STEFANUTTI STOCKS GROUP

IFRS 9:
Financial Instruments Additional Disclosures

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Stefanutti Stocks Group
IFRS 9: Financial Instruments
Additional Disclosures
for the year ended 28 February 2019

These IFRS 9: Financial Instruments – Additional Disclosures relate to the 2019 Stefanutti Stocks Group Consolidated Annual Financial Statements. The purpose of these additional disclosures is to provide stakeholders with additional information relating to credit risk exposure. The additional information provided should be read in conjunction with note 27, Risk management, accounting classifications and fair value in the 2019 Stefanutti Stocks Group Consolidated Annual Financial Statements published on 19 June 2019. The additional information provided has not been audited by the group's auditors.

In terms of IFRS 7.35M, an entity is required to disclose, by *"credit risk rating grades"*, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. It further requires that this information be provided separately for financial instruments:

(a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses;

(b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses;

(c) that are purchased or originated credit-impaired financial assets.

The provision for expected credit losses are only material for trade receivables and amounts due from contract customers.

The group's credit risk grading is segmented based on ageing of receivables, whether the client is within South Africa or outside South Africa, and further breaks it down between clients that operate in the private sector *versus* those that operate in the public sector. Further disaggregation is performed for each financial instrument based on their nature, qualitative and quantitative factors.

1. Trade Receivables

Table A is a disaggregation of the gross carrying amounts of the group's trade receivables within South Africa and outside South Africa, public and private. These factors, together with ageing of receivables, represent the groups' credit risk grading. The number of clients present in each country are identified and due to the limited number of clients, the group continuously engages with these clients to manage the risk of non-settlement of debt and to ensure historical inflow continues.

These trade receivables are over 60 days old, past due but not provided for. The group has applied the simplified approach to determine the Expected Credit Loss (ECL) for trade receivables, by calculating the lifetime ECL's for these trade receivables. Detail of the lifetime ECL's raised on trade receivables has been disclosed in note 27 of the Stefanutti Stocks Group Consolidated Annual Financial Statements 2019.

Table A

	60 days R'000	90 days R'000	120 days and over R'000	Total R'000
Within South Africa	**52 080**	**94 145**	**50 481**	**196 706**
Public	2 321	1 441	5 400	9 162
Private	49 759	92 704	45 081	187 544
Outside South Africa	**103 740**	**52 553**	**580 016**	**736 309**
Public	85 054	46 941	555 250	687 245
Swaziland	41 228	41 251	237 206	319 685
Mozambique	–	–	267	267
Zambia	36 687	5 690	218 247	260 624
Nigeria	7 139	–	94 575	101 714
Lesotho	–	–	4 955	4 955
Private	18 686	5 612	24 766	49 064
Zambia	9 575	594	1 852	12 021
Swaziland	8 364	3 551	5 341	17 256
Namibia	747	1 467	183	2 397
Mozambique	–	–	17 390	17 390
	–	–	–	–
Total	**155 820**	**146 698**	**630 497**	**933 015**

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As the risk exposure for the group is significant for public sector receivables in Nigeria, Zambia and Swaziland, an analysis of the outstanding balances falling into the 120 days bracket has been included. By assessing the movements between the outstanding amounts as at 28 February 2018 and 2019 respectively, stakeholders would be able to identify trade receivables outstanding greater than 120 days.

	Closing balance: 28 February 2018 R'000	Add: New invoices raised R'000	Less: Payment received R'000	Closing balance: 28 February 2019 R'000	Less than 120 days R'000	120 days and over R'000
Nigeria	–	119 330	(17 616)	101 714	7 139	94 575
Zambia	433 416	67 452	(240 244)	260 624	42 377	218 247
Swaziland	157 344	610 890	(448 549)	319 685	82 479	237 206

Table B reflects the historical and forward-looking factors considered in estimating the related ECL percentages and allowances for the material trade receivables outside South Africa:

Table B

	2019 ECL %	2019 ECL R'000	Historical factors	Forward-looking factors
Nigeria	13,25	13 477	• Quantum of payments reduced • Work only continues as payments are received. • Long outstanding due to the regulation that surrounds payments of government debtors.	• Political climate. • Instability of oil price. • Impact of the decrease in the annual growth rate.
Zambia	12,10	31 546	• Regular formal interactions at ministerial level. • Continuous payments received • No history of bad debts. • Ability to offset amounts due to and due from government. • Work suspended until payments are received. • Long outstanding due to the regulation that surrounds payments of government debtors. • Interest charged on outstanding amounts.	• Recovery in the Copper price over the last few years. • List of new projects to be rolled out by the relevant departments of the Government in the short to medium term. • Willingness from Government to offset amounts due to and due from government. • Target of foreign funded projects with the same client (Government departments). • Significant growth in Zambia with GDP annual growth rates continuing to rise indicating an improving economy.
Swaziland	2,20	7 033	• No prior indication of non- payment. • Historically known as slow payer. • Significant advance payments received. • Long outstanding due to the regulation that surrounds payments of government debtors. • Historically, most of the debtors have been fully settled post year-end.	• Steady order book with the government. • New projects being rolled out • Target of foreign funded projects with the same client (Government departments). • Formal funding mechanisms in place for these projects.

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2. Contracts in progress

Contracts in progress have been disaggregated into two main categories to assess credit risk: Work in progress and Materials on site.

Work in progress includes timing differences between measured work performed but not yet certified and invoiced, pending sign-off from clients' quantity surveyors. Revenue is recognised based on measured work performed. Any work measured but not yet certified is treated as work in progress, until such time as it is certified and invoiced. Once invoiced, the balance is reclassified to trade receivables.

Materials on site includes costs incurred to complete the contract, but contractually cannot be billed at period end as it has not been used in measured work performed.

No amounts have been recognised in relation to the Public Sector Power Project, where the client has adopted a more intractable approach to authorisation of certificates for work done, leading to a substantial increase of internal funding required for the project. The group has initiated a dispute process with the client to pursue its contractual rights and recover the amounts owing to it.

In Zambia, work will only recommence on affected contracts once payments are received on outstanding amounts.

	Total R'000	Public R'000	Private R'000	Work in progress R'000	Materials on site R'000
Within South Africa	**357 849**	**79 502**	**278 347**	**306 443**	**51 406**
Outside South Africa	**148 719**	**55 376**	**93 343**	**133 982**	**14 737**
Ghana	11 175	–	11 175	9 075	2 100
Zambia	44 491	13 888	30 603	44 491	–
Swaziland	42 721	33 694	9 027	42 721	–
Namibia	4 770	–	4 770	4 770	–
Mozambique	24 205	3 923	20 282	24 205	–
Lesotho	3 871	3 871	–	3 871	–
Botswana	4 849	–	4 849	4 849	–
Kenya	12 637	–	12 637	–	12 637
Total	**506 568**	**134 878**	**371 690**	**440 425**	**66 143**

The below historical and forward-looking factors were considered, in assessing whether there has been a significant increase in credit risk which would result in an ECL allowance being recognised for contracts in progress.

Historical factors	Forward-looking factors
• Collateral raised for R107 million in the form of payment guarantees, builders lien and credit insurance. • Contractual provisions for alternative recovery in case of disputes regarding work performed. • Majority of the contracts in progress balance is current and relates to work which will be certified within the next 12 months. • History of probability of work not being certified/disputes arising regarding work performed based on prior experience with clients.	• Financial state of client and any indication of financial distress based on most recent information available. • Discussions between the group and the clients regarding recoverability of amounts outstanding and any probabilities of default. • The value of work certified after year-end in relation to the closing balances at period end.

The probability and risk of default was assessed as low and any effects of discounting due to time value of money would be immaterial. The ECL allowance was therefore assessed as nil.

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3. Retention debtors

Retention debtors relate to amounts invoiced but not paid until the conditions specified in the contract are fulfilled or until defects have been rectified. The retention debtors are only due and payable once a contract is completed and all obligations are met. In assessing the credit risk, retention debtors have been disaggregated within South Africa, outside South Africa, public and private.

	Total R'000	Public R'000	Private R'000
Within South Africa	**127 197**	65 128	62 069
Outside South Africa – Mozambique	**5 849**	–	5 849
Total	**133 046**	**65 128**	**67 918**

The historical and forward-looking factors set-out below were considered, in assessing whether there has been a significant increase in credit risk which would result in an ECL allowance being recognised for retention debtors.

Historical factors	Forward-looking factors
• Payment history of client in relation to previous invoices raised. • Contractual provisions for alternative recovery in case of non-payment. • Majority of retention debtors are current and only due in future periods.	• Financial state of client and any indication of financial distress based on most recent information available. • Discussions between the group and the client regarding recoverability of amounts outstanding and any probabilities of default. • Progress of contract and probability of disputes regarding valued work and other contractual conditions at end of contract. • Assessment of payments received after year-end.

The probability and risk of default was assessed as low and subsequently, no ECL allowance was recognised.

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4. Receivables from joint operations

Receivables from joint operations are disaggregated based on the nature of the receivable. This can be either resource funding or cash advances.

Resource funding relates to recoveries for expenses incurred on behalf of the joint operation by related parties which are settled in the normal course of business. Cash advances relate to contractual loans granted to alleviate temporary cash flow constraints of the operation.

	Total R'000	Public R'000	Private R'000	Resource accounts R'000	Cash advances R'000	Other R'000
Within South Africa	**34 337**	**2 323**	**32 014**	**20 036**	**12 095**	**2 206**
Outside South Africa	**71 219**	**49 998**	**21 221**	**14 796**	**55 307**	**1 116**
Swaziland	56 423	49 998	6 425	–	55 307	1 116
Zambia	14 796	–	14 796	14 796	–	–
Total	**105 556**	**52 321**	**53 235**	**34 832**	**67 402**	**3 322**

The historical and forward-looking factors below were considered, in assessing whether there has been a significant increase in credit risk which would result in an ECL allowance being recognised for joint operation receivables.

Historical factors		Forward-looking factors
Resource accounts	• Based on past experience these are settled in the normal course of business. • Joint operations are still trading and in most instances we are the lead partner and administer and manage the cash therefore ensuring payment.	• Cash flow projections prepared on a regular basis. • Ability of joint operation partners to fund cash flow requirements.
Cash advances	• Joint operations are still trading and in most instances we are the lead partner and administer and manage the cash therefore ensuring payment.	• Joint operation relationships are governed by joint operation agreements and will exist until end of contract/project. • Future profitability of the project taking into consideration timing of profit distributions in terms of the joint operation agreement.

The probability and risk of default was assessed as low and subsequently, no ECL allowance was recognised.

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5. Other receivables

Other receivables consist mostly of deposits (mainly house rental deposits), interest accrued, sundry debtors and short term loans repayable within one year.

	Total R'000
Within South Africa	**75 639**
Outside South Africa	**11 036**
Swaziland	2 043
Namibia	1 968
Mozambique	6 348
Other – Botswana, Mauritius, Nigeria, Zambia	677
Total	**86 675**

The historical and forward-looking factors below were considered in assessing whether there has been a significant increase in credit risk which would result in an ECL allowance being recognised for deposits, short-term loans and certain sundry debtors which were deemed material.

Historical factors		Forward-looking factors
Deposits	• History of default by agents on repayment of deposits. • Materiality of deposit amounts that could affect ability of agent to re-pay.	• Whether deposits can be transferred to other properties under the same rental agent.
Short term loans	• Contractual provisions for alternative recovery in case of non-payment. • In certain instances secured by rights to plant and equipment.	• The fair value of the plant and equipment pledged as security was considered in assessing the possible default amount. • Financial state of client and any indication of financial distress based on most recent information available.
Sundry debtors	• Materiality of amounts due from the various sundry debtors. • Nature of the debtor (whether low credit-risk entities, e.g. banks, trusts).	• Financial state of the debtor and any indication of financial distress based on most recent information available.

The probability and risk of default was assessed as low and subsequently, no ECL allowance was recognised.

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6. Receivables from associates

	Total R'000
Within South Africa	**12 312**
KLB Mkhize Electrical Projects (Pty) Ltd	7 722
Stefanutti Stocks Mechanical Holdings (Pty) Ltd	1 020
Stefanutti Stocks Electrical Holdings (Pty) Ltd	3 570

The following historical and forward-looking factors were considered, in assessing whether there has been a significant increase in credit risk which would result in an ECL allowance being recognised for receivables from associates.

Historical factors	Forward-looking factors
• History of payments received in the past.	• Financial state of associates and any indication of financial distress based on most recent information available. • Financial position of associate as well as future profitability considered.

The probability and risk of default was assessed as low and subsequently, no ECL allowance was recognised.

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