STEFANUTTI STOCKS HOLDINGS LIMITED
("Stefanutti Stocks" or "the company" or "the group")
(Registration number 1996/003767/06)
Share code: SSK ISIN: ZAE000123766

# REVIEWED CONDENSED CONSOLIDATED RESULTS FOR THE 12 MONTHS ENDED 29 FEBRUARY 2020

## FINANCIAL RESULTS

| | REVIEWED 29 FEBRUARY 2020 | AUDITED 28 FEBRUARY 2019 | % CHANGE |
|---|---|---|---|
| Contract revenue (R'000) | 8 585 926 | 9 875 023 | (13) |
| Operating loss before investment income (R'000) | (1 032 913) | (157 991) | (554) |
| Loss for the year (R'000) | (1 072 048) | (111 321) | (863) |
| Earnings per share (cents) | (640,35) | (65,99) | (870) |
| Headline earnings per share (cents) | (622,48) | (70,12) | (788) |

## BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

## COVID-19

The effect of COVID-19 has been classified as a non-adjusting post balance sheet event.

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

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

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

## AUDITORS' REVIEW

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

## FUNDING AND RESTRUCTURING PLAN

The board of Stefanutti Stocks hereby provides shareholders with a further update on the Funding Plan as reported in the Unaudited Condensed Consolidated Results of Stefanutti Stocks for the 6 months ended 31 August 2019 (the "Previous Announcement") and subsequent announcements (collectively the "Subsequent Announcements").

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

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

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

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

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

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

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

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

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

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

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

## OVERVIEW OF RESULTS

### Eskom - Kusile Power Project

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

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

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

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

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

Remaining Operations

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

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

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

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

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

Broad-Based Black Economic Empowerment (B-BBEE)

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

Dividend declaration

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

FURTHER INFORMATION

These results have been compiled under the supervision of the Chief Financial Officer, AV Cocciante, CA(SA).

This announcement is an extract of the full reviewed condensed consolidated announcement. This extract has not been reviewed by the auditors. This extract, which is the responsibility of the directors, does not contain full or complete details and any investment decision by investors and/or shareholders should be based on the consideration of the full announcement, the webcast together with the investor presentation which is available on the company's website at www.stefstocks.com

The full announcement is available for inspection, at no charge at the registered office (No. 9 Palala Street, Protec Park, Cnr Zuurfontein Avenue and Oranjerivier Drive, Kempton Park, 1619) of the company and at the office of Bridge Capital Advisors (Pty) Ltd (50 Smits Road, Dunkeld, 2196), during normal business hours. Copies of the full announcement may also be requested by contacting the company secretary on telephone at 011 326 0975 or by email at w.somerville@mweb.co.za.

The full announcement is also available at https://senspdf.jse.co.za/documents/2020/jse/isse/SSK/FY2020.pdf

Published on 30 July 2020

www.stefanuttistocks.com