# UNAUDITED CONDENSED CONSOLIDATED RESULTS

**FOR THE 6 MONTHS ENDED 31 AUGUST 2022**

**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 2022 | RESTATED 31 AUGUST 2021 | % CHANGE |
|---|---|---|---|---|
| Contract revenue – Continuing operations | (R'000) | **2 870 570** | 3 154 809 | (9) |
| Operating profit before investment income – Continuing operations | (R'000) | **54 029** | 8 930 | 505 |
| Loss for the period – Continuing operations | (R'000) | **(33 503)** | (97 909) | 66 |
| Profit/(loss) for the period – Discontinued operations | (R'000) | **42 752** | (90 566) | 147 |
| Profit/(loss) for the period – Total operations | (R'000) | **9 249** | (188 475) | 105 |
| Earnings per share – Total operations | (cents) | **5,53** | (112,69) | 105 |
| Headline earnings per share – Total operations | (cents) | **(25,02)** | (67,12) | 63 |

## BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated results for the period ended 31 August 2022 (the 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 2022 are in terms of IFRS and are consistent with those applied in the audited annual financial statements for the year ended 28 February 2022.

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

## 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 2022, issued on 27 June 2022 and the SENS announcements issued on 18 July 2022 and 25 October 2022.

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 identified operations;
- a favourable outcome from the processes relating to the contractual claims and compensation events on certain projects; and
- evaluation of an optimal business model going forward and associated capital structure analysis including the potential of raising new equity.

The group is currently in negotiations with the Lenders to extend the capital repayment profile of the loan, as well as its duration to February 2024 due to further delays, beyond the group's control, in resolving contractual claims and compensation events on certain projects, the slower than anticipated sale of identified operations and the non-implementation of the Materials Handling and Tailings Management sub-divisions transaction. The benefit of the extended restructuring period provides a greater degree of confidence in anticipated cash flows, which will ultimately result in a reduction of the previously stated residual loan balance of R420 million.

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 loan does not contain any financial covenants but rather imposes certain information and general undertakings.

The Lenders continue to provide guarantee support for current and future projects being undertaken by the group.

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 2023 and February 2024 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 period be prepared on the going-concern basis, taking into consideration:

- the current order book;
- imminent project awards;
- continuing operations executing the group's order book profitably;
- the availability of short- and mid-term projects;
- reaching a favourable outcome on contractual claims and compensation events on certain projects;
- a successful completion of current negotiations with the Lenders relating to the extension of the loan and capital repayments to February 2024;
- continued support from the Lenders; and
- successfully implementing the Restructuring Plan.

The funding provided by the Lenders has assisted with the group's liquidity, even though total liabilities continue to exceed total assets at 31 August 2022. The group believes it remains commercially solvent based on the cash flow projections included in the Restructuring Plan. However, uncertainties surrounding the contingent liabilities as stated in note 26 of the group's Consolidated Annual Financial Statements for the year ended 28 February 2022, 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.

## KUSILE POWER PROJECT UPDATE

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.

Since August 2021, the group has secured payment of a combined total of R110 million for measured work and the Dispute Adjudication Board ("DAB") rulings. Substantial variations are still being agreed with Eskom. The outcome thereof will determine whether further certification will be secured for measured works or whether the variations will be referred to the DAB.

Stefanutti Stocks and Eskom ("the parties") have entered into an "Interim Arrangement for the Purposes of Agreeing or Determining the Contractor's Claims and Facilitating the Dispute Resolution Process" in February 2020, for all delay events up to the end of December 2019. This process involves the appointment of independent experts ("the experts") to evaluate the causes, duration and quantification of delays.

Further to the above, the parties and the DAB have signed a memorandum of understanding ("MOU") as set out below:

- The DAB will issue decisions confirming entitlements, which entitlements the experts have agreed to, which will then be binding on the parties;
- The DAB will rely on the experts for the narrowing of the issues and information to be considered in its assessments;
- The DAB will continue to make interim decisions on the narrowed issues and information, in a progressive manner which will be binding on the parties;
- The DAB will issue such interim decisions for duration and quantification; and
- At the end of the process the DAB will issue a final binding decision in terms of the contract with respect to duration and quantification, at which point either party may issue a notice of dissatisfaction and refer the dispute to arbitration.

To date, the group has submitted the following provisional claims to the experts after taking into account all payments received to date on the project:

1. an overarching preliminary and general cost claim of R337 million; and
2. a subcontractor overarching preliminary and general cost claim of R194 million.

It is intended that the group will submit the remaining claims relating to construction costs, commissioning costs and interest and finance costs to the experts by December 2022. The experts will review all claims, draft agreements and narrow issues of difference for referral to the DAB for a decision as per the MOU.

The group envisages that the DAB will issue its final binding decision during the second quarter of 2023, noting that either party has the right to appeal as set out above.

At this stage, the group's claims team is unable to quantify the value of the potential awards as the claims must follow due process. Therefore, these provisional claims have not been recognised in the financial statements.

## OVERVIEW OF RESULTS

A number of non-core assets, underutilised plant and equipment and identified operations earmarked for sale have been reclassified in terms of IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. Current market conditions resulted in the delay of these disposals. The group remains committed to the sale processes as envisaged in the Restructuring Plan.

Contract revenue from continuing operations decreased to R2,9 billion (restated Aug 2021: R3,2 billion) with an improved operating profit of R54 million (restated Aug 2021: R9 million). Excluding the restructuring costs and abnormal legal fees, the operating profit would have been R82 million (Aug 2021: R84 million adjusted for restructuring costs, abnormal legal fees as well as fair value adjustments).

Earnings and headline earnings per share for total operations is 5,53 cents profit per share (Aug 2021: 112,69 cents loss per share) and 25,02 cents loss per share (Aug 2021: 67,12 cents loss per share) respectively.

The group's order book is currently R6,3 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 2022 was 0,00 (Feb 2022: 0,03) and the Recordable Case Rate (RCR) was 0,25 (Feb 2022: 0,28).

### 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 72,76%.

### Industry related matters

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 2021: 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 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/2022/jse/isse/ssk/FY2023H1.pdf

Published on 24 November 2022

### Corporate advisor and sponsor

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