	65 662	47 175	60 839
Trade and other receivables	237 088	158 932	255 389
Cash and cash equivalents	94 700	94 007	52 163
<b>Total assets</b>	<b>783 654</b>	<b>539 455</b>	<b>724 143</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total shareholders' funds</b>	<b>288 823</b>	<b>239 196</b>	<b>273 225</b>
Stated capital	161 338	137 092	166 715
Retained earnings	123 676	82 669	103 627
Employee share option reserve	3 809	1 710	3 059
Non-controlling interest	-	(17 275)	(176)
<b>Non-current liabilities</b>	<b>97 337</b>	<b>33 552</b>	<b>96 471</b>
Interest bearing debt	44 923	3 311	57 113
Deferred tax	27 815	7 859	15 076
Rehabilitation provision	24 599	22 382	24 282
<b>Current liabilities</b>	<b>397 494</b>	<b>266 707</b>	<b>354 447</b>
Trade and other payables	209 458	196 536	220 211
Bank overdraft	14 779	4 942	176
Taxation payable	13 232	-	10 268
Interest bearing debt	160 025	65 229	123 792
<b>Total equity and liabilities</b>	<b>783 654</b>	<b>539 455</b>	<b>724 143</b>
Net asset value per share (cents)	156.72	151.46	147.87
Tangible net asset value per share (cents)	98.57	119.03	87.41

## Condensed consolidated statement of cash flows

	Unaudited results for six months ended 30 September 2014 R'000	Unaudited results for six months ended 30 September 2013 R'000	Audited results for the year ended 31 March 2014 R'000
<b>Cash flow from operating activities:</b>	<b>73 881</b>	<b>63 086</b>	<b>29 810</b>
Cash generated by operations	88 301	84 746	47 134
Finance income	1 470	202	265
Finance costs	(8 903)	(3 175)	(7 715)
Tax paid	852	(3 500)	(4 687)
Dividends paid	(7 839)	(15 187)	(5 187)
<b>Cash flows from investing activities:</b>	<b>(72 713)</b>	<b>(53 447)</b>	<b>(175 426)</b>
Purchase of property, plant and equipment	(51 342)	(5 151)	(103 542)
Proceeds from the sale of property, plant and equipment	68	59	8 049
Purchase of a business	-	-	(70 784)
Purchase of investment in associate	-	-	(5 000)
Purchase of mineral asset and capitalised development costs	(17 526)	(128 637)	-
Proceeds from disposal of mineral asset	-	81 120	-
Purchase of financial asset	(3 913)	(838)	(4 149)
<b>Cash flows from financing activities:</b>	<b>26 766</b>	<b>58 056</b>	<b>176 233</b>
Movements in interest bearing debt	24 043	58 610	170 975
Investment in acquisition activities	-	(554)	-
Shares issued	2 723	-	5 258
<b>Total cash, cash equivalents and bank overdrafts movement for the period/year</b>	<b>27 934</b>	<b>67 695</b>	<b>30 617</b>
<b>Total cash, cash equivalents and bank overdrafts at beginning of the period/year</b>	<b>51 987</b>	<b>21 370</b>	<b>21 370</b>
<b>Total cash, cash equivalents and bank overdrafts at end of the period/year</b>	<b>79 921</b>	<b>89 065</b>	<b>51 987</b>

## Condensed consolidated statement of changes in equity

Attributable to owners of the parent

	Stated capital R'000	Share-based payment reserve R'000	Retained earnings R'000	Total R'000	Non-controlling interests	Total equity
<b>Balance as at 31 March 2013</b>	<b>137 092</b>	<b>1 355</b>	<b>39 050</b>	<b>177 498</b>	<b>(177)</b>	<b>177 321</b>
Shares issued	29 623	-	-	29 623	-	29 623
Total comprehensive income for the year	-	-	69 764	69 764	16 916	86 680
Dividends declared	-	-	(5 187)	(5 187)	(16 916)	(22 103)
Employees share option scheme	-	1 704	-	1 704	-	1 704
<b>Balance as at 31 March 2014</b>	<b>166 715</b>	<b>3 059</b>	<b>103 627</b>	<b>273 402</b>	<b>(177)</b>	<b>273 225</b>
Shares issued	21 623	-	-	21 623	-	21 623
Shares cancelled	(27 000)	-	-	(27 000)	-	(27 000)
Change in ownership	-	-	(177)	(177)	177	-
Total comprehensive income for the year	-	-	28 064	28 064	-	28 064
Dividends declared	-	-	(7 839)	(7 839)	-	(7 839)
Employees share option scheme	-	750	-	750	-	750
<b>Balance at 30 September 2014</b>	<b>161 338</b>	<b>3 809</b>	<b>123 675</b>	<b>288 823</b>	<b>-</b>	<b>288 823</b>

## Operations, market and financial review

Wescoal produced an excellent set of results clearly indicating the contribution from MacPhail that was acquired in November 2013. This acquisition has breathed new life into the trading division and places the Wescoal group in the unique position of having a sophisticated trading division servicing the domestic market together with a mining division.

Highlights for the period include the finalisation of the Intibane phase 2 transaction and the acquisition of the Muhanga coal processing plant near Middelburg.

Group revenues increased by 92,8% to R897,8 million (2013: R465,7 million), operational EBITDA of R84,3 million is a significant increase of 73,2% over the corresponding period (2013: R48,7 million) and headline earnings increased by 55,1% to R28,0 million (2013: R18,1 million) which in addition, exceeds headline earnings the full financial year to March 2014.

## Mining division

The acquisition of the Intibane phase 2 mining right is a significant achievement in that it extends the life of this highly profitable operation to the end of 2016 and negotiations are taking place for a similar acquisition at the Khanyisa mining operation.

The division assumed ownership of the Muhanga coal processing plant on 1 November 2014 albeit that the Elandspruit project has not yet been commissioned. The plant will begin production on 6 November 2014 for the purpose of supplying the existing customer base whose source from the operation. Excess run of mine in the market has been acquired for this purpose and management are excited about the potential contribution from this project whilst Elandspruit is being established and commissioned. The operation will be rebranded with no future reference to the Muhanga name as the vendors have retained the right to the name.

Following the securing of funding from Investec, the only outstanding issue at Elandspruit is the water used licence. However, the regulatory authorities have been sensitised as to the impact of the continued delay in the issuing of this. We have been assured of a sharp focus on the finalisation of this matter.

The division increased production by 5%, however, EBITDA contribution increased by 38,7% due to the bulk of the volume being delivered from the Intibane Colliery. Wescoal Mining produced 942 291 tons of coal for the six months (2013: 895 185 tons). The division produced revenues of R296,8 million (2013: R261,7 million) an increase of 13,4%, operational EBITDA of R67,8 million (2013: R48,9 million) and profit from operations of R38,0 million (2013: R27,7 million).

## Trading division

The division's results emphasise the importance of, and the contribution from the acquisition of the MacPhail operations. The division has been rebranded as one, under the banner Wescoal Trading and, with a few exceptions the integration of the operations is complete. Outstanding matters are scheduled for completion by the end of the calendar year.

Meaningful comparisons to the corresponding period are not possible due to the incorporation of the MacPhail operation, save to say that management are more than satisfied with the MacPhail contribution to overall results with an operational EBITDA contribution of R20,3 million.

The Trading division sold 625 949 tons for the six months ended 30 September 2014, a 187% increase compared to the prior period (2013: 217 831) which excludes the MacPhail acquisition. The division achieved revenues of R601,0 million (2013: R204,0 million), operational EBITDA of R20,3 million (2013: R3,7 million) and profit from operations of R14,2 million (2013: R2,9 million).

## Financial overview

Revenue from all operations which includes coal mining, processing and trading reflected an increase of 92,8% to R897,8 million from the comparative financial period due primarily to the incorporation of the MacPhail acquisitions. Both divisions performed well resulting in gross profit of R120,4 million (2013: R53,9 million). Margins increased to 13,4% from 11,6%, an especially pleasing result when considering the substantial revenue increases.

Operating costs increased to R72,4 million (2013: R27,6 million) due once again primarily to the incorporation of the MacPhail acquisition and, in addition, the Intibane Colliery for the full period.

Group operational EBITDA of R84,3 million (2013: R48,7 million) is an excellent result leading to profit from operations reaching R48,4 million (2013: R26,7 million). Finance costs unfortunately showed an expected threefold increase due to the financing of the MacPhail acquisition and working capital requirements.

Headline earnings and headline earnings per share are respectively 55,7% and 32,9% up on the comparative period. HEPS has been influenced by the effect of the shares issued for Wescoal Mining acquiring the remaining 70% of the total issued share capital of Proudafrique in terms of the first Minoscape transaction as well as the cancellation of the shares issued in terms of the second Minoscape transaction.

The group's financial position strengthened during the financial period with total shareholders' funds increasing by 20,8% from the September 2013 results to R288,8 million. The debt equity ratio increased to 76,1% (2013: 30,1%) due to the MacPhail acquisition, the acquisitions of Elandspruit Properties, Proudafrique shares and the mining infrastructure at the Intibane Colliery.

## Successful acquisition of remaining 70% shareholding in Proudafrique Trading 147 (Pty) Ltd

On 14 July 2014, Wescoal Mining successfully acquired the remaining 70% shareholding in Proudafrique Trading 147 (Pty) Ltd for R25,6 million and a royalty fee of R3,50 per ton of saleable coal mined at the Elandspruit Mining area.

## Acquisition of Muhanga Coal Processing Plant

In June 2014, Wescoal announced the intention to acquire the Muhanga coal processing plant. The acquisition gives Wescoal immediate access to a fully-fledged beneficiation asset that is currently operational, has all the necessary regulatory approvals and extensive infrastructure to allow for a multi-product operation whilst regulatory approvals are awaited for the Elandspruit site.

The plant comprises inter alia Portion 6 of the farm Goedenhoop 315 JS the Access Servitude, the coal washing plant situated thereon and the National Environmental Management Act ("NEMA") authorisation and those provisions of the Muhanga Water Use Licence and the assumed liabilities being inter alia the environmental liabilities and rehabilitation obligation as defined in the Sale of Asset Agreement.

The total purchase price was R42,5 million payable upon over a period of time as described in the SENS announcement dated 24 June 2014. All conditions of the purchase were met on 10 October 2014.

## Acquisition of a Mining Right for Intibane Phase 2

In August 2014, Wescoal announced the acquisition of a mining right adjacent to the Intibane Colliery which extends the life of Intibane by a further 2,25 million tons and life of mine to the end of 2016. The current Intibane mine infrastructure will be used to mine the reserve.

"The Mining Area" comprises the area described as Portion 2 of the farm Vlakvarkfontein 213 IR measuring 170,1362 hectares in extent, situated in the Magisterial District of Delmas in the Mpumalanga province.

"The Mining Right" means the right to mine for coal in, on and under the Mining Area, held by Mintirho with reference number MP30/5/1/2/2/476MR to be registered in the Mining Titles Office in respect of coal in, on and under the Mining Area, which Mining Right is to be transferred from Mintirho to Wescoal Mining.

The mining right was acquired by Wescoal for a cash payment of R7,98 million inclusive of VAT.

## Funding secured with Investec Bank Limited for Elandspruit

On 30 October 2014, Wescoal concluded a financing facility with Investec Bank Limited, acting through its Corporate and Institutional Banking division ("Investec"), for a R180 million five-year term loan and a R20 million five-year working capital facility subject to fulfilment of conditions precedent customary for a financing of this nature. R70 million will be used to retire the current Investec term facility and R110 million will be used for commissioning of the Elandspruit project, including the acquisition of the Muhanga plant, mine operational infrastructure, surface rights and production start-up costs. The working capital facility of R20 million is available for general purposes.

## Prospects

There is immense excitement with regard to production starting at Elandspruit early in 2015 that secures a life of mine at this operation in excess of 15 years. Coupled with production at the Muhanga coal processing plant, Wescoal will be in a position to service existing and potential customers immediately as well as derive earnings from this acquisition.

There is a probability that Khanyisa's life of mine can be further extended into 2017 by acquiring adjacent mineral rights with far-reaching effect on results going forward. Wescoal management will inform shareholders as these negotiations progress.

With the integration of MacPhail into Wescoal Trading, we believe the division will go from strength to strength and we aim for even greater customer diversification.

Wescoal management will continue to build on the base of the trading division servicing the domestic market together with a mining division - a combination which warrants that Wescoal has sufficient product and diversity to ensure sustainability into the future. Marketing efforts have ensured brand recognition and visibility and have resulted in greater sales and this marketing drive is set to continue.

## Segment analysis

The analysis below details the contribution of the two main divisions within the Group:

Statement of comprehensive income	Trading R'000	Mining R'000	Other R'000	Total R'000
<b>30 September 2014</b>				
Total segment revenue	601 004	297 890	-	898 894
Inter-segment revenue	-	1 103	-	1 103
External revenues	601 004	296 787	-	897 791
Profit from operations	14 019	38 095	(3 764)	48 350
Operational EBITDA	20 141	67 828	(3 677)	84 292
<b>30 September 2013</b>				
Total segment revenue	203 986	261 693	65 627	531 306
Inter-segment revenue	-	-	65 627	65 627
External revenues	203 986	261 693	-	465 679
Profit from operations	2 894	27 682	(3 925)	26 651
Operational EBITDA	3 649	48 874	(3 864)	48 659

Note:  
(1) Profit from operations excludes profit or losses on the sale of property, plant, equipment, mineral assets, finance income and finance costs.  
(2) Operational EBITDA excludes profit or losses on sale of assets.

## Resources and reserves statement

The resources and reserves statement below is an extract from the full SAMREC compliant report issued by DS Coetzee (PhD Geology, Pr. Sci. Nat.: 400136/00).

The report covers the new order mining right at the following operating collieries and prospects: