UNAUDITED RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

WBHO

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WILSON BAYLY HOLMES-OVCON LIMITED
Building and civil engineering contractor
(Registration number: 1982/011014/06)
ISIN number: ZAE 000009932 Share code: WBO

BASIS OF PREPARATION

for the six months ended 31 December 2018

The consolidated interim financial statements are prepared in accordance with the JSE Limited Listings Requirements, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and, at a minimum, contain the information required by IAS 34 *Interim Financial Reporting* and the requirements of the Companies Act of South Africa.

The accounting policies applied in the preparation of the financial statements, from which the summary consolidated financial statements were derived, are in terms of International Financial Reporting Standards and, with the exception of IFRS 9 *Financial Instruments* and IFRS15 *Revenue from Contracts with Customers* which became effective during the current period, are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements.

The consolidated interim financial statements have been compiled under the supervision of the Chief Financial Officer, Charles Henwood CA (SA), and were approved by the Board on 22 February 2019.

The consolidated interim financial statements for the period ended 31 December 2018 have not been audited or reviewed by the group's auditors, BDO South Africa Inc.

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE AND OTHER COMPREHENSIVE INCOME

for the six months ended 31 December 2018

	% change	Unaudited December 2018 R'000	Unaudited December 2017 R'000	Audited June 2018 R'000
Revenue	11,2	**20 113 510**	18 086 801	35 028 475
Operating profit before non-trading items	(99,5)	**2 718**	509 597	1 045 397
Loss on deemed disposal of associate		**–**	–	(57 544)
Gain on bargain purchase of subsidiary		**–**	–	101 675
Gain on loss of control of subsidiary		**–**	5 092	5 092
Share-based payment expense		**(26 616)**	(29 981)	(63 759)
Operating (loss)/profit		**(23 898)**	484 708	1 030 861
Share of profits and losses from equity accounted investments		**29 502**	(6 485)	(4 830)
Finance income		**95 478**	110 475	192 094
Finance costs		**(11 783)**	(10 434)	(23 627)
Profit before taxation		**89 299**	578 264	1 194 498
Income tax expense		**(10 064)**	(174 254)	(351 053)
Profit for the period	(80,4)	**79 235**	404 010	843 445
Other comprehensive income				
Items that may be reclassified through profit or loss:				
Translation of foreign entities		**32 804**	(90 760)	23 493
Translation of net investment in a foreign operation		**10 117**	(6 331)	3 304
Tax effect of the above items		**(2 833)**	1 773	(925)
Share of associates' comprehensive income		**175**	(9 173)	(10 153)
Total comprehensive income for the period		**119 498**	299 519	859 164
Profit for the period attributable to:				
Equity shareholders of Wilson Bayly Holmes-Ovcon Limited		**71 114**	391 127	815 872
Non-controlling interests		**8 121**	12 883	27 573
		79 235	404 010	843 445
Total comprehensive income for the period attributable to:				
Equity shareholders of Wilson Bayly Holmes-Ovcon Limited		**111 377**	286 636	831 591
Non-controlling interests		**8 121**	12 883	27 573
		119 498	299 519	859 164
Earnings per share (cents)				
Basic earnings per share	(81,8)	**133,7**	736,5	1 534,3
Diluted earnings per share	(81,8)	**133,7**	736,3	1 533,8
Headline earnings per share	(80,0)	**145,6**	726,8	1 414,6
Diluted headline earnings per share	(80,0)	**145,5**	726,6	1 414,1
Dividend per share (cents)	(100,0)	**–**	150,0	475,0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2018

	Note	Share capital R'000	Foreign currency translation reserve R'000	Non-distributable reserves R'000	Distributable reserves R'000	Shareholders' equity R'000
At 30 June 2017		28 597	199 952	(2 875)	5 074 831	5 300 505
Profit for the period		–	–	–	391 127	391 127
Other comprehensive income (OCI)		–	(90 760)	(4 558)	–	(95 318)
Share of associate OCI		–	(9 173)	–	–	(9 173)
Dividend paid		–	–	–	(188 149)	(188 149)
Share-based payment expense		–	–	29 981	–	29 981
Share-based settlement		–	–	2 079	–	2 079
Changes in interests in subsidiaries		–	–	–	(27 665)	(27 665)
At 31 December 2017		28 597	100 019	24 627	5 250 144	5 403 387
Profit for the period		–	–	–	424 745	424 745
Other comprehensive income		–	114 253	6 937	–	121 190
Share of associate OCI		–	(980)	–	–	(980)
Dividend paid		–	–	–	(87 004)	(87 004)
Shares bought back		(32)	–	–	–	(32)
Share-based payment expense		–	–	33 778	–	33 778
Share-based settlement		–	–	(51 030)	–	(51 030)
Changes in interests in subsidiaries		–	–	–	(32 415)	(32 415)
At 30 June 2018		28 565	213 292	14 312	5 555 470	5 811 639
IFRS 15 adjustment		**–**	**–**	**–**	**(30 624)**	**(30 624)**
IFRS 9 adjustment		**–**	**–**	**–**	**(48 856)**	**(48 856)**
Profit for the period		**–**	**–**	**–**	**71 114**	**71 114**
Other comprehensive income		**–**	**32 804**	**7 284**	**–**	**40 088**
Share of associate OCI		**–**	**175**	**–**	**–**	**175**
Dividend paid		**–**	**–**	**–**	**(184 100)**	**(184 100)**
Share-based payment expense		**–**	**–**	**26 616**	**–**	**26 616**
Share-based settlement		**–**	**–**	**(91 062)**	**–**	**(91 062)**
Changes in interests in subsidiaries		**–**	**–**	**–**	**(32 651)**	**(32 651)**
At 31 December 2018		**28 565**	**246 271**	**(42 850)**	**5 330 353**	**5 562 339**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

	Unaudited December 2018 R'000	Unaudited December 2017 R'000	Audited June 2018 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**1 933 871**	1 636 386	1 883 072
Goodwill	**942 994**	509 224	531 117
Equity accounted investments	**1 062 956**	670 893	745 059
Long-term receivables	**378 717**	366 993	373 136
Deferred taxation	**824 633**	651 266	667 779
Total	**5 143 171**	3 834 762	4 200 163
Current assets			
Inventories	**318 165**	287 487	284 543
Contract assets	**1 247 841**	1 062 700	1 816 792
Trade and other receivables	**5 624 834**	4 807 847	6 213 877
Taxation receivable	**142 422**	172 205	116 020
Cash and cash equivalents	**4 286 279**	4 256 061	5 992 461
Total	**11 619 541**	10 586 300	14 423 693
Total assets	**16 762 712**	14 421 062	18 623 856
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	**28 565**	28 597	28 565
Reserves	**5 533 774**	5 374 790	5 783 074
Shareholders' equity	**5 562 339**	5 403 387	5 811 639
Non-controlling interests	**288 576**	120 123	207 517
Total	**5 850 915**	5 523 510	6 019 156
Non-current liabilities			
Long-term liabilities	**194 195**	167 358	169 718
Deferred taxation	**29 722**	50 399	27 527
Total	**223 917**	217 757	197 245
Current liabilities			
Contract liabilities	**2 702 797**	2 107 340	2 093 158
Trade and other payables	**5 545 572**	4 586 468	8 538 478
Provisions	**2 384 450**	1 938 297	1 764 968
Taxation payable	**55 061**	47 690	10 851
Total	**10 687 880**	8 679 795	12 407 455
Total equity and liabilities	**16 762 712**	14 421 062	18 623 856

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2018

	Note	**Unaudited December 2018 R'000**	Unaudited December 2017 R'000	Audited June 2018 R'000
Operating profit before working capital requirements		**747 234**	659 707	1 126 373
Working capital changes		**(1 296 225)**	(1 462 139)	263 158
Cash (utilised in)/generated from operations		**(548 991)**	(802 432)	1 389 531
Finance income		**95 091**	132 456	197 576
Finance costs		**(6 119)**	(4 371)	(11 447)
Taxation paid		**(135 150)**	(226 402)	(362 634)
Dividends paid		**(193 031)**	(198 336)	(285 339)
Cash (utilised in)/retained from operations		**(788 200)**	(1 099 085)	927 687
Cash flow from investing activities				
Advance of long-term receivables		**(5 701)**	–	(38 774)
Repayment of long-term receivables		**40 000**	114 058	131 923
Investments in equity accounted investments		**(148 069)**	(43 746)	(241 921)
Consideration paid for subsidiary	4	**(571 670)**	–	–
Loans repaid by/(advanced to) equity accounted investments		**6 558**	(6 746)	–
Additions to investments		**–**	(23 744)	–
Proceeds on disposal of property, plant and equipment		**68 271**	17 894	78 175
Purchase of property, plant and equipment		**(178 244)**	(96 203)	(238 274)
		(788 855)	(38 487)	(308 871)
Cash flow from financing activities				
Repayment of borrowings		**(39 868)**	–	–
Transactions with owners		**(56 437)**	(48 787)	(93 148)
Payment of deferred consideration		**(17 778)**	–	–
Equity-settled incentives		**(89 933)**	–	(63 611)
Instalments in respect of capitalised finance leases		**(63 013)**	(48 163)	(63 165)
		(267 029)	(96 950)	(219 924)
Net (decrease)/increase in cash and cash equivalents		**(1 844 084)**	(1 234 522)	398 892
Foreign currency translation effect		**(1 606)**	(50 410)	(31 002)
Cash and cash equivalents at the beginning of the period		**5 992 461**	5 545 583	5 545 583
Cash and cash equivalents acquired	4	**139 508**	–	83 756
Cash and cash equivalents derecognised		**–**	(4 590)	(4 768)
Cash and cash equivalents at the end of the period		**4 286 279**	4 256 061	5 992 461
Restricted cash balances that relate to monies held in trust in respect of subcontractor retentions in Australia		**80 695**	78 446	93 400

		Unaudited December 2018 R'000	Unaudited December 2017 R'000	Audited June 2018 R'000
1. SEGMENTAL INFORMATION				
Operating segments				
Revenue	% change			
Building and civil engineering	0,2	**3 924 553**	3 916 336	7 302 475
Roads and earthworks	(7,7)	**2 610 071**	2 829 324	5 282 155
Australia	(3,6)	**10 706 924**	11 102 607	21 941 438
United Kingdom		**2 554 596**	–	–
Total construction revenue	10,9	**19 796 144**	17 848 267	34 526 068
Property developments		**2 387**	439	1 778
Construction materials	32,3	**314 979**	238 095	500 629
Revenue		**510 121**	397 565	842 034
Inter-segment revenue		**(195 142)**	(159 470)	(341 405)
Total revenue	11,2	**20 113 510**	18 086 801	35 028 475
Operating profit/(loss)	% margin			
Building and civil engineering	4,1	**162 762**	169 271	332 184
Roads and earthworks	6,4	**166 812**	190 050	370 858
Australia	(4,2)	**(445 085)**	142 993	277 906
United Kingdom	4,1	**104 415**	–	57 209
Total construction operating (loss)/profit	(0,0)	**(11 096)**	502 314	1 038 157
Property developments	24,2	**578**	(2 890)	1 970
Construction materials	4,2	**13 236**	10 173	5 270
Total operating profit before non-trading items	(0,0)	**2 718**	509 597	1 045 397
Geographic segments				
Revenue	% change			
South Africa	2,5	**5 695 273**	5 557 654	10 649 599
Rest of Africa	(18,9)	**1 156 717**	1 426 540	2 437 438
Australia	(3,6)	**10 706 924**	11 102 607	21 941 438
United Kingdom		**2 554 596**	–	–
	11,2	**20 113 510**	18 086 801	35 028 475
Operating profit	% margin			
South Africa	4,8	**273 966**	271 967	524 653
Rest of Africa	6,0	**69 428**	97 283	185 629
Australia	(4,2)	**(445 085)**	142 993	277 906
United Kingdom	4,1	**104 415**	(2 646)	57 209
	0,0	**2 718**	509 597	1 045 397
Non-current assets				
South Africa		**1 786 608**	1 785 443	1 797 922
Rest of Africa		**460 567**	236 656	368 597
Australia		**1 218 714**	988 139	1 145 074
United Kingdom		**852 659**	173 258	220 791
		4 318 538	3 183 496	3 532 384

	Unaudited December 2018 R'000	Unaudited December 2017 R'000	Audited June 2018 R'000
2. RECONCILIATION OF HEADLINE EARNINGS			
Attributable profit	**71 114**	391 127	815 872
Adjusted for:			
Gain on loss of control of subsidiary	**–**	(4 329)	(5 092)
Loss/(profit) on disposal of property, plant and equipment	**10 758**	(1 167)	(18 996)
Loss on deemed disposal of equity accounted investments	**–**	–	57 544
Gain on bargain purchase of subsidiary	**–**	–	(101 675)
Non-controlling interest in above transactions	**(1 621)**		645
Tax effect of above transactions	**(2 786)**	327	5 339
Equity accounted investments:			
Profit on disposal of property, plant and equipment	**(40)**	–	(3 223)
Impairment of investments	**–**	–	1 097
Tax effect	**10**	–	683
Headline earnings	**77 435**	385 958	752 194
3. ORDINARY SHARES			
Ordinary shares in issue	**59 890**	63 190	59 890
Weighted average number of shares	**53 194**	53 103	53 175
Diluted weighted average number of shares	**53 209**	53 121	53 192

4. BUSINESS COMBINATIONS

On 18 July 2018, WBHO UK Limited concluded an agreement in which it acquired a controlling 60% interest in Russells Limited and a 31,7% equity-accounted interest in Russell Homes Limited for a consideration of £32,8 million (R572 million) and £3,3 million (R56,4 million) respectively.

Following stagnant growth within local markets over recent years, WBHO has been seeking growth opportunities in new markets in order to further diversify its earnings platform. The construction market in the United Kingdom (UK) was identified as offering the most potential at acceptable levels of risk. The acquisition of the Russells businesses is an excellent strategic fit for the group's UK operations and will add additional substance to WBHO's presence in the UK market. The culture and values of both the business and the management team, which are based on teamwork, integrity and loyalty, are strongly aligned with those of WBHO.

Russells Limited is a main contracting business located in Manchester in the UK and provides design, installation and project management capabilities across all main sectors. Russells was founded in 1997 and has grown from a small regional contractor into one of North West England's largest and most successful construction business with a strong and reputable brand.

Russell Homes Limited specialises in land acquisition and planning applications in respect of in-house and developer-led residential schemes and is experienced in delivering a full spectrum of builds, from cost-effective social housing to executive homes and luxurious bespoke builds. Russell Homes Limited offers WBHO entry into the UK residential property market. The business has a number of schemes in various stages from planning permission to build-out with good potential for future growth in the region.

4. BUSINESS COMBINATIONS (continued)

The following information summarises the fair value of identifiable assets recognised and liabilities assumed in respect of Russells Limited on the acquisition date:

	R'000
ASSETS	
Property, plant and equipment	26 121
Intangible assets	2 437
Contract assets	122 847
Trade and other receivables	297 409
Loan to Russell Homes	148 280
Cash and cash equivalents	139 508
Total	736 602
LIABILITIES	
Non-current liabilities	26 112
Deferred taxation	1 116
Trade and other payables	204 832
Accruals	171 183
Other current liabilities	32 388
Total	435 631
Fair value of identifiable net assets	300 971
Proportionate share of non-controlling interests recognised	(120 388)
Fair value of identifiable net assets acquired	180 583
Cash consideration	571 670
Fair value of identifiable net assets acquired	(180 583)
Goodwill recognised at acquisition	391 087
Cash consideration	571 670
Less: cash acquired	(139 508)
Net cash outflow on acquisition	432 162

The assessment to identify potential intangible assets within the business has yet to be completed. The amount recognised as goodwill remains provisional.

The provisional goodwill arising on the acquisition of this business is not expected to be deductible for tax purposes.

5. JUDGEMENTS AND ESTIMATES

In preparing these consolidated interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

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 described in the last annual financial statements, with the exception of the new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9 as disclosed in note 6.2.

6. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

6.1 IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

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.

The group has adopted IFRS 15 using the cumulative effect method thus applying this standard at the date of initial application (1 July 2018). Accordingly, the information presented for 2018 has not been restated and is presented as previously reported under IAS 18, IAS 11 and related interpretations.

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

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Construction contracts	Revenue incorporates the original contract value together with any approved variations and claims to the extent it is highly probable they will result in revenue. Revenue is recognised over time by measuring the progress of the contract toward completion. When a claim or variation is recognised, the cumulative contract price is revised and the measurement of progress toward completion is reassessed at each reporting date and any increases or decreases in revenue accounted for.	The implementation of IFRS 15 had no impact on the recognition of revenue for construction contracts. The impact of the implementation of IFRS 15 on operating expenses is described below.
Sales of goods and property	The group recognises revenue when a customer obtains control of the goods, which will be through delivery or collection.	The implementation of IFRS 15 had no impact on the recognition of revenue for the sale of goods and property.

6. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

In implementing IFRS 15, the group has performed an assessment of all active contracts over the six-month period from 1 July 2018 to 31 December 2018. The 5-step process for the recognition and measurement of revenue described under IFRS 15 was applied to each individual contract and its effect determined. The assessment of performance obligations, the accompanying allocation of the contract value (including the effects of any variations and claims) and the measurement of the progress of the contract resulted in the same outcome for the recognition and measurement of revenue using the percentage-of-completion method under IAS 11.

In Australia, certain tender costs incurred to acquire a contract had previously been capitalised under IAS 11. While IFRS 15 allows for costs that are incremental to obtaining a contract to be capitalised and subsequently amortised over the life of the contract, it was determined that as these costs would have been incurred irrespective of whether the contract was awarded, and no longer met the requirements to be capitalised. Costs of this nature, capitalised at 1 July 2018, have been adjusted for against opening retained income while costs incurred over the six month period amounting to R62 million have now been expensed.

The following tables summarises the impact of adopting IFRS 15 at 1 July 2018.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	At 30 June 2018	IFRS 15 effect	At 1 July 2018
Assets			
Non-current assets			
Deferred taxation	667 779	15 449	683 228
Current assets			
Trade and other receivables	6 213 877	(51 498)	6 162 379
Equity			
Retained earnings	5 555 470	(30 624)	5 524 846
Non-controlling interests	207 517	(5 425)	202 092

6.2 IFRS 9 *FINANCIAL INSTRUMENTS*

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Classification and measurement of financial assets and financial liabilities

IFRS 9 retains the existing requirements for the classification and measurement of financial liabilities under IAS 39 however it eliminates the previous categories for financial assets: held to maturity, loans and receivables and available for sale. These are now classified as amortised cost.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 July 2018 related solely to the new impairment requirements.

Transition

The group has applied the exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment). Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 July 2018. Accordingly, the information presented for the year ended 30 June 2018 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

R'000	At 30 June 2018	IFRS 9 effect	At 1 July 2018	ECL recognised to Dec 2018
Assets				
Non-current assets				
Long-term receivables	373 136	(987)	372 149	(526)
Loans to equity accounted investments	470 835	(1 496)	469 339	44
Deferred tax asset	667 779	20 770	688 549	1 722
Current assets				
Trade and other receivables	6 213 877	(49 231)	6 184 646	(5 890)
Contract assets	1 816 792	(17 520)	1 799 272	633
Equity				
Retained earnings	5 555 470	(48 856)	5 508 614	(4 101)
Non-controlling interests	207 517	(1 608)	205 909	(84)

Impairment of financial assets

Financial assets measured at amortised cost are subject to the impairment provisions of IFRS 9.

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss (ECL) model. The ECL model requires an entity to account for expected credit losses and changes to those expected credit losses at each reporting date arising from changes in credit risk since initial recognition. It is no longer necessary for a credit event to have occurred before credit losses are recognised. The group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The general approach has been applied to other financial assets.

Due to the bespoke nature of construction contracts and specific circumstances relating to the impairment of trade receivables, the group did not recognise general impairments in respect of trade receivables under IAS 39. Specific provisions for impairment were recognised against individual receivables when evidence for impairment existed.

In applying the simplified approach, exposure within each category of trade and other receivables was segmented based on individual credit risk ratings, industry and geographic region. Factors reflecting the group's view of economic conditions over the expected lives of the receivables were considered when calculating the ECL. These factors included external sources for company, industry and sovereign risk in each of the regions in which the group is active. The specific provisions for impairment recognised under IAS 39 have been retained.

6. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

COMBINED EFFECT OF THE NEW REPORTING STANDARDS AT 1 JULY 2018:

	R'000
Total equity at 30 June 2018	**6 019 156**
Increase in operating costs	**(51 498)**
Increase in administrative expenses	**(69 234)**
Decrease in tax expense	**36 219**
Decrease in non-controlling interests	**7 033**
Total equity at 1 July 2018 under IFRS 9 and IFRS 15	**5 941 676**

7. EVENTS AFTER THE REPORTING DATE

On 31 January 2019, the non-controlling shareholders of Russells Construction Limited exercised their put options in terms of the share purchase agreement. The transaction will be concluded on 28 February 2019 for a consideration of £4,8 million (R83 million) and will increase the group's shareholding in Russells Construction Limited from 60% to 70%.

The Board is not aware of any other matter or circumstance arising since the end of the reporting period not otherwise dealt with in the interim summary consolidated financial statements, which significantly affects the financial position of the group at 31 December 2018 or the results of its operations or cash flows for the six months then ended.

COMMENTARY

The group delivered disappointing results over the first six months of the financial year principally due to the recognition of a provision in respect of anticipated future losses on the Western Roads Upgrade (WRU) project (previously referred to as OSAR) in Australia. The effect of this provision negated otherwise solid results from Australia in both Probuild and the remainder of the infrastructure business. Details of the problematic project are discussed under the operational review for the Australian operations. The African business, including South Africa, performed well amid turbulent and lacklustre market conditions while in the United Kingdom (UK), the Byrne Group returned to profitability and the newly acquired Russells Limited delivered profitability in line with expectations.

FINANCIAL REVIEW

REVENUE AND OPERATING PROFIT

Group revenue increased from R18,1 billion at 31 December 2017 to R20,1 billion in the current period largely due to the first time consolidation of the UK businesses. Overall revenue growth of 11% consisted of 14% growth from the inclusion of the UK operations, marginal decline of 2% from the African businesses and a decline in activity of 3,6% from Australia.

Total operating profit decreased from R510 million to R3 million as the anticipated losses to be incurred on the WRU project over the next 18 months have been provided for in the current period in accordance with International Financial Reporting Standards. Operating profit from the Building and civil engineering division was broadly in line with that of the prior year while profitability from the Roads and earthworks division declined by 12% as activity tapered and additional costs were incurred to complete projects in Mozambique and Guinea. The UK businesses delivered a combined operating profit of R104 million at a margin of 4% and the Construction materials business delivered increased profitability on the back of an improving workload over the first six months.

The impact of the loss-making contract in Australia is further reflected in both the overall earnings per share and headline earnings per share of the group which decreased sharply by 82% and 80% respectively.

NON-TRADING ITEMS

The share-based payment expense of R27 million relates to the existing broad-based and management share schemes in place and the WBHO Share Plan for executive management.

EQUITY ACCOUNTED INVESTMENTS

The group has 11 equity accounted investments. The strategy behind both the property development and concession investments is to utilise the financial strength of the group to support developments that unlock construction projects for its operations, while at the same time creating future higher-margin income streams. In the case of Edwin Construction and iKusasa Rail SA which are specialist construction companies, the group has partnered with black businesses, providing its financial strength and construction expertise in order to support the growth of these businesses while penetrating new markets.

Entity	Industry	Country	Effective interest	Investment and loans Rm	**Share of after-tax profit/loss 31 Dec 2018 Rm**	Share of after-tax profit/loss 31 Dec 2017 Rm
Construction						
Edwin Construction	Infrastructure construction	South Africa	49%	97,0	**0,9**	4,9
Byrne Group Limited*	Building and frame construction	United Kingdom	–	–	**–**	(28,9)
iKusasa Rail SA	Railway maintenance and construction	South Africa	49%	16,9	**(2,1)**	(0,2)
IACS	Airport construction	South Africa	26%	3,8	**–**	–
Concessions						
Dipalopalo	Serviced accommodation	South Africa	27,5%	58,8	**–**	–
DFMS Joint Venture	Serviced accommodation	South Africa	14,6%	1,6	**0,9**	–
Gigajoule International	Gas supply	Mozambique	26,6%	139,2	**9,4**	7,5
Gigajoule Power	Power	Mozambique	18%	151,4	**16,6**	10,2
Property developments						
Catchu Trading	Residential	South Africa	50%	101,6	**–**	–
Caulfield	Residential	Australia	30%	181,0	**–**	–
The Glen Residential	Residential	Australia	20%	108,6	**–**	–
Property developer						
Russell Homes Limited	Residential schemes and house builder	United Kingdom	31,7%	204,5	**3,9**	–
Expected credit loss under IFRS 9				(1,4)	–	–
Total				**1 063,0**	**29,6**	**(6,5)**

* The Byrne Group was accounted for as an associated company until 30 June 2018.

During the period the group received dividends of R7,5 million and R3,7 million from Gigajoule International and the DFMS joint venture respectively.

Edwin Construction experienced a difficult first half of the financial year as a key road project has been delayed by the client while additional phases of an infrastructure project in the Free State has been suspended due to non-payment. In addition the provincial road market remains stagnant. As a result, the business has incurred significant retrenchment costs and the revenue for the second half of the year is expected to decline.

The local rail market also remains subdued with iKusasa Rail SA having insufficient work-on-hand to meet overhead expenditure. The award of a number of submitted tenders are key for the business to return to profitability.

The operational phase of the serviced accommodation concession for Statistics South Africa continued to deliver profits during the current period, while the finalisation of various outstanding contractual issues in respect of the construction phase of the concession have been substantially resolved.

Gigajoule International, a shareholder in the Matola Gas Company which sells and distributes gas in Mozambique and Gigajoule Power, a concession company providing electricity generated from a gas-fired power station, continue to perform well within their respective markets.

Catchu Trading is a residential development in Tshwane in which WBHO is a 50% equity investor. The construction contract for phase 1 is well advanced and the group will participate in the development profit on settlement of residential unit sales.

Construction of Precinct 2 of the Caulfield development in Australia is underway. Construction activity should be complete in August 2019 with the subsequent settlement of sales and final completion of this phase of the development in FY2020. In addition, Probuild has successfully negotiated the contract for the Glen Residential development with construction expected to commence in April 2019.

On 18 July 2018, the group acquired a 31,7% interest in Russell Homes Limited, a scheme developer and house builder in the UK for R56,4 million. A loan to the business of R148,3 million was also recognised on the consolidation of Russells Limited, the construction business that has provided funding on certain schemes.

Russell Homes Limited performed well for the half year to 31 December 2018 delivering revenue of £6,7 million and producing pre-tax profit of £800k. The business has a number of active schemes under development with the prestigious £25 million scheme at Saltersford Gardens in Holmes Chapel selling quickly. The second phase of a joint venture with Halton Housing for a further 118 mixed tenure properties at Bower Brook Gardens commenced during the period following the successful delivery of 185 homes under phase 1 in 2016. In addition 14 of the 46 properties comprising the Cedar Gardens scheme in Heywood have been reserved or exchanged.

Looking ahead, the business expects to further progress the developments at the Littleborough, Congleton, Oldham, Bromley Cross and Wincham sites through the remainder of 2019, with sales on these developments expecting to commence in 2020.

ACQUISITIONS

On 18 July 2018, the group acquired a 60% interest in Russells Limited for a consideration of R572 million and a 31,7% interest in Russell Homes Limited for a consideration of R56,4 million. Goodwill of R391 million was provisionally recognised on consolidation of Russells Limited. Further details of the acquisition are included in note 4 of the summary consolidated financial statements.

CHANGES IN SHAREHOLDING

In terms of the provisions of the shareholder agreements, Probuild bought back shares from minority shareholders at a cost AU$4,0 million increasing the group's interest by 2%, while WBHO Australia acquired a further 0,81% from minority shareholders at a cost of AU$1,5 million. The combined effect of these transactions resulted in the group's interest in Probuild increasing from 85% to 88%.

CASH AND WORKING CAPITAL

Cash balances of R4,3 billion were comparable with those at 31 December 2017. The cash balance was R1,7 billion lower than balances at 30 June 2018 due to a decrease of R1,5 billion in Australia, where it is common practice within the Australian construction industry for the early settlement of subcontractors ahead of the holiday season. This is illustrated in the decrease in trade and other payables of R2,9 billion over the six-month period as well as cash utilised in operations of R549 million in the cash flow statement. This working capital cash outflow was partially mitigated by net cash inflows of R1,1 billion in respect of contract assets and liabilities (previously called "Amounts due by customers" and "Excess billings over work done").

Capital expenditure over the period amounted to R245 million, of which R178 million was acquired for cash and R67 million was financed. Depreciation amounted to R153 million (2017: R122 million). Additional cash outflows include R572 million and R57 million in respect of the acquisition of the Russells businesses, an additional R91 million invested in existing equity accounted investments, R56 million in respect of changes in shareholding within the Australian businesses and R90 million for the acquisition of shares to settle long-term incentives under the WBHO Share Plan for executive and senior management.

DEFERRED TAXATION

Deferred tax assets increased by R157 million from 30 June 2018 primarily due to a temporary difference raised on the additional provision recognised in Australia for the anticipated future losses to be incurred in respect of the WRU project and adjustments in terms of IFRS 9 and IFRS 15.

CONTINGENT LIABILITIES

Financial guarantees issued to third parties amount to R12,2 billion compared to R10,5 billion in issue at 30 June 2018. Total guarantee facilities available to the group amount to R17,7 billion.

OPERATIONAL REVIEW

BUILDING AND CIVIL ENGINEERING

	% change	**December 2018 Rm**	December 2017 Rm
Revenue	0,2% growth	**3 925**	3 916
Operating profit	4,1% margin	**163**	169
Capital expenditure		**7**	39
Depreciation		**17**	21

Despite the further contraction of building markets and persistent stagnation within civil markets, the Building and civil engineering division has performed admirably to sustain revenue levels in line with those achieved in the prior period. A 7,7% decrease in building activity was offset by growth within the Civil engineering division, predominantly in Zambia. Margins were also maintained above 4% reflecting the consistent execution of projects in a low margin environment.

BUILDING

The lower activity experienced within building markets was again most prevalent in Gauteng where revenue decreased by 14%. Activity within the retail sector remained subdued with refurbishments at the Sandton City and Eastgate shopping centres being the only significant retail projects under construction. While overall commercial office activity tapered further, it remains the largest contributor toward revenue. Major office developments in Gauteng include developments at 92 Rivonia and 2 Pybus in Sandton, new head offices for Barloworld and Exxaro in Tshwane, a new head office for Deloitte in Waterfall and the 144 Oxford Street development in Rosebank. Also in Rosebank, is the mixed-use development known as the Rosebank Link. Projects underway within the healthcare, student accommodation and residential sectors have alleviated some of the impact of lower activity experienced in other sectors. These include additions to the Milpark Hospital for Netcare and student accommodation and residential apartments in Tshwane. In the current market the number of available projects and the size of projects have, in general, decreased. However, the division has adapted in order to compete against the mid-tier contractors.

Activity levels within the coastal divisions remained in line with those of the prior period. The tender market remains largely competitive in all coastal regions with projects bid at keen margins. In the Western Cape, the award of new offices for Capitec as well as ongoing construction of the Axis Apartments in Century City and the Yacht Club along the V&A Waterfront supported the bulk of activity, assisted by additional revenue from projects in the healthcare sector. In KwaZulu-Natal (KZN), the Umhlanga Arch mixed-use development and Suncoast Casino projects were the largest drivers of activity in the region, but also strongly supported by projects in the retail, commercial office and warehousing sectors. The Eastern Cape is delivering its strongest performance in recent years with a prominent increase in available projects. Major projects contributing toward revenue included the social housing project at Milkwood together with completion of a packaging line for SA Breweries, the Yekani student accommodation and various buildings at the BAIC automotive facility.

In Ghana, existing projects which included construction of the Takoradi Mall for RMB Westport, a new store for Game and a warehouse expansion at the Accra Brewery, were all substantially completed in the first six months. The replacement of projects remains difficult and the division continues to explore opportunities in other African countries.

CIVIL ENGINEERING

The prevalence of traditional mining and industrial projects between R100 and R300 million within civil engineering markets remains limited with low margins prevalent on available tenders. Construction of the large-scale commercial crude oil terminal facility at Saldanha (in conjunction with the Roads and earthworks division) is now progressing well and resolution of contractual issues related to the project are progressing. The re-access works at Kusile continues to provide a base-load of work for the division although Eskom has slowed the execution of future work still to be delivered. In the coal mining sector, the construction of a rapid load out station at the Grootegeluk mine in Limpopo is nearing completion while a coal-handling facility at Belfast is progressing well. Both projects are for Exxaro. The division successfully completed a small-scale marine project at the Durban Harbour.

Revenue in Zambia increased significantly over the comparative period following the award for the construction of new infrastructure surrounding the concentrator at the Mopani mine in Mufulira and the Ngonye solar photovoltaic power plant in Lusaka during the second half of FY18.

In the prior year, the division reported on two mining infrastructure projects under construction with the group's Roads and earthworks division in West Africa. The challenging project in Guinea was completed in the first six months of the year, having incurred some additional costs to reach completion. The mining infrastructure project in Ghana is performing well and is due for completion in the second half of the current financial year.

ROADS AND EARTHWORKS

	% change	**December 2018 Rm**	December 2017 Rm
Revenue	7,7% decline	**2 610**	2 829
Operating profit	6,4% margin	**167**	190
Capital expenditure		**170**	96
Depreciation		**68**	70

Despite an 8% decrease in turnover and a 13% decrease in operating profit as the margin fell from 6,7% in the comparative period to 6,3%, the Roads and earthworks division delivered another strong performance over the first half in a challenging environment. Growth in South Africa, Botswana and Mozambique was offset by a sharp decrease in revenue from West Africa where a number of projects were completed without being replaced. The overall revenue contribution from the rest of Africa declined from 39% to 25%.

Locally, activity from the road sector has declined. While there are fewer available projects from the South African National Roads Agency Limited (SANRAL) as it continues to constrain spending, the division has done well to replace roadwork with projects from provincial government, private clients and road concession companies. Existing roadwork includes the ongoing upgrades to the N2 and N6 for SANRAL, extensions to existing roads at Saldanha for the Western Cape provincial government, a new bridge for Transnet, also at Saldanha, and the rehabilitation of the R24 in Rustenburg. New awards over the period consist of new BRT projects in KZN and Johannesburg and upgrades to provincial roads from Worcester to Robertson for the Western Cape provincial government. Roadspan, the road surfacing business within the division, delivered a solid performance locally, albeit at a slightly decreased activity levels in line with market conditions.

This decline in roadwork was offset by improved activity from the mining sector with the division now executing projects for three of the large mining houses: Exxaro, South32 and Anglo American.

Other major projects contributing toward activity in South Africa include the earthworks and infrastructure project at the Clairwood Logistics Park in KZN, construction of a haul road and ash dam for Sasol and the division's participation in the construction of the crude oil terminal facility at Saldanha.

The tender market within the local pipeline sector remains challenging with limited opportunities. A large proportion of work on hand consists of projects procured internally alongside the group's other divisions. These included pipeline expertise and construction services at the crude oil terminal facility in Saldanha, the ash dam for Sasol and at the Klipspruit mine for South32. For external customers, the division was awarded a new project at the Nsezi water treatment plant and has ongoing small works contracts for Joburg Water, Egoli Gas, the City of Cape Town and Natref.

Despite improved activity in Mozambique and Botswana, revenue from the rest of Africa fell from R1,0 billion to R731 million largely due to a sharp decrease in activity from West Africa, where various projects in Ghana, Guinea and Burkina Faso were completed. In addition to the lower activity levels experienced, profitability was further impacted by additional costs to complete the Siguiri project in Guinea alongside technical challenges on Section 16 of the EN4 project in Mozambique.

In Botswana, revenue grew marginally over the six-month period, however, there has been a pleasing improvement in activity from the mining sector. Additional work has been awarded at the Orapa diamond mine for Debswana and a new large-scale contract was awarded at Khoemacau Copper Mining.

AUSTRALIA

	% change	**December 2018 Rm**	December 2017 Rm
Revenue			
Probuild		**8 612**	9 762
Infrastructure – Western region		**954**	669
Infrastructure – Eastern region		**1 141**	672
Total	3,6% decrease	**10 707**	11 103
Operating profit/(loss)			
Probuild		**132**	104
Infrastructure – Western region		**56**	24
Infrastructure – Eastern region		**(634)**	15
Total	(4,2)% margin	**(445)**	143
Capital expenditure		**57**	14
Depreciation		**43**	27

Strong delivery from both the building business and the western region of the infrastructure business over the six months ended 31 December 2018 was overshadowed by a material loss identified and provided for on the WRU project in Melbourne. The size of the loss provision recognised is unprecedented, not only for the Australian business but for the entire WBHO group, and resulted in the Australian business recognising an overall loss for the period.

WRU PROJECT

The design and construct project consists of the widening of roads and upgrades to various intersections in suburban Melbourne. WBHO Infrastructure is the lead contractor responsible for the delivery of the project to the concession company.

The main reason behind the loss recognised relates to interpretation of the technical specification. This interpretation resulted in the underestimation of the physical work required to be performed to meet the output specifications of the contract.

An extensive due diligence was performed by the project delivery team assisted by senior Australian and South African management. The outcome of this exercise led to a loss provision of $50 million being recognised together with a write-back of $6,9 million in profit recognised in the 2018 financial year.

Delivery of the project has now commenced with a strong project team in place to ensure performance against the revised cost estimates included in the forecast loss.

Management believe they have recognised the full extent of the potential loss with the information currently available. There are a number of recovery options available to the group in terms of both delivery of the project and claims. Significant focus is being placed on the resolution of these options.

BUILDING

Revenue from Probuild, the Australian building business, for the six months ended 31 December 2018 decreased by 12,5% in line with the group's strategy to limit growth and focus on project execution alongside securing new work with the correct risk allocation. Operating profit improved by 8,6% delivering a return of 1,7% compared to 1,3% for the 2017 comparative period.

In the six months to 31 December 2018, the following projects were completed and handed over successfully: Omnia residential tower in Sydney; Marq & Icon residential campus towers in Sydney; two smaller phases of the Chadstone shopping centre in Victoria; a large handover of The Glen shopping centre in Victoria and the Avant residential tower in the Melbourne CBD. Sectional handovers of a large number of apartments in the Aurora tower in Melbourne were also completed securing bonus revenue from the client for early completion.

Ongoing construction includes two multi-storey residential towers, the Aurora apartments in Melbourne and the Greenland tower in Sydney. Large-scale, mixed-use residential and hotel developments at Westside Place in Victoria, the Elizabeth Quay development in Western Australia and 443 Queen Street in Queensland comprised a large component of work executed over the period. In the commercial office space, construction of new offices for the Victorian Police Department in Melbourne is progressing well.

INFRASTRUCTURE AND CIVIL ENGINEERING

While the results for the Infrastructure and civil engineering business are dominated by the $50 million anticipated loss provided for on the WRU project, the remainder of the business is performing satisfactorily.

Projects in the Eastern region are in line with expectations and the Western region continues to produce solid results from a portfolio of low-risk projects and maintenance contracts.

UNITED KINGDOM

	% change	**December 2018 Rm**	December 2017* Rm
Revenue	136% growth	**2 555**	1 084
Operating profit	4,1% margin	**104**	(92)
Capital expenditure		**10**	19
Depreciation		**22**	22

* For comparative purposes only as the Byrne Group was accounted for as an associated company until 30 June 2018. Includes only the results of the Byrne Group.

Following the acquisition of a 60% interest in Russells Limited on 18 July 2018 and a return to profitability by the Byrne Group, the group has delivered healthy results in line with expectations from its UK operations over the six-month period to 31 December 2018.

Revenue from the region amounted to R2,6 billion with an operating profit of R104 million at a margin of 4,1%.

BYRNE GROUP

Following the commencement of a number of delayed projects secured in the prior year and the positive action taken by the group to reduce its cost base, the Byrne Group delivered profitable results over the first six months. Revenue increased by 53% to £91,9 million from £60,1 million in the comparative period. Operating profit amounted to £2,0 million compared to a loss of £5,1 at 31 December 2017.

Byrne Brothers, a specialist concrete frame business, completed the frame on a 26-storey commercial development in Canary Wharf as well as works associated with the new retractable roof on Court No 1 and remodelling of Court No 19 at Wimbledon. Ongoing work within Byrne Brothers includes Google's new head office for 7 000 employees near London's King's Cross station; the development of a new six-storey private clinic; construction of a 189-room, 5 star hotel with 28 residential apartments as well as two projects in London's Vauxhall area; Aykon London One, comprising two residential towers of 50 and 24 storeys, and One Nine Elms, a 56-storey and 42-storey residential development.

Ellmer Construction, the new build, fit-out and refurbishment contractor, completed the formation and fit-out of the washrooms and various hospitality areas at Tottenham Hotspur Football Club along with two significant alterations and extensions for new flagship stores for River Island and Zara at the Lakeside Shopping Centre. Major ongoing projects under construction include the refurbishment of 180 rooms at the Kingsway Hall Hotel in Covent Garden; a new build and fit-out of 26 high-end luxury apartments at Mayfair Park Residences in London; and the fit-out of three multi-million pound penthouses in Grosvenor Square. In addition, Ellmers is working on refurbishing five floors and adding a further three floors to Cityside House in Whitechapel as well as the off-site manufacture and site installation of 362 high-quality bathrooms for a residential redevelopment at Earls Court.

RUSSELLS LIMITED

Russells performed well over the half year with revenue climbing to £47,3 million compared to £29,6 million in the previous period. The increase in revenue follows the negotiation of a number of significant projects during the course of 2018 and the associated upscaling of the businesses resource base.

During the six-month period to 31 December 2018, the company completed a £35 million office refurbishment of Amazon's new Manchester home at Hanover House. The Hanover project is the second of six buildings that Russells has been appointed on by the client as part of a £250 million city regeneration programme.

Further successful projects include reaching practical completion on the £8,4 million Brown Street development, a £2 million industrial warehouse refurbishment in Bury and a £7,9 million cold store development in Peterborough. The company also recently completed a four-year project at Baildon Business Park.

Good progress continues to be made on the company's flagship £35 million Axis residential tower which is due for completion in 2020 as well as new hotels for the Motel One and Premier Inn hotel groups.

CONSTRUCTION MATERIALS

	% change	**December 2018 Rm**	December 2017 Rm
Revenue		**510**	397
Inter-company sales		**(195)**	(159)
Revenue to external customers	32,3% growth	**315**	238
Operating profit	4,2% margin	**13**	10
Capital expenditure		**2**	0,4
Depreciation		**2**	4

Despite increased activity, trading conditions within the steel supply market remain difficult. The constrained conditions within the local construction industry at large continue to exert pressure on margins. Sales volumes and pricing in Gauteng remain under pressure, while the coastal regions in the Western Cape, KZN and particularly the Eastern Cape are trading well. Trading activity remains subdued in Limpopo, Mpumalanga and the Free State.

ORDER BOOK AND OUTLOOK

Rm	%	**31 December 2018**	To June 2019	Beyond June 2019	%	30 June 2018
Order book by segment						
Building and civil engineering	13	**6 387**	3 055	3 332	12	5 986
Roads and earthworks	11	**5 408**	2 577	2 831	9	4 164
Australia	58	**29 294**	11 828	17 466	66	32 565
United Kingdom	18	**9 016**	3 145	5 871	13	6 446
Total	**100**	**50 105**	**20 605**	**29 500**	**100**	**49 161**
Order book by geography						
South Africa	20	**10 200**	4 865	5 335	18	8 698
Rest of Africa	4	**1 595**	767	828	3	1 452
Australia	58	**29 294**	11 828	17 466	66	32 565
United Kingdom	18	**9 016**	3 145	5 871	13	6 446
Total	**100**	**50 105**	**20 605**	**29 500**	**100**	**49 161**

The group's total order book at 31 December 2018 of R50,1 billion increased by 1,9% from 30 June 2018. Increases in the order books of the Building and civil engineering and Roads and earthworks divisions together with the inclusion of the order book of Russells Limited in the UK offset decreased volumes within the Australian building business. Pleasingly, the combined African businesses have secured more work than has been executed over the period thereby increasing its proportion of the total order book to 24% and the acquisition of Russells boosting proportion of the UK operations to 18%.

AFRICA (INCLUDING SOUTH AFRICA)

Reduced capacity within the industry has allowed for order books to be maintained despite challenging conditions across all the group's targeted sectors.

In Gauteng, the ongoing rejuvenation of the Johannesburg CBD is creating various building opportunities through the refurbishment of older buildings along with various student accommodation developments. Two large projects within the healthcare sector are also being targeted. The division remains the preferred contractor on the public-private partnership for the construction of new offices for the Department of Rural Development and Land Reform and the subsequent serviced accommodation. In addition, the division is tracking select, large-scale projects within the retail and commercial office spaces, which will provide a strong baseload for the next financial year once negotiations are concluded and the projects awarded.

In the Western Cape, the ongoing construction of new offices for Capitec together with the recent award of a biomedical research facility in Stellenbosch have strengthened the order book, allowing the division to be more selective as activity in the tender market has quietened. The division continues to negotiate various new residential and office developments with existing clients due to commence in the second half of 2019.

In KZN, the Umhlanga Arch and Suncoast Casino contracts remain anchor projects through the second six months.

The Eastern Cape has a strong order book as it enters the second half of the year with various mid-term prospects being pursued in the industrial building and social housing sectors.

Civil engineering markets remain unpredictable. However, slowly improving activity within the mining sector is promising. The division has sufficient work on existing projects to sustain activity levels through to the first half of FY2020.

The order book of the Roads and earthworks division also remains healthy following the award of a number of projects in the first six months, predominantly in South Africa and Botswana. Mining infrastructure projects continue to comprise increasing volumes within the order book. In Mozambique, the division has been awarded a contract for Anadarko, as projects relating to the discovery of the gasfields begin to enter the market. In Lesotho, the division was awarded a contract in joint venture for the advance civil and infrastructure works in relation to the first phases of the Lesotho Highlands Water Project.

The West African market remains quiet across all sectors. While there are some remaining opportunities in Ghana, the building division is also actively seeking opportunities in other regions and specifically tracking a new office development in Botswana. The Roads and earthworks division has various projects in both Ghana and Sierra Leone. There appears to be increased activity from the gold mines in the region with a number of enquiries and tenders being submitted. Commencement of these projects is likely dependent on mining houses being able to raise the necessary financing and the gold price remaining at current levels.

AUSTRALIA

The Australian building market remains strong and Probuild continues to maintain sound relationships with key clients resulting in repeat contracts. The building business has established a strong forward order book totalling AU$2,6 billion.

The business has focused on identifying alternative opportunities to replace the significant reduction in residential projects in all major Australian cities in response to tighter funding for both the end purchaser and developers. A significant opportunity over the next 12 months is the next wave of retail projects coming to market.

The Victorian business secured a commercial/residential project at The Malt in August 2018 with a contract value of $115 million, along with a vertical university campus in the Melbourne CBD for Victoria University with a value of $161 million. Both these projects have proven the competitiveness of the business in securing projects of a smaller nature.

During the year a new mixed-use retail and residential project was secured in New South Wales (NSW) with repeat Singaporean developer, Frasers, with a contract value of $190 million. The Queensland business has been nominated as a preferred contractor on a $150 million commercial building for the Australian Taxation Office and a $400 million residential tower at 30 Albert Street, Brisbane. However, both these projects are awaiting resolution of neighbouring property disputes.

Western Australia secured work at the Curtain University, winning preferred positions to build a university library and large student accommodation building. Both these projects should be converted to secured work in early 2019. These projects are important for the WA business given the completion of the large-scale EQ project in the second half of the financial year.

The Infrastructure and civil engineering order book at 31 December 2018 amounts to AU$0,7 billion including the WRU project. Given the difficulties experienced on that project and reduced bidding capacity within the Eastern region, the forward strategic focus is to identify and secure low risk construction-only road projects as well as projects in the renewable energy sector where the business has a successful track record.

UNITED KINGDOM (UK)

The secured order book of the Byrne Group stands at £275 million at the end of the half year, down from £356 million at 30 June 2018. This is partly due to the cancellation of a £60 million project on which Byrne Brothers had commenced the early works directly for the client. On appointment of the main contractor, Byrne Brothers was unable to agree various commercial terms within the contract, resulting in its ultimate termination. During the period, a new project for the Royal College of Arts was awarded to the value of £10 million as well additional work valued at £25 million for Ellmers at the Mayfair Residences. Concrete works for two infrastructure projects to the value of £50 million are expected to be awarded imminently, while a bid for access ways and portals for a new tunnel should commence in FY20.

Russells Limited continues to grow in line with expectations, with a secured order book in excess of £225 million at 31 December 2018. New large-scale projects at St Peters Square (£55 million) and Store Street (£80 million – the company's largest project to date) are in the early stages of construction and will support activity well into FY20. These projects are based in the Manchester city centre catchment area and reflect the strength of investment into the northwest region with Manchester being the second largest development market (next to London) in the UK.

OUTLOOK

The uncertain South African political and business environment over recent years has had a devastating effect on the local construction industry, particularly over the last 12 months where the sector has faced severe challenges. The lower levels of private investment, combined with little meaningful public infrastructure spending, have seen increased competition and eroded margins. The failure of various mid-tier contractors together with financial distress within a number of large listed companies have had profound consequences that have extended into the subcontractor market, resulting in significant job losses for the South African workforce.

The change in political leadership appears to be making inroads in providing some stability to markets and thereby boosting investor confidence. However, the structural issues that have emerged within state-owned entities and excessive levels of debt are likely to constrain the country's finances over the short-term at a time when public infrastructure spending should be a priority.

On a positive note, in December 2018 the construction sector and other large sectors of the economy were invited to present to government as part of the public-private growth initiative with the aim of delivering on the President's economic stimulus and recovery plan. This growth initiative appears to demonstrate robust and proactive political will to address the challenges facing the country.

Reduced capacity within the construction industry as a whole has meant that WBHO should substantially maintain activity levels over the short-term. It also provides opportunities for mid-tier contractors to increase market share.

Markets in the rest of Africa continue to offer various opportunities and the group targets those projects which fall within its risk appetite.

Market sentiment in Australia remains robust across both building and infrastructure markets. Despite the recent losses experienced within the infrastructure business, the overall Australian operations seem well positioned over the short to medium term.

The outlook for the UK market remains cautious due to uncertainty around the impact of Brexit as well as the political landscape. Brexit is predicted to have an impact on the volume of new commercial office space and prime residential space to be built in the UK which is largely reliant on international investment. Other sectors such as locally funded residential, leisure and large infrastructure schemes such as the HS2, a high-speed railway directly connecting London, Birmingham, the East Midlands, Leeds and Manchester, are likely to be unaffected. To date, in our experience, Brexit uncertainty has not diminished the extent of enquiries or the variety of tender enquirers.

Both the London and Manchester markets continue to offer sufficient opportunities for the group's niched UK operations. The Byrne Group has a wide range of competencies and is not completely reliant on the commercial office sector and focus will be directed toward sectors offering opportunities as and when the need arises. Russells continues to demonstrate growth and, with the support of WBHO, the size, scale and complexity of projects are expected to increase. External support and internal resources have been directed toward targeting public sector projects, while recruitment continues to secure the optimal workforce required to deliver a growing order book going forward.

SAFETY

The group's combined lost time injury frequency ratio (LTIFR) at 31 December 2018 dropped to 0,8 injuries per million man hours, marginally down from 0,9 at 30 June 2018. Helped by a renewed focus on safety by senior management, the African business improved its injury statistics with the LTIFR decreasing from 0,71 to 0,60 over the period. In Australia, there was a significant improvement in the LTIFR which decreased from 1,72 at 30 June 2018 to 0,91 in the current period.

APPRECIATION

The directors would like to express their sincere appreciation to employees across all geographies in Africa, Australia and the UK for their diligence and commitment to the distinct brand and reputation of WBHO and its subsidiary companies. Further thanks is given to our many loyal clients and subcontractors for the successful partnerships created over the years.

DIVIDEND DECLARATION

In light of the liquidity volatility in the South African and African markets, the acquisition in the UK and low profitability over the first six months, the Board has elected not to declare an interim dividend.

Shareholders and interested parties are advised that a presentation of the company's unaudited interim financial results for the period ended 31 December 2018 will be held at Investec's offices in Sandton on Wednesday, 27 February 2019 at 10:00. The presentation will also be made available on the company's website at www.wbho.co.za.

Louwtjie Nel **Charles Henwood** **Mike Wylie**

26 February 2019

Sponsor: Investec Bank Limited

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STATUTORY INFORMATION

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(Registration number 1982/011014/06)
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