KeatonEnergy

Keaton Energy Holdings Limited

Reviewed condensed interim consolidated results for the six months ended 30 September 2013

Salient features

- Continued good safety performance
- R205 million cash generated from operations
- R117 million gross profit compared to a gross loss of R38 million in the comparable period
- HEPS up 192% from (21.1 cents) to 19.4 cents
- R39 million debt repaid
- 70% increase in group revenue to R710 million
- Net profit after tax of R42 million compared to a net loss after tax of R64 million for the comparable period
- 55% increase in Eskom sales to 1.1 million tonnes
- Commenced development of Pit 4 at Vanggatfontein
- Acquisition of Xceed Resources Limited

Commentary

Dear shareholder

The six months under review saw continued good safety performances at both operations and substantial increases in group production, revenue and profit.

Safety

Our unrelenting focus on safety resulted in Vanggatfontein ending the period with a Lost Time Injury Frequency Rate ("LTIFR") of 0.10 and Vaalkrantz with a significantly improved LTIFR of 0.17.

Operational review

Vanggatfontein Colliery delivered 1 142 702 tonnes of washed 2- and 4-seam thermal coal to Eskom in the first half of the 2014 financial year compared with 738 498 tonnes in the comparable half year, an increase of 55%. 5-seam metallurgical coal sales into the domestic market increased by 76% from 31 272 tonnes in the comparable half year to 55 154 tonnes.

In addition, Vanggatfontein washed 145 785 tonnes of third party coal during the first half of the 2014 financial year versus nil in the comparable half year. Discard and slurry sales from Vanggatfontein totalled 555 963 tonnes for the period compared with 174 251 tonnes in the comparable half year, an increase of 220%, reducing both our environmental footprint and rehabilitation obligation.

Furthermore, the establishment of Pit 4 commenced from operational cash flows which will allow for even greater flexibility and optimisation of future mining activities. Vanggatfontein is a long-life asset which is now operating at steady state.

Production at Vaalkrantz Colliery continued to be affected by challenging geological conditions and labour disruptions. Vaalkrantz sold 154 145 tonnes of anthracite for the first half of this year versus 151 248 tonnes for the comparable half year, an increase of 2%, an excellent achievement given the difficult operational conditions.

Group operating and financial performance

Group revenue increased by 70% to R710 million in the first half of the 2014 financial year compared to R417 million in the corresponding period of 2013. The majority of this increase was as a result of significantly improved performance at Vanggatfontein for both thermal coal deliveries to Eskom, where revenue increased by 98%, as well as metallurgical coal sales to the local market where revenue increased by 84%. Despite increased sales volumes at Vaalkrantz in the first half of the 2014 financial year compared to the corresponding period in 2013, revenue decreased by 6% as a result of reduced sales prices both locally and internationally.

The increase in revenue translated into a gross profit of R117 million or 17% of revenue for the period under review, compared to a gross loss of R38 million or (9%) of revenue for the corresponding period in 2013. Cost of sales increased by R137 million or 30% on the back of increased production volumes mainly at Vanggatfontein.

Other income, more than doubled to R9 million mainly as a result of increased discard sales at Vanggatfontein.

The income taxation expense of R21 million for the first half of 2014 is mainly attributable to the utilisation of estimated tax losses and unredeemed capital expenditure relating to Vanggatfontein.

Net profit after tax for the period increased by 166% to R42 million compared to a net loss after tax of R64 million in the corresponding period. Headline earnings per share for the period increased to 19.4 cents or by 192%, compared to a loss per share of 21.1 cents for the corresponding period.

Capital investment for the group totalled R143 million for the period compared to R71 million for the corresponding period. The majority of capital was spent at Vanggatfontein, mainly on ongoing mine development of R135 million.

Cash and cash equivalents increased by R43 million mainly due to cash generated from operations of R205 million. This was however offset by capital investments of R143 million and debt repayments of R39 million.

Acquisition of Xceed Resources

It is anticipated that the Xceed acquisition will close by the end of February 2014 with production planned to commence in January 2015. It is intended that Xceed's Moabsvelden project will produce a combination of both export and Eskom quality thermal coal. Significant synergies exist between Moabsvelden and Vanggatfontein as a result of their proximity to each other which will provide substantial operational and financial benefits. The Moabsvelden project already has a credit approved project finance term sheet, a Mining Right and NEMA approval.

Looking ahead

Our longer-term strategy of becoming a 5Mtpa producer remains our focus. With Vanggatfontein having achieved steady state it now forms a solid foundation from which we can maximise cash generation and expand and diversify our product mix. Prudent operational and financial management will enable us to balance the funding of our growth whilst rewarding shareholders.

On behalf of the Board

David Salter
(Non-executive Chairman)

Mandi Glad
(Chief Executive Officer)

15 November 2013

Preparation of condensed interim consolidated financial statements

The condensed interim consolidated financial statements for the six months ended 30 September 2013 have been reviewed in terms of the Companies Act 71, 2008. Their preparation was supervised by the Chief Financial Officer, Jacques Rossouw, a Chartered Accountant (SA).

The condensed interim consolidated financial statements were published on 18 November 2013.

Condensed interim consolidated statement of comprehensive income

		Six months ended		Year ended
R'000	Notes	***30 September 2013 (Reviewed)***	30 September 2012 (Reviewed)	31 March 2013 (Audited)
Revenue	2	***709 768***	417 332	918 807
Cost of sales		***(592 609)***	(455 237)	(946 081)
Gross profit/(loss)	2	***117 159***	(37 905)	(27 274)
Other income		***9 184***	4 363	10 594
Mining and related expenses		***(10 615)***	(9 936)	(70 492)
Net gain on financial instruments		***217***	1 018	2 485
Administrative and other operating expenses		***(31 306)***	(27 460)	(54 723)
Operating profit/(loss) before net finance cost		***84 639***	(69 920)	(139 410)
Net finance cost		***(20 907)***	(13 797)	(32 199)
Finance income		***822***	1 097	2 109
Finance cost		***(21 729)***	(14 894)	(34 308)
Net profit/(loss) before taxation		***63 732***	(83 717)	(171 609)
Income taxation (expense)/credit	3	***(21 402)***	19 477	39 335
Net profit/(loss) after taxation		***42 330***	(64 240)	(132 274)
Other comprehensive income for the period		***–***	–	–
Total comprehensive income for the period		***42 330***	(64 240)	(132 274)
Total comprehensive income attributable to:				
Owners of the company		***37 236***	(40 015)	(84 491)
Non-controlling interest		***5 094***	(24 225)	(47 783)
Basic earnings per share (cents)	4	***19.4***	(21.0)	(44.2)
Diluted earnings per share (cents)	4	***19.4***	(21.0)	(44.2)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Condensed interim consolidated statement of financial position

R'000	Notes	At 30 September 2013 (Reviewed)	At 31 March 2013 (Audited)	At 30 September 2012 (Reviewed)
Assets				
Property, plant and equipment	5	***764 206***	776 070	772 977
Intangible assets	6	***414 289***	424 131	424 358
Deferred tax		***31 164***	51 832	72 897
Restricted cash		***7 423***	7 423	7 423
Restricted investments		***30 009***	26 683	22 845
Total non-current assets		***1 247 091***	1 286 139	1 300 500
Inventory		***41 428***	38 493	64 316
Trade and other receivables		***163 085***	85 215	83 451
Cash and cash equivalents		***62 870***	19 614	27 468
Total current assets		***267 383***	143 322	175 235
Total assets		***1 514 474***	1 429 461	1 475 735
Equity				
Stated capital		***640 903***	–	–
Share capital		***–***	192	192
Share premium		***–***	640 711	640 711
Share-based payment reserve		***16 828***	12 497	9 344
Other reserves		***(18 751)***	(18 751)	(18 751)
Retained earnings		***111 809***	74 573	119 049
Total equity attributable to owners of the company		***750 789***	709 222	750 545
Non-controlling interest		***(18 091)***	(23 185)	373
Total equity		***732 698***	686 037	750 918
Liabilities				
Borrowings	7	***203 689***	235 390	241 060
Long-term financial liabilities		***275***	304	290
Mine closure and environmental rehabilitation provision	8	***170 888***	137 451	99 807
Deferred tax		***88 068***	87 353	129 944
Total non-current liabilities		***462 920***	460 498	471 101
Borrowings	7	***63 315***	49 428	39 077
Mine closure and environmental rehabilitation provision	8	***549***	2 859	225
Trade and other payables	9	***254 608***	229 801	213 529
Taxation		***384***	838	885
Total current liabilities		***318 856***	282 926	253 716
Total equity and liabilities		***1 514 474***	1 429 461	1 475 735

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Condensed interim consolidated statement of changes in equity

for the six months ended 30 September 2013

R'000	Stated capital	Share capital	Share premium	Share-based payment reserve	Other reserves	Retained earnings	Total equity attributable to owners of the company	Non-controlling interest (NCI)	Total equity
Balance at 31 March 2012	–	189	632 054	6 180	(18 751)	159 064	778 736	24 598	803 334
Total comprehensive income for the period	–	–	–	–	–	(40 015)	(40 015)	(24 225)	(64 240)
Transactions with owners of the company recognised directly in equity									
Share-based payments	–	–	–	3 164	–	–	3 164	–	3 164
Ordinary shares issued for cash	–	3	8 657	–	–	–	8 660	–	8 660
Balance at 30 September 2012	–	192	640 711	9 344	(18 751)	119 049	750 545	373	750 918
Balance at 31 March 2013	–	192	640 711	12 497	(18 751)	74 573	709 222	(23 185)	686 037
Total comprehensive income for the period	–	–	–	–	–	37 236	37 236	5 094	42 330
Transfer of share capital and share premium to stated capital(1)	640 903	(192)	(640 711)	–	–	–	–	–	–
Transactions with owners of the company recognised directly in equity									
Share-based payments	–	–	–	4 331	–	–	4 331	–	4 331
Balance at 30 September 2013	640 903	–	–	16 828	(18 751)	111 809	750 789	(18 091)	732 698

(1) A special resolution in terms of regulation 31 of the Companies Act Regulations 2011 was adopted at the general meeting held on 28 May 2013, whereby all ordinary shares were converted into ordinary shares with no par value. It was resolved that all 250 million authorised shares and 191.7 million issued ordinary shares with a par value of 0.1 cents be converted into ordinary shares with no par value and that the share capital account and the share premium account of the company be transferred to the stated capital account.

Condensed interim consolidated statement of cash flows

	Six months ended		Year ended
R'000	***30 September 2013 (Reviewed)***	30 September 2012 (Reviewed)	31 March 2013 (Audited)
Cash flows from operating activities	***205 313***	62 926	191 798
Cash flows from investing activities	***(134 016)***	(81 123)	(216 946)
Cash flows from financing activities	***(28 041)***	(14 884)	(15 787)
Net increase/(decrease) in cash and cash equivalents	***43 256***	(33 081)	(40 935)
Cash and cash equivalents at the beginning of the period	***19 614***	60 549	60 549
Cash and cash equivalents at the end of the period	***62 870***	27 468	19 614

Segmental report

for the six months ended 30 September 2013

R'000	Revenue			Operating profit/(loss) before depreciation/amortisation			Depreciation/amortisation[7]		
	6 months ended 30 Sept 2013	Year to 31 Mar 2013	6 months ended 30 Sept 2012[6]	***6 months ended 30 Sept 2013***	Year to 31 Mar 2013	6 months ended 30 Sept 2012[6]	***6 months ended 30 Sept 2013***	Year to 31 Mar 2013	6 months ended 30 Sept 2012
Vanggatfontein Colliery[1][5]	***584 835***	645 860	283 879	***268 575***	98 140	36 105	***(152 676)***	(184 641)	(93 152)
Sterkfontein Project	***–***	–	–	***–***	–	–	***–***	–	–
Keaton Energy Holdings Limited[2][6]	***58 031***	90 490	52 629	***42 659***	59 981	36 119	***–***	–	–
Keaton Administrative and Technical Services (Proprietary) Limited[2]	***12 796***	20 241	10 295	***1 021***	1 917	581	***(219)***	(208)	(117)
Vaalkrantz Colliery[1][5]	***124 933***	272 948	133 453	***8 910***	30 826	22 875	***(19 896)***	(42 258)	(22 034)
Leeuw Braakfontein Project	***–***	–	–	***(6 416)***	(9 999)	–	***–***	–	–
Koudelager Project	***–***	–	–	***–***	–	–	***–***	–	–
Other segments[3]	***–***	–	–	***752***	(1 368)	(122)	***–***	–	–
Total segments	***780 595***	1 029 539	480 256	***315 501***	179 497	95 558	***(172 791)***	(227 107)	(115 303)
Reconciliation to statements of comprehensive income and financial position									
Intersegment and other consolidation adjustments	***(70 827)***	(110 732)	(62 924)	***(58 071)***	(91 800)	(50 175)	***–***	–	–
	709 768	918 807	417 332	***257 430***	87 697	45 383	***(172 791)***	(227 107)	(115 303)
Net finance cost[4]									
Net profit/(loss) before taxation									
Total assets and liabilities									

(1) Revenue represents sales to external customers only.

(2) Revenue represents intersegment sales only.

(3) Includes the subsidiaries Amalahle Exploration Proprietary Limited, Labohlano Trading 46 Proprietary Limited, the mining right Impati (sold during the current period), the prospecting right Balgray and the mining permit for Klip Colliery.

(4) Net finance cost is no longer reported as forming part of each segment's profit or loss as it is not measured or reported to the chief operating decision maker ("CODM") in connection with the segment but rather on a collective company/group basis.

(5) Coal sales to major customers as a percentage of revenue equals 92% (91% at 31 March 2013 and 91% at 30 September 2012).

(6) Finance income, for the six months ended 30 September 2012, received by Keaton Energy Holding Limited from its subsidiaries has been restated from finance income to revenue, to be consistent with the disclosure in the 31 March 2013 annual report.

(7) Depreciation and amortisation for Vanggatfontein Colliery and Vaalkrantz Colliery include an adjustment for depreciation capitalised to inventory, at every reporting period.

Operating profit/(loss) after depreciation/amortisation			Segment assets			Segment liabilities		
6 months ended 30 Sept 2013	Year to 31 Mar 2013	6 months ended 30 Sept 2012[6]	***At 30 Sept 2013***	Year to 31 Mar 2013	At 30 Sept 2012	***At 30 Sept 2013***	Year to 31 Mar 2013	At 30 Sept 2012
115 899	(86 501)	(57 047)	*885 427*	807 140	794 293	*1 199 233*	1 135 924	1 044 619
–	–	–	*73 752*	65 513	65 271	*59 159*	56 783	55 049
42 659	59 981	36 119	*855 491*	801 365	790 065	*5 676*	4 061	7 950
802	1 709	464	*11 572*	7 424	10 067	*19 640*	16 186	19 999
(10 986)	(11 432)	841	*232 194*	196 697	283 595	*270 405*	329 599	343 198
(6 416)	(9 999)	–	*316 265*	317 199	291 338	*157 692*	67 248	53 857
–	–	–	*25 548*	23 552	23 552	*6 595*	–	–
752	(1 368)	(122)	*7 703*	19 667	18 841	*27 644*	23 083	16 932
142 710	(47 610)	(19 745)	*2 407 952*	2 238 557	2 277 022	*1 746 044*	1 632 884	1 541 604
(58 071)	(91 800)	(50 175)	*(893 478)*	(809 096)	(801 287)	*(964 268)*	(889 460)	(816 787)
84 639	(139 410)	(69 920)	*1 514 474*	1 429 461	1 475 735	*781 776*	743 424	724 817
(20 907)	(32 199)	(13 797)						
63 732	(171 609)	(83 717)						
			1 514 474	1 429 461	1 475 735	*781 776*	743 424	724 817

Notes to the condensed interim consolidated financial statements

1. Accounting policies

Basis of accounting

The condensed interim consolidated financial statements for the six months ended 30 September 2013 have been prepared in accordance with the recognition, measurement, presentation and disclosure requirements of IAS 34: Interim Financial Reporting and are presented in accordance with the South African Companies Act and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee. They should be read in conjunction with the audited financial statements for the year ended 31 March 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The accounting policies are consistent with those described and applied in the audited financial statements.

2. Revenue and gross profit/(loss)

Vanggatfontein delivered 1 142 702 tonnes of washed 2- and 4-Seam thermal coal to Eskom during the six months, an increase of 55% when compared to the same period last year (30 September 2012: 738 498 tonnes and for the year ended 31 March 2013:1 509 681 tonnes). 5-Seam metallurgical coal sales increased by 76% to 55 154 tonnes during the six months, when compared to 30 September 2012 sales of 31 272 tonnes (for the year ended 31 March 2013: 65 661 tonnes). In addition, Vanggatfontein washed 145 785 tonnes of third party coal during the period under review (30 September 2012: nil and for the year ended 31 March 2013: 106 873 tonnes).

During the six months Vanggatfontein generated revenue of R400.1 million from coal sales (30 September 2012: R190.9 million and for the year ended 31 March 2013: R433.7 million), R12.9 million from toll washing (30 September 2012: Rnil and for the year ended 31 March 2013: R15.5 million) and transport revenue of R171.8 million (30 September 2012: R92.9 million and for the year ended 31 March 2013: R196.6 million).

Vaalkrantz sold 154 145 tonnes of anthracite to domestic and international metallurgical markets during the six months, an increase of 2% when compared to the same period last year (30 September 2012: 151 318 tonnes and for the year ended 31 March 2013: 326 597 tonnes) and generated revenue of R124.9 million (30 September 2012: R133.5 million and for the year ended 31 March 2013: R272.9 million).

The group recorded a gross profit of R117.2 million or 17% of sales for the six months ended 30 September 2013 (30 September 2012: gross loss of R37.9 million and for the year ended 31 March 2013: gross loss of R27.3 million). The increase in gross profit was as a result of increased production and sales.

3. Income taxation (expense)/credit

The income taxation expense of R21.4 million for the six months ended 30 September 2013 is mainly attributable to the utilisation of estimated tax losses and unredeemed capital expenditure relating to Keaton Mining Proprietary Limited.

4. Earnings and net asset value per share

The calculation of basic and diluted earnings per share is based on a profit for the period ended 30 September 2013 (attributable to owners of the company) of R37.2 million (30 September 2012: loss of R40.0 million and the year ended 31 March 2013: loss of R84.5 million) and a weighted average number of shares in issue during the year of 191.7 million (30 September 2012: 190.3 million and the year ended 31 March 2013: 190.9 million).

	Six months ended		Year ended
	30 September 2013 (Reviewed)	30 September 2012 (Reviewed)	31 March 2013 (Audited)
Total earnings per ordinary share (cents)			
Basic earnings	***19.4***	(21.0)	(44.2)
Diluted earnings	***19.4***	(21.0)	(44.2)
Headline earnings	***19.4***	(21.1)	(30.2)
Diluted headline earnings	***19.4***	(21.1)	(30.2)
Reconciliation of headline earnings (net of tax and NCI):			
R'000			
Total comprehensive income attributable to owners of the company	***37 236***	(40 015)	(84 491)
Loss on derecognition of assets	**–**	–	27 276
Profit on disposal of property, plant and equipment	**–**	(69)	(476)
Total headline earnings	***37 236***	(40 084)	(57 691)
Net asset value per share			
Number of shares in issue (millions)	***191.7***	191.7	191.7
Net asset value per share (cents)	***382***	392	358

5. Property, plant and equipment

The net decrease of R11.9 million from 31 March 2013 is mainly attributable to the following:

- Capital investments at Vanggatfontein of R135.2 million (attributable mainly to ongoing mine development of R134.8 million). The rehabilitation assets at Vanggatfontein also increased by R31.3 million, relating to the increase in the rehabilitation liability. Refer to note 8.
- Capital investments at Vaalkrantz of R1.9 million.
- Other group capital investments of R2.6 million.

These were offset by depreciation charges of R182.9 million.

6. Intangible assets

On 20 June 2013 the sale of the Impati mining right held by Leeuw Mining and Exploration Proprietary Limited ("LME"), to Zinoju Coal Proprietary Limited was effected following receipt of ministerial consent. The Impati mining right was acquired through the acquisition of LME in the 2012 financial year. The sale resulted in an amount of R12 million received by LME on 25 June 2013.

7. Borrowings

Total borrowings decreased by R17.8 million, mainly as a result of debt repayments to the value of R38.6 million (R30.3 million relates to the Nedbank project finance facility). The decrease was offset by finance costs of R14.4 million and a foreign exchange loss of R6.4 million included in administrative and other operating expenses in the statement of comprehensive income.

8. Mine closure and environmental rehabilitation provision

The rehabilitation liability at Vanggatfontein increased by R32.6 million during the period. The increase is mainly attributable to the additional ground disturbances at Pit 3, the opening-up of Pit 4 as well as the unwinding of the interest on previously recognised rehabilitation liability. The rehabilitation liability at Klip Colliery decreased by R2.3 million as a result of rehabilitation of the site during the period. At Vaalkrantz, the previously recognised rehabilitation liability unwound by R0.8 million during the period.

9. Trade and other payables

Included in trade and other payables are amounts of R33 million and R42.5 million owing to DRA Mineral Projects Proprietary Limited and Megacube Mining Proprietary Limited respectively as reported in the 31 March 2013 Annual report. These amounts are still under legal dispute and there have been no significant changes to the status as reported in our 31 March 2013 Annual report.

10. Commitments and contingencies

The group's capital commitments are:
R'000

	At 30 September 2013 (Reviewed)	At 31 March 2013 (Audited)	At 30 September 2012 (Reviewed)
Exploration and mine development expenditure authorised and contracted	***4 392***	3 864	1 780
Exploration and mine development expenditure authorised but not contracted	***60 005***	66 845	33 494
	64 397	70 709	35 274

All contracted amounts will be funded both through existing funding mechanisms within the group and cash generated from operations. For a detailed disclosure on contingent liabilities refer to Keaton Energy's annual report for the year ended 31 March 2013, available on the group's website at www.keatonenergy.co.za.

11. Subsequent events

There were no significant events after 30 September 2013 up to the date of this report.

12. Dividends

No dividends have been declared nor are any proposed for the period ended 30 September 2013 (30 September 2012: Rnil and the year ended 31 March 2013: Rnil).

13. Coal reserve and resource statement

The Vanggatfontein run of mine coal reserve has been reduced by approximately 0.5 million tonnes, compared to the equivalent coal reserve declared at 31 March 2013, as a result of the premature closure of Pit 1 as reported in the 31 March 2013 annual report. Other than normal coal depletion as a result of mining activites during the six months to 30 September 2013, there were no further significant changes to the previously reported coal resource and coal reserve estimates of the group.

14. Review report

The condensed interim consolidated financial statements for the six months ended 30 September 2013 on pages 4 to 13, have been reviewed by KPMG Inc. in accordance with International Standards on Review Engagements 2410 – "Review of interim financial information performed by the Independent Auditors of the entity". Their unmodified review report is available for inspection at the company's registered office.

www.keatonenergy.co.za

Keaton Energy Holdings Limited

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BASTION GRAPHICS