ELB GROUP LIMITED
Incorporated in the Republic of South Africa
Registration number: 1930/002553/06
Share code: ELR ISIN: ZAE000035101
('ELB', 'the Company' or 'the Group')

UNAUDITED GROUP INTERIM REPORT
for the six months ended 31 December 2018

- Results significantly impacted by losses incurred on the Gamsberg Zinc project
- Overall reduction in trading levels across the Group
- Sales decreased to R1 598 million from R1 715 million
- Profit for the period decreased to a loss of R271 million from a profit of R52 million
- Headline earnings per share decreased to a loss of 817 cents from a profit of 158 cents
- Net asset value per share decreased to 890 cents at 31 December 2018 from 2 754 cents at 30 June 2018

COMMENTARY

INTRODUCTION

ELB is an internationally recognised know-how solutions provider and capital equipment supplier in the fields of materials handling, mineral separation, industrial projects, power solutions and Industry 4.0. This is achieved through ELB generated innovation, in-house capability and the supply of world-class equipment and technology. The Group operates predominantly in Africa and Australasia.

The results for the period have been dominated, and severely impacted, by the losses incurred on the Gamsberg Zinc project in the Northern Cape, currently being commissioned by ELB Engineering Services ("Engineering Services"). These losses arose subsequent to the issue of the audited Group consolidated financial statements for the year ended 30 June 2018. Whilst the plant is operating, delays in the final performance testing have resulted in additional costs being incurred in order to complete the project and hence a delay in receiving the final milestone payments.

In addition, the Group has incurred additional costs as a result of remedial work required to bring the tendered and implemented design of the plant up to the contracted specifications. These additional costs were expected to be recovered during the current financial period, however delays in recovering these additional costs have necessitated the reversal of some of the expected recoveries, until such time as the Group is certain that the additional costs can be recovered.

The Group continues to vigorously pursue all possible recoveries, which include insurance claims, back-charges, project asset sales, project scope reduction and additional plant performance claims.

The Group continues on its strategy to further increase its know-how and technology focused solutions by pursuing exponential technology-focused opportunities

and partnerships. These include the development and incorporation of new technologies into the Group such as the Internet of Things, Artificial Intelligence and other disruptive technologies. This will further allow the Group to provide a broader service offering to its existing and future clients.

FINANCIAL RESULTS

Due to the project nature of the Engineering Services segment of the Group there is no consistent correlation between sales and profits in reporting periods.

Sales for the period declined to R1 598 million in 2018 from R1 715 million in 2017. The decrease has mainly been in the Engineering Services segment due to the stage of completion on major projects, including Gamsberg Zinc, but there was also a marginal decrease in sales in the Equipment segment, with only Australasia reporting an increase in sales for the period.

Profit before tax for the period decreased to a loss of R218 million in 2018 from a profit of R80 million in 2017.

Profit for the period attributable to ELB shareholders decreased to a loss of R231 million in 2018 from a profit of R45 million in 2017.

Total comprehensive income for the period attributable to ELB shareholders decreased to a loss of R231 million in 2018 from a profit of R38 million in 2017, after taking into account the translation of the Group's foreign operations and other comprehensive income remeasurements.

The adoption of a new International Financial Reporting Standard ("IFRS"), which became effective in the current period, has resulted in changes to accounting policies and disclosures. The adoption of IFRS 15: Revenue from Contracts with Customers, has had a considerable negative impact on the financial position of the Group in the current period, which has resulted in the reduction of opening retained equity of R333 million, in terms of the transitional adjustments as required by IFRS 15.

Headline earnings per share for the period decreased to a loss of 817 cents from headline earnings of 158 cents in 2017.

The net asset value per share decreased to 890 cents at 31 December 2018 from 2 754 cents at 30 June 2018.

OPERATIONS

Equipment

Sales decreased to R463 million in 2018 from R486 million in 2017 and profit before tax decreased to R36 million in 2018 from R47 million in 2017. The market remains in a state of uncertainty with directly related demand for construction equipment in a declining trend while demand for earthmoving and mining equipment and related sectors are relatively good considering the current economic conditions.

Reasonable demand from existing mining operations continues to be experienced compared to very low or non-existent demand from new or expanding mining operations.

The decrease in profit before tax is due to the aforementioned decrease in sales offset by the impact of a slight improvement in margins in the current period. The comparative period included the positive impact of the strengthening rand in that period compared to the current period where this impact has been negligible.

Engineering Services
Sales decreased to R848 million in 2018 from R974 million in 2017. The decrease is primarily due to the delay in achieving performance certification on the Gamsberg Zinc project and the consequent delay in invoicing. Profit before tax decreased significantly to a loss before tax of R265 million in 2018 from a profit before tax of R24 million in 2017, primarily as a result of the issues on the Gamsberg Zinc project as detailed above. The loss has been reduced by the positive contribution of the other projects in the business, which are all on track, in terms of budget and schedule. In addition, due to its knowledge and technical capability, Engineering Services has been awarded a number of operational and maintenance projects at Medupi in conjunction with the completion of existing packages of work. Within the next few months this segment should also see the award of a significant overland conveyor project, along with the securing of a number of new projects currently in the pipeline.

Both B&W and the construction business in the segment have made valuable and positive contributions to these results.

Australasia
Sales increased to R287 million in 2018 from R256 million in 2017, while profit before tax decreased marginally to R15 million in 2018 from R16 million in 2017. Notwithstanding the impact of a marginally lower average exchange rate on the translation of the Australasia results, this segment continues to report strong revenue growth and profitability.

CASH FLOW AND GOING CONCERN

The Group had a net cash outflow from operating activities of R108 million compared to a net cash outflow from operating activities of R48 million in the prior period, with a decrease in net cash and cash equivalents to R194 million from R318 million at the prior year end. Of the net cash on hand at 31 December 2018, R90 million is ceded and pledged to a local bank to cover trading facilities, R69 million is offshore with ELB subsidiaries and a further amount is cash received in advance on projects which is committed to fund initial project outlays. The net cash outflow and decrease in cash for the period is primarily as a result of the increased working capital commitments on the Gamsberg Zinc project.

The delay in the final performance testing on the Gamsberg Zinc project has negatively impacted the timing of the cashflows relating to this project and as a result the Engineering Services segment has been placed under severe working capital constraints. It is expected that only on final commissioning of the Gamsberg Zinc project will the resultant cashflow assist in clearing a significant element of these working capital constraints.

The negative impact on Group cashflow of the Gamsberg Zinc project is being addressed, with the Group working closely with the project client, its bankers, insurers, other financial institutions, suppliers and customers to resolve the cashflow constraints as soon as possible.

The ELB Board believes that the Group will remain a going concern, based on: an undertaking in the process of being finalised with the Gamsberg Zinc project client, which will result in the settlement of the Gamsberg Zinc project creditors; the successful restructuring of components of the Group; additional financing facilities currently being negotiated with the Group's lenders, all still to be concluded and current banking facilities.

PROSPECTS

The Group is addressing the issues on the Gamsberg Zinc project which will be resolved in due course and it continues to pursue the completion and handover of this project as soon as possible.

The Group continues to pursue identified opportunities and to deliver on its strategy.

On behalf of the Board

Dr Stephen Meijers
Chief Executive Officer
ELB Group and ELB Engineering Services

Peter Blunden
Chief Executive Officer
ELB Equipment

Michael Easter
Group Financial Director
ELB Group

Boksburg
5 April 2019

GROUP BALANCE SHEET

	Unaudited 31 Dec 18 R' 000	Unaudited 31 Dec 17 R' 000	Audited 30 Jun 18 R' 000
ASSETS			
Non-current assets	351 414	345 810	346 761
Property, plant and equipment	184 749	166 282	181 555

Goodwill and intangible assets	15 358	17 931	16 644
Pension fund employer surplus account	39 650	40 515	39 650
Deferred tax assets	111 657	121 082	108 912
Current assets	1 428 754	1 681 492	2 079 691
Contract work not yet billed	137 635	342 861	667 806
Inventories	833 388	594 386	727 830
Receivables and other current assets	195 969	354 354	349 514
Cash and cash equivalents	261 762	389 891	334 541
Total assets	1 780 168	2 027 302	2 426 452
EQUITY AND LIABILITIES			
Equity attributable to ordinary shareholders of the Company	252 743	736 680	780 165
Issued capital	109 178	109 479	109 178
Treasury shares	(74 531)	(51 115)	(74 587)
Reserves	64 691	60 206	64 152
Retained earnings	153 405	618 110	681 422
Non-controlling interests	7 856	90 112	98 301
Total equity	260 599	826 792	878 466
Non-current liabilities	40 807	38 664	37 807
Interest bearing borrowings	25 409	24 237	22 554
Deferred tax liabilities	15 398	14 427	15 253
Current liabilities	1 478 762	1 161 846	1 510 179
Contract liabilities	218 638	162 552	176 404
Interest-bearing borrowings	96 870	111 348	108 407
Payables and other current liabilities	1 095 062	861 170	1 208 956
Bank overdraft	68 192	26 776	16 412
Total liabilities	1 519 569	1 200 510	1 547 986
Total equity and liabilities	1 780 168	2 027 302	2 426 452
Net asset value per ordinary share (cents)	890	2 613	2 754

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 31 Dec 18 R' 000	Unaudited Six months ended 31 Dec 17 R' 000	Audited Year ended 30 Jun 18 R' 000
Sales	1 598 129	1 715 259	3 714 238
Operating costs excluding depreciation and amortisation of non-financial assets	(1 802 238)	(1 629 398)	(3 530 690)
Operating (loss)/profit before depreciation and amortisation of non-financial assets	(204 109)	85 861	183 548
Depreciation and amortisation of non-financial assets	(10 951)	(10 425)	(20 076)
(Loss)/profit from operations	(215 060)	75 436	163 472
Finance income	6 347	10 383	19 765
Finance expenses	(9 531)	(6 161)	(12 310)
(Loss)/profit before income tax	(218 244)	79 658	170 927

Income tax expense	(53 223)	(27 670)	(59 662)
(Loss)/profit for the period	(271 467)	51 988	111 265
Other comprehensive income	328	(8 734)	(1 673)
Items that will not be reclassified to profit or loss			
Non-controlling interests in foreign currency translation adjustments	94	(1 353)	113
Pension fund employer surplus account remeasurements	(1 500)	(923)	(3 733)
Aeroplane revaluation surplus increase	678	161	173
Income tax effect of items that will not be reclassified to profit or loss	234	371	941
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation reserve adjustments attributable to ordinary shareholders of the Company	794	(7 888)	1 149
Income tax effect of adjustments	28	898	(316)
Total comprehensive income for the period	(271 139)	43 254	109 592
(Loss)/profit for the period attributable to:			
Ordinary shareholders of the Company	(231 034)	45 089	96 821
Non-controlling interests	(40 433)	6 899	14 444
	(271 467)	51 988	111 265
Total comprehensive income attributable to:			
Ordinary shareholders of the Company	(230 878)	37 533	95 073
Non-controlling interests	(40 261)	5 721	14 519
	(271 139)	43 254	109 592
Earnings per share (cents)			
Basic earnings per share	(814,4)	159,5	343,9
Diluted basic earnings per share	(814,0)	159,4	343,8
Headline earnings per share	(817,0)	157,6	341,0
Diluted headline earnings per share	(816,6)	157,6	340,9

GROUP STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 Dec 18 R' 000	Unaudited Six months ended 31 Dec 17 R' 000	Audited Year ended 30 Jun 18 R' 000
Opening balance	878 466	802 229	802 229
Effect of IFRS 15 adoption	(332 670)	-	-
Opening balance (restated)	545 796	802 229	802 229
Total comprehensive income for the period	(271 139)	43 254	109 592
(Loss)/profit for the period	(271 467)	51 988	111 265
Other comprehensive income	328	(8 734)	(1 673)
Total contributions by and (distributions to) owners	(13 835)	(18 691)	(33 355)
Ordinary dividends paid	(14 690)	(14 296)	(23 493)
Distributions to non-controlling interests	-	-	(820)
Ordinary shares repurchased and cancelled		-	(301)
Equity-settled share options expense	-	-	1 171
Ordinary shares acquired and held as treasury shares	-	(6 321)	(28 371)
Treasury shares paid up and released to participants	855	1 926	18 459
Changes in ownership interests in subsidiaries			
Acquisition of non-controlling interests	(223)	-	-
Closing balance	260 599	826 792	878 466

Comprising:			
Issued capital	109 178	109 479	109 178
Treasury shares	(74 531)	(51 115)	(74 587)
Reserves	64 691	60 206	64 152
Retained earnings	153 405	618 110	681 422
Equity attributable to ordinary shareholders of the Company	252 743	736 680	780 165
Non-controlling interests	7 856	90 112	98 301
Total equity	260 599	826 792	878 466

GROUP STATEMENT OF CASH FLOWS

	Unaudited Six months ended 31 Dec 18 R' 000	Unaudited Six months ended 31 Dec 17 R' 000	Audited Year ended 30 Jun 18 R' 000
Net cash flows from operating activities	(108 446)	(48 274)	(69 922)
Cash (utilised by)/generated from operations	(204 109)	90 380	184 350
Net working capital movements	136 489	(116 444)	(206 583)
Net finance (expense)/income	(3 184)	4 222	7 455
Taxation paid	(22 952)	(12 136)	(30 831)
Dividends and distributions paid	(14 690)	(14 296)	(24 313)
Net cash flows from investing activities	(10 948)	(11 511)	(32 224)
Purchase of property, plant and equipment	(13 242)	(13 806)	(32 505)
Purchase of additional interest in joint operation	-	-	(3 393)
Proceeds from the sale of plant and equipment	2 294	2 295	3 674
Net cash flows from financing activities	1 496	(4 618)	(15 264)
Net extention/(repayment) of interest-bearing borrowings	864	(223)	(5 051)
Acquisition of non-controlling interests	(223)	-	-
Ordinary shares repurchased and cancelled	-	-	(301)
Ordinary shares acquired and held as treasury shares	-	(6 321)	(28 371)
Treasury shares paid up and released to participants	855	1 926	18 459
Decrease in cash and cash equivalents	(117 898)	(64 403)	(117 410)
Cash and cash equivalents at the beginning of the year	318 129	437 118	437 118
Effect of exchange rate movements on cash balances	(6 661)	(9 600)	(1 579)
Cash and cash equivalents at the end of the period	193 570	363 115	318 129

SEGMENT INFORMATION

	Total R' 000	Equipment R' 000	Engineering Services R' 000	Australia R' 000	Central R' 000	Consolidation and elimination R' 000
Unaudited						
Six months ended 31 December 2018						
Sales						
External sales	1 598 129	462 999	847 885	287 218	27	-
Inter-segment sales	-	196	-	-	9 771	(9 967)

Total sales	1 598 129	463 195	847 885	287 218	9 798	(9 967)
(Loss)/profit before income tax	(218 244)	35 894	(265 461)	14 628	(3 947)	642
Assets	1 780 168	1 025 214	390 637	470 479	97 487	(203 649)
Liabilities	1 519 569	533 466	910 596	230 921	28 977	(184 391)
Unaudited						
Six months ended 31 December 2017						
Sales						
External sales	1 715 259	485 140	974 245	255 841	33	-
Inter-segment sales	-	762	-	-	12 266	(13 028)
Total sales	1 715 259	485 902	974 245	255 841	12 299	(13 028)
Profit/(loss) before income tax	79 658	47 430	23 829	16 367	(7 814)	(154)
Assets	2 027 302	937 929	818 323	309 859	100 549	(139 358)
Liabilities	1 200 510	484 557	718 294	103 915	19 164	(125 420)
Audited						
Year ended 30 June 2018						
Sales						
External sales	3 714 238	970 918	2 230 270	512 970	80	-
Inter-segment sales	-	5 864	59	-	20 692	(26 615)
Total sales	3 714 238	976 782	2 230 329	512 970	20 772	(26 615)
Profit/(loss) before income tax	170 927	87 220	51 219	37 041	(4 912)	359
Assets	2 426 452	929 977	1 054 336	523 189	96 241	(177 291)
Liabilities	1 547 986	445 549	936 580	291 311	23 439	(148 893)

HEADLINE EARNINGS, SHARES IN ISSUE AND PER SHARE MEASUREMENTS

	Unaudited Six months ended 31 Dec 18	Unaudited Six months ended 31 Dec 17	Audited Year ended 30 Jun 18
CALCULATION OF HEADLINE EARNINGS (R'000)			
(Loss)/profit attributable to ordinary shareholders of the Company	(231 034)	45 089	96 821
Less: Items excluded from headline earnings	750	524	811
Profit on disposal of plant and equipment	1 224	858	1 338
Income tax effect on profit on disposal of plant and equipment	(343)	(242)	(385)
Non-controlling interests in profit on disposal of plant and equipment	(131)	(92)	(142)
Headline earnings	(231 784)	44 565	96 010
WEIGHTED AVERAGE NUMBER OF ORDINARY			
SHARES IN ISSUE ('000)			
Number of shares at the beginning of the year	32 503	32 519	32 519
Less: Effect of treasury shares in Group entities			
at the beginning of the year	(4 171)	(4 151)	(4 151)
Basic number of shares in issue at the beginning of the year	28 332	28 368	28 368
Weighted average effect of changes during the period			
Treasury shares acquired during the period	-	(115)	(570)
Treasury shares released to incentive scheme participants	38	22	357
Weighted average number of shares in issue	28 370	28 275	28 155
Effect of outstanding share options	13	7	7
Diluted weighted average number of shares in issue	28 383	28 282	28 162

BASIC NUMBER OF SHARES IN ISSUE AT THE END OF THE PERIOD ('000)			
Ordinary shares in issue	32 503	32 519	32 503
Less: Treasury shares in issue	(4 102)	(4 326)	(4 171)
Ordinary shares in issue on which net asset value per ordinary share is calculated	28 401	28 193	28 332
PER SHARE MEASURES (CENTS)			
Earnings per ordinary share			
- basic	(814,4)	159,5	343,9
- diluted	(814,0)	159,4	343,8
Headline earnings per ordinary share			
- basic	(817,0)	157,6	341,0
- diluted	(816,6)	157,6	340,9
Net asset value per ordinary share	890	2 613	2 754
Dividends declared for the period per ordinary share	-	32	82

NOTES

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed group interim financial statements are prepared in accordance with International Financial Reporting Standard IAS 34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

The accounting policies applied in the preparation of the condensed group interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated financial statements except for those new standards adopted.

CHANGE IN ACCOUNTING POLICIES

The adoption of certain new standards, which became effective in the current period, has resulted in changes to accounting policies and disclosures, of which the adoption of IFRS 15: Revenue from Contracts with Customers ("IFRS 15") has had a material impact on the financial position of the Group.

The Group adopted IFRS 15 with effect from 1 July 2018, using the cumulative effect method. As a result, the cumulative effect of initial application of the standard is recognised as an adjustment to equity at the beginning of the current financial reporting period. Comparative information has not been restated, and continues to be reported in terms of the previous applicable standards, IAS 11 and IAS 18.

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control at a point in time or over time requires judgement.

The following table summarises the impact of the adoption of IFRS 15 on the Group:

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Construction	Revenue incorporates the original contract value together with any approved variations and claims to the extent it is highly probable they will result in revenue. Revenue is recognised over time by measuring the progress of the contract toward completion.	The implementation of IFRS 15 had no impact on the recognition of revenue for construction contracts. The impact of the implementation of IFRS 15 on onerous contracts is described below.

	When a claim or variation is recognised, the cumulative contract price is revised and the measurement of progress toward completion is reassessed at each reporting date and any increases or decreases in revenue accounted for.	
Sale of goods	The Group recognises revenue when a customer obtains control of the goods, which will be through delivery or collection.	The implementation of IFRS 15 had no impact on the recognition of revenue for the sale of goods.

Where the Group identifies an onerous construction contract, an onerous contract provision is required to be recognised. IFRS 15 does not include specific guidance on the accounting for onerous contracts. As this standard withdraws the previous accounting standard (IAS11), accounting for onerous contracts is now in terms of IAS 37: Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). IAS 37 places a higher threshold to be met in order for a Company to recognise the reimbursement of contract costs. As a result, reimbursements which were previously considered to be highly probable at 30 June 2018 do not qualify for recognition under IAS 37 and therefore an accumulated debit adjustment to equity has been accounted for.

IMPACT ON THE FINANCIAL STATEMENTS

The following table summarises the impact of adopting IFRS 15:

Consolidated balance sheet (R' 000)	At 30 June 2018	Adoption of IFRS 15	At 1 July 2018
Assets			
Deferred income tax assets	108 912	29 575	138 487
Contract work not yet billed	667 806	(362 245)	305 561
Equity			
Retained earnings	681 422	(282 769)	398 653
Non-controlling interests	98 301	(49 901)	48 400

Excluding the abovementioned adjustments, there is no other material impact from application of IFRS 9 and IFRS 15 for the Group on these results.

RELATED PARTY TRANSACTIONS
Group entities entered into various sale and purchase transactions with related parties in the Group in the ordinary course of business, the nature of which was consistent with those previously reported. All transactions and balances with these related parties have been eliminated in the consolidated results.

FAIR VALUE
The ELB Group measures foreign currency forward exchange contracts at fair value using inputs as described in Level 2 of the fair value hierarchy. The fair values for foreign currency forward exchange contracts are based on quotes from brokers. Similar contracts are traded in an active market and the quotes reflect the actual transactions on similar instruments. All other financial assets or liabilities carrying values approximate their fair values based on the nature or maturity period of the financial instrument. There were no transfers between Levels 1, 2 or 3 of the fair value hierarchy during the period.

CAPITAL EXPENDITURE INCURRED AND FUTURE CAPITAL EXPENDITURE COMMITMENTS
Capital expenditure of R13 million (2017: R14 million) was incurred during the period on plant and equipment.
Capital expenditure of R33 million was incurred during the year ended 30 June 2018 on plant and equipment.
There were no material capital expenditure committments at each reporting date.

CONTINGENCIES
The Group operates in the engineering contracting business and is exposed to the risks associated with engineering contracts which does from time to time include the need to resolve disputes by way of mediation, arbitration and if need be, litigation. These risks are managed on the basis of limited liability and appropriate insurances.

FINANCIAL PREPARATION AND INDEPENDENT AUDIT
The preparation of the condensed group interim financial statements was supervised by the group financial director, Michael Easter CA(SA). These condensed group interim financial statements have not been reviewed or audited by the Group's independent external auditors.

POST BALANCE EVENTS
There were no significant events arising between the end of the financial reporting period and the date of the Group Interim Report which materially affect the financial position or results of the Group.

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Release date
The unaudited group interim report was released on 5 April 2019.