WESCOAL

Reviewed condensed consolidated interim financial statements

for the six months ended 30 September 2019

LAYING THE FOUNDATION TO GROW SUSTAINABLY

Salient features

Revenue
R2 063 million
(HY19: R2 064 million)

Gross profit
R195 million
(HY19: R276 million)

Operating expenses
R184 million
(HY19: R104 million)

Operating profit
R15 million
(HY19: R197 million)

Total net loss
R51 million
(HY19: R108 million profit)

Headline loss per share
11.9 cents
(HY19: 23.5 cents profit)

Cash generation
R126 million
(HY19: R291 million)

EBITDA
R155 million
(HY19: R301 million)

Gearing increased to
36%
(HY19: 18%; FY19: 29%)

"Wescoal's aim is to be a long-term leading provider of reliable energy source. Strategic focus is currently on stability, sustainability and scalability. Our key strategic objective is to stabilise our operations, then optimise our performance and scale-up through primarily organic opportunities. We intend to reach this objective by prudently managing costs and operational efficiencies to maximise returns from our current operations, and grow the business by exploiting the resources within our portfolio of assets with a disciplined approach."

Reginald Demana, CEO

Chairman and chief executive officer's review

The Wescoal group, operating in a depressed coal market and experiencing production challenges at Vanggatfontein and Elandspruit Collieries, has shown a decline in income to post a net loss of R51 million (HY19: R108 million profit).

The primary contributing factor to the loss was the 56% drop in coal production volume at Vanggatfontein Colliery to 0.7mt (HY19: 1.6mt). An increase of 0.6mt from the Khanyisa Colliery offset and resulted in overall lower coal production by the group of 16% or 2.7mt (HY19: 3.2mt). The lower than expected production levels are largely due to below target equipment availability, absenteeism and continued suspension of the underground section at Elandspruit Colliery.

The focus during the second half of FY20 is on stabilising all operations in order to maximise our existing assets and concentrate on long-term sustainable growth through optimising internal processes and advancing the Moabsvelden and Arnot projects. The current life stage of operations following consistent production from existing mining areas and coal faces for a number of years, presents a pivotal opportunity to reinvest, execute specific planned initiatives at each of the three operating mines, to improve access to a total of 44.6mt of coal for an aggregate of nine years of production from existing operations. In keeping with this approach, the board has been reconstituted and executive and operational mine management strengthened. Notable improvements in production volumes during the second quarter are already evident.

Capital structure

In the period the group concluded the refinancing of its existing credit facilities through a consortium of South African commercial banks consisting of Nedbank Limited and The Standard Bank of South Africa Limited. The new comprehensive, long-term refinance facilities are for a combined R1.1 billion, with a provision that also allows the group access to an additional R500 million accordion facility subject to credit approval but within the legal agreements of the refinance facilities, thus significantly reducing the lead time towards accessing this extra liquidity facility. Consolidating various debt instruments has facilitated the effect of long-term and short-term debt management and the reduction of current liabilities, enhancing the group's liquidity, net current asset position and overall balance sheet strength.

In addition to the refinance, an asset-based funding ("ABF") structure was put in place with the same consortium of lenders. New Caterpillar equipment (R302 million) was secured directly by Wescoal to mitigate inherent counterparty risk of the contract miner operating model. The equipment was acquired in terms of a specific structured arrangement wherein the contract miner is afforded full right of use and to absorb the full cost of ownership as set-off against the contract mining rate.

The strategic funding structures have been utilised to finance this equipment and a further R56 million has been invested in specific expansion and growth projects including the extension of Vanggatfontein and Khanyisa Collieries, with additional mining pits which respectively avail 10.7mt and 2.5mt of coal reserves to be extracted over the next nine and two and a half years, respectively.

The Arnot acquisition and Moabsvelden project are the priority growth projects and are well progressed. Both mines are being funded from existing facilities and are on track to start up during the first half of calendar year 2020.

Based on the structured ABF arrangement, including the right-of-use asset as inseparable from the ABF liability, net debt increased to R541 million (FY19: R465 million) and the gearing ratio to 36% (FY19: 29%).

These strategic funding structures further enable the group to pursue specific existing organic growth expansion projects.

The net asset value per share at 226 cents was impacted by the loss incurred (FY19: 252 cents per share).

Wescoal maintained B-BBEE ownership at 58%, of which 48% is secured for five years via the B-BBEE structure.

Strengthening leadership and governance

As announced previously, the board has been effectively reconstituted to ensure that Wescoal is positioned to achieve its objectives of revitalising the group's leadership skills, oversight capacity and independence.

Ms Teresita van Gaalen and Mr Kosie Pansegrouw retired as independent non-executive directors at the company's annual general meeting held on 16 October 2019. Ms Nonzukiso "Zukie" Siyotula was appointed to the board on 14 February 2019, and replaced Ms van Gaalen as lead independent director.

The company is in the process of appointing additional independent non-executive directors and will endeavour to conclude this process, and further appointments to the audit, risk and compliance committee, by year-end 2020.

Executive and operational mine management was strengthened as announced earlier this year.

With a renewed focus on operations, Ms Zanele Sibisi, was appointed chief operations officer ("COO") of Mining effective 1 May 2019 as announced on SENS. Ms Sibisi is responsible for the management and leadership of Wescoal Mining's three operating mines, Elandspruit, Vanggatfontein and Khanyisa, to drive operational stability and efficiency. It is envisaged that she will also be responsible for more mining operations in the future, as projects such as Arnot Mine and Moabsvelden are transitioned from project development to operations.

Strategic update

Wescoal's continued strategic drive for organic growth saw extensive management time and cash resources prudently invested in stabilising operations and fast-tracking the development of internal growth projects during the period. Inorganic growth opportunities, while not specifically excluded, are not the group's immediate or current focus.

Elandspruit and the Khanyisa Colliery are demonstrating the ability to operate at sustainable production capacity levels of 0.2mt and 0.1mt per month, respectively. Vanggatfontein's production has been operating at levels higher than 0.2mt per month over recent months and the emphasis is now on steadily ramping-up production to over 0.3mt per month by March 2020.

Wescoal's increased focus on the strategic pillars of Stability and Sustainability has resulted in the acceleration of a number of capital expansion and extension growth projects. These are as follows:

Moabsvelden Opencast Mining (greenfield project)

The process is underway to appoint a contract miner for the development of the project. Negotiations are at an advanced stage with preferred contract miners and an appointment is expected to be made by 31 December 2019. First coal and delivery to Eskom, pursuant to the 10-year coal supply award, are expected to commence during the first half of the 2020 calendar year.

Arnot Mine

Eskom's consent to the change of ownership of the mine remains the last outstanding condition precedent to the transaction. Additionally, Arnot Opco is awaiting Eskom's response on the coal supply tender for Arnot power station submitted in April 2019. Review of the "as is status" of operations has been completed and integration work will commence as soon as the final condition to the transaction has been fulfilled, expected to be during the first half of the 2020 calendar year.

Khanyisa Colliery

The operation continues to perform well and is maintaining consistent profitability and cash generation. The last instalment in terms of the 65% interest acquisition ("Aztolinx") transaction is scheduled for December 2019, with the full purchase price having been self-funded by cash generated at the Khanyisa Colliery, as previously announced.

Triangle 2 extension project requires minimal capex to access the second stage and 1.7mt of coal through the opening of a new boxcut and coal face for the remaining LOM. It is well advanced, and first coal has been achieved during the 2019 calendar year.

Vanggatfontein

Vanggatfontein Colliery extension project commenced during September 2019. The Vanggatfontein pit 5 ("VG5") project is well progressed, with the new pit and mining coal face expected to deliver first coal during the first half of the calendar year 2020. Production from VG5 will replace that from pit 3 ("VG3") which is to be depleted during FY21.

The project is being pursued as a joint development with a neighbouring mining right holder, which would further enable extraction of some 0.5mt of boundary pillar area coal, that would otherwise have been sterilised.

In Vanggatfontein pit 4 ("VG4"), mining benches are being separated to enable independent and simultaneous access to different coal seams and the stripping of over burden.

Assets for sale

As previously announced, the Leeuw Braakfontein Colliery ("LBC") disposal transaction was cancelled. The conditions precedent, specifically regulatory approvals, were not closed and the potential acquirer opted not to further extend the timelines. The asset remains non-core to Wescoal and a new asset disposal process may be considered.

Safety, health, environment and sustainability

Our commitment to sustainability is informed by our core values of accountability, safety, delivery and integrity, all of which are imperative to our compliance with ethics and corporate governance measures. We are fully accountable for how our business impacts the environment, our employees and the communities in which we operate.

Wescoal remains committed to maintaining a safe working environment for employees and contractors. Safety awareness, training campaigns, noise and dust suppression and sampling are ongoing and on track. Wellness days and medical checks are continuously conducted across operations. Following the unfortunate fatal accident at Vanggatfontein reported in June this year, recommended actions have been advanced.

The environmental team appointed during 2018 continuously assesses our operating activities and initiatives minimising environmental impact, while our social labour plans are concentrated on communities. It is critical for the company to honour its social contract with surrounding communities by delivering on all promises made, as our longevity depends on their sustainability.

We have also advanced the assessment of farmland owned by Wescoal for use to enhance food and water security for local communities.

The three lost time injuries reported for the period were fewer than the six lost time injuries reported for the comparable period (HY19).

Production and operational performance

Group mining production levels for the period were 2.7mt (HY19: 3.2mt) lower period-on-period.

Elandspruit

Elandspruit production was negatively impacted in the period by the ongoing suspension of underground mining operations due to termination by the mining contractor in October 2018.

Further, mining costs increased as a result of the mine entering the phase of higher strip ratios, lower quality coal (lower yields) and increasing haul distances.

Key improvement initiatives

The process to evaluate the re-opening of the Elandspruit underground operation has taken longer than initially anticipated and the internal prefeasibility report is expected to be finalised by December 2019. In order to mitigate against the loss of underground tonnes, the company reached an agreement with the opencast contract mining company to increase capacity to 0.2mt of coal production per month. This has resulted in an 18% increase in production for the second quarter over the first quarter, of the FY20.

Having insourced much of the mine planning and new staff on-board, the mine plan has been optimised to allow for better sequencing and a consistently higher volume of opencast production.

A number of cost containment initiatives have been introduced, mainly through optimising the mine plan as above as well as coal blending to improve product yields. In addition, increased opencast volumes are already contributing to the reduction of unit costs, including as outlined above:

- The eastern side pit access point has been secured in an agreement concluded with a neighbouring mine ("Yoctolux"), avoiding a new boxcut. This pit is being reconfigured to increase the coal face length from 320 metres to 500 metres.
- An additional pollution control dam ("PCD") will be built closer to the eastern pit.

The Khanyisa Colliery

A sterling performance from Khanyisa in the period saw production increase by 0.7mt period-on-period, mainly as a result of the operation now being 100%-owned by Wescoal after the 65% interest acquisition announced previously. The operation is expected to maintain production at c.0.1mt per month run of mine, with a life of two and a half years.

Refer to page 4 for details on the Triangle 2 extension project progress.

Vanggatfontein ("VGF")

As above, VGF production remains below comparative period of FY19 and below target following the on-boarding of Stefanutti Stocks Mining Services during March 2019 (to replace Liviero Mining, which was placed into business rescue towards the end of 2018).

Subsequent to the mining contractor change-over, VGF was placed on a six-week production downtime due to violent protest action at the mine, as reported during April 2019, and then on a regulatory shutdown (s54 directive) which was imposed following the fatal accident in June 2019. In addition to these stoppages, production was further impacted by the new mining contractor's challenges of below-target equipment availability and absenteeism.

Key improvement initiatives

The various initiatives implemented by Wescoal to address the operational downturn and increase productivity have resulted in an increase in production of 0.3mt (or 141%) in the second quarter from the first quarter for the FY20.

Management actions and initiatives included the following:

- Enhancing the skills and expertise on-site by deploying senior Wescoal personnel directly at the operation;
- Appointing an independent productivity consulting group, Renoir Consulting, to assist

with the development and implementation of a back-to-basics turnaround strategy;

- Fast-tracking the voluntary separation process ("VSP") to exit contractor employees in order to address absenteeism and lower employee productivity;
- Directly acquiring new primary earthmoving equipment to fully replace the aging, unreliable kit;
- Implementing improved operational management control processes, and operating and supervisory structures; and
- Appointing a mining sub-contractor (with a full complement of own equipment and personnel) under Stefanutti Stocks Mining Services to rapidly accelerate waste removal and pit sequencing, a prerequisite to delivering higher volumes of coal consistently.

Wescoal Trading

Sales volumes in the Trading segment reduced by 14% to 0.5mt (HY19: 0.6mt). Revenue decreased by 13% to R707 million (HY19 2018: R808 million) due to a decline in commodity prices and lower volumes driven by waning market demand. The Trading segment's contribution to group operating profit was R34.9 million (HY19: R44.7 million), which is 22% lower than the comparable period in FY19.

Financial overview

Wescoal maintained a positive cash flow despite the downturn and operational challenges, reporting R126 million in cash generated from operations, albeit 57% lower than the comparable period (HY19: R291 million). The Khanyisa Colliery generated sufficient cash to self-fund Wescoal's acquisition of the remaining 65% interest, as announced in February 2019.

The net cash from operating activities of R58 million was reinvested into internal extension projects in line with the strategic priorities, mentioned previously the positive benefits of which are beginning to be realised.

Revenue of R2.1 billion (HY19: R2.1 billion) was realised from the sale of 3.1mt of coal (HY19: 3.0mt), inclusive of 0.5mt of coal bought from third parties in order to meet contractual commitments. Since production volumes have increased significantly during the second quarter of FY20, the need for buy-in of coal has largely dissipated. We do not foresee any significant amount of buy-ins in the second half of FY20.

A number of corporate activities, including Universal Coal and South 32's SAEC acquisition transactions, which Wescoal had pursued and progressed to advanced stages, were closed off during the period. Residual once-off costs relating to advisory, structuring, legal and due diligence amounted to R18 million.

Corporate and Mining office process integrations and the new senior mining, technical and operational management announced earlier this year, strengthened the executive and mining teams and contributed to an operating expenses increase in the period.

Resources and reserves statement

The most recent SAMREC compliant Resource and Reserve statements of the group are available on the Wescoal website (www.wescoal.com). The Resource and Reserve statements contain details of all the competent persons, their professional memberships, qualifications and experience.

Dividends and share buy-back

Considering the group's financial performance and position, the board has resolved not to declare an interim dividend.

During the period, the company continued its share repurchase programme in terms of a general approval granted by shareholders at the annual general meeting held on 23 January 2019. Wescoal repurchased 22 393 777 shares in terms of this general authority. The repurchased shares will be delisted and cancelled in due course. A new general authority, to repurchase up to 20% of the company's issued share capital, was approved by shareholders at the annual general meeting held on 16 October 2019.

Outlook

We expect changes in the political environment to bring about gradual improvement in sector policy certainty and consequent economic growth opportunities, which will positively affect our relationship with Eskom and other parastatals. Eskom remains a consistent and reliable customer and the company is committed to maintaining strong and supportive relations with the parastatal in the future.

We are optimistic that we will achieve operational stability in the second half of FY20 and add significant production volumes. We continue to reinvest in existing assets and bolster our balance sheet to enable Wescoal to fast-track the development of our internal growth and extension initiatives, in order to deliver improved value for our shareholders.

In the medium term, we aim to create an environment of stable operations translating into predictability and consistency, which will, in turn, lead to efficiency in both our Mining and Trading segments.

The priority development of Moabsvelden and the extension of VGF are progressing well.

In the long term, we are committed to exploring opportunities in our area of expertise, namely mining and coal-related activities.

The information in this outlook statement has not been reviewed or reported on by the company's auditor.

Independent audit review

These condensed consolidated interim financial statements for the period have been reviewed by PricewaterhouseCoopers Inc., who expressed an unmodified conclusion thereon. A copy of the auditor's review report on the condensed consolidated interim financial statements is available for inspection at the company's registered office, together with the financial statements identified in the auditor's review report. The auditor's review report does not necessarily report on all the information contained in this announcement/financial results. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's review report together with the accompanying financial information from the company's registered office.

By order of the board

Dr HLM Mathe
Non-executive chairman

Mr RL Demana
Chief executive officer

26 November 2019


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Condensed consolidated statement of financial position

as at 30 September 2019

	Note	Reviewed as at 30 September 2019 R'000	Reviewed as at 30 September 2018 R'000	Audited as at 31 March 2019 R'000
Assets				
Non-current assets		**2 562 945**	1 967 992	2 168 054
Property, plant and equipment	3	**2 059 771**	1 731 691	1 954 201
Investment property		**709**	709	709
Goodwill		**73 637**	73 637	73 637
Intangible assets		**9 255**	15 977	10 769
Investments in joint ventures	4	**20 885**	7 912	–
Restricted investments		**59 045**	41 996	47 797
Other receivables		**47 081**	63 943	44 454
Finance lease receivable	5	**250 148**	–	–
Deferred tax asset		**30 160**	25 004	23 616
Prepaid royalty		**5 830**	7 123	6 448
Restricted cash		**6 424**	–	6 423
Current assets		**926 884**	746 942	1 052 548
Inventories		**91 409**	141 621	82 817
Trade and other receivables		**630 679**	519 444	664 542
Finance lease receivable	5	**47 323**	–	–
Prepaid royalty		**1 306**	1 374	1 392
Current tax receivable		**23 554**	–	34 091
Acquisition deposit		**–**	–	153 410
Cash and cash equivalents		**132 613**	84 503	116 296
Non-current assets held-for-sale and assets of disposal groups	6	**–**	121 761	131 470
Total assets		**3 489 829**	2 836 695	3 352 072

	Note	Reviewed as at 30 September 2019 R'000	Reviewed as at 30 September 2018 R'000	Audited as at 31 March 2019 R'000
Equity and liabilities				
Equity		**969 270**	1 110 570	1 091 596
Share capital	7	**629 838**	664 816	665 423
Other reserves		**(13 816)**	11 222	11 412
Retained earnings		**353 248**	425 833	403 762
Non-controlling interest		**–**	8 699	10 999
Liabilities				
Non-current liabilities		**1 787 592**	1 050 849	1 049 514
Interest-bearing borrowings	8	**563 725**	199 564	148 201
Other financial liabilities		**2 105**	30 360	2 975
Lease liabilities		**250 148**	3 064	96
Deferred tax liability		**318 617**	313 787	273 140
Environmental rehabilitation provision		**652 997**	504 074	625 102
Current liabilities		**732 967**	638 267	1 173 953
Trade and other payables		**499 364**	469 813	554 904
Interest-bearing borrowings	8	**63 785**	116 609	282 528
Other financial liabilities		**72 329**	1 019	136 723
Lease liabilities		**52 125**	3 135	3 568
Current tax payable		**3 162**	46 357	48 290
Environmental rehabilitation provision		**893**	1 334	893
Bank overdraft		**41 309**	–	147 047
Liabilities of disposal groups	6	**–**	37 009	37 009
Total liabilities		**2 520 559**	1 726 125	2 260 476
Total equity and liabilities		**3 489 829**	2 836 695	3 352 072

Condensed consolidated statement of profit or loss and other comprehensive income

for the period ended 30 September 2019

	Note	Reviewed for the six months ended 30 September 2019 R'000	Reviewed for the six months ended 30 September 2018 R'000	Audited for the year ended 31 March 2019 R'000
Revenue	9	**2 062 652**	2 064 296	3 964 571
Cost of sales	10	**(1 867 206)**	(1 788 568)	(3 502 988)
Gross profit		**195 446**	275 728	461 583
Operating income		**2 419**	15 637	70 589
Operating expenses		**(183 945)**	(104 128)	(313 386)
Gains on disposal of assets		**643**	9 939	16 325
Foreign exchange gains/(loss)		**145**	–	(11 075)
Operating profit		**14 708**	197 176	224 036
Interest income		**2 480**	6 320	16 173
Finance costs		**(60 557)**	(43 506)	(92 886)
(Loss)/profit before taxation		**(43 369)**	159 990	147 323
Taxation		**(7 145)**	(51 966)	(59 057)
(Loss)/profit for the period		**(50 514)**	108 024	88 266
Other comprehensive income		**–**	–	–
Total comprehensive (loss)/income for the period		**(50 514)**	108 024	88 266
Total comprehensive (loss)/income attributable to:				
Owners of the parent		**(50 514)**	109 713	87 655
Non-controlling interest		**–**	(1 689)	611
		(50 514)	108 024	88 266
Earnings per share				
Basic earnings per ordinary share (cents)	11	**(11.8)**	25.2	20.2
Diluted basic earnings per ordinary share (cents)	11	**(11.8)**	25.1	20.2
Headline earnings per ordinary share (cents)	11	**(11.9)**	23.5	17.5
Diluted headline earnings per ordinary share (cents)	11	**(11.9)**	23.5	17.5

Condensed consolidated statement of cash flows

for the period ended 30 September 2019

	Note	Reviewed for the six months ended 30 September 2019 R'000	Reviewed for the six months ended 30 September 2018 R'000	Audited for the year ended 31 March 2019 R'000
Cash flows from operating activities				
Cash generated from operations		**125 605**	291 077	462 207
Net finance costs		**(27 684)**	(18 990)	(25 972)
Tax paid		**(39 812)**	(36 263)	(113 269)
Net cash from operating activities		**58 109**	235 824	322 966
Cash flows from investing activities				
Purchase of property, plant and equipment		**(120 543)**	(44 861)	(216 986)
Proceeds on sale of property, plant and equipment		**10 324**	56 733	56 733
Purchase of other intangible assets		**–**	(2 013)	(1 350)
Purchase of rehabilitation investment		**(11 248)**	(10 641)	(11 057)
Investment in joint venture		**(20 885)**	–	–
Repayment of loan to joint venture		**–**	–	29 000
Proceeds from other financial assets		**–**	3 821	–
Purchase of acquisition deposit		**–**	–	(150 000)
Withdrawal of acquisition deposit		**153 410**	–	–
Net cash from investing activities		**11 058**	3 039	(293 660)
Cash flows from financing activities				
Share buy-back	7	**(35 585)**	(10 530)	(10 305)
Proceeds on share options exercised		**1 885**	902	1 474
Acquiring non-controlling interest		**(38 112)**	–	–
Proceeds from long-term borrowings		**627 510**	–	82 389
Repayment of long-term borrowings		**(430 737)**	(147 374)	(128 590)
Repayment of other financial liabilities		**(65 265)**	–	(1 388)
Repayment of finance lease liabilities		**(6 808)**	–	(5 488)
Dividends paid		**–**	(34 222)	(35 013)
Net cash from financing activities		**52 888**	(191 224)	(96 921)
Total cash and cash equivalents movement for the period		**122 055**	47 639	(67 615)
Cash and cash equivalents at the beginning of the period		**(30 751)**	36 864	36 864
Net cash and cash equivalents at the end of the period		**91 304**	84 503	(30 751)

Condensed consolidated statement of changes in equity

for the period ended 30 September 2019

	Share capital R'000	Share-based payment reserve (other reserves) R'000	Change in ownership reserve (other reserves) R'000	Total reserves R'000	Retained earnings R'000	Total attributable to equity holders of the group/company R'000	Non-controlling interest R'000	Total equity R'000
Balance as at 1 April 2018	675 346	10 320	–	10 320	351 120	1 036 786	10 388	1 047 174
Profit for the period	–	–	–	–	109 713	109 713	(1 689)	108 024
Share buy-back (refer to note 7)	(10 530)	–	–	–	–	(10 530)	–	(10 530)
Employee share option scheme	–	902	–	902	–	902	–	902
Dividends	–	–	–	–	(35 000)	(35 000)	–	(35 000)
Balance as at 30 September 2018	**664 816**	**11 222**	**–**	**11 222**	**425 833**	**1 101 871**	**8 699**	**1 110 570**
Balance as at 31 March 2019	**665 423**	**11 412**	**–**	**11 412**	**403 762**	**1 080 597**	**10 999**	**1 091 596**
Loss for the period	–	–	–	–	(50 514)	(50 514)	–	(50 514)
Acquisition of minority interest in Neosho Trading	–	–	(27 113)	(27 113)	–	(27 113)	(10 999)	(38 112)
Share buy-back (refer to note 7)	(35 585)	–	–	–	–	(35 585)	–	(35 585)
Employee share option scheme	–	1 885	–	1 885	–	1 885	–	1 885
Balance as at 30 September 2019	**629 838**	**13 297**	**(27 113)**	**(13 816)**	**353 248**	**969 270**	**–**	**969 270**

Accounting policies

for the period ended 30 September 2019

1. Presentation of condensed consolidated interim financial statements

The condensed consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the JSE Listings Requirements, IAS34: *Interim Financial Reporting* and the Companies Act of South Africa. The principal accounting policies adopted and the methods of computation used in the preparation of these financial statements are set out below and are consistent in all material respects with those applied during the previous year, except for those changes which have occurred as a result of the adoption of new and amended IFRS, interpretations and circulars as disclosed in note 2.

The condensed consolidated interim financial statements have been prepared on the historical cost basis and incorporate the principal accounting policies set out below. They are presented in South African rands.

2. Changes in accounting policies

Standards that became effective in the current year

IFRS 16: *Leases*

The group adopted IFRS 16: *Leases* from 1 April 2019. IFRS 16 introduced a single, on balance sheet accounting model for lessees. As a result, the group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 April 2019. Accordingly, the comparative information presented for the 2019 financial year has not been restated, and is presented as previously reported under IAS 17 and related interpretations.

Definition of a lease

Previously, the group determined, at contract inception, whether an arrangement was or contained a lease under IFRIC 4: *Determining Whether an Arrangement Contains a Lease*. The group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period in exchange for consideration.

On transition to IFRS 16, the group elected to apply the practical expedient where it applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered or changed on or after 1 April 2019.

As a lessee

The group leases assets, including properties and IT equipment.

As a lessee, the group previously classified leases as operating and finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the group recognises right-of-use assets and lease liabilities for most leases.

The group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets. The group recognises lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2. Changes in accounting policies

continued

Standards that became effective in the current year continued

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities measured at the present value of the remaining lease payments, discounted at the group's incremental borrowing rate as at inception. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12-month lease terms.
- Exclude initial direct cost from measuring the right-of-use asset at the date of initial application.

As a lessor

The group leases out some plant and equipment including right of use. The group has classified these as finance leases.

The accounting policies applicable to the group as a lessor are not different from those under IAS 17. The group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Impacts on financial statements

On transition to IFRS 16, the group recognised right-of-use assets and additional lease liabilities. The impact on transition is summarised below:

Impact on financial statements (R'000)	April 2019
Right-of-use assets presented in property, plant and equipment	3 190
Finance lease liability	(3 190)

Impacts for the financial year

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the group has recognised a right-of-use asset of R3.2 million and a lease liability of R3.2 million as at 30 September 2019.

Also, in relation to those leases under IFRS 16, the group recognised depreciation and interest costs, instead of operating lease expenses.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

3. Property, plant and equipment

Reconciliation of the carrying value of property, plant and equipment.

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Assets held-for-sale R'000	Depreciation R'000	Total R'000
Reviewed for the six months ended 30 September 2019	**1 954 201**	**122 456**	**–**	**–**	**121 761**	**(138 647)**	**2 059 771**

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Assets held-for-sale R'000	Depreciation R'000	Total R'000
Reviewed for the six months ended 30 September 2018	1 949 160	49 476	(47 112)	–	(121 761)	(98 072)	1 731 691
Audited for the year ended 31 March 2019	1 949 160	422 951	(62 495)	(929)	(131 469)	(223 017)	1 954 201

4. Investment in joint ventures

Aztolinx Proprietary Limited

Aztolinx Proprietary Limited ("Aztolinx") was a company which specialised in coal mining activities. The investment in a joint venture was held by Wescoal Mining Proprietary Limited ("Wescoal Mining") and was equity-accounted for. It was a strategic investment for the group which complemented the activities provided by the Mining segment. The purpose of the joint venture was to acquire additional mining rights adjacent to the catwalk operations of Khanyisa, namely the Triangle mining right which conducts mining operations as well as selling and distribution of coal.

During the prior financial year, a dispute arose between the parties impacting production and sales. The dispute resulted in litigation and legal proceedings. During the litigation process, the parties reached an agreement which dissolved the dispute. Furthermore the agreement also terminated the joint venture while Wescoal Mining obtained full beneficial interest in the Triangle mining right. The transactional effect of the agreement was that the Aztolinx joint venture was dissolved.

Arnot Holdco Proprietary Limited

On 28 February 2019, the company announced to Wescoal shareholders that its wholly-owned subsidiary, Wescoal Mining Proprietary Limited, had entered into an agreement with Innovators Resources Proprietary Limited to acquire from Exxaro Coal Mpumalanga Proprietary Limited, for no consideration and on a voetstoots basis, the business operated out of the Arnot coal mine in Mpumalanga.

On 8 May 2019, the section 11 approval for the transfer of the Arnot mining right was obtained. Competition Commission approval was also obtained on 6 August 2019 leaving Eskom consent of the transfer of the Coal Supply Agreement from Exxaro to Arnot Holdco as the only outstanding condition precedent at the date of release of these results.

The transaction is a B-BBEE transaction which will not only secure employment for previously retrenched employees, but will also provide employees and affected communities around the Arnot Mine with equity participation as outlined in the Mining Charter III.

		Ownership interest			Carrying amount		
Name of company	Measurement method	30 Sept 2019 %	30 Sept 2018 %	31 March 2019 %	30 Sept 2019 R'000	30 Sept 2018 R'000	31 March 2019 R'000
Aztolinx Proprietary Limited	Equity method	**–**	35.00	–	**–**	7 912	–
Arnot Holdco Proprietary Limited	Equity method	**50.00**	–	50.00	**20 885**	–	–
					20 885	7 912	–

5. Finance lease receivable

	Reviewed for the six months ended 30 September 2019 R'000	Reviewed for the six months ended 30 September 2018 R'000	Audited year ended 31 March 2019 R'000
Gross investment in the lease due			
– within one year	74 680	–	–
– in second to fifth year inclusive	305 023	–	–
	379 703	–	–
Less: Unearned finance income	(82 232)	–	–
	297 471	–	–
Present value of minimum lease payments due			
– within one year	47 323	–	–
– in second to fifth year inclusive	250 148	–	–
	297 471	–	–
Non-current assets	250 148	–	–
Current assets	47 323	–	–
	297 471	–	–

During the current year, the group had entered into an instalment sale agreement with its lenders namely Nedbank Limited and Standard Bank of South Africa Limited, to acquire a fleet mining machinery, through a back-to-back finance lease agreement with its mining contractor. The terms mirrored that of the instalment sale agreement which increased the lease liability by R297.4 million. The other finance lease arrangements is for certain motor vehicles and equipment. The average lease term is five years and the average effective lending rate is 10%.

6. Non-current assets held-for-sale

Leeuw Braakfontein disposal: On 7 August 2018, Wescoal announced through its wholly-owned subsidiary, Leeuw Braakfontein Colliery Proprietary Limited ("LBC"), that it had disposed of its non-core LBC assets located in KwaZulu-Natal (approximately 10km from Newcastle) to Sitatunga Resources Proprietary Limited, for a total consideration of R103 million (excluding VAT) payable in cash from funds within the Sitatunga group. This would have monetise non-operating asset. LBC falls outside Wescoal's strategic focus area and disposing of it generates cash which may be used for other value-enhancing opportunities. The carrying value of the asset and liabilities to be disposed amounts to R84.7 million as at 31 March 2019. The disposal was subject to the fulfilment or waiver of regulatory consensus from the Department of Mineral Resources and the Competition Commission as well as procedural matters standard for this type of transaction.

6. Non-current assets held-for-sale continued

During the current year, however, the section 11 transfer was not been approved by the Department of Mineral Resources and the transaction with Sitatunga Resources Proprietary Limited was withdrawn. The assets and liabilities were moved back to property, plant and equipment and deferred tax liabilities.

During the current year, the group disposed of two properties held by its property rental company, Blanford 006 Proprietary Limited, for a profit of R614 279 at date of disposal the net asset value of these assets amounted to R9.7 million, these assets were classified as held for sale during the year ended 31 March 2019.

7. Share capital

Share buy-back

The company reserved an additional R33.8 million (FY19: R6 million) for the buy-back of its ordinary shares during the year. The funds were transferred to Legae Securities to facilitate the buy-back on its behalf. The remaining R0.1 million (FY19: R1.9 million) is included under trade and other receivables.

During the period July 2019 through to September 2019, 22 393 777 of the company's ordinary shares were purchased on-market. The shares were acquired at an average price of R1.59 per share, with prices ranging from R1.35 to R1.65.

During the period August 2019 through September 2019, 5 564 930 of the company's ordinary shares were purchased on-market. The shares were acquired at an average price of R1.85 per share, with prices ranging from R1.76 to R2.18.

These shares will be cancelled in due course and will revert back to the company's authorised but unissued ordinary shares upon completion of the stepped buy-back.

The total cost of R35.6 million (FY19: R10.5 million) was deducted from share capital.

8. Interest-bearing borrowings

During the current financial year, the group concluded the refinancing of its existing credit facilities through a consortium of South African commercial banks consisting of Nedbank Limited (acting through its Corporate and Investment Banking Division) and The Standard Bank of South Africa Limited (acting through its Corporate and Investment Banking Division). The new credit- approved comprehensive, long-term refinance facilities are for a combined R1.1 billion, with a provision that also allows the group access to an additional R500 million accordion facility subject to credit approval but within the legal agreements of the refinance facilities, thus reducing significantly the lead time towards accessing this extra liquidity facility.

The financing facilities consist of a term loan of R500 million, a revolving credit facility ("RCF") of R500 million and a general banking facility ("GBF") of R100 million. The term loan and the RCF bears interest of between JIBAR+2.75% and JIBAR+3.50%, depending on contractual obligations and criteria. The GBF bears interest at the prime lending rate. The term loan is for a duration of 48 months, with last instalment on 30 June 2023. Funding utilised from the term loan is repayable in equal quarterly payments with the first payment due on 30 June 2020. Interest is payable on a quarterly basis.

The RCF is for a duration of 48 months, terminating on 21 June 2023. Interest is payable on a monthly basis on funds utilised. The facilities are subject to the following dependent financial covenants: net debt to earnings before interest, taxation, depreciation and amortisation ("EBITDA"); net debt to equity; interest cover ratio age ration; and debt service cover ratio.

9. Revenue

Revenue was allocated in different categories based on their risk profiles, cash flow and price characteristics.

	Reviewed for the six months ended 30 September 2019 R'000	Reviewed for the six months ended 30 September 2018 R'000	Audited year ended 31 March 2019 R'000
Revenue from contracts with customers*			
Sale of goods	**1 641 333**	1 584 509	3 052 363
Rendering of services	**421 319**	479 746	912 041
	2 062 652	2 064 255	3 964 404
Dividends received	**–**	41	167
	2 062 652	2 064 296	3 964 571

** Refer to the segmental report for disaggregation of revenue.*

10. Cost of sales

	Reviewed for the six months ended 30 September 2019 R'000	Reviewed for the six months ended 30 September 2018 R'000	Audited year ended 31 March 2019 R'000
Direct purchases	**1 148 877**	1 043 933	2 092 802
Royalty expenses	**9 951**	25 178	45 807
Mining contract cost	**444 000**	368 914	880 041
Fuel	**117 534**	121 507	240 392
Other cost of sales including amortisation and depreciation	**146 844**	229 036	243 946
	1 867 206	1 788 568	3 502 988

11. Earnings per share

Basic earnings per share

The calculation of basic earnings per share ("EPS") is based on the (loss for the period)/net profit for the period, attributable to owners of the company, divided by the weighted average number of ordinary shares in issue during the period.

	Reviewed for the six months ended 30 September 2019	Reviewed for the six months ended 30 September 2018	Audited year ended 31 March 2019
Basic earnings per share (cents)			
Net (loss)/profit attributable to owners of the company ('000)	**(50 514)**	109 713	87 655
Weighted average number of ordinary shares in issue	**428 724**	435 737	434 838
Basic earnings per share (cents)	**(11.8)**	25.2	20.2

Diluted basic earnings per share

The calculation of diluted earnings per share is based on the (loss for period)/net profit for the period, attributable to owners of the company. The weighted average number of shares in issue is adjusted to assume conversion of all potential dilutive shares as a result of share options granted under the share option schemes in issue. A calculation is performed to determine the number of shares that could have been acquired at fair value, determined as the average annual market share price of the company's shares, based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Reviewed for the six months ended 30 September 2019	Reviewed for the six months ended 30 September 2018	Audited year ended 31 March 2019
Diluted earnings per share (cents)			
Weighted average number of ordinary shares in issue	**428 724**	435 737	434 838
Share options in terms of the Wescoal Share Incentive Trust*	**–**	952	168
Weighted average number of shares for diluted earnings per share	**428 724**	436 689	435 006
Diluted earnings per share (cents)	**(11.8)**	25.1	20.2

** Anti-dilutive due to loss.*

Diluted earnings reflected show the potential effect of dilution for 7.16 million (FY19: 7.34 million) options held in terms of the Wescoal Share Incentive Trust by the directors and employees to subscribe to new shares in Wescoal Holdings Limited.

11. Earnings per share continued

Headline earnings and diluted headline earnings per share

Headline earnings and diluted headline earnings are determined by adjusting basic earnings and diluted earnings by excluding separately identifiable remeasurement items in terms of the JSE headline earnings circular, HEPS Circular 4/2018.

The calculation of headline earnings, net of taxation and NCI, per share is based on the basic earnings per share calculation adjusted for the following items:

	Reviewed for the six months ended 30 September 2019	Reviewed for the six months ended 30 September 2018	Audited year ended 31 March 2019
Headline/diluted headline earnings per share			
Net (loss)/profit for the year attributable to owners of the company	**(50 514)**	109 713	87 655
Net profit on disposal of property, plant and equipment	**(500)**	(7 156)	(11 539)
Headline earnings	**(51 014)**	102 557	76 116
Headline earnings per share (cents)	**(11.9)**	23.5	17.5
Diluted headline earnings per share (cents)	**(11.9)**	23.5	17.5

12. Financial instruments and risk management

Financial risk management

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The following tables analyse the group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

12. Financial instruments and risk management continued

Financial risk management continued

Liquidity risk continued

	Note	Less than 1 year R'000	1 to 2 years R'000	2 to 5 years R'000	Contractual cash flows R'000	Carrying amount R'000
As at 30 September 2019						
Trade and other payables		**499 364**	**–**	**–**	**499 364**	**499 364**
Interest-bearing borrowings	8	**130 526**	**180 614**	**503 907**	**815 047**	**627 510**
Financial liabilities at amortised cost		**72 329**	**2 105**	**–**	**74 434**	**74 434**
Lease liabilities		**76 065**	**76 046**	**230 869**	**382 980**	**302 273**
Bank overdraft		**41 309**	**–**	**–**	**41 309**	**41 309**
		908 886	**257 399**	**734 170**	**1 900 435**	**1 632 357**
As at 30 September 2018						
Trade and other payables		459 292	–	–	459 292	459 292
Interest-bearing borrowings	8	156 167	174 494	58 941	389 602	316 174
Financial liabilities at amortised cost		2 676	4 726	–	7 402	5 709
Lease liabilities		5 929	719	–	6 648	6 199
		624 064	179 939	58 941	862 944	787 374
As at 31 March 2019						
Trade and other payables		516 466	-	–	516 466	516 466
Interest-bearing borrowings	8	282 528	152 454	–	434 982	430 729
Financial liabilities at amortised cost		162 611	2 975	–	165 586	139 698
Lease liabilities		3 733	109	–	3 842	3 664
Bank overdraft		147 047	–	–	147 047	147 047
		1 112 385	155 538	–	1 267 923	1 237 604

13. Contingencies and commitments

There are no changes to the contingent liabilities disclosed in the integrated annual report for the year ended 31 March 2019. Capital commitments comprised of R9.1 million of which R6.7 million mainly relates to the proximity detection system.

14. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

Segmental report

	Mining R'000	Trading R'000	Property rental and other R'000	Investment holding R'000	Inter-segment eliminations R'000	Consolidated R'000
Six months ended 30 September 2019						
Total revenue	**1 377 197**	**707 049**	**2 772**	**64 165**	**(88 531)**	**2 062 652**
Inter-segment revenue	**12 929**	**8 884**	**2 553**	**64 165**	**(88 531)**	**–**
Revenue from external customers	**1 364 268**	**698 165**	**219**	**–**	**–**	**2 062 654**
EBITDA*	**139 642**	**37 372**	**2 860**	**(15 880)**	**(9 104)**	**154 890**
Six months ended 30 September 2018						
Total revenue	1 324 562	808 290	2 859	48 437	(119 852)	2 064 296
Inter-segment revenue	70 517	–	898	48 437	(119 852)	–
Revenue from external customers	1 254 045	808 290	1 961	–	–	2 064 296
EBITDA*	248 441	49 775	(5 649)	10 266	(1 986)	300 847
Year ended 31 March 2019						
Total revenue	2 639 671	1 466 657	5 691	96 625	(244 073)	3 964 571
Inter-segment revenue	136 825	5 927	4 863	96 458	(244 073)	–
Revenue from external customers	2 502 846	1 460 730	828	167	–	3 964 571
EBITDA*	417 551	69 988	(4 433)	(26 833)	166	456 439
Total segment assets						
Six months ended 30 September 2019	**2 407 435**	**208 990**	**198 359**	**2 388 127**	**(1 713 082)**	**3 489 829**
Six months ended 30 September 2018	1 872 250	251 477	193 500	1 624 244	(1 104 776)	2 836 695
Year ended 31 March 2019	2 271 387	446 098	197 148	1 756 161	(1 318 722)	3 352 072
Total segment liabilities						
Six months ended 30 September 2019	**1 813 134**	**85 379**	**304 868**	**751 111**	**(433 933)**	**2 520 559**
Six months ended 30 September 2018	1 722 316	162 600	350 331	100 697	(609 819)	1 726 125
Year ended 31 March 2019	2 272 377	235 940	357 475	94 175	(699 491)	2 260 476

** Earnings before interest, taxation, depreciation and amortisation.*

Corporate information

Wescoal Holdings Limited

Incorporated in the Republic of South Africa
(Registration number: 2005/006913/06)
Share code: WSL
ISIN: ZAE000069639
("Wescoal" or "the company" or "the group")

Registered address

1st Floor, Building 10
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Woodmead

Postal address

PO Box 1962, Edenvale 1610

Non-executive chairman

Dr HLM Mathe

Lead independent non-executive director

N Siyotula

Independent non-executive directors

KM Maroga
N Siyothula

Non-executive directors

C Maswanganyi
ET Mzimela
MR Ramaite

Executive directors

RL Demana (*Chief executive officer)*
IJ van der Walt *(Chief financial officer)*
T Tshithavhane

Company secretary

S Ramoetlo
Telephone: 011 049 8611
Facsimile: 011 570 5848

Transfer secretaries

Computershare Investor Services
Proprietary Limited

Sponsor

Nedbank Corporate and Investment Banking

IR advisor

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WESCOAL

www.wescoal.com