Stefanutti Stocks

Annual Results

12 months ended 28 February 2019

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Agenda

- 12 month overview
- Operational overview
- Financial results
- Conclusion

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Atlantis, The Palm, Dubai – Refurbishment of 1,500 hotel rooms

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12 month overview

- The SA construction market remains difficult and challenging, resulting in an extremely difficult trading environment
- The group's operating profit was negatively impacted by R263m relating to potential future unrecoverable costs, on a large public sector power project in SA, which had to be raised in terms of IAS 37:
  - The group is actively pursuing its contractual rights to ensure that this cost will not materialise
  - Before the end of the 3rd quarter of 2019, a ruling will be made whether the client needs to fund these costs until completion of the project
- The group is also pursuing a number of additional contractual claims and compensation events relating to this project
- The liquidation of a client and an increase in delayed payments have resulted in the group experiencing short-term liquidity pressures
- Another strong contribution from the UAE operation
- Cross-border operations continue to perform well
- Nationally, disruptive and unlawful behaviour of communities and informal business forums continue to negatively impact the group's performance

Key indicators

Operating loss
R158m

IAS 37 provision raised
R263m

Cash on hand
R881m

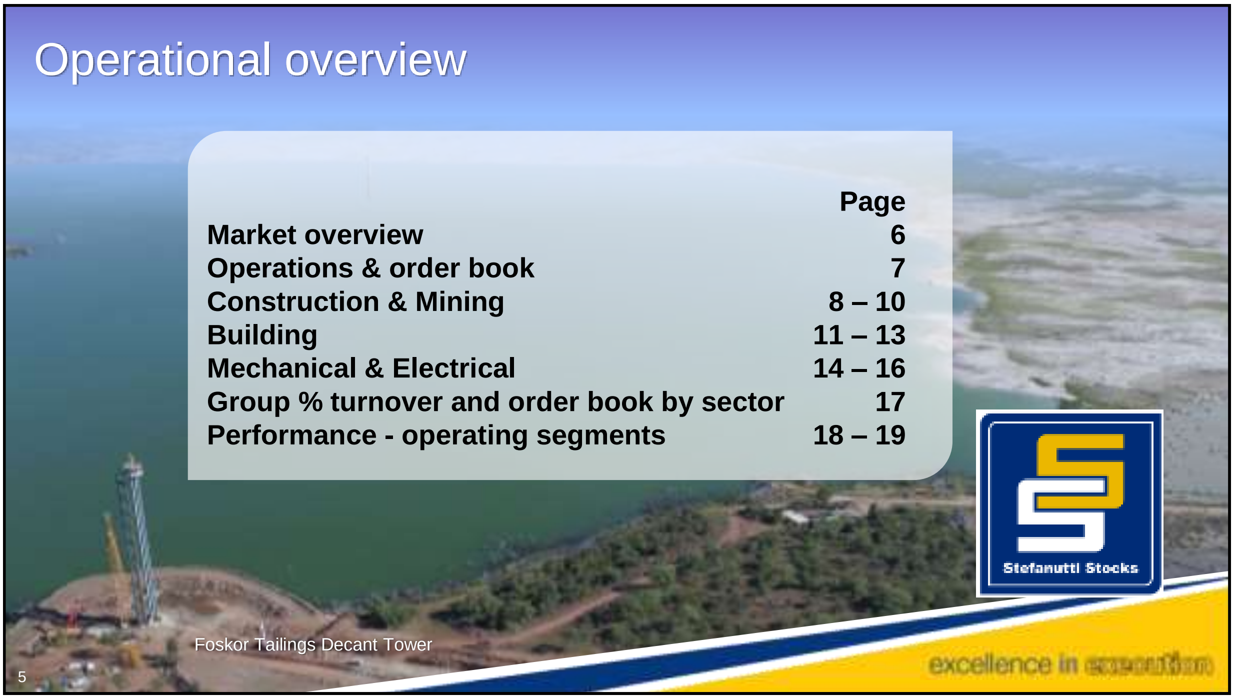
Debt : Equity
33,0%*

Capex
R109m*

Health and safety
LTIFR **0,02**
RCR **0,36**

B-BBEE
Level 2
Construction score card

** Excludes impact of IFRS 16 of R70m*



Operational overview

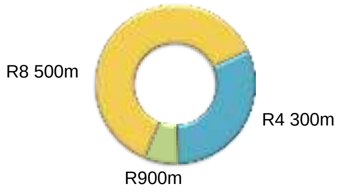
Foskor Tailings Decant Tower

Market overview

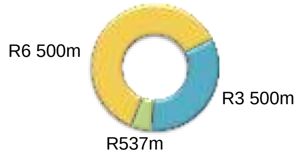
- The Southern African construction market continues to be distressed resulting in a shortage of work
- Despite a reduction in current order book to R11,5 bn certain sectors of the economy still provide opportunities, such as:
  - Industrial and office buildings (local and cross-border)
  - Petrochemical tank farms and plant shut-downs
  - Road and bridge infrastructure (local and cross-border)
  - Surface mining related services and open-pit contract mining
  - Water and sanitation treatment plants and bulk pipelines (local and cross-border)
- Increasing trend of clients delaying the certification of work, scope changes and variation orders negatively impacting working capital

Operations & order book

Construction & Mining	Building	UAE	Mechanical & Electrical
Civils	Coastal	Al Tayer Stocks (*Equity accounted investee*) *50% order book*	Industrial
Geotechnical	Inland		Oil & Gas
Mining Services	Africa (SADC)		
Roads & Earthworks			
Africa (sub Sahara)			



Order book:
31 Aug 2018: R13,7 bn



Order book:
28 Feb 2019: R10,5 bn

Current Order Book

2-year order book	R9,6 bn
Year 3	R1,4 bn
Beyond	R0,5 bn
Total	R11,5 bn

The order book only includes work where we have received an official order for projects

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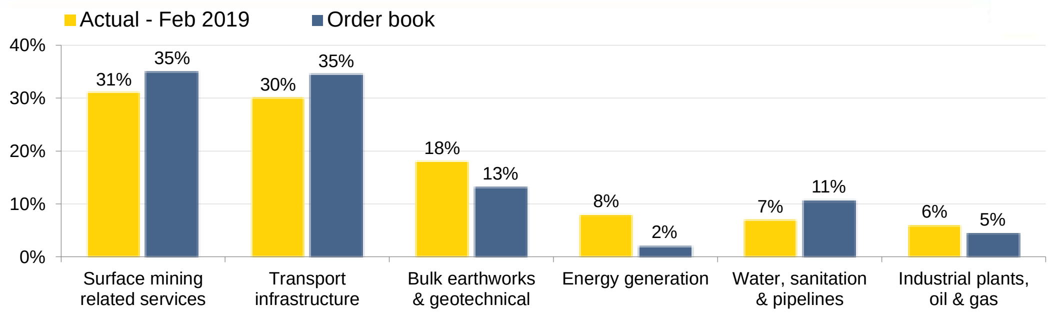
Construction & Mining (C&M)
% turnover and order book by sector



	Feb 2019	Order book
Total work outside South Africa	27%	40%
Public sector work in SA	20%	15%
Public sector work outside SA	16%	27%

Current Order Book

2-year order book	R5,6 bn
Year 3	R1,4 bn
Beyond	R0,5 bn
Total	R7,5 bn

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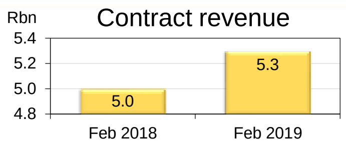
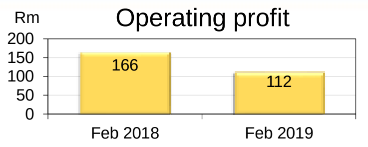
Construction & Mining overview





- In a demanding environment, Construction & Mining results reduced due to:
  - The liquidation of an open-pit mining client
  - A loss-making project in the Roads & Earthworks division
- Cross-border operations continue to contribute positively towards operating profit (Zambia & Swaziland)
- Although undisputed, collection of debt in Nigeria and Zambia remains problematic and a source of frustration:
  - Periodic payments are being received
  - Ongoing discussions with responsible government departments to address outstanding payments
  - Work will only commence once all outstanding amounts have been collected
- Unlawful community unrest affected numerous projects which had a negative impact the operational performance

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Construction & Mining work prospects

- In South Africa there are opportunities within:
  - Selected open-pit mining projects
  - Surface mining related services
  - Water and sanitation treatment plants
  - Large diameter pipelines
- Cross-border opportunities
  - Water and sanitation treatment plants
  - Large diameter pipelines
  - General contracting work in the built environment
  - Selected roads and bridges
- In the short term, there are potential awards to SSK to the value of ±R3.6 billion
- For the next 12 months, projects to the value of ±R9.7 billion have been identified

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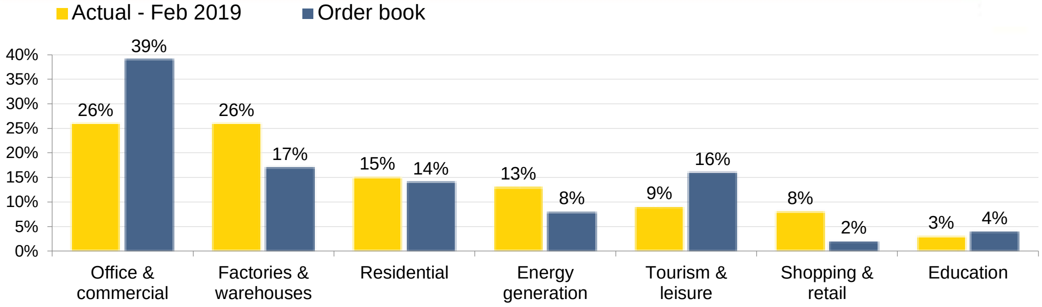
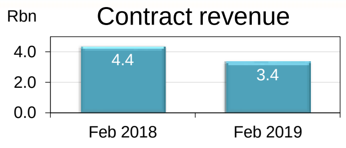
Building
% turnover and order book by sector

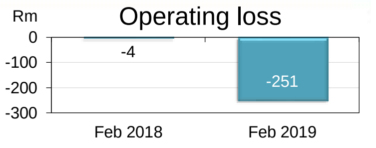


	Feb 2019	Order book
Total work outside South Africa	21%	56%
Public sector work in SA	18%	17%
Public sector work outside SA	4%	2%

Current Order Book	Southern Africa	UAE (50%)
2-year order book	R2,6 bn	R0,8 bn
Year 3	-	
Beyond	-	
Total	R2,6 bn	R0,8 bn

Building overview





- Including the IAS 37 provision of R263m
- Excluding the UAE equity accounted investee

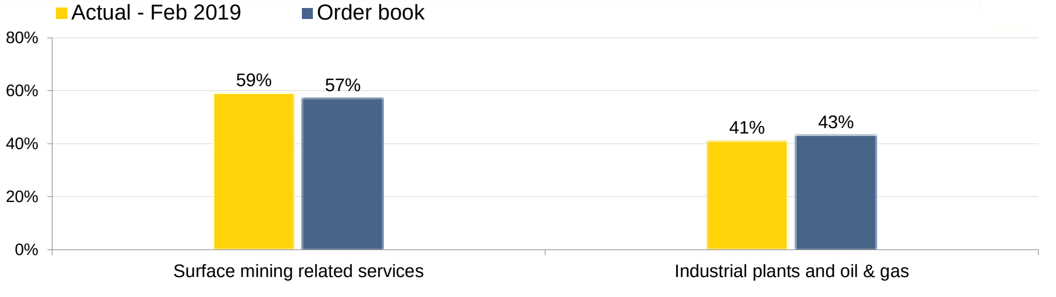
- UAE operating profit was R63m
- With limited private and public spend, the Southern African market remains depressed and challenging
- Mozambique and Coastal divisions continue to contribute positively towards operating profit
- Converting work in progress into cash and delayed debtor payments, from developers working for Department of Human Settlements, continues to affect working capital
- With respect to ongoing contractual matters on the large public sector power project in South Africa:
  - The group is actively pursuing its contractual rights to ensure that the cost provided in terms of IAS 37 and the corresponding cash flow implications will not materialise
  - Other contractual claims and compensation events are also being pursued

Building work prospects

- Weak trading conditions and margins are expected to remain under pressure. However, in the short to medium term select opportunities exist in:
  - Office buildings
  - Distribution and data centres
  - Residential urban developments
  - Design and construct of factories and warehouses
  - General contracting work in Mozambique
  - Fit-out and building work in the UAE
- In the short term, there are potential awards to SSK to the value of ±R2.8 billion
- For the next 12 months, projects to the value of ±R8 billion have been identified

Mechanical & Electrical (M&E)

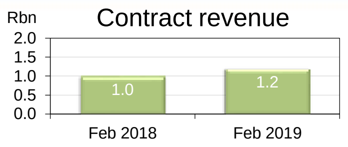
% turnover and order book by sector

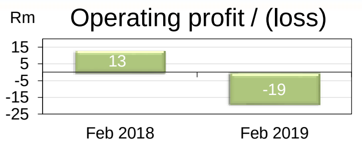


	Feb 2019	Order book
Total work outside South Africa	15%	6%
Public sector work in SA	0%	0%
Public sector work outside SA	0%	0%

Current Order Book	
2-year order book	R600m
Year 3	-
Beyond	-
Total	R600m

Mechanical & Electrical overview





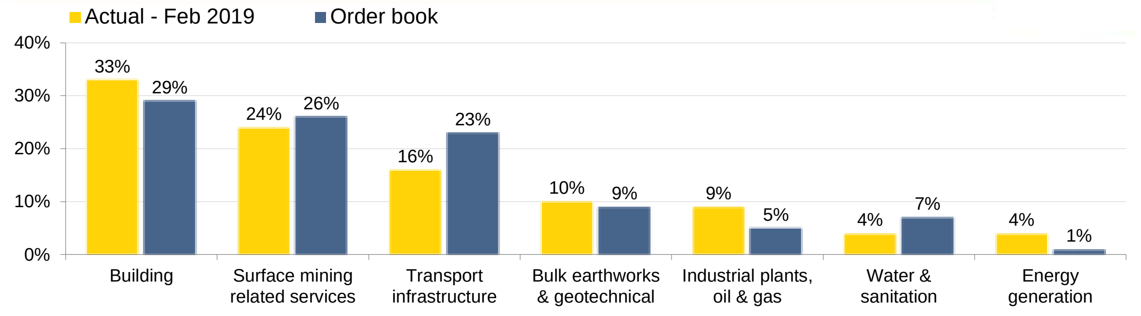
- The shortage of work in the oil and gas sector is negatively affecting both the Oil & Gas and Electrical & Instrumentation divisions
- The previously reported claim against the Oil & Gas division by an international contractor was settled under duress and had a R38m negative impact on the results
- In a challenging trading environment the Mechanical division performed to expectation
- During the year the business unit was right-sized due to shortage of work
- The contract cancellation in Dec 2016, which was referred to arbitration, has been delayed to a future date

Mechanical & Electrical work prospects

- The mining sector, both locally and cross-border, continues to offer opportunities for the Mechanical and Electrical & Instrumentation divisions
- Plant maintenance and shut-down work still provide opportunities for Oil & Gas and Electrical & Instrumentation
- Some fuel storage tanks have been awarded to Oil & Gas and we expect more tenders to come to the market
- In the medium to long term we are expecting Clean Fuels projects to offer work prospects
- In the short term, there are potential awards to SSK to the value of ±R615m
- For the next 12 months, projects to the value of ±R2.3 billion have been identified

Group

% turnover and order book by sector



	Feb 2019	Order book
Total work outside South Africa	32%	43%
Public sector work in SA	17%	15%
Public sector work outside SA	10%	18%

Current Order Book*	
2-year order book	R9,6 bn
Year 3	R1,4 bn
Beyond	R0,5 bn
Total	R11,5 bn

** Includes UAE @ 50%*

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Operating Segments: 2018

Restated 28 February 2018

R'000s	C&M	Building (incl. UAE)	M&E	Head Office	Total operations	Include Impairment of assets	Exclude UAE *	Exclude Group as reported
Contract revenue	4 967 962	5 354 075	1 022 597	-	11 344 634	-	(981 112)	10 363 522
% Contribution	*43,8%*	*47,2%*	*9,0%*	-	*100%*			
Operating profit	165 740	42 333	12 899	(13 089)	207 883	(667 114)	(46 751)	(505 982)
% Contribution	*79,7%*	*20,4%*	*6,2%*	*(6,3%)*	*100%*			
Operating margin (%)	*3,3%*	*0,8%*	*1,3%*	*N/A*	*1,8%*	*N/A*	*4,8%*	*(4,9%)*

** Excluded from reported contract revenue and operating profit as UAE is an equity accounted investee*

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Operating Segments: 2019

As at 28 February 2019

R'000s	C&M	Building (incl. UAE) (excl. IAS 37)	M&E	Head Office	Total operations	Include: IAS 37 provision *	Exclude: UAE **	Group as reported
Contract revenue	5 313 875	4 767 381	1 208 570	-	11 289 826	-	(1 414 803)	9 875 023
% Contribution	*53,8%*	*48,3%*	*12,2%*	-	-	-	*(14,3%)*	*100%*
Operating profit	112 031	74 937	(19 036)	(80)	167 852	(263 206)	(62 637)	(157 991)
% Contribution	*70,9%*	*47,4%*	*(12,0%)*	*(0,1%)*	-	*(166,6%)*	*(39,6%)*	*100%*
Operating margin (%)	*2,1%*	*1,6%*	*(1,6%)*	*N/A*	*1,5%*	-	*4,4%*	*(1,6%)*

* *Provision in terms of IAS 37: Provisions, Contingent Liabilities and Contingent Assets*
** *Excluded from reported contract revenue and operating profit as UAE is an equity accounted investee*

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Financial overview

Ferrari & Maserati Showroom - Dubai

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Financial indicators

Results for the 12 months ended 28 Feb 2019

Contract revenue	R9,9bn	5%
Operating loss	(R158m)	69%
Operating profit excluding IAS 37 provision	R105m	
Operating margin	1.1%	
Loss after tax attributable to equity holders	(R111m)	
Earnings per share	(65.99c)	
Headline earnings per share	(70.12c)	204%
Cash on hand	R881m	4%

Statement of Profit or Loss

R'000	Reviewed 28 Feb 2019	% Change	Restated 28 Feb 2018
Contract Revenue	**9 875 023**	(4.7%)	**10 363 522**
EBITDA	55 558	(83.9%)	345 567
EBITDA %	*0.6%*		*3.3%*
Depreciation & amortisation	(213 549)		(184 435)
Impairment of assets	-		(667 114)
Operating Loss	**(157 991)**		**(505 982)**
Operating margin %	*(1.6%)*		*(4.9%)*
Equity accounted investees	**68 075**		**41 388**
Net finance costs	**(57 169)**		**(33 729)**
Loss before tax	**(147 085)**		**(498 323)**
Taxation	**35 764**		**(48 710)**
Loss for the year	**(111 321)**		**(547 033)**
Net margin %	*(1.1%)*		*(5.3%)*
Loss attributable to ordinary shareholders	**(110 761)**		**(542 593)**
Headline (loss) earnings attributable to ordinary shareholders	**(117 683)**	(202.1%)	**115 278**
Weighted average shares in issue	**167 836 344**		**170 748 789**
Diluted weighted average shares in issue	**188 080 746**		**188 080 746**
EPS (cents)	**(65.99)**		**(317.77)**
HEPS (cents)	**(70.12)**	(203.9%)	**67.51**

Extracts from Statement of Profit or Loss

R'000	Reviewed 28 Feb 2019	% Change	Restated 28 Feb 2018
Contract Revenue	**9 875 023**	(4.7%)	**10 363 522**
EBITDA	55 558	(83.9%)	345 567
EBITDA %	*0.6%*		*3.3%*
Depreciation & amortisation	(213 549)		(184 435)
Impairment of assets	-		(667 114)
Operating Loss	**(157 991)**		**(505 982)**
Operating margin %	*(1.6%)*		*(4.9%)*

- Reduction in contract revenue
- IAS 37 provision of R263m resulting in an EBITDA margin of 0.6%
- Increase in depreciation to R211m (Feb 2018: R176m)
  - Includes IFRS 16 depreciation charge of R45m (Feb 2018: nil)
- Resulting in an operating loss of R158m
  - Excluding IAS 37 provision, operating profit is R105m

Extracts from Statement of Profit or Loss

R'000	Reviewed 28 Feb 2019	% Change	Restated 28 Feb 2018
Operating Loss	**(157 991)**		**(505 982)**
Equity accounted investees	**68 075**		**41 388**
Net finance costs	**(57 169)**		**(33 729)**
Loss before tax	**(147 085)**		**(498 323)**
Taxation	**35 764**		**(48 710)**
Loss for the year	**(111 321)**		**(547 033)**

- Improved contribution from UAE operation – R66m (Feb 2018: R48m)
- Net finance costs:
  - Interest earned R44m (Feb 2018 : R49m)
  - Interest paid R101m (Feb 2018 : R83m) – impacted by prior year's CAPEX and IFRS 16 charge of R7,9m
- Tax charge impacted by IAS 37 provision, varying tax rates of cross border jurisdictions and non-taxable contribution from the UAE operation

Extracts from Statement of Profit or Loss

R'000	Reviewed 28 Feb 2019	% Change	Restated 28 Feb 2018
Loss for the year	(111 321)		(547 033)
Loss attributable to ordinary shareholders	(110 761)		(542 593)
Headline (loss) earnings attributable to ordinary shareholders	(117 683)	(202.1%)	115 278
Weighted average shares in issue	167 836 344		170 748 789
Diluted weighted average shares in issue	188 080 746		188 080 746
EPS (cents)	(65.99)		(317.77)
HEPS (cents)	(70.12)	(203.9%)	67.51

- Excluding IAS 37 provision, profit after tax is R78m
  (restated Feb 2018: R120m excluding impairment charges)
- HEPS – loss of 70 cents per share
- Excluding IAS 37 provision, HEPS is a profit of 42,8 cents per share (Feb 2018: 67,5 cents)

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Statement of Financial Position

	Reviewed 28 Feb 2019		Restated 28 Feb 2018
ASSETS			
Non-current assets			
Property, plant and equipment	1 501 945	1.2%	1 483 727
Goodwill and intangible assets	457 585		460 506
Equity-accounted investees	280 449		209 181
Deferred tax	211 337		132 603
Current assets			
Bank balances	880 771	(3.8%)	915 891
Other current assets	3 035 269		3 104 386
TOTAL ASSETS	**6 367 356**		**6 306 294**
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shareholders' interest	1 745 944	(2.7%)	1 793 977
Non-controlling interest	(14 192)		(3 726)
Non-current liabilities			
Interest-bearing liabilities	313 864		478 633
Non-interest-bearing liabilities	26		26
Excess billings over work done	25 000		-
Provisions	79 942		-
Current liabilities			
Other current liabilities	2 383 391		2 186 120
Excess billings over work done	1 145 970	3.2%	1 110 870
Provisions	679 948	3.4%	657 470
Taxation	7 463		82 924
TOTAL EQUITY AND LIABILITIES	**6 367 356**		**6 306 294**
Current interest bearing liabilities	281 684		278 600

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Extracts from Statement of Financial Position

	Reviewed 28 Feb 2019		Restated 28 Feb 2018
ASSETS			
Non-current assets			
Property, plant and equipment	1 501 945	1.2%	1 483 727
Goodwill and intangible assets	457 585		460 506
Equity-accounted investees	280 449		209 181
Deferred tax	211 337		132 603
Current assets			
Other current assets	3 035 269		3 104 386

- Capex spend of R109m (Feb 2018: R500m)
  - Excludes IFRS 16 right of use assets of R70m
  - Expansion R68m and maintaining R41m (excluding IFRS 16 right of use assets)

Other current assets			
Inventories	187 924	28.5%	146 278
Contracts in progress	506 568	23.9%	408 865
Trade accounts receivable	1 829 180	(16.7%)	2 197 017
Other receivables	511 597	45.2%	352 226
	3 035 269	(2.2%)	3 104 386

- Increase in work in progress of 23.9%
- 16.7% decrease in trade accounts receivable
  - Debtors days (excluding retentions) decreased to 68 days from 77 days

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Extracts from Statement of Financial Position

	Reviewed 28 Feb 2019		Restated 28 Feb 2018
Current assets			
Bank balances	880 771	(3.8%)	915 891
Other current assets	3 035 269		3 104 386
TOTAL ASSETS	**6 367 356**		**6 306 294**

- Net cash on hand is R881m
- Due to:
  - the liquidation of a contract miner
  - delayed payments from customers and
  - the temporary funding of the large public sector power project

  the group is experiencing short term liquidity pressures

- In order to resolve this, the group is exploring raising the required funding through a combination of specific ring-fenced project financing, a number of alternative funding solutions and, only if required, a possible fresh issue of shares (the 'Funding Plan'):
  - First part of the Funding Plan, being the specific ring-fenced project financing, has been secured.
  - The remaining aspects of the Funding Plan are being pursued. Shareholders will be advised accordingly.
- Based on the successful implementation of the remainder of the Funding Plan and the current assessment of the group's financial budgets for the ensuing year, the group is deemed to be a going concern.

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Extracts from Statement of Financial Position

	Reviewed 28 Feb 2019		Restated 28 Feb 2018
Non-current liabilities			
Interest-bearing liabilities	313 864		478 633
Non-interest-bearing liabilities	26		26
Excess billings over work done	25 000		-
Provisions	79 942		-
Current liabilities			
Other current liabilities	2 383 391		2 186 120
Excess billings over work done	1 145 970	3.2%	1 110 870
Provisions	679 948	3.4%	657 470
Taxation	7 463		82 924

- Total interest bearing debt R637m (Feb 2018: R783m)
- Including amounts due to: - IFRS 16 rental liability (R61m) - (Feb 2018: nil)
  - VRP Settlement Agreement (R100m) - (Feb 2018: R108m)
  - Competition Commission (Nil) - (Feb 2018: R40m)
- Interest bearing debt : equity ratio improved to 36.5% (restated Feb 2018: 43.7%) or 33.0% excluding IFRS 16 liability
- Other current liabilities includes short term interest bearing liabilities of R282m (Feb 2018: R278m)

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Extracts from Statement of Financial Position

	Reviewed 28 Feb 2019		Restated 28 Feb 2018
Current Liabilities			
Other current liabilities			
Short term loans	281 684	(4.0%)	293 445
Trade accounts payable	884 660	(6.8%)	948 702
Accruals & other current liabilities	1 217 047	28.9%	943 973
	2 383 391	9.0%	2 186 120
Non-current & current liabilities			
Excess billings over work done	1 170 970	5.4%	1 110 870
Provisions	759 890	15.6%	657 470

- Slight reduction in creditors days to 35 days (Feb 2018: 37 days)
- Increase in advances received from customers of R60m
- Contracting provisions increased by R102m from Feb 2018

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Abridged statement of cash flows

28 Feb 2019 (Rm)		28 Feb 2018 (Rm)
916	Opening cash balance	1158
115	Cash generated from operations	616
246	Working capital changes	-293
-10	Net investment and dividend income	21
-97	Taxation paid	-57
-41	Investing activities maintaining	-131
-68	Investing activities expanding	-369
14	Other investing activities	65
-242	Financing activities	-64
48	Exchange rate effects and other	-30
881	Closing balance	916

No dividend has been declared

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Summary & Conclusion

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Challenges

- Resolve the short term liquidity pressures
- Maintain focus on converting debtors and work in progress into cash
- Resolve the contractual claims and compensation events on a large public sector power project
- Obtain a quality order book in a challenging market where public and private infrastructure spend is limited

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Work prospects

- Short term potential awards (as per presentation) R7.0 billion
- Next 12 months opportunities (as per presentation) R20 billion
- Longer term opportunities:
  - Clean Fuels programme
  - Various surface mining related services projects
  - Various types of building projects
  - LNG plant in Mozambique
  - Lesotho Highlands Water Project
- There are various cross border opportunities in road and bridge construction, bulk pipelines and office buildings

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Industry-related matters

- Legal process relating to the civil claim from the City of Cape Town
  - A trial date is set for Q1 2020
  - The group remains confident that it can defend the matter

Conclusion

- We need to resolve the short-term liquidity pressure to ensure that the group is well positioned to benefit when opportunities arise
- The collection of outstanding government debt and converting work in progress into cash remains a priority
- The group remains focused on preserving & improving its balance sheet
- With the better returns from sub-Saharan Africa, we will continue to expand our cross-border operations
  - Especially in countries where we already have a footprint
  - Maintaining a blend between public and private sector work

Stefanutti Stocks City

A multi-disciplinary construction group

www.stefanuttistocks.com

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