19 Condensed consolidated annual group results

FOR THE FOUR MONTHS ENDED
31 DECEMBER 2019

Consolidated
Infrastructure
Group Limited

Commentary

INTRODUCTION

Consolidated Infrastructure Group Limited (CIG or the company, and including its subsidiaries, the group) is a leading pan-African infrastructure-focused group with a diversified portfolio in Power, Building Materials, Oil & Gas and Rail. The group's footprint spans South Africa, sub-Saharan Africa and the Middle East.

CIG continued to trade in extremely difficult macro-economic conditions, with pressure on all businesses. The group has initiated interventions to respond to these conditions, which resulted in most businesses trading in line with board and management expectations.

The group's most challenging business remains Consolidated Power Projects Proprietary Limited (CONCO). Although the positive impact of focused management and operational execution oversight has started to materialise, this could not fully negate the costs associated with an overhead structure that is oversized relative to the level of current market activity. The results were further impacted by material finance charges on interest-bearing borrowings.

Conlog Proprietary Limited was impacted by higher than budgeted operating costs, including sizeable once-off costs following the relocation of the office and manufacturing operation in November 2019 and the requirement to operate two manufacturing plants simultaneously for a period. Sales were delayed as a result of the implementation of the company's improved financial risk management strategy of not accepting sales orders without appropriate payment guarantees to protect working capital.

Although Building Materials continued to be impacted by the slowdown in the construction industry in South Africa, the benefits of a restructuring programme have started to improve earnings and cash flow.

The 30.5% associate, Angola Environmental Servicos Limitada (AES) in Oil & Gas performed in line with expectations and delivered cash returns in the period.

The Rail cluster delivered a performance ahead of budget, breaking into a positive trading position for the four months ended 31 December 2019 following losses in the 12 months to August 2019.

FINANCIAL PERFORMANCE

The group announced on 2 December 2019 that it would change its financial year-end from August to December, effective for the period ended 31 December 2019. These results therefore relate to a four-month trading period ended 31 December 2019, with the comparative period being the 12-month trading period ended 31 August 2019.

Group revenue for the four-months to 31 December 2019 was R955,4 million compared with the revenue reported for the 12 months to 31 August 2019 of R3,169 million. The impact on revenue due to the limited trading month in the holiday period of December is more apparent in a four-month measurement period.

The after taxation loss for the group for the four-months to 31 December 2019 was R284,1 million compared with the after taxation loss reported for the 12 months to 31 August 2019 of R1,343 million.

The group reported a loss per share of 71 cents for the four months to 31 December 2019 compared to the loss per share of 398 cents for the 12 months to 31 August 2019.

The headline loss per share for the four months to 31 December 2019 was 72 cents after adjusting for profit on sale of assets. This compares to the loss for the 12 months to 31 August 2019 of 366 cents per share after adjusting for impairment of goodwill and intangible assets.

In January 2019 the group successfully concluded a rights issue, raising net proceeds of R765 million by issuing 200 million shares. This resulted in an increase in the weighted number of issued shares from 196 million to 334 million. The loss per share for the 12 months to 31 August 2019 is based on the 334 million shares. The loss per share for the four months to 31 December 2019 is based on the total 396 million shares in issue.

Included in the statement of financial position at 31 December 2019 is net current assets relating to contracting activities of R515,8 million (31 August 2019: R904,3 million) consisting of:

- contract debtors of R656,8 million (31 August 2019: R869,5 million)
- contracts work in progress of R212,5 million (31 August 2019: R490,0 million)
- amounts due on contracts in the form of advance payments of R31,1 million (31 August 2019: R168,4 million)
- amounts due to contract customers of R322,5 million (31 August 2019: R286,7 million)

The reduced net position is as a result of an unwinding order book and increased focus on working capital management.

The group reported a net overdraft of R39,6 million (31 August 2019: R98,2 million cash on hand) at 31 December 2019.

Despite the decrease in net cash, cash was generated from operations of R53,4 million (31 August 2019: R326,4 million outflow). However, the cash generated from operations was absorbed by net finance costs paid to lenders.

The group had limited free cash at year end. This was mainly due to the funding requirements of CONCO, the group's largest business.

The group's free cash was applied to fund the following:

- Completion of projects ahead of cash expected to be received on final certification on projects nearing completion;
- A change in the group's working capital cycle following a reduction and removal of external credit guarantee insurance available to suppliers. This necessitated upfront and advance payments by the group to suppliers and shorter credit terms afforded to the group;
- A decreasing order book due to market conditions; and
- An under-recovery of overhead costs as a result of lower than expected rate of trade.

All the group's engineering, procurement and construction (EPC) businesses were impacted by the removal of credit insurance cover during the 12 months ended 31 August 2019 and an under-recovery of overhead costs which absorbed free cash in both financial periods under review.

To address the risk of short-term cash pressure, management has prepared budgets for financial years 2020 to 2022, as well as a detailed liquidity model which includes cash flow forecasts covering a minimum period of 12 months from the date of these financial statements. Refer to the going concern note for detailed disclosure on liquidity management and going concern assumptions.

GROUP RECAPITALISATION AND DEBT RESTRUCTURE

In January 2019, the company successfully concluded its capital raising and, following a rights offer which closed on 21 December 2018, received R765 million of net capital. This resulted in Fairfax Africa Holdings Corporation (Fairfax Africa) acquiring a significant shareholding in CIG. Following the rights issue, the board of directors was reconstituted on 30 January 2019.

The company and its largest subsidiary, CONCO, have reached general terms of agreement and are in the process of finalising binding legal agreements with their respective lenders for the restructuring of their interest-bearing borrowings. These agreements are with the bond holders of the previously listed CIG DMTN bond programme and the bank lenders at CONCO. These will be subject to normal conditions precedent.

The restructuring will result in a substantial portion of the debt owed by the company and a portion of the debt owed by CONCO converting to term debt, with a value of R700 million being reclassified from short-term to long-term debt. In addition, the lenders support the group by maintaining other short-term debt facilities under the group's current term agreement and conditions. In return, the group will provide certain assets as security for the term debt. The statement of financial position as at 31 August 2019 and 31 December 2019 reflect the current banking arrangements prior to the implementation of the revised debt agreements.

DIVISIONAL OVERVIEW

Power

CONCO

R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Revenue	**523 212**	1 923 173
EBITDA*	**(182 986)**	(725 326)
Loss after taxation	**(250 795)**	(878 831)

* *Loss before interest, taxation, depreciation and amortisation.*

CONCO supplies sub-stations and delivers high-voltage electrification services, including wind farms and solar parks across South Africa, the rest of Africa and the Middle East.

The business contributed 54,8% to group revenue for the four months ended 31 December 2019 (60,7% for the 12 months ended 31 August 2019).

Although market opportunities remain strong over the medium-term, CONCO currently represents CIG's main challenge. The lack of policy certainly in South Africa has limited the ability of state-owned entities, municipalities and distribution companies to move forward on the substantial work backlog which exists in the country. This resulted in slower than anticipated contract awards and downward pressure on margins. Consequently, budgeted profit from unsecured contracts has failed to materialise, along with an under-recovery on project overheads carried in anticipation of these contracts. Support services costs remain in excess of those required to profitably sustain the current trading volumes.

Operationally, CONCO remains focused on the successful execution of Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) Round 4 projects in hand. A clear objective of the REIPPPP is to maximise local content to the projects and, as such, all key electrical equipment must be procured from South African manufacturers. Manufacturers of key components are currently struggling to execute on their projects timeously and to the required standards. These sub-contract supply issues require extensive management intervention by CONCO to ensure that the external supply does not place CONCO at risk for late completion and associated penalties. The management team is actively managing and monitoring this key risk.

As previously reported, CIG and CONCO senior management implemented Project Visibility, a comprehensive improvement programme to address four key areas, including:

- Reliability and accuracy of financial reporting, including contract profit recognition;
- Contract delivery, including tendering, execution and commercial management;
- Liquidity management and forecasting; and
- Business sustainability.

To assist with the implementation of Project Visibility, CIG appointed independent construction experts with a track record of successful contract management and construction business leadership who are well regarded in the industry. This included the appointment of Andrew McJannet, the former CEO of the Power Group, as acting head of operations.

Project Visibility is now into its second phase. In the second half of calendar 2019 significant focus was applied to the review of project execution, commercial management, forecasting and liquidity management. The focus for the first quarter of calendar 2020 is to implement the immediate changes required in the business, which include implementation of a refined business strategy and restructuring initiatives. The emphasis on tangible results management, which includes defined performance areas and weekly feedback to the CIG financial committee has been formalised. The performance areas include improved operational execution, penalty risk mitigation, working capital enhancement, cost reduction and a revised business strategy.

South Africa has committed to an integrated resource plan that substantially favours businesses such as CONCO. Uncertainty remains, however, on the timing of pricing submissions and the time required to achieve financial close on these projects. The business expects an improvement in the renewable energy solutions project development cycle in the markets in the rest of Africa.

CONLOG

R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Revenue	**125 193**	488 157
EBITDA*	**(192)**	106 871
(Loss)/profit after taxation	**(21 861)**	42 065

* *(Loss)/earnings before interest, taxation, depreciation and amortisation.*

Conlog provides pre-paid and smart electronic metering devices and solutions, from design to distribution. Services for utilities and municipalities include revenue management, revenue protection, pre-payment with smart load control and load management.

The business contributed 13,1% to group revenue for the four months ended 31 December 2019 (15,4% for the 12 months ended 31 August 2019).

Conlog's performance was weaker than expected and below management's expectations.

Results were impacted by higher than budgeted operating costs, mainly from the relocation of the office and manufacturing operation in November 2019 and the requirement to operate two plants simultaneously. Productivity dropped temporarily while the product lines were moved from the previous plant. This was exacerbated by increased labour costs due to extra casual labour and additional shifts to assist with installing equipment and ensuring efficient processes. There was also an under-recovery of manufacturing base costs.

In addition, in line with the group's increased management of credit risk, the business sacrificed revenue and margin to improve the management of credit risk by deferring the manufacturing and dispatch of products until it had received appropriate payment guarantees. This impacted revenue and earnings for the period.

The business is currently extending its product range, as well as reviewing other sectors, such as the water sector and contract manufacturing markets, in a range of geographies. Conlog remains focused on growing its geographic presence, with strategic partnerships secured in markets such as Ghana and West Africa. In South Africa the business has secured significant and sustainable contracts from Eskom and the City of Tshwane following the establishment of a Gauteng presence. It is also targeting the private property market to further diversify. In Uganda, the team will implement an improved client engagement plan with firm measurable actions to support a turnaround of activities.

In Nigeria, the business has made significant market inroads and the team plans to increase the rate of installation on a meter asset provider (MAP) project and aims to secure additional clients by taking advantage of Conlog's recently established presence and MAP project success. Conlog is currently commissioning a local assembly plant.

In Ghana the team is working on developing a meter that will deliver a minimum volume of 20 000 meters in the coming year and allow this business to participate in a market with a volume of 100 000 meters per year.

OTHER

R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Revenue	**14 459**	34 913
EBITDA*	**(69)**	(19 230)
Loss after taxation	**(753)**	(27 396)

* *Loss before interest, taxation, depreciation and amortisation.*

The other Power businesses include Consolidated Power Maintenance (CPM) and CIGenCo. This segment contributed 1,5% to group revenue for the four months ended 31 December 2019 (1,1% for the 12 months ended 31 August 2019).

CPM maintains renewable energy sites and transmission sub-stations.

In the six months to 28 February 2019 impairments and charges against earnings of R20,2 million were recorded. In the six months to 31 August 2019 the market remained subdued.

Following restructuring initiatives, including the reduction of the cost base and improved risk management, CPM delivered a stronger performance in the four months to 31 December 2019. Certain support structures were combined with the Rail cluster to improve efficiencies and processes.

Although there is currently significant uncertainty in terms of the South African government's approach to the renewable energy industry, the team is hopeful that the release of the Integrated Resource Planning (IRP) 2019 programme will provide more certainty. The IRP promises to deliver an additional 22 576MW of renewable energy by 2030. In addition, several of the maintenance projects in the Bid Window 1 projects that were commissioned in 2012 are nearing the end of their life and are due for renewal. CPM is targeting these projects as part of its growth strategy.

The Namibian market plans to construct 130MW of renewable energy generation, 40MW of solar photovoltaic and 90MW of wind by 2023. CPM is well placed in this market due to its performance track record and reputation. In South Africa, the team remains hopeful that the future of alternative power solutions will crystallise. The entry into Zambia after securing the first project has opened this market for future growth.

CIGenCo, the group's development business, designs and develops mid-sized power generation projects in Africa. CIGenCo remains focused on co-developing and operating clean energy power-producing plants to grow annuity income.

In the six months to 28 February 2019 the group impaired the recognition of all costs incurred on projects under development where the group deems financial close not to be achievable in the short-term. This impacted the segment's results in that period by R67,8 million.

For the four months to 31 December 2019, the business delivered in line with budget. The contribution from its Namibian Ejuva Solar Energy projects remains pleasing, although a relatively small contributor to group earnings. The team is making slow progress on the key projects under development, which impacted results.

CIGenCo is currently shortlisted for pre-qualification on the Eswatini 40MW multiple solar photovoltaic projects and is also hopeful to conclude an agreement with IFC InfraVentures to co-develop and invest in the Kolwezi project in the DRC. Negotiations with the government of Ghana continue to work towards ensuring the bankability of the Siginik project.

BUILDING MATERIALS

R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Revenue	**183 510**	483 410
EBITDA*	**14 918**	42 001
Profit/(loss) after taxation	**6 117**	(78 644)

* *Earnings before interest, taxation, depreciation and amortisation.*

Drift Supersand mines a range of aggregates and West End Claybrick (West End) manufactures clay bricks and concrete roof tiles.

The segment contributed 19,2% to group revenue for the four-months ended 31 December 2019 (15,3% for the 12-months ended 31 August 2019).

During the six months ended 28 February 2019, an impairment of goodwill of R64,3 million was recorded relating to both the aggregate and clay brick businesses. In addition, the aggregate business enhanced its provision for its mining rehabilitation liability.

The actions taken during the 12-month financial year ended 31 August 2019 continued to deliver results, with the improvements realised in the second half sustained in the four months to 31 December 2019. These improved cost management and cost saving initiatives resulted in lower than inflationary cost increases.

In Drift Supersand, aggressive initiatives to grow the customer base in the aggregate business were successful.

West End experienced the benefits of the growth in low-cost, high-density buildings to address South Africa's housing need, as clay bricks are used on these projects. In addition, face brick sales increased due to the supply to five of the 31 mega cities in Gauteng.

Roof tiles continued to experience poor market conditions, with price pressure. To address this, the geographic footprint was expanded by targeting merchants in outlying provinces.

The outlook for 2020 remains tough. It is anticipated that the continuous focus on cost management, operational efficiencies, product range and service offering and achieving real price increases within the cluster's markets will result in improved profitability in 2020.

In Drift Supersand some stabilisation in the readymix market is expected due to the recovery of certain key players and readymix producers securing sizeable projects. Several major civil projects are currently out on tender in this business's zone of natural advantage and the team is hopeful that this will have a positive impact in the short- and medium-term.

West End is cautious but optimistic for 2020 due to the commencement of the various mega cities within the Gauteng province. As this business is already supplying to some of these, the team is hopeful that this will reduce the impact of the current slow market.

OIL & GAS

R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Loss after taxation	**(10 627)**	(29 149)

AES is a leading provider of waste disposal services to the offshore oil and gas industry in Angola.

The company performed well in the four months ended 31 December 2019 and contributed positively to the group. However, results were impacted by foreign exchange losses due to the weakening of the Angolan Kwanza. Although AES's functional currency is US Dollars, it partially invoices and is paid in Angolan Kwanza.

During the four months to 31 December 2019, the group received R8,1 million dividends from the investment.

A key risk facing AES is the potential inability of the business to obtain a renewal of one of its operating license from the local environmental authorities and the continued pressure from the authorities for the business to relocate on 28 March 2020 from its current operating premises in Luanda's oil and gas logistics base. AES is disputing the process followed and is currently in discussions in an attempt to find an amicable solution. An application has been made to the courts disputing the validity of the Minister's review, An urgent application that the court suspend any action of the Minister has been submitted.

Since 2014 the rig count in Angola declined from 30 to five in 2019. However, in 2020 the rig count is expected to increase to ten due to increased exploratory drilling activity. In anticipation of the increase, AES has started to expand its waste treatment capacity. One of AES's largest clients has removed the offshore cutting treatment units from their rigs, which will result in more waste being sent to AES for treatment and more cutting skips to be rented out to the client. AES also expects that an average of 5 626 tons of thermal desorption waste will be treated each month due to an increase in the number of rigs.

RAIL

R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Revenue	**109 043**	238 921
EBITDA*	**7 284**	(107 338)
Earnings/(loss) after taxation	**2 748**	(132 777)

* *Earnings/(loss) before interest, taxation, depreciation and amortisation.*

The business in Rail, Tractionel, specialises in the electrification of railways and the installation of overhead traction equipment.

The segment contributed 11,4% to group revenue for the four months ended 31 December 2019 (7,5% for the 12 months ended 31 August 2019).

In the six months to 28 February 2019 a provision of R86 million was made against two contracts in which there are ongoing legal disputes, resulting in the business reporting a loss for that period. The business continues to pursue these claims with internal and legal counsel assistance. If successful, this would significantly enhance earnings and cash flow in the period in which they are awarded.

In addition, a deferred taxation asset of R27,2 million related to assessed losses, which was previously raised, was reversed and charged against earnings until its utilisation can be reasonably demonstrated.

During the period ended 31 December 2019, the South African market continued to be very challenging, with tender adjudication often extended past their validity dates. Several tenders are also being withdrawn or cancelled. In addition, a number of Rail's key clients have experienced challenging conditions. PRASA has been placed under business rescue, Eskom has not been awarding any renewable energy projects and the mining houses have reduced expenditure. The impact has been severe as Transnet, PRASA, Eskom and the mining houses represent Rail's key clients. However, in the four months to 31 December 2019, this business delivered ahead of budget as a result of certain commercial claim awards which enhanced earnings and cash.

As outlined in CPM's review, certain support structures were combined with Rail during the period, which increased efficiencies.

The 2020 year will remain difficult. However, the urgency to address the current Eskom challenges and electricity shortages, as well as continuous pressure on government to allow private power purchases of up to 100MW bode well for the industry.

There is also pressure on the South African government to address the ailing rail infrastructure. In addition, the failure of various competitors in the market creates renewed opportunities for Rail. This, coupled with the internal repositioning of the business through rightsizing and alignment with other group companies for strategic opportunities, should enable the business to improve its profitability.

Key projects identified by the appointed PRASA business administrator in a recent press briefing have been included in the segment's pipeline. Diversification with complementary business offerings is being investigated.

As this cluster is currently only South African-focused, geographic diversification is a potential longer-term strategy.

CORPORATE

The corporate office reflects a net credit to earnings in the four months to 31 December 2019 as a result of a release of accruals for earn-out bonuses linked to the underlying performance of associate AES to December 2019. Accruals in excess of required values were credited to earnings following the determination of AES's full-year results to 31 December 2019.

OUTLOOK

With the group's financing restructure near completion, the board and management will focus their attention on CIG's portfolio of businesses. Each business will be critically evaluated for value-enhancing opportunities to ensure the most optimal strategy is pursued in current market conditions.

Although the group's turnaround will take some time, a solid platform for growth has been established this year, which management believes has placed CIG on the right track for recovery. The debt restructure was concluded on favourable terms for the group, the executive team and board reconstituted, and there is a renewed focus on active cash flow and liquidity management.

The team has also systematically improved controls and established an overview of capital spend and allocation, as well as stringent criteria for future investment. This will remain a key focus for the board and management.

The group's key objectives for 2020 include:

- Finalising agreements with lenders
- Rightsizing the CONCO business
- Implementing a strategy to ensure the refocused EPC businesses will extract opportunities in the South African EPC market and build a sustainable platform to meet power requirements across Africa
- Capitalising on increasing renewable energy opportunities
- Diversification of the Conlog business across geographies
- Successfully resolving the licensing of AES and other matters in Angola

The actions taken in CONCO should start improving results in the near term.

Conlog is expected to be a major growth driver for CIG going forward. It promises several sizeable new market opportunities from customer, product and geographic expansion. The new manufacturing facility will enable the business to realise significant cost savings and improved efficiencies.

Although negatively impacted by weak macro-economic conditions in South Africa, Consolidated Building Materials remains a stable performer with good fundamentals.

AES provides the group with a US Dollar-denominated income stream. The business is expected to continue benefiting from an improving global environment for energy companies. The number of active oil rigs is expected to grow from last year's historic low.

The Rail business is well established in the market with a credible team, good systems and proven client delivery. This track record positions it well for any market improvement.

BASIS OF PREPARATION

Statement of compliance

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Listings Requirements for abridged reports, and the requirements of the Companies Act applicable to condensed financial statements. The JSE Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements from which the condensed consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

ACCOUNTING POLICIES

The accounting policies applied in the preparation of these abridged reports are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements for the 12 months ended 31 August 2019, other than the adoption of certain standards and interpretations which became effective during the current year, in particular the adoption of IFRS 16: *Leases*.

The group has adopted IFRS 16: *Leases* as at 1 September 2019. On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 September 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 September 2019 was 10.25%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 September 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 September 2019as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- electing not to reassess whether a contract contains a lease at the date of initial application, and
- recognising on a straight-line basis as an expense in profit and loss payments associated with short-term leases of equipment and vehicles and all leases of low-value assets.

The adoption of IFRS 16 had the following impact on the group:

	R'000
Operating lease commitments disclosed as at 31 August 2019	**173 980**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**143 112**
Add: finance lease liabilities recognised as at 31 August 2019	25 871
(Less): short-term leases not recognised as a liability	(11 219)
(Less): low-value leases not recognised as a liability	(2 221)
Add/(less): contracts reassessed as lease contracts	–
Add/(less): adjustments as a result of a different treatment of extension and termination options	–
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	–
Lease liability recognised as at 1 September 2019	**155 543**
Of which are	
Current lease liabilities	38 153
Non-current lease liabilities	117 390
	155 543

The group has applied IFRS 16 in accordance with the transition provisions set out in IFRS 16. The group has elected not to restate the prior periods, with any material difference between the previous carrying amount and the carrying amount at the beginning of the current year allocated to retained earnings. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 September 2019.

GOING CONCERN ASSESSMENT

Introduction

In determining the appropriate basis of preparation of the annual financial statements, the directors are required to consider whether the group can continue in operational existence for the foreseeable future.

Trading conditions during the year

The financial performance of the group is impacted by the wider economic environment in which the group operates, as well as internal conditions.

The group reported an after-taxation loss for the group for the four month period to 31 December 2019 of R284,1 million compared with the loss reported for the 12 months ended 31 August 2019 of R1,343 million. Material losses reported by Conco in the last few financial years, have resulted in the group reporting accumulated losses at 31 December 2019 of R2,98 billion. Even after a successful rights issue in January 2019 which introduced R765 million net cash proceeds into equity, the group's net equity reduced to R234,9 million at 31 December 2019 (31 August 2019: R552,2 million). The group's current liabilities exceed its current assets by R1,043 million.

During the period, the board of directors, assessed the group's key investments including the group's Conlog business and its investment in AES to support the recoverability of the group's carrying value of these assets.

Factors that impacted liquidity

The group's free cash was allocated to the funding requirements of Conco, the group's largest business. It was applied to fund the following:

- completion of contracts ahead of cash to be received on final certification on contracts nearing completion;
- a change in the group's working capital cycle following a reduction and removal of external credit guarantee insurance available to suppliers. This necessitated upfront and advance payments by the group to suppliers and shorter credit terms afforded to the group;
- a decreasing order book due to market conditions. This resulted in the unwind of the businesses' working capital; and
- an under recovery of overhead costs as a result of lower than expected activity levels.

All the group's EPC# businesses were impacted by the removal of credit insurance cover and under recovery of overhead costs which has absorbed cash in the year.

Engineer, procure, construct.

Liquidity management

The underperformance by the businesses in the group, as a result of both market conditions and internal factors, led to several initiatives being implemented, which are regularly reported-on to CIG management and the board.

These initiatives include:

- business re-engineering programmes where required;
- critically assessing budgets to December 2020, 2021 and 2022; and
- detailed liquidity models which includes cash flow forecasts covering a period of 12 months from the date of these financial statements.

Business recovery interventions

Non-EPC# businesses

The Conlog business implemented a revenue growth and diversification strategy coupled with a cost reduction focus with short-term delivery deadlines. These interventions were successfully implemented and the improvement in earnings and cash flow was demonstrable in the second half of the 12-months financial year ended 31 August 2019. The results for the four months to 31 December 2019 were below expectations. Sales were adversely affected by delayed offtake on a committed order and there were once-off costs in respect of the move to new premises in November 2019. In addition, revenue was delayed as a result of the implementation of the company's financial risk management strategy of not accepting sales orders without appropriate payment guarantees to protect working capital and thus protect and enhance liquidity at the business and in the group.

The team continued to focus on country diversification and the development of a product with a distinct demand in South Africa and the rest of Africa. The growth strategy is being pursued balanced by a conservative credit risk assessment process and the business has demonstrated its willingness to sacrifice revenue and margin to better manage credit risk by deferring the manufacturing and dispatch of product until it had received appropriate payment guarantees. The budgets and free cash flow expected to be generated by this business have been critically assessed for the short-term and medium-term.

The building materials businesses operate in a very difficult market supplying into a depressed South African construction market. The businesses implemented a focused recovery programme, which addressed both costs and the enhancement of market share and product mix. The benefits of this programme have also been evident in the second half of the 12-months ending 31 August 2019 and continued into the four-months to 31 December 2019, resulting in improved earnings and cash performance. The budgets and free cash flow expected to be generated by this business have been critically assessed for the short-term and medium-term.

The AES business provides a steady cash flow to the group through regular dividends.

EPC businesses

The EPC and related businesses consist of the power businesses Conco, Consolidated Power Maintenance (CPM) and the rail business (Tractionel).

The CPM business was assessed, with planned restructuring initiatives originally logged for implementation during the first quarter of calendar 2020. These initiatives include a reduction in cost and improved risk management. The bulk of these initiative were implemented before the end of January 2020.

The Tractionel business' profitability and cash generation in the next 12 months was critically assessed. A sizeable cost reduction and restructuring plan was developed. This is currently being implemented with a completion date of the first quarter of calendar 2020.

The Conco business continued to be the business under the most pressure, being affected by the extremely slow roll out of expected infrastructure programmes in South Africa and the rest of Africa. Although this business has a good pipeline of projects it currently has a high level of unrecovered overheads, requires rightsizing and to date has required sizeable cash injections by the group, as discussed earlier.

To address this CIG and Conco senior management implemented Project Visibility, a targeted turnaround programme, which is now into its second phase. The phase 1 of the project focused on four streams namely:

Stream 1: reliability and accuracy of Conco's financial reporting including contract profit recognition;

Stream 2: operational contract delivery including contract execution, commercial management and contract tendering;

Stream 3: liquidity management and forecasting; and

Stream 4: business sustainability.

To assist management with the implementation of Project Visibility, CIG appointed independent construction experts with a track record of successful contract management and construction business leadership. These consultants were mobilised to Conco in the second half of calendar 2019 and continue supporting the business currently.

Project Visibility is now into its second phase. From the second half of the twelve-month financial year ending 31 August 2019 significant focus was applied to the review of contract execution, commercial management, forecasting and liquidity management. The next stage focuses on the implementation of the changes needed in the business, which include a refined business strategy and restructuring initiatives. Performance management is in place with defined performance areas and weekly feedback to the CIG financial committee. The performance areas include a focus on improved operational execution, penalty risk mitigation, working capital enhancement, cost reduction, revised business strategy.

Cash liquidity forecast models

Two separate cash models are maintained by the group, namely the non-EPC business cash model and the EPC business cash model. The non-EPC cash model is updated quarterly due to the nature of the business cash flows and their relative stability. The EPC business cash model is updated and assessed monthly.

Non-EPC business liquidity model

The non-EPC business liquidity model consolidates the free cash flow available to the group from the non-EPC businesses assuming a portfolio approach to cash management. Budgets including performance projections and cash flow statements are determined by each business leadership team. These are critically assessed by the CIG management team.

The sources of cash for the non-EPC business liquidity model is the free cash deemed available for distribution by the Conlog, Building Materials and the AES businesses which is consolidated into a group cash flow; along with a value on proceeds of disposal of assets; and a refinancing of remaining debt in the long term.

Which is used to service:

- the South African and Mauritius corporate office costs;
- external finance costs; and
- debt capital repayments.

This liquidity model is also the key input into the financial covenants negotiated with lenders for the establishment of a longer-term debt profile. The non-EPC model generates enough cash to maintain the covenant levels required with the service of the debt repayments and interest payments.

The EPC business liquidity model

This model is a monthly consolidation of the following inputs:

INPUT	NATURE	SOURCE
Secured contract cash	Secured contract cash flow	Contract forecasting system which is validated at individual project review meetings presented by project managers and assessed for appropriateness by independent construction experts prior to input into the cash model. A variance analysis between forecasted cash flows to actual cash flow by contract is performed monthly by CIG with variations explained.
Overhead costs	Cash incurred on non-project related overheads, including salaries and other overheads are included in the cash model	Based on projected overheads costs, a monthly comparison between actual costs incurred and forecasted cost is performed by CIG for reasonableness.
Balance sheet unwind	The realisation of working capital, including client billings less the payment of creditor liabilities*	The cash model maintains the full debtors age analysis value and collections are monitored daily with the forecast timing included in the short-term portion of the model and monitored. Creditors are based on the full creditors age analysis of payables and the re-payment profile is confirmed by contract managers and the construction advisors.
This net cash flow therefore reflects the cash generation or absorption prior to any further contract awards		
Unsecured cash flow	Cash billings and cost outflow forecasts are included per contract as potential unsecured work to be awarded and are individually assessed with a key focus on timing of expected cash inflow and outflow	Forecasting system of submitted tenders, tenders in preparation and future tenders being targeted are individually assessed against probability and timing. This includes further "offset" on expected timing of award to trade to cash collection. Forecast cash flow and its timing is monitored against expectations and updated monthly. In addition, the levels of guarantees/bonds can be ascertained and planned for.

* *The collection of retention balances due to the business and the unwind of the advance payments received on contracts are included in the secured contract cash flow described above.*

The liquidity model is prepared and presented to CIG monthly, evaluated against forecast expectations and variances monitored. An update on progress and performance is presented to the group's financial committee (Fincom) which is the operating group of CIG's Investment Committee. The forecasts and any variances are presented to the board of directors at least on a quarterly basis or more frequently, as required.

This liquidity model is also the key input into the financial covenants negotiated with current lenders for the establishment of a longer-term debt profile at Conco. The EPC model currently generates enough cash to maintain the covenant levels required for the service of the debt repayments and interest payments.

Performance and liquidity operational improvement initiatives

Certain improvement initiatives have been identified which, if successful, can enhance the business liquidity profile and have not been included in the base case liquidity model on which the business' going concern is based. These are listed as follows:

Secured contract cash flow

Enhanced contract execution following implementation of corrective action identified by construction specialists and being implemented as part of Phase 2 of Project Visibility. Accelerating the realisation of claim opportunities and other short-term cash opportunities in favour of the group, of which Tractionel (Rail) recorded some successful claims in the 4- months to 31 December 2019.

Overhead costs

The benefit of a reduced cost structure and the savings flowing from this, net of the costs to be incurred to realise these, have not been included in the base case model and are expected to be material for the business.

Balance sheet unwind

Recovery of specific contract debtors where the debtor has been provided for due to the difficulty and delays in obtaining cash settlement, although the debt due to the group is deemed valid and recoverable.

Converting long term assets in the group to short term

Cash flow from the disposal of long-term assets either within the EPC businesses or from the non-EPC businesses has not been included within the EPC cash forecast.

These Performance and liquidity operational improvement initiatives are a key focus in Phase 2 of Project Visibility.

Estimates, assumptions and judgements considered within the group's liquidity assessment

As would be expected, the group's liquidity model forecasts the timing and quantum of key drivers of cash flow. These forecasts therefor include a considerable number of estimates, assumptions and judgements in support of the liquidity model which sensitivity needs to be appreciated by all stakeholders.

The material assumptions are:

Secured EPC contracts trade at their forecasted tendered margin

A key assumption to the EPC businesses liquidity model and forecasts is that contracts will be executed in line with forecast contract margins.

Contract performance is re-forecasted on a monthly basis and the liquidity model constantly updated with current contract conditions.

Any contract losses or any reduction in cash profitability from secured work would therefore have a direct impact on the liquidity model.

Secured EPC contracts can recover on provisioning raised in the current year

Included in forecasts is certain adjustments which were made to various contracts' total estimated profit recognition which reflected a charge against earnings to date. Although a material portion of these charges are not expected to convert into cash outflow due to mitigating interventions, they have been included in the group's liquidity models to ensure a more conservative approach to liquidity management.

Any saving or recovery on this position would have a direct positive impact on the liquidity model.

Balance sheet forecast collections and payment not realised in line with forecast

Delayed receipt of debtors' payments or accelerated creditors' payments that are different to the forecast could impact the immediate and short-term cash forecast and funding position of the business.

In addition, revised payment terms, currently being agreed with selected clients, in support of direct contract costs incurred on projects are agreed upon and realised.

Unsecured construction contracts identified are secured and traded in the forecast period

Some risk exists as to the certainty, quantum, timing and profitability of these awards as the group has experienced a delay in contract awards which impacted the budgeted profit, with unsecured work not materialising in the sixteen months to 31 December 2019. In addition, the group is experiencing an increase in the cost of doing business with input costs to contract bids increasing significantly.

In response to these factors, the group has included a low level of cash profits from unsecured work within the short-term liquidity model. The liquidity model is therefore not materially impacted by unsecured contracts in the short term. The dependency on unsecured work being awarded and traded naturally becomes more significant to the liquidity forecasts in later years as the current order book winds down.

The level of unsecured work to be earned is dependent on the group continuing to be supported by its lenders for guarantee facilities as envisaged once the group concludes its debt restructuring agreement.

Overhead reduction strategies are implemented and achieved

The group has forecasted limited annual overheads reduction strategies within its liquidity model.

The intended rightsizing of the EPC business, via a reduction of overheads and costs, therefore, presents a material opportunity to enhance the liquidity profile of the EPC businesses and is a key focus for the next six months.

Secured contract cash flow – acceleration of claim opportunities

Accelerating the realisation of claim opportunities and other short-term cash opportunities in favour of the group will enhance the liquidity forecasts.

Recovery of debtors

Recovery of specific contract debtors where the debt has been provided for due to the difficulty in obtaining cash settlement, although the debt due to the group is deemed valid and recoverable is assessed as a low probability for the short term/next 12-month profile.

Should this be realised, it will enhance the liquidity forecast and profile of the business as it has not been included in forecasts.

The group also reports contingent liabilities of R1,8 billion in the form of financial institution-backed performance guarantees provided to third parties. The group does not expect any of these to convert into an actual claim that isn't already recognised as a contract liability in the financial statements.

Solvency and liquidity position at 31 December 2019

At 31 December 2019 the group's total assets exceeded total liabilities by R234,9 million. However, current liabilities exceeded its current assets by R1,0 billion. This is an indication that the group may require further funding to settle its current obligations and continue as a going concern. This negative position is as a result of significant losses incurred by Conco over the last three years and the short-term maturity profile of the group's debt portfolio which requires restructuring.

The higher than expected current liabilities include certain adjustments which were made to various contracts' total estimated profit recognition. This reflected a charge against earnings in the period. The group is managing the contracts with active remedial plans to mitigate the risk of a material portion of these charges converting into cash outflow. Although actively managed, it has been included in the group's liquidity models to ensure a more conservative approach to liquidity management. Any saving or recovery on this position would have a direct positive impact on the liquidity model.

To address this:

- Key remedial action plans have been implemented to recover against these contract adjustments and mitigate any cash outflows. These actions are monitored regularly by CIG management and the Conco CEO. Phase 2 of Project Visibility includes active management of these action plans.
- The company has engaged with its lenders, being the bond holders of the previously listed CIG DMTN bond programme and the local bank lenders to Conco to restructure short term debt. This restructuring would result in a substantial portion of the short-term debt owed by the company, and a portion of the debt owed by Conco, to be converted to term debt. A value of R700 million will be reclassified from short-term debt to long term debt. In addition, the lenders support the group by maintaining other short-term debt facilities in place under the group's current term agreement and conditions. In return, the group would provide certain assets as security for the term debt.
  - The group is pleased to announce that it and Conco are in the process of finalising binding legal agreements, which will be subject to normal conditions precedent. It is anticipated that the legal agreements will be concluded by 31 March 2020, or such later date as agreed between the relevant parties.

Conclusion

The events, conditions, judgements and assumptions described give rise to a material uncertainty around management's ability to successfully implement its turn-around strategy , including finalisation of funding facilities with lenders, which may cast significant doubt on the group and the company's ability to continue as a going concern and, therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors have considered the financial plans and forecasts, the actions taken by the group, and based on the information available to them, are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements. Refer to note 1 in the annual financial statements available online at www.ciglimited.co.za for the going concern assessment. The board is not aware of any new material changes that may adversely impact the group.

BORROWINGS

The group reflects the following interest-bearing borrowings:

	31 December 2019	31 August 2019
Secured loan bearing interest at rates ranging from 3% to 12%	**762 632**	848 865
Unsecured loans bearing interest at rates ranging from 10% to 11%	**924 254**	928 402
Instalment sales	**–**	25 871
	1 686 886	1 803 138
Current liabilities	**1 311 875**	1 409 714
Non-current liabilities	**375 011**	393 424
	1 686 886	1 803 138

The company and its subsidiary CONCO are in the process of finalising binding legal agreements with their respective lenders, being the bond holders of the previously-listed CIG DMTN bond programme and the local bank lenders at CONCO, with respect to the restructuring of their interest-bearing borrowings.

The restructuring will result in a substantial portion of the debt owed by the company, and a portion of the debt owed by CONCO, to convert to term debt, with a value of R700 million being reclassified from short-term debt to long-term debt. In addition, the lenders support the group by maintaining other short-term debt facilities in place under the group's current term agreement and conditions. In return, the group will provide certain assets as security for the term debt.

ESTIMATES AND CONTINGENCIES

The group makes estimates and assumptions concerning the future, particularly regarding construction contract profit taking, provisions, arbitrations, claims and various fair value accounting policies. Accounting estimates and judgements can, by definition, only approximate results, as the actual results may differ from such estimates. Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Total financial institution guarantees offered to third parties on behalf of subsidiary companies amounted to R1,8 billion at 31 December 2019 (31 August 2019: R2,1 billion).

DIVIDEND

The group's policy is for the board of directors to consider a dividend on an annual basis after reviewing the annual results. No dividend is recommended.

SPECIAL RESOLUTIONS

In terms of the provisions of section 45(5)(a) of the Companies Act, 71 of 2018 (the Act) and pursuant to the special resolution passed at the annual general meeting of the company held on 27 March 2019 authorising the board of directors (the board) to provide direct or indirect financial assistance to related and inter-related parties, notification is hereby given that the board has adopted a resolution in terms of section 45(3) (b) of the Act authorising the company to provide financial assistance for working capital purposes to Consolidated Power Projects Group Limited (Conco) and Tension Overhead Electrification Proprietary Limited, trading as Tractionel Enterprise, both wholly-owned subsidiaries of CIG, which constitutes financial assistance in terms of section 45 of the Act and which financial assistance exceeds one tenth of one percent of the company's net worth.

In accordance with section 45 of the Act, the board is satisfied and acknowledges that:

- Immediately after providing such financial assistance, CIG would have satisfied the solvency and liquidity test as provided for in section 4 of the Act, and
- The terms under which such financial assistance has been given are fair and reasonable to CIG.

CHANGE TO FINANCIAL YEAR-END

The group announced on 2 December 2019 that it would change its financial year-end from August to December, effective for the period ending 31 December 2019. The reason for the decision to change the financial year-end was to align the company's financial reporting periods with those of its major shareholder.

To comply with paragraph 3.15 of the JSE Listings Requirements, the company

has:

- published reviewed summarised annual financial statements for the 12 months ended 31 August 2019 on 2 December 2019;
- published and distributed audited annual financial statements for the 12 months ended 31 August 2019 on 20 December 2019;
- published and distributed audited summarised annual financial statements for the four months ended 31 December 2019 on 28 February 2020;
- published the audited annual financial statements for the four months ended 31 December 2019 on 28 February 2020

CIG will:

- publish interim results for the six months ending 30 June 2020 within three months of 30 June 2020.

Given that the change of financial year end results in a four-month financial year end to 31 December 2019, CIG sought, and obtained, a dispensation from the JSE from compliance with the corporate governance disclosures typically found in an annual integrated report and from the requirement to distribute the notice of annual general meeting within four months of the year end for the 12 months ended 31 August 2019.

AVAILABILITY OF INTEGRATED ANNUAL REPORT AND NOTICE OF ANNUAL GENERAL MEETING

An annual integrated report, containing the summarised audited annual financial statements for the 12 months ended 31 August 2019 and the four months ended 31 December 2019, has been distributed to shareholders on 28 February 2020 and is available on the company's website at www.ciglimited.co.za.

The notice of annual general meeting was also distributed on 28 February 2020 and the annual general meeting will be held at 14:00 on Monday, 23 March 2020 at the registered offices of the company, First Floor, 30 Melrose Boulevard, Melrose Arch, 2196. The last day to trade in order to be eligible to participate in and vote at the annual general meeting is Tuesday, 10 March 2020 and the record date for voting purposes is Friday, 13 March 2020.

CHANGES TO THE BOARD OF DIRECTORS

As announced on 18 November 2019, Cindy Hess resigned as an independent non-executive director, member of the audit and risk committee and member of the social and ethics committee with effect from 15 November 2019. Judy Nwokedi, an independent non-executive director of the company, was appointed a member of the audit and risk committee to replace Cindy.

Kevin Kariuki will be retiring at the upcoming AGM on the 23rd March 2020. Although eligible he will not seek re-election due to a recent executive appointment that could result in a potential conflict. The board acknowledges his contribution to CIG and thanks him for his support to the new board and management team and wish him well.

PREPARATION AND REVIEW

The audited condensed consolidated annual financial statements have been prepared by C de Kock CA(SA) under the supervision of CMF Teixeira CA(SA). The directors take full responsibility for the preparation of the audited condensed consolidated annual financial statements.

The annual financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers Inc. Their unmodified audit report, with a material uncertainty related to going concern, is available for inspection at the Group's registered office.

The audited condensed consolidated annual financial statements of Consolidated Infrastructure Group Limited were authorised for issue by the board of directors on 20 February 2020.

By order of the board

Michael Wilkerson
Chairman

Raoul Gamsu
Chief executive officer

Johannesburg
28 February 2020

Condensed consolidated income statement

FOR THE FOUR MONTH PERIOD ENDED 31 DECEMBER 2019

R'000	GROUP **4 months ended 31 December 2019**	 12 months ended 31 August 2019
Revenue	**955 417**	3 168 574
Operating expenses	**(1 167 810)**	(4 114 194)
Gross loss	**(212 393)**	(945 619)
Other income	**35 733**	61 564
Loss from equity-accounted investments	**(9 741)**	(29 056)
Impairment of intangible asset	**–**	(39 387)
Impairment of goodwill	**–**	(66 241)
Finance income	**16 703**	36 066
Finance cost	**(110 571)**	(296 708)
Loss before taxation	**(280 269)**	(1 279 382)
Taxation	**(3 862)**	(63 603)
Loss for the year	**(284 131)**	(1 342 985)
Loss attributable to:		
Equity shareholders of CIG Limited	**(282 023)**	(1 331 228)
Non-controlling interest	**(2 108)**	(11 757)
	(284 131)	(1 342 985)
Loss per share (Rands)		
Basic	**(0,71)**	(3,98)
Diluted	**(0,71)**	(3,98)

Condensed consolidated statement of comprehensive income

FOR THE FOUR MONTH PERIOD ENDED 31 DECEMBER 2019

	GROUP	
R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Loss for the year	**(284 131)**	(1 342 985)
Other comprehensive income (gross and net of taxation):		
Items that may not subsequently be reclassified to profit or loss		
– Remeasurements on net defined benefit liability/asset	**417**	838
Items that may subsequently be reclassified to profit or loss		
– Exchange differences on translating foreign operations	**(23 344)**	40 433
Other comprehensive income for the year – net of taxation	**(22 927)**	41 281
Total comprehensive loss for the year	**(307 058)**	(1 301 704)
Total comprehensive loss attributable to:		
Equity shareholders of CIG Limited	**(303 883)**	(1 290 006)
Non-controlling interest	**(3 175)**	(11 698)
	(307 058)	(1 301 704)

Condensed consolidated statement of financial position

AT 31 DECEMBER 2019

	GROUP	
R'000	**31 December 2019**	31 August 2019
ASSETS		
Non-current assets		
Property, plant and equipment	**505 873**	521 068
Right of use assets	**134 130**	–
Goodwill	**613 237**	613 237
Intangible assets	**104 293**	111 144
Investment in joint arrangements	**484 603**	562 184
Loans and receivables at amortised cost	**8 861**	7 900
Deferred taxation	**9 443**	3 444
	1 860 440	1 818 977
Current assets		
Inventories	**312 187**	312 208
Current taxation receivable	**28 697**	38 250
Contract and other debtors	**656 847**	869 498
Contract work in progress	**212 548**	490 004
Trade and other receivables	**460 106**	527 839
Cash and cash equivalents	**481 545**	765 668
	2 151 930	3 003 467
Total assets	**4 012 370**	4 822 444
EQUITY AND LIABILITIES		
Equity		
Equity attributable to equity holders of parent		
Share capital	**3 094 759**	3 094 759
Foreign currency translation reserve	**82 840**	105 118
Share-based payment reserve	**60 958**	60 958
Accumulated loss	**(2 978 034)**	(2 686 193)
Equity shareholders	**260 523**	574 642
Non-controlling interest	**(25 611)**	(22 437)
Total equity	**234 912**	552 205
Liabilities		
Non-current liabilities		
Borrowings	**375 011**	393 424
Contingent consideration (vendor loan)	**–**	74 828
Lease liability	**110 315**	–
Other non-current liabilities	**1 246**	2 182
Retirement benefit obligation	**14 485**	14 439
Deferred taxation	**66 349**	65 382
Provisions	**15 397**	15 174
	582 803	565 429
Current liabilities		
Borrowings	**1 311 875**	1 409 714
Contingent consideration (vendor loan)	**12 600**	–
Current taxation payable	**50 771**	50 698
Lease liability	**33 772**	–
Trade and other payables	**910 499**	1 121 405
Provisions	**374**	419
Amounts received in advance	**31 092**	168 439
Amounts due to contract customers	**322 499**	286 755
Bank overdraft	**521 173**	667 380
	3 194 655	3 704 810
Total liabilities	**3 777 458**	4 270 239
Total equity and liabilities	**4 012 370**	4 822 444

Condensed consolidated statement of cash flow

FOR THE FOUR MONTH PERIOD ENDED 31 DECEMBER 2019

	GROUP	
R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Cash flows from operating activities		
Cash generated/(utilised) from operations	**53 385**	(326 388)
Finance income	**16 703**	36 066
Finance costs	**(108 771)**	(296 708)
Taxation refunded/(paid)	**3 945**	(26 493)
Net cash flows from operating activities	**(34 738)**	(613 523)
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(35 332)**	(89 030)
Proceeds on sale of property, plant and equipment	**3 953**	24 178
Development of intangible assets	**(5 232)**	(23 481)
Distributions from investment in joint arrangements	**8 656**	29 635
Net cash flows from investing activities	**(27 955)**	(58 698)
Cash flows from financing activities		
Proceeds on share issue	**–**	765 833
Repayment of borrowings	**(84 531)**	(21 463)
Repayment of finance lease liabilities	**(11 653)**	(9 579)
Instalment sale liabilities raised	**–**	925
Net cash flows from financing activities	**(96 184)**	735 716
Effect of exchange rates on cash balances	**20 961**	(5 869)
Net (decrease)/increase in cash and cash equivalents	**(137 916)**	57 626
Cash and cash equivalents at the beginning of the year	**98 288**	40 662
Total cash and cash equivalents at the end of the year	**(39 628)**	98 288

Condensed consolidated statement of changes in equity

FOR THE FOUR MONTH PERIOD ENDED 31 DECEMBER 2019

R'000	Share capital	Foreign currency translation reserve
GROUP		
Balance at 1 September 2018	2 328 926	64 734
Loss for the year	–	–
Other comprehensive income	–	40 384
Issue of shares	765 833	–
Distribution to non-controlling interest	–	–
Balance at 31 August 2019	3 094 759	105 118
Balance as at 1 September 2019, as previously reported	3 094 759	105 118
Impact of change in accounting policy	**–**	**–**
Balance as at 1 September 2019, as restated	**3 094 759**	**105 118**
Loss for the year	**–**	**–**
Other comprehensive (loss)/income	**–**	**(22 278)**
Balance at 31 December 2019	**3 094 759**	**82 840**

NON-CONTROLLING INTEREST

The group regularly enters into construction contracts with joint venture partners. The non-controlling interest mainly relates to the profit share of the joint venture partner, where the group controls such arrangements.

FOREIGN CURRENCY TRANSLATION RESERVE

Non-distributable reserve arising from the translation of the assets and liabilities attributable to foreign operations to the presentation currency.

Share-based payment reserve	Accumulated loss	Total attributable to equity holders of the company	Non-controlling interest	Total equity
60 958	(1 355 803)	1 098 815	(8 239)	1 090 576
–	(1 331 228)	(1 331 228)	(11 757)	(1 342 985)
–	838	41 222	59	41 281
–	–	765 833	–	765 833
–	–	–	(2 500)	(2 500)
60 958	(2 686 193)	574 642	(22 437)	552 205
60 958	(2 686 193)	574 642	(22 437)	552 205
–	**(10 235)**	**(10 235)**	**–**	**(10 235)**
60 958	**(2 696 428)**	**564 407**	**(22 437)**	**541 970**
–	**(282 023)**	**(282 023)**	**(2 108)**	**(284 131)**
–	**417**	**(21 861)**	**(1 066)**	**(22 927)**
60 958	**(2 978 034)**	**260 523**	**(25 611)**	**234 912**

Determination of headline loss

FOR THE FOUR MONTH PERIOD ENDED 31 DECEMBER 2019

	GROUP	
R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Loss for the year attributable to equity holders	**(282 023)**	(1 331 228)
Adjusted for:		
Profit on disposal of property, plant and equipment	**(3 264)**	(270)
Impairment of goodwill	**–**	66 241
Impairment of intangible assets	**–**	39 387
Tax effect on adjustments	**914**	76
Headline loss for the year	**(284 373)**	(1 225 795)

Capital expenditure and depreciation

FOR THE FOUR MONTH PERIOD ENDED 31 DECEMBER 2019

	GROUP	
R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Capital expenditure for the period	**40 563**	112 511
Capital expenditure committed or authorised for the next year	**35 204**	28 721
Depreciation and amortisation for the period	**45 349**	105 485

Statistics

FOR THE FOUR MONTH PERIOD ENDED 31 DECEMBER 2019

	GROUP	
	4 months ended 31 December 2019	12 months ended 31 August 2019
’000		
Number of ordinary shares	**396 159**	396 159
Shares in issue	**402 091**	402 091
Less shares held by share trusts	**(5 932)**	(5 932)
Weighted average number of shares	**396 159**	344 789
Fully diluted weighted average number of shares	**396 159**	344 789
R		
Loss per share	**(0,71)**	(3,98)
Fully diluted loss per share	**(0,71)**	(3,98)
Headline loss per share	**(0,72)**	(3,66)
Fully diluted headline loss per share	**(0,72)**	(3,66)
Net asset value per share**	**0,65**	1,45

*** Net asset value relates to that attributable to equity holders of the parent.*

Condensed consolidated segmental analysis

FOR THE FOUR MONTH PERIOD ENDED 31 DECEMBER 2019

FINANCIAL PERFORMANCE: GROUP REVENUE AND EBITDA*

	GROUP			
	4 months ended 31 December 2019		12 months ended 31 August 2019	
R'000	**Revenue**	**EBITDA***	Revenue	EBITDA*
Power	**662 864**	**(183 247)**	2 446 243	(637 685)
Conco[1]	**523 212**	**(182 986)**	1 923 173	(725 326)
Conlog[2]	**125 193**	**(192)**	488 157	106 871
Other[1]	**14 459**	**(69)**	34 913	(19 230)
Building Materials[2]	**183 510**	**14 918**	483 410	42 001
Oil & Gas	**–**	**–**	–	–
Rail[1]	**109 043**	**7 284**	238 921	(107 338)
Corporate	**–**	**29 734**	–	(114 936)
Total	**955 417**	**(131 311)**	3 168 574	(817 958)
Reconciliation from EBITDA to loss after tax				
EBITDA*		**(131 311)**		(817 958)
Amortisation and depreciation		**(45 349)**		(105 485)
Impairment of goodwill		**–**		(66 241)
Profit from equited accounted investments – Power CIGenCo		**886**		92
Loss from equited accounted investments – Oil & Gas		**(10 627)**		(29 149)
Finance income		**16 703**		36 066
Finance costs		**(110 571)**		(296 708)
Taxation		**(3 862)**		(63 603)
Profit after Tax		**(284 131)**		(1 342 985)

* *Loss before interest, taxation, depreciation and amortisation.*
(1) Revenue recognised at a point in time
(2) Revenue recognised over time

This measure is used by the chief operating decision maker as the benchmark of profitability.

The segmental information presented includes a reconciliation of International Financial Reporting Standards (IFRS) measures presented on the face of the income statement to non-IFRS measures like EBITDA, which are used by the chief operating decision makers (who are the managing director of the business units) to analyse the group's performance.

	GROUP	
R'000	**4 months ended 31 December 2019**	12 months ended 31 August 2019
Revenue recognised over time[1]	**646 714**	2 197 008
Revenue recognised at a point in time[2]	**308 703**	971 567
Total	**955 417**	3 168 575

FINANCIAL POSITION: TOTAL ASSETS AND TOTAL LIABILITIES

	GROUP			
	31 December 2019		31 August 2019	
R'000	**Total assets**	**Total liabilities**	Total assets	Total liabilities
Power	**2 411 166**	**2 262 546**	2 823 185	2 616 565
Conco	**1 126 464**	**1 924 481**	1 595 613	2 361 090
Conlog	**1 240 527**	**333 527**	1 179 829	250 592
Other	**44 175**	**4 538**	47 743	4 883
Building materials	**659 335**	**135 211**	673 085	152 702
Oil & Gas	**454 152**	**–**	532 031	–
Rail	**168 486**	**56 821**	211 039	119 729
Corporate	**319 231**	**1 322 880**	583 104	1 381 242
Total	**4 012 370**	**3 777 458**	4 822 444	4 270 239

Corporate information

COUNTRY OF INCORPORATION AND DOMICILE

Republic of South Africa

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

Turnkey contractor for the electricity supply industry, supplier of heavy building materials to the construction industry and supplier of oil waste management services.

DIRECTORS

R Gamsu (Chief executive officer)
C Teixeira (Chief financial officer)
M Wilkerson (Chairman)**+
R Hogarth*
J Beck*&
K Bucknor#*
T Hudson**+
K Kariuki*°
A Mazar**^
Q McLean**&
S Melnick**~
J Nwokedi*

Independent non-executive
** *Non-executive*
# *Ghanaian*
° *Kenyan*
+ *American*
^ *Pakistani*
~ *British*
& *Canadian*

REGISTERED OFFICE

First Floor, 30 Melrose Boulevard
Melrose Arch 2196
PO Box 651455, Benmore 2010

COMPANY SECRETARY

CIS Company Secretaries Proprietary Limited
Registration number: 2006/024994/07
Rosebank Towers
15 Biermann Avenue, Rosebank 2196
PO Box 61051, Marshalltown 2107

AUDITOR

PricewaterhouseCoopers Inc.
4 Lisbon Lane Waterfall City, Jukskei View 2090

SPONSOR

Java Capital Trustees and Sponsors Proprietary Limited
Registration number: 2006/005780/07
6A Sandown Valley Crescent, Sandton 2196

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
Registration number: 2004/003647/07
Rosebank Towers, 15 Biermann Avenue
Rosebank 2196
PO Box 61051, Marshalltown 2107