BASIL READ

2014

REVIEWED PROVISIONAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2014

Key results

R820,9 million	**R6,5 billion**	**R10,5 billion**
Loss after tax (2013: Profit of R281,5 million)	**Turnover** (2013: R6,2 billion)	**Order book** (2013: R12,5 billion)
362,08 cents	**–51,9%**	**2 fatalities**
Headline loss per share (2013: Headline earnings of 86,99 cents)	**Return on equity** (2013: 16,8%)	**Safety** (2013: 1 fatality)

Condensed consolidated income statement

	Reviewed 12 months 31 December 2014 R'000	Audited 12 months 31 December 2013 R'000
Continuing operations		
Revenue	**6 502 407**	6 218 152
Operating (loss) / profit for the year before provision for Competition Commission, impairment of goodwill and write down of development land	**(603 460)**	97 736
Provision for Competition Commission	**–**	(19 936)
Impairment of goodwill	**(222 212)**	–
Write down of development land	**(80 565)**	(22 572)
Operating (loss) / profit for the year	**(906 237)**	55 228
Net finance (costs) / income	**(26 202)**	12 670
Share of profits of investments accounted for using the equity method	**39 539**	45 166
(Loss) / profit for the year before taxation	**(892 900)**	113 064
Taxation	**150 682**	(21 691)
(Loss) / profit for the year after taxation	**(742 218)**	91 373
Discontinued operations		
Net (loss) / profit for the year from discontinued operations	**(78 661)**	190 097
Net (loss) / profit for the year	**(820 879)**	281 470
(Loss) / profit for the year attributable to the following:		
Equity shareholders of the company	**(789 938)**	310 742
Non-controlling interests	**(30 941)**	(29 272)
Net (loss) / profit for the year	**(820 879)**	281 470
(Loss) / earnings per share (cents)	**(599,86)**	235,97
Diluted (loss) / earnings per share (cents)	**(599,86)**	235,97
(Loss) / earnings per share from continuing operations (cents)	**(540,13)**	91,61
Diluted (loss) / earnings per share from continuing operations (cents)	**(540,13)**	91,61
(Loss) / earnings per share from discontinued operations (cents)	**(59,73)**	144,36
Diluted (loss) / earnings per share from discontinued operations (cents)	**(59,73)**	144,36

Condensed consolidated statement of comprehensive income

	Reviewed 12 months 31 December 2014 R'000	Audited 12 months 31 December 2013 R'000
Net (loss) / profit for the year	(820 879)	281 470
Other comprehensive income for the year	12 860	7 900
Movement in foreign currency translation reserve	12 936	12 003
Movement in fair value adjustment reserve	(76)	(5 043)
Deferred tax effect on other comprehensive income	–	940
Total comprehensive (loss) / income for the year	(808 019)	289 370
Total comprehensive (loss) / income for the year attributable to the following:		
Equity shareholders of the company	(775 921)	314 158
Retained income	(789 938)	310 742
Other reserves	14 017	3 416
Non-controlling interests	(32 098)	(24 788)
Total comprehensive (loss) / income for the year	(808 019)	289 370

Condensed consolidated statement of financial position

	Reviewed 31 December 2014 R'000	Audited 31 December 2013 R'000
ASSETS		
Non-current assets	1 669 708	1 914 321
Property, plant and equipment and investment property	1 086 074	1 143 877
Intangible assets	99 938	411 829
Investments accounted for using the equity method	131 800	186 595
Available-for-sale financial assets	51 289	51 384
Deferred income tax asset	300 607	120 636
Current assets	2 552 957	2 804 193
Inventories	33 067	41 958
Development land	268 022	363 120
Trade and other receivables	905 494	944 531
Work in progress	378 466	129 691
Current income tax asset	57 093	66 768
Cash and cash equivalents	910 815	1 258 125
Non-current assets held-for-sale	53 112	–
	4 275 777	4 718 514
EQUITY AND LIABILITIES		
Capital and reserves	1 035 552	1 871 258
Stated capital	1 048 025	1 048 025
Retained income	61 513	851 451
Other reserves	24 006	9 989
Non-controlling interests	(97 992)	(38 207)
Non-current liabilities	259 965	309 768
Interest-bearing borrowings	215 898	263 086
Deferred income tax liability	44 067	46 682
Current liabilities	2 970 241	2 537 488
Trade and other payables	1 180 249	1 044 575
Amounts due to customers	1 102 385	1 095 096
Current portion of borrowings	273 594	163 314
Loans from associates	–	5 938
Provisions for other liabilities and charges	318 766	134 651
Current income tax liability	5 011	38 273
Bank overdraft	90 236	55 641
Liabilities directly associated with non-current assets classified as held-for-sale	10 019	–
	4 275 777	4 718 514

Condensed consolidated statement of changes in equity

	Reviewed 12 months 31 December 2014 R'000	Audited 12 months 31 December 2013 R'000
Issued capital		
Ordinary share capital		
Balance at the beginning and end of the year	**1 048 025**	1 048 025
Retained income		
Balance at the beginning of the year	**851 451**	750 654
Total comprehensive (loss) / income for the year	**(789 938)**	310 742
Transactions with minorities	**–**	20 518
Dividend declared	**–**	(230 463)
Balance at the end of the year	**61 513**	851 451
Other reserves		
Balance at the beginning of the year	**9 989**	875
Total comprehensive income for the year	**14 017**	3 416
Disposal of subsidiary	**–**	5 698
Balance at the end of the year	**24 006**	9 989
Non-controlling interests	**(97 992)**	(38 207)

Condensed consolidated statement of cash flows

	Reviewed 12 months 31 December 2014 R'000	Audited 12 months 31 December 2013 R'000
Operating cash flow	**(244 333)**	406 770
Movements in working capital	**126 003**	(122 343)
Net cash generated by operations	**(118 330)**	284 427
Net finance (costs) / income	**(25 310)**	13 670
Dividends paid	**(4)**	(232 640)
Taxation paid	**(58 011)**	(68 172)
Cash flow from operating activities	**(201 655)**	(2 715)
Cash flow from investing activities	**(75 057)**	689 926
Cash flow from financing activities	**(87 374)**	(506 682)
Effects of exchange rates on cash and cash equivalents	**(2 734)**	(23 767)
Movement in cash and cash equivalents	**(366 820)**	156 762
Cash and cash equivalents at the beginning of the year	**1 202 484**	1 045 722
Cash and cash equivalents at the end of the year	**835 664**	1 202 484
Included in cash and cash equivalents as per the balance sheet	**820 579**	1 202 484
Included in the assets of the disposal group	**15 085**	–
	835 664	1 202 484

Additional information to the condensed consolidated financial statements

	Reviewed 12 months 31 December 2014	Audited 12 months 31 December 2013
Ordinary and special dividend paid per share (cents)	–	175,00
Ordinary and special dividend declared per share (cents)*	–	175,00
** Based on the year to which the dividend relates*		
Number of ordinary shares in issue ('000)	131 686	131 686
Headline (loss) / earnings per share (cents)	(362,08)	86,99
Diluted headline (loss) / earnings per share (cents)	(362,08)	86,99
Reconciliation of basic earnings to headline earnings	R'000	R'000
Basic (loss) / earnings	(789 938)	310 742
Adjusted by – Profit on sale of subsidiary	1 479	(193 176)
– Loss on sale of associate	8 010	–
– Profit on sale of property, plant and equipment	(730)	(1 470)
– Impairment of goodwill	304 370	–
– Fair value gains on revaluation of investment property	–	(1 538)
Headline (loss) / earnings	(476 809)	114 558
Reconciliation between weighted average number of shares and diluted average number of shares	'000	'000
Weighted average number of shares	131 686	131 686
Adjusted by – Share Incentive Scheme	–	–
Diluted average number of shares	131 686	131 686
Net asset value per share (cents)	860,79	1 450,01
Tangible net asset value per share (cents)	784,90	1 137,28
Capital expenditure for the year (R'000)	339 074	257 766
Depreciation (R'000)	342 404	324 292
Impairment of goodwill (R'000)	304 370	–
Amortisation of intangible asset (R'000)	860	860

Non-current assets held for sale

The disposal of LYT Architecture was completed on 1 February 2015 and is therefore disclosed as being held for sale at the reporting date. LYT Architecture and its subsidiaries formed part of the engineering segment.

In terms of IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*" the discontinued operation must be tested for impairment. The carrying amount of the discontinued operation exceeds the fair value of the discontinued operation and goodwill of R82,2 million has been impaired as a result.

	Reviewed 12 months 31 December 2014	Audited 12 months 31 December 2013
ASSET AND LIABILITIES		
Assets of company classified as held for sale		
Property, plant and equipment	3 700	–
Intangible assets	8 352	–
Deferred income tax assets	205	–
Contract and trade debtors	21 310	–
Receivables and prepayments	3 514	–
Current income tax asset	860	–
Cash and cash equivalents	15 171	–
	53 112	–
Liabilities of company classified as held for sale		
Trade and other payables	9 933	–
Bank overdraft	86	–
	10 019	–
INCOME STATEMENT OF DISCONTINUED OPERATIONS		
Revenue	82 403	276 554
Expenses including impairment of goodwill	(160 857)	(279 361)
Net finance costs	892	846
Profit before tax of discontinued operations	(77 562)	(1 961)
Tax	(1 099)	(1 118)
Profit after tax of discontinued operations	(78 661)	(3 079)
Movement in fair value adjustment reserve	–	–
Profit for the year from discontinued operations	(78 661)	(3 079)
CASH FLOWS OF DISCONTINUED OPERATIONS		
Operating cash flows	(7 857)	15 377
Investing cash flows	(1 425)	(3 221)
Financing cash flows	–	–
Effects of exchange rates on cash and cash equivalents	–	–
Total cash flows	(9 282)	12 156

Commentary

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 the preparation of the condensed consolidated financial statements are in terms of IFRS and are 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, Amanda Wightman, CA(SA).

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

Audit report

These condensed consolidated financial statements for the year ended 31 December 2014 have been reviewed by the group's auditors, PricewaterhouseCoopers Inc., who 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 statements

Statements made throughout this announcement regarding 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.

Overview

A challenging construction sector, difficult contractual environment and poor operational performance have contributed to Basil Read reporting poor results for the 2014 financial year. Loss-making contracts across all construction disciplines, coupled with a struggling engineering division, have overshadowed stable performances by the mining and developments divisions.

The newly appointed executive management team took decisive action in the second half to improve the company's performance in the next financial year. Overhead costs have been reduced through a rightsizing exercise to an appropriate level of administrative staff, satellite offices have been closed and a critical evaluation of the overhead cost-base has been performed to eliminate unnecessary expenditure. The company has been reorganised into an operational structure comprising two major divisions, construction and mining, assisted by a centralised support team. The company has moved from a group and subsidiaries structure to a company and divisions structure. Subsidiaries are either being incorporated into the divisions or fixed and sold.

The results were further impacted by the impairment of goodwill (R304,4 million) and the write-down of development land (R80,6 million) relating to the company's investment in Rolling Hills Leisure Estate.

Cash balances reduced to R835,7 million, largely due to the company funding loss-making contracts. Liquidity remains tight but is being actively managed to ensure the company continues to operate effectively. To support working capital levels, the company issued two notes under its domestic medium-term note programme on 25 July 2014 – BSR12, for R60 million maturing on 25 January 2016, and BSR13, for R40 million maturing on 25 July 2016. Despite debt increasing to R489,5 million, the company remains in a net cash position.

At the reporting date, the group had issued guarantees of R2,2 billion (December 2013: R3,0 billion). These guarantees have arisen in the ordinary course of business and it is not expected that any loss will arise out of their issue.

Contingent liability

The group has identified a number of instances where subsidiaries in Botswana have not fully complied with the time of submission requirements as prescribed by the Value Added Tax Act in Botswana. The Botswana entities have made voluntary submissions to the Botswana Unified Revenue Services ("BURS") setting out these instances and requesting BURS to issue revised assessments. This process is ongoing.

No provision for additional taxes has been raised on this VAT issue as legal advice indicates that it is not probable that a significant liability will arise. It is likely, however, that penalties and interest will be levied by BURS due to late submission and payments, and Basil Read accrued for these costs in the 2013 financial year.

Corporate activity

On 1 April 2014, the company acquired the entire issued share capital of Hytronix (Pty) Ltd for a cash consideration of R4,2 million. The core business of Hytronix is the construction of mining equipment.

On 1 November 2014, the company disposed of its 20% stake in BR-Tsima Construction (Pty) Ltd for no consideration. The transaction resulted in the company recognising a profit on disposal of R0,7 million.

On 1 December 2014, the company disposed of its 51% stake in AngloAfrican Insurance Brokers (Pty) Ltd for no consideration, resulting in the recognition of a loss on disposal of R1,8 million.

During the year, the company disposed of its 23% stake in Metrowind (Pty) Ltd, resulting in the recognition of a loss on disposal of R10,5 million. The company subsequently acquired a 23% stake in Rubicept (Pty) Ltd, owner of the Metrowind Van Stadens wind farm in Port Elizabeth.

Operational review

Safety, health and environmental ("SHE")

Basil Read's SHE management system continues to provide a framework for integrating hazard identification, risk analysis and risk management into all activities. Following surveillance audits in 2014, the company retained both the OHSAS 18001 and ISO 14001 certifications.

We continue to aim at proactively reducing the frequency and severity of injuries by reviewing strategic safety objectives annually. As a result, the disabling injury frequency rate ("DIFR") has been reduced from 0,79 in 2009 to 0,15 in 2014. Although this is a lagging performance indicator, it demonstrates management's commitment to zero harm.

Regrettably, we recorded two fatal accidents during the year, both in the roads division, and we extend our condolences to the family and friends of the deceased. Both incidents were investigated thoroughly and lessons learnt communicated to all sites to prevent similar incidents from recurring.

Commentary *continued*

Construction

	Reviewed 12 months 31 December 2014	Audited 12 months 31 December 2013
Revenue (R'000)	**4 927 178**	4 622 946
Operating (loss) / profit before impairment of goodwill (R'000)	**(547 190)**	12 057
Impairment of goodwill	**(185 741)**	–
Operating (loss) / profit (R'000)	**(732 931)**	12 057
Operating margin before impairment of goodwill (%)	**(11,11)**	0,26
Operating margin (%)	**(14,88)**	0,26
Share of losses of investments accounted for using the equity method (R'000)	**(6 791)**	(3 175)
Order book (R'000)	**6 665 274**	8 165 000

The construction division struggled with a number of loss-making contracts in the review period. The company has submitted a number of claims related to these contracts, which are currently being assessed or are in discussion, and although we are confident of a positive outcome, the possibility of gains through the claims process, and / or the possible impact of delay damages have not been recognised in terms of the prevailing accounting standards.

The delay in realising claims has tightened cash resources as the company continues to fund losses. Liquidity is being further affected by delayed or non-payment of debtors. Despite the cash constraints, Basil Read remains committed to continuing the various contractual processes to agree claims in a bid to extract maximum shareholder value.

New management teams introduced towards the end of the financial year have stabilised operations and the division has been awarded contracts exceeding R1 billion since the start of the 2015 financial year. Tender activity remains competitive and the sector remains under pressure due to delayed roll-out of government work.

The contract to construct an airport on St Helena Island is on track for completion in early 2016. Calibration flights are set to start in July 2015. The company has also signed a memorandum of understanding with the government of St Helena to refurbish a hotel facility on the island.

Mining

	Reviewed 12 months 31 December 2014	Audited 12 months 31 December 2013
Revenue (R'000)	1 200 741	935 361
Operating profit before impairment of goodwill (R'000)	30 312	58 864
Impairment of goodwill	(36 471)	–
Operating (loss) / profit (R'000)	(6 159)	58 864
Operating margin before impairment of goodwill (%)	2,52	6,29
Operating margin (%)	(0,51)	6,29
Share of profits of investments accounted for using the equity method (R'000)	53 872	46 143
Order book (R'000)	3 773 675	3 919 000

The 2014 financial year was a challenging one for contract mining service companies in sub-Saharan Africa. Pressure on commodity prices and prolonged labour unrest have significantly reduced the number of new opportunities, with many existing projects being scaled back, delayed or stopped. Competition for work has intensified and margins are under pressure as a result.

Despite difficulties in the sector, the mining division recovered in the second half to produce a stable set of results with good revenue growth.

The Majwe Mining joint venture continued to perform well and achieved the client's target of mining some 84 million tonnes of waste in the 2014 financial year. Additional drilling capacity was provided to the joint venture through a six-month plant hire agreement.

Site establishment at the Tschudi copper mine in Namibia began in June 2014 with full production expected in the second quarter of 2015. The client, Weatherly International plc, has requested the team to accelerate the mining rate by 40% and negotiations are ongoing.

The results include a bad-debt provision of BWP44 million due to one of the division's clients, Discovery Metals, entering a voluntary administration process. The division has completed the de-establishment of its remaining equipment from the site.

With commodity prices expected to remain subdued in the short term, margins are likely to remain under pressure for some time.

Commentary *continued*

Developments

	Reviewed 12 months 31 December 2014	Audited 12 months 31 December 2013
Revenue (R'000)	223 810	69 897
Operating profit before write down of development land	16 477	6 261
Write down of development land	(80 565)	(22 572)
Operating loss (R'000)	(64 088)	(16 311)
Operating margin before write down of development land (%)	7,36	8,96
Operating margin (%)	(28,64)	(23,34)
Share of profits of investments accounted for using the equity method (R'000)	–	–
Order book (R'000)	100 000	100 000

Basil Read Developments continues to focus on large-scale mixed-income integrated housing developments. The two projects currently under way are Savanna City, which is planned to have over 18 000 housing opportunities, and Malibongwe Ridge, an extension to Cosmo City, which will have over 5 000 opportunities.

These mixed-use developments contain fully and partially subsidised and open-market housing opportunities as well as a range of social and commercial development opportunities. The viability of these developments therefore depends on a suitable mix of public and private funding with a critical focus on securing state funding for bulk, link and internal infrastructure for the subsidised housing units.

During the year, the division secured sufficient funding from the Gauteng Provincial Government to begin installing services for the first phase of Savanna City. Similarly, bulk funding was secured to progress work at Malibongwe Ridge where 486 fully subsidised units are at an advanced stage of completion.

Savanna City and Malibongwe Ridge are expected to be completed over the next ten and five years respectively.

The division also continued to generate revenue from the sale of stands in the Cosmo City Industrial Park and Klipriver Business Park, where sales have been steady.

Prospects for the division's involvement in top-structure development of affordable housing projects remain good, especially where it is already the master developer such as Malibongwe Ridge and Savanna City. Demand for affordable housing is strong, supported by substantial government investment, but rising interest rates, continued high unemployment and limited household incomes pose a challenge.

Engineering

	Reviewed 12 months 31 December 2014	Audited 12 months 31 December 2013
Revenue (R'000)	150 678	589 948
Operating (loss) / profit (R'000)	(103 059)	618
Operating margin (%)	(68,40)	0,10
Share of (losses) / profits of investments accounted for using the equity method (R'000)	(7 542)	2 198
Order book (R'000)	–	180 000

The engineering division performed poorly in the year under review largely due to the lack of available work, resulting in the division having no order book for the year ahead. With commodity prices faltering, mining companies have delayed capital investment, requiring the division to carry high overhead costs for much of the year, and contributing to losses incurred.

Due to the poor performance of the division, Basil Read has decided to discontinue its service offering in this sector. We have retained a few key individuals to ensure completed projects continue to be supported.

Prospects

Following a concerted effort, the company has reduced its overhead costs and streamlined its operating structure, setting up Basil Read to return to profitability in the 2015 financial year. Of key importance is that Basil Read completes loss-making contracts as efficiently and quickly as possible while ensuring that claims are systematically pursued.

At R10,5 billion, the order book is satisfactory and we will focus on at least maintaining the order book at this level. Construction work in excess of R3 billion will be realised as the company continues its large-scale integrated housing developments.

With a need for infrastructure development and an approved budget in place, South Africa offers opportunities for growth and Basil Read will seek to capitalise on this, while being mindful of opportunities across the African continent. The contract to construct the airport on St Helena Island is evidence that Basil Read has the operational capacity and capabilities to successfully execute a project of this magnitude, on time and within budget.

Commentary *continued*

Corporate governance

The directors and senior management of the group 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 continuous improvement.

The following changes to the board took effect in the year under review:

- Mr Marius Lodewucus Heyns retired as chief executive officer and executive director effective 31 May 2014
- Mr Terence Desmond Hughes was appointed as interim chief executive officer with effect from 1 June 2014. He stepped down from this role on 1 September 2014 and was appointed to the board as a non-executive director on 1 January 2015
- Ms Doris Liana Theresia Dondur was appointed as non-executive director with effect from 24 June 2014
- Mr Charles Peter Davies retired by rotation as non-executive director with effect from 26 June 2014
- Ms Nopasika Vuyelwa Lila retired by rotation as non-executive director with effect from 26 June 2014
- Mr Neville Francis Nicolau was appointed as chief executive officer with effect from 1 September 2014
- Ms Amanda Claire Wightman was appointed as chief financial officer with effect from 13 October 2014
- Mr Sindile Lester Leslie Peteni retired as independent non-executive chairman with effect from 31 December 2014
- Mr Paul Cambo Baloyi was appointed as independent non-executive chairman with effect from 1 January 2015.

The company appointed Grindrod Bank Limited as company sponsor with effect from 1 December 2014.

Dividends

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

Post-balance sheet review

Basil Read concluded the disposal of LYT Architecture on 1 February 2015 for a purchase consideration of R42 million.

On behalf of the board

PC Baloyi
Chairman

NF Nicolau
Chief executive officer

27 March 2015

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

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), AC Wightman (Chief Financial Officer), DLT Dondur*†, TD Hughes*, Dr C E Manning*†, ACG Molusi*, SS Ntsaluba*, TA Tlelai*

*(*Non-executive, †Independent)*

BASTION GRAPHICS

BASIL READ

www.basilread.co.za