UNAUDITED CONDENSED CONSOLIDATED RESULTS

FOR THE 6 MONTHS ENDED 31 AUGUST 2021

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

FINANCIAL RESULTS

		UNAUDITED 31 AUGUST 2021	RESTATED 31 AUGUST 2020	% CHANGE
Contract revenue – Continuing operations	(R'000)	**3 217 140**	2 555 812	26
Operating profit/(loss) before investment income – Continuing operations	(R'000)	**5 478**	(161 228)	103
Loss for the period – Continuing operations	(R'000)	**(103 388)**	(253 461)	59
(Loss)/profit for the period – Discontinued operations	(R'000)	**(85 087)**	4 180	(2136)
Loss for the period –Total operations	(R'000)	**(188 475)**	(249 281)	24
Earnings per share – Total operations	(cents)	**(112.69)**	(147.06)	23
Headline earnings per share – Total operations	(cents)	**(67.12)**	(128.42)	48

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated results for the period ended 31 August 2021 (results for the period and/or the reporting period) have been prepared in accordance with framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee 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 is in compliance with the Listings Requirements of the JSE Limited and the requirements of the South African Companies Act, 71 of 2008. The accounting policies as well as the methods of computation used in the preparation of the results for the period ended 31 August 2021 are in terms of IFRS and are consistent with those applied in the audited annual financial statements for the year ended 28 February 2021.

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. Plant and equipment and transport and motor vehicles included within Non-current assets held for sale have been categorised as a Level 3 fair value based on significant unobservable inputs to the valuation technique used. These assets are measured using the comparable sales method. This entails the use of quoted prices for identical or similar assets in the market. 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 unaudited condensed consolidated results. These results have been compiled under the supervision of the Acting Chief Financial Officer, Y du Plessis, CA(SA).

COVID-19 AND JULY 2021 CIVIL UNREST

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

The July 2021 civil unrest in Gauteng and KwaZulu-Natal negatively impacted the Inland and Coastal regions, resulting in time delays on 17 projects where work had to stop and some damages to property. The financial impact was R8 million for which the group is assessing possible claims. There was no impact on the other regions within the group.

RESTRUCTURING PLAN UPDATE

The group hereby provides shareholders with an update on the Restructuring Plan as reported in the Consolidated Annual Financial Statements of Stefanutti Stocks for the year ended 28 February 2021 issued on 28 June 2021 and the Circular to Shareholders relating to the disposal of 49 % of the entire issued share capital of Al Tayer Stocks LLC issued on 3 August 2021, which transaction was approved by shareholders on 31 August 2021. In accordance with the terms of this transaction, the group received the initial purchase consideration of R92 million on 8 November 2021.

As previously reported, the Restructuring Plan has been approved by both the company's board of directors and the Lenders and envisages, *inter alia*:

- the sale of non-core assets;
- the sale of underutilised plant and equipment;
- the sale of certain operations;
- 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 related to the negative effects of the national lockdown in March/April 2020;
- 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 going forward and associated capital structure analysis including the potential of raising new equity.

In accordance with the Restructuring Plan, the Lenders had provided the requisite funding and converted the short-term funding agreement into a term loan on 1 July 2020, which loan terminates on 28 February 2022. The loan bears interest at prime plus 5,4%, including arranging and facility fees, and is secured by special and general notarial bonds over movable assets, continuous covering mortgage bonds over immovable assets and various cessions. The term and funding loans do not contain any financial covenants but rather impose certain information and general undertakings. The group, on 25 May 2021, reached an agreement with the Lenders to extend the current capital repayment profile of the loan. Due to the slower than anticipated sale of certain operations, a delay in the regulatory processes relating to the disposal of Al Tayer Stocks LLC and the non-implementation of the Materials Handling and Tailings Management sub-divisions transaction as noted further on in this announcement, the capital portion of the loan repayments envisaged to commence in July 2021, had not materialised. Following the receipt of the initial purchase consideration of the disposal of Al Tayer Stocks LLC, a capital repayment of R45 million was made on 15 November 2021. The group is currently in negotiations with the Lenders to extend the capital repayments and duration of the loan to 28 February 2023.

The Lenders have agreed to provide continued guarantee support for current and future projects being undertaken by the group. Management has made considerable progress in reconfiguring the group's organisational structure to improve operational performance and decrease overhead costs, including the reduction of the group's overall headcount. This is an ongoing process which continues as the aspects of the Restructuring Plan are being implemented in this uncertain environment.

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

The Restructuring Plan is anticipated to be implemented over the financial years ending February 2022 and February 2023 and, to the extent required, shareholder approval will be sought for certain aspects of the Restructuring Plan. The group will continue to update shareholders on the progress of the various aspects of the Restructuring Plan.

The directors consider it appropriate that the group's results for the reporting period be prepared on the going-concern basis, based on:

- having converted the short-term funding agreement with the Lenders to a term loan;
- the assumption of a successful completion of current negotiations with the Lenders with regards to the extension of the capital repayments and loan duration to February 2023;
- ongoing support from the Lenders; and
- successfully implementing the Restructuring Plan.

The funding provided by the Lenders has assisted in relieving the group's liquidity pressures even though current liabilities exceed current assets as at 31 August 2021. The group believes that it is still currently commercially solvent based on the cashflow projections included in the Restructuring Plan. However, uncertainties surrounding the COVID-19 pandemic and contingent liabilities as noted in note 26 of the group's Consolidated Annual Financial Statements for the year ended 28 February 2021, continue to indicate that a material uncertainty exists that may cast doubt on the group's ability to continue as a going concern in the short term.

OVERVIEW OF RESULTS

As previously highlighted to shareholders in numerous announcements and updates since late 2018, the group continues to pursue a number of contractual claims and compensation events on the Kusile power project. Due to the complexity of the claims, the processes remain ongoing. No further details of the claims have been disclosed on the basis that it may prejudice the group's position in defending the claims brought against it and in pursuing those claims brought against Eskom by the group.

Continuing operations

Contract revenue from continuing operations increased to R3,2 billion (restated Aug 2020: R2,6 billion) with an operating profit of R5 million (restated Aug 2020: R161 million operating loss). Included in operating profit are restructuring costs and abnormal legal fees of R58 million (Aug 2020: 64 million). Excluding these costs, the operating profit would have been R63 million (Aug 2020: R97 million operating loss).

The after tax loss for continuing operations is R103 million (restated Aug 2020: R253 million loss) which includes a fair value adjustment of R17 million relating to a property and certain plant held for sale. Earnings and headline earnings per share for total operations are reported as a loss of 112,69 cents (Aug 2020: 147,06 cents) and a loss of 67,12 cents (Aug 2020: 128,42 cents) respectively.

The group's order book for continuing operations is currently R4,6 billion of which R1,6 billion arises from work beyond South Africa's borders.

Safety

Management and staff remain committed to the group's health and safety policies and procedures, and together strive to constantly improve the group's safety performance. The group's Lost Time Injury Frequency Rate (LTIFR) at August 2021 was 0,03 (Feb 2021: 0,03) and the Recordable Case Rate (RCR) was 0,30 (Feb 2021: 0,35).

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 64,28%.

Industry related matters

With respect to the civil claim received from the City of Cape Town (Green Point Stadium), the arbitration hearing commenced but was subsequently adjourned and postponed to July 2022 at the request of the City of Cape Town. The group remains confident it can defend this claim.

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

Dividend declaration

Notice is hereby given that no dividend will be declared (Aug 2020: Nil).

Subsequent events

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

Further information

These results have been compiled under the supervision of the Acting Chief Financial Officer, Y du Plessis, CA(SA).

This announcement is an extract of the full unaudited 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 of the company and at the office of Bridge Capital Advisors (Pty) Ltd, during normal business hours. Copies of the full announcement may also be requested by contacting the company secretary, William Somerville at w.somerville@mweb.co.za.

The full announcement is also available at https://senspdf.jse.co.za/documents/2021/jse/isse/ssk/FY2022H1.pdf

Published on 25 November 2021

Corporate advisor and sponsor

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