



▼ Growth through diversification

Unaudited condensed consolidated interim financial results

for the six months ended 31 August 2014

www.afrimat.co.za

Afrimat Limited

("Afrimat" or "the company" or "the group") (Incorporated in the Republic of South Africa) (Registration number: 2006/022534/06) Share code: AFT ISIN code: ZAE000086302

Highlights

- ▶ Revenue up **10,5%**
- ▶ HEPS up **23,9% to 61,1 cents**
- ▶ Net debt:equity ratio **23,3%**
- ▶ NAV per share of **594 cents**
- ▶ Interim dividend **13 cents per share**
- ▶ Return on net operating assets **23,3%**

COMMENTARY

BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (“the financial statements”) for the six months ended 31 August 2014 (“the period”) have been prepared in accordance with and containing the information required by IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, JSE Listings Requirements and in the manner required by the South African Companies Act No. 71 of 2008, as amended. The accounting policies and method of computation applied in preparation of the financial statements are in accordance with International Financial Reporting Standards (“IFRS”) and are consistent with those applied in the audited annual financial statements for the year ended 28 February 2014. The above information has not been reviewed or reported on by Afrimat’s auditors.

The financial statements have been prepared under the supervision of the Financial Director, HP Verreyne *BCompt (Hons) CA(SA)*.

INTRODUCTION

The group has continued to deliver solid results driven by its *diversification strategy*. The turnaround of Infrasons, acquired during the previous year, is progressing well and contributing positive results.

FINANCIAL RESULTS

Revenue for the period increased by 10,5% to R1 030,1 million from R931,9 million. Headline earnings increased by 23,7%, translating into headline earnings per share of 61,1 cents (2013: 49,3 cents).

The overdraft less cash and cash equivalents at the end of the period amounts to a net overdraft of R48,4 million (2013: net cash R36,4 million). The group changed its funding strategy, in order to increase its return on cash held, by utilising surplus cash to settle capital expenditures and accordingly reduced asset based financing. It also brought forward plant and equipment capital expenditures in this period, in order to reduce maintenance costs, and increased inventory levels to meet anticipated demand from customers and to enable lower manufacturing costs.

OPERATIONAL REVIEW

The **Mining & Aggregates** segment generated satisfactory profits with an excellent contribution from the clinker operations. The KwaZulu-Natal operations incurred high mining and maintenance costs in efforts to ensure long-term compliance with Department of Mineral Resources requirements and to gear the business for growth. Contracting operations were impacted by contracts coming to an end and setup costs for new contracts. The group’s industrial mineral operations performed well, with the Infrasons’ turnaround progressing as planned.

All processing plants are fully operational and well-placed to supply market demand. Afrimat’s flexible service delivery model, supplemented by mobile equipment, positions the group to take advantage of opportunities as and where they arise.

The **Concrete Based Products** segment achieved a good increase in profits resulting from cost reduction initiatives and good market conditions. During the comparative period a strike at the Gauteng operation resulted in lower profits for the period.

BUSINESS DEVELOPMENT

New business development remains a key component of the group’s growth strategy. The dedicated business development team continues to successfully identify and pursue opportunities in existing markets, as well as in anticipated new high growth areas.

B-BBEE

Existing BEE shareholders and the Afrimat BEE Trust in aggregate hold 26,1% of Afrimat’s issued shares. Notwithstanding the fully empowered ownership platform in line with the Mining Charter requirements, the group remains dedicated to enhancing all aspects of B-BBEE on an ongoing basis.

DIVIDEND

An interim gross dividend of 13,00 cents per share (2013: 11,00 cents) for the period was declared on 5 November 2014. This is in line with the group’s dividend policy of 2,75 times cover. The dividend payable to shareholders who are subject to dividend tax is 11,05 cents per share (2013: 9,35 cents per share).

PROSPECTS

The group is well positioned to capitalise on its strategic initiatives such as continued growth from the excellent asset base and turnaround at the Infrasons operations.

Operational efficiency initiatives aimed at expanding volumes, reducing costs and developing the required skill levels of all employees remains a key focus in all operations. These programmes, supported by ongoing product diversification in attractive growth sectors such as industrial minerals and open cast mining, should see volumes continue to increase.

Going forward, the group is intensifying its focus on finding opportunities outside of South Africa.

Afrimat expects the current business climate to continue with moderate market growth projected. The group's growth will remain driven by the successful execution of its proven strategy which has been implemented over the last five years.

On behalf of the board

MW von Wielligh

Chairman

AJ van Heerden

Chief Executive Officer

6 November 2014

DIVIDEND DECLARATION

Notice is hereby given that an interim gross dividend, No. 15 of 13,00 cents per share, in respect of the six months ended 31 August 2014, was declared on Wednesday, 5 November 2014.

There are 143 262 412 shares in issue at announcement date, of which 187 287 are held in treasury. The total dividend payable is R18,6 million (2013: R15,6 million).

The board has confirmed by resolution that the solvency and liquidity test as contemplated by the Companies Act, No. 71 of 2008, as amended, has been duly considered, applied and satisfied. This is a dividend as defined in the Income Tax Act, 1962, and is payable from income reserves. The South African dividend tax rate is 15,0% and no STC credit is available to be utilised by shareholders. The dividend payable to shareholders who are subject to dividend tax and shareholders who are exempt from dividend tax is 11,05 cents and 13,00 cents per share, respectively. The income tax number of the company is 9568738158.

Relevant dates to the final dividend are as follows:

Last day to trade *cum* dividend

Friday, 5 December 2014

Commence trading *ex* dividend

Monday, 8 December 2014

Record date

Friday, 12 December 2014

Dividend payable

Monday, 15 December 2014

Share certificates may not be dematerialised or rematerialised between Monday, 8 December 2014 and Friday, 12 December 2014, both dates inclusive.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited six months ended 31 August 2014 R'000	Unaudited six months ended 31 August 2013 R'000	Change %	Audited year ended 28 February 2014 R'000
Revenue	1 030 098	931 871	10,5	1 901 187
Cost of sales	(777 461)	(702 351)		(1 440 138)
Gross profit	252 637	229 520	10,1	461 049
Operating expenses	(125 849)	(120 187)		(230 092)
Profit/(loss) on disposal of plant and equipment	561	(424)		(2 686)
Contribution from operations	127 349	108 909	16,9	228 271
Other net gains (note 1)	–	–		1 426
Operating profit	127 349	108 909	16,9	229 697
Investment revenue	8 159	8 280		16 187
Finance costs	(11 569)	(13 874)		(24 981)
Share of profit of associate	147	51		173
Profit before taxation	124 086	103 366	20,0	221 076
Taxation	(35 321)	(28 094)	25,7	(58 110)
Profit attributable to shareholders	88 765	75 272	17,9	162 966
Profit attributable to:				
Owners of the parent	87 606	70 183		154 509
Non-controlling interests	1 159	5 089		8 457
	88 765	75 272		162 966
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	104	123		1 694
Realised gains on disposal of available-for-sale financial assets	–	–		(1 426)
Income taxation on other comprehensive income	(19)	(23)		(45)
Other comprehensive income for the period, net of taxation	85	100		223
Total comprehensive income for the period	88 850	75 372	17,9	163 189
Total comprehensive income attributable to:				
Owners of the parent	87 691	70 283		154 732
Non-controlling interests	1 159	5 089		8 457
	88 850	75 372		163 189
Shares in issue:				
Total shares in issue	143 262 412	143 262 412		143 262 412
Treasury shares	(187 287)	(1 024 792)		(1 048 676)
Net shares in issue	143 075 125	142 237 620		142 213 736
Weighted average number of net shares in issue	142 718 454	142 962 390		142 620 285
Diluted weighted average number of shares	145 606 282	148 325 514		146 323 034
Earnings per share:				
Earnings per ordinary share (cents)	61,4	49,1	25,1	108,3
Diluted earnings per ordinary share (cents)	60,2	47,3	27,3	105,6

RECONCILIATION OF HEADLINE EARNINGS

	Unaudited six months ended 31 August 2014 R'000	Unaudited six months ended 31 August 2013 R'000	Change %	Audited year ended 28 February 2014 R'000
Profit attributable to owners of the parent	87 606	70 183		154 509
(Profit)/loss on disposal of plant and equipment	(561)	424		2 686
Profit on disposal of financial instruments	-	-		(1 426)
Total taxation effects of adjustments	157	(118)		(353)
	87 202	70 489	23,7	155 416
Headline earnings per ordinary share "HEPS" (cents)	61,1	49,3	23,9	109,0
Diluted HEPS (cents)	59,9	47,5	26,1	106,2

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited six months ended 31 August 2014 R'000	Unaudited six months ended 31 August 2013 R'000	Audited year ended 28 February 2014 R'000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	709 070	654 808	662 306
Investment property	3 040	3 040	3 040
Intangible assets	20 059	22 929	21 407
Goodwill	134 494	134 494	134 494
Investment in associate	348	79	201
Other financial assets (note 6)	147 868	138 742	134 223
Deferred tax	15 773	2 137	5 048
	1 030 652	956 229	960 719
<i>Current assets</i>			
Inventories	138 036	103 404	112 965
Current tax receivable	4 000	3 410	6 163
Trade and other receivables	335 305	309 064	305 967
Other financial assets (note 6)	–	–	1 275
Cash and cash equivalents	36 947	94 278	92 328
	514 288	510 156	518 698
Total assets	1 544 940	1 466 385	1 479 417
Equity and liabilities			
Equity			
Stated capital	295 264	324 489	323 176
Business combination adjustment	(105 788)	(105 788)	(105 788)
Treasury shares	(2 897)	(9 498)	(10 692)
Net issued stated capital	186 579	209 203	206 696
Other reserves	5 738	4 155	6 562
Retained income	657 699	552 355	610 509
Attributable to equity holders of parent	850 016	765 713	823 767
Non-controlling interests	14 056	29 805	14 196
Total equity	864 072	795 518	837 963
Liabilities			
<i>Non-current liabilities</i>			
Borrowings long-term	66 649	115 709	94 606
Deferred tax	99 847	92 314	91 652
Provisions	63 530	60 416	55 860
	230 026	268 439	242 118
<i>Current liabilities</i>			
Borrowings short-term	86 258	72 164	76 432
Current tax payable	5 871	7 032	5 710
Trade and other payables	273 360	265 376	265 743
Bank overdraft	85 353	57 856	51 451
	450 842	402 428	399 336
Total liabilities	680 868	670 867	641 454
Total equity and liabilities	1 544 940	1 466 385	1 479 417
Notes to the statement of financial position:			
Net asset value per share (cents)	594	538	579
Net tangible asset value per share (cents)	486	428	470
Total borrowings	152 907	187 873	171 038
Overdraft less cash and cash equivalents/(surplus cash)	48 406	(36 422)	(40 877)
Net debt	201 313	151 451	130 161
Net debt:equity ratio	23,3%	19,0%	15,5%

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited six months ended 31 August 2014 R'000	Unaudited six months ended 31 August 2013 R'000	Audited year ended 28 February 2014 R'000
Cash flows from operating activities			
Cash generated from operations	111 727	144 861	310 706
Interest revenue	8 840	10 012	17 919
Dividends received	–	49	49
Finance costs	(10 674)	(12 211)	(23 406)
Taxation paid	(35 546)	(23 631)	(61 407)
Net cash inflow from operating activities	74 347	119 080	243 861
Net cash outflow from investing activities			
Acquisition of property, plant and equipment	(91 018)	(50 530)	(121 326)
Proceeds on sale of property, plant and equipment	8 356	3 589	16 894
Purchase of financial assets	(12 949)	(3 300)	(4 795)
Proceeds on sale of financial asset	–	–	13 522
Consideration paid for shares held in treasury by Infrasons	(88)	–	(810)
Acquisition of businesses	–	(32 904)	(69 942)
Net cash outflow from investing activities	(95 699)	(83 145)	(166 457)
Net cash outflow from financing activities			
Repurchase of Afrimat shares	(5 494)	(22 690)	(26 659)
Acquisition of additional non-controlling interest (note 8)	(4 043)	–	–
Net movement in borrowings (note 5.2)	(18 131)	(33 526)	(50 361)
Dividends paid (note 2.2)	(40 263)	(28 439)	(44 649)
Net cash outflow from financing activities	(67 931)	(84 655)	(121 669)
Net decrease in cash and cash equivalents and bank overdrafts	(89 283)	(48 720)	(44 265)
Surplus cash at the beginning of the period	40 877	85 142	85 142
(Bank overdrafts)/surplus cash at the end of the period	(48 406)	36 422	40 877

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital R'000	Business combination			Retained income R'000	Non- controlling interests R'000	Total equity R'000
		adjustment R'000	Treasury shares R'000	Other reserves R'000			
Balance at 1 March 2013	347 661	(105 788)	(1 491)	6 929	510 611	3 931	761 853
Changes:							
Movements in non-controlling interests	-	-	-	-	-	20 785	20 785
Share-based payments	-	-	-	(2 874)	-	-	(2 874)
Purchase of treasury shares	-	-	(22 690)	-	-	-	(22 690)
Settlement of employee Share Appreciation Rights exercised	(23 172)	-	14 683	-	-	-	(8 489)
Profit for the period	-	-	-	-	70 183	5 089	75 272
Other comprehensive income for the period	-	-	-	100	-	-	100
Net change in fair value of available-for-sale financial assets	-	-	-	123	-	-	123
Income taxation effect	-	-	-	(23)	-	-	(23)
Dividends paid (note 2.2)	-	-	-	-	(28 439)	-	(28 439)
Balance at 31 August 2013	324 489	(105 788)	(9 498)	4 155	552 355	29 805	795 518
Balance at 1 March 2013	347 661	(105 788)	(1 491)	6 929	510 611	3 931	761 853
Changes:							
Initial non-controlling interests acquired	-	-	-	-	-	31 743	31 743
Additional non-controlling interest acquired	-	-	-	-	(25 986)	(22 009)	(47 995)
Infrasors treasury shares sold to BEE investor	-	-	-	-	2 812	1 978	4 790
Increase in effective shareholding in Infrasors due to:							
- Retrieval of shares from Infrasors Empowerment Trust	-	-	-	-	9 010	(9 010)	-
- Increase in shares held in treasury by Infrasors	-	-	-	-	(469)	(341)	(810)
Share-based payments	-	-	-	3 528	-	-	3 528
Purchase of treasury shares	-	-	(26 659)	-	-	-	(26 659)
Settlement of employee Share Appreciation Rights exercised and reserve transfer, net of taxation	(24 879)	-	15 522	(4 118)	4 118	-	(9 357)
Treasury shares sold to BEE investor, net of taxation	394	-	1 936	-	-	-	2 330
Profit for the year	-	-	-	-	154 509	8 457	162 966
Other comprehensive income for the year	-	-	-	223	-	-	223
Net change in fair value of available-for-sale financial assets	-	-	-	268	-	-	268
Income taxation effect	-	-	-	(45)	-	-	(45)
Dividends paid (note 2.2)	-	-	-	-	(44 096)	(553)	(44 649)
Balance at 28 February 2014	323 176	(105 788)	(10 692)	6 562	610 509	14 196	837 963
Changes:							
Additional non-controlling interest acquired due to:							
- Infrasors Holdings Limited (note 8)	-	-	-	-	(23)	(28)	(51)
- Afrimat Aggregates (Trading) (Pty) Limited (note 8)	-	-	-	-	(2 756)	(1 236)	(3 992)
Increase in effective shareholding in Infrasors due to:							
- Increase in shares held in treasury by Infrasors	-	-	-	-	(53)	(35)	(88)
Share-based payments	-	-	-	1 770	-	-	1 770
Purchase of treasury shares	-	-	(5 494)	-	-	-	(5 494)
Settlement of employee Share Appreciation Rights exercised and reserve transfer, net of taxation	(27 912)	-	13 289	(2 679)	2 679	-	(14 623)
Profit for the period	-	-	-	-	87 606	1 159	88 765
Other comprehensive income for the period	-	-	-	85	-	-	85
Net change in fair value of available-for-sale financial assets	-	-	-	104	-	-	104
Income taxation effect	-	-	-	(19)	-	-	(19)
Dividends paid (note 2.2)	-	-	-	-	(40 263)	-	(40 263)
Balance at 31 August 2014	295 264	(105 788)	(2 897)	5 738	657 699	14 056	864 072

CONDENSED CONSOLIDATED SEGMENT REPORT

	Split six months ended 31 August 2014 %	Unaudited six months ended 31 August 2014 R'000	Split six months ended 31 August 2013 %	Unaudited six months ended 31 August 2013 R'000	Split year ended 28 February 2014 %	Audited year ended 28 February 2014 R'000
Revenue						
External sales						
Mining & Aggregates	70	721 197	70	650 061	71	1 346 029
Concrete Based Products	30	308 901	30	281 810	29	555 158
	100	1 030 098	100	931 871	100	1 901 187
Intersegment sales						
Mining & Aggregates	95	44 990	88	39 816	89	73 898
Concrete Based Products	5	2 482	12	5 255	11	9 528
	100	47 472	100	45 071	100	83 426
Total revenue						
Mining & Aggregates	71	766 187	71	689 877	72	1 419 927
Concrete Based Products	29	311 383	29	287 065	28	564 686
	100	1 077 570	100	976 942	100	1 984 613
Contribution from operations						
Mining & Aggregates	79	100 648	86	92 310	86	195 235
Concrete Based Products	23	29 683	11	13 434	13	30 409
Other	(2)	(2 982)	3	3 165	1	2 627
	100	127 349	100	108 909	100	228 271
Contribution from operations margins on external revenue (%)						
Mining & Aggregates		14,0%		14,2%		14,5%
Concrete Based Products		9,6%		4,8%		5,5%
		12,4%		11,7%		12,0%
Other information						
Assets						
Mining & Aggregates		966 888		888 390		887 806
Concrete Based Products		227 566		193 888		207 104
Other		350 486		384 107		384 507
		1 544 940		1 466 385		1 479 417
Liabilities						
Mining & Aggregates		334 296		346 925		335 908
Concrete Based Products		64 338		65 735		64 409
Other		282 234		258 207		241 137
		680 868		670 867		641 454

NOTES

	Unaudited six months ended 31 August 2014 R'000	Unaudited six months ended 31 August 2013 R'000	Audited year ended 28 February 2014 R'000
1. Other net gains			
Profit on disposal of available-for-sale financial assets	–	–	1 426
2. Dividends			
2.1 Afrimat Limited dividends paid/declared in respect of the current period profits			
Interim dividend declared/paid	18 624	15 759	15 759
Final dividend declared	–	–	40 113
	18 624	15 759	55 872
2.2 Dividends cash flow			
Current year interim dividend paid	–	–	15 759
Previous year final dividend paid	40 113	28 652	28 652
Dividends received on treasury shares	150	(213)	(315)
	40 263	28 439	44 096
Dividends paid by subsidiaries to non-controlling shareholders	–	–	553
	40 263	28 439	44 649
3. Authorised capital expenditure incurred to date			
– Property, plant and equipment	91 018	50 530	–
Not yet contracted for			
– Property, plant and equipment	62 797	68 249	153 815
Total authorised capital expenditure	153 815	118 779	153 815
4. Depreciation	36 459	46 190	93 920
5. Borrowings			
5.1 Net movement			
Opening balance	171 038	120 684	120 684
New borrowings	31 561	22 070	51 996
Acquired through acquisitions	–	100 715	100 715
Repayments	(49 692)	(55 596)	(102 357)
Closing balance	152 907	187 873	171 038
5.2 Analysis as per statement of cash flows			
New borrowings	31 561	22 070	51 996
Repayments	(49 692)	(55 596)	(102 357)
	(18 131)	(33 526)	(50 361)
6. Other financial assets			
Funding provided to Afrimat employees (BEE share purchase scheme)	112 737	100 143	103 926
Rehabilitation fund trusts and other	35 131	38 599	31 572
	147 868	138 742	135 498
Non-current other financial assets	147 868	138 742	134 223
Current other financial assets	–	–	1 275
	147 868	138 742	135 498

Included in the above “Rehabilitation fund trusts and other”, is investments in environmental insurance policies of R19,7 million (Aug 2013: R15,7 million) (Feb 2014: R17,6 million) measured at fair value. The fair value of unquoted unit trusts is derived using the adjusted net asset method. The adjusted net asset method determines the fair value of the investment in the unit trust by reference to the fair value of the individual assets and liabilities recognised in a unit trust’s statement of financial position. The significant inputs to the adjusted net asset method are the fair values of the individual assets and liabilities whose fair value is derived from quoted market prices in active markets. The fair values are indirectly derived from prices quoted in Level 1, and therefore included in Level 2 (*within the IFRS 13 Fair value measurement fair value hierarchy*).

Number of shares

	31 August 2014	31 August 2013	28 February 2014
7. Movement in number of treasury shares			
Opening balance	1 048 676	204 242	204 242
Utilised for share appreciation rights scheme	(1 214 712)	(1 683 578)	(1 774 144)
Sold to BEE investor	–	–	(190 000)
Purchased during the period	353 323	2 504 128	2 808 578
Closing balance	187 287	1 024 792	1 048 676

8. Acquisition of additional non-controlling interest

Following previous communication, the company acquired a further 0,1% of Infrasors' gross shares in issue, with effect from 1 March 2014. In total Afrimat Limited ("Afrimat") now holds 79,7%, treasury shares account for 12,0% while minorities account for the remaining 8,3% of the total issued Infrasors ordinary shares.

Afrimat acquired the remaining 7,3% issued shares held by Joe Kalo Investments (Pty) Limited in Afrimat Aggregates (Trading) (Pty) Limited ("AAT") with effect from 1 March 2014.

	Infrasors	AAT	Total
Additional non-controlling interest acquired	(28)	(1 236)	(1 264)
Premium paid on additional shares acquired in subsidiary after initial acquisition	(23)	(2 756)	(2 779)
	(51)	(3 992)	(4 043)

9. Events after reporting date

The business including all assets of Prima Quarries Namibia (Pty) Limited has been disposed of as a going concern with effect from 1 October 2014.

10. Contingencies

Additional guarantees to the value of R4,9 million by Standard Bank and R0,3 million by FirstRand Bank Limited were supplied to Eskom and the Department of Mineral Resources, respectively during the period under review.

On 25 June 2013, SARS issued an adjusted income tax assessment claiming R9,7 million additional tax, R7,2 million penalties and R2,4 million interest, relating to the activities of a subsidiary of Infrasors for the tax years 2010, 2011 and 2012 based on the premise that the company is not a mining entity. The company has submitted an appeal to SARS and is of the opinion that the activities are of a mining nature. During an Alternative Dispute Resolution hearing ("ADR") held on 6 June 2014, SARS agreed to waive the relevant penalties and interest. The company is in the process of obtaining a final ruling from SARS regarding the treatment of income tax in the relevant subsidiary.

Directors

MW von Wielligh*^ (Chairman)
AJ van Heerden (CEO)
HP Verreyne (Financial Director)
GJ Coffee
L Dotwana*
F du Toit*
PRE Tsukudu*^
JF van der Merwe*^
HJE van Wyk*^

* *Non-executive director* ^ *Independent*

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