Unaudited interim results

for the six months ended 31 August 2018

Raubex Group Limited

Raubex Group Limited (Incorporated in the Republic of South Africa) Registration number 2006/023666/06
Share code: RBX ISIN code: ZAE000093183 (“Raubex” or the “Group”)

Salient features

- Revenue down **4,0%** to **R4,48 billion** (H1 2018: R4,67 billion)
- Operating profit down **57,4%** to **R157,8 million** (H1 2018: R370,6 million)
- HEPS down **72,8%** to **35,7** cents per share (H1 2018: 131,1 cents per share)
- Cash flow from operations down **36,8%** to **R293,3 million** (H1 2018: R464,3 million)
- Capex spend of **R197,5 million** (H1 2018: R253,2 million)
- Order book of **R8,41 billion** (H1 2018: R7,52 billion)
- Interim dividend of **12** cents per share declared

Rudolf Fourie, CEO of Raubex Group, said:

"We have continued to experience very challenging conditions in the South African construction industry, particularly in the road construction sector, where the low volume of work experienced during the first half of the year has resulted in the Group's asphalt and bitumen supply operations being rightsized in order to adjust to the current level of demand.

"The materials division, which has for many years diversified the Group from exposure to the road construction sector, has been the main contributor to earnings for the period with stable conditions in the mining services operations supported by some volume growth from the Group's commercial quarry operations.

"The infrastructure division has made good progress in the execution of projects in Cameroon and is well positioned to participate in the roll out of the renewable energy projects in South Africa, where execution has now commenced on secured work."

Commentary

Financial overview

Revenue decreased 4,0% to R4,48 billion and operating profit decreased 57,4% to R157,8 million from the corresponding prior period.

Profit before tax decreased 59,7% to R143,0 million (H1 2018: R354,7 million) with the effective tax rate increasing to 33,0% (H1 2018: 28,1%). The increase in tax rate is due to the effect of non-tax deductible expenditure on a relatively low taxable income base as well as a higher contribution towards taxable income from subsidiaries operating in foreign tax jurisdictions with higher tax rates.

Group operating margin decreased to 3,5% (H1 2018: 7,9%).

Earnings per share decreased 73,4% to 35,7 cents (H1 2018: 134,0 cents) with headline earnings per share decreasing 72,8% to 35,7 cents (H1 2018: 131,1 cents).

Cash generated from operations decreased 36,8% to R293,3 million (H1 2018: R464,3 million) before finance charges and taxation.

Net finance costs decreased to R14,0 million (H1 2018: R15,9 million) due to slightly higher net cash balances during the period. Total non-cash finance costs increased to R6,8 million (H1 2018: R6,1 million).

The Group has maintained a strong balance sheet during the period considering the challenging conditions in the construction sector. Working capital has been closely managed with a focus on strict credit control and inventory management in a period of elevated customer credit risk. Trade and other receivables increased by 3,1% to R1,84 billion (H1 2018: R1,78 billion) while inventories decreased 13,0% to R565,6 million (H1 2018: R649,9 million). The decrease in inventories is mainly attributable to a reduction in bitumen stock due to lower road maintenance activity as well as the sale and transfer of residential units by Raudev in their Alto Ridge development in Woodwind Estates.

Construction contracts in progress decreased 3,0% to R332,9 million (H1 2018: R343,2 million). Trade and other payables increased 5,2% to R1,74 billion (H1 2018: R1,65 billion).

Capital expenditure on property, plant and equipment decreased 22,0% to R197,5 million (H1 2018: R253,2 million). Net capital expenditure decreased to R174,4 million (H1 2018: R182,2 million).

Borrowings decreased 16,2% to R730,9 million (H1 2018: R871,8 million).

The Group had a net cash outflow for the period of R209,9 million and total cash and cash equivalents at the end of the period of R894,6 million.

Operational review

Materials Division

The materials division comprises three main disciplines including (i) commercial quarries, (ii) contract crushing and (iii) materials handling and processing services for the mining industry.

The materials division diversifies the Group from the construction industry and has been the main contributor to Group operating profit with 121,5% of total operating profit for the period attributable to this division, mitigating the losses reported in the road surfacing and road construction divisions.

Stable conditions have been experienced in the mining services sector where operations have been predominantly focused on the commodities of diamonds, gold, coal, copper, platinum and iron ore during the period.

Commercial quarry operations have experienced an overall increase in volumes of ~15% off a low base from the comparative prior period with site specific pockets of improvement.

Contract crushing operations continue to experience weak demand in line with the low level of activity in the overall construction sector.

Revenue for the division increased 10,2% to R1,52 billion (H1 2018: R1,38 billion) while operating profit increased by 11,8% to R191,8 million (H1 2018: R171,5 million).

The divisional operating profit margin increased to 12,6% (H1 2018: 12,4%).

The division incurred capital expenditure of R149,0 million during the period (H1 2018: R173,9 million).

The division has a secured order book of R1,76 billion (H1 2018: R1,98 billion).

Construction Division

The construction division comprises two main disciplines including (i) road surfacing and rehabilitation and (ii) road construction and earthworks.

Road surfacing and rehabilitation

This division specialises in the manufacturing and laying of asphalt, chip and spray, surface dressing, enrichments and slurry seals and includes the operations of Tosas, a company specialising in the manufacture and distribution of value added bituminous products throughout southern Africa.

The division is primarily dependent on the South African road construction sector and is directly and indirectly, through asphalt and bitumen supply, exposed to government expenditure on road maintenance in the country. During the period under review there was a significant reduction in the volume of work brought out to tender by the South African National Roads Agency SOC Limited (“SANRAL”). The road surfacing and maintenance teams were able to partially replace their order book with work on roads operated by concessionaires. However, the subsidiaries which supply asphalt and bitumen to Raubex contracts and the external road maintenance market experienced a significant decrease in earnings due to lower volumes as a result of the absence of SANRAL work. The volume of asphalt sold decreased by ~35% from the comparative prior period.

Due to the lower volume of work, the division embarked on rightsizing initiatives during the period to reduce excess capacity. The division has, however, retained some excess capacity in anticipation of SANRAL resuming its budget spend and will review its position and market conditions in the second half of the year. The rightsizing initiatives have resulted in 280 employees being retrenched in the division with once off retrenchment costs of R13,0 million incurred.

Revenue for the division decreased 23,1% to R1,36 billion (H1 2018: R1,77 billion) and operating profit decreased 115,8% to an operating loss of R18,3 million (H1 2018: R115,6 million operating profit).

The divisional operating profit margin decreased to an operating loss margin of 1,3% (H1 2018: 6,5% operating profit margin).

The division incurred capital expenditure of R25,9 million during the period (H1 2018: R60,9 million).

The division's secured order book decreased slightly to R2,15 billion (H1 2018: R2,23 billion).

Road construction and earthworks

This division includes the road and civil infrastructure construction operations focused on the key areas of new road construction and heavy road rehabilitation.

The division is primarily dependent on the South African road construction sector and is exposed to government expenditure on road construction and earthworks in the country. As is the case in the road surfacing and rehabilitation division, the significant reduction in the volume of work brought out to tender by SANRAL including also the delay in award of contracts from provincial government has had a significant impact on the division's results.

Limited rightsizing has taken place in this division in anticipation of an improvement in the order book both locally and in other African jurisdictions where projects are in advanced stages of negotiation. Rightsizing has resulted in 29 employees being retrenched in the division with once off retrenchment costs of R1,8 million incurred.

The period results have also been affected by community unrest in certain areas impacting production efficiencies as well as a loss making contract, which reported an operating loss of R19,4 million for the period. This contract has now been completed.

Revenue for the division decreased 35,0% to R541,9 million (H1 2018: R834,1 million) and operating profit decreased 166,5% to an operating loss of R42,5 million (H1 2018: R63,9 million operating profit).

The divisional operating profit margin decreased to an operating loss margin 7,8% (H1 2018: 7,7% operating profit margin).

The division incurred capital expenditure of R5,6 million during the period (H1 2018: R8,6 million).

The division has a secured order book of R1,65 billion (H1 2018: R1,73 billion) which includes R791,6 million relating to the Link 8000 contracts in Zambia where work remains suspended due to payment delays from the client.

Infrastructure Division

The infrastructure division specialises in disciplines outside of the road construction sector, including energy (with a specific focus on renewable energy), rail, telecommunications, pipeline construction and housing infrastructure and commercial building projects.

The division has experienced favourable conditions during the period and has continued to expand its affordable housing and commercial building operations. Good progress was made by Raubex Renovo in the execution of projects in Cameroon and this company has adopted a conservative approach to revenue recognition until these projects are more advanced. Although no work was executed in the Renewable Energy Independent Power Producer Procurement Programme ("REIPPPP"), work has now been secured which is set to commence in the second half of the financial year.

Limited rightsizing took place in the division resulting in 32 employees being retrenched with once off retrenchment costs of R0,6 million incurred.

Revenue for the division increased 55,5% to R1,06 billion (H1 2018: R678,6 million) and operating profit increased 37,5% to R26,9 million (H1 2018: R19,5 million).

The divisional operating profit margin decreased to 2,5% (H1 2018: 2,9%).

The division incurred capital expenditure of R17,1 million during the period (H1 2018: R9,8 million).

The division has a secured order book of R2,86 billion (H1 2018: R1,59 billion).

International

The Group's international operations consist of materials supply and mining services as well as construction activities which are located in the African jurisdictions of Botswana, Cameroon, Namibia and Zambia. The Group has also established a footprint in Western Australia, through the acquisition of Westforce Construction.

The Westforce acquisition has bedded down well and has delivered results in line with management expectations for the period. This acquisition has supported growth and diversified the Group's international revenue streams.

In Namibia, the materials division services diamond and copper mining operations where results have been stable during the period. Commercial quarry operations in Botswana have continued to perform well.

In Cameroon, Raubex Renovo has made good progress with the construction of a hotel for the Onomo Hotel Group as well as the Douala Grand Mall development.

In Zambia, the two Link 8000 road contracts remain suspended. These contracts have been included in the order book for an amount of R791,6 million as it is the intention to complete these contracts once the client, the Zambian Road Development Agency, settle their outstanding account. Solutions to the funding impasse continue to be sought.

International revenue increased 59,6% to R863,5 million (H1 2018: R541,1 million) while operating profit increased 11,0% to R121,9 million (H1 2018: R109,8 million).

Operating profit margins decreased to 14,1% (H1 2018: 20,3%).

The international order book stands at R2,0 billion (H1 2018: R2,16 billion) and is included in the individual divisional order books.

Prospects

The Group's secured order book increased 11,9% to R8,41 billion (H1 2018: R7,75 billion) with 23,7% of the order book representing contracts outside of South Africa in the rest of Africa and Australia. The order book for SANRAL decreased 61,4% to R562,7 million (H1 2018: R1,46 billion). This work has been replaced by work on road infrastructure managed by concessionaires as well as an increase in the order book from private clients mainly in the affordable housing and commercial building sector as well as work secured in the REIPPPP.

The Minister of Energy established policy certainty with regards to the country's renewable energy programme on 4 April 2018 after signing the power purchase agreements for 27 REIPPPP projects. The Group is well positioned to benefit from the roll out of this work and has secured two projects to the value of R522 million which have reached financial close and are now included in the order book. A number of other projects are in the process of being negotiated which will further support the prospects of the infrastructure division over the medium term. Work on the secured REIPPPP projects will commence in the second half of the financial year.

The diversified operations and revenue streams from the materials division will continue to support Group earnings. Stable conditions are expected in the operations exposed to the mining sector in the second half of the year and it is anticipated that the positive progress made by government with the new mining charter will establish policy certainty and encourage more investment in the South African mining sector, which will indirectly support the mining services offered by the materials division over the medium term. The materials division will continue to pursue strategic, bolt-on acquisitions in the commercial quarry space in line with its geographical expansion strategy for this business.

If SANRAL work returns to more normalised levels, there should be a significant improvement in the road maintenance and road construction operations. Overall conditions in the South African construction sector are expected to remain challenging and the short-term outlook is uncertain with the sector very much under pressure from the slow roll out of general infrastructure spend in the country and the current lower volume of work from SANRAL. To mitigate the uncertain local conditions the Group is looking to the rest of Africa for growth and some large project opportunities are being negotiated in both southern and east African jurisdictions including the Beitbridge border post upgrade in Zimbabwe and work related to the LAPSSET corridor in Kenya, which, if successful, will supplement the current order book over the medium term.

The market in Western Australia is supportive of growth and Raubex will continue to explore this market and look to grow the recently acquired business of Westforce Construction at a measured pace leveraging off the skills within the Group.

With conditions in the South African construction sector restrained, the Group is expecting a challenging second half of the year. The Group will continue to focus on maintaining its balance sheet strength and cash flow management while looking for opportunities to further diversify revenue streams to restore medium-term growth.

Dividend declaration

The directors have declared a gross interim cash dividend from income reserves of 12 cents per share on 29 October 2018 for the six-month period ended 31 August 2018. The salient dates for the payment of the dividend are as follows:

Last day to trade *cum* dividend	Tuesday, 20 November 2018
Commence trading *ex* dividend	Wednesday, 21 November 2018
Record date	Friday, 23 November 2018
Payment date	Monday, 26 November 2018

No share certificates may be dematerialised or rematerialised between Wednesday, 21 November 2018 and Friday, 23 November 2018, both dates inclusive.

In terms of dividends tax ("DT"), the following additional information is disclosed:

- The local DT rate is 20%.
- The number of ordinary shares in issue at the date of this declaration is 181 750 036.
- The dividend to utilise for determining the DT due is 12 cents per share.
- The DT amounts to 2,4 cents per share.
- The net local dividend amount is 9,6 cents per share for shareholders liable to pay the DT.
- Raubex Group Limited's income tax reference number is 9370/905/151.

In terms of the DT legislation, the DT amount due will be withheld and paid over to the South African Revenue Service by a nominee company, stockbroker or Central Securities Depository Participant (collectively "Regulated Intermediary") on behalf of shareholders. All shareholders should declare their status to their Regulated Intermediary, as they may qualify for a reduced DT rate or exemption.

Group income statement

	Unaudited six months 31 August 2018 R'000	Unaudited six months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
Revenue	**4 483 609**	4 668 172	8 542 247
Cost of sales	**(4 052 954)**	(4 055 369)	(7 416 511)
Gross profit	**430 655**	612 803	1 125 736
Other income	**12 017**	18 827	40 133
Other gains/(losses) – net	**15 415**	9 893	14 383
Administrative expenses	**(300 259)**	(270 961)	(508 339)
Operating profit	**157 828**	370 562	671 913
Finance income	**23 742**	29 718	59 495
Finance costs	**(37 790)**	(45 631)	(91 245)
Share of (loss)/profit of investments accounted for using the equity method	**(758)**	76	477
Profit before income tax	**143 022**	354 725	640 640
Income tax expense	**(47 185)**	(99 767)	(187 956)
Profit for the period	**95 837**	254 958	452 684
Profit for the period attributable to:			
Owners of the parent	**64 855**	242 612	423 573
Non-controlling interest	**30 982**	12 346	29 111
Basic earnings per share (cents)	**35,7**	134,0	233,5
Diluted earnings per share (cents)	**35,6**	134,0	233,5

Group statement of comprehensive income

	Unaudited six months 31 August 2018 R'000	Unaudited six months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
Profit for the period	**95 837**	254 958	452 684
Other comprehensive income for the period, net of tax			
Currency translation differences	**22 727**	3 170	(14 284)
Actuarial gain on post-employment benefit obligations	**–**	–	374
Total comprehensive income for the period	**118 564**	258 128	438 774
Comprehensive income for the period attributable to:			
Owners of the parent	**86 310**	245 782	410 356
Non-controlling interest	**32 254**	12 346	28 418
Total comprehensive income for the period	**118 564**	258 128	438 774

Calculation of diluted earnings per share

	Unaudited six months 31 August 2018 R'000	Unaudited six months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
Profit attributable to owners of the parent entity	**64 855**	242 612	423 573
Weighted average number of ordinary shares in issue ('000)	**181 680**	181 088	181 381
Adjustments for:			
Shares deemed issued for no consideration (share options) ('000)	**471**	–	–
Weighted average number of ordinary shares for diluted earnings per share ('000)	**182 151**	181 088	181 381
Diluted earnings per share (cents)	**35,6**	134,0	233,5

Calculation of headline earnings per share

	Unaudited six months 31 August 2018 R'000	Unaudited six months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
Profit attributable to owners of the parent entity	**64 855**	242 612	423 573
Adjustments for:			
Profit on sale of property, plant and equipment	**(60)**	(11 089)	(17 392)
Goodwill written off	**–**	2 799	2 799
Loss of control of subsidiary	**–**	–	767
Total tax effects of adjustments	**17**	3 105	4 870
Basic headline earnings	**64 812**	237 427	414 617
Weighted average number of shares ('000)	**181 680**	181 088	181 381
Headline earnings per share (cents)	**35,7**	131,1	228,6
Diluted headline earnings per share (cents)	**35,6**	131,1	228,6

Group statement of financial position

	Unaudited six months 31 August 2018 R'000	Unaudited six months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**2 507 223**	2 384 804	2 410 165
Intangible assets	**1 098 372**	881 255	947 806
Investment in associates and joint ventures	**129 850**	49 433	111 789
Deferred income tax assets	**57 765**	46 083	39 614
Non-current inventories	**59 314**	69 030	64 533
Non-current trade and other receivables	**65 871**	90 854	81 915
Total non-current assets	**3 918 395**	3 521 459	3 655 822
Current assets			
Inventories	**506 312**	580 876	600 636
Construction contracts in progress and retentions	**332 852**	343 216	280 933
Trade and other receivables	**1 772 130**	1 691 701	1 489 575
Current income tax receivable	**31 475**	30 563	28 617
Cash and cash equivalents	**894 554**	1 045 331	1 084 088
Total current assets	**3 537 323**	3 691 687	3 483 849
Total assets	**7 455 718**	7 213 146	7 139 671
EQUITY			
Share capital	**1 817**	1 817	1 817
Share premium	**2 059 688**	2 059 688	2 059 688
Treasury shares	**(1 218)**	(1 218)	(1 218)
Other reserves	**(1 224 689)**	(1 203 099)	(1 219 859)
Retained earnings	**3 209 939**	3 094 471	3 200 300
Equity attributable to owners of the parent	**4 045 537**	3 951 659	4 040 728
Non-controlling interest	**243 726**	135 938	157 240
Total equity	**4 289 263**	4 087 597	4 197 968
LIABILITIES			
Non-current liabilities			
Borrowings	**396 594**	492 295	411 284
Provisions for liabilities and charges	**102 879**	79 055	82 780
Deferred income tax liabilities	**326 017**	307 600	342 036
Other financial liabilities	**114 441**	141 196	86 980
Total non-current liabilities	**939 931**	1 020 146	923 080
Current liabilities			
Trade and other payables	**1 740 079**	1 654 037	1 530 581
Borrowings	**334 263**	379 502	365 272
Current income tax liabilities	**65 382**	54 617	31 680
Provisions for liabilities and charges	**10 160**	–	15 823
Other financial liabilities	**76 640**	17 247	75 267
Total current liabilities	**2 226 524**	2 105 403	2 018 623
Total liabilities	**3 166 455**	3 125 549	2 941 703
Total equity and liabilities	**7 455 718**	7 213 146	7 139 671

Group statement of cash flows

	Unaudited six months 31 August 2018 R'000	Unaudited six months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
Cash flows from operating activities			
Cash generated from operations	**293 324**	464 310	1 039 786
Interest received	**23 742**	29 718	59 495
Interest paid	**(30 990)**	(39 555)	(74 908)
Income tax paid	**(68 495)**	(91 908)	(177 950)
Net cash generated from operating activities	**217 581**	362 565	846 423
Cash flows from investing activities			
Purchases of property, plant and equipment	**(197 509)**	(253 187)	(441 286)
Proceeds from sale of property, plant and equipment	**23 064**	70 950	95 960
Acquisition of subsidiaries	**(99 270)**	(32 889)	(81 737)
Loan granted to associates and joint ventures	**(17 019)**	(270)	(37 698)
Net cash used in investing activities	**(290 734)**	(215 396)	(464 761)
Cash flows from financing activities			
Proceeds from borrowings	**204 272**	223 132	360 921
Repayment of borrowings	**(274 551)**	(302 135)	(542 815)
Dividends paid to owners of the parent	**(59 954)**	(81 756)	(163 513)
Dividends paid to non-controlling interests	**(4 811)**	(11 888)	(14 855)
Disposal of interest in a subsidiary	**–**	–	4 423
Acquisition of interest in a subsidiary	**(1 700)**	(33 685)	(41 185)
Sale of treasury shares	**–**	14	14
Net cash used in financing activities	**(136 744)**	(206 318)	(397 010)
Net decrease in cash and cash equivalents	**(209 897)**	(59 149)	(15 348)
Cash and cash equivalents at the beginning of the period	**1 084 088**	1 103 618	1 103 618
Effects of exchange rates on cash and cash equivalents	**20 363**	862	(4 182)
Cash and cash equivalents at the end of the period	**894 554**	1 045 331	1 084 088

Group statement of changes in equity

	Share capital R'000	Share premium R'000	Treasury shares R'000	Other reserves R'000	Retained earnings R'000	Total attributable to owners of the parent company R'000	Non-controlling interest R'000	Total equity R'000
Balance at 1 March 2017	1 817	2 059 688	(23 664)	(1 179 094)	2 938 678	3 797 425	152 300	3 949 725
Treasury shares issued in terms of equity-settled share option scheme	–	–	22 446	–	(22 432)	14	–	14
Share option reserve utilised during the period	–	–	–	(27 175)	27 175	–	–	–
Non-controlling interest arising on business combination	–	–	–	–	–	–	7 059	7 059
Acquisition of non-controlling interest	–	–	–	–	(9 806)	(9 806)	(23 879)	(33 685)
Profit for the period	–	–	–	–	242 612	242 612	12 346	254 958
Other comprehensive income for the period	–	–	–	3 170	–	3 170	–	3 170
Dividends paid	–	–	–	–	(81 756)	(81 756)	(11 888)	(93 644)
Balance at 31 August 2017	1 817	2 059 688	(1 218)	(1 203 099)	3 094 471	3 951 659	135 938	4 087 597
Non-controlling interest arising on business combination	–	–	–	–	–	–	10 050	10 050
Acquisition of non-controlling interest	–	–	–	–	2 215	2 215	(2 215)	–
Disposal of interest to non-controlling interest	–	–	–	–	4 036	4 036	387	4 423
Loss of control of subsidiary	–	–	–	–	–	–	(25)	(25)
Profit for the period	–	–	–	–	180 961	180 961	16 765	197 726
Other comprehensive income for the period	–	–	–	(16 760)	374	(16 386)	(693)	(17 079)
Dividends paid	–	–	–	–	(81 757)	(81 757)	(2 967)	(84 724)
Balance at 28 February 2018	**1 817**	**2 059 688**	**(1 218)**	**(1 219 859)**	**3 200 300**	**4 040 728**	**157 240**	**4 197 968**
Change in accounting policy	**–**	**–**	**–**	**–**	**(22 617)**	**(22 617)**	**–**	**(22 617)**
Restated balance at 1 March 2018	**1 817**	**2 059 688**	**(1 218)**	**(1 219 859)**	**3 177 683**	**4 018 111**	**157 240**	**4 175 351**
Unutilised share option reserve reversed	**–**	**–**	**–**	**(27 267)**	**27 267**	**–**	**–**	**–**
Share option reserve	**–**	**–**	**–**	**982**	**–**	**982**	**–**	**982**
Non-controlling interest arising on business combination	**–**	**–**	**–**	**–**	**(4)**	**(4)**	**60 835**	**60 831**
Acquisition of non-controlling interest	**–**	**–**	**–**	**–**	**92**	**92**	**(1 792)**	**(1 700)**
Profit for the period	**–**	**–**	**–**	**–**	**64 855**	**64 855**	**30 982**	**95 837**
Other comprehensive income for the period	**–**	**–**	**–**	**21 455**	**–**	**21 455**	**1 272**	**22 727**
Dividends paid	**–**	**–**	**–**	**–**	**(59 954)**	**(59 954)**	**(4 811)**	**(64 765)**
Balance at 31 August 2018	**1 817**	**2 059 688**	**(1 218)**	**(1 224 689)**	**3 209 939**	**4 045 537**	**243 726**	**4 289 263**

Group segmental analysis

	Materials R'000	Road surfacing and rehabilitation R'000	Road construction and earthworks R'000	Infrastructure R'000	Consolidated R'000
Operating segments					
31 August 2018					
Segment revenue	**1 523 750**	**1 362 695**	**541 915**	**1 055 249**	**4 483 609**
Operating profit/(loss)	**191 770**	**(18 318)**	**(42 485)**	**26 861**	**157 828**
Margin	**12,6%**	**(1,3%)**	**(7,8%)**	**2,5%**	**3,5%**
31 August 2017					
Segment revenue	1 382 835	1 772 675	834 056	678 606	4 668 172
Operating profit	171 545	115 626	63 859	19 532	370 562
Margin	12,4%	6,5%	7,7%	2,9%	7,9%
28 February 2018					
Segment revenue	2 583 677	3 250 728	1 332 325	1 375 517	8 542 247
Operating profit	366 428	222 399	67 063	16 023	671 913
Margin	14,2%	6,8%	5,0%	1,2%	7,9%

	Local R'000	International R'000	Consolidated R'000
Geographical information			
31 August 2018			
Segment revenue	**3 620 080**	**863 529**	**4 483 609**
Operating profit	**35 976**	**121 852**	**157 828**
Margin	**1,0%**	**14,1%**	**3,5%**
31 August 2017			
Segment revenue	4 127 072	541 100	4 668 172
Operating profit	260 796	109 766	370 562
Margin	6,3%	20,3%	7,9%
28 February 2018			
Segment revenue	7 429 769	1 112 478	8 542 247
Operating profit	483 463	188 450	671 913
Margin	6,5%	16,9%	7,9%

Employee benefit expense

	Unaudited six months 31 August 2018 R'000	Unaudited six months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
Employee benefit expense in the income statement consists of:			
Salaries, wages and contributions	**1 171 374**	1 129 122	2 173 553
Share options granted to employees	**982**	–	–
Total employee benefit expense	**1 172 356**	1 129 122	2 173 553

Capital expenditure and depreciation

	Unaudited six months 31 August 2018 R'000	Unaudited six months 31 August 2017 R'000	Audited 12 months 28 February 2018 R'000
Capital expenditure for the period	**197 509**	253 187	441 286
Depreciation for the period	**195 490**	188 274	357 280
Amortisation of intangible assets for the period	**5 662**	1 406	4 077

Notes

Basis of preparation

These condensed consolidated interim financial statements have been prepared under the supervision of the Financial Director, JF Gibson CA(SA), in accordance with International Financial Reporting Standards ("IFRS"), IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the South African Companies Act 71 of 2008 and the JSE Listings Requirements.

A number of International Financial Reporting Standards, Interpretations and amendments as issued by the International Accounting Standards Board ("IASB") became applicable to the Group, effective 1 March 2018, which have required changes to our accounting policies. The following standards had an impact on the Group:

- IFRS 9: *Financial Instruments* (IFRS 9); and
- IFRS 15: *Revenue from Contracts with Customers* (IFRS 15).

Refer to the "Changes in accounting policies" note below for further details of the impact the adoption of these standards have on the Group. The other new standards, interpretations and amendments that became applicable to the Group during the current reporting period did not have a significant impact on the Group.

Except for those mentioned above, the principal accounting policies used in the preparation of the unaudited results for the period ended 31 August 2018 are consistent with those applied for the year ended 28 February 2018 and for the unaudited results for the six months ended 31 August 2017 in terms of IFRS.

Business combinations

Acquisitions made during the period

Metadynamics (Pty) Ltd ("Metadynamics")

On 1 March 2018, the Group effectively acquired 49% of Metadynamics, through its subsidiary OMV (Pty) Ltd who acquired 70% of the shareholding, for a purchase price of R18,2 million settled in cash. An additional consideration is payable contingent on certain profit outcomes over the course of the next four years, being 1 March 2018 to 28 February 2022. Metadynamics adds value to various products through calcining and milling processes in Gauteng that produces value added gypsum and various other products. The acquisition is in line with the Group's strategy to expand geographically and also provides an opportunity to diversify its product mix.

The revenue included in the consolidated income statement since 1 March 2018 contributed by Metadynamics was R20,6 million with a net profit contribution of R2,2 million over the same period.

Details of the net assets acquired, purchase consideration and goodwill are set out below:

	R'000
Consideration	
Cash	**18 200**
Contingent consideration	**24 851**
Total consideration	**43 051**
Property, plant and equipment	**46 572**
Inventories	**3 290**
Trade receivables	**8 272**
Cash and cash equivalents	**(929)**
Deferred tax liability	**(6 177)**
Trade and other payables	**(24 691)**
Total identified net assets	**26 337**
Less: Non-controlling interest (51%)	**(13 432)**
Goodwill attributable to owners of the parent	**30 146**
Total	**43 051**
Purchase consideration settled in cash	**18 200**
Less: Cash and cash equivalents in the business combination acquired	**929**
Cash outflow on acquisition for cash flow statement	**19 129**

Donkerhoek Quarry (Pty) Ltd ("Donkerhoek")

On 18 April 2018, the Group effectively acquired 70% of Donkerhoek, through its subsidiary Raumix Aggregates (Pty) Ltd, for a purchase price of R31,1 million settled in cash. Donkerhoek is a commercial quarry operating in Northern Gauteng supplying aggregates to the construction market. The acquisition is in line with the Group's strategy to expand its commercial quarry business geographically.

The revenue included in the consolidated income statement since 18 April 2018 contributed by Donkerhoek was R19,4 million with a net loss contribution of R4,9 million over the same period.

Details of the net assets acquired, purchase consideration and goodwill are set out below:

	R'000
Consideration	
Cash	**31 142**
Total consideration	**31 142**
Property, plant and equipment	**30 400**
Intangible asset – mining right	**15 500**
Inventories	**6 891**
Trade and other receivables	**4**
Deferred tax liability	**(2 015)**
Income tax payable	**(13)**
Rehabilitation provision	**(8 305)**
Other provisions	**(344)**
Total identified net assets	**42 118**
Less: Non-controlling interest (30%)	**(12 635)**
Goodwill attributable to owners of the parent	**1 659**
Total	**31 142**
Purchase consideration settled in cash	**31 142**
Less: Cash and cash equivalents in the business combination acquired	**–**
Cash outflow on acquisition for cash flow statement	**31 142**

Transkei Quarries (Pty) Ltd ("Transkei Quarries")

On 3 April 2018, the Group effectively acquired 49% of Transkei Quarries, through its subsidiary Raumix Aggregates (Pty) Ltd, for a net purchase price of R49 million settled in cash. An additional consideration is payable contingent on certain profit outcomes over the course of the next four years, being 3 April 2018 to 28 February 2022. Transkei Quarries operates two commercial quarries operating in Mthatha and Butterworth supplying aggregates to the construction market. The acquisition is in line with the Group's strategy to expand its commercial quarry business geographically.

The revenue included in the consolidated income statement since 3 April 2018 contributed by Transkei was R53,2 million with a net profit contribution of R7,3 million over the same period.

Details of the net assets acquired, purchase consideration and goodwill are set out below:

	R'000
Consideration	
Cash	**49 000**
Contingent consideration	**12 183**
Total consideration	**61 183**
Property, plant and equipment	**36 265**
Intangible asset – mining right	**75 300**
Inventories	**8 405**
Consumables	**1 486**
Borrowings	**(24 581)**
Deferred tax liability	**(18 266)**
Rehabilitation provision	**(10 063)**
Provisions	**(381)**
Total identified net assets	**68 165**
Less: Non-controlling interest (51%)	**(34 764)**
Goodwill attributable to owners of the parent	**27 782**
Total	**61 183**
Purchase consideration settled in cash	**49 000**
Less: Cash and cash equivalents in the business combination acquired	**–**
Cash outflow on acquisition for cash flow statement	**49 000**

Changes in accounting policies

The Group has adopted the following new International Financial Reporting Standards as issued by the IASB, which were effective for the Group from 1 March 2018:

- IFRS 9: *Financial Instruments* (IFRS 9); and
- IFRS 15: *Revenue from Contracts with Customers* (IFRS 15).

Adoption of IFRS 9

IFRS 9 replaces the provisions of IAS 39 and was adopted by the Group without restating comparative information in accordance with the transitional provisions included in the standard (IFRS 9, paragraph 7.2.15 and 7.2.26). The adoption of IFRS 9 had the following impact on the Group:

- Change in classification of the measurement categories for financial instruments.
- Change from the IAS 39 incurred loss model to the expected credit loss ("ECL") model to calculate impairments of financial instruments.

Details of the impact are provided below:

Classification, initial recognition and subsequent measurement

IFRS 9 introduces new measurement categories for financial assets. The measurement categories of IFRS 9 and IAS 39 are illustrated in the table below:

IAS 39*	IFRS 9*
Loans and receivables	Financial assets at amortised cost

* *Only those categories of financial assets applicable to the Group have been disclosed above.*

Effective 1 March 2018, the Group classifies its financial assets in each of the IFRS 9 measurement categories according to the Group's business model for managing the financial asset together with the cash flow characteristics of the financial asset. The reclassification into the new measurement categories of IFRS 9 did not have a significant impact on the Group.

Financial liabilities are measured at amortised cost except for those designated as at fair value through profit and loss, which are measured at fair value.

Impairment

Prior to the adoption of IFRS 9 the Group's methodology for calculating the allowance for credit losses was based on an incurred loss model in terms of IAS 39, where at the end of each reporting period the Group assessed whether any objective evidence of impairment existed. Had any evidence existed at the time of consideration, an allowance for credit losses was calculated on the financial asset at amortised cost as the difference between the financial asset's carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate (its recoverable amount).

Under IFRS 9, the Group revised its methodology for calculating the allowance for credit losses on its financial assets to an expected credit loss model.

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:
- Trade receivables, including receivables under finance leases; and
- Contract assets relating to construction contracts in progress and retentions.

The Group applies the IFRS 9's simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped together based on their similar credit risk characteristics and the days past due. The contract assets relate to retentions and unbilled work in progress on construction contracts which have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the revenue payment profiles over a 12-month period ended 1 March 2018 together with the corresponding historical credit losses experienced within these periods per customer classification. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDPs, inflation rates, prime lending rates, US dollar exchange rates and the credit ratings of the countries in which it operates to be the most relevant factors, and has accordingly adjusted the historical loss rates based on expected changes in these factors.

Impact on the Group's financial results due to the adoption of IFRS 9

Balance sheet*

	Balance at 28 February 2018 R'000	IFRS 9 effect R'000	**Balance at 1 March 2018 R'000**
Assets			
Non-current assets			
Trade and other receivables	81 915	(2 409)	**79 506**
Deferred income tax assets	39 614	8 795	**48 409**
Current assets			
Trade and other receivables	1 489 575	(16 873)	**1 472 702**
Construction contracts in progress and retentions	280 933	(12 130)	**268 803**
Equity			
Retained earnings	3 200 300	(22 617)	**3 177 683**

* *Only those line items affected by IFRS 9 have been included above.*

The Group's opening retained earnings as at 1 March 2018 are as follows:

	R'000
Closing balance 28 February 2018	**3 200 300**
Increase in cost of sales	**(31 412)**
Increase in deferred tax due to impairment provisions	**8 795**
Opening retained earnings 1 March 2018	**3 177 683**

Adoption of IFRS 15

In accordance with the transition paragraphs of IFRS 15, the Group decided to recognise the cumulative effect of initially applying IFRS 15 as an adjustment to opening retained earnings under the modified retrospective restatement method, where applicable.

The adoption of IFRS 15 from 1 March 2018 has resulted in changes to the accounting policies with regards to the process followed in order to recognise revenue from the various sources applicable to the Group. However, these changes have not resulted in the need to restate any prior period figures.

The Group's revenue is primarily generated from the following sources:

- Contracting revenue
- Commercial quarry revenue
- Bitumen and emulsion products and services
- Plant hire revenue
- Property sales and development fees

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18: *Revenue*, IAS 11: *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled for transferring goods or services to a customer based on the satisfaction of performance obligations.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or services to a customer.

The nature of the changes in the accounting policies were as follows:

Revenue type	Description	Previous accounting treatment under IAS 11 and IAS 18	New accounting treatment under IFRS 15
Contracting revenue	Revenue generated through construction contracts, where the Group's performance creates or enhances customer controlled assets.	Revenue from construction contracts was recognised on the stage of completion method.	The Group recognises revenue over time by measuring the progress towards the satisfaction of performance obligations stipulated in the construction contracts. Progress measured using the costs incurred to date over the total estimated construction cost of the contract.

Revenue type	Description	Previous accounting treatment under IAS 11 and IAS 18	New accounting treatment under IFRS 15
Commercial quarry revenue	Revenue is generated through the sales of aggregates to the construction market.	Revenue from the sale of goods was recognised when significant risks and rewards of ownership were passed to the customer.	The Group recognises revenue at a point in time, being when the customer takes possession of the goods.
Bitumen and emulsion products and services	Revenue generated through the sales of bitumen products and the provision of bitumen-related services.	Revenue was recognised when significant risks and rewards of ownership of the goods have passed to the buyer.	The Group recognises revenue at a point in time, being when the customer takes possession of the products; or The Group recognises revenue over time by measuring the progress towards the satisfaction of performance obligations for bitumen services provided.
Plant hire revenue	Revenue generated from plant hired out to customers.	Revenue from plant hire is recognised on a percentage completion basis over time based on operating hours.	The Group recognises revenue over time by measuring the progress towards the satisfaction of performance obligations. Progress measured using operating hours for which the customer received and consumed the benefits provided.
Property sales and development fees	*Property sales:* Revenue generated from the sale of property. *Development fees:* Revenue receivable for project management services, development fees and subsidies receivable for the development of housing.	*Property sales:* Revenue was recognised when risks and rewards of ownership were transferred. *Development fees:* These fees were recognised on the stage of completion method.	*Property sales:* Revenue recognised at a point in time once ownership has transferred. *Development fees:* Revenue recognised over time based on the satisfaction of performance obligations stipulated in the contracts with customers.

Events after the reporting period

There were no material events after the reporting period to report up to the date of preparation of these interim Group financial statements.

On behalf of the board

F Kenney	**RJ Fourie**	**JF Gibson**
Chairman	*Chief Executive Officer*	*Financial Director*

29 October 2018

Company information

Directors

RJ Fourie

JF Gibson

NF Msiza

F Kenney#

LA Maxwell*

BH Kent*

SR Bogatsu*

 # Non-executive Chairman

** Independent non-executive*

Company secretary

Ms GM Chemaly

Registered office

Building No 1

Highgrove Office Park

50 Tegel Avenue

Centurion

South Africa

Transfer secretaries

Computershare Investor Services (Pty) Ltd

70 Marshall Street

Johannesburg

2001

South Africa

Auditors

PricewaterhouseCoopers Inc.

Sponsor

Investec Bank Limited

www.raubex.com

www.raubex.com

Raubex Group

Rudolf Fourie
+27 (0) 51 406 2000

James Gibson
+27 (0) 12 648 9400

Investor relations
investor.relations@raubex.com