WESCOAL

Reviewed condensed consolidated interim financial statements

for the period ended 30 September 2020

Salient features

Revenue **R2 089 million** (HY20: R2 063 million)	Total net profit **R11 million** (HY20: R51 million loss)
Gross profit **R252 million** (HY20: R195 million)	Headline earnings per share **3.3 cents** (HY20: 11.9 cents loss)
Operating expenses **R160 million** (HY20: R184 million)	EBITDA **R315 million** (HY20: R155 million)
Operating profit **R102 million** (HY20: R15 million)	Gearing ratio **54%** (FY20: 58%)

"Wescoal delivered a satisfactory financial performance, largely driven by a solid operational turnaround strategy in the Mining division, despite a tough economic environment of reduced coal offtake from major customers as a result of the COVID-19 pandemic. Having stabilised our mining operations, the focus now shifts to the roll-out of cost saving initiatives to improve the group's profitability further and to create financial headroom to position the company to grow sustainably."

Reginald Demana,
Chief executive officer

Chairman's and chief executive officer's review

Despite the current tough operating environment, the Wescoal group was able to deliver an overall solid production performance at its mining operations and, as a result, returned to profitability in the first half of FY21. The positive results were achieved despite reduced coal offtake during the period from Wescoal's major customer Eskom. The lower sales to Eskom, which to date have not picked up to pre-national lockdown normalised levels remains a major concern for the group, as stockpiles have increased significantly since year-end. While the stock build-up will form part of the company's strategic stock to help maintain sales levels through the upcoming rainy season and December festive season, cash flows during the period have been negatively impacted as stockpiles have increased.

We are deeply saddened to report that subsequent to period-end, an employee of our mining contractor at Moabsvelden Project succumbed to his injuries following a trackless mobile machinery incident on 25 November 2020. The investigation is ongoing as is our commitment to the safety of all workers and the objective of zero harm at all our operations.

The impact of lower offtake from Eskom and other key Trading clients has resulted in the need to create significant financial headroom for the remainder of this financial year. Several solutions in this regard are already being pursued including cost-cutting, mining production reduction, rescheduling capital expenditure and a review of non-core assets. Management and the board have already decided to implement group-wide retrenchments and commenced a section 189 process. The process is expected to be completed by mid-December 2020 with staff reductions across all operations.

Capital structure

In line with the group's strategic pillar of scalability, the group has invested R251 million in capex, and the majority of the investment was on the Moabsvelden development. Net debt decreased to R1 060 million (FY20: R1 220 million) due to loan repayments of R76 million during the period and a higher cash balance of R205 million at the reporting period. A reduction in the net debt balance has resulted in a slight decrease in the gearing ratio to 54% (FY20: 58%). The net debt includes an asset-based finance balance of R294 million for earth moving equipment at Vanggatfontein.

The net asset value per share was 218 cents (FY20: 211 cents), indicating a 3% increase since year-end 31 March 2020 primarily due to net profit generated during the period.

The group comfortably met all of the covenants under its current lending requirements for the two consecutive quarters ended 30 June 2020 and 30 September 2020 following the technical breach experienced at 31 March 2020. During the reporting period, two quarterly instalments were made towards the term loan which commenced on 30 June 2020. A drawdown of R60 million was also made from the revolving credit facility during the period.

Due to the pressure experienced in sales volumes due to low coal offtake as a result of COVID-19, the increase in stockpiles has resulted in a negative impact on cash flow. The group has made an application to its lenders to restructure the current debt and waive the next two quarterly debt capital repayments. The consortium of banks has agreed to waive instalments for the next two quarters which will relieve cash flow pressure for the next half year. Such applications to the lenders were only considered for clients that had a good financial position pre-COVID-19.

Strategic update

Wescoal's long-term aim firmly remains to be a leading provider of reliable energy. The company's stated short- to medium-term strategic objectives are firstly to stabilise operations, followed by optimising efficiency in operations to sustain potential growth and ultimately to scale-up primarily through organic opportunities. The company continues to explore opportunities to grow or consolidate the business through transactions that can offer significant diversification into both domestic and export coal markets, coal supply logistics using rail and road networks, and resources that are capable of producing multiple coal quality ranges/grades, with a particular focus in the Delmas area of the Mpumalanga province where the company already has a strong presence.

All mining operations have been producing at the required levels at all times, and the focus has now shifted to efficiency as well as cost-cutting initiatives across the company in order to offset a consistently lower domestic and export coal market demand environment that has been seen during the first half and is expected to continue for a few more months of the second half of the current financial year.

Safety, health, environment and sustainability

Health and safety remain a top priority for Wescoal and the company continues to strive to maintain a safe working environment for its employees and contractors. Safety campaigns, mock drills, training, noise and dust suppression and sampling are ongoing and on track. Wellness days were well attended in the first half of the year while chronic monitoring and medical checks are continuously conducted across operations.

Wescoal realises the importance of minimising its impact on the environment. The rehabilitation of the Triangle 1, Triangle 2 and Catwalk pits at the Khanyisa Complex is commencing with inductions of operators currently underway.

Wescoal also continues to explore opportunities to assist the communities in which we operate. Initiatives to enhance food and water security for local communities by making available farmland that Wescoal owns to the surrounding communities are examples of support programmes that can be provided.

COVID-19

Wescoal has navigated and continues to effectively manage the COVID-19 pandemic challenge. This has resulted in zero COVID-19-related fatalities of all our operations and we currently have a 100% recovery rate out of 36 cases reported to date. A centralised COVID-19 team ensures uniform implementation of all COVID-19 response protocols and ensures we proactively manage and de-risk the business.

Production and operational performance

Wescoal was able to capitalise on a better positioned asset portfolio with an overall solid production performance by the group in HY21. At the current run rate, run of mine ("ROM") production will likely exceed 8 million tonnes for FY21.

Elandspruit

There was strong and consistent performance from the mine operation during the period, averaging above 250 000 tonnes a month from the opencast operation. The restart of the underground operation has been deferred due to the current low demand environment brought about by COVID-19.

The underground mining section, representing around 10% of Elandspruit's capacity, remains on care and maintenance. The opencast section has capacity of between 230 – 250 000 tonnes per month ROM, which will guarantee the budgeted production levels without the underground operations. The multiple faces active at the mine enable operational flexibility and the current reserve has a remaining life of around six years.

Khanyisa

In HY21, lower production was recorded at the operation than the previous comparable period, mainly due to safety stoppages. A 27% decrease in HY21 production compared to HY20 was recorded at the operation.

The Khanyisa mining complex, which is located in Mpumalanga is, however, expected to return to full production capacity in the second half of the financial year, boosted by the ramp up of ROM production at the Triangle 2 pit. At the current mining rate, the production at Khanyisa is approximately 100 000 tonnes per month ROM, with a life of mine at slightly more than one year.

Vanggatfontein

A solid production performance was recorded throughout HY21, except in August 2020 when the on-boarding process of a new mining contractor slightly affected ROM production performance. The new mining contractor has now been successfully on-boarded.

The ROM tonnages that were extracted from the VG5 extension project also bolstered the Vanggatfontein Complex production in HY21. The VG5 extension project which will replace VG3 by the opening up of the new box cut for an additional mining pit and coal face is nearing completion. The project which is a joint development with a neighbouring mining right holder, will enable extraction of some 450 000 tonnes boundary pillar area coal that would otherwise have been sterilised. The primary development phase is expected to be completed by Q3 FY21 at which point the joint project will be dissolved and mining activities will be integrated with existing Vanggatfontein operations, thus coinciding with the depletion of and replacing production from VG33.

Moabsvelden

Wescoal commenced the box cut phase at Moabsvelden Project in HY21. The operation will produce ROM of 2.4 million tonnes per annum over the 10-year life of mine, to be supplied to Eskom in terms of a 10-year coal supply agreement that has been signed with the power utility. The project which includes the development of the VG6 underground project must be commissioned within certain set timelines that Wescoal is bound to through legal and contractual agreements with Eskom.

The box cut development is progressing well, and first coal is anticipated in H2 FY21 despite the slow ramp-up approach that has been adopted for the project. Various early-works construction activities have also been completed or are nearing completion and the first blast was successfully carried out in October 2020. Operationalising this asset is a major capital expenditure project for Wescoal, requiring an initial investment of R250 – R290 million for the first phase of the project. To manage cash flows in the current tough economic environment, rescheduling of capex and further optimisation work to reduce capex spend is currently underway.

Arnot

The Arnot coal mine in Mpumalanga has stated resources of 212 million tonnes of coal and is well positioned to supply coal to Eskom's Arnot power station primarily via a conveyor belt. Arnot Opco is currently busy with the sourcing process for contractors to mine its underground and opencast operations and to operate the processing plant. Rehabilitation cost settlement discussions with Eskom and the Department of Mineral Resources and Energy are well advanced.

The capital requirements to start up the underground sections (phase 1) will be R70 – R100 million and this will help achieve steady state production of 1 – 1.2 million tonnes per annum (c. 100 000 tonnes per month) by Q3 FY21. The opencast mine is planned to reach steady state in Q4 of FY21 at 2 – 2.4 million tonnes per annum (c. 200 000 tonnes per month). A low capital intensity approach will be adopted to operationalise the mines.

Wescoal Trading

Trading sales volumes were impacted by the national lockdown and a significant reduction in sales to a major customer. As a result, the business saw its sales volumes decrease by 30% from 516 000 tonnes in HY20 to 363 000 tonnes in HY21. The business has since seen some recovery with sales currently in line with expectations and anticipated to remain stable, subject to no further increases in COVID-19 infections and its consequential impact on the South African economy.

At the annual results presentation on 21 July 2020, the company announced a strategic review of its Trading division. This process has been completed and a restructuring programme will be implemented which is part of a group initiative to streamline and integrate operations.

Leeuw Braakfontein Colliery ("LBC") disposal

Various parties have expressed interest in acquiring LBC pursuant to the cancelled disposal transaction as previously announced. The company launched a formal disposal process and has now selected a preferred bidder for LBC. Though at an advanced stage, there is no certainty that negotiations will lead to a successful conclusion of the disposal process during the current financial year.

Financial overview

Notwithstanding the challenges faced in sales volumes in the first quarter of the interim period primarily as a result of the global COVID-19 pandemic, the group has generated a pleasing EBITDA of R315 million (HY20: R155 million) from revenue of R2 089 million, which is only 1% higher than the prior comparable period. This EBITDA performance is the strongest in the past five years. The EBITDA increase is mainly due to improved ROM production of 4.4 million tonnes (HY20: 2.7 million tonnes), which has efficiently diluted unit fixed cost sales volumes of 4.1 million tonnes (HY20: 3.1 million tonnes) compared to the comparable period and is inclusive of sales of ROM product from Vanggatfontein of 312 000 tonnes (HY20: nil). Gross profit is at R252 million, reflecting a gross profit margin of 12%, a notable increase from the comparable period gross profit margin of 9%.

Operating profit of R102 million (HY20: R15 million) was generated, which net of amortisation and depreciation of R213 million (HY20: R140 million). The increase in depreciation is reflective of significant investment in capex in the prior financial year. The operation that has had the most significant impact in the increase to amortisation and depreciation is Vanggatfontein, and this is due to pre-stripping to optimise the pit configuration and bench separation to enable access to multiple coal faces. This enhances the production profile and enables consistent qualities as reported in the previous financial year.

Net finance costs of R85 million are 47% higher than the prior comparable period (R58 million) due to maximum utilisation of facilities driven by the group's consistent expansion and growth strategy which accelerated key development projects during FY20 and FY21.

Despite a 118% increase in inventory value to R287 million since the year ended 31 March 2020, as a result of the downturn in Eskom offtake volumes due to COVID-19 and logistical challenges at Kusile power station, Wescoal generated R524 million (HY20: R126 million) from its operations during the period. R251 million of cash generated has been invested in capex and fulfilled debt capital repayments of R76 million. The cash generated includes movement in working capital of R297 million relating to a payment made by a customer at the beginning of the period which relates to sales generated in the prior year.

Performance for the period has resulted in earnings of 2.62 cents per share (HY20: 11.80 cents per share loss), an increase compared to the comparable period of 122%.

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 respective resource and reserve statements contain details of all competent persons, their professional memberships, qualifications and experience.

Outlook statement

Wescoal aims to become a leading reliable energy source provider with a strategic focus on stability, sustainability and scalability. The company is in the process of building a strong second tier management team to bring back steady growth and profitability. In the medium term, the company's aim is to create an environment of stable operations, translating into predictability and consistency, which will lead to efficiency of its operations. The company will also continue to optimise existing businesses and assets and bolster its balance sheet to enable it to fund both organic and inorganic development opportunities that may arise.

Despite reduced coal offtake from Eskom since the beginning of the pandemic, demand from the power utility is expected to return as economic activity begins to regain momentum. In the short to medium term, this will allow Wescoal to unwind significant working capital that is currently tied up in coal stockpiles across its operations. In the longer term, Eskom will remain the main source of electricity generation in South Africa for the foreseeable future. Demand for coal from the local domestic market and in the seaborne market is also expected to return as economies start to recover from the impact of the pandemic. Wescoal will therefore continue to supply Eskom and explore opportunities to increase the supply of coal into other markets.

Wescoal currently has a strong mining presence in the Delmas area, and recently announced its Delmas strategy to consolidate within this area. The growth strategy of the company also includes the potential to consider diversification into other commodities, logistics and mining services.

The company is positioned to navigate through the current challenging environment and continue to grow the business.

Independent auditor 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 Humphrey Mathe
Non-executive chairman

Reginald Demana
Chief executive officer

4 December 2020

Condensed consolidated statements of financial position

as at 30 September 2020

	Note	Reviewed as at 30 September 2020 R'000	Reviewed as at 30 September 2019 R'000	Audited as at 31 March 2020 R'000
Assets				
Non-current assets		**2 867 667**	2 562 945	2 703 250
Property, plant and equipment	3	**2 360 235**	2 059 771	2 203 133
Right-of-use assets		**8 202**	–	1 867
Investment property		**709**	709	709
Goodwill		**73 637**	73 637	73 637
Intangible assets		**10 439**	9 255	8 412
Investments in joint ventures		**27 784**	20 885	27 855
Restricted investments		**65 876**	59 045	54 919
Other receivables		**52 805**	47 081	49 860
Lease receivables		**228 586**	250 148	230 474
Deferred tax asset		**28 868**	30 160	40 799
Prepaid royalty		**3 932**	5 830	5 162
Restricted cash		**6 594**	6 424	6 423
Current assets		**1 207 787**	926 884	1 258 200
Inventories	5	**286 709**	91 409	131 329
Trade and other receivables		**650 135**	630 679	961 955
Lease receivables		**53 051**	47 323	49 810
Prepaid royalty		**1 570**	1 306	1 174
Current tax receivable		**10 855**	23 554	69 145
Cash and cash equivalents		**205 467**	132 613	44 787
Total assets		**4 075 454**	3 489 829	3 961 450
Equity attributable to equity holders of the parent				
Share capital		**629 838**	629 838	629 838
Other reserves		**(13 002)**	(13 816)	(13 953)
Retained earnings		**277 916**	353 248	267 160
		894 752	969 270	883 045

	Note	Reviewed as at 30 September 2020 R'000	Reviewed as at 30 September 2019 R'000	Audited as at 31 March 2020 R'000
Liabilities				
Non-current liabilities		**2 153 553**	1 787 592	1 217 662
Interest-bearing borrowings	4	**807 325**	563 725	–
Financial liabilities at amortised cost		**–**	2 105	–
Lease liabilities		**231 026**	250 148	230 020
Deferred tax liability		**258 913**	318 617	287 572
Environmental rehabilitation provision		**856 289**	652 997	700 070
Current liabilities		**1 027 149**	732 967	1 860 743
Trade and other payables		**795 490**	499 364	743 337
Interest-bearing borrowings	4	**66 671**	63 785	883 863
Financial liabilities at amortised cost		**2 447**	72 329	19 659
Lease liabilities		**62 587**	52 125	53 872
Current tax payable		**733**	3 162	61 893
Environmental rehabilitation provision		**947**	893	947
Bank overdraft		**98 274**	41 309	97 172
Total liabilities		**3 180 702**	2 520 559	3 078 405
Total equity and liabilities		**4 075 454**	3 489 829	3 961 450

Condensed consolidated statements of profit or loss and other comprehensive income

for the period ended 30 September 2020

	Note	Reviewed for the six months ended 30 September 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Revenue	7	**2 089 210**	2 062 652	3 810 490
Cost of sales	8	**(1 837 332)**	(1 867 206)	(3 477 701)
Gross profit		**251 878**	195 446	332 789
Operating income		**13 960**	2 419	5 030
(Loss)/gain on disposal of assets		**(3 678)**	643	583
Foreign exchange gains		**–**	145	–
Operating expenses		**(159 959)**	(183 945)	(340 895)
Operating profit/(loss)		**102 201**	14 708	(2 540)
Interest income		**16 898**	2 480	21 954
Finance costs		**(102 043)**	(60 557)	(151 260)
Share of losses from equity-accounted investment		**(71)**	–	(346)
Profit/(loss) before taxation		**16 985**	(43 369)	(132 192)
Taxation		**(6 229)**	(7 145)	(4 410)
Profit/(loss) for the period		**10 756**	(50 514)	(136 602)
Other comprehensive income		**–**	–	–
Total comprehensive income/(loss) for the period		**10 756**	(50 514)	(136 602)
Earnings per share				
Per share information				
Basic earnings/(loss) per share (cents)	9	**2.62**	(11.80)	(32.57)
Diluted earnings/(loss) per share (cents)	9	**2.62**	(11.80)	(32.57)

Condensed consolidated statements of cash flows

for the period ended 30 September 2020

	Note	Reviewed for the six months ended 30 September 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Cash flows from operating activities				
Cash generated from operations	6	**522 449**	125 605	183 344
Interest income		**13 144**	1 225	7 751
Finance costs		**(59 963)**	(28 909)	(89 321)
Tax paid		**(25 827)**	(39 812)	(65 621)
Net cash from operating activities		**449 803**	58 109	36 153
Cash flows from investing activities				
Purchase of property, plant and equipment		**(250 810)**	(120 543)	(433 049)
Proceeds on sale of property, plant and equipment		**–**	10 324	11 088
Purchase of intangible assets		**(3 166)**	–	(227)
Lease receipts		**24 617**	–	25 913
Investment in joint venture		**–**	(20 885)	(28 201)
Purchase of rehabilitation investment		**(3 874)**	(11 248)	(14 957)
Withdrawal of acquisition deposit		**–**	153 410	153 410
Net cash from investing activities		**(233 233)**	11 058	(286 023)
Cash flows from financing activities				
Shares bought back		**–**	(35 585)	(35 585)
Proceeds on share options exercised		**–**	1 885	793
Proceeds from interest-bearing borrowings		**60 000**	627 510	622 434
Repayment of interest-bearing borrowings		**(76 769)**	(430 737)	(180 892)
Repayment of other financial liabilities		**(17 212)**	(65 265)	(136 611)
Repayment of lease liabilities		**(23 011)**	(6 808)	(20 363)
Acquisition of additional shares in subsidiary from non-controlling interest		**–**	(38 112)	(21 540)
Net cash from financing activities		**(56 992)**	52 888	228 236
Total cash and cash equivalents movement for the period		**159 578**	122 055	(21 634)
Cash and cash equivalents at the beginning of the period		**(52 385)**	(30 751)	(30 751)
Total cash and cash equivalents at the end of the period		**107 193**	91 304	(52 385)

Condensed consolidated statements of changes in equity

for the period ended 30 September 2020

	Share capital R'000	Share-based payment reserve 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 parent R'000	Non-controlling interest R'000	Total equity R'000
Balance as at 1 April 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	(35 585)	–	–	–	–	(35 585)	–	(35 585)
Employee share option scheme	–	1 885	–	1 885	–	1 885	–	1 885
Reviewed balance as at 30 September 2019	**629 838**	**13 297**	**(27 113)**	**(13 816)**	**353 248**	**969 270**	**–**	**969 270**
Audited balance as at 31 March 2020	**629 838**	**13 160**	**(27 113)**	**(13 953)**	**267 160**	**883 045**	**–**	**883 045**
Profit for the period	–	–	–	–	10 756	10 756	–	10 756
Employee share option scheme	–	951	–	951	–	951	–	951
Reviewed balance as at 30 September 2020	**629 838**	**14 111**	**(27 113)**	**(13 002)**	**277 916**	**894 752**	**–**	**894 752**

Accounting policies

for the period ended 30 September 2020

1. Presentation of condensed consolidated interim financial statements

1.1 Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the JSE Listings Requirements, IAS 34: *Interim Financial Reporting,* the SAICA Financial Reporting guides (as issued by the Accounting Practices Committee), Financial Reporting Pronouncements (as issued by the Financial Reporting Standards Council) 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. These financial statements should be read in conjunction with the group annual financial statements as at and for the year ended 31 March 2020, which have been prepared in accordance with IFRS.

The condensed consolidated interim financial statements were prepared under the supervision of the acting chief financial officer, Mrs JM Speckman CA(SA).

1.2 Accounting policies

The condensed consolidated interim financial statements have been prepared under the historical cost convention. The principal accounting policies used by the group are in terms of IFRS and consistent with those applied in the previous period.

1.3 Independent review by the auditor

These condensed consolidated interim financial statements have been reviewed by PricewaterhouseCoopers Inc., who expressed an unmodified conclusion thereon. A copy of the auditor's 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 report.

2. Changes in accounting policies

2.1 Standards and interpretations not yet effective

New accounting standards, amendments to accounting standards and interpretation issued, that are relevant to the group, but not yet effective on 30 September 2020 have not been adopted. The group continuously evaluates the impact of these standards and amendments.

Notes to the reviewed condensed consolidated interim financial statements

for the period ended 30 September 2020

3. Property, plant and equipment

	30 September 2020		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Land and buildings	**123 014**	**(4 495)**	**118 519**
Mining properties, plant and machinery	**4 785 970**	**(2 562 012)**	**2 223 958**
Furniture and fixtures	**4 130**	**(3 466)**	**664**
Motor vehicles	**23 587**	**(19 879)**	**3 708**
IT equipment	**15 000**	**(13 060)**	**1 940**
Assets under construction	**11 446**	**–**	**11 446**
Total	**4 963 147**	**(2 602 912)**	**2 360 235**

	30 September 2019		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Land and buildings	126 168	(4 054)	122 114
Mining properties, plant and machinery	4 094 419	(2 164 227)	1 930 192
Furniture and fixtures	4 755	(3 751)	1 004
Motor vehicles	22 639	(18 278)	4 361
IT equipment	13 827	(13 128)	699
Assets under construction	1 401	–	1 401
Total	4 263 209	(2 203 438)	2 059 771

3. Property, plant and equipment continued

	31 March 2020		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Land and buildings	123 014	(4 239)	118 775
Mining properties, plant and machinery	4 404 903	(2 354 313)	2 050 590
Furniture and fixtures	4 753	(3 927)	826
Motor vehicles	23 138	(19 044)	4 094
IT equipment	15 816	(13 125)	2 691
Assets under construction	26 157	–	26 157
Total	4 597 781	(2 394 648)	2 203 133

Reconciliation of property, plant and equipment – 30 September 2020

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Depreciation R'000	Total R'000
Land and buildings	118 775	–	–	–	(256)	118 519
Mining properties, plant and machinery	2 050 590	373 040	(3 655)	13 127	(209 144)	2 223 958
Furniture and fixtures	826	–	(21)	(11)	(130)	664
Motor vehicles	4 094	449	–	–	(835)	3 708
IT equipment	2 691	737	(2)	(1 269)	(217)	1 940
Assets under construction	26 157	718	–	(15 249)	(180)	11 446
	2 203 133	374 944	(3 678)	(3 402)	(210 762)	2 360 235

Reconciliation of property, plant and equipment – 30 September 2019

	Opening balance R'000	Additions R'000	Assets held-for-sale R'000	Depreciation R'000	Total R'000
Land and buildings	59 603	58 782	3 801	(72)	122 114
Mining properties, plant and machinery	1 887 465	61 586	117 960	(136 819)	1 930 192
Furniture and fixtures	1 118	77	–	(191)	1 004
Motor vehicles	4 758	939	–	(1 336)	4 361
IT equipment	690	238	–	(229)	699
Assets under construction	567	834	–	–	1 401
	1 954 201	122 456	121 761	(138 647)	2 059 771

3. Property, plant and equipment continued

Reconciliation of property, plant and equipment – 31 March 2020

	Opening balance R'000	Additions R'000	Disposals R'000	Assets held-for-sale R'000	Depreciation R'000	Total R'000
Land and buildings	59 603	57 223	(9 776)	13 509	(1 784)	118 775
Mining properties, plant and machinery	1 887 465	372 071	–	117 960	(326 906)	2 050 590
Furniture and fixtures	1 118	77	(220)	–	(149)	826
Motor vehicles	4 758	2 088	(346)	–	(2 406)	4 094
IT equipment	690	2 789	(292)	–	(496)	2 691
Assets under construction	567	25 590	–	–	–	26 157
	1 954 201	459 838	(10 634)	131 469	(331 741)	2 203 133

4. Interest-bearing borrowings

	Reviewed for the six months ended 30 September 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Held at amortised cost			
Secured			
Refinanced term loan	434 135	413 996	501 000
Refinanced RCF	439 861	213 514	382 521
Refinanced GBF	–	–	342
	873 996	627 510	883 863
Split between non-current and current portions			
Non-current liabilities	807 325	563 725	–
Current liabilities	66 671	63 785	883 863
	873 996	627 510	883 863

4. Interest-bearing borrowings continued

	Reviewed for the six months ended 30 September 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Reconciliation of interest-bearing borrowings			
At the beginning of the period	**883 863**	430 729	430 729
Cash advances received	**60 000**	243 267	634 408
Transaction cost incurred	**–**	(6 486)	(11 974)
Unwinding of transaction cost incurred	**–**	–	5 077
Finance costs	**44 945**	13 532	52 645
Payments			
Capital	**(76 769)**	(40 000)	(180 892)
Interest	**(38 043)**	(13 532)	(46 130)
	873 996	627 510	883 863

Refinanced – revolving credit facility ("RCF"), term loan and general banking facility

Current facilities are provided through a consortium of South African commercial banks consisting of Nedbank Limited (acting through its Corporate and Investment Banking Division) and Standard Bank of South Africa Limited (acting through its Corporate and Investment Banking Division).

The comprehensive, long-term refinance facilities are for a combined R1.1 billion of which R76.8 million capital repayments have been made. The facilities allow 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.

The financing facilities consist of a term loan of R500 million, a RCF of R500 million and a general banking facility ("GBF") of R100 million. The term loan and the RCF bear 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 the last instalment on 21 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 quarterly basis on funds utilised.

4. Interest-bearing borrowings continued

Refinanced – RCF, term loan and general banking facility continued

The facilities are subject to the following dependent financial covenants:

- Net debt to earnings before interest, taxation, depreciation and amortisation ("EBITDA") should be less than 2.5;
- Net debt to equity should be less than 1.5;
- Interest cover ratio should be greater than 3.5; and
- Debt service cover ratio should be greater than 1.3.

During the current financial year, a significant portion of the interest-bearing borrowings were reclassified to long-term liabilities as the debt covenants have been met. Refer to the liquidity risk note 10.

Nedbank CIB – RCF

During the 2018 financial year, Wescoal Mining secured a four-year R220 million reducing balance RCF through Nedbank CIB. The facility was utilised for general business purposes and bore interest at a three-month JIBAR base rate plus a 3.75% margin. Interest payments under the facility were made quarterly in arrears, with the first payment made in January 2018.

The Nedbank CIB RCF facility was extinguished during the year through the refinanced Nedbank and Standard Bank RCF and term loan during the year ended 30 March 2020.

Exposure to interest rate risk

Interest rate swaps

Certain interest rate swaps have been entered into in order to mitigate against the effect of reducing interest rates on cash flow risk.

On 28 February 2020 and 3 March 2020, Wescoal entered into interest rate swap transactions with Nedbank and Standard Bank respectively to fix interest rates for the full duration of the term loans at 6.4% (Nedbank) and 6.45% (Standard Bank) which was just below the ruling three-month JIBAR rate of 6.5% at the time of fixing. The purpose of the fixing of rates was to protect margins as most of Wescoal's revenue streams are at fixed pricing. After entering the swap transaction, the Reserve Bank reduced its lending rate by 275 basis points to stimulate the economy. Wescoal has reviewed options to revise the swap transactions, but the reduced rate is limited to 10 basis points and results in new caps being introduced should the interest rates increase in future, which makes these options unattractive currently.

Fair value interest rate risk

The group has entered into an interest rate swap in order to mitigate against the effect of changes in interest rates.

	Increase R'000	Decrease R'000
September 2020		
Pay variable three-month JIBAR, receive fixed 6.425%. Three years, payable quarterly.	**(6 346)**	**6 346**

4. Interest-bearing borrowings continued

Exposure to interest rate risk continued

Fair value interest rate risk continued

	Increase R'000	Decrease R'000
September 2019		
The group had no exposure to interest rate swaps for the period ended 30 September 2019.		
March 2020		
Pay variable three-month JIBAR, receive fixed 6.425%. Three years, payable quarterly.	(10 833)	10 833

A sensitivity analysis has shown that should the three-month JIBAR increase by 1%, the swap liability would decrease by R10.8 million.

Interest rate sensitivity analysis

A sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

A change of 100 basis points in the interest rate at the reporting date would have increased/(decreased) profit before tax by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on the same basis for March 2020 and September 2019.

	Increase R'000	Decrease R'000
Increase or decrease in rate of interest-bearing borrowings by 1%		
Impact on profit or loss		
30 September 2020	**(4 430)**	**4 430**
30 September 2019	(6 275)	6 275
31 March 2020	(8 838)	8 838

5. Inventories

	Reviewed for the six months ended 30 September 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Run of mine	**214 913**	53 784	76 478
Finished goods	**61 848**	28 714	45 056
Consumable stores	**13 095**	13 923	13 787
	289 856	96 421	135 321
Inventories (write-downs)	**(3 147)**	(5 012)	(3 992)
	286 709	91 409	131 329

The group has had a significant increase in stock levels due to increased mining activity as a result of stabilised mining contractors, reduced community disruptions to operations and lower offtake from Eskom due to restrictions experienced during the COVID-19 national lockdown.

6. Cash generated from operations

	Reviewed for the six months ended 30 September 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Profit/(loss) before taxation	**16 985**	(43 369)	(132 192)
Adjustments for:			
Depreciation of property, plant and equipment	**210 752**	138 755	331 741
Amortisation of intangible assets	**1 129**	1 513	2 584
Amortisation of right-of-use asset	**1 417**	–	1 324
Profit/(loss) on sale of assets	**3 655**	643	(583)
Income from equity-accounted investments	**71**	–	346
Share-based payment expense	**951**	1 885	955
Interest income	**(16 898)**	(2 480)	(21 954)
Finance costs	**102 043**	60 557	151 260
Fair value (gain)/loss	**(7 083)**	–	14 209
Other non-cash prepaid royalty	**834**	618	1 504
Movement in rehabilitation provision	**–**	2 262	–
Rehabilitation cost incurred	**–**	–	(1 984)
Changes in working capital			
Inventories	**(155 380)**	(8 593)	(48 512)
Trade and other receivables	**311 820**	31 234	(297 413)
Trade and other payables	**52 153**	(57 420)	182 059
	522 449	125 605	183 344

7. Revenue

	Reviewed for the six months ended 30 September 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Revenue from contracts with customers			
Sale of goods	**1 671 836**	1 641 333	3 001 654
Rendering of services	**417 374**	421 319	808 836
	2 089 210	2 062 652	3 810 490
Disaggregation of revenue from contracts with customers			
The company disaggregates revenue from customers as follows:			
Sale of goods			
Local sales	**196 285**	681 242	1 222 222
Eskom sales	**1 406 235**	914 669	1 674 145
Export sales	**69 316**	45 422	105 287
	1 671 836	1 641 333	3 001 654
Rendering of services			
Transport services (recognised on coal delivery)	**417 216**	421 098	808 508
Rental income (recognised over time)	**158**	221	328
	417 374	421 319	808 836
Total revenue from contracts with customers	**2 089 210**	2 062 652	3 810 490

8. Cost of sales

	Reviewed for the six months ended 30 September 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Sale of goods	**1 627 317**	1 730 410	3 150 211
Coal production – depreciation	**210 015**	136 796	327 490
	1 837 332	1 867 206	3 477 701
Sale of goods			
Direct purchases	**694 575**	1 148 877	1 908 307
Royalty expense	**19 162**	9 951	39 230
Mining contract cost	**759 938**	444 000	948 491
Consumables and maintenance cost	**7 845**	3 458	8 024
Fuel	**144 747**	117 534	240 184
Mining overhead and other cost	**1 050**	6 590	5 975
	1 627 317	1 730 410	3 150 211
Coal production – depreciation			
Property, plant and equipment	**210 015**	136 796	327 490

9. Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the net profit/(loss) 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 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Basic earnings per share (cents)			
Net profit/(loss) attributable to owners of the company ('000)	**10 756**	(50 514)	(136 602)
Weighted average number of ordinary shares in issue ('000)	**410 059**	428 724	419 410
Basic earnings/(loss) per share (cents)	**2.62**	(11.80)	(32.57)

9. Earnings per share continued

Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit/(loss) 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 detailed previously 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 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Diluted earnings/(loss) per share			
Diluted earnings/(loss) per share (cents)	**2.62**	(11.80)	(32.57)
Reconciliation of weighted average number of ordinary shares used for earnings per share to weighted average number of ordinary shares used for diluted earnings per share			
Weighted average number of ordinary shares used for basic earnings per share	**410 059**	428 724	419 410
Adjusted for:			
Share options in terms of the Wescoal Share Incentive Trust*	**–**	–	–

* *As the group was in a loss-making position for the period ended September 2019 and March 2020, the impact of share options would be anti-dilutive and is therefore not taken into account.*

Diluted earnings reflected show the potential effect of dilution for 1.75 million (September 2019: 7.16 million and March 2020: 6.03 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. None of these options are currently in the money and therefore they have been excluded from diluted earnings per share and diluted headline earnings per share.

9. 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 1/2019.

The calculation of headline earnings per share is based on the basic earnings per share calculation adjusted for the following items:

	Reviewed for the six months ended 30 September 2020 R'000	Reviewed for the six months ended 30 September 2019 R'000	Audited year ended 31 March 2020 R'000
Headline earnings/(loss) per share (cents)	3.32	(11.90)	(32.67)
Diluted headline earnings/(loss) per share (cents)	3.32	(11.90)	(32.67)
Reconciliation between basic/diluted earnings/(loss) and headline/diluted headline earnings/(loss) per share			
Net profit/(loss) attributable to owners of the company ('000)	10 756	(50 514)	(136 602)
Adjusted for:			
Net loss/(profit) on disposal of property, plant and equipment (net of taxes)	2 854	(500)	(433)
	13 610	(51 014)	(137 035)

10. 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.

10. Financial instruments and risk management continued

Financial risk management continued

Liquidity risk continued

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.

	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 2020						
Trade and other payables		761 924	–	–	761 924	761 924
Interest-bearing borrowings	4	215 439	789 024	–	1 004 463	873 996
Financial liabilities at amortised cost		2 447	–	–	2 447	2 447
Lease liabilities		74 935	73 424	161 219	309 578	293 613
Bank overdraft		98 274	–	–	98 274	98 274
		1 153 019	862 448	161 219	2 176 686	2 030 254
As at 30 September 2019						
Trade and other payables		499 364	–	–	499 364	499 364
Interest-bearing borrowings	4	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
		819 593	258 765	734 776	1 813 134	1 544 890
As at 31 March 2020						
Trade and other payables		704 207	–	–	704 207	704 207
Interest-bearing borrowings	4	883 863	–	–	883 863	883 863
Financial liabilities at amortised cost		19 659	–	–	19 659	19 659
Lease liabilities		53 872	175 122	54 898	283 892	283 892
Bank overdraft		97 172	–	–	97 172	97 172
		1 758 773	175 122	54 898	1 988 793	1 988 793

11. Contingencies and commitments

There are no changes to the contingent liabilities disclosed in the integrated annual report for the year ended 31 March 2020. Capital commitments comprised of R36.1 million of which R21.6 million mainly relates to the development of the Moabsvelden Mine.

Dispute

Mining contractor (Stefanutti Stocks Mining Services Proprietary Limited ("SSMS")

As reported in the results for the year ended 31 March 2020, during the reporting period, the group received a statement of claim pertaining to losses incurred by SSMS in terms of the contract mining agreement concluded on 30 November 2018, and as terminated effective 31 July 2020. The group, disclaiming the liability, has submitted a comprehensive response rebutting a majority of the SSMS claims and lodging its own counter claims which include the recoupment of historical mining costs incurred in terms of the contract mining agreement during September 2020. A response to the counter claim was received during November 2020 and is being considered. Possible settlement outcomes from the discussions are not expected to have a material negative impact on the group and therefore no provision has been made in the consolidated financial statements.

12. Events after the reporting period

The directors are not aware of any material events arising since the end of the reporting period not otherwise dealt with in the consolidated interim financial statements, which could significantly affect the financial position of the group at 30 September 2020 or the results of its operations or cash flows for the six months then ended.

13. Going concern

Implications of COVID-19 on the group

Wescoal has navigated and continues to effectively manage the COVID-19 pandemic challenge. This has resulted in zero COVID-19-related fatalities at all our operations and we currently have a 100% recovery rate out of 36 cases reported. A centralised COVID-19 team ensures uniform implementation of all COVID-19 response protocols and ensures we proactively manage and de-risk the business.

There was strong and consistent performance from the operation during the first half of the financial reporting period from the opencast operation. The restart of underground operations has been deferred due to the current low demand environment brought about by COVID-19.

Trading sales volumes were impacted by the national lockdown and a significant reduction in sales to a major customer. As a result, the business saw its sales volumes decrease by 30%. The business has since seen some recovery with sales currently in line with expectations and anticipated to remain stable, subject to no further increases in COVID-19 infections and its consequential impact on the South African economy.

13. Going concern continued

Current year profitability

The current half year results indicate significant improvement in the performance of the group compared to the prior year comparative. During the period ended 30 September 2020, the group made a profit of R11 million compared to a loss of R51 million in the prior year comparative period. The main contributing factor to the increase in profit is due to fewer production challenges that were experienced across all operations during the period as well as a decrease in operating costs, however, COVID-19 had a negative impact on sales which resulted in a significant increase in stock levels. The Moabsvelden Project is still anticipated to have a positive impact on the group for the remaining half of the financial year.

Cash balances and liquidity

Due to the pressure experienced in sales volumes due to low coal offtake as a result of COVID-19, stockpiles have increased significantly since year-end, which has resulted in a negative impact on cash flow. The group has made an application to its lenders to restructure the current debt and waive the next two quarterly debt capital repayments, which commenced on 30 June 2020. The consortium of banks has agreed to waive instalments for the next two quarter which will relieve cash flow pressure for the next half year.

In June and September 2020, capital payments to the term loan were made to the value R38.4 million in each month respectively and the remaining R60 million on the RCF was drawn in October 2020. As at 30 September 2020, the group had cash of R205 million.

Wescoal breached its financial covenants for the measurement periods ended September and December 2019 as a result of poorer EBITDA performance and limited offsetting of the asset based finance. The covenant also breached for the March 2020 reporting period as a result of delays in receipts from Eskom and Sasol. The lenders agreed to waive both these breaches.

For the June 2020 and September 2020 measurement periods, all the covenants were met.

Solvency

As at 30 September 2020, assets exceeded total liabilities of the group by R895 million (September 2019: R969 million; March 2020: R883 million) which reflects that the group is still solvent.

14. Segmental report

For management purposes, the group is organised into business units based on its products and activities and has four reportable operating segments:

- The Mining division is involved in the exploration, beneficiation and mining of bituminous coal;
- The Trading division buys and sells coal to inland customers;
- The property rental segment rents property to other segments within the group; and
- The investment holding segment is the holding company of the group and also acts as a central treasury function.

	Mining	Trading	Property rental and other	Investment holding	Inter-segment eliminations	Consolidated
Six months ended 30 September 2020						
Total revenue	**1 961 570**	**366 533**	**2 865**	**78 142**	**(319 900)**	**2 089 210**
Inter-segment revenue	**204 591**	**34 460**	**2 707**	**78 142**	**(319 900)**	**–**
Revenue from external customers	**1 756 979**	**332 073**	**158**	**–**	**–**	**2 089 210**
EBITDA	**319 062**	**214**	**2 223**	**(6 015)**	**(61)**	**315 423**
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	–	–	2 062 652
EBITDA	139 642	37 372	2 860	(15 880)	(9 104)	154 890
Year ended 31 March 2020						
Total revenue	**2 975 107**	**1 036 911**	**5 436**	**150 211**	**(357 175)**	**3 810 490**
Inter-segment revenue	**182 993**	**18 863**	**5 108**	**150 211**	**(357 175)**	**–**
Revenue from external customers	**2 792 114**	**1 018 048**	**328**	**–**	**–**	**3 810 490**
EBITDA	**328 745**	**47 702**	**4 484**	**7 183**	**(56 329)**	**331 785**
Total segment assets						
Six months ended 30 September 2020	**2 375 584**	**245 057**	**145 607**	**2 589 800**	**(1 280 594)**	**4 075 454**
Six months ended 30 September 2019	2 407 435	208 990	198 359	2 388 127	(1 713 082)	3 489 829
Year ended 31 March 2020	2 267 608	215 901	11 638	2 593 174	(1 126 871)	3 961 450
Total segment liabilities						
Six months ended 30 September 2020	**1 925 998**	**123 557**	**173 504**	**1 026 195**	**(68 217)**	**3 180 702**
Six months ended 30 September 2019	1 813 134	85 379	304 868	751 111	(433 933)	2 520 559
Year ended 31 March 2020	1 804 452	90 279	2 766	1 021 463	159 445	3 078 405

General 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

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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 Siyotula
A Mabizela
N Mnxasana

Non-executive directors

C Maswanganyi
ET Mzimela
MR Ramaite

Executive directors

RL Demana *(Chief executive officer)*
T Tshithavhane

Company secretary

FluidRock Co Sec Proprietary Limited
Telephone: 011 049 8611
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Transfer secretaries

Computershare Investor Services
Proprietary Limited

Sponsor

Nedbank Corporate and Investment Banking

Auditor

PricewaterhouseCoopers Inc.

IR advisor

Singular Systems IR

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WESCOAL

www.wescoal.com