Stefanutti Stocks

REVIEWED CONDENSED CONSOLIDATED RESULTS

FOR THE 12 MONTHS ENDED 29 FEBRUARY 2020

STEFANUTTI STOCKS HOLDINGS LIMITED
(“Stefanutti Stocks” or “the company” or “the group”)

(Registration number: 1996/003767/06)
(Share code: SSK ISIN: ZAE000123766)

- **Revenue R8,6 billion**
- **Cash at end of year R741 million**
- **Current order book R8,5 billion**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

R’000	% decrease	Reviewed 12 months ended 29 February 2020	Audited 12 months ended 28 February 2019
Contract revenue	(13)	**8 585 926**	9 875 023
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	(1 470)	**(760 995)**	55 558
Depreciation and amortisation		**(218 923)**	(213 549)
Impairment of goodwill		**(52 995)**	–
Operating loss before investment income	(554)	**(1 032 913)**	(157 991)
Investment income		**30 306**	43 960
Share of profits of equity-accounted investees		**46 196**	68 075
Operating loss before finance costs		**(956 411)**	(45 956)
Finance costs		**(126 067)**	(101 129)
Loss before taxation		**(1 082 478)**	(147 085)
Taxation		**10 430**	35 764
Loss for the year		**(1 072 048)**	(111 321)
Other comprehensive income		**51 962**	58 483
Exchange differences on translation of foreign operations (may be reclassified to profit/(loss))		**51 962**	58 483
Total comprehensive income		**(1 020 086)**	(52 838)
Loss attributable to:			
Equity holders of the company		**(1 070 943)**	(110 761)
Non-controlling interest		**(1 105)**	(560)
		(1 072 048)	(111 321)
Total comprehensive income attributable to:			
Equity holders of the company		**(1 016 040)**	(42 372)
Non-controlling interest		**(4 046)**	(10 466)
		(1 020 086)	(52 838)
Earnings per share (cents)	(870)	**(640.35)**	(65.99)
Diluted earnings per share (cents)	(870)	**(640.35)**	(65.99)

Commentary to the statement of profit or loss and other comprehensive income

Headline earnings reconciliation		29 February 2020	28 February 2019
Loss after taxation attributable to equity holders of the company		**(1 070 943)**	(110 761)
Adjusted for:			
Profit on disposal of plant and equipment		**(11 946)**	(9 465)
Tax effect		**3 998**	2 543
Bargain purchase gain		**(15 169)**	–
Impairment of goodwill		**52 995**	–
Headline earnings		**(1 041 065)**	(117 683)
Number of weighted average shares in issue		**167 243 684**	167 836 344
Number of diluted weighted average shares in issue		**188 080 746**	188 080 746
Headline earnings per share (cents)	(788)	**(622.48)**	(70.12)
Diluted headline earnings per share (cents)	(788)	**(622.48)**	(70.12)

DISAGGREGATION OF REVENUE

Revenue can be further disaggregated as follows:	Reviewed 12 months ended 29 February 2020	Audited 12 months ended 28 February 2019
Geographical		
Within South Africa	**6 491 284**	7 559 370
Construction & Mining	**4 055 758**	3 870 323
Building	**1 620 689**	2 658 418
M&E	**814 837**	1 030 629
Outside South Africa	**2 094 642**	2 315 653
Construction & Mining	**1 072 161**	1 443 552
Building	**940 127**	694 160
M&E	**82 354**	177 941
Total	**8 585 926**	9 875 023
Sector		
Private	**6 204 107**	7 221 688
Construction & Mining	**3 037 692**	3 378 798
Building	**2 269 224**	2 634 320
M&E	**897 191**	1 208 570
Public	**2 381 819**	2 653 335
Construction & Mining	**2 090 227**	1 935 077
Building	**291 592**	718 258
Total	**8 585 926**	9 875 023

STATEMENT OF FINANCIAL POSITION

R’000	Reviewed 29 February 2020	Audited 28 February 2019
ASSETS		
Non-current assets	**2 606 385**	2 451 850
Property, plant and equipment	**1 591 318**	1 501 945
Equity-accounted investees	**342 361**	280 449
Goodwill and intangible assets	**405 930**	457 585
Deferred tax assets	**266 776**	211 871
Current assets	**4 038 663**	3 996 410
Other current assets	**3 186 154**	3 035 269
Taxation	**79 620**	38 755
Bank balances	**772 889**	922 386
Total assets	**6 645 048**	6 448 260
EQUITY AND LIABILITIES		
Capital and reserves	**711 666**	1 731 752
Share capital and premium	**1 007 718**	1 007 718
Other reserves	**228 435**	178 790
(Accumulated loss)/Retained earnings	**(506 249)**	559 436
Equity holders of the company	**729 904**	1 745 944
Non-controlling interest	**(18 238)**	(14 192)
Non-current liabilities	**896 398**	419 366
Financial liabilities	**479 627**	313 890
Excess billings over work done	**294 823**	25 000
Provisions	**121 948**	79 942
Deferred tax liabilities	**–**	534
Current liabilities	**5 036 984**	4 297 142
Other current liabilities*	**2 985 721**	2 383 391
Excess billings over work done	**1 053 733**	1 145 970
Provisions	**885 103**	679 948
Taxation	**80 051**	46 218
Bank overdraft	**32 376**	41 615
Total equity and liabilities	**6 645 048**	6 448 260
* including interest-bearing liabilities of	**998 135**	281 684
Commentary to the statement of financial position		
Total number of net shares in issue	**167 243 684**	167 243 684
Net asset value per share (cents)	**436.43**	1 043.95
Net tangible asset value per share (cents)	**193.71**	770.35

STATEMENT OF CASH FLOWS

R’000	Reviewed 12 months ended 29 February 2020	Audited 12 months ended 28 February 2019
Cash (consumed by)/generated from operations	**(751 406)**	360 553
Interest received	**29 740**	40 530
Finance costs	**(65 952)**	(92 820)
Dividends received	**29 952**	42 105
Taxation paid	**(60 309)**	(96 546)
Cash flows from operating activities	**(817 975)**	253 822
Net proceeds received/(expenditure to maintain operating capacity)	**102 422**	(8 825)
Expenditure for expansion	**(28 367)**	(67 965)
Net cash inflow due to business combinations	**46 330**	–
Cash flows from investing activities	**120 385**	(76 790)
Treasury shares acquired	**–**	(5 661)
Movements on long- and short-term financing	**531 218**	(254 661)
Cash flows from financing activities	**531 218**	(260 322)
Net decrease in cash for the year	**(166 372)**	(83 290)
Effect of exchange rate changes on cash and cash equivalents	**26 114**	48 170
Cash and cash equivalents at beginning of year	**880 771**	915 891
Cash and cash equivalents at the end of the year	**740 513**	880 771

	Construction & Mining	Building	M&E	Reconciling segments*	Total
Segment information 29 February 2020 (reviewed)					
Contract revenue	**5 127 919**	**2 560 816**	**897 191**	**–**	**8 585 926**
Intersegment contract revenue	**66 475**	**35 644**	**44 635**	**–**	**146 754**
Reportable segment loss	**(469 099)**	**(420 610)**	**(43 016)**	**(139 323)**	**(1 072 048)**
Reportable segment assets	**4 045 827**	**1 586 122**	**477 766**	**535 333**	**6 645 048**
Reportale segment liabilities	**3 333 139**	**1 286 916**	**171 147**	**1 142 180**	**5 933 382**
Segment information 28 February 2019 (audited)					
Contract revenue	5 313 875	3 352 578	1 208 570	–	9 875 023
Intersegment contract revenue	16 560	15 864	84 273	–	116 697
Reportable segment profit/(loss)	46 546	(127 357)	(11 064)	(19 446)	(111 321)
Reportable segment assets	3 482 984	1 915 686	542 666	506 924	6 448 260
Reportable segment liabilities	2 295 149	1 820 214	362 005	239 140	4 716 508

** Other segments comprise segments that are primarily centralised in nature i.e. the group’s headquarters*

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STATEMENT OF CHANGES IN EQUITY

R’000	Share capital and premium	Foreign currency translation reserve	Revaluation surplus reserve	Legal reserve	(Accumulated loss)/ Retained earnings	Attributable to equity holders of the company	Non-controlling interest	Total equity
Balance at 28 February 2018 audited	1 013 379	(8 560)	118 961	–	670 197	1 793 977	(3 726)	1 790 251
Treasury shares acquired	(5 661)	–	–	–	–	(5 661)	–	(5 661)
Total comprehensive income	–	68 389	–	–	(110 761)	(42 372)	(10 466)	(52 838)
Loss	–	–	–	–	(110 761)	(110 761)	(560)	(111 321)
Other comprehensive income	–	68 389	–	–	–	68 389	(9 906)	58 483
Balance at 28 February 2019 audited	**1 007 718**	**59 829**	**118 961**	**–**	**559 436**	**1 745 944**	**(14 192)**	**1 731 752**
Realisation of revaluation reserve on sale of land and buildings	**–**	**–**	**(6 022)**	**–**	**6 022**	**–**	**–**	**–**
Total comprehensive income	**–**	**54 903**	**–**	**–**	**(1 070 943)**	**(1 016 040)**	**(4 046)**	**(1 020 086)**
Loss	**–**	**–**	**–**	**–**	**(1 070 943)**	**(1 070 943)**	**(1 105)**	**(1 072 048)**
Other comprehensive income	**–**	**54 903**	**–**	**–**	**–**	**54 903**	**(2 941)**	**51 962**
Transfer to legal reserve	**–**	**–**	**–**	**764**	**(764)**	**–**	**–**	**–**
Balance at 29 February 2020 reviewed	**1 007 718**	**114 732**	**112 939**	**764**	**(506 249)**	**729 904**	**(18 238)**	**711 666**

Shareholders are referred to the webcast and presentation relating to the reviewed condensed consolidated results for the 12 months ended 29 February 2020 which is available on the company’s website: www.stefstocks.com.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The reviewed condensed consolidated results for the year ended 29 February 2020 (results for the year) have been prepared in accordance with framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the Financial Reporting Guides as issued by SAICA and the Financial Reporting Pronouncements issued by the Financial Reporting Standards Council. The report contains the information required by International Accounting Standard (IAS) 34: Interim Financial Reporting and are in compliance with the Listings Requirements of the JSE Limited. The accounting policies as well as the methods of computation used in the preparation of the results for the year ended 29 February 2020 are in terms of International Financial Reporting Standards (IFRS) and are consistent with those applied in the audited annual financial statements for the year ended 28 February 2019.

There is no significant difference between the carrying amounts of financial assets and liabilities and their fair values. The fair value measurement for land and buildings are categorised as a level 3, based on the valuation method of income capitalisation using unobservable inputs i.e. market capitalisation rates and income/expenditure ratio. The results are presented in Rand, which is Stefanutti Stocks’ functional currency.

The company’s directors are responsible for the preparation and fair presentation of the reviewed condensed consolidated results. These results have been compiled under the supervision of the Chief Financial Officer, AV Cocciante, CA(SA).

COVID-19

The first known and laboratory confirmed case of COVID-19 in South Africa was reported on 5 March 2020. In efforts to prevent an unimpeded spread of COVID-19 and to provide time for the South African National Department of Health to prepare for the expected, eventual, increase in community transmission cases, a National State of Disaster was declared by President Cyril Ramaphosa on 15 March 2020, in accordance with the provisions of the Disaster Management Act, 2002.

Based on the above fact and circumstances the effect of COVID-19 has been classified as a non-adjusting post balance sheet event.

Further to the voluntary announcements released on 7 April 2020 and 29 May 2020 regarding the impact of COVID-19 lockdown, all the group’s businesses are now operating under the revised level 3 restrictions within the required protocols.

Stefanutti Stocks’ priority continues to be the health and safety of its employees. The management of the group remains committed to supporting the initiatives that the governments have implemented in the various countries in which the group operates. Importantly, Stefanutti Stocks maintains its close working relationships with clients and key stakeholders to mitigate the extensive impact of COVID-19 and reduce the long-term effects on its business.

As part of its response to the virus, a special task team was constituted to monitor, provide guidance and immediately respond to this continuously changing environment. The group has instituted and continues to review and amend the required protocols focused on ensuring the health and safety of Stefanutti Stocks’ employees and stakeholders, in terms of the guidelines provided by the World Health Organisation, the National Institute for Communicable Diseases, the Department of Health and other regulatory authorities in each of the jurisdictions in which Stefanutti Stocks operates.

The unknown future impact of the COVID-19 pandemic, together with the various protocols available to governments, has created an unpredictable business environment. It is, therefore, not possible to obtain an accurate assessment of the future impact this will have on the group and its markets going forward. However, Stefanutti Stocks will continue to update stakeholders of material developments in this regard.

Further details will be available in the group consolidated annual financial statements to be released on 28 August 2020.

AUDITORS’ REVIEW

These reviewed condensed consolidated financial statements for the year ended 29 February 2020 have been reviewed by the group’s auditors, Mazars. Their unmodified review conclusion is available for inspection at the company’s registered office. The auditor’s conclusion contained the following emphases of matter: We draw attention to the disclosure included in this announcement, which indicates that the group incurred a net loss of R1 072 million for the year ended 29 February 2020 and, as of that date, the group’s current liabilities exceeded its current assets by R998 million. However, the excess of current liabilities over current assets of R998 million includes the short-term funding provided by the company`s primary banker and guarantee providers (the “Lenders”), which was converted to a term loan subsequent to year-end as noted below under “Funding and Restructuring Plan”. As disclosed, these events and conditions, along with other matters as noted, including the uncertainties surrounding the COVID-19 pandemic and contingent liabilities, indicate that a material uncertainty exists that may cast significant doubt with respect to the group’s ability to continue as a going concern. In order to address these issues the group has developed, approved and is in the process of implementing a restructuring plan which includes, amongst others, the securing of requisite additional short-term funding from the Lenders, the subsequent restructuring of all such short-term funding into appropriate longer-term funding and the reconfiguration of the groups organisational structure to improve operational performance and maximise cost efficiencies. The restructuring plan also gives due regard to the projected potential impact of the COVID-19 lockdown on the group and its operations. Based on the successful implementation of the remainder of the restructuring plan and the current assessment of the group’s financial budgets for the ensuing year, the directors consider it appropriate that the group’s condensed consolidated results be prepared on the going-concern basis. Therefore, our opinion is not modified in respect of this matter.

GROUP PROFILE

Stefanutti Stocks is a construction company operating throughout South Africa, sub-Saharan Africa and the United Arab Emirates with multi-disciplinary expertise including concrete structures, marine construction, piling and geotechnical services, roads and earthworks, bulk pipelines, open-pit contract mining and surface mining related services, all forms of building works, including affordable housing, and mechanical and electrical installation and construction.

FUNDING AND RESTRUCTURING PLAN

The board of Stefanutti Stocks hereby provides shareholders with a further update on the Funding Plan as reported in the Unaudited Condensed Consolidated Results of Stefanutti Stocks for the six months ended 31 August 2019 (the “Previous Announcement”) and subsequent announcements (collectively the “Subsequent Announcements”).

As reported in the Subsequent Announcements, a strategic restructuring team has been appointed, including the appointment of a Chief Restructuring Officer, to advise on and assist with the development and implementation of a detailed turnaround programme for the group, including the securing of requisite additional short-term funding from the company’s primary banker and guarantee providers (the “Lenders”) and the subsequent restructuring of all such short-term funding into appropriate longer-term funding (the “Restructuring Plan” or “Plan”).

Shareholders are advised that the Restructuring Plan has been fully developed, including having regard to the potential impact of the Coronavirus (“COVID-19”) on the group and its business. The Plan has been approved by both the company’s board of directors and the Lenders and envisages, *inter alia*:

- the sale of non-core assets;
- the sale of underutilised plant and equipment;
- the sale of certain divisions/subsidiaries;
- internal restructuring initiatives required to restore optimal operational and financial performance;
- the securing of additional short-term funding of R430 million, of which R270 million relates to the negative effects of the national lockdown due to the COVID-19;
- a favourable outcome from the processes relating to the contractual claims and compensation events on the Kusile power project;
- the restructuring of the short-term funding received to date from the Lenders into a term loan; and
- evaluation of an optimum business model and associated capital structure analysis including the potential of raising new equity.

The purpose of the Plan is to put in place the optimal capital structure and access to liquidity to position the group for long-term growth in this dynamic environment.

In accordance with the Plan, the Lenders have provided the group with the following funding:

• 26 July 2019	R120,0 million
• 5 November 2019	R391,0 million
• 19 December 2019	R227,5 million
• 25 February 2020	R77,9 million
• 22 May 2020	R109,2 million
• 2 June 2020	R146,0 million
• 1 July 2020	R180,0 million
Total received to date	R1 251,6 million

Including the estimated impact of COVID-19 and the additional funding required for the Kusile power project as noted below, the total funding requirement for the group is R1 256 million.

In line with the Restructuring Plan, management has started to reconfigure the group’s organisational structure to improve operational performance and decrease overhead costs, including the reduction of the group’s overall headcount.

The Restructuring Plan is anticipated to be implemented over the financial years ending February 2021 and February 2022 and, to the extent required, shareholder approval will be sought for relevant aspects of the Plan. The previous short-term funding agreement was converted into a term loan on 1 July 2020, which loan terminates on 28 February 2022, and in addition, the Lenders have agreed to provide continued guarantee support for current and future projects being undertaken by the group.

Stefanutti Stocks will continue to update shareholders on the progress of various aspects of the Restructuring Plan.

The funding provided by the Lenders has assisted in relieving the group’s liquidity pressures even though current liabilities still exceed current assets, and as a consequence material uncertainty exists that may cast doubt on the group’s ability to continue as a going concern in the short term. However, having converted the short-term funding agreement to a term loan and on the basis of successfully implementing the Restructuring Plan, the directors consider it appropriate that the group’s results for the year be prepared on the going-concern basis.

OVERVIEW OF RESULTS

Eskom – Kusile Power Project

During the current reporting period, Eskom has adopted an adverse approach to certification of applications for work done by the Stefanutti Stocks Basil Read JV (“SSBR”), which has required a substantial increase of internal funding for this project. This has increased the initial funding requirement of R400 million to approximately R986 million excluding the impact of COVID-19. Consequently, in addition to the provision of R263 million raised at February 2019 for the potential unrecoverable preliminary and general costs, the group has now raised a further provision of R462 million for potential unrecoverable monthly measured works to complete the project.

As stated in the SENS announcement dated 8 July 2020, Stefanutti Stocks notes the release of the Eskom briefing document dated 10 June 2020 reflecting the “Kusile Contract Investigations Status” (“briefing document”) where it is stated, amongst other things, that Stefanutti Stocks has been overpaid by Eskom in relation to certain projects. Stefanutti Stocks has considered the briefing document and notes, for the benefit of shareholders in particular, that the investigations being carried out by and on behalf of Eskom are not complete. That said, Stefanutti Stocks disputes that it, or the joint operations in which it participates, have been overpaid.

As previously highlighted to shareholders in various announcements and updates since late 2018, the group is pursuing a number of contractual claims and compensation events on the Kusile power project, and due to the complexity of the claims, the processes remain ongoing.

The group advises shareholders as follows in relation to the matters raised with respect to Stefanutti Stocks in the briefing document:

- During the period between 2015 to 2018, payments made by Eskom to SSBR on package 16 were all made consequent to certificates issued by the independent engineer. During that period, representatives of the engineer and Eskom carried out audits of SSBR records and the payment certificates were issued after they had satisfied themselves that the costs claimed were actually and validly incurred in the construction at Kusile.
- Stefanutti Stocks contends that SSBR is owed additional amounts in respect of work done since December 2018 and in respect of which payments have been withheld. SSBR and Eskom have both committed to a claims resolution process which involves the appointment of independent experts to evaluate the causes of delay and the quantum thereof. This process remains ongoing.
- In relation to Package 28, during February 2019, Eskom terminated the contract with Stefanutti Stocks Izazi JV (“SSI”) due to its inability to provide access to SSI to be able to complete the relevant works. Based on the works completed, as well as Eskom’s inability to provide access, Stefanutti Stocks contends that there are significant amounts due to it. SSI commenced an adjudication process to recover these material amounts in 2018. This process is ongoing and is anticipated to be concluded during the latter part of 2020.

Remaining operations

The continued adverse market conditions, as well as the substantial impact of the Kusile power project, has reduced contract revenue from operations to R8,6 billion (Feb 2019: R9,9 billion).

The group incurred an operating loss of R1 033 million (Feb 2019: R158 million) after taking into account:

Provision for future costs – Kusile power project (refer above)	R462 million
Specific provisions for slow paying trade receivables	R331 million
Specific project losses	R294 million
Impairment of goodwill	R53 million
Provision for Kenya tax liability	R43 million

The United Arab Emirates operation contributed R48 million (Feb 2019: R66 million) towards the share of profits of equity-accounted investees. This year’s contribution is a reflection of more normalised trading conditions.

The group has not provided for a deferred tax asset on the losses pertaining to the South African trading entity for the current year.

Earnings and headline earnings per share are reported as a loss of 640,35 cents (Feb 2019: 65,99 cents) and a loss of 622,48 cents (Feb 2019: 70,12 cents) respectively.

The group’s order book is currently R8,5 billion of which R4,2 billion arises from work beyond South Africa’s borders.

Capital expenditure for the year amounted to R404 million (Feb 2019: R180 million) of which R305 million (Feb 2019: R70 million) relates to the recognition required by IFRS 16 right-of-use assets. These items are not owned by the group but are in fact rented from suppliers, with limited liability. There was a marginal increase in depreciation to R217 million (Feb 2019: R 211 million). Finance costs increased to R126 million (Feb 2019: R101 million) as a result of the extended funding made available from the Lenders and an interest accrual included in the provision for the Kenyan tax liability of R18 million.

Contributing to the adverse market conditions facing the industry, are the well documented and ongoing delays in payments from clients. This has had a significant impact on the group’s trade and other receivables as well as payments to suppliers and sub-contractors. This resulted in an increase in working capital of R437 million (Feb 2019: R246 million decrease) negatively impacting on cash consumed from operations of R751 million (Feb 2019: R361 million cash generated from operations). The group’s overall cash position has decreased to R741 million (Feb 2019: R881 million).

With the ongoing reduction of available work in the local mechanical and electrical market, goodwill of R30 million relating to the Skelton & Plummer (Pty) Ltd and Apollo E&I (Pty) Ltd acquisitions has been impaired. Continuing losses within the Roads & Earthworks division also necessitated an impairment in goodwill of R23 million.

Consequent to the additional funding requirements of the group and the impact of IFRS 16, interest-bearing liabilities have increased to R1 510 million (Feb 2019: R637 million).

The effect of the weakening Rand on the translation of certain foreign operations resulted in R52 million profit (Feb 2019: R58 million) being recognised in other comprehensive income.

Review of operations

Construction & Mining

Construction & Mining’s contract revenue decreased to R5,1 billion (Feb 2019: R5,3 billion) with an operating loss of R418 million (Feb 2019: operating profit of R112 million). The operating loss includes provisions raised for slow paying trade receivables and losses incurred on projects in the Road & Earthworks, Civils and Mining Services divisions. The material loss making projects in each of the Roads & Earthworks and Civils divisions are complete.

Port upgrades in Durban and Cape Town offer opportunities for the Marine and Civils divisions, whilst additional opportunities exist in water and transport infrastructure in South Africa, Swaziland and Botswana.

Mining infrastructure opportunities continue to present themselves to the benefit of this business unit.

The government’s proposed National Development Plan (NDP) will offer potential opportunities to this business unit.

Subsequent to year-end, two contract mining projects were terminated by the group of which one client is disputing the termination, which has been referred to arbitration. The group is confident that the termination was lawful and therefore no provision has been made. The cancellation of these contracts resulted in a reduction of Construction & Mining’s longer term order book.

Construction & Mining’s order book at February 2020 was R4,6 billion (Feb 2019: R6,5 billion). The reduction in order book was as a consequence of the termination of two contract mining projects.

Building

The Building business unit’s contract revenue reduced to R2,6 billion (Feb 2019: R3,4 billion), the operating loss increased to R490 million (Feb 2019: R251 million), which predominantly includes the provision raised for future costs on the Kusile power project as noted above, and a project loss in the Gauteng division which is now complete. The profit of the equity-accounted United Arab Emirates operation is excluded from this result.

The Mozambique and Coastal divisions continue to deliver positive results.

This business unit should also potentially benefit from the NDP, together with commercial, leisure, warehouse and factory opportunities in the private sector, in KwaZulu-Natal and Western Cape

The Mozambique division’s order book is currently under pressure, impacted by the delay in the northern province gas fields expansion projects. The division is, however, pursuing opportunities in the office, residential, factory and surface mine infrastructure in the private sector.

Building’s order book at February 2020 was R2,3 billion (Feb 2019: R2,7 billion) excluding the United Arab Emirates order book of R658 million (Feb 2019: R808 million).

Mechanical & Electrical

Mechanical & Electrical’s contract revenue decreased to R897 million (Feb 2019: R1,2 billion) with an operating loss of R25 million (Feb 2019: R19 million). The operating loss has been impacted by project losses incurred on a project in each of the Oil & Gas and Mechanical divisions. Both loss making projects were completed during the year.

Opportunities in the traditional petrochemical sector for the Oil & Gas division have substantially reduced due to the current global uncertainties negatively impacting on the oil price.

The impact of the COVID-19 pandemic on economic growth is negatively affecting the demand for commodities. This has limited investment into surface mining plant infrastructure projects, which is negatively affecting the Mechanical division’s order book, both locally and cross border.

The arbitration matter relating to the cancellation of a petrochemical contract had to be postponed due to a fundamental change in the client’s defence. At this stage the financial impact thereof cannot be quantified.

Subsequent to year-end, Stefanutti Stocks terminated a mechanical project. The client is disputing the termination, which has been referred to arbitration. The group is confident that the termination was lawful and therefore no provision has been made.

Mechanical & Electricals’ order book at February 2020 was R328 million (Feb 2019: R537 million).

Business Combinations

The exiting of Group Five Civil Engineering (Pty) Ltd and Basil Read (Pty) Ltd from the KCW JV operation necessitated the group to increase its shareholding from 25 % to 50 %. As the cost relating to the increase in shareholding is yet to be established, it has been based on the net asset value including a settlement agreement and excluding the recognition of deferred tax at the effective date. The group further increased its shareholding in certain non-material joint operations and acquired 100 % of EIS Properties (Pty) Ltd, due to operational requirements.

The fair value of assets and liabilities of the acquisitions are reflected in the note below.

	Effective date	Voting equity
KCW-Joint Operation	1 March 2019	25%
Stefanutti Stocks Izazi -Joint Operation	1 March 2019	40%
EIS Properties (Pty) Ltd	1 July 2019	100%
Stefanutti Stocks BMH-Joint Operation	1 November 2019	50%

At acquisition values	KCW-Joint Operation R’000	Other acquisitions* R’000
Non-current assets	**13 543**	**8 211**
Property, Plant and Equipment	–	3 572
Deferred tax assets	13 543	4 639
Current assets	**88 989**	**51 049**
Contracts in progress	3 276	209
Trade and other receivables	41 611	40 676
Bank balances	44 102	10 164
Non-current liabilities	**–**	**1 857**
Financial liabilities	–	1 857
Current liabilities	**76 777**	**37 958**
Trade and other payables	12 145	23 021
Excess billings over work done	54 177	14 481
Provisions	10 455	455
Bank overdraft	–	1
Net asset value	25 755	19 445
Cost of acquisition	10 586	22 677
Cash paid	–	22 677
Intangible assets recognised on acquisition	–	3 232
Bargain purchase gain	15 169	–
Revenue since acquisition	218 997	115 048
Profit before tax since acquisition	56 333	58 737
Acquisition-related costs	–	46

*Other acquisitions have been aggregated due to their net asset value not being material

Safety

Management and staff remain committed to enhanced health and safety policies and procedures, and together strive to constantly improve the group’s safety performance. The group’s Lost Time Injury Frequency Rate (LTIFR) at February 2020 was maintained at 0,02 (Feb 2019: 0,02) and the Recordable Case Rate (RCR) reduced to 0,29 (Feb 2019: 0,36).

Broad-Based Black Economic Empowerment (B-BBEE)

The group is a level 1 B-BBEE contributor measured in terms of the Construction Sector scorecard with a Black Economic Interest score of 58,1%.

Industry related matters

With respect to the civil claim received from the City of Cape Town (Green Point Stadium), a trial date had been set for the first quarter of 2020, however, this has been postponed. The matter will now be dealt with in an arbitration, which is anticipated to be heard during February 2021. The group remains confident it can defend this claim.

The group continues to be negatively affected through disruptive and unlawful activities by certain communities and informal business forums in certain areas of South Africa.

Dividend declaration

Notice is hereby given that no dividend will be declared (Feb 2019: Nil).

Subsequent events

Other than the matters noted herein, there were no other material reportable events which occurred between the reporting date and the date of this announcement.

Appreciation

We would like to express our appreciation to the board, the management team and all of our employees for their continuous commitment and dedication in this demanding environment. We also express our gratitude to our Lenders, service providers, customers, suppliers and shareholders for their ongoing support.

On behalf of the board

Zanele Matlala	**Russell Crawford**
Chairman	*CEO*

Published on 30 July 2020

Directors

Non-executive directors

ZJ Matlala# (Chairman), B Harie#, B Silwanyana#, J Poluta (alternate to B Silwanyana), DG Quinn#, HJ Craig#

 # Independent

Executive directors

R Crawford (Chief Executive Officer), AV Cocciante (Chief Financial Officer)

Registered office

Protec Park, Corner Zuurfontein Avenue and Oranjerivier Drive, Chloorkop, 1619
(PO Box 12394, Aston Manor, 1630)

Corporate advisor and sponsor

Bridge Capital Advisors Proprietary Limited
50 Smits Road, Dunkeld, 2196
(PO Box 651010, Benmore, 2010)

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
Private Bag X9000, Saxonwold, 2132

Auditors

Mazars
Mazars House, 54 Glenhove Road, Melrose Estate, Johannesburg, 2196
(PO Box 6697, Johannesburg, 2000)

Company secretary

W Somerville
20 Lurgan Road, Parkview, 2193

This announcement together with the investor presentation is available on the company’s website.