CALGRO M3 Group

2018

Integrated Annual Report

Building legacies. Changing lives

Nasrec Memorial Park

Contents

About this report

Scope, boundary and assurance

The Calgro M3 Integrated Annual Report for the year ended 28 February 2018 provides an overview of the financial, social, environmental and governance performance of Calgro M3 Holdings and its subsidiaries.

The Integrated Annual Reporting format and application of globally recognised governance and sustainability reporting frameworks aim to offer stakeholders a clear view of how Calgro M3's strategy, governance, performance and prospects – in the context of its external environment – create value over the short, medium and long term.

Calgro M3 has acted in good faith and has made every reasonable effort to ensure the accuracy and completeness of the information contained in this report, including all information that may be defined as "forward-looking statements".

Information presented covers all operating entities of the Group, including all subsidiaries, associated companies and joint ventures, unless otherwise indicated. Please refer to page 118 for details on the segmental structure and operating entities. All information, except the segmental report, is presented on the same basis as the Group's 2017 Integrated Annual Report, the measurement methods applied, and time frames used. The information provided covers all material matters relating to business strategy, risks and areas of critical importance to our stakeholders.

We aim to provide all stakeholders with a balanced, clear and transparent understanding of our business and how we create sustainable value. Stakeholders are invited to actively participate by sending questions, comments, concerns and queries to: info@calgrom3.com

Navigation toolkit

Website reference | Notes reference | Page reference

The report is guided by

- The King Code of Governance Principles for South Africa ("King IV").
- Global Reporting Initiative ("GRI") G4 Sustainability Reporting Guidelines including, where possible, the Construction and Real Estate Sector Supplement. The content of this report is self-declared at GRI 4. The scope of GRI on sustainability issues and performance is specific to Calgro M3 only and does not refer to any subcontractor, joint venture, associate or partnership unless specifically stated. The GRI Index can be found on the website at www.calgrom3.com.
- The Group is a signatory to the UN Global Compact Principles ("UNGC") which requires companies and their subsidiaries to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.
- The Companies Act 71 of 2008 (as amended).
- JSE Listings Requirements.

The 2018 report comprises

- A review of Group operations and its financial, social, environmental and governance performance pages 26 to 88.
- A summarised Sustainability Report with a full Sustainability Report available on the website at www.calgrom3.com.
- Annual financial statements of the Calgro M3 Group and Calgro M3 Holdings Limited pages 98 to 188.
- The financial statements are prepared and presented in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act 71 of 2008 (as amended) in South Africa.

About this report *(continued)*

Materiality

Only material information is presented in this report.

Materiality has been determined by taking both quantitative and qualitative aspects into account. The determination of materiality necessarily requires prudent judgement to be exercised.

- For financial information, materiality is based on whether the item is of such significance that it could affect financial decisions made by providers of capital to the Group (current and potential). Both the amount and nature of an item is considered.
- For non-financial information and the identification of capitals and stakeholders, materiality is based on whether an item, resource or stakeholder is of such significance that it can prevent the Group from achieving its return on equity target (30% on average per year, compounded over the medium and long term).

Calgro M3's external communication philosophy is based on achieving full alignment between internal and external financial reporting in respect of both content and format. The only exception is the exclusion of detailed information that might prejudice Calgro M3's competitive position in the market.

Independent assurance

PricewaterhouseCoopers Inc. ("PwC") has been engaged to provide independent assurance on the Group Consolidated Financial Statements. Chantal Marais Roux is the individual registered auditor who undertook the audit. PwC's audit opinion on the annual consolidated financial statements can be found on pages 109 to 113.

Forward-looking statements

Forward-looking statements may be identified by words such as "believe", "anticipate", "expect", "plan", "estimate", "intend", "project", "target", "predict" and "hope". By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future, involve known and unknown risks, uncertainties and other facts or factors that may cause the actual results, performance or achievements of the Group or its sector to be materially different from any results, performance or achievement expressed or implied by such forward-looking statements.

Forward-looking statements are not guarantees of future performance and are based on assumptions regarding the Group's present and future business strategies and the environments in which it operates now and in the future. No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements. Calgro M3 does not undertake to update any forward-looking statements contained in this document and does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance by any party thereon.

Board responsibility statement

The integrity of the integrated annual report was overseen by the Board of Directors in conjunction with the Audit and Risk Committee. This was achieved by setting up appropriate teams, structures and processes to undertake the Integrated Annual Reporting process and then performing a thorough review of the resulting document.

The Board of Directors acknowledges its responsibility in ensuring the integrity of the Integrated Annual Report and has evaluated its preparation and presentation accordingly. In the opinion of the Board, this Integrated Annual Report has been prepared to address the material matters pertaining to the long-term sustainability of the Group and fairly presents the integrated performance of the Calgro M3 Group and the impacts thereof.

Pumla Radebe
Chairperson

Wikus Lategan
Chief Executive Officer

11 May 2018

Queries regarding this Integrated Annual Report or its content should be addressed to:

Wikus Lategan (CEO) and Waldi Joubert (FD)

Tel: 011 300 7557

Values, vision and mission

Securing shareholder wealth through stable growth

We are committed to stable growth and creating value for our business and our stakeholders. Management has built solid foundations by successfully implementing growth strategies in various market segments.

We continue to expand into new markets.

Strategic implementation

We are committed to high-quality outcomes across all phases of our projects – from concept to implementation. We strive to continuously raise the bar, applying what we learn on every project to improve the next and build a culture of achievement.

People

We strive to create a working environment that is non-discriminatory, safe and healthy, respectful of human dignity and fully supportive of human rights. We embrace transformation and diversity. We respect the rights and needs, and actively support the interests of the communities on whom our developments may have a direct or indirect impact.

Presence and quality

Calgro M3 is a market leader in the Residential Property Development, Residential Rental Investments and Private Memorial Park industries and provides innovative solutions of exceptional quality across these product ranges.

Our leading brands are entrenched.

Relationships/Partnerships

We strive to be engaged and responsive, strengthening our business networks and our relationships with stakeholders.

Our environment

We are aware of our impact on the environment and strive to minimise our impact in every business. We invest in eco-friendly energy and water solutions, rehabilitate disturbed land and support long-term environmental stewardship.

Vision

Building legacies and changing lives by delivering quality products throughout selected markets within the property sector and service of the highest standards.

Mission

Calgro M3 is committed to:

- Delivery of quality products and service of the highest standards
- Realising sustainable returns for our shareholders
- Advocating Broad-Based Black Economic Empowerment
- Creating sustainable employment opportunities
- Developing mutually beneficial relationships with all stakeholders

MESSAGE FROM THE CEO AND FD

1

Wikus Lategan

Waldi Joubert

OUR THEME FOR THE 2018 FINANCIAL YEAR WAS:

Economic challenges faced by businesses are compounded by an unstable and changing political landscape. How we adapt to these times will define us going forward.

"

921

GRAVES SOLD

3 426

UNITS COMPLETED AND HANDED OVER

648

RENTAL UNITS HANDED OVER

New reporting metric

The Group's financial performance was impacted by the construction of units for the Afhco Calgro M3 Consortium (REIT JV), in which Calgro M3 has a 49% shareholding. The Group's shareholding in the REIT JV resulted in 49% of the development profit (construction and other services) being eliminated on consolidation as an unrealised profit, as prescribed by International Financial Reporting Standards ("IFRS"). This unrealised profit is carried on the balance sheet until realised in future financial years, once the units are completed, tenanted and the portfolio is revalued.

The impact of this unrealised profit on the financial performance and necessitated the institution of new metrics to measure operational performance between reporting periods. This further provides stakeholders with an indication of Group performance which is consistent between periods. The three pertinent metrics are described as:

Core earnings per share

"Core EPS"
Earnings per share before elimination of unrealised profits from development of units to the REIT JV

Core headline earnings per share

"Core HEPS"
Headline earnings per share before elimination of unrealised profits from development of units to the REIT JV

Core operating profit

Operating profit before elimination of unrealised profits from development of units to the REIT JV

First international funding of **R387 million** (€25 million) secured

Level 1 B-BBEE verification received

First **648 units** completed and handed over to the Afhco Calgro M3 Consortium (Pty) Ltd (REIT JV)

Highlights *(continued)*

The Group's long-term strategy of diversifying revenue streams across different businesses has continued along a positive trajectory, resulting in a full year performance that is both resilient and sustainable. The Calgro M3 Group's increase in net worth during the 2018 financial year was R120.4 million, which increased the value per share with 93.91 cps. The compounded increase over the last 10 years since listing was 28.38%.

↑ 6.97%

Core headline earnings increased to **143.47 cents per share** ("cps")

↓ 32.28%

Headline earnings decreased to **90.12 cps**

↑ 16.71%

Combined revenue increased to **R2.3 billion**

Nasrec Memorial Park won the "Landscape Construction" and the "Landscape and Turf Maintenance" Water-Wise Awards at the 2017 South African Landscapers Institute Awards. The Group will continue to develop and implement water-saving initiatives throughout the project cycle.

Memorial Parks contributed **5.14%** of Group profit after tax

Property Development and Memorial Parks project pipeline worth **R27.5 billion**

Management's assessment of additional tangible value locked up in the balance sheet is as follows:

	Number of opportunities	Selling price to external party (excluding VAT)	Total	
Mid to high portfolio (serviced and unserviced land)	799	356 312	284 692 982	
Serviced opportunities	12 489	134 334	1 677 701 930	
Partially and unserviced opportunities	41 088	40 000	1 643 520 000	
Total value of property portfolio	54 376		3 605 914 912	
Construction contracts and work in progress			1 820 973 990	
Top structures and work in progress included in construction contracts			(615 206 959)	VS
Inventories (excluding Memorial Parks)			423 697 497	
Investment in joint ventures excluding REIT			41 400 410	
Loans to joint ventures and associates			41 092 059	
Balance sheet cost of property (land) portfolio			1 711 956 997	
Additional value not yet accounted for that is locked up in the balance sheet			1 893 957 915	

The above valuation excludes any retail, commercial or industrial opportunities (600 560 m^2 across the pipeline), for which all infrastructure cost have been included in the above calculation

Our medium to long-term **commitment to shareholders**

Management strategically aligned the Group to ensure we remain committed to the targeted return on equity ("ROE") of 30% over the medium term. Our commitment is based on the following:

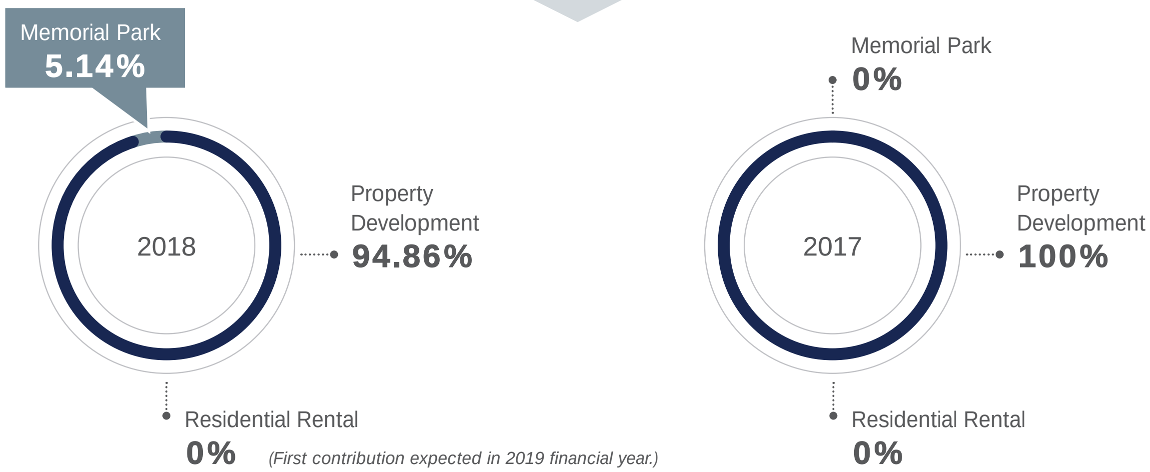
Residential Property Development pipeline of **R25.3 billion** with a targeted ROE of 30%

Memorial Parks pipeline increased to **R2.2 billion** with a targeted ROE > 30%

Real Estate Investment ("REIT") with a targeted ROE of **20.5%** (annual rental yield plus revaluation growth) on an estimated **Group** equity investment of **R4 billion**

These measures are based on the current secured pipeline and exclude any new opportunities being investigated. Management is investigating a number of new, private sector focused initiatives and projects that will allow for a more efficient application of capital, to support future growth and diversification. Our secured pipeline will only be updated once agreements are concluded.

Contribution to Group profit



The Residential Property Development business is currently still the primary driver of revenue and profit within the Group. Most references and explanations in this Integrated Annual Report therefore refer to the Residential Property Development business. Going forward, it is our strategic intent that information and reporting will become more equally balanced between the businesses, as the revenue and profit contributions from the remaining two businesses increase.

Highlights *(continued)*

Our performance over the past year was lower than our internal expectation due to weak economic conditions, market volatility and cash flow constraints. The latter resulting primarily from delays in securing working and investment capital to support and enable our increased focus on the private sector in our Residential Property Development business as well as acquisitions for the Memorial Parks and Real Estate Investment businesses. We believe current core earnings and revenue growth, despite these challenges, are testament to the effectiveness and resilience of our strategy and prove that the variable operating model is efficient in uncertain times as experienced across the financial year. Management of operational risks in each of the three businesses will continue to be a key focus for the management teams while at the same time investigating and executing on new opportunities to achieve the medium-term goal of equal profit contribution from each segment. We will, however, focus on maximising cash flows before investing in new opportunities.

We recognised the need to expand leadership and management in each of the businesses. Several new senior appointments have been made to enhance capacity and the knowledge base in each segment. With a new Executive Committee for the Residential Property Development and management team for the Memorial Parks businesses, we believe we have the appropriate people in positions to provide strategic focus and take these businesses forward. Our values are a fundamental part of our DNA and are constantly nurtured and shaped, with action to be taken against behaviour that is not in accordance with these values.

For us, transformation goes beyond compliance with legislation and regulation. Our goal is to create a truly transformed organisation where our people are empowered to fulfil their purpose. Our commitment is to ensure that our culture aligns with this goal. We understand that the broader transformation of society cannot take place, unless large companies like Calgro M3 play a major part. We recognised the need to do more in this respect and are proud to announce that we are a recognised level 1 contributor.

As a Group we remain committed to methodically execute our overall strategy of shareholder wealth creation in the medium to long term and not on short-term gains and profit, while relying on the support and commitment of all our stakeholders – from government and regulators to the communities in which we operate.

For a comprehensive illustration of where the Group's operations are located, please refer to pages 36 to 39.

Durbanville Memorial Park

Strategy

Our strategy is to enable the extraction of multiple sources of revenue and profits from businesses and opportunities along the turnkey property development value chain, which will result in an improved operating margin blend and the creation of annuity income.

This strategy can only be achieved if the capital base grows annually by capitalising profits rather than paying dividends and continuing to gear profits. The optimal application of capital between new opportunities, working capital and risk capital will remain an important strategic decision as capital allocation across this horizontal value chain is made.

Current share price levels are estimated to be at a discount to management valuation. Refer to Notice of AGM on page 191.

What areas will we focus on to achieve this?

- Retaining entrepreneurial flair, flexibility and agility
- Strong and capable leadership in each business
- Increasing operational efficiencies
- Securing quality pipeline opportunities
- Client centered approach
- Enabling business through technology
- Mitigating risks associated with each business
- Optimising capital invested

How will we measure our success in achieving the strategy?

- Percentage contribution to Group revenue
- Percentage contribution to Group profit
- Margin achieved
- Cash flow generation cycle
- Return on equity
- Future pipeline, with associated ability to forecast
- Annuity income generated

Annuity income as part of our strategy

Investment into opportunities that deliver annuity income is a strong element of strategic focus for the Group.

The medium-term goal is to:

- Increase exposure in the residential rental market
- Develop insurance-related products for the Memorial Parks business by partnering with insurance specialists
- Identify and invest in new business opportunities able to deliver annuity income

Benefits of annuity income:

- Low human capital
- Capitalising on existing Calgro M3 products
- Alternative revenue streams
- Consistent cash flow stream
- Enhanced access to capital (long-term goal)

"We should never lose our flexibility, but guard against losing focus."

Strategy *(continued)*

The following areas were considered when identifying key operational challenges that could impact on the execution of our strategy:

- Stakeholder expectations
- Environmental impact
- Industry and sector challenges
- Relevant legal and regulatory requirements
- Macro-economic environment
- Impact on communities we operate in

Key operational challenges	Impact	Response	Cross reference
Housing shortages together with a call for land expropriation without compensation	Illegal land invasion/grabs	▸ Increased security as well as assisting local and provincial government to eradicate the housing shortage ▸ Enhancing communication of the Group's positive impact on communities during and after development	19
Skills shortage	Delivery of products and services	▸ Skills development, subcontractor incubator programme ▸ Internal coaching at management level ▸ Nurturing relationships with professional companies to grow alongside the Group as well as mentor and train young individuals ▸ Human capital management to ensure succession and availability of resources to facilitate Group growth ▸ Our target across the Group is to employ 50% of our on-site workforce from local communities with associated training. We are currently achieving in excess of 70% across the Group	29 to 33 SR
Energy and water shortage	Availability of these critical services impact lifestyle Rising prices have an impact on development costs and client affordability Construction is a heavy user of water in a country where it is scarce	▸ Saving water and energy and reducing carbon footprint, not only after completion but also during the construction phase ▸ Use of alternative water and energy solutions supports the future sustainability of developments, in conjunction with our focus towards green building designs ▸ Finding a balance between the cost of "green products" vs selling price of products	35 to 38 SR
Health and safety	Ensuring a safe and healthy work environment	▸ Enforce health and safety best practices ▸ Ensuring a safe work environment	48 to 49 SR
Government assistance	Acceptance of our integrated model and granting the associated regulatory approvals	▸ Through relationship building, delivering on our partnerships with the public sector and proving the effectiveness of integrated development, we build awareness and acceptance	8 SR
Changing lives (community acceptance)	Community acceptance of our various products Strikes and activism can impact project delivery and profitability	▸ Stakeholder engagement and community development (social, skills, and enterprise) ▸ Corporate social investment to strengthen ties with the community ▸ Actively encouraging community involvement	15 to 16 SR
Changing social structures of the past	Allowing communities from different social and economic backgrounds to live in harmony with one another in a pleasant environment	▸ Social acceptance of the Calgro M3 products ensure: – Race and class integration – Building role models within society ▸ Creation of aspirational products and spaces where communities can live, socialise and relax	15 to 16 SR

SR See full Sustainability Report on the website at www.calgrom3.com.

Financial review

The reported financial results for the year are best defined by two specific items, unrealised profit from the construction of units for the REIT JV as well as working capital requirements and constraints. When analysing the financial results for the year, we urge readers to take special note of the impact these two items had on the results and the inter-relatedness of their effects.

Statement of comprehensive income

	Movement %	2018	2017
Revenue	12.09	**1 742 602 162**	1 554 679 657
Reversal of unrealised profit adjustment		**88 012 186**	1 176 383
Adjusted revenue	17.66	**1 830 614 348**	1 555 856 040
Combined revenue	16.71	**2 322 494 424**	1 989 920 938
Reversal of unrealised profit adjustment		**88 012 186**	1 176 383
Adjusted combined revenue	21.06	**2 410 506 610**	1 991 097 321
Operating profit		**149 925 996**	228 964 661
Reversal of unrealised profit adjustment		**88 012 186**	1 176 383
Adjusted operating profit	3.39	**237 938 182**	230 141 044
Core earnings per share (“Core EPS”)	9.81	**147.26**	134.10
Core headline earnings per share (“Core HEPS”)	6.97	**143.47**	134.12
Return on equity		**10.99%**	18.36%
Return on equity (including unrealised profit)		**16.76%**	18.42%
Unrealised profit*			
Unrealised profit before tax		**88 012 186**	1 176 383
Income tax at 28%		**(24 643 412)**	(329 387)
Unrealised profit after tax		**63 368 774**	846 996
Unrealised profit – share of profit of joint ventures and associates		**4 999 225**	475 276
Total post tax profit reversal		**68 367 999**	1 322 272

* *Please refer to page 5 for the definition and explanation of the unrealised profit and the “Core” metric.*

When comparing the full year results with the interim results for the period ended August 2017, a slowdown in revenue and combined revenue in the second six months of the year is evident. The slowdown was due to a calculated decision by management to ensure the Group was not placed under undue working capital pressure while additional working capital funding was being secured. The Group set out to raise R550 million in May 2017 of which R350 million would be allocated to working capital and the balance to new opportunities and as a cash buffer. The capital raising process took a lot longer than initially anticipated and we unfortunately had to slow down operations in order to protect working capital. Revenue and combined revenue therefore grew at a slower pace in the second half of the year.

During November 2017 we raised our first international funds, to the value of R278 million, from Societe De Promotion Et De Participation Pour La Cooperation Economique (“Proparco”) S.A, a subsidiary of Agence Française De Développement

Combined revenue

Total Group revenue together with revenue of joint ventures and associates (“JVs”).

Why is this important?

This provides a much clearer indication of growth across the Group as all JVs are finance JVs where Calgro M3 performs all operational activities for these entities. The growth in operational performance is more clearly demonstrated by this number.

("AFD"). The remaining balance of R109 million of the secured facility is due to be released in June/July 2018, once certain international environmental and health and safety compliance requirements are achieved.

The Group is in the final stages of securing an additional R200 million facility from a local funder which will complete the fundraising goal of R550 million. A detailed announcement will be made once the funding is secured and received. This funding, together with the cash flow upside from operations, will sustain the Group's capital requirements in the short term.

We are pleased with the diversity of the contribution to combined revenue, with South Hills surpassing Fleurhof as the main contributor in the year under review. South Hills was responsible for a contribution of 41.88% (2017: 19.0%) and Fleurhof for a contribution of 22.86% (2017: 36.1%). This is viewed as an extremely positive development that demonstrates the Group's ability to consistently and sustainably deliver on these large-scale integrated projects.

Memorial Parks contributed 5.14% (2017: 0%) to overall Group profit. With a target of equal profit contribution from all three businesses in the medium term, the Group views Memorial Parks as a high growth area (see details of growth potential on pages 61 to 63 of the operating review of Memorial Parks). A substantial amount of emphasis will be placed on growing this business in the next financial year to achieve our internal target of a contribution in excess of 10% of Group profit.

Basic earnings per share ("EPS") decreased by 29.42% to 93.91 cps (2017: 133.06 cps). Similarly, headline earnings per share ("HEPS") decreased by 32.28% to 90.12 cps (2017: 133.08 cps). The new metrics which provide additional information on the Group's performance, core earnings per share ("Core EPS"), increased by 9.81% to 147.26 cps (2017: 134.10 cps), as well as core headline earnings per share ("Core HEPS"), which increased by 6.97% to 143.47 cps (2017: 134.12 cps).

	2018	2017
Gross profit % reconciliation		
Gross profit	**270 089 275**	334 162 888
Reversal of unrealised profit adjustment	**88 012 186**	1 176 383
Adjusted gross profit	**358 101 461**	335 339 271
Gross profit %	**15.50%**	21.49%
Adjusted gross profit %	**19.56%**	21.55%

The gross profit margin of 15.50% is lower than the gross margin of 21.49% reported in February 2017. Once unrealised profit is added back, the adjusted margin settles at 19.56%, which more closely aligns to the target range of 20% to 25%. The adjusted margin is expected to increase towards the target range once all rebates and volume discounts are secured from suppliers on the back of higher volumes from construction of units for the REIT JV and the private sector. This is already evidenced from the 17.14% adjusted gross profit margin reported in August 2017.

In the current year administrative expenses increased by 11.58% with the bulk of the increase attributable to marketing-related expenses, technology expenses, corporate social investments, staff increases and various professional consultants (see further details on page 158) who assist with efficiencies and the restructuring of internal departments. The increase in marketing costs resulted from the increased focus on private sector sales, both to individual buyers as well as investors, and it is expected that this cost will rise even further in the coming year as we continue to build the brand. We are also pleased to report that the quality of our clients' credit records and conversions have increased through the Captain Calgro education campaign as well as various other initiatives.

Core operating profit

Operating profit before elimination of unrealised profits from development of units for the REIT JV.

Why is this important?

This is a true metric of operational profit as the elimination of unrealised profit is a pure IFRS adjustment that will be realised in the 2019 financial year. This profit has already been generated and earned and will be carried on the balance sheet until the portfolio is revalued in the REIT JV.

Financial review *(continued)*

The increase in finance income is primarily attributable to increased operations at South Hills and Witpoortjie as well as an increase in shareholder loans to the Tanganani project, which are all accounted for as joint ventures ("JVs") within the Group. These increased operations resulted in increased loan and debtor account balances on which finance income is earned. These increased operations, resulted in a 52.5% increase in the share of profits of joint ventures and associates to R9.6 million (2017: R6.3 million).

The capitalisation of finance cost to inventory and construction contracts is performed in line with IAS 23: *Borrowing Costs –* Finance cost incurred for the acquisition, construction or production of a "qualifying asset" (one that necessarily takes a substantial period of time to get ready for its intended use or sale) which may be capitalised to the cost of that asset.

We believe it is important to highlight to shareholders that a material part of the finance cost incurred has already been accounted for in the statement of comprehensive income.

Refer to the reconciliation below for total amount expensed in the Statement of Comprehensive Income.

Finance cost incurred are allocated between the following three areas:

- Expensed to finance cost (statement of comprehensive income);
- Capitalised to inventory;
- Capitalised to construction contracts.

	2018	2017
Total finance cost incurred	**83 320 134**	65 161 409
Less: Amounts capitalised on qualifying assets (inventory)	**(24 567 250)**	(21 397 723)
Less: Amounts capitalised on qualifying assets (construction contracts)	**(42 065 456)**	(21 844 495)
Finance cost per statement of comprehensive income	**16 687 428**	21 919 191
Total finance cost expensed in Statement of Comprehensive Income		
Finance cost expense	**16 687 428**	21 919 191
Capitalised to construction contracts – IAS 11: *Recognised in Cost of Sales*	**42 065 456**	21 844 495
Capitalised to inventory – IAS 18: *Recognised in Cost of Sales*	**1 605 146**	710 402
Total effectively expensed in statement of comprehensive income	**60 358 030**	44 474 088

Statement of financial position

	Movement %	2018	2017
Working capital invested (inventory, construction contracts, trade and other receivables)	18.32	**2 669 110 632**	2 255 835 435
Cash and cash equivalents	(34.91)	**156 722 935**	240 765 157
Borrowings	55.62	**889 596 522**	571 645 578
Net debt to equity ratio*		**0.75**	0.42
Covenant (target below covenant)		**1.5**	1.5
Debt service cover ratio ("DSCR")#		**1.57**	1.83
Covenant (target above covenant)		**1.2**	n/a
Current ratio		**1.75**	1.79

** Please refer to page 132 for definition and calculation.*
 # Please refer to page 133 for definition and calculation.

Construction contracts increased over the year, reflecting the increased construction and development of units for the REIT JV, as well as for the private sector not yet handed over. The construction contracts balance is estimated to be at its peak for units to the REIT JV (to which the bulk of the increase is attributable). Total construction contracts balance at year-end, attributable to the construction of units for the REIT JV, is R392.3 million. The construction of these units had a negative impact on cash generated from operations as all capital is required to be invested until the units are completed. The units will be handed over on a staggered basis over the next six months and this will free up working capital.

Even though net movements in inventory were minimal, they bear mentioning. Of the balance of R554.4 million (2017: R596.0 million), R130.7 million (2017: R120.2 million) is attributable to Memorial Parks. A further R116 million was transferred from inventory to construction contracts during the year as construction began on Jabulani Parcel C and K units and R27.9 million was spent on the La Vie Nouvelle frail-care building.

In addition, the Group secured new properties in Vredehoek in the Western Cape, and at Bridge City and Umhlanga Hills in KwaZulu-Natal – all with a focus on the private sector and with bulk infrastructure already in place. The properties were acquired on structured payment arrangements with minimal upfront capital investment.

The acquisition of the Durbanville Memorial Park was completed after year-end, with Calgro M3 obtaining effective control from 1 March 2018 for an amount of R18 million. Included in the acquisition is a fully registered non-profit organisation ("NPO") worth in excess of R10 million which will be responsible for the Memorial Parks maintenance fund of the Group going forward.

The Group will continue to investigate structures to acquire additional projects and businesses without large upfront or secured capital requirements. These structures were successfully employed in the past and reduce cash flow and capital exposure risk.

Cash balances at year end settled at R156.7 million (2017: R240.8 million) and are expected to strengthen as more REIT JV and private sector units are completed and handed over and as additional working capital is raised.

The Group manages cash flow through a centralised treasury function and was able to issue R238 million worth of new instruments on the Bond Exchange during the year and to repay R192.0 million of instruments on maturity. The Group secured a first tranche of R278 million of international funding from Proparco, on which no foreign exchange risk will be taken. These funds have been borrowed in rand. The second tranche of R109 million is expected in June/July 2018.

The net debt to equity ratio has increased to 0.75 (2017: 0.42). These gearing levels remain comfortably within the covenant ratio of 1.5 and our own internal tolerance level of 1.2. The gearing levels are expected to rise to a level closer to 1:1 as more working and investment capital is secured to fund the increased focus on the private sector as well as the acquisition of new opportunities. The Group's weighted average cost of debt is currently at 11.11%.

Cash flow

Cash flow from operations came under pressure during the year due to the increased construction of REIT JV and private sector units. Cash generated from operations is expected to improve in the next six months as more units are handed over.

Capitalised interest

Interest incurred for the development of a qualifying asset that takes a substantial amount of time to complete.

Why is this important?
The Group capitalises the majority of the finance cost incurred on an annual basis to construction contracts and inventory. This capitalisation makes its way back into the statement of comprehensive income as the units are developed and completed and are recognised as part of cost of sales. Most of the finance cost incurred for any particular year are recognised in the statement of comprehensive income between the cost of sales and finance cost line items.

Financial review *(continued)*

If the investment into the REIT JV is eliminated in the current year, the cash flow from operations would have illustrated the following cash generated from operations:

	2018
Cash generated from operations	(205 838 542)
Total investment into REIT JV units at year-end	392 260 211
Adjusted cash generated from operations excluding REIT JV units	186 421 669

At 28 February 2018, the estimated cash flow upside on completion of all the first phase (3 852 units) REIT units, after the deduction of our equity contribution is illustrated below:

	2018
Total cost to complete units	(338 665 280)
Total funds to be received on completion	1 162 334 234
Less: Deposit	(177 027 026)
	646 641 928
Less: Equity contribution to the REIT JV	(384 451 436)
Total cash upside upon completion to be used for future working capital	262 190 492

During the year, the Group invested very little into new infrastructure in an effort not to put additional pressure on working capital. With cash flow stabilising, the Group commenced with infrastructure installation on 2 426 opportunities close to year-end and is expected to commence with an approximate 3 000 opportunities as the year progresses, to ensure future growth. The Group currently has approximately 7 300 serviced opportunities available.

The first investment of R102.3 million into the Afhco Calgro M3 Consortium was made towards the end of the current financial year with a further R384.5 million expected in the next six months with no additional cash flow requirement.

Dividends

Management believes that cash should be retained to fund growth within the Group. Cash retention is important to ensure investment into future projects and businesses. The Board has therefore resolved not to declare a dividend for this financial year.

Increase in the Value Added Tax ("VAT") rate from 14% to 15%

We believe that the increase in the sale price of our products as a result of the VAT increase, will not have a major impact on the business as the increase is absorbed by the customer and will have a minimal impact on affordability. At an average sales price of R440 000 per unit (including VAT at 14%), the monthly instalment difference is R37.89 as shown in the diagram on the next page.

Interest rate movements are likely to have a much greater impact on client affordability levels and the Group remains watchful on interest rate changes.

Segmental report

Why is this important?
The segmental report is the best indication of how management manages and views the business as well as provides a detailed analysis of operational performance and statement of financial position strength per business. It will enable the reader to better understand each business as well as the financial risks associated with it. We strongly urge shareholders to pay particular attention to this report in order to fully understand operational performance for each business.

Value Added Tax increase – minimal impact on affordability

Assumptions:

Number of periods	**240 (20 years)**	Interest rate	**10.25% per annum**

VAT scenario

	14%	**15%**
House sale price	R440 000	R443 859.65
Monthly bond payment	R4 319.23	R4 357.12

Difference

R37.89

IFRS 15

Revenue from contracts with customers

Why is this important?
The new revenue recognition standard ("IFRS 15") is applicable to the Group from 1 March 2018. The accounting teams are working closely with technical experts to analyse the effect this will have on current revenue recognition patterns (revenue at a point in time or recognised over time).

The full impact of this new standard cannot be determined yet, but it is our view that it will have a substantial impact on the timing of revenue recognition on certain of our projects and contracts.

Warren Buffet said in his 2017 shareholders' letter: "But televised commentary on earnings releases is often instantaneous with their receipt, and newspaper headlines almost always focus on the HEPS as per IFRS. Consequently, media reports sometimes highlight figures that unnecessarily frighten or encourage many readers or viewers."

Operational performance

Residential Property Development

During the year, 8 564 units and houses were under construction, of which 3 426 were completed and handed over to customers. Within the balance of 5 138, just over half are expected to be handed over before end of July 2018. The Group has approximately 3 500 units already sold for which construction will commence as early in the 2019 financial year as possible.

2 426 opportunities are currently being serviced that will bring the total number of serviced opportunities to in excess of 9 000. The Group is planning to commence infrastructure installation on an approximate 3 000 opportunities during the calendar year.

Current serviced opportunities available for development:

Witpoortjie

La Vie Nouvelle

Scottsdene

Fleurhof	2 365
South Hills	1 465
Jabulani	645
La Vie Nouvelle	103
Scottsdene	317
Belhar	2 387
Total	**± 7 300**

Our Witpoortjie project won the **Govan Mbeki award for**

Best Affordable Project

Subsequent to the financial year end, the Group experienced attempted land grabs at both the Fleurhof and Scottsdene projects, with some units being illegally occupied by the community and properties vandalised. The Group acted swiftly and secured both sites using private security. The Group is in the process of quantifying the damages suffered and have been engaging with its insurance companies to recover the losses suffered. In addition, the Group continues to engage and consult with local and provincial government to offer our assistance in searching for a sustainable and legal way to eradicate the housing shortage in an endeavour to ensure that all people can live in safe and dignified homes.

We are extremely proud of **our Witpoortjie project that won the Gauteng Govan Mbeki award for Best Affordable Project**. In the year under review South Hills was the largest contributor to revenue, surpassing Fleurhof as our flagship project. The Belhar and Scottsdene projects in Cape Town contributed 19.38% of revenue (even through the slowdown due to the water crisis). Construction at our first project in KwaZulu-Natal will start during the first quarter of the new financial year while the long-awaited KwaNobuhle project in the Eastern Cape is planned for later in the year. The Group made a decision to discontinue the Leratong and Nelmapius projects due to the risk profiles of the projects changing. A substantial amount of time was invested in both projects, and the risk-reward profile no longer supports further involvement. Leratong was removed from the Group’s pipeline towards the end of the 2018 financial year and Nelmapius was never included in the pipeline. The Group will reassess its position in this regard if the risk profile changes in future.

In line with our risk mitigation strategy, the Group disposed of its 35% shareholding in the Otjomuise project in Namibia when its risk profile also changed. The project was originally a project management/consulting project with limited human and financial capital exposure and limited development risk. The project has subsequently evolved into a complete development project with a far larger capital requirement and increased risk profile. In response to the risk assessments performed, we concluded that our resources could be deployed more efficiently on our own projects in South Africa and the decision was taken to dispose of our shareholding in the joint venture for R6 million.

Calgro M3 remains well positioned to capitalise on public sector commitment to the mega and catalytic projects initiative and remain ready to participate in these projects when roll-out commences.

With an increasing number of units being developed, the Group is able to capitalise on volume discounts and rebates together with enhanced negotiating power. The bulk of the increase in margin is being passed on to the consumer in the form of an enhanced product offering for the same sales price. Marketing remains a specific focus, with the number of sales to the open market increasing by 16.7% from the previous year.

We strive to customise our products for the market and expect this to translate into a further increase in sales for the coming year. Captain Calgro continues to educate the consumer on home-ownership and the various aspects of buying or renting a home.

The Residential Property Development business is specifically focusing on achieving a more consistent and disciplined approach to project management as well as using internally developed technology to remain hands-on. This, together with the specialists appointed across various departments, we believe will enhance project outcomes and unlock substantial value for shareholders by shortening development timelines.

The primary areas of focus for the Residential Property Development business in the coming year will be to roll-out the existing pipeline, capitalising on the private sector sales drive, enhancing the product offering, while at the same time remaining focused on efficiencies.

Operational performance *(continued)*

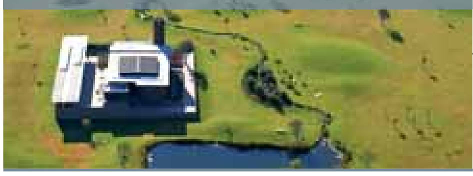
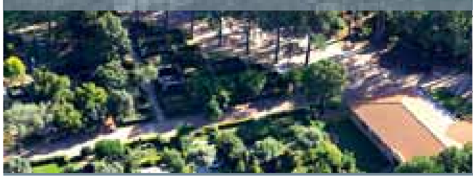
Memorial Parks

The Memorial Parks business continued its improved contribution to Group profit and even though a small contributor overall, we are extremely excited about growth prospects. Our target for the next financial year is to have this business contribute in excess of 10% to the overall profitability of the Group. This rather ambitious target is supported by grave sales that are increasing month on month. With the ongoing improvements and advancements of this division we remain confident that this contribution will continue for the foreseeable future.

Focus areas for Memorial Parks

- Increasing brand awareness;
- Educating the customer on the product offering/ suite;
- Developing staff to ensure superior client service;
- Integrating the new memorial parks acquired; and
- Enhancing relationships with key stakeholders such as funeral directors, associations, community organisations, government, customers and suppliers.

Our national roll-out plan is rapidly developing, supported through the acquisition of the Durbanville Memorial Park in Cape Town on 1 March 2018 and the Avalon Memorial Park in Bloemfontein which will be effective 1 June 2018. The Eastern Cape and KwaZulu-Natal are targeted provinces for expansion, planned for later in the 2019 financial year or early in the 2020 financial year.

		Number	Total cash received
Nasrec Memorial Park 	Graves sold 2018 financial year*	**785**	**R9.0 million**
	Graves sold in prior years	**449**	**R4.8 million**
Fourways Memorial Park 	Graves sold 2018 financial year*	**130**	**R5.9 million**
	Other products	**32**	
	Graves sold in prior years (since acquisition)	**48**	**R1.2 million**

* *Cash received from 232 graves at an average sales price of R16 594 (including VAT) have not been accounted for yet due to being sold on deferred payment terms.*

Residential Rental Investments

For some time Calgro M3 has investigated participating in the residential rental market. This led to partnering with SA Corporate Real Estate (through their wholly owned subsidiary Afhco) which culminated in the announcement of the Afhco Calgro M3 Consortium (a Real Estate Investment Trust ("REIT")) as an **initial entry** into this market, to service the residential rental market in South Africa. Of the 3 852 units in the first tranche, 648 were completed and handed over to the consortium since November 2017. The remaining units will be handed over in a staggered manner over the coming months, with Belhar delayed due to the slowdown associated with the water challenges in Cape Town.

The Afhco Calgro M3 Consortium is to target a net property income yields in excess of 10.5% as well as a targeted rental escalation of 6% per annum that equates to a circa 20% return on equity (after gearing) in total. No additional equity will be required by Calgro M3 for this initial investment, as the investment will be funded from value locked up in the Group balance sheet.

In line with our medium to long-term strategy, the Group primarily entered this space to secure annuity revenue for use as operating cash within the Group. In addition to this, a property developer's biggest risk, when starting a project, is the availability and creation of bulk and link infrastructure. Each time a development commences, infrastructure is created, but it is sold off and new infrastructure is again created in a new project.

This strategy further assists Government in eradicating the housing backlog without exposing the Group to diminishing public-sector spend.

In line with the diversification strategy, we have entered into our first non-Calgro M3 acquisition in Ruimsig, Gauteng to the value of R402.4 million. A deposit of R78.6 million has been paid. In order to enhance returns on this project, the Group has taken over some of the project roll-out functions, executing these through the turnkey model to enhance efficiencies and reduce costs. The balance of the purchase price is only payable on completion and handover of the units with no additional financial exposure until that point.

South Hills

Health, safety and environmental initiatives

A detailed Sustainability Report can be found on the Calgro M3 website at www.calgrom3.com and an Abridged Sustainability Report can be found on pages 72 to 77 of this Integrated Annual Report.

South Hills

Calgro M3 remains committed to health and safety standards of the highest level as well as minimising the negative impact of any operations on the environment.

The Group is currently on a renewed drive to enhance the policies and procedures that govern health and safety across operations as well as the environmental impact. The development and enforcement of these policies and procedures are being undertaken by a newly appointed Health and Safety Manager and an Environmental Manager, together with support from external experts. These parties are working tirelessly to develop a framework that will set Calgro M3 apart in the way in which it operates. The new appointees will report directly to the Residential Property Development Executive Committee and will have the authority to enforce compliance across all sites.

The Group is extremely proud of the countrywide initiatives undertaken in the past six months to recoup the approximately 8 500 litres of water used through the construction phase, both on and off-site, within three months after completion, from various water saving initiatives introduced. This has had a particularly positive impact on our Cape Town construction sites where water resources are extremely scarce.

The Group is also investigating an exciting new initiative that could save an additional 40% to 60% of the water required during the construction phase and hopes to soon be in a position to make a specific announcement to shareholders in this regard.

The group is extremely proud to announce that 2018 was again fatality free.

Nasrec Memorial Park won the "Landscape Construction" and the "Landscape and Turf Maintenance" Water-Wise Awards at the 2017 South African Landscapers Institute Awards. The Group will continue to develop and implement water-saving initiatives throughout the project cycle.

Staffing

Across the Group a total of **473 staff members** are employed

Total	Black	Coloured	Indian	White
Male **63.85%**	77.48%	4.97%	1.66%	15.89%
Female **36.15%**	71.93%	8.77%	2.92%	16.37%
	75.48%	**6.14%**	**2.11%**	**16.07%**

Technology investment

We continued our commitment to invest in, develop and utilise technology across all spheres of the business more efficiently. The Group is extremely excited about the potential of the Calgro M3 Information System ("CIS") that is being developed internally as reported on previously. Several specialists have been appointed and contracted to assist in utilising technology to unlock additional value across the Group.

Key risk items and the way we mitigate risk

Risk	Mitigation	Residential Property Development	Memorial Parks	Residential Rental Investments
Land invasion/ land grabs	Increased security as well as assisting local and provincial government to eradicate the housing shortage.	✓		✓
Macro environmental impact	Updated economic and affordability data is reviewed regularly and considered with every new business or project investment.	✓	✓	✓
B-BBEE compliance	As a Group Calgro M3's goal is not to only comply with the relevant law but to go "above and beyond". Empowerment is a standard agenda item at every management meeting and has become part of our internal culture. An Internal Compliance team has been established to oversee this process. The team reports to the Social and Ethics Committee every quarter.	✓	✓	✓
Public vs private sector exposure	Specific hands-on management by Exco as well as exposure tolerance levels set by the Board in terms of its Risk Tolerance Policy are continually monitored to ensure the Group remains within set limits.	✓		
Cash flow and liquidity	Centralised cash flow control with hands-on monitoring by various levels of management with all variations signed off by Exco.	✓	✓	
Retention of staff	Best-in-class senior personnel and management are appointed, and each is remunerated in a way fit for the individual. The normal mix of short, medium and long-term remuneration is implemented where applicable. Internal culture is extremely important to the Group and low staff turnover is evidence of this success.	✓	✓	

Refer to page 79 for a detailed analysis of the key risks and company specifications to address these risks.

Appreciation

Above all, none of our achievements would be possible without our clients. We thank you for entrusting us with your dreams. We continually strive to assist our clients to fulfil their ambitions and thank them for their continued support of the Calgro M3 brand and the spectrum of products and services. We further rely on support and commitment from all our stakeholders and shareholders – from Government and regulators to the individual communities in which we operate.

We would also like to thank the management team for their commitment and drive, and to extend our gratitude to the Calgro M3 Board and employees. Our team has an unchanged focus of achieving a 30% return on equity and will continue to work to achieve this.

Our ultimate goal of becoming the provider of choice in all our markets is within our reach and we once again renew our commitment to Build Legacies and Changing Lives.

Wikus Lategan
Chief Executive Officer

Waldi Joubert
Financial Director

11 May 2018

Fourways Memorial Park

THE OPERATIONS OF CALGRO M3

2

We should never lose our flexibility, but guard against losing focus.

R27.5

BILLION MEMORIAL PARKS AND RESIDENTIAL PROPERTIES PIPELINE

473

TOTAL CALGRO EMPLOYEES

10

PRIVATE/PUBLIC RESIDENTIAL DEVELOPMENT PROJECTS

Calgro M3 is a property and property related investment company

that is the market leader in the development of Residential Developments, Residential Rental Investments as well as the development and management of Memorial Parks.



Calgro M3 was incorporated in 1995, listed on the Alt-X of the JSE Securities Exchange in 2007 and converted to the Main Board in 2012. Throughout its history, it has conducted itself as a responsible corporate citizen, adhering to applicable rules and regulations. The Group's cost-effective turnkey solution is applied to large-scale, integrated, mixed-use residential projects, the supply of residential rental investments and the development of Memorial Parks. The turnkey approach that is adopted, includes being land owner, developer and contractor, supported by internal professional services and project management. (Refer to our business model on pages 32 to 33 for an in-depth analysis of our turnkey approach.)

With this approach, the Group's dependence on external parties is reduced, as is the number of role-players in the value chain. This enables the Group to enter the market with a well-priced product without compromising on quality. The approach allows for flexibility to control the pace of development by adapting to changing market drivers. The Group continues to play a leading role in the delivery of homes and rental investments in line with Government's targets, set to eradicate informal settlements and provide housing to South African citizens.

Our strategy is to enable the extraction of multiple sources of revenue and profits from businesses and opportunities along the turnkey property development value chain, which will result in an improved operating margin blend and the creation of annuity income.

What we do and who we are *(continued)*

Calgro M3 is a property and property related investment holding company involved in:

Residential Property Development*

Fleurhof

Access to education in association with: FUTURE NATION SCHOOLS

Witpoortjie

Jabulani Hostels

Jabulani CBD

Summerset Place

KwaNobuhle

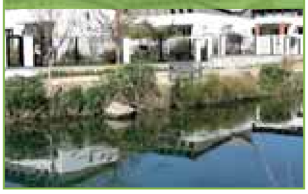
Scottsdene

Belhar

South Hills

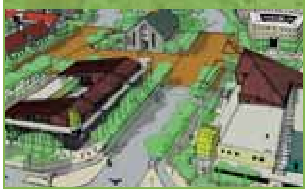
Tanganani

La Vie Nouvelle



Brandwag

Vista Park



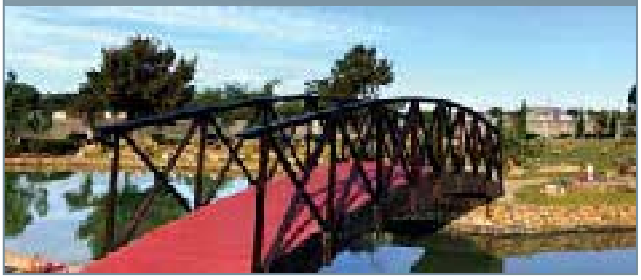
Bridge City

* *Currently and historically the majority of revenue came from Residential Property Development as the Memorial Parks and Residential Rental Investments businesses were still being established and busy maturing.*

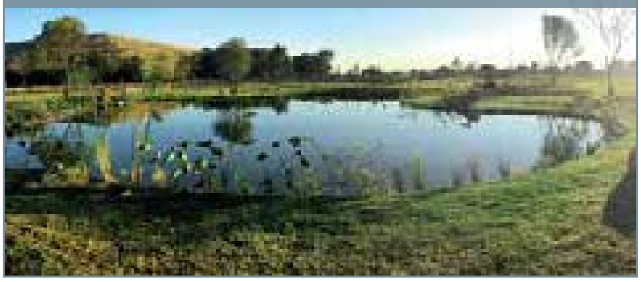
Memorial Parks

Enokuthula Memorial Park

Durbanville Memorial Park



Nasrec Memorial Park



Fourways Memorial Park

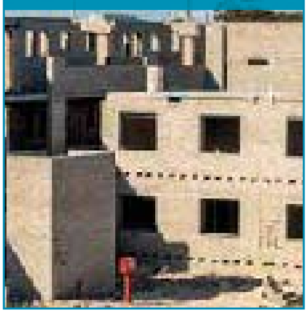
Residential Rental Investments

South Hills

Fleurhof

Jabulani CBD

Belhar



Scottsdene

In collaboration with:

SA CORPORATE REAL ESTATE

AFHCO Africa Housing Company

What we do and who we are *(continued)*

Our Group's positioning and business model provides us with the ability to adapt to the demands and challenges of the marketplace, including the ever-evolving social, economic, political and environmental landscapes. Our agility to navigate between areas enables us to realise our strategy of **extracting multiple sources of revenue and profits from businesses and opportunities along the turnkey property development value chain, which will result in an improved operating margin blend and the creation of annuity income**. In the current environment we are focused primarily on the low to middle income private sector.

Establishing sustainable business practices begins by recognising the broader responsibilities as an organisation within society and the communities we operate in. We will continue to strive to enhance our product offering, setting new standards for sustainable Residential Property Development, Residential Rental Investments and Memorial Parks that will benefit all stakeholders along the value chain.

Overall economic outlook

The Group is cautiously optimistic regarding the economic landscape for the year ahead. The latest data suggests that the South African economy has turned a corner in terms of growth, although some uncertainty can still be expected. National accounts data for the fourth quarter of 2017 surprised on the upside, with a sharp quarter-on-quarter expansion driven by private consumption and fixed investment. In January 2018, manufacturing output expanded for the fourth consecutive month, recording its sharpest increase since June 2016. Several sets of data in February 2018 were equally positive and supported sentiment. A notable upsurge in the Standard Bank Purchasing Managers' Index and strong business confidence further supported sentiment, all of which is largely driven by political developments since Cyril Ramaphosa took over as head of the ruling party in December 2017 and subsequently as President of the country.

Ramaphosa, who was sworn in on 15 February 2018, has taken steps to change the direction of economic policy, including a cabinet reshuffle which saw the reappointment of Nhlanhla Nene as Finance Minister and a budget that will hike taxes to contain the bloated fiscal deficit and which helped avert a credit rating downgrade. Higher prices for commodities should sustain growth in mining and in the external sectors. An average of the economists forecast from Standard Bank, FirstRand, Nedbank, ABSA and Investec forecast the economy to grow in the region of 1.7% in 2018, and 1.8% in 2019. The International Monetary Fund ("IMF") revised South Africa's economic growth forecast downward in 2018 and 2019 as a result of rising political uncertainty which it says weighs on confidence and investment. The IMF's forecast GDP growth for 2018 and 2019 was adjusted to 1.4% and 1.6% respectively, up from 1.2% and 1.5% previously.


Fleurhof

Our guiding principles that set us apart

Building legacies, changing lives

Calgro M3 has operated as a residential property developer since 1995. In 2015 the Group ventured into the development of Memorial Parks and in 2016 entered the residential rental market. Calgro M3's market is driven by the need for housing, rental opportunities and burial sites. For all above there is a dire shortage in South Africa. Across the spectrum of products there is an underlying fundamental that Calgro M3 will ensure quality products, which enhance lifestyles and allow for dignity.

What does this mean?

Calgro M3 is driven in its purpose to deliver quality products and services to South Africans in segments where there are fundamental shortages. By building truly integrated developments which have access to transport, clinics, shopping centres, education, day care, rain water harvesting and many more benefits, the lives of people are improved and dignity restored.

Social consciousness

In all that we do, we ensure that our social consciousness is in the right place. Our homes for sale or rent are quality built, in areas where housing shortages exist, close to modes of transport, with access to educational facilities, with sufficient green areas and walkways and play areas for children. Importantly, our homes also conform to various environmental standards where we install water reticulation and rainwater harvesting, gas and solar for heating geysers and a final build that is as socially conscious as possible.

What does this mean?

At Calgro M3 our mantra of **Building legacies, changing lives**, rings true and is the foundation of all that we do. It is not only ourselves that are proud of our achievements, but external recognition for what we do abounds.

Positioned for growth

The Group is positioned to grow all three businesses to equal profit contribution within the medium term. Financially we are astute and conservative, ensuring that capital raised can be put to the best possible use. Our increased focus on private sector and REIT unit construction does require careful management of working, risk and investment capital.

What does this mean?

All funding on balance sheet is unsecured and managed through a central treasury function. Our gearing has to adhere to strict covenant levels imposed by external funders as well as internal tolerance levels. All funding raised on the debt capital markets or elsewhere are done from reputable financial organisations.

Sustainability through a comprehensive project pipeline

Our pipeline is R27.5 billion, made up as follows: 92% Residential Property Development and 8% Memorial Parks. These properties and memorial parks are located across provinces in South Africa and provides a good risk mix.

What does this mean?

Our national footprint is able to support our underlying principle of reducing the housing and burial shortage in South Africa.

Business model supported by a turnkey approach and our capitals

Inputs → **Value creation** → **Outputs** → **Outcomes**

Inputs

Financial capital
- Retain profit and equity for growth
- Debt funding
- Centralised treasury
- Subsidies

Intellectual capital
- In-house professional teams
- Information services
- Brands and intellectual property
- Project management

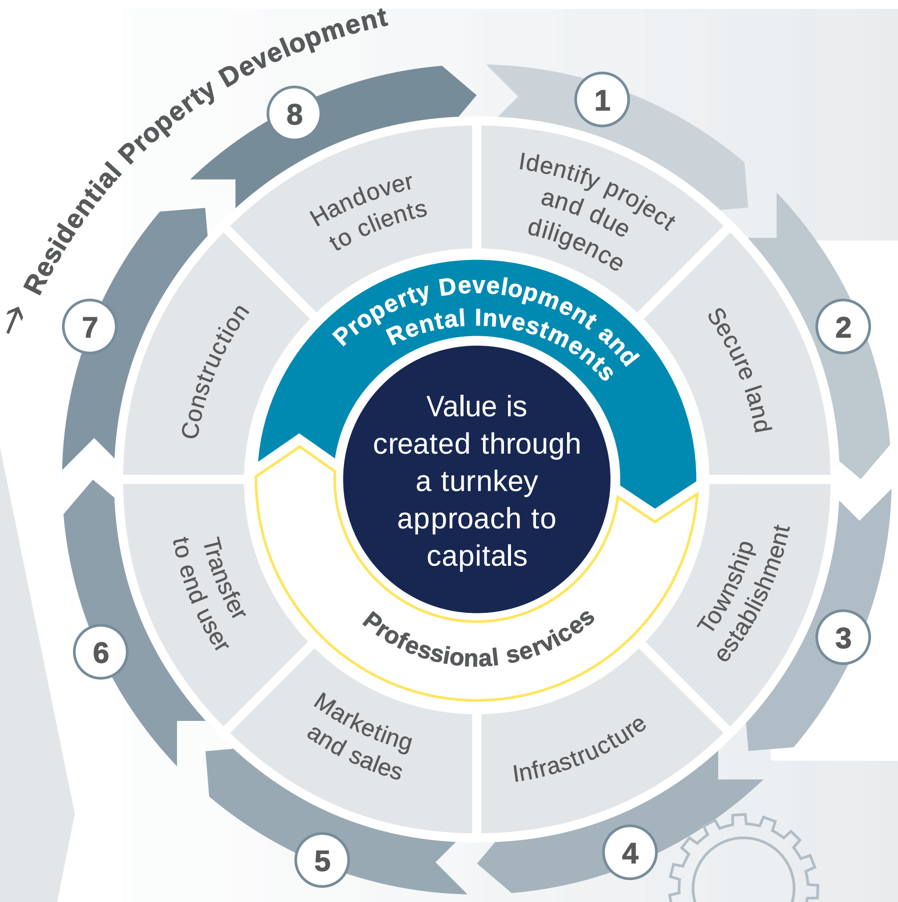
Human capital
- Community development and involvement
- Culture of providing quality housing across South Africa
- Values and ethics
- Active skills development and education

Social & relationship capital
- Stakeholder relationships
- Health and safety
- Skills and enterprise development

Manufactured capital
- Land development
- Construction capacity
- Infrastructure development

Natural capital
- Land
- Water conservation
- Energy source

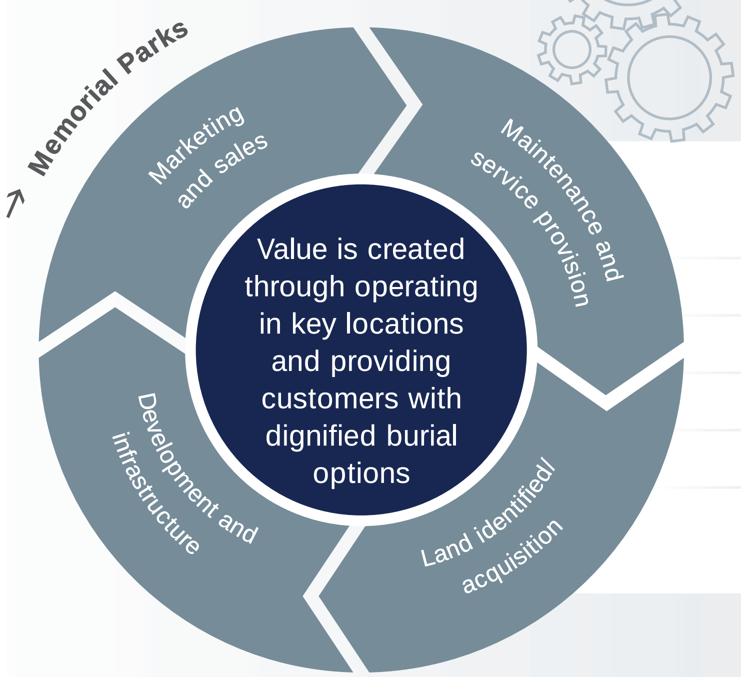
Value creation



Business processes:
- Land acquisition
- Township establishment (town planning)
- Infrastructure development
- Marketing and sales
- Transfer to end user
- Construction
- Handover to clients

19, 21

CALGRO M3



Business processes:
- Land acquisition
- Infrastructure development
- Landscaping and layout
- Marketing and sales
- Maintenance
- Holistic burial and remembrance services

20

Outputs

Products
- Integrated Residential Property Development
- Rental Investments
- Memorial Parks

In order to ensure
- Housing delivery
- Providing final resting place
- Assisting Government in service delivery
- Community development
- Client satisfaction ... Building legacies, changing lives

Outcomes

Active B-BBEE measurement and application
Level 1 contributor

R123.7 million paid in salaries and wages

Zero fatalities

Memorial parks and Residential Property Development pipeline **R27.5 billion**

8 564 units under construction/ handed over

Building a total Residential Rental portfolio in excess of **R15 billion**

Diversified products/market

Business model supported by a turnkey approach and our capitals *(continued)*

Our turnkey approach affords Calgro M3 the opportunity to manage each aspect of Residential Property Development, Residential Rental Investments and Memorial Parks businesses and in this way, trap margin within the business, while ensuring a high-quality end product at an affordable price to the customer. This ensures the attainment of a decent adjusted gross profit margin of 19.56% (2017: 21.55%). Refer to page 13.

End-to-end solutions, specialist business units and dedicated management that focuses on high growth, niche markets and ensures a deep pool of expertise.

The Calgro M3 Residential Property Development operational model hinges on three key elements

1. Key professional services are retained in-house
2. Internal marketing division and capacity
3. Internal construction division, which assists in trapping margin due to bulk material purchases, enterprise development, on-site training and using more than 50% local labour

The above functions are implemented in an endeavour to provide a practical and cost-effective turnkey solution. Through the delivery of quality affordable products, Calgro M3 remains a preferred development partner for the private and public sector, maximising value creation for shareholders. A hands-on flexible business approach provides the framework for the Group's strategy, facilitating a swift response to market demand and providing the Group with the ability to cater for the changing needs of clients and development partners.

The Group focuses not only on infrastructure, construction of houses and the physical environment – it helps build communities by providing people with the tools to prosper.

For insight see Our Economic Sustainability (pages 18 to 20), Our Communities (pages 4 to 16), and Human Capital Management (pages 46 to 56) contained in the Sustainability Report which can be found on the website at www.calgrom3.com.

Through its integrated developments Calgro M3 creates an environment that supports the wellbeing and development of sustainable communities. The needs, interests and concerns of stakeholders are vital to the planning and execution of its developments. The Group provides multiple forums for stakeholder engagement (see Understanding our Stakeholders in the Sustainability Report on our website at www.calgrom3.com (pages 4 to 16) to facilitate ongoing two-way communication.

Five-year financial review

	2018	2017	2016	2015	2014
Group income statement					
Revenue	**1 742 602 162**	1 554 679 657	1 204 063 379	932 204 729	784 942 989
Gross profit	**270 089 275**	334 162 888	251 546 652	174 871 192	112 989 404
Gross profit %	**15.50%**	21.49%	20.89%	18.76%	14.39%
Core gross profit %	**19.56%**	21.55%	n/a	n/a	n/a
Operating profit	**149 925 996**	228 964 661	160 166 678	83 801 167	52 850 634
Share of profit of joint ventures and associates – net of tax	**9 560 505**	6 269 280	67 233 693	86 826 674	86 826 674
Profit before tax	**171 755 639**	233 309 325	239 274 839	168 149 043	115 214 661
Basic earnings per share	**93.91**	133.06	152.77	114.65	83.16
Headline earnings per share	**90.12**	133.08	138.96	109.69	83.16
Core earnings per share	**147.26**	134.10	n/a	n/a	n/a
Core headline earnings per share	**143.47**	134.12	n/a	n/a	n/a
Net asset value per share	**911.18**	798.35	645.00	455.30	340.72
Tangible net asset value per share	**786.59**	673.73	519.87	423.06	314.77
Group balance sheet					
Inventories	**554 397 497**	595 989 480	453 093 324	498 089 210	385 826 228
Construction contracts	**1 820 973 990**	1 383 647 602	910 736 977	198 211 436	179 486 749
Net cash position	**156 722 935**	240 765 157	80 070 805	130 565 085	62 892 583
Retained income	**977 014 965**	846 079 473	676 923 496	482 747 300	337 031 142
Borrowings	**889 596 522**	571 645 578	538 463 465	492 131 943	470 929 440
Trade and other payables	**814 883 831**	847 661 692	342 786 896	221 637 558	156 056 986
Group cash flows#					
Cash generated (utilised in)/from operations	**(205 838 542)**	292 068 464	101 798 886	148 294 416	(252 754 959)
Tax paid	**(1 478 278)**	(7 444 473)	(16 878 792)	(20 380 552)	(5 183 498)
Net cash (utilised in)/from operating activities	**(276 377 195)**	238 183 518	35 511 467	79 176 947	(291 953 186)
Net cash (invested in)/from investing activities	**(129 532 596)**	(116 890 703)	(140 533 629)	(25 576 428)	(16 090 602)
Net cash from financing activities	**321 867 569**	39 401 537	54 527 882	14 071 983	172 593 413
Net (decrease)/increase in cash and cash equivalents	**(84 042 222)**	160 694 352	(50 494 281)	67 672 502	(135 450 375)
Cash and cash equivalents at the beginning of the year	**240 765 157**	80 070 805	130 565 085	62 892 583	198 342 958
Cash and cash equivalents and bank overdraft	**156 722 935**	240 765 157	80 070 804	130 565 085	62 892 583
Financial ratios					
Return on average shareholders' funds*	**14.56%**	25.53%	32.52%	33.73%	31.30%
Return on net assets	**10.35%**	16.63%	23.57%	25.17%	39.14%
Return on net tangible assets	**11.98%**	19.71%	29.24%	27.08%	26.42%
Current ratio	**1.75**	1.79	2.00	1.45	1.43
Market capitalisation at year-end – ordinary shares	**1 591 623 857**	2 242 626 208	2 313 220 000	1 689 159 000	874 448 000

** Calculated by dividing the earnings before finance cost and tax by average equity.*
 # Refer to page 16 for detailed analysis.

Project pipeline

Residential Property Development

Project	Municipality	Region – Province	Government/Private	Progress update	Number of units/ Remaining units	Anticipated project turnover for remaining units Rands
32-on-Pine Witkoppen Ext 142	City of Joburg	Gauteng	Private	Awaiting town planning approval	59	146 693 371
Belhar CBD	City of Cape Town	Western Cape	Private	Under development	3 558	1 235 536 601
Bridge City	eThekwini	KwaZulu-Natal	Private	Commence in three months	356	132 665 217
Fleurhof	City of Joburg	Gauteng	Private/Public	Under development	5 380	3 134 841 209
Jabulani CBD	City of Joburg	Gauteng	Private/Public	Under development	672	191 241 319
Jabulani Hostels	City of Joburg	Gauteng	Private/Public	Under development	325	119 071 102
Jabulani parcel K	City of Joburg	Gauteng	Private/Public	Under development	1 410	482 916 306
KwaNobuhle	Nelson Mandela Bay Metropolitan Council	Eastern Cape	Private/Public	Awaiting town planning approval	12 964	5 342 360 323
La Vie Novelle	City of Johannesburg	Gauteng	Private	Under development	193	403 284 175
Remaining Cluster portfolio/Storage units for sale	City of Joburg	Gauteng	Private	Awaiting town planning approval	255	313 000 000
Scottsdene	City of Cape Town	Western Cape	Private/Public	Under development	1 035	215 630 770
South Hills	City of Joburg	Gauteng	Private/Public	Under development	4 523	2 484 167 404
Summerset	City of Joburg	Gauteng	Private	Under development – near completion	32	19 521 951
Tanganani Ext 14	City of Joburg	Gauteng	Private/Public	Awaiting town planning approval	11 624	4 790 157 081
Umhlanga Hills	eThekwini	KwaZulu-Natal	Private	Awaiting town planning approval	1 376	1 206 880 947
Vista Park Ext 3	Mangaung Metropolitan Council	Free state	Private/Public	Awaiting town planning approval	5 320	1 781 194 737
Vredehoek	City of Cape Town	Western Cape	Private	Commencement towards end of 2019	260	734 929 201
Witpoortjie	City of Joburg	Gauteng	Private/Public	Under development	5 034	2 567 297 154
					54 376	25 301 388 868

Memorial Parks

Project	Municipality	Region/Province	Number of units	Anticipated project turnover Rand
Nasrec	City of Joburg	Gauteng	41 832	942 544 835
Fourways	City of Joburg	Gauteng	13 247	396 126 404
Enokuthula	Springs	Gauteng	11 346	142 959 600
Avalon	Bloemfontein	Free State	46 500	504 385 965
Durbanville	City of Cape Town	Western Cape	14 500	171 271 930
			127 425	2 157 288 734

Residential Rental Investments

Project	Municipality	Region/ Province	Partner	Number of units	Anticipated project turnover Rand	Commencement date
Fleurhof	City of Joburg	Gauteng	AFHCO	828	318 242 400	Under construction
Jabulani CBD	City of Joburg	Gauteng	AFHCO	288	104 630 400	Under construction
South Hills	City of Joburg	Gauteng	AFHCO	892	485 835 640	Under construction
Belhar CBD	City of Cape Town	Western Cape	AFHCO	1 000	447 300 000	Under construction
Scottsdene	City of Cape Town	Western Cape	AFHCO	844	317 114 231	Under construction
Ruimsig	City of Joburg	Gauteng	To be determined	480	402 400 000	Under construction
				4 332	2 075 522 671	