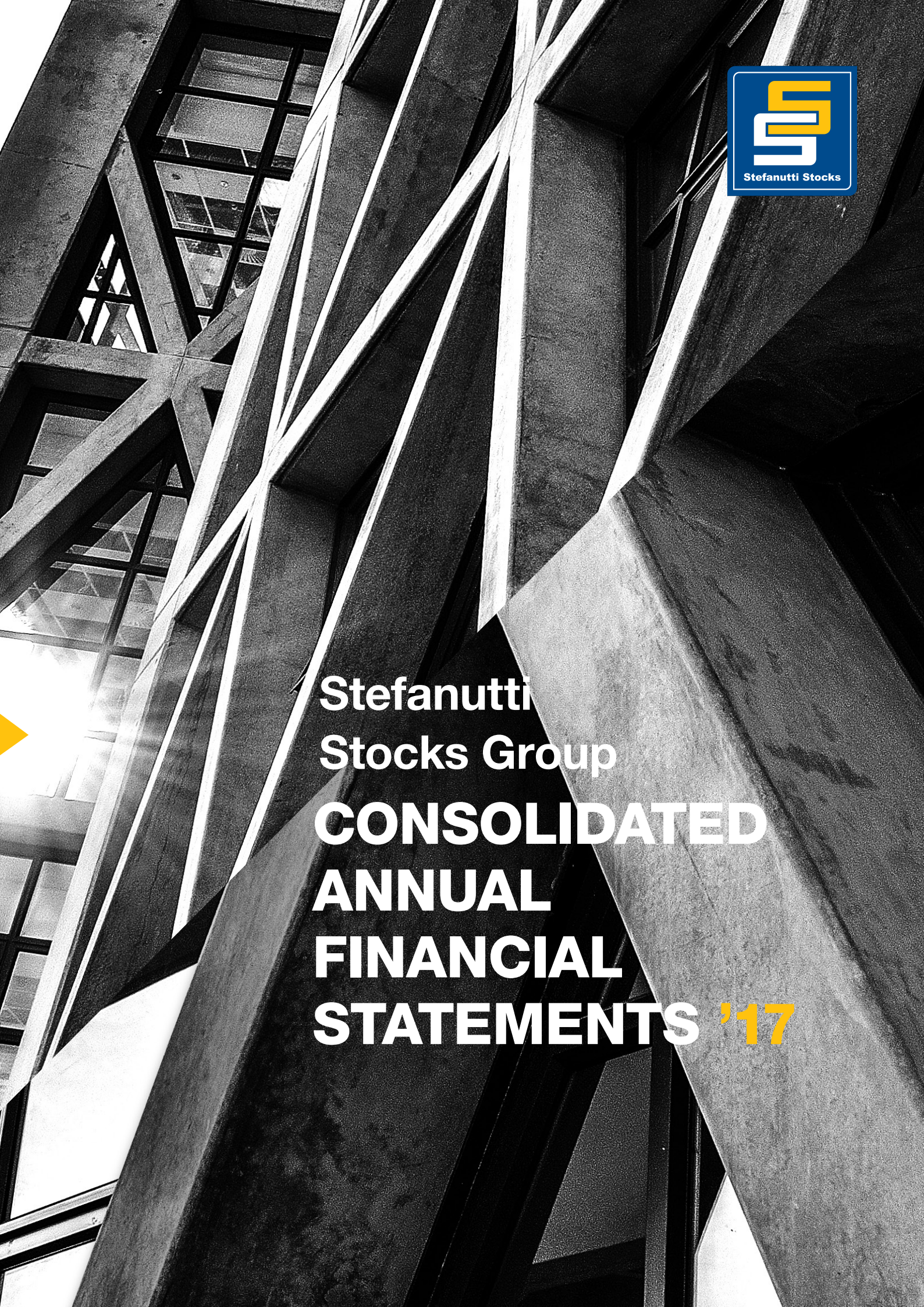


Stefanutti Stocks

# Stefanutti Stocks Group CONSOLIDATED ANNUAL FINANCIAL STATEMENTS '17

# CONTENTS



# PREPARATION OF ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements contained in this report, have been prepared under the supervision of the Chief Financial Officer, AV Cocciante, CA(SA). The consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act, No. 71 of 2008.

**Antonio Cocciante**
Chief Financial Officer

13 July 2017

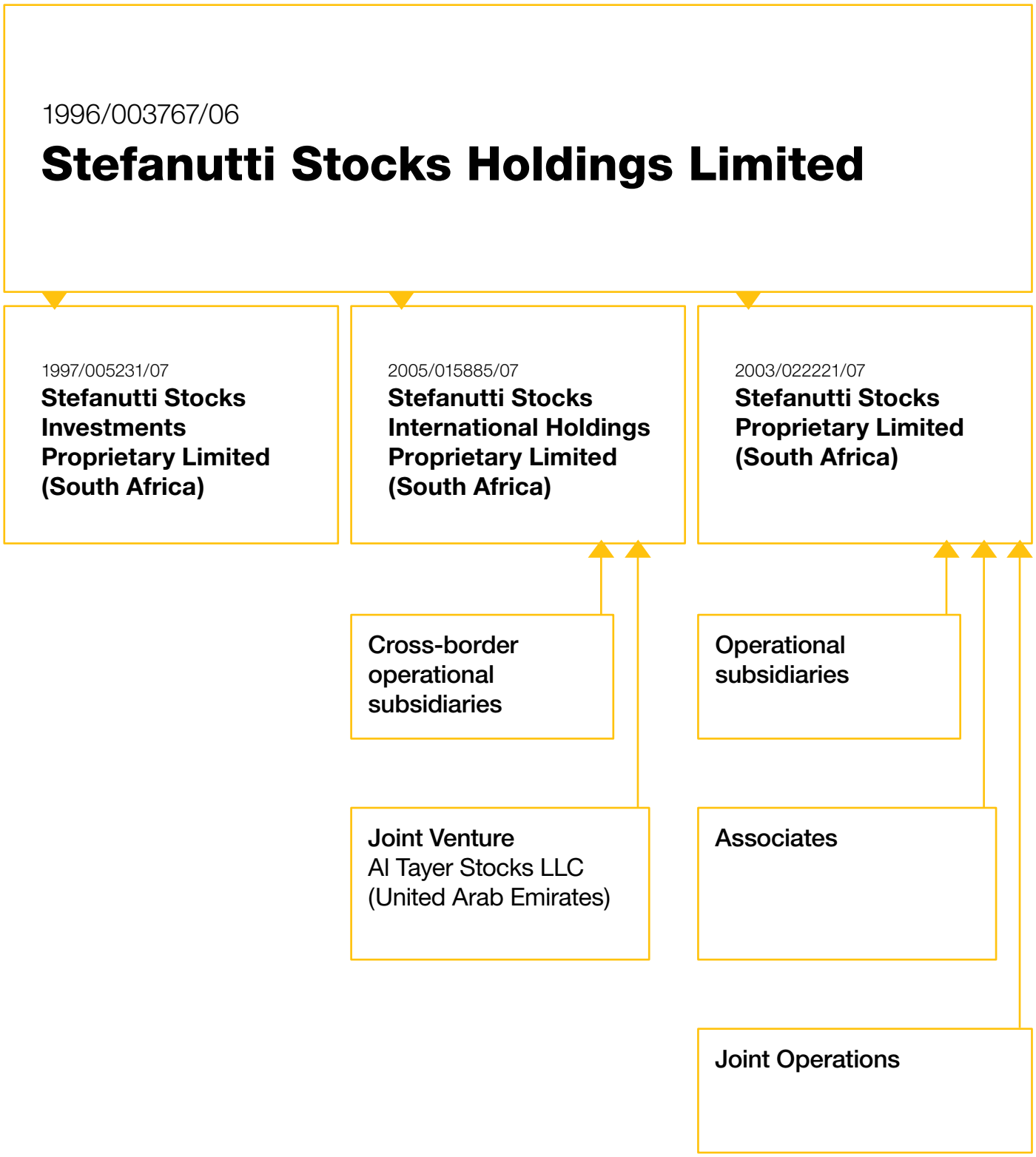
# CERTIFICATE BY THE COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act, No. 71 of 2008, I certify that, to the best of my knowledge and belief, Stefanutti Stocks Holdings Limited has, in respect of the financial year ended 28 February 2017, lodged with the Companies and Intellectual Property Commission all returns and notices required of a public company in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

**William Somerville**
Company Secretary

13 July 2017

# SIMPLIFIED GROUP ORGANOGRAM




A full list of subsidiaries and associates is available, on request, at the head office of the group.

# AUDIT, GOVERNANCE AND RISK COMMITTEE REPORT

This report is provided by the ARCO (the committee) appointed in respect of the 2017 financial year of Stefanutti Stocks Holdings Limited, which operates in terms of the requirements of section 94(7)(f) of the Companies Act, the King III principles and other regulatory requirements imposed upon it.

## THE ARCO

The committee, in addition to having specific statutory responsibilities to the shareholders in terms of the Companies Act, assists the board by advising and submitting recommendations on the group's financial reporting, internal financial controls, external and internal audit functions and statutory as well as regulatory compliance.

## TERMS OF REFERENCE

The Companies Act and King III have guided the detailed terms of reference that have been approved by the board. Minor updates were made to the committee's formal terms of reference after the annual review process. The committee confirms that it has executed its duties during the past financial year in accordance with these terms of reference. The implementation of King IV will commence in the coming year.

## EXECUTION OF DUTIES

During the year the committee:

- Monitored compliance with the code of conduct and the ethical conduct of the company in liaison with the S&E committee;
- Evaluated the independence and effectiveness of the external auditors as well as their performance and recommended their reappointment;
- Reviewed the draft audited financial statements and integrated report, the preliminary announcement and interim statements;
- Reviewed, together with the external auditors, the conformity of the audited financial statements and related schedules with IFRS and the company's accounting policies;
- Reviewed the external audit plan and fees payable to the external auditors;
- Reviewed the external audit findings and reports;
- Approved any non-audit services performed by the external auditors and the policy in this regard;
- Reviewed internal audit policies, plans, reports and findings;
- Monitored compliance with applicable laws and regulations;
- Oversaw the process of sustainability reporting and considered the findings and recommendations of the S&E;
- Assessed key risk areas facing the group and recommended risk mitigation measures;
- Assessed its own effectiveness as a committee which was performed this year through an external review;
- Advised and updated the board on issues ranging from accounting standards to published financial information; and
- Evaluated the finance function and expertise and experience of the CFO.

During the financial year, an external review of the effectiveness of the board and its committees was conducted. The review indicated that the committee was highly rated with only minor areas for improvement. These areas have subsequently been addressed.

## COMPOSITION

The board nominated the members of the committee in respect of the 2017 financial year and shareholders appointed its members at the annual general meeting held on 2 September 2016. Shareholders will be requested to approve the appointment of the committee members for the 2018 financial year at the annual general meeting that is scheduled for 1 September 2017.

Zanele Matlala, an independent non-executive director, chairs the committee, which comprises three additional independent non-executive directors, namely Nomhle Canca, Howard Craig and Joseph Fizelle (alternate to Independent Non-executive Director Bridgman Sithole).

The Board Chairman, CEO, CFO, Group Risk Officer, external and internal auditors attend all committee meetings by invitation. Former CFO, Dermot Quinn, a non-executive director, is a permanent invitee of the committee. The company secretary acts as secretary to the committee.

The board has satisfied itself that the members are suitably skilled, independent and qualified to fulfil their duties. Abridged biographies of the members are published on page 22 of the integrated report.

## MEETINGS

The committee held four meetings during the year.

## INTERNAL FINANCIAL CONTROLS

During the year under review, the committee:

› Reviewed the effectiveness of the group's system of internal financial controls including receiving assurance from management, internal audit and external audit;
› Reviewed issues raised by the external auditors in their reports; and
› Reviewed policies and procedures for preventing and detecting fraud.

Based on the processes in place and assurances obtained, the committee believes that the significant internal financial controls are effective.

## REGULATORY COMPLIANCE

Compliance with laws and regulations is a standing agenda item and is addressed accordingly by the committee at each meeting. The corporate governance report contains a more detailed discussion on regulatory compliance commencing on page 58 of the integrated report.

The integrity of financial information is a critical element for a well-functioning capital market. In line with international best practice the JSE introduced a process whereby it pro-actively monitors financial statements for compliance with IFRS and in February 2017 the JSE issued a report on their process. This report was considered by ARCO during the review of the consolidated annual financial statements. In addition, the group annual financial statements, for the financial year ended February 2016 were selected for review. This review resulted in three matters being raised, which were satisfactorily resolved with the JSE, without any adjustments required.

## OVERSIGHT OF RISK MANAGEMENT

The committee plays a pivotal role in the process of risk management. The Group Risk Officer as well as the Internal Audit Manager report directly to the committee. All risk identification, measurement and management is addressed through these channels.

A risk management framework, risk policy and risk register were presented to, and considered by, the committee during the year. The committee has satisfied itself that the following areas have been appropriately addressed:

› Financial reporting risks;
› Internal financial controls;
› Fraud risks;
› Information communication technology risks; and
› Reviewed technology risks, in particular how they are managed.

Refer to pages 17 to 19 of the integrated report for additional information relating to risk management.

## INDEPENDENCE OF THE EXTERNAL AUDITORS

The external auditors' independence and effectiveness is evaluated annually by the committee, which also considers whether any non-audit services rendered by such auditors materially impair their independence. A non-audit services policy is in place, which the committee reviews on an annual basis. Although the external auditors performed certain non-audit services during the year under review, their fees were deemed immaterial.

Based on enquiries made and assurances received, the committee is satisfied with the external auditors' independence. The committee has recommended to the board and to the shareholders, the reappointment of Mazars as the independent registered audit firm and Susan Truter as the individual registered auditor, respectively. Shaun Vorster, the previous individual registered auditor, rotated off the audit at the end of the February 2016 financial year, and was replaced by Susan Truter.

## INTERNAL AUDIT

The internal audit function evaluates the group's exposure to risk while assessing the reliability and effectiveness of risk management processes and controls. This is guided by the Internal Audit Charter, which sets out the function's purpose, independence, ethics, duties, responsibilities and scope.

The Internal Audit Manager reports to the Group Risk Officer on an administrative basis and to the committee on a functional basis. The Internal Audit Manager has unrestricted access to the CEO, Chairperson of the ARCO, and the Chairman of the board in order to perform his duties and fulfil his functions.

The internal audit function is guided by appropriate policies and procedures that are aligned to the International Professional Practice Framework (IPPF) as prescribed by the Institute of Internal Auditors. The amended IPPF includes the core principles within the mandatory section, which already incorporates the definition of internal auditing, code of ethics and standards for an internal audit function. The core principles, taken as a whole, articulate internal audit effectiveness, namely, the internal audit function must:

› Demonstrate integrity;
› Demonstrate competence and due professional care;
› Be objective and free from undue influence (independent),

AUDIT, GOVERNANCE AND RISK COMMITTEE REPORT
CONTINUED

› Align with the strategies, objectives and risks of the organisation;
› Be appropriately positioned and adequately resourced;
› Demonstrate quality and continuous improvement;
› Communicate effectively;
› Provide risk-based assurance;
› Be insightful, proactive and future-focused; and
› Promote organisational improvement.

A survey, including a self-assessment, with key stakeholders will be conducted by the Internal Audit Manager, during the forthcoming financial period, whereupon the results will be communicated to the committee. Any shortcomings identified will be addressed in order to ensure internal audit effectiveness.

In addition, the internal audit function monitors and assesses the group's corporate governance with regard to the various delegation of authority frameworks implemented throughout the group. The various levels of management in the group are delegated the responsibility for the design, implementation and evaluation of the risk management plans and to ensure their sustainability in all areas of the business.

A risk-based internal audit plan was presented to the committee for annual review and approval at the commencement of the year under review. The committee oversees the internal audit plan and is based on the key risks identified by executive management. The following processes were covered in the approved internal audit plan:

› Tender and estimating;
› Purchases and payables;
› Sub-contractor payments;
› Payroll salaries and wages;
› Financial discipline;
› ICT general computer controls, System development life cycle, change management and backup and disaster recovery; and
› Contract execution (site) reviews.

As is required, the findings are discussed with management who either agreed to reinforce the existing control or implement new processes and controls to reduce the risk identified to an acceptable level, comparing the benefits derived with the cost of the control.

The group's internal audit function also appraises the group's risk management and internal controls and submits its assessment of these to the committee on an annual basis.

## CFO

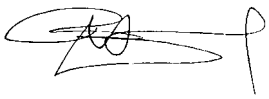
The annual evaluation of the finance function of the CFO was performed, as required in terms of the JSE Listings Requirements, and the committee is satisfied that the CFO, Antonio Cocciante, has the appropriate expertise and experience to meet the responsibilities as CFO. The committee has satisfied itself that the resources within the finance function are able to provide the required support to the CFO. The committee assessed the comments received from the external auditors when making its evaluation. Based on the processes and assurances obtained, the committee has satisfied itself and is of the opinion that the accounting practices are effective.

## ANNUAL FINANCIAL STATEMENTS AND INTEGRATED REPORT

Following the review by the committee of the annual financial statements of Stefanutti Stocks Holdings Limited for the year ended 28 February 2017, the committee is of the view that in all material respects they comply with the relevant provisions of the Companies Act and IFRS, and fairly present the consolidated and separate financial position which are available on the company's website at that date and the results of operations and cash flows for the year then ended.

The committee has also satisfied itself of the integrity of the remainder of the integrated report. Having achieved its objectives, the committee has recommended the integrated report for the year ended 28 February 2017 for approval to the Stefanutti Stocks board. The board has approved the report, which will be open for inspection at the forthcoming annual general meeting.

On behalf of the ARCO



**Zanele Matlala**
Chairperson

13 July 2017

# DIRECTORS' REPORT

The directors have pleasure in presenting their report which forms part of the annual financial statements of the group for the year ended 28 February 2017.

## NATURE OF BUSINESS

Stefanutti Stocks Holdings Limited (Registration No. 1996/003767/06) is a public company incorporated and domiciled in the Republic of South Africa and is listed on the JSE Main Board in the "Construction and Materials — Heavy Construction" sector.

Stefanutti Stocks, a leading construction company operates throughout South Africa, sub-Saharan Africa and the Middle East with multidisciplinary expertise including concrete structures, marine construction, piling and geotechnical services, roads and earthworks, bulk pipelines, mine residue disposal facilities (mainly tailings dams), open-pit contract mining, all forms of building works including affordable housing, mechanical and electrical installation and construction.

A simplified group organogram has been provided, additional information on the group's operating entities is available on request. Please refer to page 1.

## FINANCIAL RESULTS AND YEAR UNDER REVIEW

The consolidated financial statements of Stefanutti Stocks Holdings Limited and its subsidiaries, joint operations and equity-accounted investees (collectively the group) for the year ended 28 February 2017 are set out in the annual financial statements presented on pages 10 to 56.

The group's performance reflects the extremely challenging trading environment and includes certain one off events, as set out below.

Contract revenue from operations of R9,1 billion decreased by R611 million compared to the previous year (Feb 2016: R9,7 billion), whilst operating profit decreased from R392 million in the prior year to an operating loss of R106 million.

The key aspects contributing to the decrease in earnings can be summarised as follows:

- The recording of a one-off present value charge of R139 million relating to the Settlement Agreement concluded with the South African Government, as disclosed in the SENS announcement released on 11 October 2016.
- The group is required to test goodwill for impairment at each reporting period or when there is an indicator of impairment. Based on tests performed relating to the goodwill attributable to the Cycad Pipelines Proprietary Limited acquisition, R152 million of goodwill has been impaired in the current financial year.
- In line with group policy, land and buildings are independently valued every five years. Based upon these latest valuations certain properties have decreased in value resulting in the recognition of an impairment charge of R15 million in the statement of profit and loss. In addition certain properties have increased in value resulting in R105 million (net of tax effects) having been recognised in other comprehensive income.
- The strengthening of the Rand during this reporting period and the weakening of currencies in the African regions in which Stefanutti Stocks operates has resulted in a negative effect on the group's results for the year of R81 million (2016: R26 million).

### SUMMARISED GROUP RESULTS

| | **2017 R'000** | 2016 R'000 | % change year-on-year Increase ⬆ Decrease ⬇ | | Commentary on the year-on-year movements |
|---|---|---|---|---|---|
| Contract revenue | **9 058 576** | 9 669 473 | ⬇ | (6) | Primarily due to a reduction in revenue from the RPM and Structures Business Units. |
| Operating profit before investment income | **(106 396)** | 391 965 | ⬇ | (127) | Recognition of impairment of goodwill and settlement agreement costs. |
| Finance costs | **85 597** | 60 422 | ⬆ | 42 | Increase due to additional interest payable on the final instalment of the Competition Commission penalty. |
| (Loss)/Profit | **(149 790)** | 185 881 | ⬇ | (181) | Recognition of impairment of goodwill and settlement agreement costs. |
| Interest bearing borrowings (including bank overdraft) | **675 256** | 636 343 | ⬆ | 6 | Increased borrowings mainly due to the recognition of R130 million relating to the Settlement Agreement. |
| Trade receivables | **1 844 333** | 1 610 062 | ⬆ | 15 | Current market trends in which we experience significant delays in collection of outstanding amounts, certification of work, etc. |
| Goodwill and intangible assets | **1 087 133** | 1 248 529 | ⬇ | (13) | Impairment of goodwill and intangible assets relating to Cycad Pipelines Proprietary Limited. |
| Bank balances | **1 158 431** | 850 940 | ⬆ | 36 | Increased excess billings over work done received and additional inflow of R87 million (Feb 2016: R75 million) relating to disposal of investment property and Zener Steward LLC in prior year. |
| Excess billings over work done | **1 197 743** | 740 216 | ⬆ | 62 | Increased excess billings over work done. |
| Capital expenditure | **272 211** | 157 413 | ⬆ | 73 | R186 million was incurred for maintaining current capacity. |
| Earnings per share (cents) — total operations | **(79,34)** | 104,31 | ⬇ | (176) | |
| Headline earnings per share (cents) — total operations | **10,94** | 89,62 | ⬇ | (88) | |

During the year, the company, through a subsidiary, repurchased 1 314 918 (2016: 1 383 792) of its own shares at an average price of R4,08 (2016: R3,47 )per share in terms of a resolution passed at the company's most recent annual general meeting. These shares will not be cancelled and will be accounted for as treasury shares.

DIRECTORS' REPORT
CONTINUED

## DIRECTORATE

The names of the directors who currently hold office are set out in the corporate governance report of the integrated report as well as in the corporate information section at the end of these statements.

## RESOLUTIONS

At the 2016 annual general meeting, the shareholders of the company passed the following special resolutions:

- Approval of the directors' fees.
- Approval of financial assistance provided by the company to related or inter-related companies or other entities, including, its subsidiaries, for any purpose, as well as present or future directors or prescribed officers of the company or of a related or inter-related company or entity.
- Approval to repurchase shares — the company and/or its subsidiaries are authorised by way of general authority to acquire ordinary shares issued by the company within the limits set out by the resolution.

## INDUSTRY-RELATED MATTERS

### SETTLEMENT AGREEMENT (VOLUNTARY REBUILD PROGRAMME (VRP))

Following an extensive period of negotiation, the Government together with Stefanutti Stocks and six other construction companies have concluded a Settlement Agreement which addresses outstanding legacy issues and commits to a plan which will ensure the repositioning of the South African construction sector. All parties to the Settlement Agreement acknowledge the need to foster a better relationship between the Government and the construction industry going forward.

In October 2016, the South African Forum of Civil Engineering Contractors (SAFCEC) formally announced the signing of the VRP agreement. The agreement comprises of the following initiatives:

- a financial contribution by the seven companies to a transformation trust;
- an integrity commitment between the seven companies and government;
- and the option of either disposing of not less than 40 % of the business to black owned enterprises, or mentoring existing black construction companies such that their turnover grows to at least 25% of the individual listed company's civil engineering and building South African turnover over a seven year period. The group elected the second option and have identified two existing black owned construction companies. More information on these two construction companies can be found in the online sustainability report.

### LITIGATION STATEMENT

In terms of the Settlement Agreement entered into with the South African Government, all matters, other than the civil claim received from the City of Cape Town (Green Point Stadium), have been settled and/or withdrawn. The group is confident that on the facts currently available, it will be able to successfully defend the City of Cape Town claim and has accordingly not made any provision therefor.

## APPROVAL

The group annual financial statements, which appear on pages 10 to 56, were approved by the board of directors and are signed by:

**Willie Meyburgh**
Chief Executive Officer

**Antonio Cocciante**
Chief Financial Officer

13 July 2017
Kempton Park

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Stefanutti Stocks Holdings Limited

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### OPINION

We have audited the consolidated financial statements of Stefanutti Stocks Holdings Limited and its subsidiaries (the group) set out on pages 10 to 56, which comprise the consolidated statement of financial position as at 28 February 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 28 February 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. All key audit matters relate to the consolidated financial statements.

| MATTER | AUDIT RESPONSE |
|---|---|
| **Valuation of goodwill (note 10)**<br>Goodwill comprises 16% of total assets of the group.<br><br>As required by the applicable accounting standards, senior management conduct annual impairment tests to assess the recoverability of the carrying value of goodwill.<br><br>This is performed using discounted cash flow models.<br><br>There are a number of key areas of estimation and judgement made in determining inputs into these models which include:<br>› Future revenue<br>› Operating margins<br>› Interest rates<br>› Discount rates applied to projected future cash flows<br>› Adequacy of budgeting techniques<br><br>The impairment tests performed on goodwill is considered to be a key audit matter due to the extent of judgement and estimation involved. | Critical assessment, with the assistance of our valuation experts, as to whether the model used by management to calculate the value in use of the individual CGUs complies with the requirements of IAS 36 *Impairment of Assets*.<br><br>This included:<br>› Assessing the assumptions used to determine discount rates and recalculation of these rates;<br>› Analysing the future projected cash flows used in models to determine the reasonability and attainability given the current macro-economic climate and expected future performance of cash generating units;<br>› Subjecting key assumptions to sensitivity analyses;<br>› Assessing the reasonability of forecast assumptions through:<br>» Comparing actual results for 2017 to budgets<br>» Discussions with management as to reasons for deviations<br>» Corroborate reasons obtained from management above to supporting documentation<br>» Assessing the adequacy and reliability of budgeting techniques; and<br>› Reviewing the adequacy of disclosure as required in terms of IAS 36. |

## INDEPENDENT AUDITOR'S REPORT
CONTINUED

| MATTER | AUDIT RESPONSE |
|---|---|
| **Income tax and deferred tax (note 5 and 11)**<br>Due to the multiple tax jurisdictions within which the group operates and the significant judgement to be applied with respect to the application of certain tax laws specifically relating to contract accounting, determining the amounts to be recognised for tax in terms of IAS 12 *Income Taxes* have been identified as a key audit matter.<br><br>Judgement includes:<br>› Consideration of regulations by various tax authorities with respect to recognition of income and deferred tax; and<br>› Valuation of income and deferred tax assets and liabilities.<br><br>Management provides for tax based on the most probable outcome as disclosed in the taxation note to the financial statements. | Evaluation of recognition and measurement of current and deferred tax assets and liabilities; including (with the assistance of our tax experts):<br><br>› Analysing the current and deferred tax calculations, in order to ensure compliance with the relevant tax legislation and accounting standards, taking into account the multiple tax jurisdictions within which the group operates and specifically assessing the complex tax allowances relating to contract accounting;<br>› Evaluating the client's assessment of the estimated manner in which timing differences, including the recoverability of deferred tax assets would be realised by comparing this to evidence obtained in other areas of the audit. These included, but were not limited to, cash flow forecasts, business plans, and minutes of meetings; and<br>› Challenging assumptions made by senior management with respect to uncertain tax and deferred tax positions to assess the appropriateness of tax provisions against the most probable outcome. |
| **Valuation of contracts in progress, including excess billings over work done (note 13)**<br>Excess billings over work done comprises 29% of total liabilities.<br><br>Contracts in progress comprises 6% of total assets.<br><br>Judgement is applied with respect to the recognition and measurement of contracts in progress and excess billings over work done.<br><br>Contracts in progress consist of costs incurred plus profit recognised to date less cash received or receivable less any provisions or losses.<br><br>Estimates relating to the measurement of these assets and liabilities at year-end have been identified as a key audit matter. | Year-end verification of contracts in progress, provision for costs, over- and under- claims (excess billings over work done), contract revenue and costs was based on a sample of contracts including contracts in progress and excess billings over work done at year end as well as contracts completed during the year. Our testing involved a combination of substantive procedures (test of detail and analytical reviews) and tests of control including but not limited to the following:<br><br>› The completeness of revenue verified with reference to signed Quantity Surveyor Certificates (for a sample of contracts), with differences substantiated through inspection of source documents;<br>› The appropriateness of reliance on the Quantity Surveyors (for a sample of contracts) was assessed, by assessing the experts skills, competence and objectivity as required by ISA540;<br>› The reasonability of the stage of completion calculation based on revenue and costs incurred to date in relation to the signed contract has been verified and recalculated; as follows: Costs incurred to date less prior year costs incurred to date)/Total revised expected Costs for contract;<br>› Balances relating to contracts in progress (as recalculated above) and excess billings over work done have been agreed to the general ledger and accounting pack;<br>› The recoverability and completeness of contracts in progress and excess billings over work done has been assessed with reference to events subsequent to year end;<br>› A selected sample of site ledger reconciliations have been inspected to ensure correct cut-off and completeness of contract costs;<br>› The reliability of managements past estimates has been assessed as a basis for reliance on the current year estimates; |

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report, the Company Secretary's Certificate, as required by the Companies Act of South Africa and the Integrated Report, which we obtained prior to the date of this report. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Mazars has been the auditor of Stefanutti Stocks Holdings Limited for 11 years.

Mazars

**Mazars**
Registered Auditors
Partner: Susan Truter
Registered Auditor

13 July 2017
Johannesburg

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 28 FEBRUARY

| CONTINUING OPERATIONS | Note | 2017 R'000 | 2016 R'000 |
|---|---|---|---|
| REVENUE | 2 | **9 149 604** | 9 737 386 |
| Contract revenue | 2 | **9 058 576** | 9 669 473 |
| Operating and administration expenses | | **(8 945 360)** | (9 246 559) |
| Other income | 2 | **95 830** | 128 324 |
| EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION (EBITDA) | 3 | **209 046** | 551 238 |
| Depreciation and amortisation | 7, 10 | **(145 882)** | (159 273) |
| Impairment of assets | 7, 10 | **(169 560)** | — |
| OPERATING (LOSS)/PROFIT BEFORE INVESTMENT INCOME | | **(106 396)** | 391 965 |
| Investment income | 2 | **44 864** | 34 049 |
| Share of profits of equity-accounted investees | 8 | **40 893** | 19 040 |
| OPERATING (LOSS)/PROFIT BEFORE FINANCE COSTS | | **(20 639)** | 445 054 |
| Finance costs | 4 | **(85 597)** | (60 422) |
| (LOSS)/PROFIT BEFORE TAXATION | | **(106 236)** | 384 632 |
| Taxation | 5 | **(43 554)** | (120 114) |
| (LOSS)/PROFIT FROM CONTINUING OPERATIONS | | **(149 790)** | 264 518 |
| DISCONTINUED OPERATIONS | | | |
| Loss after tax | | **—** | (78 637) |
| (LOSS)/PROFIT | | **(149 790)** | 185 881 |
| OTHER COMPREHENSIVE INCOME | | **(10 998)** | 34 107 |
| Exchange differences on translation of foreign operations (may be reclassified to profit/(loss)) | | **(118 328)** | 84 980 |
| Reclassification adjustment from foreign currency translation reserve due to disposal of a foreign investment | | **2 468** | (62 193) |
| Reclassification adjustment from foreign currency translation reserve due to disposal of the investment property | | **—** | 11 320 |
| Revaluation of land and buildings (may not be reclassified to profit/(loss)) | 7 | **104 862** | — |
| TOTAL COMPREHENSIVE (LOSS)/INCOME | | **(160 788)** | 219 988 |
| (LOSS)/PROFIT ATTRIBUTABLE TO: | | | |
| Equity holders of the company | | **(137 068)** | 182 317 |
| Continuing operations | | **(137 068)** | 260 954 |
| Discontinued operations | | **—** | (78 637) |
| Non-controlling interest — Continuing operations | | **(12 722)** | 3 564 |
| | | **(149 790)** | 185 881 |
| TOTAL COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO: | | | |
| Equity holders of the company | | **(157 099)** | 214 582 |
| Continuing operations | | **(157 099)** | 293 219 |
| Discontinued operations | | **—** | (78 637) |
| Non-controlling interest — Continuing operations | | **(3 689)** | 5 406 |
| | | **(160 788)** | 219 988 |
| BASIC (LOSS)/EARNINGS PER SHARE (CENTS) | 6 | **(79,34)** | 104,31 |
| DILUTED (LOSS)/EARNINGS PER SHARE (CENTS) | 6 | **(72,88)** | 96,94 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 28 FEBRUARY

| | Note | 2017 R'000 | 2016 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | **2 548 043** | 2 565 762 |
| Property, plant and equipment | 7 | **1 212 248** | 1 099 712 |
| Equity-accounted investees | 8 | **189 860** | 189 458 |
| Goodwill and intangible assets | 10 | **1 087 133** | 1 248 529 |
| Deferred tax assets | 11 | **58 802** | 28 063 |
| **CURRENT ASSETS** | | **4 019 055** | 3 946 516 |
| Inventories | 12 | **145 087** | 101 317 |
| Contracts in progress | 13 | **414 525** | 624 172 |
| Trade and other receivables | 14 | **2 256 514** | 2 151 738 |
| Taxation | | **44 496** | 52 392 |
| Bank balances | 15 | **1 158 433** | 985 128 |
| | | **4 019 055** | 3 914 747 |
| Assets of discontinued operation and non-current assets held for sale | | **—** | 31 769 |
| **TOTAL ASSETS** | | **6 567 098** | 6 512 278 |
| **EQUITY AND LIABILITIES** | | | |
| **CAPITAL AND RESERVES** | | **2 442 378** | 2 608 532 |
| Share capital and premium | 16 | **1 021 737** | 1 027 103 |
| Other reserves | | **181 515** | 203 395 |
| Retained earnings | | **1 235 000** | 1 370 219 |
| Equity holders of the company | | **2 438 252** | 2 600 717 |
| Non-controlling interest | | **4 126** | 7 815 |
| **NON-CURRENT LIABILITIES** | | **370 912** | 231 709 |
| Other financial liabilities | 18 | **346 460** | 174 629 |
| Deferred tax liabilities | 11 | **24 452** | 57 080 |
| **CURRENT LIABILITIES** | | **3 753 808** | 3 672 037 |
| Other financial liabilities | 18 | **328 794** | 346 296 |
| Trade and other payables | 19 | **1 750 748** | 1 886 177 |
| Excess billings over work done | 13 | **1 197 743** | 740 216 |
| Provisions | 20 | **420 400** | 488 996 |
| Taxation | | **56 121** | 46 666 |
| Bank balances | 15 | **2** | 134 188 |
| | | **3 753 808** | 3 642 539 |
| Liabilities directly associated with the discontinued operation | | **—** | 29 498 |
| | | **6 567 098** | 6 512 278 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 28 FEBRUARY

| | | OTHER RESERVES | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital and premium R'000 | Share based payments reserve R'000 | Foreign currency translation reserve R'000 | Revaluation surplus reserve R'000 | Retained earnings R'000 | Capital and reserves attributable to equity holders of the company R'000 | Non-controlling interest R'000 | Total equity R'000 |
| BALANCE AT 28 FEBRUARY 2015 | 1 031 909 | 28 145 | 125 804 | 27 608 | 1 183 459 | 2 396 925 | 2 409 | 2 399 334 |
| Treasury shares acquired | (4 806) | — | — | — | — | (4 806) | — | (4 806) |
| Realisation of revaluation reserve | — | — | — | (4 443) | 4 443 | — | — | — |
| Tax rate change on revalued properties | — | — | — | (5 984) | — | (5 984) | — | (5 984) |
| Total comprehensive income | — | — | 32 265 | — | 182 317 | 214 582 | 5 406 | 219 988 |
| Profit | — | — | — | — | 182 317 | 182 317 | 3 564 | 185 881 |
| Other comprehensive income | — | — | 32 265 | — | — | 32 265 | 1 842 | 34 107 |
| BALANCE AT 29 FEBRUARY 2016 | **1 027 103** | **28 145** | **158 069** | **17 181** | **1 370 219** | **2 600 717** | **7 815** | **2 608 532** |
| Treasury shares acquired | **(5 366)** | **—** | **—** | **—** | **—** | **(5 366)** | **—** | **(5 366)** |
| Realisation of revaluation reserve | **—** | **—** | **—** | **(1 849)** | **1 849** | **—** | **—** | **—** |
| Total comprehensive loss | **—** | **—** | **(124 893)** | **104 862** | **(137 068)** | **(157 099)** | **(3 689)** | **(160 788)** |
| Loss | **—** | **—** | **—** | **—** | **(137 068)** | **(137 068)** | **(12 722)** | **(149 790)** |
| Other comprehensive loss | **—** | **—** | **(124 893)** | **104 862** | **—** | **(20 031)** | **9 033** | **(10 998)** |
| BALANCE AT 28 FEBRUARY 2017 | **1 021 737** | **28 145** | **33 176** | **120 194** | **1 235 000** | **2 438 252** | **4 126** | **2 442 378** |
| Note | 16 | | | 7 | | | | |

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 28 FEBRUARY

| - | Note | 2017 R'000 | 2016 R'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | **548 811** | (87 456) |
| Cash receipts from customers | | **9 044 828** | 9 551 907 |
| Cash paid to suppliers and employees | | **(8 428 531)** | (9 521 897) |
| Cash generated from operations | 21 | **616 297** | 30 010 |
| Interest received | 2 | **44 862** | 33 144 |
| Finance costs | 4 | **(30 906)** | (42 555) |
| Dividends received | 2,8 | **21 138** | 25 392 |
| Taxation paid | 21 | **(102 580)** | (133 447) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | **2 851** | (6 635) |
| *Expenditure to maintain operating capacity* | | | |
| Property, plant and equipment acquired | 7 | **(55 829)** | (82 308) |
| Additions to non-current assets held for sale | | **—** | (2 935) |
| Proceeds on disposals of property, plant and equipment | | **41 296** | 35 014 |
| Proceeds on disposals of non-current assets held for sale | | **87 334** | 118 899 |
| Acquisition of associates and joint operations — net of cash acquired | | **5 240** | — |
| Advance of associate loan | 8 | **(20 628)** | (200) |
| *Expenditure for expansion* | | | |
| Property, plant and equipment acquired | 7 | **(54 562)** | (75 105) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | **(164 702)** | 54 935 |
| Acquisition of treasury shares | 16 | **(5 366)** | (4 806) |
| Proceeds from long- and short-term financing | 18 | **149 511** | 205 681 |
| Repayment of long- and short-term financing | 18 | **(308 847)** | (145 940) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **386 960** | (39 156) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | **850 940** | 815 235 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | **(79 535)** | 74 893 |
| CASH AT THE BEGINNING OF THE YEAR — DISCONTINUED OPERATION | | **66** | 34 |
| CASH AT THE END OF THE YEAR — DISCONTINUED OPERATION | | **—** | (66) |
| CASH AND CASH EQUIVALENTS AT YEAR-END | 15 | **1 158 431** | 850 940 |

# SIGNIFICANT ESTIMATES AND JUDGEMENTS

## FOR THE YEAR ENDED 28 FEBRUARY

## 1. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures and the disclosure of contingent liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events and are believed to be reasonable under the circumstances. Actual results may differ from the estimates made by management.

In the process of applying the group's accounting policies, the directors have made the following estimates and judgements that have the most significant affects on the amounts recognised and disclosed in the financial statements:

### CONSTRUCTION CONTRACTS

#### REVENUE AND OTHER INCOME

When applying the percentage of completion method, estimates are made on the total expected costs of individual contracts. The stage of completion is measured with reference to surveys of the work performed. When the surveys of work performed cannot be determined reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. When management estimates, based on the cost of work performed to date in relation to the total work to be performed, that the total costs to be incurred to complete a contract will be in excess of the estimated total revenue from the contract, the full expected loss to be incurred is recognised immediately.

### OPERATING ASSETS

#### PROPERTY, PLANT AND EQUIPMENT

#### VALUATIONS

Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. A valuation was performed on 28 February 2017 by an accredited independent valuer. Properties were valued by either applying the Comparable Sales Method or Income Capitalisation Method. To determine which method to be the most appropriate for each property cognisance was taken of the following relevant to each property: Each property's general uniqueness, durability, proximity of location, relatively "limited" supply, and the specific utility of a given site.

The Income Capitalisation Method of valuation entails the determination of the Net Annual Income for the property, which is then capitalised at an appropriate market related capitalisation rate: This method of valuation is best suited for income producing properties.

The Direct Comparable Sales approach entails the identification, analysis and application of recent comparable sales involving physically and legally similar units in the general proximity of the property to be valued. This method of valuation is best suited for non-income producing properties.

This valuation included a review of title deed information, town planning conditions, property descriptions and improvements as well as locality. Market conditions and demand, comparable sales and vacant land values were also taken into consideration.

#### USEFUL LIVES

Land is not depreciated as it is deemed to have an indefinite useful life.

The useful life of an asset is the period over which the group expects to utilise the benefits embodied in the assets, and not necessarily the asset's economic life. Useful lives of assets are reviewed annually. The group uses the following indicators to determine useful life:

- Expected usage of assets
- Expected physical wear and tear
- Technical and commercial obsolescence

The estimated useful lives assigned to the categories of Property, Plant and Equipment are as follows:

| | |
|---|---|
| › Buildings | 50 years |
| › Plant and equipment | 5 – 10 years |
| › Transport and motor vehicles | 5 years |
| › Furniture, fittings, office and computer equipment | 3 – 8 years |

#### RESIDUAL VALUES

An estimate is made of the amount the group would expect to receive currently for the asset, if the asset was already of the age and condition expected at the end of its useful life.

# SIGNIFICANT ESTIMATES AND JUDGEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 1. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS CONTINUED

### IMPAIRMENT OF OPERATING ASSETS

#### GOODWILL

Goodwill is assessed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which goodwill relates. The recoverable amount is determined as the value in use of each cash-generating unit by estimating the expected future cash flows in each unit and determining a suitable discount rate in order to calculate the present value of those cash flows. Refer to note 10.

#### PROPERTY, PLANT AND EQUIPMENT

Management assesses changes in interest rates, currency exchange rates as well as the state of affairs in the construction sector, as indicators that impairment testing may need to be performed.

#### CONTRACT RECEIVABLES (INCLUDED IN TRADE AND OTHER RECEIVABLES)

Management makes judgements as to its ability to collect outstanding receivables and provides allowances for the portion of receivables when collection becomes doubtful. The adequacy of the allowance is assessed based on historical collection experience, economic and competitive environment as well as changes in the credit worthiness of customers.

### TAXATION

Management assesses the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised. All companies with deferred tax asset balances are currently trading and expect to make profits which will enable them to recover the deferred tax assets.

The group is subject to income taxes in numerous jurisdictions and the calculation of the group's tax charge and worldwide provisions for income taxes naturally involves a degree of estimation and judgement. There are transactions and tax computations for which the ultimate tax treatment or result is uncertain, or in respect of which the relevant tax authorities may or could indicate disagreement with the group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made.

#### USE AND SALES RATE

The deferred tax rate applied to assets is determined by the expected manner of recovery. Where the expected recovery of the asset is through sale, the capital gains tax rate of 22,4% (2016: 22,4%) is used for South African assets.

If the expected manner of recovery is through use, the normal tax rate of 28,00% (2016: 28,00%) is applied.

If the manner of recovery is partly through use and partly through sale, a combination of capital gains tax rate and normal tax rate is used.

### PROVISIONS

Provisions are raised when deemed necessary by management and an estimate of expected outflows is made based on the information available at the time.
These provisions are expected to be utilised within the next 12 months.

| | |
|---|---|
| Warranty provisions | Warranty provisions are recognised for expected warranty claims, based on past experience. Estimates are made of the anticipated time, materials and sub-contractor involvement required to honour the warranty. |
| Contract related provisions | Contract related provisions represent the estimated amounts relating to incurred obligations to third party suppliers.<br>Management estimates these amounts based on the expected cash outflows required to settle its obligations to suppliers. These obligations arise when, based on surveys of the work performed, it is evident that suppliers have delivered goods or services in excess of those which the suppliers has provided documentary evidence for. |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 2. REVENUE

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **2.1 CONTRACT REVENUE** | | |
| Local | **6 913 182** | 6 792 171 |
| Foreign | **2 145 394** | 2 877 302 |
| | **9 058 576** | 9 669 473 |
| **2.2 PROJECT MANAGEMENT FEE AND RENTAL INCOME** | | |
| Project management fee | **13 763** | 6 127 |
| Rent received | **32 401** | 12 359 |
| Rent received — investment property | **—** | 15 378 |
| | **46 164** | 33 864 |
| **2.3 INVESTMENT INCOME** | | |
| Interest income from financial instruments held at amortised cost | | |
| — Bank accounts | **36 374** | 28 208 |
| — Trade receivables and loans | **8 345** | 5 109 |
| — Joint operations | **130** | 582 |
| Other interest | **13** | 124 |
| Total interest received | **44 862** | 34 023 |
| Dividends received | **2** | 26 |
| | **44 864** | 34 049 |
| Total revenue | **9 149 604** | 9 737 386 |
| **2.4 OTHER INCOME** | | |
| Profit on disposal of property, plant and equipment | **13 377** | 7 198 |
| Profit on disposal of investment property | **—** | 16 158 |
| Profit on foreign exchange rate movements | **19 942** | 50 344 |
| Fair value adjustment of investment property | **—** | 6 066 |
| Other income | **16 347** | 14 694 |
| Project management fee and rental income (note 2.2) | **46 164** | 33 864 |
| Total other income | **95 830** | 128 324 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 3. EBITDA

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Included in these expenses are: | | |
| Auditors' remuneration | **11 242** | 10 593 |
| Employee costs | **2 913 705** | 3 294 499 |
| — Short-term employee benefit costs | **2 736 840** | 3 104 065 |
| — Post-employment benefit costs | **174 947** | 188 405 |
| — Forfeitable Share Plan costs (note 17) | **1 918** | 2 029 |
| Loss on foreign exchange rate movements | **100 834** | 76 155 |
| Operating lease rentals | **33 955** | 22 536 |
| — Premises | **8 747** | 8 099 |
| — Plant and equipment | **24 406** | 12 551 |
| — Vehicles | **802** | 1 886 |
| Voluntary Rebuild Programme costs | **138 764** | — |
| Direct operating expenses arising from investment property generating rental income | **—** | 1 467 |

The Voluntary Rebuild Programme relates to the recording of a one-off present value charge concluded with the South African Government, as disclosed in the SENS announcement released on 11 October 2016. Also included are costs relating to the obligation to mentor two emerging contractors.

## 4. FINANCE COSTS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Finance costs on financial instruments held at amortised cost: | | |
| — Bank overdrafts and bonds | **19 834** | 23 462 |
| — Instalment sale and finance lease agreements | **21 373** | 13 403 |
| — Financing agreements | **3 873** | 3 100 |
| — Deferred settlement arrangement | **38 236** | 17 271 |
| Deemed interest | **18 601** | 13 054 |
| Interest costs | **19 635** | 4 217 |
| — Trade payables | **685** | 1 096 |
| Other interest | **1 596** | 2 090 |
| | **85 597** | 60 422 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 5. TAXATION

### 5.1 TAXATION

| | 2017 Local R'000 | 2017 Foreign R'000 | 2017 Total R'000 | 2016 Local R'000 | 2016 Foreign R'000 | 2016 Total R'000 |
|---|---|---|---|---|---|---|
| CURRENT TAX | **88 100** | **31 518** | **119 618** | 84 888 | 44 514 | 129 402 |
| — Current year | **88 359** | **38 761** | **127 120** | 83 804 | 43 680 | 127 484 |
| — (Over)/under provision previous year | **(259)** | **(7 243)** | **(7 502)** | 1 084 | 834 | 1 918 |
| DEFERRED TAX | **(43 698)** | **(32 366)** | **(76 064)** | 3 260 | (12 548) | (9 288) |
| — Current year | **(43 799)** | **(25 478)** | **(69 277)** | 5 476 | (13 434) | (7 958) |
| — (Over)/under provision previous year | **101** | **(6 888)** | **(6 787)** | (2 216) | 886 | (1 330) |
| Taxation | **44 402** | **(848)** | **43 554** | 88 148 | 31 966 | 120 114 |

### 5.2 RECONCILIATION OF TAX CHARGE

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| TAX AT 28% ON (LOSS)/PROFIT BEFORE TAXATION | **(29 746)** | 107 697 |
| Adjusted for: | | |
| DISALLOWABLE EXPENDITURE: | | |
| — Goodwill impairment | **42 685** | — |
| — Interest | **10 706** | 5 260 |
| — Other (legal fees, overseas travel, fines, etc.) | **6 739** | 7 146 |
| — Voluntary Rebuild Programme | **36 882** | — |
| — Unrealised foreign exchange transactions | **—** | 1 263 |
| EXEMPT INCOME: | | |
| — Foreign exchange profits | **(1 148)** | (2 214) |
| — Other (share of profits of equity-accounted investees etc.) | **(111)** | (295) |
| Deferred tax assets not raised on losses | **4 375** | 5 759 |
| Foreign tax rate differential | **(11 517)** | (4 230) |
| Change in tax rate | **641** | — |
| Special allowances (Section 12H and 13 quin) | **(777)** | (1 285) |
| (Over)/Under provision previous year | **(14 288)** | 588 |
| Tax losses utilised | **(1 959)** | 2 744 |
| Withholding taxes and taxes on rental income | **1 072** | (2 319) |
| Effective tax | **43 554** | 120 114 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 6. EARNINGS, HEADLINE EARNINGS AND NET ASSET VALUE PER SHARE

| Cents per share | **2017 Continuing operations** | **2017 Total operations** | 2016 Continuing operations | 2016 Discontinued operations | 2016 Total operations |
|---|---|---|---|---|---|
| EPS — Basic | **(79,34)** | **(79,34)** | 149,30 | (44,99) | 104,31 |
| EPS — Diluted | **(72,88)** | **(72,88)** | 138,75 | (41,81) | 96,94 |
| HEPS — Basic | **10,94** | **10,94** | 138,16 | (48,54) | 89,62 |
| HEPS — Diluted | **10,05** | **10,05** | 128,39 | (45,11) | 83,28 |
| Adjusted HEPS | **89,86** | **89,86** | 138,16 | (48,54) | 89,62 |
| Net asset value per ordinary share | | **1 415,60** | | | 1 498,48 |
| Diluted net asset value per ordinary share | | **1 296,39** | | | 1 382,77 |
| Net tangible asset value per ordinary share | | **784,43** | | | 779,11 |
| Diluted net tangible asset value per ordinary share | | **718,37** | | | 718,94 |
| EARNINGS/ATTRIBUTABLE ASSET VALUES | | | | | |
| EPS — Basic and diluted | **(137 068)** | **(137 068)** | 260 954 | (78 637) | 182 317 |
| HEPS — Basic and diluted | **18 892** | **18 892** | 241 476 | (84 842) | 156 634 |
| Adjusted HEPS | **155 230** | **155 230** | 241 476 | (84 842) | 156 634 |
| Net asset value | | **2 438 252** | | | 2 600 717 |
| Net tangible value | | **1 351 119** | | | 1 352 188 |

| | WEIGHTED AVERAGE SHARES | | AS AT FEBRUARY | |
|---|---|---|---|---|
| | **HEPS and EPS 2017** | HEPS and EPS 2016 | **NAV 2017** | NAV 2016 |
| SHARES USED FOR EPS, HEPS AND NAV | | | | |
| Basic | **172 750 427** | 174 779 842 | **172 241 569** | 173 556 487 |
| Diluted | **188 080 746** | 188 080 746 | **188 080 746** | 188 080 746 |
| Reconciliation between weighted average number of shares and diluted number of shares | | | | |
| Issued ordinary shares — at the beginning of the year | **188 080 746** | 188 080 746 | **188 080 746** | 188 080 746 |
| Effect of treasury shares held in share trusts | **(6 429 930)** | (6 429 930) | **(6 429 930)** | (6 429 930) |
| Effect of treasury shares held in investment subsidiary | **(8 900 389)** | (6 870 974) | **(9 409 247)** | (8 094 329) |
| NUMBER OF SHARES IN ISSUE | **172 750 427** | 174 779 842 | **172 241 569** | 173 556 487 |
| Dilution potential of ordinary shares | **15 330 319** | 13 300 904 | **15 839 177** | 14 524 259 |
| Diluted number of shares in issue | **188 080 746** | 188 080 746 | **188 080 746** | 188 080 746 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 6. EARNINGS, HEADLINE EARNINGS AND NET ASSET VALUE PER SHARE CONTINUED

| | **2017 Gross amount R'000** | **2017 Net amount R'000** | 2016 Gross amount R'000 | 2016 Net amount R'000 |
|---|---|---|---|---|
| **HEADLINE EARNINGS RECONCILIATION — CONTINUING OPERATIONS** | | | | |
| (Loss)/profit after taxation from continuing operations attributable to equity holders of the company | | **(137 068)** | | 260 954 |
| Adjusted for: | | | | |
| Profit on disposal of plant and equipment | **(13 377)** | **(9 634)** | (7 198) | (5 178) |
| Impairment of land and buildings | **14 734** | **11 434** | — | — |
| Impairment of goodwill and intangible assets | **154 826** | **154 160** | — | — |
| Profit on disposal of investment property | **—** | **—** | (16 158) | (8 234) |
| Fair value adjustment on investment property | **—** | **—** | (6 066) | (6 066) |
| Headline earnings | | **18 892** | | 241 476 |
| Settlement agreement charge (Voluntary Rebuild Programme) | **138 764** | **136 338** | — | — |
| Adjusted headline earnings | | **155 230** | | 241 476 |
| **HEADLINE EARNINGS RECONCILIATION — TOTAL OPERATIONS** | | | | |
| (Loss)/profit after taxation from total operations attributable to equity holders of the company | | **(137 068)** | | 182 317 |
| Adjusted for: | | | | |
| Profit on disposal of plant and equipment | **(13 377)** | **(9 634)** | (6 416) | (4 615) |
| Impairment of land and buildings | **14 734** | **11 434** | — | — |
| Impairment of goodwill and intangible assets | **154 826** | **154 160** | — | — |
| Profit on disposal of investment property | **—** | **—** | (16 158) | (8 234) |
| Fair value adjustment on investment property | **—** | **—** | (6 066) | (6 066) |
| Net gain on disposal of foreign investment | **—** | **—** | (6 768) | (6 768) |
| Headline earnings | | **18 892** | | 156 634 |
| Settlement agreement charge (Voluntary Rebuild Programme) | **138 764** | **136 338** | — | — |
| Adjusted headline earnings | | **155 230** | | 156 634 |

In adjusting HEPS, items which represent the result of activities which are non-core (e.g. The settlement agreement with government) to the key operating objectives of the Stefanutti Stocks group are removed and are thus separately disclosed to enhance clarity of reporting.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 7. PROPERTY, PLANT AND EQUIPMENT

| | REVALUED | COST | | | |
|---|---|---|---|---|---|
| | Land and buildings R'000 | Transport and motor vehicles R'000 | Plant and equipment R'000 | Furniture, fittings, office and computer equipment R'000 | Total R'000 |
| **2017** | | | | | |
| Cost/Valuation | **494 561** | **146 947** | **1 448 546** | **87 172** | **2 177 226** |
| Accumulated depreciation | **—** | **(111 394)** | **(777 025)** | **(76 559)** | **(964 978)** |
| Carrying value at year-end | **494 561** | **35 553** | **671 521** | **10 613** | **1 212 248** |
| **2016** | | | | | |
| Cost/Valuation | 421 658 | 170 196 | 1 352 541 | 93 938 | 2 038 333 |
| Accumulated depreciation | (1 232) | (124 220) | (735 072) | (78 097) | (938 621) |
| Carrying value at year-end | 420 426 | 45 976 | 617 469 | 15 841 | 1 099 712 |

Reconciliation of the carrying value of property, plant and equipment:

| | Land and buildings R'000 | Transport and motor vehicles R'000 | Plant and equipment R'000 | Furniture, fittings, office and computer equipment R'000 | Total R'000 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Carrying value at the beginning of the year | **420 426** | **45 976** | **617 469** | **15 841** | **1 099 712** |
| Foreign exchange | **(60 477)** | **(4 052)** | **(29 209)** | **(835)** | **(94 573)** |
| Revaluation | **115 257** | **—** | **—** | **—** | **115 257** |
| Additions | **37 809** | **8 190** | **221 588** | **4 624** | **272 211** |
| Disposals | **(3 171)** | **(3 283)** | **(21 224)** | **(241)** | **(27 919)** |
| Impairment | **(14 734)** | **—** | **—** | **—** | **(14 734)** |
| Depreciation | **(549)** | **(11 278)** | **(117 103)** | **(8 776)** | **(137 706)** |
| Carrying value at year-end | **494 561** | **35 553** | **671 521** | **10 613** | **1 212 248** |
| **2016** | | | | | |
| Carrying value at the beginning of the year | 405 886 | 61 738 | 621 545 | 20 483 | 1 109 652 |
| Foreign exchange | (983) | 432 | 9 268 | (561) | 8 156 |
| Additions | 16 167 | 9 382 | 124 122 | 7 742 | 157 413 |
| Disposals | — | (4 258) | (19 746) | (152) | (24 156) |
| Depreciation | (644) | (21 318) | (117 720) | (11 671) | (151 353) |
| Carrying value at year-end | 420 426 | 45 976 | 617 469 | 15 841 | 1 099 712 |

Had land and buildings been carried at cost, the carrying value of land and buildings would have been R373 million (Feb 2016: R402 million).

The impairment losses recognised related to the revaluation of certain land and buildings, based on the valuation by an independent external valuer. The impairment has no specific attributable event or circumstance.

All disposals of assets result from the sale, scrapping and replacement thereof in the normal course of business.

Additions in the cash flow statement are shown net of direct financing raised.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 8. EQUITY-ACCOUNTED INVESTEES

### 8.1 ANALYSIS OF THE CARRYING VALUE OF EQUITY-ACCOUNTED INVESTEES

| | JOINT VENTURES | | ASSOCIATES | |
|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| Shares at cost less impairment (including long term borrowings) | **3 832** | 3 832 | **23 372** | 8 435 |
| Share of post-acquisition reserves | **154 170** | 169 840 | **8 486** | 7 351 |
| Carrying value of equity-accounted investees | **158 002** | 173 672 | **31 858** | 15 786 |
| RECONCILIATION OF THE CARRYING VALUE OF EQUITY-ACCOUNTED INVESTEES: | | | | |
| Carrying value at the beginning of the year | **173 672** | 216 249 | **15 786** | 16 006 |
| Share of profit of equity-accounted investments after tax | **40 623** | 18 403 | **270** | 637 |
| Acquisitions of associates | **—** | — | **3 879** | — |
| Deemed disposal of associate | **—** | — | **(700)** | — |
| Disposal of joint venture | **—** | (86 117) | **—** | — |
| Transactions relating to loans | | | | |
| — Advances made | **—** | — | **20 628** | 200 |
| — Reclassification from associate to subsidiary | **—** | — | **(5 382)** | — |
| — Interest accrued | **—** | — | **—** | 80 |
| Elimination of intergroup profits | **—** | — | **(747)** | — |
| Exchange rate differences | **(35 157)** | 48 053 | **(1 876)** | 1 313 |
| Dividends received | **(21 136)** | (22 916) | **—** | (2 450) |
| Carrying value at year-end | **158 002** | 173 672 | **31 858** | 15 786 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 8. EQUITY-ACCOUNTED INVESTEES CONTINUED

### 8.2 INFORMATION IN RESPECT OF JOINT VENTURE

| | AL-TAYER STOCKS | |
|---|---|---|
| | **2017 R'000** | 2016 R'000 |
| Nature of relationship | **Joint venture** | |
| Place of business | **United Arab Emirates** | |
| % Ownership | **49%** | 49% |
| % Voting rights | **50%** | 50% |
| SUMMARISED AMOUNTS IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE JOINT VENTURE | | |
| Dividends received | **21 136** | 22 916 |
| Revenue | **2 081 331** | 1 536 811 |
| Profit or loss from operations after taxation | **81 246** | 36 806 |
| Total comprehensive income | **10 932** | 132 911 |

The difference between profit or loss and total comprehensive income is the foreign currency translation reserve amount recognised on conversion to Rand.

| | | |
|---|---|---|
| SUMMARISED AMOUNTS IN THE STATEMENT OF FINANCIAL POSITION OF THE JOINT VENTURE | | |
| TOTAL ASSETS | | |
| Non-current assets | **11 632** | 20 082 |
| Current assets | **1 213 702** | 832 698 |
| TOTAL LIABILITIES | | |
| Current liabilities (consist of trade and other payables and provisions) | **(909 330)** | (505 436) |
| Net asset value | **316 004** | 347 344 |
| Group's share of net asset value | **158 002** | 173 672 |
| Carrying value of investments | **158 002** | 173 672 |
| INCLUDED IN TOTAL ASSETS, LIABILITIES AND COMPREHENSIVE INCOME: | | |
| Cash and cash equivalents | **223 647** | 248 185 |
| Depreciation | **5 171** | 4 158 |

### 8.3 INFORMATION OF NON-MATERIAL ASSOCIATES

| | **2017 R'000** | 2016 R'000 |
|---|---|---|
| Carrying amount (including long-term borrowings) | **31 858** | 15 786 |
| Group's share of profit after taxation | **270** | 637 |
| Group's share of total comprehensive income | **270** | 637 |
| Dividends received | **—** | 2 450 |

No other comprehensive income relating to the associates was reported on during the year.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 9. JOINT OPERATIONS

A portion of the group's operations are performed through joint operations as unincorporated arrangements such as partnerships and contractual arrangements, additional information relating to the group's significant joint operations is provided below:

| | Nature of joint operations | Principal place of business | **Group's % interest 2017** | Group's % interest 2016 |
|---|---|---|---|---|
| NAME OF JOINT OPERATIONS | | | | |
| Kusile Civils Works — Kusile Power Station | Structures | Mpumalanga | **25** | 25 |
| SSAS — BRT Stations | Structures | Gauteng | **70** | 70 |
| SSAS 2 — BRT Stations | Structures | Gauteng | **60** | — |
| SS4P — PRASA Platforms | Structures | Gauteng | **70** | 70 |
| SAM — Zuikerbosch Sedimentation | Structures | Gauteng | **80** | 60 |
| Zuikerbosch Consortium — Zuikerbosch Sedimentation | Structures | Gauteng | **56** | 42 |
| Oryx — Oryx Kissy Fuel Jetty | Structures | Sierra Leone | **40** | 40 |
| Stefanutti Stocks Marine & Axsys Projects | Structures | KwaZulu-Natal | **74** | 74 |
| SSM — Medupi Pump Station | Structures | Limpopo | **75** | 75 |
| SSO — Nsezi WTW Phase 1 | Structures | KwaZulu-Natal | **68** | — |
| SSO/Vitatype — Nsezi WTW Phase 2 | Structures | KwaZulu-Natal | **68** | — |
| Usuthu WTW | Structures | KwaZulu-Natal | **68** | — |
| Sikhuphe International Airport | Building | Swaziland | **55** | 55 |
| KISS — International Convention Centre | Building | Swaziland | **50** | 50 |
| Stefanutti Stocks Basil Read Kusile Building — Kusile | Building | Mpumalanga | **50** | 50 |
| Stefanutti Stocks Ladysmith Construction — Project Sunrise | Building | KwaZulu-Natal | **75** | 75 |
| Stefanutti Stocks Building/AP Park Square — Park Square | Building | KwaZulu-Natal | **80** | — |
| Stefanutti Stocks Botani/Axsys — Mercedes-Benz Logistics Building | Building | Eastern Cape | **58** | — |
| HKS — MVA Building | Building | Swaziland | **80** | 80 |
| Stefanutti Stocks/Izazi — Kusile Topsoil | Roads and Earthworks | Mpumalanga | **60** | 60 |
| Stefanutti Stocks/Five and Only — Ethekweni | Roads and Earthworks | KwaZulu-Natal | **60** | 60 |
| Eshowe — Pipelines | Pipelines | KwaZulu-Natal | **70** | — |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 10. GOODWILL AND INTANGIBLE ASSETS

| | GOODWILL | INTANGIBLE ASSETS | | | | TOTAL |
|---|---|---|---|---|---|---|
| | R'000 | Trade names R'000 | Technology R'000 | Customer related R'000 | Total R'000 | R'000 |
| **2017** | | | | | | |
| Cost | **1 232 416** | **78 648** | **1 958** | **1 606** | **82 212** | **1 314 628** |
| Accumulated impairment | **(156 625)** | **(2 380)** | **—** | **—** | **(2 380)** | **(159 005)** |
| Accumulated amortisation | **—** | **(66 495)** | **(1 855)** | **(140)** | **(68 490)** | **(68 490)** |
| Carrying value at year-end | **1 075 791** | **9 773** | **103** | **1 466** | **11 342** | **1 087 133** |
| **2016** | | | | | | |
| Cost | 1 232 416 | 78 648 | 1 958 | — | 80 606 | 1 313 022 |
| Accumulated impairment | (4 179) | — | — | — | — | (4 179) |
| Accumulated amortisation | — | (58 567) | (1 747) | — | (60 314) | (60 314) |
| Carrying value at year-end | 1 228 237 | 20 081 | 211 | — | 20 292 | 1 248 529 |

Reconciliation of the carrying value of goodwill and intangibles:

| | GOODWILL | INTANGIBLE ASSETS | | | | TOTAL |
|---|---|---|---|---|---|---|
| | R'000 | Trade names R'000 | Technology R'000 | Customer related R'000 | Total R'000 | R'000 |
| **2017** | | | | | | |
| Carrying value at the beginning of the year | **1 228 237** | **20 081** | **211** | **—** | **20 292** | **1 248 529** |
| Impairment | **(152 446)** | **(2 380)** | **—** | **—** | **(2 380)** | **(154 826)** |
| Additions | **—** | **—** | **—** | **1 606** | **1 606** | **1 606** |
| Amortisation | **—** | **(7 928)** | **(108)** | **(140)** | **(8 176)** | **(8 176)** |
| Carrying value at year-end | **1 075 791** | **9 773** | **103** | **1 466** | **11 342** | **1 087 133** |
| **2016** | | | | | | |
| Carrying value at the beginning of the year | 1 228 237 | 27 893 | 319 | — | 28 212 | 1 256 449 |
| Amortisation | — | (7 812) | (108) | — | (7 920) | (7 920) |
| Carrying value at year-end | 1 228 237 | 20 081 | 211 | — | 20 292 | 1 248 529 |

The impairment recognised against the tradenames relates to Cycad Pipelines (Pty) Ltd.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 10. GOODWILL AND INTANGIBLE ASSETS CONTINUED

Each year, management employs a rigorous process in assessing the recoverability of goodwill which begins with the budgeting process as one of its base inputs. The budgets, upon which the impairment tests are based, go through an internal vetting and approval process which covers the budget and strategic planning process for the coming four years.

Budgets are zero based each year, and through the vetting process are tested for sensibility given the strategic intent and capabilities of the operations within the group. The Executive Committee and Board are part of this process, who ultimately approve these budgets.

Management believe the zero based budgeting process is the best suited to the assessment of the recoverability of goodwill as it addresses the complexities of the construction environment such as the fact that the construction industry is not static, nor is it repetitive.

The varying industry disciplines within the group which differ in nature as well as in contract execution, adds to this complexity. During the approval process the past experience and knowledge of the Executive Committee and Board are applied to further temper the budgets and inputs to the process.

### IMPAIRMENT TESTING FOR CASH-GENERATING UNITS (CGU) CONTAINING GOODWILL

For purposes of impairment testing, goodwill is allocated to the group's operating divisions which represent the lowest CGUs, where goodwill is monitored for internal management purposes.

The value in use of the different CGUs is determined by discounting the future cash flows generated from the continuing use of the CGUs and based on the following key assumptions:

| | CARRYING VALUES OF GOODWILL PER CGU | | CONSTANT GROWTH RATE (A) | | AAARG % (B) | | PRE-TAX WACC (C) | |
|---|---|---|---|---|---|---|---|---|
| CASH-GENERATING UNITS | **2017 R'000** | 2016 R'000 | **2017 %** | 2016 % | **2017 %** | 2016 % | **2017 %** | 2016 % |
| Stefanutti Stocks Marine | **16 167** | 16 167 | **3** | 3 | **18,1** | 0,5 | **18,5** | 18,7 |
| Stefanutti Stocks Civils KZN | **34 537** | 34 537 | **3** | 3 | **17,4** | 14,7 | **18,7** | 18,5 |
| Stefanutti Stocks Building (Stocks Building Africa (Pty) Ltd) | **789 700** | 789 700 | **4** | 4 | **6,7** | 20,7 | **17,1** | 16,9 |
| Stefanutti Stocks Housing | **122 323** | 122 323 | **3** | 3 | **24,1** | 14,9 | **17,5** | 18,5 |
| Stefanutti Stocks Roads and Earthworks | **22 573** | 22 573 | **3** | 3 | **11,2** | 1,1 | **17,5** | 18,5 |
| Stefanutti Stocks Mining Services | **58 926** | 58 926 | **3** | 3 | **13,1** | 0,2 | **17,1** | 18,4 |
| Cycad Pipelines (Pty) Ltd | **—** | 152 446 | **—** | 4 | **—** | 25,7 | **—** | 16,8 |
| Mechanical | **19 360** | 19 360 | **3** | 3 | **27,6** | 7,8 | **17,5** | 18,5 |
| Electrical (Apollo E&I Construction (Pty) Ltd) | **11 062** | 11 062 | **3** | 4 | **6,4** | 5,8 | **17,5** | 18,5 |
| Electrical (Energotec) | **1 143** | 1 143 | **3** | 4 | **6,4** | 5,8 | **17,5** | 18,5 |
| | **1 075 791** | 1 228 237 | | | | | | |

These CGUs noted above cannot be directly linked to the operating segments as disclosed in the segment information in note 22, as the above CGUs are representative of acquisitions made whereas the operating segments represent the business units as a whole.

Discounted cash flow forecasts are prepared by management as the basis for determining the estimated recoverable amount. Appropriate growth and discount rates, given the industry and location of the CGUs and its operations, are applied in the forecast. The recoverable amount of each CGUs, except for Cycad Pipelines (Pty) Ltd was based on its value in use, and was determined to be higher than its carrying amount. With respect to Cycad Pipelines (Pty) Ltd an impairment of R152 million was recognised (2016: Nil) due to the downturn in its activity and management assessing there to be very few viable contracts in the pipeline market.

Cash flows are projected based on actual operating results and four-year forecasts. Cash flows beyond this were extrapolated using a constant growth rate of (A) which does not exceed the long-term average growth rate for the industry. Appropriate growth and discount rates, given the industry and location of the CGUs and its operations, are applied to the forecast. The calculation of the weighted average cost of capital (WACC) (C) decreased due to a decrease in the risk-free rate of return (R186) year-on-year from 9,27% to 8,82%. An increase in WACC is mostly attributable to an increase in the risk profile of the CGUs.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 10. GOODWILL AND INTANGIBLE ASSETS CONTINUED

Revenue forecasts were used as basis for determining the value assigned to each CGUs. The AAARG (B) included in the cash flow projections is an average for the years 2018 to 2021. The values assigned to the key assumptions represent management's assessment of the CGUs and are based on both external and internal sources.

Management has determined where the AAARG are in excess of 10%, the following factors contributed to this:

- lower turnover base;
- increased exposure to cross-border work;
- benefit of recently awarded contracts;
- potential contract awards in the short term;
- potential growth opportunities in certain sectors of the market including mining surface infrastructure, marine, petrochemical tank farms, water and sanitation treatment plants, and residential and mixed use building projects.

The decline in the AAARG in the Stefanutti Stocks Building CGUs is due to a general downturn in the market, particularly in the UAE.

### SENSITIVITY ANALYSIS FOR SIGNIFICANT GOODWILL

If the growth rate and WACC are adjusted to the percentages as indicated, the corresponding effect on the recoverable amount of the CGUs is illustrated in the tables below.

Each of the sensitivity analyses illustrated below, indicates that no impairment is required.

#### STEFANUTTI STOCKS BUILDING

| | WACC | |
|---|---|---|
| GROWTH RATE % | 16,1% R'000 | 18,1% R'000 |
| 3,0 | 23 210 | (119 883) |
| 5,0 | 162 777 | (22 474) |

#### STEFANUTTI STOCKS HOUSING

| | WACC | |
|---|---|---|
| GROWTH RATE % | 16,5% R'000 | 18,5% R'000 |
| 2,0 | 4 299 | (20 742) |
| 4,0 | 27 343 | (4 162) |

#### STEFANUTTI STOCKS MINING SERVICES

| | WACC | |
|---|---|---|
| GROWTH RATE % | 16,1% R'000 | 18,1% R'000 |
| 2,0 | 21 915 | (108 293) |
| 4,0 | 143 933 | (21 219) |

Similar sensitivity analyses were performed on the remaining goodwill allocated to other CGUs and no impairments were identified.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 11. DEFERRED TAX

### 11.1 DEFERRED TAX ASSETS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Includes: | | |
| Property, plant and equipment | **1 353** | (422) |
| Provisions | **20 168** | 7 877 |
| Retentions | **(600)** | (161) |
| Future expenditure allowances | **(210)** | — |
| Excess billings over work done | **3 678** | (597) |
| Work-in-progress | **(230)** | — |
| Prepaid expenses | **(17)** | (23) |
| Unrealised foreign exchange losses | **(551)** | (3 169) |
| Calculated losses | **35 211** | 24 558 |
| | **58 802** | 28 063 |
| Carrying value at the beginning of the year | **28 063** | 19 022 |
| Movements during the year attributable to: | | |
| Temporary differences | **32 056** | 9 041 |
| Recognised directly in the statement of changes in equity — revaluation of land and buildings | **(784)** | — |
| Foreign exchange | **(533)** | — |
| Carrying value at year-end | **58 802** | 28 063 |

Deferred tax assets have not been raised on deductible temporary differences amounting to R14 million (2016: R20 million).

#### RECOVERABILITY OF DEFERRED TAX ASSETS

Management assesses the extent to which it is probable that taxable profit will be available against which deductible temporary differences can be utilised. All companies with deferred tax asset balances are currently trading and expect to make profits which will enable them to recover the deferred tax assets.

The group considered the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses can be utilised:

- Whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses can be utilised
- Whether it is probable that the entity will have taxable profits before the unused tax losses expire
- Whether the unused tax losses result from identifiable causes which are unlikely to recur.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised. To determine the probability that taxable profit will be available against which the unused tax losses can be utilised, the group has reviewed its forecasts of taxable profits for the foreseeable future and compared that to its total tax losses.

Management has utilised financial budgets approved by management and the strategic plan, which has been approved by the executive committee and the board of directors, to determine the recoverability of the deferred tax asset balance.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 11. DEFERRED TAX CONTINUED

### 11.2 DEFERRED TAX LIABILITIES

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Includes: | | |
| Property, plant and equipment | **95 814** | 96 242 |
| Intangible assets | **2 999** | 5 691 |
| Provisions | **(124 274)** | (138 908) |
| Doubtful debt allowance | **(1 417)** | (12) |
| Retentions | **(11 431)** | 1 952 |
| Future expenditure allowances | **169 588** | 140 981 |
| Excess billings over work done | **(147 642)** | (60 701) |
| Work-in-progress | **39 126** | (34 618) |
| Prepayments | **1 689** | 46 453 |
| | **24 452** | 57 080 |
| Carrying value at the beginning of the year | **57 080** | 51 182 |
| Movements during the year attributable to: | | |
| Temporary differences | **(44 008)** | (247) |
| Recognised directly in the statement of changes in equity — revaluation of land and buildings | **9 611** | — |
| Recognised directly in the statement of changes in equity — change in capital gains tax rate | **—** | 5 984 |
| Transfer from non-current assets held for sale | **1 769** | — |
| Foreign exchange | **—** | 161 |
| Carrying value at year-end | **24 452** | 57 080 |

## 12. INVENTORIES

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Consumables | **22 862** | 21 586 |
| Operational inventory | **52 743** | 62 778 |
| Development property | **69 482** | 16 953 |
| | **145 087** | 101 317 |
| Inventories expensed during the year | **14 827** | 8 899 |
| Inventories written off during the year | **3 374** | 1 950 |

The development property relates to various properties in South Africa, which are held while the development units are in the process of being built and will be realised when the properties are sold.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 13. CONSTRUCTION CONTRACTS

### 13.1 CONTRACTS IN PROGRESS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Costs incurred to date | **18 091 566** | 22 012 148 |
| Plus: Profit and losses recognised to date | **1 685 863** | 1 544 480 |
| | **19 777 429** | 23 556 628 |
| Less: Work certified to date | **(20 329 035)** | (23 521 954) |
| Net amount (owed)/due | **(551 606)** | 34 674 |
| Plus: Advance payments on contracts in progress | **387 829** | 170 609 |
| Plus: Excess billings over work done on contracts in progress | **578 302** | 418 889 |
| Contracts in progress | **414 525** | 624 172 |
| Retention debtors on active projects included in trade and other receivables | **107 054** | 99 843 |

### 13.2 EXCESS BILLINGS OVER WORK DONE

| | | |
|---|---|---|
| Advances received from customers | **543 424** | 287 947 |
| Amounts claimed in excess of work performed | **654 319** | 452 269 |
| | **1 197 743** | 740 216 |

## 14. TRADE AND OTHER RECEIVABLES

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Contract receivables | **1 844 333** | 1 610 062 |
| Retention debtors | **130 979** | 182 846 |
| Allowance for doubtful receivables | **(12 298)** | (32 002) |
| Other receivables | **58 461** | 163 055 |
| Amounts due by joint operations | **105 753** | 119 695 |
| Amounts due by associates | **14 084** | — |
| Prepayments | **78 660** | 60 292 |
| Value added tax | **36 542** | 47 790 |
| | **2 256 514** | 2 151 738 |
| MOVEMENT IN ALLOWANCE FOR DOUBTFUL DEBTS | | |
| Carrying value at the beginning of the year | **(32 002)** | (34 898) |
| Additional allowance raised | **(11 169)** | (722) |
| Amounts written off as uncollectable | **21** | 2 444 |
| Amounts recovered during the year | **—** | 102 |
| Foreign currency translation movements | **13 430** | 980 |
| Unused amounts reversed | **17 422** | 92 |
| Carrying value at year-end | **(12 298)** | (32 002) |
| Carrying amount of receivables against which allowance has been raised | **21 302** | 32 002 |

The group has provided for individual receivables based on estimated cash flows, determined by reference to past default experience.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 15. BANK BALANCES

Included in the cash flow statement is cash and cash equivalents comprising:

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Cash at banks and on hand | **1 158 433** | 985 128 |
| Less: Bank overdrafts | **(2)** | (134 188) |
| | **1 158 431** | 850 940 |

Bank balances at the end of the year included the following balances that are restricted from immediate use:

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| RESTRICTED CASH INCLUDED ABOVE | | |
| Group's share of cash held by joint operations | **198 912** | 241 837 |
| Other restrictions | **1 325** | 11 049 |
| | **200 237** | 252 886 |

## 16. SHARE CAPITAL AND PREMIUM

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| AUTHORISED | | |
| 400 000 000 ordinary shares of 0,00025 cents each (2016: 400 000 000 ordinary shares of 0,00025 cents each) | **1** | 1 |
| | **1** | 1 |
| ISSUED | | |
| 188 080 746 ordinary shares of 0,00025 cents each fully paid for both periods presented | ***** | * |

* Less than R1 000.

| | NUMBER OF SHARES | |
|---|---|---|
| | 2017 | 2016 |
| Details of treasury shares in issue | | |
| Treasury shares held by: | **15 839 177** | 14 524 259 |
| Subsidiary | **9 409 247** | 8 094 329 |
| Share trusts | **6 429 930** | 6 429 930 |
| Reconciliation of shares: | | |
| Opening balance | **14 524 259** | 13 140 467 |
| Acquisition of treasury shares through subsidiary | **1 314 918** | 1 383 792 |
| Closing balance | **15 839 177** | 14 524 259 |

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| SHARE PREMIUM | | |
| Carrying value at the beginning of the year | **1 027 103** | 1 031 909 |
| Effect of treasury shares acquired | **(5 366)** | (4 806) |
| Carrying value at year-end | **1 021 737** | 1 027 103 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 17. EMPLOYEE SHARE INCENTIVE SCHEMES

### 17.1 SHARE-BASED PAYMENTS RESERVE

#### THE STEFANUTTI & BRESSAN SHARE INCENTIVE TRUST

Options are granted to employees at a price based on the weighted average price at grant date. Vesting periods are as follows:

a) On the second anniversary of the grant date, one third of the options will immediately accrue to the employee;

b) On the third anniversary of the grant date, a further third of the options will immediately accrue; and

c) The final third of the options will immediately accrue on the fourth anniversary of the grant date.

Employees are permitted to exercise options four times per annum, on predetermined dates which do not fall within the company's closed periods. Unexercised options expire after 10 years from the grant date. In the event of resignation, voluntary termination of the employment or dismissal of the option holder, unexercised options will automatically expire and be cancelled. Upon the involuntary termination of employment of the option holder, the option granted and not vested will be deemed to automatically meet all vesting conditions and may be exercised immediately. Upon retirement of an employee who is an option holder, the retiree can retain the options granted. However, the same vesting periods will apply as when the options were granted. These options are equity-settled.

| | Weighted average exercise price | **2017 Quantity** | 2016 Quantity |
|---|---|---|---|
| NUMBER OF SHARES HELD IN TRUST: | | | |
| OUTSTANDING AT YEAR-END | R7,52 | **5 171 197** | 5 171 197 |
| OPTIONS EXERCISABLE AT YEAR-END | | **5 171 197** | 5 171 197 |
| Exercise price of R10 — Options expire 26 July 2017 | | **1 963 600** | 1 963 600 |
| Exercise price of R6 — Options expire 19 July 2017 | | **3 207 597** | 3 207 597 |
| REMAINING CONTRACTUAL LIFE | | **—** | 1 year |

No share options were awarded or expired during the years presented.

#### INFORMATION ON OPTIONS

Fair value was determined by an external valuer using a variant of the binomial option pricing model. The following inputs were used: current/spot price, exercise/strike price, option life, risk free rate, volatility, dividends.

#### OPTION LIFE

Option holders exercise their options not on price, but mainly on holding periods. Executives, on average, exercise their options within two years after vesting, while staff exercise their options almost immediately upon vesting.

#### RISK-FREE RATE

The risk-free rate was based on the prevailing yield on long-term government stock (R153) as at the respective grant date.

#### VOLATILITY

Expected volatility was based on two different approaches. For valuations performed in terms of grant number 1 and 2, the volatility of similar large construction companies were considered. Average volatility for six similar entities amounted to 28,44%. Historic volatility for grant number 3 and 4 were determined by using the 360-day rolling volatility for Stefanutti Stocks to the date of grant, being 35,72%.

#### DIVIDEND YIELD

An average dividend yield of 1,24% based on the average dividend yield for six similar entities has been used in performing the valuation for all the options.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 17. EMPLOYEE SHARE INCENTIVE SCHEMES CONTINUED

### 17.2 LONG-TERM EMPLOYMENT BENEFITS

The FSP is operated together with the existing schemes, complementing and enhancing the ability of the group to attract, retain and reward key staff. The FSP will include participation by executive directors and selected employees of the group. Directors participate in the group's long-term incentive FSP and profit incentive schemes, which are designed to recognise the contributions that senior staff has made to the growth in the value of the group's equity and to retain key employees. In terms of the FSP, a bonus amount is awarded to the directors in proportion to their contribution to the business, as reflected by a combination of their seniority and the company's performance, within the limits imposed by the scheme. This bonus is used to buy shares in the open market, the ownership of such shares being restricted for a period of three years. The restriction on the ownership of the shares is lifted after a three-year period in terms of the scheme rules. Shares may not be disposed of or otherwise encumbered during the vesting period of three years. Resignation, voluntary termination of employment or dismissal before the vesting period has expired, will result in the forfeiture of entitlement to the shares. These amounts are included under "incentives" in the executive directors' annual remuneration.

| | **2017 Quantity** | 2016 Quantity |
|---|---|---|
| NUMBER OF SHARES: | | |
| Outstanding at the beginning of the year | **820 766** | 951 662 |
| Awarded during the year | **1 538 556** | 399 070 |
| Vested during the year | **—** | (529 966) |
| OUTSTANDING AT YEAR-END | **2 359 322** | 820 766 |
| GRANT PRICE | **R4,05** | R7,15 |
| FAIR VALUE AT GRANT DATE (R'000) | **6 231** | 2 855 |
| CONTRACTUAL LIFE OF EACH AWARD | **3 years** | 3 years |

Fair value at grant date represents the market value of the shares at award date. In fulfilment of the FSP obligations, the group purchases shares in the market.

#### FORFEITABLE SHARE PLAN COSTS

An expense of R2 million (2016: R2 million) which related to the FSP was recognised in the current year.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 18. OTHER FINANCIAL LIABILITIES

### 18.1 NON-CURRENT AND CURRENT LIABILITIES

| | **2017 Non-current R'000** | **2017 Current R'000** | 2016 Non-current R'000 | 2016 Current R'000 |
|---|---|---|---|---|
| Unsecured borrowings | **26** | **6 639** | 26 | 34 125 |
| Secured borrowings | **55 807** | **73 186** | 65 310 | 63 614 |
| Instalment sales agreements | **182 547** | **104 633** | 109 293 | 72 462 |
| Borrowings | **238 380** | **184 458** | 174 629 | 170 201 |
| Voluntary Rebuild Programme | **108 080** | **6 976** | — | — |
| Deferred Settlement Arrangement | **—** | **137 360** | — | 176 095 |
| Other financial liabilities | **346 460** | **328 794** | 174 629 | 346 296 |

The Voluntary Rebuild Programme (note 3) is contractually repaid annually over a period of 12 years, with an annual instalment of R15 million, at an implied interest rate of 7,5%.

The Deferred Settlement Arrangement represents the obligation towards the Competition Commission for previously negotiated settlements. The repayment arrangement was discounted at a deemed interest rate of 7%, while unpaid instalments carry interest at the prime lending rate. The arrangement is unsecured, has matured during the year and will be repaid in due course.

#### SECURITY PROVIDED AGAINST BORROWINGS

| | PROPERTY, PLANT AND EQUIPMENT, TRANSPORT AND MOTOR VEHICLES | | INVENTORY DEVELOPMENT PROPERTY | CONTRACT RECEIVABLES | HOLDING COMPANY | SUBSIDIARY COMPANIES |
|---|---|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | | | |
| Secured bank loans | **206 400** | 174 000 | **50 705** | **Revolving dependent on facility used and outstanding receivable balance** | **Suretyships and cross guarantees** | **Cross guarantees** |
| Instalment sales agreements | **281 399** | 163 000 | | | | |
| | **487 799** | 337 000 | | | | |

### 18.2 INSTALMENT SALE AND FINANCE LEASE LIABILITIES PAYABLE

| | FUTURE MINIMUM LEASE PAYMENTS | | INTEREST | | PRESENT VALUE OF MINIMUM LEASE PAYMENTS | |
|---|---|---|---|---|---|---|
| | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 | **2017 R'000** | 2016 R'000 |
| MINIMUM INSTALMENT SALE AND FINANCE LEASE PAYMENTS DUE | | | | | | |
| Less than one year | **131 303** | 84 218 | **(26 670)** | (11 756 ) | **104 633** | 72 462 |
| Between two and five years | **198 982** | 122 419 | **(16 435)** | (13 126) | **182 547** | 109 293 |
| | **330 285** | 206 637 | **(43 105)** | (24 882) | **287 180** | 181 755 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 19. TRADE AND OTHER PAYABLES

| | **2017 R'000** | 2016 R'000 |
|---|---|---|
| Trade payables | **793 315** | 874 144 |
| Retention creditors and subcontractors | **202 635** | 234 991 |
| Accrued expenses | **649 842** | 679 597 |
| Value added tax | **104 932** | 97 421 |
| Unclaimed dividends | **24** | 24 |
| | **1 750 748** | 1 886 177 |

## 20. PROVISIONS

| | Balance at the beginning of the year R'000 | Additional provisions raised R'000 | Utilised/ reversed during the year R'000 | Balance at year-end R'000 |
|---|---|---|---|---|
| Warranty provisions | 74 801 | 46 404 | (74 801) | 46 404 |
| Contract related provisions | 414 195 | 373 996 | (414 195) | 373 996 |
| | 488 996 | 420 400 | (488 996) | 420 400 |

Warranty provisions relate to obligations to rectify defects on projects already delivered to customers. These defect periods expire within 12 months.

Contract related provisions represents the estimated amounts relating to incurred obligations to third party suppliers. It is anticipated that these will be utilised within 12 months.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 21. NOTES TO THE STATEMENT OF CASH FLOWS

### 21.1 CASH GENERATED FROM OPERATING ACTIVITIES

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Net (loss)/profit before taxation | | |
| From continuing operations | **(106 236)** | 384 632 |
| From discontinued operations | **—** | (90 204) |
| Adjusted for: | | |
| Settlement agreement charge | **130 056** | — |
| Depreciation (note 7) | **137 706** | 151 353 |
| Amortisation of intangibles (note 10) | **8 176** | 7 920 |
| Impairment of goodwill and intangibles (note 10) | **154 826** | — |
| Impairment of assets (note 7) | **14 734** | — |
| Investment income (note 2) | **(44 862)** | (34 023) |
| Dividend received (note 2) | **(2)** | (26) |
| Finance costs (note 4) | **85 597** | 60 458 |
| Movement in provisions | **(71 809)** | (19 753) |
| Share of profit of equity-accounted investees (note 8) | **(40 893)** | 15 632 |
| Net loss on foreign exchange | **80 892** | 25 811 |
| Profit on disposals of property, plant and equipment | **(13 377)** | (6 416) |
| Gross profit on disposal of investment property net of foreign exchange profits | **—** | (33 279) |
| Fair value adjustment — investment property | **—** | (6 066) |
| Gain on disposal of equity-accounted investee | **—** | (6 768) |
| Allowance for doubtful debt | **6 274** | 20 969 |
| Other non-cash items | **1 259** | — |
| | **342 341** | 470 240 |
| MOVEMENTS IN WORKING CAPITAL | | |
| Change in inventories | **(33 763)** | 9 539 |
| Change in contracts in progress | **210 844** | 186 723 |
| Change in trade and other receivables | **(199 131)** | (109 585) |
| Change in trade and other payables | **(162 875)** | (98 377) |
| Change in excess billings over work done | **435 511** | (299 694) |
| Effect of foreign exchange rate changes on working capital | **23 370** | (128 836) |
| Cash generated from operations | **616 297** | 30 010 |

### 21.2 RECONCILIATION OF TAXATION PAID DURING THE YEAR

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Charge against profit — continuing operations | **119 618** | 129 402 |
| Charge against profit — discontinued operations | **—** | (5 622) |
| Effect of foreign exchange rate changes on taxation | **313** | (1 963) |
| Movement in taxation balance | **(17 351)** | 11 630 |
| Payments made | **102 580** | 133 447 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 22. SEGMENT INFORMATION

Segment reporting is done in a manner consistent with the internal reporting provided to the chief operating decision maker being the Executive Committee, with reportable operating segments being reported at business unit level. Individual members of the executive management team are responsible for the operating segments of the businesses noted below:

Below are the types of activities from which each operating segment derives revenue:

| BUSINESS UNIT | DESCRIPTION OF SEGMENT |
|---|---|
| **Roads, Pipelines and Mining Services** | Construction of roads, terraces for new developments, municipal services, mining infrastructure and rehabilitation, fibre optic cable trenching, bulk pipelines, mine residue disposal facilities and open-pit contract mining. |
| **Mechanical and Electrical** | Includes mechanical and electrical installation and construction. |
| **Structures** | Civil engineering, structural concrete, geotechnical and marine capabilities, which include general and specialised concrete construction for infrastructure, mining and industrial markets. |
| **Building** | Full scope of building construction from commercial and industrial through to residential and leisure. This includes select residential developments for major mining and industrial clients as well as low-cost and affordable housing for the public sector. |
| **Other** | Other segments comprise segments which do not represent more than 10% of combined revenue or combined reported profit/(loss) or combined assets of all operating segments. It also includes those operations that are primarily centralised in nature, i.e. it primarily applies to the group's headquarters and are not allocated to any one particular segment. |

Segments are managed at business unit level and can be further broken down into divisions. Divisions which are similar in nature and function are aggregated and managed by the same managing director to form business units.

Intersegment contract revenues are eliminated on consolidation. The performance of operating segments are assessed by management based on net investment income and operating profit. Goodwill to the value of R1 087 million (Feb 2016: R1 249 million) is included within reportable segment assets for other segments.

| | Roads, Pipelines and Mining Services R'000 | Mechanical and Electrical R'000 | Structures R'000 | Building R'000 | Other segments and eliminations R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Revenues from external customers | **2 237 430** | **1 141 227** | **1 792 400** | **3 973 955** | **4 589** | **9 149 601** |
| Contract revenue | **2 192 243** | **1 134 766** | **1 771 934** | **3 959 633** | **—** | **9 058 576** |
| Intersegment contract revenues | **86 172** | **33 872** | **91 112** | **—** | **—** | **211 156** |
| Depreciation, amortisation and impairment | **77 706** | **11 178** | **25 363** | **31 805** | **169 390** | **315 442** |
| Net interest revenue/(expense) | **(7 232)** | **6 251** | **9 958** | **2 812** | **(52 522)** | **(40 733)** |
| Share of (losses)/profits of equity-accounted investees | **—** | **(456)** | **(79)** | **40 442** | **986** | **40 893** |
| Reportable segment operating profit/(loss) | **161 620** | **40 330** | **26 450** | **(1 749)** | **(333 047)** | **(106 396)** |
| Reportable segment profit/(loss) | **99 421** | **34 357** | **31 225** | **55 263** | **(370 056)** | **(149 790)** |
| Reportable segment assets | **2 055 357** | **593 344** | **1 148 732** | **1 701 128** | **1 068 537** | **6 567 098** |
| Equity-accounted investees | **—** | **3 423** | **662** | **177 467** | **8 308** | **189 860** |
| Reportable segment liabilities | **1 443 643** | **310 859** | **668 269** | **1 240 859** | **461 090** | **4 124 720** |
| **2016** | | | | | | |
| Revenues from external customers | 2 675 996 | 1 218 152 | 2 130 464 | 3 711 295 | 1 479 | 9 737 386 |
| Contract revenue | 2 637 921 | 1 216 092 | 2 113 292 | 3 702 168 | — | 9 669 473 |
| Intersegment contract revenues | 31 059 | 42 571 | 100 862 | 31 902 | — | 206 394 |
| Depreciation and amortisation | 67 531 | 18 082 | 38 871 | 32 394 | 2 395 | 159 273 |
| Net interest revenue/(expense) | 614 | 1 561 | 6 846 | (8 997) | (26 423) | (26 399) |
| Share of (losses)/profits of equity-accounted investees | — | — | ( 706) | 19 746 | — | 19 040 |
| Reportable segment operating profit/(loss) | 212 588 | 66 061 | 47 267 | 66 746 | ( 697) | 391 965 |
| Reportable segment profit/(loss) — continuing operations | 145 867 | 49 594 | 34 421 | 60 321 | (25 685) | 264 518 |
| Reportable segment profit/(loss) — total operations | 145 867 | 19 830 | 34 421 | 11 448 | (25 685) | 185 881 |
| Reportable segment assets | 1 576 826 | 513 170 | 1 210 575 | 1 978 701 | 1 233 006 | 6 512 278 |
| Equity-accounted investees | — | — | 740 | 188 718 | — | 189 458 |
| Reportable segment liabilities | 1 042 685 | 284 062 | 791 039 | 1 393 541 | 392 419 | 3 903 746 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 22. SEGMENT INFORMATION CONTINUED

### GEOGRAPHICAL AREAS

The group operates mainly in the geographical areas of South Africa (local), Africa and the Middle East (foreign).

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Local R'000** | **Foreign R'000** | Local R'000 | Foreign R'000 |
| Contract revenues from external customers | **6 913 182** | **2 145 394** | 6 792 171 | 2 877 302 |
| Non-current assets (excluding deferred tax) | **1 935 113** | **554 128** | 2 019 926 | 517 773 |

### MAJOR CUSTOMERS

Revenue generated from a single customer of the group amounted to approximately R831 million (2016: R585 million), of which the largest portion of this revenue was earned in Building (Feb 2016: Building). The group is not reliant on any one major customer as its services span a varied number of industries and countries.

## 23. RELATED PARTIES

Stefanutti Stocks Holdings Limited is the holding company for the group.

Related parties are those who control or have a significant influence over the group and parties who are controlled or significantly influenced by the group (including subsidiaries, joint arrangements and associates).

| NATURE OF RELATIONSHIPS | | | |
|---|---|---|---|
| **SUBSIDIARIES** | **EQUITY-ACCOUNTED INVESTEES (NOTE 8)** | **JOINT OPERATIONS (NOTE 9)** | **OTHER** |
| **Stefanutti Stocks Proprietary Limited**<br>Trading company for operations based in South Africa, as well as some foreign operations<br>**Stefanutti Stocks International Holdings Proprietary Limited**<br>Holding company for subsidiaries based in foreign countries<br>**Stefanutti Stocks Investments Proprietary Limited**<br>Treasury company for the group | **Joint Venture**<br>Al Tayer Stocks LLC, an interior fit-out company based in the United Arab Emirates<br>**Associates**<br>Various individually immaterial associates | Various joint operations | **Consolidated Structured Entities**<br>Stefanutti & Bressan Share Trust<br>Stefanutti Stocks Employee Participation Plan Trust<br>Stocks Building Africa Share Trust<br>Housing Africa Development Share Trust |
| OUTSTANDING BALANCES | | | |
| | **Note 8**<br>2017: R20 379 Receivable<br>2016: R5 132 Receivable<br>**Note 14**<br>2017: R14 084 Receivable<br>2016: Nil | **Note 14**<br>2017: R105 753 Receivable<br>2016: R119 695 Receivable | |
| PROVISION OF GUARANTEES — NOTE 24 | | | |

A full list of subsidiaries, joint arrangements and associates is available on request.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 23. RELATED PARTIES CONTINUED

### NON-EXECUTIVE DIRECTORS

Non-executive director remuneration is compared to the company's peer group. Recommendations are made by the CFO and Human Resources Executive, to the Remuneration and Nominations Committee (REMCO), for onward review by the board and submission to shareholders. Non-executive directors are compensated based on attendance fees. The fees are based on the size and complexity of the group and also take into account market practices and fee surveys provided to the committee. No distinction is made between fees payable to independent non-executive directors and other non-executive directors, although the fees of the Chairman take his expanded role into account.

The total fees paid to non-executive directors are not limited to a maximum annual amount, irrespective of the number of meetings attended. Directors qualify for reimbursement of expenses incurred in performing their duties for and on behalf of the company.

Non-executive directors do not have service contracts. Instead, letters of appointment confirm their terms of engagement, and include matters such as fees, term of office, expected time commitment, share dealing and board performance assessments. The Chairman has a letter of appointment, which is specific to his role and function. This letter of appointment is in line with normal business terms.

The fees paid to non-executive directors, as well as the proposed fees for the next financial year, were approved by the REMCO, the board of directors and shareholders at the last annual general meeting.

There is no requirement for non-executive directors to be shareholders of the company and they do not qualify to participate in any incentive scheme that is operated by the group.

The company's directors are appointed for a term of three years and are obliged to retire at the end of that period, but may offer themselves for re-election at the annual general meeting. A third retire by rotation annually.

| | SHORT-TERM BENEFITS | | | | |
|---|---|---|---|---|---|
| | Attendance fees R'000 | Annual fees R'000 | Pre-approved services R'000 | **Total 2017 R'000** | Total 2016 R'000 |
| NON-EXECUTIVE DIRECTORS | | | | | |
| KR Eborall (Chairman) | — | 880 | — | **880** | 860 |
| ME Mkwanazi | 250 | — | — | **250** | 236 |
| DG Quinn | 436 | — | 360 | **796** | 644 |
| NJM Canca | 474 | — | — | **474** | 467 |
| T Eboka | 208 | — | — | **208** | 280 |
| HJ Craig | 419 | — | — | **419** | 356 |
| ZJ Matlala | 489 | — | — | **489** | 474 |
| LB Sithole | 252 | — | — | **252** | 259 |
| JWLM Fizelle (Alternate to LB Sithole) | 234 | — | — | **234** | 304 |

### PRESCRIBED OFFICERS REMUNERATION

The group's prescribed officers consist of certain Executive Committee members who are not executive directors of the group.

### EXECUTIVE KEY MANAGEMENT PERSONNEL

Executive key management personnel are defined as executive directors of the company and other members of the Executive Committee.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 23. RELATED PARTIES CONTINUED

Details of remuneration for executive directors, prescribed officers and key management personnel are as follows:

| | SHORT-TERM EMPLOYEE BENEFITS | | | | | |
|---|---|---|---|---|---|---|
| | Basic salary R'000 | Other benefits R'000 | Short- and long-term incentives R'000 | Total R'000 | Post-employment benefits R'000 | Total R'000 |
| **2017** | | | | | | |
| **EXECUTIVE DIRECTORS** | | | | | | |
| W Meyburgh — CEO | **4 479** | **224** | **8 151** | **12 854** | **504** | **13 358** |
| AV Cocciante — CFO | **2 937** | **51** | **5 429** | **8 417** | **269** | **8 686** |
| **PRESCRIBED OFFICERS** | | | | | | |
| R Crawford (appointed 1 March 2016) | **2 656** | **214** | **3 650** | **6 520** | **257** | **6 777** |
| W Jerling | **2 725** | **215** | **1 417** | **4 357** | **308** | **4 665** |
| H Jones | **2 897** | **183** | **1 025** | **4 105** | **277** | **4 382** |
| V Olley | **2 865** | **119** | **1 248** | **4 232** | **267** | **4 499** |
| F Venter (retired 31 May 2016) | **307** | **—** | **—** | **307** | **—** | **307** |
| **EXECUTIVE KEY MANAGEMENT PERSONNEL** | **23 355** | **1 327** | **23 470** | **48 152** | **2 236** | **50 388** |
| **2016** | | | | | | |
| **EXECUTIVE DIRECTORS** | | | | | | |
| W Meyburgh — CEO | 4 217 | 255 | 7 684 | 12 156 | 475 | 12 631 |
| DG Quinn — CFO (retired on 31 May 2015) | 1 404 | 62 | 6 107 | 7 573 | 87 | 7 660 |
| AV Cocciante — CFO (appointed 1 June 2015) | 2 123 | 36 | 400 | 2 559 | 191 | 2 750 |
| **PRESCRIBED OFFICERS** | | | | | | |
| S Ackerman (resigned from EXCO 17 November 2015) | 1 849 | 188 | 1 159 | 3 196 | 338 | 3 534 |
| W Jerling | 973 | 53 | 120 | 1 146 | 97 | 1 243 |
| H Jones | 2 727 | 167 | 750 | 3 644 | 261 | 3 905 |
| V Olley | 2 645 | 105 | 1 056 | 3 806 | 247 | 4 053 |
| F Venter | 2 970 | 175 | 3 331 | 6 476 | 503 | 6 979 |
| **EXECUTIVE KEY MANAGEMENT PERSONNEL** | 23 131 | 1 326 | 22 790 | 47 247 | 2 532 | 49 779 |

Any awards made in terms of the FSP scheme is included within long-term incentives. The details of these awards are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Total shares awarded** | **Value of shares R'000** | Total shares awarded | Value of shares R'000 |
| **EXECUTIVE DIRECTORS** | | | | |
| W Meyburgh — CEO | **903 890** | **3 661** | 399 070 | 2 855 |
| AV Cocciante — CFO | **634 666** | **2 570** | — | — |
| DG Quinn (retired 31 May 2015) | **—** | **—** | — | 2 082 * |

* Vesting criteria was met and paid.

No awards were made to prescribed officers and key management personnel during the years under review.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 23. RELATED PARTIES CONTINUED

### DIRECTORS' SERVICE CONTRACTS

The contracts of employment of executive directors or senior executives do not preclude the company from exercising its normal rights to terminate the contract in the event of misconduct or poor performance. Executive directors retire from their positions and from the board at their normal retirement date.

Details of all contracts of employment for executive directors are not disclosed as the group operates in a highly competitive environment and the disclosure could be detrimental to its efforts to retain its employees.

### DIRECTORS' SHARE OPTIONS

Details of non-executive directors' share options are as follows:

| | Options granted opening balance | Strike price | Options exercised during the year | Exercise price | Options granted closing balance |
|---|---|---|---|---|---|
| DG Quinn (retired as executive director on 31 May 2015) | 400,000 | 6,00 | — | — | 400,000 |

No share options were awarded during the year. All share options granted are exercisable from 19 July 2011 and expire on 19 July 2017.

### DIRECTORS' SHAREHOLDING

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Direct beneficial %** | **Indirect beneficial %** | **Total %** | Direct beneficial % | Indirect beneficial % | Total % |
| PERCENTAGE OF FULLY PAID SHARES HELD | | | | | | |
| LB Sithole | **—** | **—** | **—** | — | 0,01 | 0,01 |
| JWLM Fizelle (Alternate) | **0,05** | **—** | **0,05** | 0,10 | 0,01 | 0,11 |
| DG Quinn | **0,29** | **0,08** | **0,37** | 0,29 | 0,08 | 0,37 |
| T Eboka | **—** | **0,05** | **0,05** | — | — | — |
| ME Mkwanazi | **0,03** | **—** | **0,03** | — | — | — |
| W Meyburgh (CEO) | **0,95** | **4,40** | **5,35** | 0,95 | 4,40 | 5,35 |
| AV Cocciante (CFO) | **0,15** | **—** | **0,15** | 0,15 | — | 0,15 |

### POST YEAR-END SHARE TRANSACTIONS

There were no transactions between the year-end date and the approval date of these financial statements.

## 24. GUARANTEES AND CONTINGENT LIABILITIES

### GUARANTEES

| | **2017 R'000** | 2016 R'000 |
|---|---|---|
| Total insurance policies ceded to third parties on behalf of the group | **3 267 491** | 3 262 217 |
| Guarantees and suretyships through certain banks | **3 153 165** | 3 070 000 |

The directors are of the opinion that the possibility of any loss is remote and it is not anticipated that any material liabilities will arise.

Certain of the guarantees and suretyships are supported by cross suretyships from subsidiaries.

### CONTINGENT LIABILITIES

In terms of the Settlement Agreement entered into with the South African Government all matters, other than the civil claim received from the City of Cape Town (Green Point Stadium) have been settled and/or withdrawn. The group is confident that on the facts currently available, it will successfully defend the City of Cape Town claim and has accordingly not made provision therefor.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 25. CAPITAL COMMITMENTS

The group had the following outstanding lease commitments:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Less than one year R'000** | **Between two and five years R'000** | Less than one year R'000 | Between two and five years R'000 |
| 2016 | | | | |
| Properties | **6 018** | **5 115** | 4 750 | 11 719 |
| Plant and equipment | **38 040** | **17 070** | 48 648 | 59 294 |
| Transport and motor vehicles | **850** | **850** | 650 | 1 950 |
| Furniture, fittings, office and computer equipment | **171** | **521** | 142 | 674 |
| | **45 079** | **23 556** | 54 190 | 73 637 |

### DETAILS OF SIGNIFICANT LEASING ARRANGEMENTS

Property rented for business purposes, have terms of between one to three years, with instalments payable monthly. Options to renew are at market-related rentals. Plant and equipment rentals to the value of R28 million are rented for a period between three and four years, payable monthly and all outstanding rentals are due on date of cancellation. Additional rental commitments of R10 million are entered into on an ad hoc basis per project requirement. No leases contain contingent rent provisions or covenants. The group does not have any commitments after five years.

## 26. RISK MANAGEMENT, ACCOUNTING CLASSIFICATIONS AND FAIR VALUE

### ACCOUNTING CLASSIFICATIONS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows the carrying amounts of financial assets and financial liabilities.

The carrying amounts of bank balances, trade receivables and trade payables approximate their fair values due to the short-term maturity of these assets and liabilities. There is no significant difference between the carrying amounts of other financial assets and liabilities and their fair values due to the effective interest method used.

| | **2017 R'000** | 2016 R'000 |
|---|---|---|
| FINANCIAL ASSETS, LOANS AND RECEIVABLES AT AMORTISED COST | | |
| Bank balances | **1 158 433** | 985 128 |
| Trade and other receivables | **2 141 312** | 2 043 656 |
| Equity-accounted investees — Loans — Associates | **20 379** | 5 132 |
| OTHER FINANCIAL LIABILITIES AT AMORTISED COST | | |
| Bank balances | **2** | 134 188 |
| Trade and other payables | **995 950** | 1 109 135 |
| Other financial liabilities | **675 254** | 520 925 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 26. RISK MANAGEMENT, ACCOUNTING CLASSIFICATIONS AND FAIR VALUE CONTINUED

### CAPITAL RISK MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The group manages its capital structure centrally and makes adjustments to it, in line with changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in respect of capital risk management during the current or previous year.

In setting the ideal mix between debt and equity, the group seeks to optimise its returns on shareholders' equity while maintaining prudent financial gearing. The group monitors capital using a gearing ratio which is net debt divided by total equity attributable to equity holders of the company. Generally the objective is to operate at a gearing ratio of not greater than 35%. The group retains excess capital to fund future growth.

The group includes within net debt interest-bearing loans, borrowings and bank overdrafts.

Capital is considered to consist of share capital, share premium, retained earnings and other reserves. The group is subject to externally imposed capital requirements by certain of their bankers which, in the event of non-compliance may have an impact on the liquidity risk of the group. At year-end all such requirements were met.

Gearing ratios at year-end were as follows:

| | **2017 R'000** | 2016 R'000 |
|---|---|---|
| Net debt | **675 230** | 636 343 |
| Interest-bearing long-term liabilities | **675 228** | 502 155 |
| Bank overdrafts | **2** | 134 188 |
| Total equity attributable to equity holders of the company | **2 438 252** | 2 600 717 |
| Gearing ratio | **27,7%** | 24,5% |

### RISK MANAGEMENT FRAMEWORK

The group's board of directors has overall responsibility for the establishment and oversight of the group's risk management framework.

The group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

### CREDIT RISK

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure.

**Trade and other receivables**

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Management also considers the factors that may influence credit risk including the default risk of the industry and country in which customers operate. The credit granting policy is set on a group basis and managed at operating entity level. Each business unit in the group is responsible for the management of credit risk in receivables and does so through ongoing credit evaluations and credit control policies and procedures.

Trade receivables comprise a widespread customer base, primarily in South Africa but also in the rest of Africa and Dubai. The majority of the customers are concentrated in the industrial public and private development sectors. Due to the diverse nature of the operations, management does not believe that the group is significantly exposed to a high concentration of credit risk. Management evaluates credit risk relating to customers on an ongoing basis. Any change in the credit quality of trade receivables is considered from the date credit was granted up to the reporting date. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 26. RISK MANAGEMENT, ACCOUNTING CLASSIFICATIONS AND FAIR VALUE CONTINUED

The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The movement in the allowance for impairment in respect of trade and other receivables during the year are disclosed in note 14.

| | **2017 R'000** | 2016 R'000 |
|---|---|---|
| **AGEING OF CONTRACT RECEIVABLES** | | |
| As at 28/29 February, the ageing analysis of contract receivables is as follows: | | |
| Not past due and not provided for | | |
| Current | **840 925** | 1 014 843 |
| 30 days | **259 443** | 191 563 |
| | **1 100 368** | 1 206 406 |
| Past due but not impaired | | |
| 60 days | **202 387** | 63 453 |
| 90 days | **102 415** | 109 428 |
| >120 days | **417 862** | 198 740 |
| | **722 664** | 371 621 |
| Impaired | **21 301** | 32 035 |
| | **1 844 333** | 1 610 062 |

The average credit period is 60 days. Interest is charged as per agreements reached with individual clients per signed contracts. The group has the right to waive interest as it deems necessary. Before accepting a new client, the group runs thorough credit and background checks in order to determine the potential customer's creditworthiness. All contracts and clients' creditworthiness is assessed on an individual basis. As a result of the policies and procedures implemented by management as noted above, the credit quality of contract receivables that are not past due and not provided for is considered to be good.

Exposure to trade receivables is mitigated by the request for collateral.

| | **2017 R'000** | 2016 R'000 |
|---|---|---|
| **COLLATERAL** | | |
| Contract receivables | **74 988** | 83 808 |
| Collateral held in the form of: | | |
| Payment guarantee | **142 903** | 60 408 |
| Builder's lien | **9 894** | — |

Payment guarantee

Guarantees are received from clients on signing the construction contract when required. Payment guarantees can be called on when the client is in default of negotiated terms. Guarantees are issued for specified periods and expire on final completion of the contract.

Builder's Lien

This is the right the contractor has over the construction (the building) if the client is in default on negotiated terms. The builder's lien is not readily convertible into cash, because of the nature of the collateral. The group will hold the right until payment is received should there not be a market for disposing of such an asset.

**Bank balances**

The group only deposits with major banks with high-quality ratings, the credit quality therefore is assessed as good.

### LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group manages liquidity risk through an ongoing review of future commitments and credit facilities and by ensuring that adequate unutilised borrowings facilities are maintained. This will ensure that the group will be in a position to meet its liabilities when they are due. The group also monitors on a monthly basis the level of expected cash inflows on trade and other receivables together with expected cash outflows to ensure all commitments are met. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 26. RISK MANAGEMENT, ACCOUNTING CLASSIFICATIONS AND FAIR VALUE CONTINUED

The group maintains the following lines of credit:

› R1,061 million (2016: R1,061 million) secured term loan and banking facility
› R833,7 million (2016: R645,5 million) secured banking facility

### EXPOSURE TO LIQUIDITY RISK

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are presented gross and undiscounted, and include contractual interest payments.

| | Carrying amount R'000 | Total R'000 | On demand R'000 | Less than one year R'000 | Between two and five years R'000 | More than five years R'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Other financial liabilities | **675 254** | **785 913** | **—** | **369 740** | **318 685** | **97 488** |
| Trade and other payables | **995 950** | **995 950** | **—** | **995 950** | **—** | **—** |
| Bank balances | **2** | **2** | **—** | **2** | **—** | **—** |
| | **1 671 206** | **1 781 865** | **—** | **1 365 692** | **318 685** | **97 488** |
| **2016** | | | | | | |
| Other financial liabilities | 520 925 | 613 238 | 13 187 | 384 367 | 190 533 | 25 151 |
| Trade and other payables | 1 109 135 | 1 109 135 | — | 1 109 135 | — | — |
| Bank balances | 134 188 | 134 188 | 11 045 | 123 143 | — | — |
| | 1 764 248 | 1 856 561 | 24 232 | 1 616 645 | 190 533 | 25 151 |

### MARKET RISK

Market risk is the risk that changes in foreign exchange rates and interest rates, will affect the group's income or the value of its holdings of financial instruments.

#### Currency risk

The group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies.

In addition to the above the group also has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The presentation currency of the group is Rand. The currencies in which these transactions are primarily denominated are Zambian Kwacha, Mozambique Metical and other African currencies.

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **ZMW R'000** | **MZN R'000** | **Other R'000** | **Total R'000** | ZMW R'000 | MZN R'000 | Other R'000 | Total R'000 |
| (Loss)/profit for the year included | **(8 791)** | **(3 670)** | **(80 122)** | **(92 583)** | 39 446 | 7 430 | 28 794 | 75 670 |
| Unhedged monetary assets | **459 285** | **261 077** | **239 531** | **959 893** | 337 352 | 348 775 | 295 266 | 981 393 |
| Trade receivables | **366 653** | **99 895** | **118 118** | **584 666** | 136 376 | 181 317 | 160 458 | 478 151 |
| Other receivables | **8 228** | **37 149** | **14 640** | **60 017** | 100 591 | 31 394 | 69 033 | 201 018 |
| Bank balances | **84 404** | **124 033** | **106 773** | **315 210** | 100 385 | 136 064 | 65 775 | 302 224 |
| Unhedged monetary liabilities | **124 420** | **161 850** | **96 920** | **383 190** | 116 284 | 369 849 | 190 862 | 676 995 |
| Trade payables | **191** | **23 108** | **20 644** | **43 943** | 2 226 | 53 067 | 78 986 | 134 279 |
| Other payables | **124 229** | **138 742** | **76 276** | **339 247** | 114 058 | 193 687 | 87 490 | 395 235 |
| Bank overdraft | **—** | **—** | **—** | **—** | — | 123 095 | 24 386 | 147 481 |

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 26. RISK MANAGEMENT, ACCOUNTING CLASSIFICATIONS AND FAIR VALUE CONTINUED

The group trades in a number of currencies and certain currencies have been excluded where considered immaterial.

| | AVERAGE RATE | | CLOSING RATE | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| THE FOLLOWING EXCHANGE RATES HAVE BEEN APPLIED | | | | |
| ZMW | **1,4158** | 1,4577 | **1,3682** | 1,4025 |
| MZN | **0,2208** | 0,3312 | **0,1860** | 0,3297 |
| AED | **3,9119** | 3,6753 | **3,5472** | 4,3685 |
| USD | **14,2764** | 13,4991 | **13,0283** | 16,0452 |

Sensitivity analysis

A reasonably possible strengthening/(weakening) of the following currencies at year-end would have affected the measurement of profit or loss denominated in a foreign currency by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

| | MOVEMENT | | STRENGTHENING/(WEAKENING) | |
|---|---|---|---|---|
| | **2017 %** | 2016 % | **2017 R'000** | 2016 R'000 |
| ZMW | **3** | 4 | **967/(967)** | 1 838/(1 838) |
| MZN | **33** | 1 | **1 224/(1 224)** | 34/(34) |
| AED | **6** | 16 | **2 607/(2 607)** | 2 920/(2 920) |
| USD | **6** | 16 | **4 111/(4 111)** | 249/(249) |

**Interest rate risk**

The group is exposed to interest rate risk through its cash and cash equivalents and interest-bearing, short- and long-term liabilities. Short-term interest rate exposure is monitored and managed by each business unit in the group. The majority of borrowings are obtained at variable rates exposing the group to cash flow interest rate risk.

The terms and conditions of outstanding interest-bearing loans are as follows:

| | CURRENCY | NOMINAL INTEREST RATE | | YEAR OF MATURITY | CARRYING VALUE | |
|---|---|---|---|---|---|---|
| | | **2017 %** | 2016 % | | **2017 R'000** | 2016 R'000 |
| Unsecured borrowings | ZAR | **Variable linked to prime** | 2 – 7,9 | 2017 calendar year | **6 639** | 15 381 |
| Secured borrowings | ZAR | **9 – 9,5** | 8 – 10 | 2016 – 2024 | **65 348** | 77 158 |
| Secured borrowings | ZAR | **JIBAR +2,5 prime** | Prime | Revolving credit | **63 645** | 51 766 |
| Instalment sales agreements | ZAR | **8 – 12** | 8 – 11 | 2017 – 2021 | **287 180** | 181 755 |
| Voluntary Rebuild Programme | ZAR | **7,5** | — | 2027 | **115 056** | — |
| Deferred Settlement Arrangement | ZAR | **7** | — | 2017 | **137 360** | 176 095 |
| | | | | | **675 228** | 502 155 |

Trade and other payables are settled within normal business terms.

# NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## 26. RISK MANAGEMENT, ACCOUNTING CLASSIFICATIONS AND FAIR VALUE CONTINUED

### SENSITIVITY ANALYSIS

A change of 100 basis points in interest rates would have increased or decreased profit or loss by R6 million before tax (2016: R4 million).

### FAIR VALUE — ASSETS

#### MEASUREMENT OF FAIR VALUE

The fair value measurements for land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

### VALUATION TECHNIQUE AND SIGNIFICANT UNOBSERVABLE INPUTS

#### PROPERTY, PLANT AND EQUIPMENT

| Valuation technique | Significant unobservable inputs | Interrelationship between key unobservable inputs and fair value measurement |
|---|---|---|
| Income Capitalisation Method | Market capitalisation rate between 9,5% and 12%<br><br>Income/Expenditure ratio between 14,6% and 30,7% | Market capitalisation rate:<br><br>Increase with 1% resulting in decrease in value of R28 million<br>Decrease with 1% resulting in increase in value of R26 million<br><br>Income/Expenditure ratio:<br><br>Increase with 1% resulting in decrease in value of R6 million<br>Decrease with 1% resulting in increase in value of R2 million<br><br>Market capitalisation rate and Income/Expenditure ratio:<br><br>Both increase with 1% resulting in decrease in value of R31 million<br>Both decrease with 1% resulting in increase in value of R34 million<br>Income/Expenditure ratio increase with 1% and market capitalisation rate decrease with 1% resulting in increase of value of R26 million<br>Income/Expenditure ratio decrease with 1% and market capitalisation rate increase with 1% resulting in decrease of value of R24 million |

## 27. NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

No other material reportable events have occurred between the reporting date and the date of these financials.

## 28. AVAILABILITY OF STEFANUTTI STOCKS SEPARATE ANNUAL FINANCIAL STATEMENTS

The Stefanutti Stocks Holdings Limited separate annual financial statements have been prepared and signed on 13 July 2017, and are available on the group's website.

The Stefanutti Stocks separate annual financial statements have been prepared in accordance with the requirements of the Companies Act and the company's independent auditors, Mazars, has expressed an unqualified opinion thereon.

# ACCOUNTING POLICIES

## FOR THE YEAR ENDED 28 FEBRUARY

## BASIS OF PREPARATION

### GOING-CONCERN STATEMENT

The directors consider that the group has adequate resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going-concern basis in preparing the financial statements of the group. The directors have satisfied themselves that the group is in a sound financial position and that it has access to sufficient cash resources to meet foreseeable cash requirements.

These financial statements have been prepared using a combination of the historical cost and fair value basis of accounting.

### PREPARED IN ACCORDANCE WITH

| | | | |
|---|---|---|---|
| International Financial Reporting Standards (IFRS), SAICA Financial Reporting Guides and International Financial Reporting Interpretations Committee (IFRIC). | JSE Listing Requirements | Companies Act, No. 71 of 2008 | Going-concern principles |

### FUNCTIONAL AND PRESENTATION CURRENCY

South African Rand

### ROUNDING POLICY

R'000 (thousand)

### FOREIGN CURRENCY TRANSACTIONS

#### PROCEDURES FOLLOWED TO TRANSLATE TO PRESENTATION CURRENCY

In the group financial statements, transactions are translated into the respective functional currencies of group companies applying the following principles:

- Monetary assets and liabilities for each statement of financial position presented are translated at the closing rate at reporting date.
- Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.
- Income and expenses for each statement of profit or loss and other comprehensive income are translated at exchange rates at the dates of the transactions or, where exchange differences did not fluctuate significantly, at the average exchange rates for the period.

### SIGNIFICANT ACCOUNTING POLICIES

Included below is a summary of the significant accounting policies applicable to the group financial statements. These accounting policies include only the areas in IFRS where elections have been made or policy choices exercised (including the choice or election made) as well as measurement criteria applied. The accounting policies also include information where it will assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position and was included based on the materiality as determined by management.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

| | | | |
|---|---|---|---|
| **Construction contracts** | | | |
| Revenue and other income | | Contract assets and liabilities | |
| **Employee benefits** | | | |
| Short-term benefits | Post-employment benefits | Long-term employment benefits | Share-based payments |
| **Group accounting** | | | |
| Subsidiaries | Equity-accounted investees and joint operations | Translation of foreign operations | |
| **Operating assets** | | | |
| Property, plant and equipment | Goodwill and intangible assets | Leases | Inventories |
| **Financial instruments** | | | |
| Financial assets | Impairment | Financial liabilities | |
| **Capital and reserves** | | | |
| Share capital | Other reserves | Treasury shares | |

# ACCOUNTING POLICIES
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## CONSTRUCTION CONTRACTS

### REVENUE AND OTHER INCOME

| | | INCLUDES | RECOGNITION | MEASUREMENT |
|---|---|---|---|---|
| Contract revenue | Local | South Africa | Based on:<br>› Fair value consideration received or receivable<br>› Including variations and claims<br>› Excluding Value added tax | Stage of completion based on surveys of work performed |
| | Foreign | Rest of Africa as well as Middle East | | When surveys of work performed can't be determined reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable |
| Other income | Interest income | Amounts both received and accrued | Time proportion basis | Effective interest method |
| | Project management fee | Amounts both received and accrued | When services are rendered | Fair value |
| | Rental income | Amounts both received and accrued | Over period of lease term | Fair value |
| | Other income | Amounts both received and accrued | When services are rendered | Fair value |

## EBITDA

EBITDA comprises earnings before interest, share of profits of equity accounted investees, taxation, depreciation, amortisation and impairment.

## CONTRACT ASSETS AND LIABILITIES

| CONTRACT ASSETS | MEASUREMENT |
|---|---|
| Contracts in progress | Cost plus profit recognised to date less cash received or receivable less any provision for losses. |

| CONTRACT LIABILITIES | MEASUREMENT |
|---|---|
| Excess billings over work done | The amount by which progress billings exceed costs incurred plus recognised profit less recognised losses. |
| Provisions | Estimates are made of the expected cash outflows relating to contracts. |

## EMPLOYEE BENEFITS

Stefanutti Stocks identifies three types of employee benefits which are accounted for in accordance with IAS 19, as well as one type of share-based payment accounted for in accordance with IFRS 2.

### SHORT-TERM BENEFITS

| | |
|---|---|
| Includes | Paid vacation leave, sick leave, bonuses, medical aid, death and disability cover. |
| Accounting treatment | The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance. |
| | The expected cost of accrued leave is recognised as the employees render services that increase their entitlement or, in the case of non-accumulating leave, when the absence occurs. Accrued leave is measured as the amount that the company expects to pay as a result of unused entitlement that has accumulated to the employees at the reporting date. |

# ACCOUNTING POLICIES
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## EMPLOYEE BENEFITS CONTINUED

### POST-EMPLOYMENT BENEFITS

| | |
|---|---|
| Defined contribution plan | The group contributes to a defined contribution plan. The group requires monthly-paid employees to partake in a group retirement fund and hourly-paid employees in the relevant industry funds. The group contributes a monthly contribution to these funds and does not bear any further responsibility thereafter. These funds are managed by various portfolio managers and are governed by the Pension Funds Act, 24 of 1956. |
| Accounting treatment | The payments are charged as expenses when the related services are provided. |

### LONG-TERM EMPLOYMENT BENEFITS

| | |
|---|---|
| Forfeitable share plan | The group operates a profit-sharing bonus scheme whereby the consideration for services received from directors and senior employees is paid through a performance-based bonus that is used to purchase a variable number of shares in the open market. The shares may not be disposed of or otherwise encumbered during the vesting period of three years. All risks and benefits associated with the shares transfer to the employee on award of the bonus. |
| Accounting treatment | The bonus cost is expensed over the vesting period in profit and loss. |

### SHARE-BASED PAYMENTS

Services received or acquired in a share-based payment transaction where the group settles the consideration for services by issuing shares are classified as equity-settled share-based payments. These include transactions where employees receive remuneration for services rendered to the group in the form of shares or share options.

Services received or acquired in a share-based payment transaction are recognised as an expense when the services are rendered. A corresponding increase in equity is recognised if the services were received in an equity-settled share-based payment transaction. Transactions with employees (including directors) are recognised as an employee cost in profit or loss at the grant date fair value of the share options granted.

The fair value of share options is determined using a variant of the binomial option pricing model, taking into account the terms and conditions. The fair value of the units issued is based on the strike price at the grant date.

If the share-based payments granted do not vest until the employee completes a specified period of service or achieves specified performance conditions, the group accounts for those services as they are rendered by the employee during the vesting period. The fair value that is accounted for over the vesting period is determined on the grant date of the share-based payment. The cumulative expense that is recognised at each reporting date reflects the extent to which the vesting conditions have expired or been met and the group's best estimate of the number of share options that will ultimately vest.

In the event that an employee leaves the employment of the group, the individual forfeits his right to exercise the said share-based payment. The share-based payment is therefore cancelled and the underlying share remains under the control of the trust allowing for further reallocation thereof. To the extent that the share-based payment has not been reallocated, the share-based payment expense relating thereto ceases.

# ACCOUNTING POLICIES
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## GROUP ACCOUNTING

### SUBSIDIARIES

Subsidiaries are entities controlled by the group.

The group also considers the following facts and circumstances in assessing whether it has power over an entity:

a) Rights arising from contractual arrangements

b) The group's voting rights and potential voting rights

#### RECOGNITION AND MEASUREMENT

Business combinations are accounted for using the acquisitions method. When the group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the group's accounting policies as well as the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Subsidiaries are consolidated from the date of acquisition, which is the date on which the group obtains control of the subsidiary and continue to be consolidated until the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

### NON-CONTROLLING INTEREST (NCI)

NCIs are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

### INTERCOMPANY TRANSACTIONS

All intergroup balances, transactions, income and expenses are eliminated in full in the consolidated financial statements.

### CONSOLIDATED STRUCTURED ENTITIES

Consolidated structured entities include share incentive trusts set up for the benefit of the group's employees. Such trusts are consolidated in the group results because the group effectively controls these trusts through the specific mechanisms that were established when the trusts were formed. Shares issued to or held by these trusts are treated as treasury shares until such time as participants pay for or take delivery of such shares.

# ACCOUNTING POLICIES
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## GROUP ACCOUNTING CONTINUED

## EQUITY ACCOUNTED INVESTEES AND JOINT OPERATIONS

### JOINT OPERATIONS AND JOINT VENTURES

Management assesses whether a joint arrangement must be classified as a joint operation or joint venture. This assessment depends on whether the joint arrangement has rights to the assets, and obligations for the liabilities, relating to the arrangement. The group recognises its investments as joint operations when the operations are performed through unincorporated arrangements such as partnerships and contracts, and the group has rights to the assets, and obligations for the liabilities. In determining the classification of joint arrangements, management considered the contractual agreements with respect to sharing control; and whether parties are jointly and severally liable for the joint arrangement's rights and obligations. Other investments are recognised as joint ventures when the group only has rights to the net assets of the arrangement.

| ASSOCIATES AND JOINT VENTURES | JOINT OPERATIONS |
|---|---|
| **INITIAL RECOGNITION AND MEASUREMENT** | |
| Associates and joint ventures are accounted for using the equity method. Interest in equity-accounted investees are initially recognised at cost. Cost includes any equity contributions, which are made at the date of acquisition as well as loans which will in all likelihood not be settled in the near future. Goodwill recognised on the acquisition, of a joint venture as well as an associate company is included in the cost of the investment. In instances where the year-ends of equity-accounted investees differ from that of the group, monthly management accounts are used to ensure information is reported coterminous with the group's year-end. | Results of joint operations are included when two or more parties combine their operations, resources and expertise in order to manufacture/build a particular product. |
| **DERECOGNITION** | |
| On the date that the equity-accounted investments are disposed of, the entity ceases to equity account the investments. | When the combined operation ceases, the group's share of the assets and liabilities held jointly as well as its share of profits or losses is derecognised. |
| **SUBSEQUENT MEASUREMENT** | |
| Subsequent to initial recognition, the group recognises its share of the profit or loss and other comprehensive income, until the date on which joint control ceases. | The group has rights to the assets and obligations for its liabilities in a joint operation, and therefore recognises in relation to its interest in a joint operation the following:<br>a) its assets, including its share of any assets held jointly;<br>b) its liabilities, including its share of any liabilities incurred jointly;<br>c) its share of the revenue from the sale of the output by the joint operation; and<br>d) its expenses, including its share of any expenses incurred jointly. |
| **IMPAIRMENT** | |
| The group assesses whether there is any indication that an equity-accounted investee may be impaired and its value-in-use is less than the carrying amount at each reporting date. An impairment is recognised when there is objective evidence that the equity-accounted investment is impaired and its value-in-use is less than the carrying amount. Impairment losses are deducted from the carrying amount of these investments. Any impairment is calculated after application of the equity method.<br><br>Losses resulting from transactions with equity-accounted investees are recognised only to the extent of unrelated investor's interests in the equity-accounted investees. | |

### TRANSLATION OF FOREIGN OPERATIONS

**PROCEDURES FOLLOWED TO TRANSLATE TO PRESENTATION CURRENCY**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Rand at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Rand at the exchange rates at the dates of the transactions.

The difference in translation between these rates is recognised in the foreign currency translation reserve.

# ACCOUNTING POLICIES
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## OPERATING ASSETS

### PROPERTY, PLANT AND EQUIPMENT

| CATEGORIES | INITIAL MEASUREMENT | SUBSEQUENT MEASUREMENT | DEPRECIATION METHOD AND PERIOD | IMPAIRMENT |
|---|---|---|---|---|
| Land and buildings | Initially recognised at cost | Carried at the revalued amount (Fair value less depreciation and accumulated impairment losses) | Land is not depreciated, all other assets are depreciated on a straight-line basis over their useful life | Assets are tested for impairment, when there is an indication that it may be impaired, by determining the recoverable amount of the assets either individually or at the cash generating unit level |
| Plant and equipment | | Cost less accumulated depreciation and accumulated impairment losses | | |
| Transport and motor vehicles | | | | |
| Furniture, fittings, office and computer equipment | | | | |

### GOODWILL AND INTANGIBLE ASSETS

| | CATEGORIES | INITIAL MEASUREMENT AND RECOGNITION | SUBSEQUENT MEASUREMENT | AMORTISATION METHOD AND PERIOD | IMPAIRMENT |
|---|---|---|---|---|---|
| Intangible assets | Tradename | Measured at cost including transaction cost | Cost less accumulated amortisation and impairment | Amortised on the straight-line method over the useful life of 10 years. The remaining amortisation period is between one and one and a half years | Management uses the value-in-use method to determine the recoverable amount of goodwill and when there are impairment indicators for intangible assets as there is no active market for these assets |
| | Technology | | | | |
| Acquired through business combination | Goodwill | Measured at fair value as at the date of the business combination<br><br>Measured at cost if the fair value at date of acquisition cannot be determined | Cost less accumulated impairment | Goodwill is not amortised but is assessed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired | |

### LEASES

#### FINANCE LEASE

| INITIAL MEASUREMENT AND RECOGNITION | SUBSEQUENT MEASUREMENT | DEPRECIATION METHOD |
|---|---|---|
| Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. | At amortised cost. | Finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the terms of the leases. |

#### OPERATING LEASE

| INITIAL MEASUREMENT AND RECOGNITION |
|---|
| Rentals payable and receivable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease. |

### INVENTORIES

#### INVENTORY

| INITIAL MEASUREMENT AND RECOGNITION |
|---|
| Inventories include consumables (such as fuel, tyres, spares and stationery) and operational inventory. Operational inventory is inventory that will be used in the normal operating cycle. Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and comprises the cost to purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. |

# ACCOUNTING POLICIES
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## FINANCIAL INSTRUMENTS

Financial assets, financial liabilities and equity instruments are recognised in the group's statement of financial position when the group becomes a party to the controlled provisions of the instrument.

### FINANCIAL ASSETS

| CLASSIFICATION | INSTRUMENTS INCLUDED IN THE CLASSIFICATION | INITIAL MEASUREMENT | SUBSEQUENT MEASUREMENT |
|---|---|---|---|
| Loans and receivables | Trade and other receivables, loans to group companies and cash and cash equivalents. | Fair value plus direct transaction costs. | Amortised costs using the effective interest rate method, less impairment. |

### IMPAIRMENT

| | |
|---|---|
| Criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (including measurement) | **LOANS AND RECEIVABLES: TRADE AND OTHER RECEIVABLES**<br>An estimate of any impairment is made to an allowance account on individual receivables. Objective evidence that the collection of the full amount under the original terms of the invoice is no longer probable would include indicators such as probable insolvency or significant difficulties in the debtor. Impaired debts are derecognised when they are assessed as uncollectable.<br><br>**CONTRACT RECEIVABLES (INCLUDED IN TRADE AND OTHER RECEIVABLES)**<br>The impairment calculation recognise an allowance, measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition, in determining the estimate of any impairment, less any collateral held against contract receivables where applicable. To minimise the risks related to contract receivables, management may, at its discretion, request collateral in the form of payment guarantees and builders' liens for such receivables. The impairment calculation takes into account the existence of any collateral held against contract receivables, where applicable.<br><br>**LOANS TO GROUP COMPANIES**<br>Significant financial difficulties, probability that the company will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered as objective evidence of impairment. |

### FINANCIAL LIABILITIES

| CLASSIFICATION | INSTRUMENTS INCLUDED IN THE CLASSIFICATION | INITIAL MEASUREMENT | SUBSEQUENT MEASUREMENT |
|---|---|---|---|
| Loans and borrowings and payables. | Other liabilities, loans from group companies, trade and other payables and bank overdrafts. | Fair value plus direct transaction costs. | Amortised costs using the effective interest method. |

# ACCOUNTING POLICIES
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## CAPITAL AND RESERVES

### SHARE CAPITAL

Share capital issued by the company is recorded at the proceeds received, net of issue costs.

### RESERVES

Share-based payments reserve comprises the accumulated effect of share-based payments in terms of the employee share scheme.

Foreign currency translation reserve comprises the translation effect of foreign subsidiaries and joint arrangements to the reporting currency.

Revaluation surplus reserve comprises the revaluation of land and buildings.

### TREASURY SHARES

When shares are held in the group, through subsidiary companies, reducing the group's share capital, those equity instruments, held at cost (treasury shares), are presented as a deduction against the group's equity. No gain or loss is recognised in profit or loss. The share capital is reduced for the par value of the shares and the balance against the share premium.

# ACCOUNTING POLICIES
CONTINUED

## FOR THE YEAR ENDED 28 FEBRUARY

## NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

### STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET EFFECTIVE

The group has chosen not to early adopt the following Standards and Interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 1 March 2017 or later periods.

| | ACCOUNTING STANDARD/INTERPRETATION | TYPE | EFFECTIVE DATE | IMPACT ON THE FINANCIAL STATEMENTS |
|---|---|---|---|---|
| IFRS 2 | **CLARIFYING SHARE-BASED PAYMENT ACCOUNTING**<br>Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.<br>The amendments cover three accounting areas:<br>MEASUREMENT OF CASH-SETTLED SHARE-BASED PAYMENTS<br>The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.<br>CLASSIFICATION OF SHARE-BASED PAYMENTS SETTLED NET OF TAX WITHHOLDINGS<br>The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.<br>ACCOUNTING FOR A MODIFICATION OF A SHARE-BASED PAYMENT FROM CASH-SETTLED TO EQUITY-SETTLED<br>The amendments clarify the approach that companies are to apply.<br>The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards. | Amendment | 1 January 2018 | No expected change as the group's share-based payments are equity-settled and not cash settled. |
| IFRS 9 | **FINANCIAL INSTRUMENTS**<br>CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS<br>› all financial assets are initially measured at fair value;<br>› debt instruments are subsequently measured at fair value through profit or loss;<br>› amortised cost or fair value through other comprehensive income;<br>› equity instruments are measured at fair value through profit or loss. | New | 1 January 2018 | The group's business model is to hold and collect and the group only collects capital and interest, therefore our financial instruments are unlikely to change. |
| IFRS 15 | **REVENUE FROM CONTRACTS WITH CUSTOMERS**<br>New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers. | New | 1 January 2018 | The group has embarked on a process to identify all contracts and assess the impact thereof on the group. |
| IFRS 16 | **LEASES**<br>New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease ability representing its obligation to make lease payments. | New | 1 January 2019 | Expected to result in a restatement of numerous of our operating leases to recognising the "right of use assets" together with the related lease liabilities. Also expected to result in additional disclosures. Identifying further impacts is included in the process driven by IFRS15. |
| IAS 7 | **STATEMENT OF CASH FLOWS**<br>Require entities to disclose information about changes in their financing liabilities. | Amendment | 1 January 2017 | Expected to result in additional disclosures. |

# SHAREHOLDERS' ANALYSIS

## ANALYSIS OF ORDINARY SHAREHOLDERS AS AT 24 FEBRUARY 2017

| | Number of shareholdings | % of total shareholdings | Number of shares | % of issued capital |
|---|---|---|---|---|
| **SHAREHOLDER SPREAD** | | | | |
| 1 — 1 000 | 725 | 38,85 | 287 496 | 0,15 |
| 1 001 — 10 000 | 665 | 35,64 | 2 650 377 | 1,41 |
| 10 001 — 100 000 | 323 | 17,31 | 11 282 972 | 6,00 |
| 100 001 — 1 000 000 | 115 | 6,16 | 34 824 049 | 18,52 |
| Over 1 000 000 | 38 | 2,04 | 139 035 852 | 73,92 |
| **TOTAL** | 1 866 | 100,00 | 188 080 746 | 100,00 |
| **DISTRIBUTION OF SHAREHOLDERS** | | | | |
| Assurance companies | 11 | 0,59 | 13 866 120 | 7,37 |
| Close Corporations | 22 | 1,18 | 422 909 | 0,22 |
| Collective investment schemes | 58 | 3,11 | 96 993 330 | 51,57 |
| Custodians | 14 | 0,75 | 1 859 566 | 0,99 |
| Foundations and charitable funds | 19 | 1,02 | 869 842 | 0,46 |
| Hedge funds | 3 | 0,16 | 241 031 | 0,13 |
| Insurance companies | 3 | 0,16 | 472 773 | 0,25 |
| Investment partnerships | 12 | 0,64 | 164 998 | 0,09 |
| Managed funds | 6 | 0,32 | 233 252 | 0,12 |
| Medical aid funds | 8 | 0,43 | 1 455 289 | 0,77 |
| Organs of State | 1 | 0,05 | 3 | 0,00 |
| Private companies | 28 | 1,50 | 901 936 | 0,48 |
| Public companies | 1 | 0,05 | 16 | 0,00 |
| Public entities | 3 | 0,16 | 200 418 | 0,11 |
| Retail shareholders | 1 447 | 77,56 | 19 476 555 | 10,36 |
| Retirement benefit funds | 123 | 6,59 | 19 458 085 | 10,35 |
| Scrip lending | 2 | 0,11 | 1 364 000 | 0,73 |
| Share schemes | 3 | 0,16 | 6 429 930 | 3,42 |
| Stockbrokers and nominees | 6 | 0,32 | 571 932 | 0,30 |
| Treasury | 2 | 0,11 | 9 397 387 | 5,00 |
| Trusts | 93 | 4,98 | 13 701 369 | 7,28 |
| Unclaimed scrip | 1 | 0,05 | 5 | 0,00 |
| **TOTAL** | 1 866 | 100,00 | 188 080 746 | 100,00 |
| **SHAREHOLDER TYPE** | | | | |
| **NON-PUBLIC SHAREHOLDERS** | 40 | 2,15 | 27 938 388 | 14,85 |
| Directors and associates of the company and subsidiaries | 35 | 1,88 | 12 111 071 | 6,43 |
| Own holdings | 2 | 0,11 | 9 397 387 | 5,00 |
| Share trusts | 3 | 0,16 | 6 429 930 | 3,42 |
| **PUBLIC SHAREHOLDERS** | 1 826 | 97,85 | 160 142 358 | 85,15 |
| **TOTAL** | 1 866 | 100,00 | 188 080 746 | 100,00 |

# SHAREHOLDERS' ANALYSIS
CONTINUED

## ANALYSIS OF ORDINARY SHAREHOLDERS AS AT 24 FEBRUARY 2017

| | Number of shares | % of issued capital |
|---|---|---|
| **BENEFICIAL SHAREHOLDERS WITH A HOLDING GREATER THAN 3% OF THE ISSUED SHARES** | | |
| Sanlam Group | 37 627 697 | 20,01 |
| Coronation Fund Managers | 20 256 837 | 10,77 |
| Stefanutti Stocks Investment Holding | 9 397 387 | 5,00 |
| PSG | 18 259 717 | 9,71 |
| Meyburgh Family Trust | 8 275 233 | 4,40 |
| Investec | 8 160 680 | 4,34 |
| Allan Gray | 6 234 581 | 3,31 |
| **TOTAL** | 108 212 132 | 57,53 |

# ABBREVIATIONS AND DEFINITIONS

**"AAARG"**
Average Anticipated Annual Revenue Growth

**"AGM"**
Annual general meeting

**"ARCO"**
Audit, Governance and Risk Committee

**"B-BBEE"**
Broad-based black economic empowerment

**"CEO"**
Chief Executive Officer

**"CFO"**
Chief Financial Officer

**"CGU"**
Cash generating unit

**"CIDB"**
The Construction Industry Development Board

**"Companies Act"**
Companies Act, No. 71 of 2008, as amended

**"Competition Act"**
Competition Act, No. 89 of 1998, as amended

**"Earnings yield"**
HEPS as a percentage of market value per share

**"EPS"**
Earnings per share

**"EXCO"**
Executive Committee

**"FSP"**
Forfeitable Share Plan

**"HEPS"**
Headline earnings per share

**"ICT"**
Information communication technology

**"IFRS"**
International Financial Reporting Standards

**"ISO"**
International Standards Organisation

**"JSE"**
JSE Limited

**"JSE Listings Requirements"**
Listings Requirements of the JSE Limited

**"King III"**
King Report on Corporate Governance for South Africa 2009

**"LDC Employees"**
Limited duration contract employees

**"LTI"**
Long-term incentives

**"LTIFR"**
Lost-time injury frequency rate

**"M&E"**
Mechanical and Electrical

**"MOI"**
Memorandum of incorporation

**"NAV"**
Net asset value

**"Net asset turn"**
Contract revenue divided by average total assets

**"Net profit margin"**
Profit after taxation as a percentage of contract revenue

**"OHS"**
Occupational health and safety

**"Operating profit"**
Operating profit before investment income

**"Operating profit margin"**
Operating profit as a percentage of contract revenue

**"Return on assets"**
Profit after taxation as a percentage of average total assets for the period

**"RCR"**
Recordable case rate

**"REMCO"**
Remuneration and Nominations Committee

**"Return on equity"**
Profit attributable to equity holders of Stefanutti Stocks as a percentage of average capital and reserves attributable to equity holders of Stefanutti Stocks

**"RPM"**
Roads, Pipelines and Mining Services

**"SADC"**
Southern African Development Community

**"SAICA"**
South African Institute of Chartered Accountants

**"S&E"**
Social and Ethics Committee

**"SHE"**
Safety, health and environment

**"Stefanutti Stocks"; "the group" or "the company"**
Stefanutti Stocks Holdings Limited, all of its subsidiaries, joint operations and equity-accounted investees

**"TFP"**
Total fixed package

**"the board"**
The board of directors of Stefanutti Stocks

**"the current year"**
The financial year ended 28 February 2017

**"the next year"**
The financial year ending 28 February 2018

**"the previous year"**
The financial year ended 29 February 2016

**"Total assets"**
Total non-current and current assets

**"Total remuneration"**
Total fixed package plus short-term incentivisation

**"UAE"**
United Arab Emirates

**"VAT"**
Value added tax

**"WACC"**
Weighted average cost of capital

# CORPORATE INFORMATION

## COMPANY INFORMATION

**Stefanutti Stocks Holdings Limited**
Share code: SSK ISIN: ZAE000123766
JSE Sector: Construction
Year end: 28 February

## REGISTRATION NUMBER

1996/003767/06

## COUNTRY OF INCORPORATION

South Africa

## REGISTERED OFFICE

No. 9 Palala Street, Protec Park, Cnr Zuurfontein Avenue
and Oranjerivier Drive, Kempton Park, 1619

## POSTAL ADDRESS

PO Box 12394, Aston Manor, 1630

## TELEPHONE NUMBER

+27 11 571 4300

## FACSIMILE

+27 11 976 3487

## DIRECTORS

As at 13 July 2017: KR Eborall * (Chairman); NJM Canca *;
ZJ Matlala *; T Eboka *; LB Sithole *; HJ Craig *; ME Mkwanazi *;
JWLM Fizelle * (alternate to LB Sithole); DG Quinn;
W Meyburgh (CEO); AV Cocciante (CFO)

* Independent Non-executive Directors

## COMPANY SECRETARY

WR Somerville
20 Lurgan Road, Parkview, 2193
Telephone number: +27 11 326 0975

## AUDITORS

**Mazars**
Mazars House, 54 Glenhove Road, Melrose Estate, 2196
PO Box 6697, Johannesburg, 2000
Telephone number: +27 11 547 4000

## ATTORNEYS

**Webber Wentzel**
90 Rivonia Road, Sandton, Johannesburg, 2196
PO Box 61771, Marshalltown, 2107
Telephone number: +27 11 530 5000

## TRANSFER SECRETARIES

**Computershare Investor Services (Pty) Ltd**
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
PO Box 61051, Marshalltown, 2107
Telephone number: +27 11 370 5000

## SPONSOR

**Bridge Capital Advisors (Pty) Ltd**
2nd Floor, 27 Fricker Road, Illovo Boulevard, Illovo, 2196
PO Box 651010, Benmore, 2010
Telephone number: +27 11 268 6231

## BANKERS

Nedbank Limited
The Standard Bank of South Africa Limited
Absa Bank Limited
Bidvest Bank Limited
First National Bank, a division of FirstRand Bank Limited
Nedbank Swaziland
Standard Chartered Bank
Emirates NBD
First Gulf Bank
HSBC Middle East
Banco Unico
Banco Comercial e de Investimentos
Banco Internacional de Moçambique
Standard Bank Mozambique
United Bank for Africa

## WEBSITE

**www.stefanuttistocks.com**

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