"Cash on hand of R297 million (December 2014: R10 million). Headline earnings per share (HEPS) 14.32 cents, up 70% (2014: 8.40 cents) as Somkhele delivers another solid operating performance during extremely difficult times"

petmin

Petmin Limited
(Incorporated in the Republic of South Africa)
(Registration number 1972/001062/06)
JSE code: PET ISIN: ZAE000076014
("Petmin" or "the Group")

Condensed Consolidated Interim Report

for the six months ended 31 December 2015

"Headline earnings per share up 70%. Continuing growth in a tough environment"

Salient features:

- Cash on hand of R297 million (December 2014: R10 million)
- Headline earnings per share (HEPS) 14.32 cents, up 70% (2014: 8.40 cents)
- Net gearing of 15.11% (December 2014: 27.05%) after implementation of the Tendele Coal Mining Proprietary Limited BEE deal on 12 November 2015
- North Atlantic Iron Corporation (NAIC) project economics remain robust

Preparation

The condensed consolidated interim financial statements for the six months ended 31 December 2015 have been prepared under the supervision of Petmin's financial director, Mr BP Tanner CA(SA) (refer to Note 2 of the financial statements).

Review of results

The condensed consolidated interim financial statements for the six months ended 31 December 2015 have been reviewed by the Group's auditors, KPMG Inc. (refer to Note 6 of the financial statements).

Condensed Consolidated Interim Income Statement

for the six months ended 31 December 2015

	Note	Reviewed Six months ended 31 December 2015 R'000	Reviewed Six months ended 31 December 2014 R'000	Audited Year ended 30 June 2015 R'000
Revenue		**721 280**	**693 939**	**1 274 165**
Cost of sales		(584 435)	(596 794)	(1 020 531)
Gross profit		**136 845**	**97 145**	**253 634**
Operating expenses		1 956	(662)	(19 861)
Administration expenses		(11 612)	(9 263)	(16 605)
Profit from operating activities		**127 189**	**87 220**	**217 168**
Net finance expense		(12 054)	(17 931)	(32 521)
– Finance income		5 504	3 639	7 317
– Finance expenses		(17 558)	(21 570)	(39 838)
Separately disclosed items:				
Impairment of investments in equity accounted investees	7	(115 403)	–	(3 317)
Impairment loss on property, plant and equipment		–	–	(3 747)
Share of (loss)/profit of equity accounted investees, net of tax	8	(4 171)	(242)	2 397
(Loss)/Profit before income tax		**(4 439)**	**69 047**	**179 980**
Income tax expense		(34 002)	(21 894)	(54 937)
(Loss)/Profit for the period		**(38 441)**	**47 153**	**125 043**
Earnings per share				
Basic (loss)/earnings per ordinary share (cents)	9	(7.15)	8.40	22.98
Diluted (loss)/earnings per ordinary share (cents)	9	(7.15)	8.40	22.98

Condensed Consolidated Interim Statement of Comprehensive Income

for the six months ended 31 December 2015

	Reviewed Six months ended 31 December 2015 R'000	Reviewed Six months ended 31 December 2014 R'000	Audited Year ended 30 June 2015 R'000
(Loss)/Profit for the period	(38 441)	47 153	125 043
Other comprehensive income (after tax)			
Items that may be reclasssified to profit or loss			
Foreign currency translation gains/(losses) on equity accounted investees	47 280	2 351	(3 437)
Share of fair value gain in equity accounted investee	5 252	16 564	54 583
Cash flow hedges reclassified to profit or loss	–	(952)	–
Other comprehensive income for the period, net of income tax	52 532	17 963	51 146
Total comprehensive income for the period	14 091	65 116	176 189

Condensed Consolidated Interim Statement of Financial Position

at 31 December 2015

	Note	Reviewed 31 December 2015 R'000	Reviewed 31 December 2014 R'000	Audited 30 June 2015 R'000
ASSETS				
Non-current assets		**1 510 258**	**1 539 500**	**1 569 463**
Property, plant and equipment		**1 042 858**	1 086 638	1 062 878
Investment in equity accounted investee	7, 10	**402 416**	369 981	420 452
Loan due from joint venture		**64 984**	57 881	61 133
Investments		–	25 000	25 000
Current assets		**670 487**	**449 815**	**621 395**
Inventories	12	**202 536**	216 761	250 118
Trade and other receivables		**165 115**	172 648	110 249
Current tax assets		**5 903**	10 350	3 681
Cash and cash equivalents		**296 933**	50 056	257 347
Total assets		**2 180 745**	**1 989 315**	**2 190 858**
EQUITY AND LIABILITIES				
Ordinary share capital and reserves		**1 256 743**	**1 199 163**	**1 284 849**
Share capital		**133 202**	140 259	136 026
Share premium		**279 898**	313 592	292 438
Share option reserve		**20 297**	20 297	20 297
Hedging reserve		–	(952)	–
Foreign currency translation reserve		**61 705**	20 213	14 425
Retained earnings		**761 641**	705 754	821 663
Non-current liabilities		**812 166**	**481 381**	**451 362**
Interest-bearing loans and borrowings	13	**469 960**	144 045	108 405
Deferred taxation liabilities		**256 381**	268 909	258 632
Environmental rehabilitation provision		**85 825**	68 427	84 325
Current liabilities		**111 836**	**308 771**	**454 647**
Trade and other payables		**93 172**	75 486	136 864
Revenue received in advance	14	**8 329**	–	147 562
Current portion of interest-bearing loans and borrowings	13	**8 498**	190 571	143 671
Hedge liability		–	1 322	4 628
Shareholders for dividend		**1 837**	1 560	1 513
Bank overdraft		–	39 832	20 409
Total equity and liabilities		**2 180 746**	**1 989 315**	**2 190 858**

Condensed Consolidated Interim Statement of Cash Flows

for the six months ended 31 December 2015

	Note	**Reviewed Six months ended 31 December 2015** R'000	Reviewed Six months ended 31 December 2014 R'000	Audited Year ended 30 June 2015 R'000
Profit from operating activities before finance (expense)/income		**127 189**	**87 220**	**217 168**
Adjustments for:				
– depreciation		**289 332**	294 295	559 692
– notional interest		**1 500**	1 564	3 064
– Loss on disposal of property, plant and equipment		**–**	12	12
– write down to net realisable value of inventory	12	**61 605**	–	27 590
Operating cash flows before changes in working capital		**479 626**	**383 091**	**807 526**
Decrease in trade and other receivables		**(54 866)**	(51 099)	11 300
Increase/(decrease) in inventories		**(14 023)**	47 772	(13 175)
(Decrease)/increase in trade and other payables		**(43 693)**	(39 963)	21 466
(Decrease)/increase in revenue received in advance		**(139 233)**	–	147 562
(Decrease)/increase in hedging liability		**(4 628)**	–	4 628
Cash generated by operations		**223 183**	**339 801**	**979 307**
Income tax paid		**(38 475)**	(9 052)	(46 133)
Interest received		**5 504**	3 639	7 317
Interest paid		**(17 558)**	(21 570)	(39 838)
Net cash flow from operating activities		**172 654**	**312 818**	**900 653**
Cash flows from investing activities				
Acquistion of subsidiary (net of cash acquired)		**–**	(11 974)	(11 974)
Investment in equity accounted investees	10	**(24 006)**	(13 731)	(32 115)
Increase/(decrease) in loans to equity accounted investees		**(3 851)**	9 496	5 709
Acquisition of property, plant and equipment		**(269 312)**	(244 663)	(475 639)
– to expand operations		**(22 962)**	(5 029)	(11 276)
– to expand operations – capitalised pre-strip	11	**(234 401)**	(226 528)	(447 745)
– to maintain operations		**(11 949)**	(13 106)	(16 618)
Net cash flows used in investing activities		**(297 169)**	**(260 872)**	**(514 019)**
Cash flows from financing activities				
Treasury shares acquired	9	**(15 364)**	(18 226)	(43 613)
Repayment of borrowings	13	**(246 744)**	(29 585)	(112 125)
Increase in borrowings	13	**473 127**	–	–
Dividends paid		**(26 509)**	(16 810)	(16 857)
Net cash flows from financing activities		**184 510**	(64 621)	(172 595)
Net increase/(decrease) in cash and cash equivalents		**59 995**	(12 675)	214 039
Cash and cash equivalents at beginning of the period		**236 938**	22 899	22 899
Cash and cash equivalents at end of the period		**296 933**	**10 224**	**236 938**

Condensed Consolidated Interim Statement of Changes in Equity

for the six months ended 31 December 2015

GROUP	Share capital R'000	Share premium R'000	Share option reserve R'000	Foreign currency translation reserve R'000	Retained earnings R'000	Total R'000
Balance at 30 June 2014	**143 150**	**328 927**	**20 297**	**17 862**	**659 068**	**1 169 304**
Total comprehensive income for the year, net of income tax	**–**	**–**	**–**	**(3 437)**	**179 626**	**176 189**
Profit for the year	–	–	–	–	125 043	125 043
Share of fair value gain in equity accounted investee	–	–	–	–	54 583	54 583
Foreign currency translation differences	–	–	–	(3 437)	–	(3 437)
Transactions with owners, recorded directly in equity	**(7 124)**	**(36 489)**	**–**	**–**	**(17 031)**	**(60 644)**
Treasury shares acquired during the year	(7 124)	(36 489)	–	–	–	(43 613)
Dividends paid	–	–	–	–	(17 031)	(17 031)
Balance at 30 June 2015	**136 026**	**292 438**	**20 297**	**14 425**	**821 663**	**1 284 849**
Total comprehensive income for the year. Net of income tax	**–**	**–**	**–**	**47 280**	**(33 189)**	**14 091**
Loss for the period	–	–	–	–	(38 441)	(38 441)
Share of fair value gain in equity accounted investee	–	–	–	–	5 252	5 252
Foreign currency translation differences	–	–	–	47 280	–	47 280
Transactions with owners, recorded directly in equity	**(2 824)**	**(12 540)**	**–**	**–**	**(26 833)**	**(42 197)**
Treasury shares acquired during the period	(2 824)	(12 540)	–	–	–	(15 364)
Dividends paid	–	–	–	–	(26 833)	(26 833)
Balance at 31 December 2015	**133 202**	**279 898**	**20 297**	**61 705**	**761 641**	**1 256 743**

Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2015

Segment reporting

Segment information is presented in the financial statements in respect of the Group's segments.

The segment reporting format reflects the Group's management and internal reporting structure as reviewed by the chief operating decision-makers.

Segment revenue represents revenue to external customers. There was no inter-segment revenue.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Reportable segments

The Group comprises the following main reportable segments:

– Anthracite mining and marketing ("Anthracite")

– Expansion projects, which includes Petmin's exploration and development projects.

	Units of measure	Anthracite			Expansion projects			Corporate and eliminations			Consolidated		
		Six months ended 31 December 2015	Six months ended 31 December 2014	Year ended 30 June 2015	**Six months ended 31 December 2015**	Six months ended 31 December 2014	Year ended 30 June 2015	**Six months ended 31 December 2015**	Six months ended 31 December 2014	Year ended 30 June 2015	**Six months ended 31 December 2015**	Six months ended 31 December 2014	Year ended 30 June 2015
Anthracite – Saleable tonnes produced (#)	(tonnes)	**636 771**	678 002	1 335 233	**–**	–	–	**–**	–	–	**636 771**	678 002	1 335 233
Anthracite – Tonnes sold (#)	(tonnes)	**621 213**	659 754	1 222 150	**–**	–	–	**–**	–	–	**621 213**	659 754	1 222 150
Energy – saleable tonnes produced (#)	(tonnes)	**157 149**	171 474	368 413	**–**	–	–	**–**	–	–	**157 149**	171 474	368 413
Energy – tonnes sold (#)	(tonnes)	**237 414**	268 788	352 255	**–**	–	–	**–**	–	–	**237 414**	268 788	352 255
Segment revenue	R'000	**721 280**	693 939	1 274 165	**–**	–	–	**–**	–	–	**721 280**	693 939	1 274 165
Segment finance (expense)/income	R'000												
Finance income	R'000	**4 057**	3 325	6 615	**–**	–	–	**1 447**	314	702	**5 504**	3 639	7 317
Finance expense	R'000	**(16 553)**	(18 700)	(35 517)	**–**	–	–	**(1 005)**	(2 870)	(4 321)	**(17 558)**	(21 570)	(39 838)
– segment result	R'000	**122 808**	75 933	184 201	**(7 829)**	(831)	869	**(4 015)**	(6 055)	(1 773)	**110 964**	69 047	183 297
– Impairment of equity accounted investees	R'000	**–**	–	–	**(115 403)**	–	(3 317)	**–**	–	–	**(115 403)**	–	(3 317)
Segment profit/(loss) before tax	R'000	**122 808**	75 933	184 201	**(123 232)**	(831)	(2 448)	**(4 015)**	(6 055)	(1 773)	**(4 439)**	69 047	179 980
Segment tax expense	R'000	**(33 883)**	(21 097)	(50 220)	**–**	–	–	**(118)**	(796)	(4 716)	**(34 002)**	(21 894)	(54 937)
Segment profit/(loss) after tax	R'000	**88 925**	54 836	133 981	**(123 232)**	(831)	(2 448)	**(4 133)**	(6 851)	(6 489)	**(38 441)**	47 153	125 043
Segment capital expenditure – combined	R'000	**269 271**	242 928	473 835	**–**	–	–	**40**	1 736	1 804	**269 311**	244 663	475 639
Segment capital expenditure	R'000	**34 869**	16 400	26 091	**–**	–	–	**40**	1 736	1 804	**34 909**	18 135	27 894
Segment capital expenditure – pre-strip*	R'000	**234 401**	226 528	447 745	**–**	–	–	**–**	–	–	**234 401**	226 528	447 745
Segment depreciation – combined	R'000	**289 210**	294 117	559 324	**–**	–	–	**122**	178	368	**289 332**	294 295	559 692
Segment depreciation	R'000	**26 826**	28 666	54 433	**–**	–	–	**122**	178	368	**26 948**	28 843	54 801
Segment depreciation – pre-strip*	R'000	**262 385**	265 451	504 891	**–**	–	–	**–**	–	–	**262 385**	265 451	504 891
Share option costs included in segment profit/(loss) before tax	R'000	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Segment assets	R'000	**1 577 268**	1 572 295	1 727 114	**384 406**	384 145	430 161	**219 071**	32 875	33 583	**2 180 745**	1 989 315	2 190 858
Percentage of segment assets to total assets	(percent)	**72%**	79%	79%	**18%**	19%	20%	**10%**	2%	2%	**100%**	100%	100%
Segment liabilities	R'000	**957 316**	875 864	949 784	**–**	–	–	**(33 314)**	(85 712)	(43 776)	**924 002**	790 152	906 008
Percentage of segment liabilities to total liabilities	(percent)	**104%**	111%	105%	**0%**	0%	0%	**(3%)**	(11%)	(5%)	**100%**	100%	100%

(#) Figures not reviewed by independent auditors.

(*) See note 11.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2015

1. **Reporting entity**

Petmin is a company domiciled in South Africa. The condensed consolidated interim financial statements of the Group for the six months ended 31 December 2015 comprise the Company and its subsidiaries and the Group's interests in associates and joint arrangements (together referred to as the "Group").

The condensed consolidated interim financial statements were authorised for issue by the directors on 7 March 2016.

2. **Basis of preparation**

These condensed consolidated financial statements are prepared in accordance with IAS 34 – *Interim Financial Reporting* as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the South African Companies Act and the JSE Listings Requirements. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements purposes and should be read in conjunction with the consolidated annual financial statements for the year ended 30 June 2015, which are available upon request from the Company's registered office at 37 Peter Place, Bryanston, 2021, Johannesburg or at www.petmin.co.za.

3. **Accounting policies**

The accounting policies have been applied consistently by the Group to all periods presented in these condensed consolidated interim financial statements.

4. **Functional and presentation currency**

The condensed consolidated interim financial statements are presented in South African Rands ("Rands"), which is the Company's functional currency. All financial information presented in Rands has been rounded to the nearest thousand.

5. **Estimates and judgements**

The preparation of the condensed consolidated interim financial statements, in conformity with IAS 34 – *Interim Financial Reporting*, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated annual financial statements as at and for the year ended 30 June 2015.

6. **Review of results**

The condensed consolidated interim financial statements for the six months ended 31 December 2015 have been reviewed by the Group's auditors, KPMG Inc., who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the Company's registered office together with the interim financial statements identified in the auditor's report.

The auditor's review report does not necessarily report on all of the information contained in the financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's review engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

7. **Impairment of investments in equity accounted investees**

Due to the continued lack of acceptable progress in discussions with the majority shareholders of Veremo on how best to take the Veremo project forward, the continued downward pressure on the prices of iron ore, and due to the fact that the mining right awarded in January 2014 has still not been executed, Petmin has decided to impair its investments in the Veremo project in full, totalling R115 million (R25 million Preference Share Investment in Veremo Holdings Limited, R89 million investment in the ordinary share capital of Veremo Holdings Limited and R1 million investment in Veremo Empowerment Holdings Proprietary Limited). The impairment in no way detracts from Petmin's continuing arbitration procedures and court application for the payment of the guaranteed distributions of R195 million due to it by Framework Investments and/or Kermas Limited. The Veremo project is an iron ore to pig iron project in South Africa in which Petmin has a 25% shareholding and forms part of the expansion projects segment of Petmin. The measurement of the Veremo project represents a level 3 fair value hierarchy and the valuation method applied was the fair value less costs of disposal.

8. **Share of (loss)/profit of equity accounted investees**

	Reviewed Six months ended 31 December 2015 *R'000*	Reviewed Six months ended 31 December 2014 *R'000*	Audited Year ended 30 June 2015 *R'000*
Share of (loss)/profit of equity accounted investees, net of tax	**(4 171)**	(242)	2 397
– North Atlantic Iron Corporation Inc.	**(7 829)**	(831)	(2 959)
– Somkhele Plant Proprietary Limited	**3 658**	589	4 845
– Veremo Holdings Proprietary Limited	**–**	–	511

During the six months ended 31 December 2015, NAIC incurred a one-off expense on the write-down of a Deferred Taxes Asset (DTA) in the amount of $897,567(approximately R9.4 million) (Petmin's share being 38%).

9. Earnings and diluted earnings per share

Earnings per share ("EPS") are based on the Group's profit for the period, divided by the weighted average number of shares in issue during the period.

	Reviewed Six months ended 31 December 2015			Reviewed Six months ended 31 December 2014			Audited Year ended 30 June 2015		
	Profit for the period R'000	Weighted average number of shares in thousands	Per share in cents	Profit for the period R'000	Weighted average number of shares in thousands	Per share in cents	Profit for the period R'000	Weighted average number of shares in thousands	Per share in cents
Basic (loss)/earnings per share	**(38 441)**	**537 518**	**(7,15)**	47 153	561 031	8,40	**125 043**	**544 100**	**22,98**
Share options and contingent consideration*	–	–	–	–	–	–	–	–	–
Diluted EPS	**(38 441)**	**537 518**	**(7,15)**	47 153	561 031	8,40	**125 043**	**544 100**	**22,98**
Headline earnings per share									
Headline earnings per share is based on the Group's headline earnings divided by the weighted average number of shares in issue during the period.									
Reconciliation between earnings and headline earnings per share									
Basic EPS	**(38 441)**	**537 518**	**(7,15)**	47 153	561 031	8,40	**125 043**	**544 100**	**22,98**
Adjustments:									
– Loss on sale of property, plant and equipment	–	–	–	*9*	–	–	***9***	–	–
– Impairment of property, plant and equipment	–	–	–	–	–	–	***3 747***	–	***0,69***
– Impairment of equity accounted investees	***115 403***	–	***21,47***	–	–	–	***3 317***	–	***0,61***
Headline EPS	**76 962**	**537 518**	**14,32**	47 162	561 031	8,40	**132 116**	**544 100**	**24,28**
Share options and contingent consideration*	–	–	–	–	–	–	–	–	–
Diluted headline EPS	**76 962**	**537 518**	**14,32**	47 162	561 031	8,40	**132 116**	**544 100**	**24,28**

(*) At 31 December 2015 and 30 June 2015 there were no options outstanding. at 31 December 2014, the ruling price of Petmin's shares was below the strike price of the options. As the exercise of the options would have been anti-dilutive, they were ignored for the dilution calculations at 31 December 2014.

During the six months ended 31 December 2015, the Group acquired 11 294 896 of its own shares at an average acquisition price of R1.36 per share. At 31 December 2015, the Group held 44 103 130 of its own shares in treasury stock, representing 7.64% of the total issued shares.

10. Investments – investment in NAIC

During the six months ended 31 December 2015 Petmin invested an additional US$2 million (R24 million) (2014: US$1 million [R14 million]) in North Atlantic Iron Corporation (NAIC). Petmin's shareholding in NAIC is now 38% (30 June 2015: 35%).

11. Pre-stripping cost

	Six months ended 31 December 2015 R million	Six months ended 31 December 2014 R million	Year ended 30 June 2015 R million
Opening balance in balance sheet	**248**	305	305
Cash spend for the year	**234**	227	448
Mining – expensed on a units-of-production basis (depreciation)	**(262)**	(265)	(505)
Closing balance on the balance sheet	**220**	267	248

Petmin incurred cash stripping costs amounting to R234 million during the six months ended 31 December 2015 (2014: R227 million). It is Petmin's accounting policy to record the cash cost incurred on these stripping activities as additions to mine development cost under property plant and equipment (a non-current asset).

These capitalised cash costs are depreciated as coal is extracted. This is done on a units-of-production basis over the life of the component of the ore body to which access is improved and amounted to R262 million during the six months ended 31 December 2015 (2014: R265 million). This resulted in a decrease in the expenditure capitalised to pre-stripping activities of R28 million during the six months ended 31 December 2015 (2014: decrease of R38 million).

The depreciation is, in reality, the mining cost (stripping cost) that is expensed during the period when anthracite is produced (removed from the pit).

12. Inventory

	Reviewed Six months ended 31 December 2015 R'000	Reviewed Six months ended 31 December 2014 R'000	Audited Year ended 30 June 2015 R'000
Inventory at cost	**291 731**	216 761	277 708
Less: net realisable value write downs	**89 195**	–	27 590
	202 536	216 761	250 118

Inventory is recorded net of net realisable value (NRV) write-downs amounting to R89.2 million (2014: R nil) (30 June 2015: R27.6 million), with R61.6 million being recorded as an expense during the six months ended 31 December 2015 (2014: nil).

As a consequence of the drought and resultant shortages of available process water (previously announced on SENS on 19 November 2015), the throughput of the third wash plant during the six months ended 31 December 2015 was reduced. The plant feed that was included in inventory has been fully written-down [R28 million charge in the six months ended 31 December 2015 (2014: nil)]. This NRV write-down will be reviewed when water levels resume normal operating levels.

Additionally, during the six months ended 31 December 2015, NRV write-downs totalling R33 million (2014: nil) were recorded on certain slower moving product lines.

13. Interest-bearing loans and borrowings

	Reviewed Six months ended 31 December 2015 R'000	Reviewed Six months ended 31 December 2014 R'000	Audited Year ended 30 June 2015 R'000
Total interest-bearing loans and borrowings	**478 459**	334 616	252 075
Less: current portion	**8 498**	190 571	143 671
Long-term portion	**469 960**	144 045	108 405
A. Nedbank A Preference Share liability	**273 167**	–	–
Less: current portion	**3 167**	–	–
Long-term portion	**270 000**	–	–
B. Unsecured loan – Nedbank Limited – Revolving Credit Facility	**199 960**	–	–
Less: current portion	**–**	–	–
Long-term portion	**199 960**	–	–
C. Industrial Development Corporation of South Africa Limited (secured)	**5 331**	26 845	16 004
Less: current portion	**5 331**	21 340	16 004
Long-term portion	**–**	5 504	–
D. Secured loan – Standard Bank of South Africa Limited – Term loan	**–**	100 000	41 128
Less: current portion	**–**	100 000	41 128
Long-term portion	**–**	–	–
E. Secured loan – Standard Bank of South Africa Limited – Revolving Credit Facility	**–**	207 771	194 943
Less: current portion	**–**	69 231	86 538
Long-term portion	**–**	138 540	108 405

As announced on 12 November 2015, the Tendele BEE Transaction was implemented. On closing, the Standard Bank Limited revolving credit facility and term loans (totalling R198 million) were settled in full and an amount of R198 million was drawn down on the R230 million Nedbank Limited revolving credit facility (Nedbank RCF) in Tendele. Interest is payable at JIBAR plus 2.85% on the Nedbank RCF and the amounts drawn on the facility are repayable on or before 12 November 2020.

The BEE special purpose vehicle (BEE SPV) is consolidated by the Petmin Group. As a consequence of this consolidation of the BEE SPV, the Petmin Group accounts reflect the R270 million "A" preference shares issued by the BEE SPV to Depfin Investments Proprietary Limited (Depfin), a Nedbank Limited group company, as a financial liability. Dividends are payable on the A preference shares at 90% of prime NACM and dividends are payable to Depfin every six months. The A preference shares are redeemable in four six-monthly tranches of R55 million each with the first tranche due in November 2018 and one final tranche of R50 million payable in November 2020. The A preference shares are a financial instrument and are recorded at fair value and represent a level 2 fair value hierarchy. If the BEE SPV is unable to discharge its payment obligations under the A preference share liability, Petmin is obliged to subscribe for additional "C" preference shares in the BEE SPV as is sufficient to fund the preference share shortfall.

Subsequent to the BEE transaction, Petmin has arranged overdraft banking facilities with Nedbank Limited of R50 million and Tendele retains its overdraft facilities of R50 million with Standard Bank Limited.

14. Revenue received in advance

During the year ended 30 June 2015, Petmin received prepayments for certain export sales, the prepayment is dollar denominated and interest is charged on the outstanding balance at a rate of 3.5% per annum. During the six months ended 31 December 2015, the Group delivered export sales amounting to R139 million (2014: nil) against these prepayments.

15. Legal dispute with customer

Shareholders were advised on 21 May 2015 on SENS, that Petmin's subsidiary, Tendele Coal Mining Proprietary Limited, had withdrawn from the arbitration with its customer, as described in Note 13 of Petmin's December 2014 Interim Financial Statements published on SENS on Tuesday, 24 February 2015 and would seek declaratory relief from the High Court that the contract concerned is declared void or voidable and therefore unenforceable against Tendele. As stated at the time, this course of action has been taken due to information recently coming to Tendele's and Petmin's attention during the course of the arbitration proceedings which is being considered and dealt with by Petmin.

The arbitration dealt with claims as described in Note 29 of Petmin's Annual Financial Statements for June 2013, Note 28 in Petmin's Annual Financial Statements for June 2014 and June 2015, Note 11 of Petmin's December 2013 Interim Financial Statements, Note 13 of Petmin's December 2014 Interim Financial Statements and Note 14 of Petmin's December 2015 Interim Financial Statements.

Petmin, after investigations were done, established incidents of fraud, bribery and corruption in terms of which a senior company official of Tendele received illicit payments directly from third parties, amounting to approximately R10 million, in relation to the conclusion and manipulation of certain supply and sales agreements that were entered into. These incidents have been substantiated by an admission of fraud, bribery and corruption by the individual involved which occurred during the period October 2012 to May 2013. Petmin and Tendele furthermore reported the uncovered fraud, bribery and corruption to the Directorate of Priority Crime Investigation Unit on 17 August 2015 in terms of section 34 of the Prevention and Combatting of Corrupt Activities Act 12 of 2004.

Pursuant to Petmin's discovery of the incidents of fraud, bribery and corruption in connection with the conclusion of the contract entered into in October 2012 for the sale of discard product to the customer, Petmin was advised that the said disclosure and discovery of the fraud, bribery and corruption entitles Tendele to void (cancel) said supply and sale agreement. Supply to the customer under the contract was halted in May 2013. Tendele also instituted an action in the High Court in September 2015 to have the contract declared void or voidable and/or unenforceable, premised on the grounds of fraud, bribery and corruption and to recover damages suffered by Tendele. Tendele and its legal advisors believe that it has good prospects of succeeding in this action. The setting aside of the contract with a declaratory order that said contract is unenforceable as a result of the uncovered fraud, bribery and corruption will confirm the invalidity and unenforceability of any award made in the arbitration proceedings instituted before the fraud, bribery and corruption was discovered.

Petmin announced on 3 December 2015 on SENS that notwithstanding Tendele's withdrawal, on legal advice, from the arbitration proceedings and institution of the High Court action to declare the contract void or voidable, premised on the grounds of fraud, bribery and corruption, the arbitration proceedings continued to finality on the insistence of the other contracting party and on an uncontested basis and the arbitrator delivered an adverse award against Tendele. The customer was notified at that stage that Tendele would oppose any attempt to have the arbitration award made an order of court.

On 4 February 2016, Tendele was notified that the customer had applied to the High Court to make the arbitration award an order of the Court. Tendele maintains that this award is invalid and unenforceable and is opposing the application to the Court to enforce the award granted, based on amongst other things, the High Court action instituted during September 2015 to have the contract declared void or voidable on the grounds of the fraud, bribery and corruption.

In summary the award directs Tendele to pay an amount of R25 676 833 plus interest to the customer under two separate claims that flowed from the contract that Tendele seeks to have declared void or voidable.

Under a third claim Tendele is ordered to a deliver to the customer against payment of the price agreed in the contract (which Tendele considers a void or voidable contract):

(i) the arrear tonnage as at the end of November 2015 of 766 088 tons of anthracite product complying with the specifications in the contract, rectified in terms of the arbitrator's award, and

(ii) 25 000 tons per month of the product referred to in (i), commencing during the calendar month following the month in which the award was published, and until a total amount of 625 000 tons has been delivered, failing which, Tendele is ordered to pay damages to the customer in the amount of R517 460 000.

Tendele and its legal advisors are of the view that the arbitration award handed down in the circumstances as set out above, in itself is reviewable by a High Court and, as Tendele and its legal advisors believe that the prospect of success in the High Court to declare the contract void or voidable is good, no liability will be recorded in relation to the award made by the arbitrator.

16. Related parties

The Group entered into various transactions with related parties which occurred under terms that are no more favourable than those arranged with independent third parties.

17. Subsequent events

17.1 Prepayment of interest-bearing liability

On 18 January 2016, Tendele prepaid R60 million of the Nedbank RCF, utilising cash generated from operations.

17.2 Investment in equity accounted investee – NAIC

Subsequent to 31 December 2015, Petmin has invested the final $2 million tranche in NAIC. Petmin now holds a 40% shareholding stake in NAIC.

17.3 Hedging of Dollar sales

Subsequent to 31 December 2015, Tendele entered into collar and cap hedging option contracts from February 2016 to May 2016 for a total of $8.3 million. The collars protect a Rand/$ exchange rate of 16:1 and the caps range from 16.6350 to 17.20. Additionally, for the months July 2016 through to December 2016, Tendele has entered into collar and cap option contracts for $500,000 per month with collars of 15.85 and caps of 16.13.

17.4 Change in role of director

As announced on 8 September 2015, Mrs Lebo Mogotsi, previously the executive Deputy Chairperson of Petmin, has assumed the role of non-executive deputy Chairperson with effect from the Company's annual general meeting held on 15 February 2016.

Although Mrs Mogotsi will no longer be employed as an executive member of the Company following the conclusion of the AGM, the Board of Petmin is pleased to advise that Mrs Mogotsi will remain on the Board, will be available on a consulting basis to Petmin, and will continue to be integral to the ongoing strategy, development and growth of the Company.

Petmin thanks Lebo for her efforts and dedication in building Petmin over the past ten-year period in which the Company transformed from a cash shell to a company with a turnover of R1.3 billion and employing almost 1 000 people.

17.5 Other subsequent events

There have been no other events that have occurred subsequent to 31 December 2015 and before the condensed preliminary consolidated financial statements are authorised for issue which require adjustment of, or disclosure in the financial statements or notes thereto in accordance with IAS 10 – *Events After the Reporting Period.*

Management commentary

for the six months ended 31 December 2015

This management commentary has been prepared by management and has not been reviewed by the Group's auditors.

(i) General overview of performance

Following another solid operational performance at Somkhele, Petmin's normalised earnings per share increased by 78% to 14.98 cents per share (2014: 8.40 cents).

Normalised Earnings		Six months ended 31 December 2015	Six months ended 31 December 2014	Year ended 30 June 2015
(Loss)/profit for the period	R'000	**(38 441)**	47 153	125 043
Adjust for after-tax effect of:				
– Loss on sale of property plant and equipment	R'000	**–**	9	9
– Deferred tax asset write down in NAIC	R'000	**3 572**	–	–
– Impairments	R'000	**115 403**	–	7 064
Normalised profit after tax for the period	R'000	**80 534**	47 162	132 116
Adjusted profit per share	cents	**14,98**	8,40	24,28
Weighted average shares in issue		**537 million**	561 million	544 million

Petmin's interest-bearing debt to equity ratio (net of cash on hand) decreased to 15.11% at 31 December 2015 (2014: 27.05%). The debt includes the R270 million preference share liability of the BEE SPV after the implementation of the BEE transaction at Tendele on 12 November 2015.

Group capital expenditure, excluding pre-stripping, increased by R17 million to R35 million (2014: R18 million) as Somkhele spent R20 million on the commencement of development of the new KwaQubuka open pit mining area.

Additionally, Petmin invested a further $2 million in NAIC to take its shareholding in NAIC to 38%.

As a result of the impairment of the investment in Veremo of R115 million (see note 7 of the financial statements), the basic loss per share was 7.15 cents, compared to the basic earnings per share of 8.40 cents for 2014.

Dividends and share buy-backs

During the six months ended 31 December 2015, Petmin paid a dividend of 5 cents per share (2014: 3 cents). Petmin also acquired 11 294 896 of its own shares at an average acquisition price of R1.36 per share for a total investment of R15 million (2014: R18 million). Management believes that Petmin's current share price significantly undervalues the Group's assets and Petmin will continue with a share buy-back programme when the opportunity arises.

Anthracite Division

Somkhele anthracite mine

Somkhele production performance	Six months ended 31 December 2015	Percentage change	Six months ended 31 December 2014	Year ended 30 June 2015
Run of Mine (ROM) tonnes washed	**1 440 908**	(5%)	1 523 051	3 025 567
Yield	**44,19%**	(1%)	44,52%	44,13%
Anthracite saleable tonnes produced	**636 771**	(6%)	678 002	1 335 233
Anthracite tonnes sold	**621 213**	(6%)	659 754	1 222 150
Discard tonnes washed	**586 693**	(12%)	669 292	1 374 716
Yield	**26,79%**	5%	25,62%	26,80%
Energy coal saleable tonnes produced	**157 149**	(8%)	171 474	368 413
Energy coal tonnes sold	**237 414**	(12%)	268 788	352 255

Production of saleable anthracite reduced by 6% in the six months ended 31 December 2015 as geological conditions in the mining areas affected the quality and sizing of run of mine material. This had a knock-on effect in the third plant where throughput was affected by the finer material emanating from the mining areas. Production in the third wash plant was restricted in order to conserve process water as the impact of the continued drought in KwaZulu-Natal has resulted in low water levels in the mine storage dams.

Production costs per tonne were well controlled in the six months ended 31 December 2016, increasing by just under 7% from 2014.

The average prices achieved for inland sales were 2% down from those achieved in 2014. The average Rand prices achieved on the export market increased by 29% from 2014, largely as a result of the weaker Rand at an average exchange rate of 13.18 Rand/$ from 10.77 Rand/$ in 2014. The average dollar price of export sales increased by 5% compared to 2014.

The average at-mine-gate selling price of energy coal increased by 34% in 2015 with continued strong demand for this product.

Expansion projects division

Petmin's focus remains on the development of the NAIC pig-iron project in North America.

North Atlantic Iron Corporation *("NAIC")*

During the six months ended 31 December 2015, Petmin invested a further $2 million into the NAIC project. The various work streams are continuing with the goal to finalise the bankable feasibility study for the project by mid-2016.

Iron-ore – South Africa (Veremo project)

As reported in note 7 to these interim financial statements, management has taken the decision to impair its investment in the Veremo project as it has not made any significant progress in obtaining the execution of the mining right in the project since its award in January 2014 and due to uncertainty as to the timing of development of the project. Petmin will continue to pursue its R195 million claim against Framework Investments and Kermas Limited.

(ii) Prospects

Anthracite division

Current anthracite production levels are expected to reduce by approximately 15% in the six months to June 2016 as difficult geological conditions have resulted in the production of finer run of mine coal which results in reduced throughput in the wash plants. Despite this, sales volumes are expected to reduce by only 5%.

It is expected that the production cost per tonne for the six months to June 2016 will increase by approximately 5% from that achieved to December 2015 due to the reduced production levels.

Local demand and prices are expected to remain stable at current levels.

We expect the dollar prices for our exports in the next six months to reduce by 21% in line with global commodity trends, but this is offset by a 21% weakening of the Rand against the Dollar. $8.3 million of these sales have been protected by entering into collar and cap option contracts protecting a base of R16:$1. Additionally, for the months July 2016 through to December 2016, Tendele has entered into collar and cap option contracts for $500,000 per month with collars of 15.85 and caps of 16.13.

Should the current drought conditions prevail, Energy coal production in the third wash plant may need to be temporarily halted in the second half of calendar 2016. Current water balance calculations at Somkhele indicate that there is sufficient process water to run the two main wash plants for 14 months without any additional rainfall. At-mine-gate energy coal sales prices are expected to be maintained at current levels.

Capital expenditure to June 2016 is expected to be approximately R64 million with approximately half of this on planned development and relocation expenditure to open up new mining areas. There is no additional capital pre-stripping forecast in the year ending June 2016.

Expansion projects division

The entire development of the current NAIC business model over the past two years has been centred around risk mitigation in order to ensure the economic viability of the project. NAIC has reduced the risk of the process through the significant test work undertaken at the test facility in Forks PA signed off by Hatch/Tenova. Four production cases were designed and reviewed by Tenova and NAIC as follows:

- Two production levels – 425ktpa and 850ktpa
- Two smelting furnaces – electric arc furnace ("EAF") and submerged arc furnace ("SAF")
- All cases include pre-reduction in a rotary hearth furnace ("RHF")

The economics revealed IRRs that are all very similar. Therefore, based on qualitative and risk mitigation factors, NAIC decided to proceed with the 425 ktpa option to produce Nodular Grade Pig Iron.

Coupled with this process was the conclusion of a two-year site selection programme which evaluated, *inter alia*, the following key elements for 13 different sites to determine the lowest cost location. Two sites were selected, one in Quebec and one in Ohio:

- Logistics – access to a port within reasonable shipping distance for raw materials and end markets
- Energy – gas and electricity availability and price
- Permitting – timeline and local sensitivity
- Government support – local, state and federal

Market risk has been further mitigated by focusing production on nodular grade pig iron used in foundries which carries up to a $70/t premium over standard merchant grade pig iron. A detailed industry and market analysis is under way and a proposed final off-take structure and strategy including a comprehensive understanding of the casting industry as it applies to ductile iron and the key drivers will be concluded during Q2 2016. Supply, demand and pricing analysis undertaken in conjunction with two preeminent experts in the field of metallics markets. The project IRR remains robust in the current economic climate and Petmin and its partners remain committed to conclusion of the Bankable Feasibility Study (BFS) by end June 2016.

Subsequent to 31 December 2015, Petmin has invested the final US$2 million to take its shareholding in NAIC to 40%.

At NAIC, Tenova /Tecint are on site to conclude the final engineering design and equipment costing for the plant at the potential site in Quebec, a second potential site remains under consideration. The work will culminate in the finalisation of the BFS in June 2016. SNC Lavalin have been appointed to cost the construction of the plant and other site specific non-equipment capital. An integrated EPC approach between Tenova as engineers and equipment supplier and SNC as the construction firm will be finalised. In addition, NAIC has contracted SNC Lavalin to manage the environmental permitting process which is anticipated to take between 12 and 15 months. The sales and marketing strategy as well as offtakes will also be finalised by June 2016 and incorporated in the BFS. Debt and equity funding for the plant construction will commence once the BFS is concluded. In the interim, ongoing discussions with a number of Export Credit Agencies continue as well with the various fiscal funding mechanisms available to NAIC.

Additional details on Petmin, including a detailed presentation on the results (which will be available from 8 March 2016) can be found on our website www.petmin.co.za.

By order of the Board

ID Cockerill
Chairman

JC du Preez
Chief Executive Officer

Johannesburg
7 March 2016

Directors: I Cockerill# *(Chairman)** L Mogotsi *(Deputy Chairman)** J du Preez *(Chief Executive Officer)*
B Doig B Tanner *(Financial Director)* M Arnold*† E de V Greyling* K Kalyan* T Petersen*
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Transfer secretaries: JSE: Computershare Investor Services (Proprietary) Limited

Auditors: KPMG Inc.

A PDF version of these results is available on our website: www.petmin.co.za

www.petmin.co.za