Basil Read Holdings Limited
Incorporated in the Republic of South Africa
(Registration number 1984/007758/06)
(Basil Read or the company)
ISIN: ZAE000029781
Share code: BSR

Reviewed provisional results for the year ended 31 December 2016

Key results

- R5.1 billion
  Revenue
  (2015: R5.5 billion)

- R63.7 million
  Operating profit
  (2015: R226.2 million)

- (21.79 cents)
  Headline loss per share
  (2015: headline profit per share of 120.28 cents)

- (R53.6 million)
  Net loss
  (2015: Net profit of R171.2 million)

- R12.3 billion
  Order book
  (2015: R10.7 billion)

- 0 fatalities
  Safety
  (2015: 4 fatalities)

Basis of preparation

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The Listings Requirements require provisional 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 preparing the condensed consolidated financial statements are in terms of IFRS and consistent with those applied in the previous consolidated annual financial statements.

The condensed consolidated financial statements were prepared under the supervision of the chief financial officer, Talib Sadik, CA(SA).

The board of directors takes full responsibility for the preparation of the provisional report. The financial information presented has been correctly extracted from the underlying financial statements.

Review report
These condensed consolidated financial statements for the year ended 31 December 2016 have been reviewed by the company's auditors, PricewaterhouseCoopers Inc., which expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office together with the financial statements identified in the auditor's report.

Forward-looking statement
Statements made throughout this announcement on the future financial performance of the company have not been reviewed or audited by the company's external auditors. The company cannot guarantee that any forward-looking statement will materialise and, accordingly, readers are cautioned not to place undue reliance on any forward-looking statements. The company disclaims any intention and assumes no obligation to update or revise any forward-looking statement even if new information becomes available as a result of future events or for any other reason, other than as required by the JSE Listings Requirements.

Condensed consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2016

	2016 R000	2015* R000
CONTINUING OPERATIONS		
Contract revenue	5 126 085	5 519 979
Contract execution costs	(4 727 734)	(5 000 034)
Purchased materials, subcontractors and other input costs	(3 118 560)	(3 551 793)
Staff costs	(1 322 196)	(1 153 784)
Depreciation	(243 543)	(266 017)
Other contract execution costs	(43 435)	(28 440)
Other income	3	66
Other administrative and operating overheads	(334 617)	(293 814)
Staff costs	(257 028)	(268 366)
Capital items	(5 481)	11 731
Administrative costs and overheads	(72 108)	(37 179)
Operating profit	63 737	226 197
Financing income	8 868	21 077
Net foreign exchange movements	31 882	(9 728)
Financing expense	(50 117)	(46 740)
Non-trading and capital items	(40 788)	-
Share of profits/(losses) of associates and joint ventures	(8 981)	40 536
Profit before taxation	4 601	231 342
Taxation	(25 419)	(39 704)
(Loss)/profit for the year from continuing operations	(20 818)	191 638
DISCONTINUED OPERATIONS		
Result for the year from discontinued operations	-	(45 066)
Result on disposal of discontinued operations	(32 828)	24 641
Net (loss)/profit for the year	(53 646)	171 213

*Restated.

OTHER COMPREHENSIVE INCOME FOR THE YEAR - NET OF TAX		
Items that may be subsequently reclassified to profit or loss	(35 813)	16 787
Movement in foreign currency translation reserve	(35 813)	16 811
Movement in fair value adjustment reserve	-	(24)
Foreign exchange difference	-	(24)

Total comprehensive loss/income for the year	(89 459)	188 000
(Loss)/profit attributable to:		
Owner of the company	(64 128)	180 761
Non-controlling interests	10 482	(9 548)
Net (loss)/profit for the year	(53 646)	171 213
Total comprehensive income attributable to:		
Owner of the company	(93 268)	198 738
Non-controlling interests	3 809	(10 738)
Total comprehensive loss/income for the year	(89 459)	188 000
	Cents	Cents
CONTINUED OPERATIONS		
Basic earnings per share	(23.77)	152.78
Diluted earnings per share	(23.77)	152.78
DISCONTINUED OPERATIONS		
Basic earnings per share	(24.93)	(15.51)
Diluted earnings per share	(24.93)	(15.51)

*Restated.

Condensed consolidated statement of financial position
as at 31 December 2016

	2016 R000	2015* R000
ASSETS		
Non-current assets	1 390 758	1 500 501
Property, plant and equipment	799 092	915 856
Investment property	6 112	6 590
Investments	177 524	187 689
Intangible assets	90 782	91 640
Deferred taxation	317 248	298 726
Current assets	1 883 907	2 017 657
Contract work in progress	342 354	433 237
Trade and other receivables	699 900	766 701
Inventories	35 229	25 939
Development land	259 607	262 679
Derivative financial instrument	623	2 885
Taxation	28 681	19 371
Cash and cash equivalents	517 513	506 845
Non-current assets held for sale	-	104 203
Total assets	3 274 665	3 622 361
LIABILITIES AND EQUITY		
Non-current liabilities	348 166	221 087
Borrowings	300 378	182 134
Deferred taxation	47 788	38 953
Current liabilities	1 792 406	2 155 388
Contract income received in advance	330 321	715 432
Trade and other payables	934 327	734 163
Borrowings	137 760	157 798
Provisions	299 167	497 523
Taxation	31 794	15 034
Bank overdraft	59 037	35 438
Non-current liabilities held for sale	-	22 334

Total liabilities	2 140 572	2 398 809
Equity	1 141 978	1 245 728
Stated capital	1 048 025	1 048 025
Other reserves	2 361	41 983
Retained earnings	91 592	155 720
Non-controlling interest	(7 885)	(22 176)
Total liabilities and equity	3 274 665	3 622 361

Condensed consolidated statement of changes in equity
for the year ended 31 December 2016

	Stated capital		Other reserves					
	Share capital R000	Treasury shares R000	FCTR1 R000	FVR2 R000	Retained earnings R000	AEHC3 R000	NCI4 R000	Total equity R000
Balance as at 1 January 2015	1 048 037	(12)	27 853	(3 847)	61 513	1 133 544	(97 992)	1 035 552
Total comprehensive income	-	-	18 001	(24)	180 761	198 738	(10 738)	188 000
Profit for the year	-	-	-	-	180 761	180 761	(9 548)	171 213
Other comprehensive income	-	-	18 001	(24)	-	17 977	(1 190)	16 787
Transactions with minorities	-	-	-	-	(86 554)	(86 554)	86 554	-
Balance as at 31 December 2015/ 1 January 2016	1 048 037	(12)	45 854	(3 871)	155 720	1 245 728	(22 176)	1 223 552
Total comprehensive income	-	-	(39 622)	-	(64 128)	(103 750)	14 291	(89 459)
Loss for the year	-	-	-	-	(64 128)	(64 128)	10 482	(53 646)
Other comprehensive loss	-	-	(39 622)	-	-	(39 622)	3 809	(35 813)
Balance as at 31 December 2016	1 048 037	(12)	6 232	(3 871)	91 592	1 141 978	(7 885)	1 134 093

1 Foreign currency translation reserve.
2 Fair value adjustment reserve.
3 Attributable to equity holders of the company.
4 Non-controlling interest.

Movements are reflected net of taxation.

Condensed consolidated statement of changes in cash flows
for the year ended 31 December 2016

	2016 R000	2015* R000
Cash flows from operating activities		
Cash received from customers	5 114 492	5 529 929
Cash paid to suppliers and employees	(5 025 217)	(4 906 536)
Interest paid	(48 436)	(57 074)
Interest received	8 863	21 205
Taxation paid	(27 655)	1 265
Dividends paid	-	(32)
Cash flow from operating activities before changes in operating assets and liabilities	22 047	588 757
Changes in:	(31 643)	(739 448)
- Contracts work in progress	135 512	50 617

- Trade and other receivables	58 784	21 866
- Inventories	(10 189)	1 517
- Development land	191	5 343
- Trade and other payables	204 248	(438 570)
- Contract income received in advance	(420 189)	(380 221)
Net cash from operating activities	(9 596)	(150 691)
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(128 975)	(68 794)
Proceeds from disposal of property, plant and equipment	41 260	77 459
Disposal of subsidiaries	64 785	82 517
Advances made to joint ventures and jointly controlled entities	(19 254)	(22 407)
Advances recovered from joint ventures and jointly controlled entities	(3 390)	3 040
Advances made to associates	7 455	(3 401)
Advances recovered from associates	-	7 440
Dividends received from associates and joint ventures	14 926	28 912
Net cash from investing activities	(23 193)	104 766
Cash flow from financing activities		
Proceeds from borrowings raised	239 838	205 318
Repayments of borrowings	(194 524)	(530 774)
Net cash from financing activities	45 314	(325 456)
Effect of exchange rate changes on cash and cash equivalents	(28 725)	10 393
Movement in cash and cash equivalents	(16 200)	(360 988)
Cash and cash equivalents at the beginning of the reporting period	474 676	835 664
Cash and cash equivalents at the end of the reporting period	458 476	474 676
Cash included in the assets of the disposal group	-	3 269

*Restated.

IAS 1 (amended) adoption

The group and company adopted the amendment which clarified that materiality applies to the whole set of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. As a consequence of adopting the amendment, the group and company undertook a project to assess the effectiveness of disclosures in the annual financial statements and, where necessary, removed immaterial and unnecessary information.

The following key enhancements resulted in a more streamlined and concise set of annual financial statements:

- The application of materiality to items resulting in the aggregation or deletion of immaterial items
- The removal of duplicated information and disclosures
- An updated sequence of information presented in the financial statements
- An updated format of notes and disclosures so as to make these clearer, more concise and easier to understand to the user
- Aggregating/disaggregating the following items in order to provide enhanced clarity and to better represent the underlying business activities:
  - Investments and loans to investments accounted for using the equity method and investments at fair value were combined into a single line named investments
  - Contract debtors and other receivables were split into contract work in progress and trade and other receivables
  - Trade and other payables were split into contract income received in advance and trade and other payables
- The previously individually presented income statement and statement of comprehensive income were merged into a single statement
- Various lines in the income statement were disaggregated to display their constituent parts. This was done to better reflect the underlying cost drivers of the business
- The method used to prepare the cash flow statement was changed from the indirect method to the direct method.

These enhancements have no impact on the underlying disclosed amounts or earnings. To enable the comparability of information the 2015 and 2014 comparatives were similarly enhanced, and where applicable are shown as restated. Also refer to the note titled "comparative information for December 2014".

Additional information to the condensed consolidated financial statements

NON-TRADING AND CAPITAL ITEMS

	Total	
	2016	2015
	R000	R000
Impairment of fixed assets due to inactivity	(2 900)	-
Impairment of goodwill	-	(7 438)
Impairment of associate	-	(165)
Write down of development land due to devaluation	(2 881)	-
Profit on sale of fixed assets	778	9 926
Profit on sale of subsidiary	-	20 046
Fair value adjustment on investment property	(478)	-
Total capital items	(5 481)	22 369
Voluntary rebuild programme cost	(40 788)	-
Total non-trading and capital items	(46 269)	22 369

The above items represent the result of activities which are non-core (transaction costs, restructuring costs, settlements of litigation and penalties, and other impairments, acquisition and disposal related gains and losses on assets) to the key operating objectives of the Basil Read group and are thus separately disclosed to enhance clarity of reporting.

During the current reporting period, a present value charge of R41 million (R120 million payable over 12 years) was incurred for the expense pertaining to the settlement agreement concluded on 11 October 2016 with the South African government in terms of the Voluntary Rebuild Programme.

DISPOSAL OF SUBSIDIARY

On 1 February 2016, the group disposed of 100% of the share capital of SprayPave (Pty) Ltd. The company is a manufacturer, supplier and applicator of bituminous road binders and emulsions. The group realised proceeds on the sale of SprayPave of R65.6 million before inclusion of cash disposed. The net cash inflow on the disposal was R64.8 million. This sale resulted in a loss on disposal of R32.8 million.

BASIC AND HEADLINE/(LOSS) EARNINGS PER SHARE

Summary of (loss)/earnings per share and headline (loss)/earnings per share

		(Loss)/earnings attributable		Weighted average number of shares		Cents per share	
		2016	2015	2016	2015	2016	2015
		R000	R000	R000	R000		
Total operations							
LPS/EPS	- Basic	(64 128)	180 765	131 686	131 686	(48.70)	137.27
LPS/EPS	- Diluted	(64 128)	180 765	131 686	131 686	(48.70)	137.27
HLPS/HEPS	- Basic	(28 700)	158 396	131 686	131 686	(21.79)	120.28
HLPS/HEPS	- Diluted	(28 700)	158 396	131 686	131 686	(21.79)	120.28
Continued operations							
LPS/EPS	- Basic	(31 300)	201 186	131 686	131 686	(23.77)	152.78
LPS/EPS	- Diluted	(31 300)	201 186	131 686	131 686	(23.77)	152.78
HLPS/HEPS	- Basic	(28 700)	189 455	131 686	131 686	(21.79)	143.87
HLPS/HEPS	- Diluted	(28 700)	189 455	131 686	131 686	(21.79)	143.87

Discontinued operations

LPS/EPS	- Basic	(32 828)	(20 421)	131 686	131 686	(24.93)	(15.51)
LPS/EPS	- Diluted	(32 828)	(20 421)	131 686	131 686	(24.93)	(15.51)
HLPS/HEPS	- Basic	-	(31 059)	131 686	131 686	-	(23.59)
HLPS/HEPS	- Diluted	-	(31 059)	131 686	131 686	-	(23.59)

Reconciliation between basic (loss)/earnings, diluted (loss)/earnings and headline (loss)/earnings

	Total		Continuing operations		Discontinued operations	
	2016	2015	2016	2015	2016	2015
	R000	R000	R000	R000	R000	R000
Basic and diluted (loss)/earnings	(64 128)	180 765	(31 300)	201 186	(32 828)	(20 421)
Loss/(profit) on sale of subsidiary	32 828	(20 046)	-	-	32 828	(20 046)
(Profit)/loss on sale of property, plant and equipment	(778)	(9 926)	(778)	(11 896)	-	1 970
Impairment of associate	-	165	-	165	-	-
Impairment of goodwill	-	7 438	-	-	-	7 438
Impairment of property, plant and equipment	2 900	-	2 900	-	-	-
Fair value adjustment on investment property	478	-	478	-	-	-
Headline (loss)/earnings	(28 700)	158 396	(28 700)	189 455	-	(31 059)

OPERATING SEGMENTS

The group comprises five operational segments namely construction, developments, mining, roads and St Helena, based on the management of the segments by the chief operating decision maker. The construction segment has been further broken down into buildings and civils.

Changes to segments

During the reporting period, management elected to make changes to the composition and structure of the operating segments to better reflect the underlying business. This resulted in the creation of two new segments namely the roads and developments segments. The comparative figures for the previous reporting period have been restated accordingly.

2016	Construction	Developments	Mining	Roads	St Helena	Total
	R000	R000	R000	R000	R000	R000
Performance measures						
Total segment revenue	1 645 506	81 263	1 701 724	1 166 765	983 365	5 578 623
Intersegment revenue	(5 923)	-	(133 726)	(51 474)	(261 415)	(452 538)
External revenue	1 639 583	81 263	1 567 998	1 115 291	721 950	5 126 085
Operating profit	(107 704)	15 873	111 652	(41 938)	85 854	63 737
Measures of financial position						
Total segment assets	950 754	17 293	1 032 671	233 427	1 040 520	3 274 665
Total segment liabilities	(719 879)	(41 470)	(424 184)	(245 375)	(709 664)	(2 140 572)

2015*	Construction	Developments	Mining	Roads	St Helena	Total
	R000	R000	R000	R000	R000	R000
Performance measures						
Total segment revenue	1 807 903	160 599	1 402 190	1 508 577	961 016	5 840 285
Intersegment revenue	(4 000)	-	(166 652)	(149 654)	-	(320 306)
External revenue	1 803 903	160 599	1 235 538	1 358 923	961 016	5 519 979
Operating profit	(17 654)	15 441	83 558	49 198	95 654	226 197
Measures of financial position						

Total segment assets	1 397 263	23 219	987 279	175 595	1 039 005	3 622 361
Total segment liabilities	(976 909)	(77 836)	(490 209)	(208 348)	(645 507)	(2 398 809)

*Restated.

Order book

	2016 R000	2015 R000
Construction	2 607 458	1 947 859
Developments	1 015 154	200 000
Mining	5 456 323	4 659 957
Roads	2 412 156	2 617 204
St Helena	851 997	1 316 173
Total order book	12 343 088	10 741 193

Contingent liabilities

Sladden International Proprietary Limited, a subsidiary of Basil Read Holdings Limited is defending a legal claim from a sub-contractor, Landwards Proprietary Limited. Management has been advised by legal counsel that if the defence of the claim were to be unsuccessful the potential liability is approximately R61 million.

FAIR VALUE CLASSIFICATION AND FINANCIAL INSTRUMENTS

Assets

	Total fair value R000	Fair value level
2016		
Investments	51 289	
Listed investments	477	Level 1
Unlisted investment	50 812	Level 3
Investment property	6 112	Level 3
Derivative financial instrument	623	Level 2
2015		
Investments	51 289	
Listed investments	477	Level 1
Unlisted investment	50 812	Level 3
Investment property	6 590	Level 3
Derivative financial instrument	2 885	Level 2

The carrying values of all other financial assets and financial liabilities not carried at fair value approximate their fair value.

Movement in level 3 instruments

	Unlisted instruments R000	Investment property R000
Opening balance	50 812	6 590
Foreign exchange differences	-	(478)
Closing balance	50 812	6 112

Valuation technique and significant unobservable inputs

(a) Derivative financial instruments

Description	Valuation technique	Significant observable inputs	Interrelationship between key unobservable inputs and fair value measurement

Consists of a forward exchange contract	Discounted cash flow method	Spot prices, interest rates and/or volatility	Estimated fair value would increase/(decrease) if: Exchange rates increased/ (decreased)

(b) Investment property

Description	Valuation technique	Significant observable inputs	Interrelationship between key unobservable inputs and fair value measurement
Consists of property held in Francistown, Botswana currently rented out to a third party for office use	Discounted cash flow method	Property vacancy rates Realised yields on comparative sales	Estimated fair value would increase/(decrease) if: Vacancy rate was higher/ (lower); and Realised yields on comparative sales were higher/(lower)

(c) Unlisted investments

Description	Valuation technique	Significant observable inputs	Interrelationship between key unobservable inputs and fair value measurement
Consists of investment in Lehating Mining (Pty) Ltd	Discounted cash flow model	Forward exchange rates Manganese prices	Estimated fair value would increase/(decrease) if: Forward exchange rates were higher/(lower); and Manganese prices were higher/(lower)

Sensitivity
The fair value of the investment in Lehating Mining is based on a discounted cash flow model over the life of the mine. The key inputs to this model are the discount rate, long-term forecasted exchange rate between the US dollar and the South African rand, and the manganese price. Movements in these inputs would affect the fair value of the investment, however this sensitivity has not been assessed to be significant.

COMPARATIVE INFORMATION FOR DECEMBER 2014
The enhancements referred to in the IAS 1 Adoption note, had no impact on the underlying disclosed amounts or earnings. To enable the comparability of information both 2015 and 2014 comparatives were similarly enhanced, the 2014 enhanced comparative information is provided below.

Consolidated statement of financial position

	2014* R000
ASSETS	
Non-current assets	1 669 708
Property, plant and equipment	1 080 248
Investment property	5 826
Investments	183 089
Intangible assets	99 938
Deferred taxation	300 607
Current assets	2 552 957
Contract work in progress	378 466

Trade and other receivables	905 494
Inventories	33 067
Development land	268 022
Taxation	57 093
Cash and cash equivalents	910 815
Non-current assets held for sale	53 112
Total assets	4 275 777
LIABILITIES AND EQUITY	
Non-current liabilities	259 965
Borrowings	215 898
Deferred taxation	44 067
Current liabilities	2 970 241
Contract income received in advance	1 102 385
Trade and other payables	1 180 026
Borrowings	273 594
Derivative financial instruments	223
Provisions	318 766
Taxation	5 011
Bank overdraft	90 236
Non-current liabilities held for sale	10 019
Total liabilities	3 240 225
Equity	1 133 544
Stated capital	1 048 025
Other reserves	24 006
Retained earnings	61 513
Non-controlling interest	(97 992)
Total liabilities and equity	4 275 777

*Restated.

Commentary

OVERVIEW

Basil Read Holdings Limited (Basil Read) has been restructured from a group of companies with subsidiaries, to a company with divisions. Steady progress has been made in consolidating the business into operating divisions, reducing the overheads and aligning the overheads with the underlying business, eliminating non-core and loss-making units and implementing a standard financial, commercial and human resource system. While good progress has been made, Basil Read is facing challenging trading conditions, due to limited public sector infrastructure spend, low business and consumer confidence, and increased competition.

Basil Read is proud to announce zero work-related fatalities during the reporting period. Our turnover has remained steady at just over the R5 billion mark, with the slight reduction coming from eliminating loss-making businesses and projects. The operating profit at R63.7 million is down on the previous year but includes the final losses on the last distressed contract in the company, where the losses are at least partially subject to the claims process.

	2016 actual	2015 actual
Turnover	R5.1 billion	R5.5 billion
Operating profit	R63.7 million	R226.2 million
(HLPS)/HEPS	(21.79) cents	120.28 cents
Net (loss)/profit for the year	(R53.6 million)	R171.2 million
Order book	R12.3 billion	R10.7 billion
Safety	Zero fatalities	Four fatalities

The operating profit of R63.7 million includes R61 million losses incurred on the Olifants River water resource development project as well as a R32 million loss from the pipelines business. A decision was made towards the end of 2016 to close the pipelines business.

The before tax profit from continuing operations of R4.6 million after deducting a present value charge of the settlement agreed with the government of the Republic of South Africa (refer to SENS announcement on 11 October 2016) of R41 million.

The after-tax loss of R53.6 million, after the deduction of a tax expense of R25.4 million which was incurred arising mainly from profits generated in subsidiary companies domiciled outside of South Africa as well as a loss of R33 million on the sale of SprayPave (Pty) Ltd.

Safety, health and environment (SHE)

At Basil Read, safety remains a core value and we strive to achieve zero harm. Our aim is to proactively reduce the frequency and severity of injuries by reviewing our strategic safety objectives every year. In addition to complying with safety regulations and embedding necessary systems, policies and corporate standards, we promote individual responsibility for safety throughout the organisation. The company values, with safety as the top priority, indicate our commitment to the safety and health of our workforce, with the aim of protecting every employee at all costs.

We aspire to zero harm, which means that every employee, contractor or visitor to our sites returns home unharmed. We are pleased to announce that our safety performance has improved notably from the prior period. No work-related fatalities were reported during the review period, however three employees passed away in two road accidents. We again extend our condolences to their friends, families and colleagues. These incidents were mainly due to the carelessness of road users on our sites. As a company, we are concerned about the levels of road traffic incidents in South Africa. Given that we have a number of road construction projects, the general public as well as our employees and contractors are subject to the hazards these present. We therefore proactively monitor these incidents and we again appeal to the public to adhere to all safety signage, speed limits and any other instructions given when driving in demarcated operational areas.

All incidents, regardless of the severity of the injury sustained, are exhaustively investigated and lessons learned communicated to all sites across the company to prevent similar incidents.

Divisional operating profit

	2016	2015
Construction	(R107.7 million)	(R17.6 million)
Developments	R15.9 million	R15.4 million
Mining	R111.6 million	R83.5 million
Roads	(R41.9 million)	R49.2 million
St Helena airport project	R85.8 million	R95.6 million
Total	R63.7 million	R226.2 million

Our developments, mining and St Helena airport project produced healthy profits. Good operating performances combined with profitable newly secured work ensured continued solid performances from these three divisions.

The construction division was negatively impacted by a R61 million loss on the Olifants River water resource development project for client Trans Caledonian Water Agency (TCTA) during the year.

Losses in the roads division are attributable to the slower than expected startup of new projects, additional costs from historically distressed contracts and the suspension of works on the Zambia project.

Cash management was emphasised throughout the year. Basil Read Limited secured a R200 million facility comprising a R140 million working capital facility and a R60 million revolving credit facility from the Industrial Development Corporation (IDC). By year end, the company had fully utilised the R140 million working capital facility, with the revolving credit facility expected to be drawn during the first half of 2017. R29 million in outstanding bonds were settled in December 2016. The group's consolidated cash balance at 31 December 2016 was R458 million (2015: R471 million).

Basil Read concluded the disposal of SprayPave (Pty) Ltd on 1 February 2016 for a purchase consideration of R65.6 million.

The company closed its pipelines division effective 31 December 2016 which generated revenue of R66 million and an operating loss of R32 million in the 2016 financial year.

In the reporting period, financial systems, Buildsmart and Hyperion, as well as an HR and payroll solution were implemented to enable better information management and reporting from operational level to the corporate level. This has facilitated better decision-making and Basil Read now has a single accounting and procurement system operating throughout the organisation. The benefits include increased efficiency and reduced overheads by enabling more effective shared services across the organisation. The availability of more timely and accurate information has also supported better cost management and decision making across all areas of operation.

The implementation and bedding down of the Sage People system, focused on HR and payroll management, gives a global view of information on the entire workforce and skills available, while providing employees with a single point for all their pay, leave and performance management records in a user-friendly system.

To increase the focus on our developments business, this was segmented into a separate division under the leadership of the executive for business development at the start of 2016. Similarly, given its growth prospects, the roads business was separated into a standalone division.

OPERATIONAL REVIEW OF DIVISIONS

Construction

The construction division, comprising the buildings, civils and now discontinued pipeline business units, progressed satisfactorily in 2016. It overcame a number of challenges and successfully delivered on several contracts. The completion of these major works, for private and public sector clients, underscores the division's capabilities and adds to an already solid base of experience which the division can leverage for sustainable growth.

Construction

	Reviewed 12 months 31 December 2016	Audited 12 months 31 December 2015
Revenue (R000)	1 639 583	1 803 903
Operating (loss)/profit (R000)	(107 704)	(17 654)
Operating margin (%)	(6.57)	(0.98)
Order book (R000)	2 607 458	1 947 859

The construction division's performance was overshadowed by difficulties in completing the Olifants River water resource development project for client TCTA. Completing this pipeline was a focus for 2016, and the team made exceptional progress by completing the installation of the full line including the technically complex Steelpoort River crossing, as well as pressure testing half of the line. Very good progress has been made and the bulk of the project and cost will be finished in the first quarter of 2017, with pressure testing and handover due in the first half of 2017.

To date, Basil Read has incurred costs of R2 071 million and accounted for an overall loss of R499 million. In the review period, the company recognised revenue of R250 million which includes R139 million in uncertified revenue and a loss of R61 million. Included in the current year costs, a provision of R52 million has been accounted for to complete the project. Basil Read has submitted claims totalling R586 million to the client, TCTA, of which R279 million has been settled in favour of Basil Read and R307 million, remains outstanding. An additional R98 million in claims to be submitted during the first half of 2017.

Regular meetings are held with the TCTA and its consulting engineer on the resolution of the claims. Based on our success rate in resolving claims, management is confident that the outstanding claims will be resolved during the 2017 year.

As the project is being finalised, this accounts for the total end of project losses and any resolution of the claims will contribute to improving the financial position of Basil Read. This will also conclude the final highly distressed contract in Basil Read.

Civil works at the Kusile and Medupi power stations continued. At year end, the order book for these two sites amounted to R1.8 billion. Basil Read also resolved several other claims in the review period, including Venetia mine, providing welcome cash into the business.

Our buildings unit has developed a reputation for building and delivering schools on time and to the highest quality; positioning itself as the contractor of choice in this market. The team's commitment to completing these schools was driven by the experience of working within local communities and seeing, first-hand, the positive impact these schools would have on the children. Several schools were completed in the Western Cape, and those in Gauteng are on track for scheduled completion. The buildings unit also completed a major extension to the Protea Hotel in Umhlanga and Nissan's incubation centre in Gauteng. Works at Kusile and Medupi power stations continued, and buildings at Medupi were handed over.

The pipeline business unit operated within the competitive space of infrastructure pipelines and bulk water supply schemes. There are many opportunities for work, however the relatively low barriers to entry into this market have resulted in fairly low margins being obtained on this type of work. The pipeline business has now been shutdown.

Certain skills within the pipelines business have been integrated into the civils business to take advantage of the pipelines expertise gained on the Olifants River water resource development project.

Developments

	Reviewed 12 months 31 December 2016	Audited 12 months 31 December 2015
Revenue (R000)	81 263	160 599
Operating profit (R000)	15 873	15 441
Operating margin (%)	19.53	9.61
Order book (R000)	1 015 154	200 000

Our developments business focuses on large-scale, mixed-income, integrated housing developments. Relocating this division under the executive officer for business development highlights its strategic importance to the company.

Key current projects include Savanna City (over 18 000 planned housing opportunities) and Malibongwe Ridge, as an extension to Cosmo City (about 5 500 opportunities).

Unit sales at Savanna City are exceeding expectations, underscoring the demand for affordable housing. To date, 910 units have been sold, with some 1 020 families already living in the development. We are installing internal bulk services to support the continued roll out of stands. Along with our partner, Old Mutual's Housing Impact Fund of South Africa, we are working with the Gauteng department of human settlements and Midvaal local municipality to ensure this 1 400ha project sets a benchmark in economic development and housing.

Progress at Malibongwe Ridge has slowed because of budgetary constraints among key government partners. Servicing for the first phase - 486 fully subsidised residential stands - is complete and 200 homes built, with 144 occupied. Community expectations will need to be managed due to the slowdown in allocating completed homes.

Between June and December 2016, four stands at the Klipriver Business Park with a value of R18 million were sold.

Mining

	Reviewed 12 months 31 December 2016	Audited 12 months 31 December 2015
Revenue (R000)	1 567 998	1 235 538
Operating profit (R000)	111 652	83 558
Operating margin (%)	7.12	6.76
Order book (R000)	5 456 323	4 657 957

The division recorded revenue of R1.57 billion, an increase of 27% from 2015 on the back of new contracts awarded in a competitive market. This enabled the division to increase its profit contribution to R112 million, a 33% increase compared to 2015, by keeping the operating margin constant. The division was able to maintain margins despite clients requesting discounted services by implementing its asset optimisation strategy to improve productivity in all our projects.

Rising commodity prices in 2016 resulted in new opportunities coming to market, but uncertainty on the sustainability of prices meant the market remained challenging, with profit margins under pressure for the mining services business. However, implementing the asset optimisation strategy positioned the division well to profitably capitalise on opportunities coming to the market. In 2016, the division secured the following major opportunities:

- Jwaneng mine, Botswana - Cut 8 North East corner push back
- Lerala Diamond mine, Botswana, 48 months
- 12-month contract at Otjikoto mine owned by B2 Gold Corp
- 36-month contract at Skorpion zinc mine
- The Majwe JV contract in Debswana was extended by 12 months.

Global investments in commodity markets seem to have stabilised in 2016, with some signs of improvement in certain commodities. Although our clients remain cautious, we are confident that Basil Read is well positioned to capitalise on new opportunities by fostering long-term partnerships with clients and delivering safe and cost-efficient projects.

Roads

	Reviewed 12 months 31 December 2016	Audited 12 months 31 December 2015
Revenue (R000)	1 115 291	1 358 923
Operating (loss)/profit (R000)	(41 938)	49 198
Operating margin (%)	(3.76)	3.62
Order book (R000)	2 412 156	2 617 204

Basil Read has arguably built more roads in the country than any other contractor. Our aim is to develop our roads division into a transportation division servicing all related infrastructure requirements. This reflects the synergies between mass earthworks for an airport, port or railway and traditional roadworks. The expertise in this division extends the focus beyond roads to airports, rail and marine. Equally, the divisional structure supports growth initiatives in all forms of transport while maintaining our strong presence in the road construction sector.

The 2016 result was impacted by the slower than expected start-up of new projects, additional costs from historically distressed contracts and the suspension of works on our project in Zambia. Significant design clashes and lack of adequate design information from the client have unexpectedly affected two roads projects, and are being addressed with the respective clients and their professional teams to find implementable solutions. These factors, combined with the industry trend of drawn-out claims resolution and an aggressive market with low margins, culminated in the lower than expected performance of the division.

In addition, community disruptions continued to affect performance as local residents look for employment opportunities, particularly pronounced in rural areas and specific urban environments where the shortage of work is acute. These disruptions have had a direct financial cost of over R10 million, excluding the intangible cost from the loss of momentum in production due to the stop/start nature of these disruptions. We are partnering with our clients and their professional teams to proactively engage with communities to address their concerns. We are also actively engaging with newly elected officials and councillors to explore ways to work together to the benefit of the communities in which we operate.

Tender activity for 2016 was subdued, although levels increased in the second half. Limited tender activity is exacerbated by aggressive competition for work from traditional clients in the South Africa roads construction industry. As a result, the division is looking beyond the country's borders for long-term airport, roads and port opportunities.

In the review period, the division closed out a further five historical projects, bringing the total to 12 projects finalised over the past 24 months. This now allows for greater management input on our current projects with strategic clients, as well as sourcing new projects and clients identified in our long-term strategy.

We will continue to aggressively pursue transport project work while ensuring we price at sensible margins to secure work to meet our growth targets for 2018. The focus remains on strengthening the division's position in the South African market and pursuing targeted projects beyond our borders.

St Helena airport project

	Reviewed 12 months 31 December 2016	Audited 12 months 31 December 2015
Revenue (R000)	721 950	961 016
Operating profit (R000)	85 854	95 654
Operating margin (%)	11.89	9.95
Order book (R000)	851 997	1 316 173

The St Helena airport project continues to prove Basil Read's ability to successfully execute a design-build-operate-maintain project of such magnitude and nature, being on a remote island in the South Atlantic Ocean. Although this flagship project is coming to an end, Basil Read still has work worth R852 million on its order book - R400 million to complete the new bulk fuel facility and R452 million to service the airport for the next nine years.

After more than four years of construction, the major highlight of 2016 was the first jet-propelled aircraft, a Bombardier Challenger 300, landing on the island on 10 April 2016, carrying five UK regulators for the first aerodrome audit. The audit was highly successful and the aerodrome certificate was issued by Air Safety Support International (ASSI), on 10 May 2016. This means the airport was certified for international operational use including medevacs, charters and commercial flights. A further six-monthly aerodrome audit was carried out by ASSI in October 2016, which extended the operating licence for another six months.

Issues with wind shear and turbulence, especially evident on the approach to runway 20 (the primary runway), have delayed the start of scheduled flights, although this poses no risk to Basil Read. A new tender has been issued for commercial operations, which is anticipated to begin in mid-2017.

Despite the delay in commercial flights, charter flights are able to land and Basil Read operates the airport daily as a fully functional international facility, making a real difference to the lives of residents. As an example, this has allowed a number of medical air evacuations that were previously not possible. Basil Read has a 10-year contract to operate the airport.

The division continues to negotiate the contract to complete the bulk fuel installation with ongoing design work, procurement, installation and preparation for commissioning.

Prospects
Our focus remains on the southern African market including South Africa, given the need for infrastructure to stimulate the economy, while positioning ourselves to partner with existing clients as they expand their operations in southern Africa.

The Basil Read order book has increased to R12.3 billion (2015: R10.7 billion), at a gross profit level of R1.4 billion and a gross margin of 11%. It is a good balance between the construction, roads, developments and St Helena airport project (R6.9 billion) and mining divisions (R5.4 billion) and reflects Basil Read's ability to trade despite challenging market conditions. The potential profit of the book is reasonable and should allow the company to significantly improve its profitability in a challenging environment.

With the Olifants River water resource development project nearing its final handover, Basil Read's operations will be significantly more efficient as this is the final highly distressed contract in Basil Read. The cash drain caused by this project will finally be over and will result in much needed relief going forward.

We continue to implement our three-tiered strategy:
- Grow the company to minimise the impact of cyclical volatility
  a. Reinventing business development
  b. Growth in Basil Read's order book from R10.7 billion to R12.3 billion as at the end of December 2016
  c. As per recent SENS announcements, Basil Read is currently in discussions with a partner around the potential private placement of shares that would result in Basil Read Holdings being a black-owned company to ensure compliance with the requirements of the settlement agreement referred to above, and to improve its competitiveness in the local market.

- Extract maximum value from our assets
  a. Rightsizing overheads. Given that managing overheads is key to ensuring a sustainable business, the corporate office salaried staff complement is being reduced to bring the overhead cost in line with turnover. To support this, Basil Read is critically examining structures to centralise support functions such as supply chain, SHE (safety, health, environment), quality, finance and HR to remove duplication, share resources and create a cost-effective, scalable overhead model. With the process 80% complete, the annual overhead saving from this process will approximately be R41 million per year at a once-off cost of R14 million
  b. Improved project execution - Having eliminated non-core and distressed contracts, Basil Read can now continually improve on operating performance, by focusing on strengthening on-site project teams, improving project delivery and productivity, driving efficiencies and seeking higher-margin projects in the private sector and outside South Africa
  c. Driving supply chain efficiencies
  d. Improved cash flow management.

- Develop a strong corporate culture
  a. A new set of corporate values has been agreed and implemented in the business. These values are aligned with our strategy and allow us to harness the collective and disciplined efforts of a representative Basil Read team in building a significantly better and more valuable business
  b. Industry transformation remains a key government and sector objective, with the aim of fostering a collaborative relationship with government bodies, and we are prioritising this as a strategic initiative. Evidence of this is the recent settlement agreement between government and the construction sector

c. As outlined on SENS, on 11 October 2016, Basil Read entered into an agreement with the government of the Republic of South Africa, together with six other construction companies, to implement a programme of initiatives to significantly accelerate transformation of the South African construction sector, as well as to address the construction companies' exposure to potential claims for damages from certain identified public entities' projects arising primarily from the fast-track settlement process launched by the South African competition authorities in February 2011.

CORPORATE GOVERNANCE

The directors and senior management of the company endorse the Code of Governance Principles and Report on Governance, together referred to as King III. Considering the size of the company, the board believes it substantially complies with King III as well as with the Listings Requirements of the JSE Limited. The company regularly reviews its corporate governance policies and practices, striving for continued improvement.

The following changes to the board took effect in the review period:
- Amanda Wightman resigned as CFO and executive director on 30 September 2016
- Talib Sadik was appointed as CFO and executive director on 1 October 2016.

Dividends

Due to the difficult trading environment and need to retain working capital, the board of directors has resolved not to declare a dividend.

On behalf of the board

PC Baloyi	NF Nicolau
Chairman	Chief executive officer

Company Secretary
A Ndoni

Registered office
The Basil Read Campus, 7 Romeo Street, Hughes Extension, Boksburg, 1459

Auditors
PricewaterhouseCoopers Inc.

Transfer secretaries
Link Market Services South Africa (Pty) Ltd

Sponsor
Grindrod Bank Limited

Directors
PC Baloyi*† (chairman), NF Nicolau (chief executive officer),
MT Sadik (chief financial officer), DLT Dondur*†, MSI Gani*†, TD Hughes*, Dr CE Manning*†,
ACG Molusi*, SS Ntsaluba*, TA Tlelai*
(*Non-executive, †Independent)

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