# Transitional report
## as at 1 March 2018

**Calgro M3 Holdings Limited**
(Incorporated in the Republic of South Africa)
(Registration number: 2005/027663/06)
Share code: CGR  ISIN: ZAE000109203
("Calgro M3" or "the Company" or "the Group")

CALGRO M3
Group

**Analysing the effect of**

IFRS 15:
*Revenue from Contracts with Customers*

IFRS 9:
*Financial Instruments*

*Voluntary cancellation of the Executive Share Scheme*

*Building legacies. Changing lives*

This document serves to provide information pertaining to IFRS 15 and IFRS 9, as the Group has been severely affected by these changes in accounting standards that became effective during Calgro M3's 2019 financial year commencing on 1 March 2018. The impact of IFRS 15 is substantial and an in-depth analysis is provided across this report. The application of IFRS 9 has also had a negative impact to retained earnings on adoption, but is considered not to be as substantial as the IFRS 15 impact. As a result, limited impact analysis of IFRS 9 has been provided in this report.

CALGRO M3

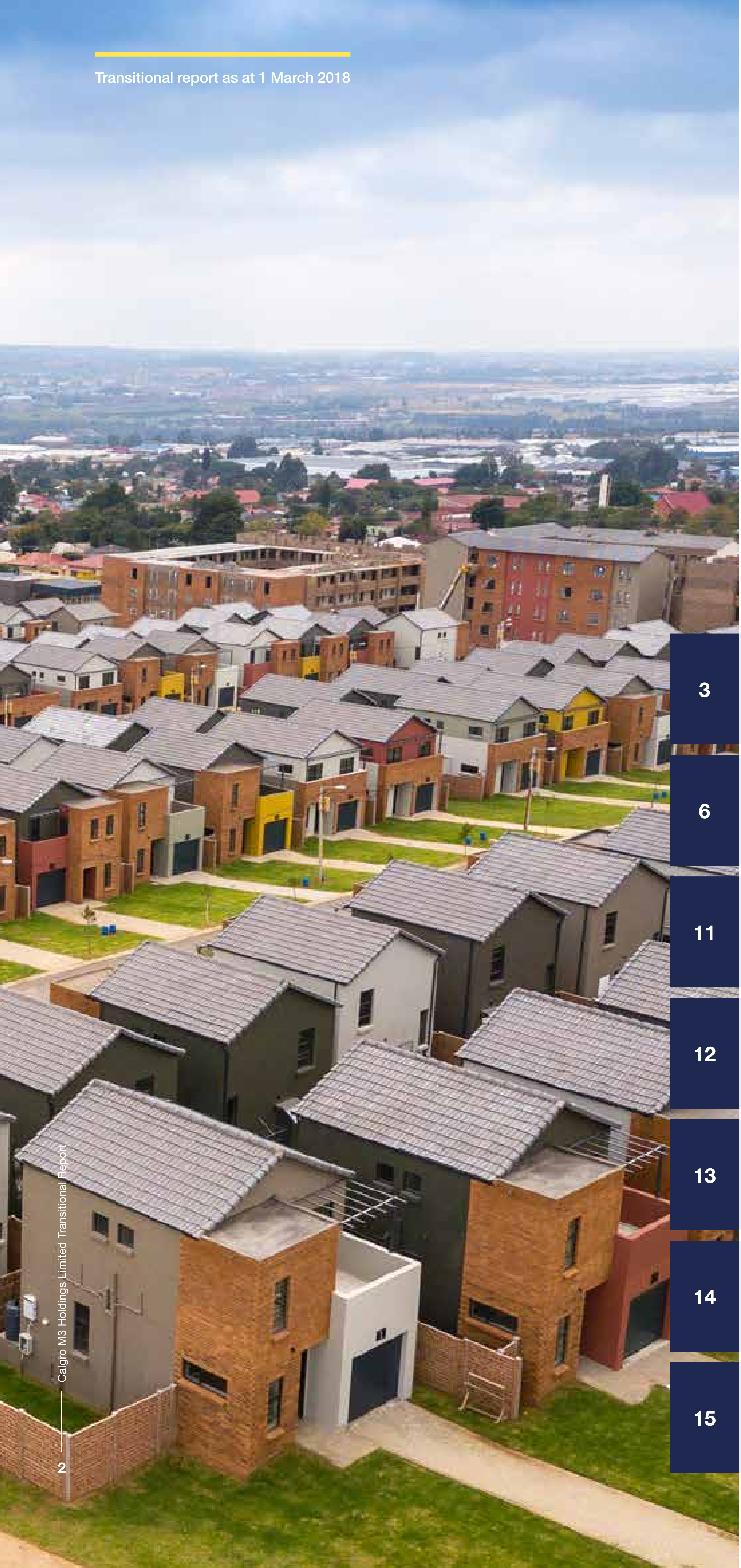
## Important to note

The accounting change for revenue recognition based on the principles of IFRS 15 does not have any impact on the underlying fundamentals of the business or any integrated projects:

**All project margins remain intact**

**Cash flows and timing of cash flows associated with these projects have not changed**

**The total profit per project remains consistent over the life of the project**



# Contents

# Executive summary

## IFRS 15: *Revenue from contracts with customers*

The objective of IFRS 15 is to establish the principles which entities will apply to report consistent and comparable information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for the annual reporting period starting from 1 January 2018 onwards.

The application of the above core principles has resulted in a fundamental change in the method and timing of revenue recognised on certain contracts. The summarised impact on the three businesses within the Calgro M3 Group is as follows:

(1) Residential Property Development – Substantial impact on the method and timing of revenue recognition. Primarily impacting on integrated residential property developments which are the core revenue generators of this business.
(2) Memorial Parks – No impact.
(3) Residential Rental Investments – No IFRS 15 impact on revenue recognition in the associate.

As permitted by IFRS 15 the Group has elected not to restate the comparative information. Accordingly, the impact of IFRS 15 has been applied using the modified retrospective restatement method allowed under the standard resulting in an adjustment to the Group's opening retained earnings on 1 March 2018. Management deemed it impracticable to determine the cumulative effect of retrospective application on some of its long running projects for the units that were already fully completed, and therefore applied the guidance allowed under IAS 8, to adjust the comparative information from the earliest practicable date, namely to the units under construction and the future planned units. Therefore, comparative period information in the annual financial statements will not be amended for the impact of IFRS 15. The revenue for the current year will be presented in a manner that is comparable with information in the prior period as part of the notes to the financial statements.

**The calculated increase/(decrease) on the Group's opening financial information is as follows:**

| | |
|---|---|
| Investment in joint ventures and associates | (R17 224 747) |
| Deferred income tax asset | R2 041 501 |
| Construction contracts | (R416 442 514) |
| Retained income | (R317 063 357) |
| Deferred income tax liability | (R114 562 403) |

## IFRS 9: *Financial Instruments*

The objective of IFRS 9 is to establish principles for the reporting of financial assets and financial liabilities, in particular relating to the classification and measurement of financial assets, hedging and the introduction of the expected credit loss ("ECL") impairment provisioning.

The most significant measurement impact of IFRS 9 on the Group therefore relates to the ECL impairment model on the following:

- Loans to joint ventures and associates
- Trade and other receivables
- Contract assets
- Cash and cash equivalents

# Executive summary *(continued)*

**The calculated increase/(decrease) on the Group's opening financial information is as follows:**

| | |
|---|---|
| Deferred income tax asset | R10 018 490 |
| Retained earnings | (R29 241 206) |
| Trade and other payables | R39 259 696 |

## Impact on covenants and gearing ability

The above adjustments to retained earnings resulting from the IFRS 15 and IFRS 9 implementation negatively impacted the Group's net debt/equity ratio which is one of the Group's key debt covenants. The Group's debt service cover ratio ("DSCR") is unaffected by the accounting changes.

### Net debt/equity ratio

This ratio is calculated as net debt divided by equity

Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents. Equity is calculated as the total equity per the statement of financial position (excluding share-based payment reserve)

The maximum allowable net debt/equity ratio for the Group is 1.5:1

## Voluntary cancellation of the Executive Share Scheme

In response to the negative impact that IFRS 15 and IFRS 9 has on the net debt/equity ratio, and the impact that this increased ratio has on the Group's future gearing ability, the participants of the executive share scheme have unanimously agreed to cancel the scheme (even though it is deeply in the money) in the 2019 financial year to enhance the equity of the Group through the reversal of the share-based payment reserve to retained earnings. Participants in the executive share scheme have collectively sacrificed R50.4 million in personal value due to this cancellation (calculation based on the difference between the 30-day VWAP on 31 August 2018 (R10.56 per share) when the scheme was cancelled and the subscription price (R4.08 per share)).

The additional R74 056 311 of equity (share-based payment reserve) has consequently reduced the net debt/equity ratio to 1:1, which ensures sufficient headroom and gearing ability to the Group.

# Executive summary *(continued)*

| | 1 March 2018 (before IFRS adjustments) | 1 March 2018 (after IFRS adjustments) | Balance after executive share scheme cancellation |
|---|---|---|---|
| **Net debt** | | | |
| Borrowings | **889 596 522** | **889 596 522** | 889 596 522 |
| Other interest-bearing borrowings | **88 408 189** | **88 408 189** | 88 408 189 |
| *Less:* Cash and cash equivalents | **(156 722 935)** | **(156 722 935)** | (156 722 935) |
| | **821 281 776** | **821 281 776** | 821 281 776 |
| **Equity** | | | |
| Stated capital | **116 255 971** | **116 255 971** | 116 255 971 |
| Retained income | **977 014 965** | **630 710 403** | 704 766 714 |
| | **1 093 270 936** | **746 966 374** | 821 022 685 |
| **Net debt/equity ratio** | **0.75** | **1.10** | 1.00 |

**Note 1:** *The executive share scheme was only cancelled on 31 August 2018. The financial effects illustrate the impact of the cancellation as if it occurred on 1 March 2018.*
**Note 2:** *The Group has raised an additional R164 million in borrowings since 1 March 2018.*

The Board has resolved, to develop a new scheme for the executives who have cancelled their executive share scheme benefits in the best interests of the sustainability of the company, once the effects of IFRS 15 have normalised.

The executive share scheme was cancelled, effective 31 August 2018. The relevant share trades back to the company will be finalised and the relevant announcements published once the Group is out of its closed period.

# Integrated residential property development

The application of IFRS 15 has a substantial impact/change to the method and timing of revenue recognition on integrated residential developments.

## Previous accounting of integrated residential developments under IAS 11

### Objective of IAS 11

The objective of IAS 11 is to prescribe the accounting treatment of revenue and costs associated with construction contracts.

### What is a construction contract?

A construction contract is a contract specifically negotiated for the construction of an asset or a group of interrelated assets.

Revenue for construction contracts in terms of IAS 11 is accounted for based on the percentage (%) completion method.

**Example**

| | |
|---|---|
| Estimated contract revenue | R100 |
| Estimated contract cost | R70 |
| Estimated contract profit | R30 |
| Year one actual cost | R40 |
| % completion (R40/R70) | 57.14% |
| Revenue recognised | R57.14 (57.14% x R100) |
| Cost of sales recognised | (R40) |
| Gross profit | R17.14 |

Under IAS 11, if a contract covers two or more assets, the construction of each asset should be accounted for separately if (a) separate proposals were submitted for each asset, (b) portions of the contract relating to each asset were negotiated separately, and (c) costs and revenues of each asset can be measured. Otherwise, the contract should be accounted for in its entirety. [IAS 11.8]

Two or more contracts should be accounted for as a single contract if they were negotiated together and the work is interrelated. [IAS 11.9]

**Example**

| | Contract 1 | Contract 2 | Contracts combined |
|---|---|---|---|
| Estimated project revenue | R100 | R400 | **R500** |
| Estimated project cost | R70 | R200 | **R270** |
| Estimated project profit | R30 | R200 | **R230** |
| Year one actual cost | | | **R100** |
| % completion (R100/R270) | | | **37.04%** |
| Revenue recognised | | | **R185.19** |
| Cost of sales recognised | | | **(R100)** |
| Gross profit | | | **R85.19** |

# Integrated residential property development *(continued)*

Integrated residential developments consist of many interrelated items (including various unit typologies) that are all dependent on each other and co-exist in one eco system. A Calgro M3 integrated property development integrates people from different financial backgrounds within society into one property development (neighbourhood) where they live and share amenities with each other. The cross-subsidisation across the various elements within the projects are so substantial that isolating them into their individual components will be both impractical and inaccurate due to the complexities of the cross-subsidisation. One over-arching agreement with the public sector regulates the mix of fully, partially and non-subsidised units to be built within any integrated development. If 66.67% of the units in the property development are fully and partially subsidised units, the public sector subsidises bulk, link and internal infrastructure within the development. Because of this relationship, the property development benefits from public transport routes running through the development as well as various other benefits. In return, the fully and partially subsidised unit specifications are increased to protect the value of non-subsidised units. This is done at Calgro M3's cost. The integrated property development model is an extremely interrelated and cross-subsidised model where costs and revenues cannot be accurately disaggregated based on the above.

According to IAS 11, a group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when: (a) the group of contracts is negotiated as a single package; (b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and (c) the contracts are performed concurrently or in a continuous sequence.

Calgro M3 historically accounted for integrated residential developments under IAS 11 as one single contract, based on the total project revenue and costs. Revenue and related profits were recognised based on the percentage completion of the project (IAS 11: *Accounting Principles*). At each reporting period, management performed detailed analysis on the feasibilities and reassessed the cost and revenue to completion.

## Accounting for integrated residential developments under IFRS 15

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

(1) Identify the contract(s) with a customer
(2) Identify the performance obligations in the contract
(3) Determine the transaction price
(4) Allocate the transaction price to the performance obligations in the contract
(5) Recognise revenue when (or as) the entity satisfies a performance obligation

### Step 1: Identify the contract(s) with a customer

IFRS 15 determines that each integrated project must be broken up into its individual contracts with customers as each of these contracts are with unique customers. Furthermore, these contracts were not entered "in or around the same time", and as such cannot be combined into a single contract.

The impact of this approach on integrated property developments is that each contract with a customer will have to be measured independently based on the contract's performance obligations. Each individual contract will be accounted for separately and will not be combined into a single contract as was allowed under IAS 11.

### Step 2: Identify the performance obligations in the contract

Each individual contract will be assessed for the performance obligations contained in the contract and treated on a case by case basis. In the case of sectional title units sold to the open market, there will only be one performance obligation (the delivery of a fully completed unit). In the case of a non-subsidised/affordable housing unit, there will be two performance obligations (the sale of the land and the construction of the house). This will however be assessed and accounted for on a contract by contract basis.

### Step 3: Determine the transaction price

Transaction price contained in the contract with the customer and will be determined on a contract by contract basis.

### Step 4: Allocate the transaction price to the performance obligations in the contract

Allocation based on each performance obligation stated within the contract.

# Integrated residential property development *(continued)*

### Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 determines that an entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

For each performance obligation identified, an entity shall determine at contract inception whether it satisfies the performance obligation over time or satisfies the performance obligation at a point in time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

**Performance obligations satisfied over time**

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(1) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(3) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Based on the above requirements of IFRS 15, certain contracts will now be accounted for using point in time revenue recognition as opposed to recognising revenue over time (which is similar to the percentage completion method under the previous standards).

## Impact of IFRS 15 on financial information

In summary, the result of the accounting for revenue on the disaggregated manner determined by IFRS 15 will result in financial results fluctuating from one period to the next based on the unit typologies that were constructed (and handed over/transferred to customers). The unfortunate result of this accounting treatment is that the user of the financial statements will no longer receive a holistic view of the project and company performance but will be faced with results from individual units/contracts.

Below is a high-level summary of the differences in accounting treatments between IAS 11/IAS 18 and IFRS 15. It is not intended to be an exhaustive list that contains all variables but is merely intended to provide the reader with some guidance on the changes in timing on revenue recognition.

# Integrated residential property development *(continued)*

| Type of product | Treatment under IAS 11/IAS 18 | New treatment under IFRS 15 |
|---|---|---|
| Fully subsidised (reconstruction and development programme ("RDP")/breaking new ground ("BNG")) | Individual contract with revenue recognised based on % completion (IAS 11)* | Individual contract treatment with revenue recognised over time# |
| Subsidised rental | | |
| – Community residential units ("CRU") | Individual contract with revenue recognised based on % completion (IAS 11)* | Individual contract treatment with revenue recognised over time# |
| – Social housing | Individual contract with revenue recognised based on % completion (IAS 11)* | Individual contract basis treatment revenue recognised over time# |
| Bulk buyer/real estate investment trust ("REIT")/funds | Individual contract with revenue recognised based on % completion (IAS 11)* | Individual contract treatment with revenue recognised either at a point in time or over time# |
| Grassroots affordable peoples' homes ("GAP")/finance linked individual subsidy programme ("FLISP") | Individual contract per customer with revenue recognised on transfer of completed unit (IAS 18)* | Individual contract per customer with revenue recognised on transfer of completed unit – revenue recognised at a point in time |
| Affordable housing | Individual contract per customer with revenue recognised on transfer for the land to the customer (IAS 18) and based on % completion for the construction of the unit (IAS 11)* | Individual contract per customer with two performance obligations. Revenue recognised on transfer of the land to the customer at a point in time. Revenue on construction of the unit to be recognised over time |
| High-end units | Individual contract per customer with revenue recognised on transfer for the land to the customer (IAS 18) and based on % completion for the construction of the unit (IAS 11)* | Individual contract per customer with two performance obligations. Revenue recognised on transfer of the land to the customer at a point in time. Revenue on construction of the unit to be recognised over time |
| Integrated residential developments (consisting of a mix of bulk, link and internal infrastructure together with a mix in unit typologies as outlined above) | Accounted for as a single, combined contract on % completion basis (IAS 11) | Every contract with a customer to be recognised and accounted for individually (as per above) at a point in time or over time depending on the terms and conditions contained in the contract with a customer |

* *Based on an individual contract basis as if treated as a separate engagement and not part of an integrated development.*

\# *Exact treatment will be assessed based on the individual contract with the customer and the underlying terms and conditions that is unique to each contract. Revenue may in certain cases be recognised at a point in time rather than over time and may have more than one performance obligation as determined by IFRS 15. Each will be assessed on its own set of underlying facts and recognised according to the guidance contained in IFRS 15.*

A blended margin was realised on integrated projects under IAS 11. This will no longer be the case as IFRS 15 contains more guidance about the identification of the customer, resulting in separate margins for each contract.

## Basis of preparation and overview of IFRS 15

This report is based on the Group's accounting policies which have been revised based on the requirements of IFRS 15. The Group adopted IFRS 15 on 1 March 2018. The Group opted to apply IFRS 15 using the modified retrospective restatement method allowed under the standard. Accordingly, the impact of adopting IFRS 15 has resulted in an adjustment to the Group's opening retained earnings at 1 March 2018, and the comparative numbers have not been adjusted as per the fully retrospective model.

# Integrated residential property development *(continued)*

**The negative impact on retained earnings is summarised on a project by project basis below:**

| | |
|---|---|
| Fleurhof | (R192 617 822) |
| Scottsdene | (R32 425 782) |
| South Hills | (R17 224 747) |
| Jabulani | (R5 249 574) |
| Belhar | (R69 545 432) |
| Total impact on opening retained earnings | (R317 063 357) |

*Please note: The above reversals are profits that will be recognised in future years as the remaining units in the development are completed/transferred to the owners over the remaining lifespan of the respective projects.*

Management is of the view that the current treatment of integrated residential development projects under IFRS 15 is not consistent with the intention of IFRS 15 to provide users with more clarity on the revenue streams within a company. Management has, however, applied IFRS 15 to the accounting for integrated residential development projects based on the rules contained in IFRS 15 to ensure compliance with regulations. Management is, however, concerned that the results under IFRS 15 will not allow the user of the financial statements to draw an accurate conclusion on the financial performance and financial position of the company until a history of results under this method is built up over several years. Management will therefore endeavour to provide as much clarity as possible in the segmental and cash flow statement to enable readers to draw some conclusion and comparison.

# IFRS 9: *Financial Instruments*

IFRS 9 replaces IAS 39 and contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value.

In terms of IAS 39, financial assets measured at amortised cost were impaired and impairment losses were recognised when there was objective evidence of default as a result of one or more events that occurred after the initial recognition of the financial assets.

IFRS 9 introduces an expected credit loss (“ECL”) model. At a minimum, an impairment provision is required to be measured at an amount equal to the 12-month ECL for financial assets carried at amortised cost. Where there has been a significant increase in credit risk (“SICR”) since initial recognition, an impairment provision is measured at an amount equal to the lifetime ECL of the financial assets carried at amortised cost.

The company has applied IFRS 9: *Financial Instruments* as at the effective date, without restatement of the comparative information for the previous financial year. Consequently, the disclosures for the comparative periods follow the classification and measurement requirements under IAS 39. The company performed an impact assessment and concluded on the impact of IFRS 9: *Financial Instruments* on its financial position as at 1 March 2018. As permitted by IFRS 9 the Group has elected not to restate the comparative information. Accordingly, the impact of IFRS 9 has been applied using the modified retrospective restatement method allowed under the standard resulting in an adjustment to the Group’s opening retained earnings on 1 March 2018. The financial assets that should be analysed for expected credit losses are:

- Loans to joint ventures and associates
- Contract assets
- Trade and other receivables
- Cash and cash equivalents

# Voluntary cancellation of Executive Share Scheme

In response to the adjustments to opening retained earnings resulting from the IFRS 15 and IFRS 9 implementation, the participants of the executive share scheme unanimously agreed to cancel the current share scheme to unlock the current share-based payment reserve and reverse the reserve to retained earnings in order to enhance equity. This was decided as a key covenant to the Group's debt providers is the net debt/equity ratio that has a maximum level of 1.5:1 and this ratio was negatively impacted by these IFRS adjustments.

The cancellation of the scheme will be accounted for in the 2019 financial year and will not form part of any opening balance adjustments. The remaining expense on the scheme will be accelerated to the income statement in the 2019 financial year as determined by IFRS 2. The corresponding share-based payment reserve will be reversed to retained earnings in the 2019 financial year, resulting in a net zero impact on retained earnings.

## Calgro M3 executive share scheme

The executive share scheme was approved by shareholders in July 2015. 10 215 572 shares were made available to participants of the scheme at a subscription price of R4.08. Only individuals who were allocated share appreciation rights ("SARs"), in the previous cash-settled scheme, and elected to convert at least 75% of their unvested SARs into the new scheme were eligible to participate in the new scheme. 9 518 700 shares were granted to individuals and 696 872 shares were not taken up. The Calgro M3 executive share scheme was considered to be a modification of the SAR scheme.

Under the executive scheme, participants are allocated shares in line with the scheme rules and are required to subscribe for these shares at R4.08 per share. There are no performance conditions related to this scheme other than the service periods as outlined below. Shares issued under the scheme may not be sold by participants until the completion of service periods and release dates stipulated in the scheme rules as outlined below. Should the scheme be cancelled or forfeited by the individual, the company would buy the shares back from the individual at R4.08 plus interest at prime % that the individual incurred on the funding to acquire the shares.

The shares were deeply in the money, resulting in the equity-settled shares being valued at intrinsic value based on the 30-day volume weighted average market price of R19.27 at the grant date of 29 July 2015.

| | |
|---|---|
| Total shares made available under the scheme | 10 215 572 |
| Shares not taken up initially | (696 872) |
| Shares vested | (1 050 070) |
| Shares forfeited | (696 872) |
| Total shares remaining before cancellation | 7 771 758 |

Details pertaining to this scheme is presented in the Group's latest annual report (note 30) and is available on the website (www.calgrom3.com)

The total number of shares cancelled by participants on 31 August 2018 amounts to 7 771 758 shares. The total subscription price on these shares will be paid back to individuals at R4.08 per share plus interest at prime %.

The shares issued to participants under the scheme will be traded back the company once the closed period ends on or about 22 October 2018.

# Impact on the Statement of Financial Position as at 1 March 2018

The table below summarises the IFRS 15 and IFRS 9 and Executive Share Scheme impact on the Group's Statement of Financial Position as at 1 March 2018 by Statement of Financial Position line item.

| R | 1 March 2018 (before adjustments) | IFRS 15 adjustment | IFRS 9 adjustment | 1 March 2018 (after adjustments) | Executive share scheme cancellation (2019 FY) | Balance after executive share scheme cancellation |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Non-current assets | | | | | | |
| Investment property | **8 878 835** | – | – | 8 878 835 | – | 8 878 835 |
| Property, plant and equipment | **6 162 697** | – | – | 6 162 697 | – | 6 162 697 |
| Intangible assets | **159 663 860** | – | – | 159 663 860 | – | 159 663 860 |
| Investment in joint ventures and associates | **41 908 822** | (17 224 747) | – | 24 684 075 | – | 24 684 075 |
| Deferred income tax asset | **23 999 056** | 2 041 501 | 10 018 490 | 36 059 047 | – | 36 059 047 |
| | **240 613 270** | (15 183 245) | 10 018 490 | 235 448 515 | – | 235 448 515 |
| **Current assets** | | | | | | |
| Loans to joint ventures and associates | **143 422 183** | – | – | 143 422 183 | – | 143 422 183 |
| Inventories | **554 397 497** | – | – | 554 397 497 | – | 554 397 497 |
| Current tax receivable | **16 599 506** | – | – | 16 599 506 | – | 16 599 506 |
| Construction contracts | **1 820 973 990** | (416 442 514) | – | 1 404 531 476 | – | 1 404 531 476 |
| Trade and other receivables | **293 739 145** | – | – | 293 739 145 | – | 293 739 145 |
| Cash and cash equivalents | **156 722 935** | – | – | 156 722 935 | – | 156 722 935 |
| | **2 985 855 256** | (416 442 514) | – | 2 569 412 742 | – | 2 569 412 742 |
| **Total assets** | **3 226 468 526** | (431 625 760) | 10 018 490 | 2 804 861 256 | – | 2 804 861 256 |
| **Equity and liabilities** | | | | | | |
| **Equity** | | | | | | |
| Equity attributable to owners of the parent | | | | | | |
| Stated capital | **116 255 971** | – | – | 116 255 971 | – | 116 255 971 |
| Share based payment reserve | **74 056 311** | – | – | 74 056 311 | (74 056 311) | – |
| Retained income | **977 014 965** | (317 063 357) | (29 241 206) | 630 710 403 | 74 056 311 | 704 766 714 |
| | **1 167 327 247** | (317 063 357) | (29 241 206) | 821 022 685 | – | 821 022 685 |
| Non-controlling interests | **355 011** | – | – | 355 011 | – | 355 011 |
| **Total equity** | **1 167 682 258** | (317 063 357) | (29 241 206) | 821 377 696 | – | 821 377 696 |
| **Liabilities** | | | | | | |
| Non-current liabilities | | | | | | |
| Deferred income tax liability | **354 283 263** | (114 562 403) | – | 239 720 860 | – | 239 720 860 |
| | **354 283 263** | (114 562 403) | – | 239 720 860 | – | 239 720 860 |
| **Current liabilities** | | | | | | |
| Borrowings | **889 596 522** | – | – | 889 596 522 | – | 889 596 522 |
| Current income tax liabilities | **22 652** | – | – | 22 652 | – | 22 652 |
| Trade and other payables | **814 883 831** | – | 39 259 696 | 854 143 527 | – | 854 143 527 |
| | **1 704 503 005** | – | 39 259 696 | 1 743 762 701 | – | 1 743 762 701 |
| **Total liabilities** | **2 058 786 268** | (114 562 403) | 39 259 696 | 1 983 483 561 | – | 1 983 483 561 |
| **Total equity and liabilities** | **3 226 468 526** | (431 625 760) | 10 018 490 | 2 804 861 256 | – | 2 804 861 256 |

*Note 1: The executive share scheme was only cancelled on 31 August 2018. The financial effects illustrate the impact of the cancellation as if it occurred on 1 March 2018.*

# Calgro M3 covenants

## Debt service cover ratio ("DSCR")

This ratio is calculated as available cash flow divided by debt service requirement. Available cash flow is calculated as net cash generated from operating activities plus new financial indebtedness incurred plus cash and cash equivalent at the beginning of the year plus the aggregate amount spent on the purchase of property, plant and equipment, purchase of intangible assets, acquisition of business, acquisition of subsidiaries, and loans advanced to joint ventures and associates for investment purposes (CAPEX). Debt service requirement is calculated as interest and fees plus principal repayments.

The Group monitors capital repayments and interest serviceability on the basis of its debt service cover ratio ("DSCR"). In terms of the Group's covenants, the minimum allowed DSCR ratio for the Group is 1.2:1.

## Net debt/equity ratio

This ratio is calculated as net debt divided by equity. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents. Equity is calculated as the total equity per the statement of financial position (excluding share-based payment reserve).

The Group monitors capital on the basis of its net debt/equity ratio. The maximum allowed net debt/equity ratio for the Group is 1.5:1.

### Important

**The adjustments contained in the report are unaudited and based on management's calculations with the help of technical accounting and valuation experts. The adjustments have not been audited by the external auditors. An assurance opinion is not expressed by the external auditors on the adjustments on the date of issue.**

**The financial information contained in the report was prepared to illustrate to the user the effects of IFRS 15, IFRS 9 and the cancellation of the executive share scheme adjustments on the financial position of the Group. The information is prepared for illustrative purposes only and may, because of its nature, not fairly present the issuer's financial position or changes in equity.**

# Statement of responsibility by the board of directors relating to the transitional report as at 1 March 2018

The directors of Calgro M3 Holdings Limited and its subsidiaries ("the Group") are responsible for the preparation, integrity and fair presentation of the financial information set out in the report.

The report is based on appropriate accounting policies and is supported by reasonable and prudent judgement and estimates.

The directors' responsibility includes maintaining adequate accounting records. The accounting records should disclose, with reasonable accuracy, the position presented in the transitional report.

The Group operates in a well-established control environment, which is documented and regularly reviewed. The control environment incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that the risks facing the business are controlled.

The transitional report as set out on pages 3 to 14 has been approved by the directors on 27 September 2018 and are signed on its behalf by:

**WJ Lategan**
*Chief Executive Officer*

**WA Joubert**
*Financial Director*

Johannesburg
27 September 2018

CALGRO M3

www.calgrom3.com