

Audited Summarised Consolidated Results for the year ended 31 December 2017

Workforce Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 2006/018145/06)
(JSE Share Code: WKF ISIN: ZAE000087847)
("Workforce" or "the group")

Audited summarised consolidated results
for the year ended 31 December 2017

Highlights

Revenue increased by 11,3% to R2,8 billion
Gross profit has increased by 6,1% to R635 million
EBITDA has decreased marginally by 0,4% to R133,9 million
Profit after tax increased by 7,6% to R98,5 million
Headline earnings per share increased by 7,0% to 42,8 cents
NAV per share has increased by 21,5% to 237 cents per share
Net tangible asset value per share has increased by 18,7% to 159 cents per share
Net interest-bearing debt to total assets is 28% (2016: 27%)
Net interest-bearing debt to total tangible assets is 34% (2016: 32%)

Group statement of financial position
as at 31 December 2017

	Notes	2017 R'000	2016 R'000
Assets			
Non-current assets		251 912	199 060
Property, plant and equipment	6	23 559	18 015
Goodwill		134 480	102 287
Intangible assets	7	44 247	39 130
Deferred tax assets		44 251	36 919
Other financial assets		5 375	2 709
Current assets		744 246	688 090
Trade and other receivables		714 389	610 219
Inventories		3 546	2 742
Taxation		763	-
Cash and cash equivalents		25 548	75 129
Total assets		996 158	887 150
Equity and liabilities			
Equity			
Equity attributable to owners of the parent		542 345	446 768
Stated capital		543 806	446 491
Treasury shares		234 051	241 867
Available-for-sale reserve		(7 658)	(9 330)
Equity-settled employee benefits reserve		923	462
Retained earnings		6 793	2 337
Non-controlling interests		309 697	211 155
Non-current liabilities		(1 461)	277
Financial liabilities		38 173	40 349
Deferred tax liabilities		26 407	30 840
Current liabilities		11 766	9 509
Trade and other payables		415 640	400 033
Financial liabilities		136 914	115 231
Taxation		278 726	283 857
Total equity and liabilities		-	945
		996 158	887 150

Group statement of comprehensive income
for the year ended 31 December 2017

	Notes	2017 R'000	2016 R'000
Revenue		2 807 890	2 523 405
Cost of sales		(2 172 461)	(1 924 425)
Gross profit		635 429	598 980
Other income		1 032	720
Operating costs		(512 887)	(461 810)
Fair value adjustments		10 365	(3 466)
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")		133 939	134 424
Depreciation and amortisation of non-financial assets		(26 080)	(17 476)
Finance income		1 486	711
Finance costs		(23 360)	(26 491)
Profit before taxation		85 985	91 168

Taxation		10 819	735
Profit for the year		96 804	91 903
Other comprehensive income/(loss) for the period		461	(224)
Fair value gain on available-for-sale financial assets to be reclassified subsequent to profit or loss		461	(224)
Total comprehensive income for the year		97 265	91 679
Profit for the year attributable to:			
Owners of the parent		98 542	91 604
Non-controlling interests		(1 738)	299
		96 804	91 903
Total comprehensive income attributable to:			
Owners of the parent		99 003	91 380
Non-controlling interests		(1 738)	299
		97 265	91 679
Earnings per share (cents per share)			
Basic earnings per share	8	43,0	40,1
Diluted earnings per share	8	41,2	38,1
Group statement of changes in equity for the year ended 31 December 2017			

Attributable to owners of the parent

	Stated capital R'000	Treasury shares R'000	Available-for-sale reserve R'000	Equity-settled employee benefits reserve R'000
Balance at 1 January 2016	241 867	(9 488)	686	1 659
Payment of dividends	-	-	-	-
Recognition of share-based payments	-	-	-	1 536
Buy-back of shares	-	(1 714)	-	-
Issue of ordinary shares under employee share option plan	-	1 872	-	(858)
Additional non-controlling interest arising on business combination	-	-	-	-
Transfer of reverse acquisition reserve to retained earnings	-	-	-	-
Total comprehensive income for the year	-	-	(224)	-
Balance at 1 January 2017	241 867	(9 330)	462	2 337
Recognition of share-based payments	(7 816)	-	-	5 227
Buy-back of shares	-	(3 124)	-	-
Issue of ordinary shares under employee share option plan	-	4 796	-	(771)
Total comprehensive income for the year	-	-	461	-
Balance at 31 December 2017	234 051	(7 658)	923	6 793

Attributable to owners of the parent

	Reverse acquisition reserve R'000	Retained earnings R'000	Total R'000
Balance at 1 January 2016	(125 499)	245 050	354 275
Payment of dividends	-	-	-
Recognition of share-based payments	-	-	1 536
Buy-back of shares	-	-	(1 714)
Issue of ordinary shares under employee share option plan	-	-	1 014
Additional non-controlling interest arising on business combination	-	-	-
Transfer of reverse acquisition reserve to retained earnings	125 499	(125 499)	-
Total comprehensive income for the year	-	91 604	91 380
Balance at 1 January 2017	-	211 155	446 491
Recognition of share-based payments	-	-	(2 589)
Buy-back of shares	-	-	(3 124)
Issue of ordinary shares under employee share option plan	-	-	4 025
Total comprehensive income for the year	-	98 542	99 003
Balance at 31 December 2017	-	309 697	543 806

Non-

	control- ling interests R'000	Total equity R'000
Balance at 1 January 2016	(28)	354 247
Payment of dividends	(417)	(417)
Recognition of share-based payments	-	1 536
Buy-back of shares	-	(1 714)
Issue of ordinary shares under employee share option plan	-	1 014
Additional non-controlling interest arising on business combination	423	423
Transfer of reverse acquisition reserve to retained earnings	-	-
Total comprehensive income for the year	299	91 679
Balance at 1 January 2017	277	446 768
Recognition of share-based payments	-	(2 589)
Buy-back of shares	-	(3 124)
Issue of ordinary shares under employee share option plan	-	4 025
Total comprehensive income for the year	(1 738)	97 265
Balance at 31 December 2017	(1 461)	542 345

Group statement of cash flows
for the year ended 31 December 2017

	Notes	2017 R'000	2016 R'000
Cash generated from operations before net working capital changes		107 624	109 765
Cash generated from operations	9.1	128 860	136 989
Finance income		1 486	711
Finance costs		(23 360)	(26 491)
Taxation paid	9.2	638	(1 444)
Increase in net working capital	9.3	(91 706)	(40 551)
Cash flows from operating activities		15 918	69 214
Cash flows from investing activities		(60 710)	(55 994)
Property, plant and equipment acquired - maintaining operations	6	(12 068)	(7 170)
Proceeds on disposal of property, plant and equipment		1 109	789
Dividend income		1 032	720
Intangible assets acquired - maintaining operations	7	(7 645)	(8 452)
Net cash flow on acquisition of business combinations	9.4	(43 138)	(41 881)
Cash flows from financing activities		(4 789)	48 845
(Decrease)/increase in borrowings		(1 948)	51 834
Payment for buy-back of shares		(3 124)	(1 714)
Proceeds on disposal of shares		4 796	-
Settlement of share-based payments	9.5	(4 513)	(858)
Dividends paid		-	(417)
Net change in cash and cash equivalents		(49 581)	62 065
Cash and cash equivalents at the beginning of the year		75 129	13 064
Cash and cash equivalents at the end of the year		25 548	75 129

Notes to the group financial statements
for the year ended 31 December 2017

- Nature of operations and general information
Workforce Holdings and its group of companies is a leading, trusted provider of employment, training, healthcare, wellness, financial services and lifestyle services and benefits to individuals and their employers. Our human capital solutions include: temporary employment services, permanent placement recruitment, training and skills development, healthcare and wellness, disability solutions, financial and lifestyle services and business process outsourcing.
- Basis of preparation and significant accounting policies
This report is extracted from audited information, but is not itself audited. The Board of Directors of Workforce ("the board") takes full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying annual financial statements. The audited underlying group financial statements are available for inspection at the company's registered office. The summarised consolidated results have been prepared in accordance with the International Accounting Standard ("IAS") 34, SAICA Financial Reporting Guides and the South African Companies Act, No 71 of 2008, as well as the SAICA Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The summarised consolidated results for the year ended 31 December 2017 were compiled under the supervision of Willie van Wyk, the group Financial Director. The summarised consolidated

results have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been applied consistently with the accounting policies applied in the annual financial statements for the year ended 31 December 2017.

3. Audit opinion

The consolidated results for the year ended 31 December 2017 have been audited by the group's auditors, Horwath Leveton Boner, and their unqualified audit report is available for inspection at the registered office of the group.

Shaun Naidoo was appointed as a Non-Executive Director on 26 June 2017 as a representative of the company's shareholder Vunani. Shaun replaces Mark Anderson who will remain as an Alternative Director to Shaun.

There were no other changes to the board during the period under review, up to and including the date of this report.

4. Posting of integrated annual report and notice of annual general meeting

The integrated annual report for the year ended 31 December 2017 is expected to be despatched to shareholders on or around 30 March 2018.

5. Events after reporting date

There were no events after reporting date.

	2017			2016		
	Cost R'000	Accu- mulated depre- ciation R'000	Carrying value R'000	Cost R'000	Accu- mulated depre- ciation R'000	Carrying value R'000
6. Property, plant and equipment						
Motor vehicles	10 005	(5 550)	4 455	9 218	(5 525)	3 693
Computer equipment	28 328	(21 765)	6 563	24 805	(20 665)	4 140
Industrial equipment	8 636	(6 057)	2 579	5 522	(3 650)	1 872
Office equipment	18 265	(14 194)	4 071	15 261	(12 434)	2 827
Leasehold improvements	1 736	(1 175)	561	1 268	(1 138)	130
Training manuals	9 807	(7 177)	2 630	9 854	(7 201)	2 653
Land and buildings	2 700	-	2 700	2 700	-	2 700
	79 477	(55 918)	23 559	68 628	(50 613)	18 015

The carrying value of property, plant and equipment can be reconciled as follows:

	Motor vehicles R'000	Computer equipment R'000	Industrial equipment R'000	Office equipment R'000
Carrying value at 1 January 2016	3 393	2 524	2 026	1 361
Additions	984	3 345	445	2 193
Disposals	(637)	(23)	(16)	-
Acquired through business combinations	1 259	43	53	62
Depreciation	(1 306)	(1 749)	(636)	(789)
Carrying value at 31 December 2016	3 693	4 140	1 872	2 827
Additions	3 137	5 128	1 060	1 177
Disposals	(317)	(22)	-	(24)
Acquired through business combinations	421	718	686	985
Depreciation	(2 441)	(3 439)	(1 039)	(894)
Carrying value at 31 December 2017	4 493	6 525	2 579	4 071

	Leasehold improvements R'000	Training manuals R'000	Land and buildings R'000	Total R'000
Carrying value at 1 January 2016	183	2 989	2 700	15 176
Additions	25	178	-	7 170
Disposals	-	-	-	(676)
Acquired through business combinations	-	-	-	1 417
Depreciation	(78)	(514)	-	(5 072)
Carrying value at 31 December 2016	130	2 653	2 700	18 015
Additions	534	1 032	-	12 068
Disposals	(6)	(147)	-	(516)
Acquired through business combinations	-	-	-	2 810

Depreciation	(97)	(908)	-	(8 818)
Carrying value at 31 December 2017	561	2 630	2 700	23 559

All depreciation charges are included in "Depreciation and amortisation of non-financial assets" in the statement of comprehensive income. No property, plant and equipment have been impaired during the year (2016: Nil).

The net book value of motor vehicles held under instalment credit agreements at 31 December 2017 amounted to R3 785 842 (2016: R1 460 340). Motor vehicles acquired under instalment credit agreements amounted to R3 723 606 (2016: R728 139). The instalment sales relate solely to motor vehicles.

A 100% interest in KBC Holdings Proprietary Limited ("KBC") was acquired on 1 January 2017, in order to increase the group's technical training offerings. Property, plant and equipment to the value of R2 750 000 was acquired as part of the business combination.

Oxyon Human Capital Solutions ("Oxyon") was acquired on 1 February 2017 in order to expand the group's skilled artisan and technical segments of the engineering industry. Property, plant and equipment to the value of R19 000 was acquired as part of the business combination.

A 76% interest in Day-Click Limited ("Day-Click") was acquired on 1 March 2017, in order to give the group an entry point into the Mauritian market where business opportunities have been identified. Property, plant and equipment to the value of R37 000 was acquired as part of the business combination.

The group has no further contractual commitments to acquire property, plant and equipment at reporting date.

	2017			2016		
	Cost R'000	Accu- mulated amorti- sation R'000	Carrying value R'000	Cost R'000	Accu- mulated amorti- sation R'000	Carrying value R'000
7. Intangible assets						
Computer software	62 146	(45 081)	17 065	51 162	(35 407)	15 755
Brands	3 209	(3 209)	-	3 209	(2 453)	756
Client relationships	31 522	(15 260)	16 262	19 510	(5 443)	14 067
Work in progress	10 920	-	10 920	8 552	-	8 552
	107 797	(63 550)	44 247	82 433	(43 303)	39 130

The carrying amounts of intangible assets can be reconciled as follows:

	Computer software R'000	Brands R'000	Client relation- ships R'000	Work in progress R'000	Total R'000
Carrying value at 1 January 2016	16 555	1 800	9 078	5 478	32 911
Additions	5 378	-	-	3 074	8 452
Disposals	(9)	-	-	-	(9)
Acquired through business combinations	-	-	10 180	-	10 180
Amortisation	(6 169)	(1 044)	(5 191)	-	(12 404)
Carrying value at 31 December 2016	15 755	756	14 067	8 552	39 130
Additions	5 277	-	-	2 368	7 645
Disposals	(39)	-	-	-	(39)
Acquired through business combinations	2 761	-	12 012	-	14 773
Amortisation	(6 689)	(756)	(9 817)	-	(17 262)
Carrying value at 31 December 2017	17 065	-	16 262	10 920	44 247

The above amortisation expense is included in "Depreciation and amortisation of non-financial assets" in the statement of comprehensive income. No intangible assets have been impaired during the year (2016: Nil). Computer software is mostly internally generated.

A 100% interest in KBC was acquired on 1 January 2017, in order to increase the group's technical training offerings. Intangibles to the value of R14 773 000 was acquired as part of the business combination.

The group has no further contractual commitments to acquire intangible assets at reporting date. No restrictions exist over intangible assets.

	2017 R'000	2016 R'000
8. Earnings per share		
Basic earnings per share		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
Profit attributable to equity shareholders of the parent company (R'000)	98 542	91 604
Weighted average number of ordinary shares in issue ('000)	229 336	228 577
Diluted weighted average number of shares in issue ('000)	238 973	240 643
Basic earnings per share (cents)	43,0	40,1
Diluted earnings per shares (cents)	41,2	38,1
Headline earnings per share		
The earnings used in the calculation of headline earnings per share are as follows:		
Profit attributable to equity shareholders of the parent company (R'000)	98 542	91 604
Headline earnings adjustment (R'000)	(400)	(87)
Gain on disposal of property, plant and equipment (R'000)	(555)	(121)
Tax effects of adjustments (R'000)	155	34
Total headline earnings (R'000)	98 142	91 517
Weighted average number of shares in issue ('000)	229 336	228 577
Headline earnings per share (cents)	42,8	40,0
The weighted average number of ordinary shares for the purpose of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:	229 336	228 577
Shares deemed to be issued for no consideration in respect of:		
Employee options	9 637	12 066
Weighted average number of ordinary shares in the calculation of diluted earnings per share	238 973	240 643
9. Notes to the statement of cash flows		
9.1 Cash generated from operations		
Profit before taxation	85 985	91 168
Interest income	(1 486)	(711)
Other income	(1 032)	(720)
Finance costs	23 360	26 489
Adjusted for non-cash items:		
Gain on disposal of property, plant and equipment	(555)	(121)
Depreciation and amortisation of non-financial assets	26 080	17 476
Gain arising on financial liability at fair value through profit or loss	(10 385)	-
Expense recognised in respect of cash-settled share-based payment	1 666	-
Expense recognised in respect of equity-settled share-based payment	5 227	3 408
	128 860	136 989
9.2 Taxation paid		
Charged to profit or loss	10 819	735
Adjusted for deferred tax	(9 210)	(2 400)
Movement in taxation balance	(971)	221
	638	(1 444)
9.3 Working capital changes		
Change in trade and other receivables	(100 527)	(52 182)
Change in inventories	(486)	1 369
Change in trade and other payables	9 307	10 262
	(91 706)	(40 551)
9.4 Net cash flow on acquisition of business combinations		
Net cash outflow on the acquisitions of subsidiaries	(21 959)	(41 881)
Net cash outflow on the acquisitions of subsidiaries - prior year acquisitions	(21 179)	-
	(43 138)	(41 881)
9.5 Equity-settled share-based payments		
Employees received shares in settlement of the equity-settled share-based payment scheme. The employees were given the option of retaining the shares they were granted,		
or selling their shares on the open market. The company sold the shares on the employees behalf and paid to them the proceeds from the sale.		

	1 January 2017	Cash flows	Non-cash flows	31 December 2017
9.6 Changes in liabilities arising from financing activities				
Non-current Treasury share loan	7 711	-	(72)	7 783
Interest-bearing borrowings	259 109	1 072	-	258 037
Instalment sales liabilities	2 118	948	-	3 066
	268 938	2 020	(72)	268 886

10. Segment reporting

During the reporting period, the group consolidated its five previous reporting segments into three segments, namely:

- Staffing and Outsourcing: Comprising temporary employment services, permanent recruitment, executive search, payroll management, HR and IR consulting services, disability solutions, turnkey staffing solutions and business process outsourcing solutions;
- Training and Consulting: Comprising accredited short courses, skills programmes, full qualifications, learnerships, apprenticeships, internships and adult education training ("AET");
- Financial and Healthcare: Comprising funeral cover, hospital cover, day-to-day medical insurance, lending products, primary healthcare, occupational healthcare, employee wellness programmes and health risk assessments.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

These new segments better represent the current core trading of the group and allows for a simpler understanding and communication of the performance of the business.

Due to the above change in reporting segments the prior year segment information has been restated. Segment information can be analysed as follows for the reporting periods under review:

	Staffing and Out- sourcing R'000	Training and Consulting R'000	Financial and Healthcare R'000
2017			
Segment revenues	2 521 071	158 000	127 005
Inter-segment revenue	23 085	17 681	1 474
Cost of sales	(2 054 073)	(70 119)	(45 254)
Inter-segment cost of sales	(22 400)	(8 566)	-
Operating costs	(295 249)	(60 995)	(67 091)
Inter-segment operating costs	(685)	(9 115)	(1 474)
Fair value adjustments	-	(3 464)	2 205
Other income	-	92	940
EBITDA	171 749	23 514	17 805
Depreciation and amortisation of non-financial assets	(3 468)	(3 372)	(2 936)
Net finance costs	(98)	748	(857)
Segment profit/(loss) before tax	168 183	20 890	14 009
Capital expenditure	9 737	8 599	4 845
Segment total assets	519 019	110 711	244 849
Segment total liabilities	(111 240)	(88 885)	(272 158)
Net segment assets/(liabilities)	407 779	21 826	(27 309)

	Shared Services and Central costs R'000	Consoli- dation entries R'000	Total R'000
2017			
Segment revenues	1 814	-	2 807 890
Inter-segment revenue	-	(42 240)	-
Cost of sales	(3 015)	-	(2 172 461)
Inter-segment cost of sales	-	30 966	-
Operating costs	(89 552)	-	(512 887)
Inter-segment operating costs	-	11 274	-
Fair value adjustments	11 624	-	10 365
Other income	-	-	1 032
EBITDA	(79 129)	-	133 939
Depreciation and amortisation of non-financial assets	(5 866)	(10 435)	(26 080)
Net finance costs	(21 667)	-	(21 874)

Segment profit/(loss) before tax	(106 662)	(10 435)	85 985
Capital expenditure	2 103	12 012	37 296
Segment total assets	312 728	(191 149)	996 158
Segment total liabilities	(21 992)	40 462	(453 813)
Net segment assets/(liabilities)	290 736	(150 687)	542 345

	Staffing and Out- sourcing R'000	Training and Consulting R'000	Financial and Healthcare R'000
2016			
Segment revenues	2 301 670	88 375	132 998
Inter-segment revenue	14 348	16 361	4 026
Cost of sales	(1 833 073)	(44 012)	(44 755)
Inter-segment cost of sales	(13 974)	-	(4 026)
Operating costs	(288 739)	(34 409)	(71 970)
Fair value adjustment	-	(3 464)	-
Other income	-	-	720
EBITDA	180 232	22 851	16 993
Depreciation and amortisation of non-financial assets	(3 804)	(863)	(3 042)
Net finance costs	528	(29)	(1 573)
Segment profit/(loss) before tax	176 956	21 959	12 378
Capital expenditure	21 613	1 591	4 014
Segment total assets	408 122	79 401	224 837
Segment total liabilities	(59 754)	(64 249)	(240 117)
Net segment assets/(liabilities)	348 368	15 152	(15 280)

	Shared Services and Central costs R'000	Consoli- dation entries R'000	Total R'000
2016			
Segment revenues	362	-	2 523 405
Inter-segment revenue	-	(34 735)	-
Cost of sales	(2 585)	-	(1 924 425)
Inter-segment cost of sales	-	18 000	-
Operating costs	(83 427)	16 735	(461 810)
Fair value adjustment	-	-	(3 464)
Other income	-	-	720
EBITDA	(85 650)	-	134 426
Depreciation and amortisation of non-financial assets	(4 875)	(4 891)	(17 476)
Net finance costs	(24 706)	-	(25 780)
Segment profit/(loss) before tax	(115 231)	(4 891)	91 170
Capital expenditure	-	-	27 218
Segment total assets	174 790	-	887 150
Segment total liabilities	(76 262)	-	(440 382)
Net segment assets/(liabilities)	98 528	-	446 768

Directors' commentary

Background and our purpose

Workforce Holdings is a leading trusted provider of employment, training, healthcare, wellness and financial services and lifestyle benefits to individuals and their employers, covering all industry sectors through the economy.

Our purpose is to make a meaningful and sustainable difference to people's lives - to uplift them, to find employment for people and empower them with appropriate training, healthcare and financial services and lifestyle benefits. These are key objectives and goals of our South African government too.

We continued to make a meaningful and sustainable difference in people's lives. We are proud to be providing permanent employment to 1 343 employees, remunerating 34 241 assignees weekly, training 137 000 people annually, facilitating 4 600 learnership and internship programmes, insuring over 36 277 lifestyle benefit policies and conducting over 71 396 medical examinations through our 26 operating brands, network of 103 branches and 18 training centres across South Africa.

The year under review and external operating environment

2017 was a year characterised by a volatile political environment, low economic growth and investment and a continued deterioration in unemployment levels. Notwithstanding the tough trading environment, the group's results continued to show improvement, albeit modest, on previous years and again highlighted the resilience of our integrated and diversified

business model.

Government's promised infrastructure development plan continued to be subject to indefinite delays, resulting in less demand for our services. We are hopeful, however, that 2018 will experience the early stages of project development in this regard.

Another significant external factor affecting our staffing and outsourcing segment, is the ongoing legal labour legislation dispute, which currently awaits a ruling by the Constitutional Court, following the Labour Appeal Court's ruling in July 2017. This relates to section 198A of the Labour Relations Amendment Act, 6 of 2014, and interpretation of the "deeming provision" and the definition of who the "employer" is in the employment relationship of an assignee. An assignee, in this instance, is only someone working longer than three months and earning less than R205 433 annually. We remain confident together with our Temporary Employment Services ("TES") industry body, the Confederation of Associations in the Private Employment Sector ("CAPES"), that the initial ruling in the Labour Court will be upheld and that assignees will continue to be deemed to be an employee of both Workforce and our clients. There always naturally remains the risk of clients initially adopting a "wait and see approach" prior to investing further in assignees with TES providers despite our engagement and ongoing communication with clients. Regardless of initial reactions, we are confident that the TES industry will be sustained. We have various robust solutions to continue to provide our clients with our services regardless of the ruling of the Constitutional Court.

Financial performance

Our 11,3% increase in revenue arose from organic revenue growth of 4,6% with the remaining growth in revenue attributable to acquisitions. Our gross profit, however, only increased by 6,1% as gross margins reduced from 23,7% to 22,6%. The reduction in gross margins arose as a result of a reduction in the relatively high margin energy infrastructure sector coupled with the acquisition of Oxyon, a high turnover, low margin business.

Operating expenses increased by 11,1% resulting in an unchanged operating expense to turnover ratio of 18,3% (2016: 18,3%). Organic operating expenses only increased by 2,9%. Debtor's impairments were, however, at much improved levels compared to the comparative period. Excluding debtor's impairments, organic operating expenses increased by 8,8% compared to the comparative period. Our management of operating expenses in the period under review was commendable given that Workforce continues to invest in the future growth of the group in the form of early stage businesses, technology, human capital, and improved shared services delivery.

Fair value adjustments of R10,4 million (2016: (R3,4 million)) include the revaluation of the cell captive and adjustments of the contingent consideration payable on business combinations.

EBITDA decreased marginally to R133,9 million (2016: R134,4 million). EBITDA to turnover reduced to 4,8% (2016: 5,3%).

The depreciation and amortisation charge increased by 49% to R26,1 million (2016: R17,5 million) mostly due to amortisation of intangible assets as a result of the KBC and Oxyon acquisitions.

Net finance cost marginally decreased by 15,2% to R21,8 million (2016: R25,8 million), in spite of R43,1 million spent on acquisitions during the financial year.

Taxation

The group continued to benefit from the employment tax incentive programme as well as from learnership allowances in terms of section 12H of the Income Tax Act, 1962 (Act 58 of 1962). The employment tax incentive remains a significant contributor to our financial results. This programme, which incentivises the employment of youth for new projects, currently continues, pending any extension, until February 2019.

The group also continues to invest and benefit from learnership programmes, with the learnership tax allowances been extended until 1 April 2022. The increased tax credit for the year of R10,8 million (2016: R735 000) is due to the fact that the fair value gain on adjustment of liabilities is a capital item and hence not taxable.

Cash flow

Cash flow from operating activities reduced to R16 million (2016: R69,2 million), mostly as a result of a substantial increase in working capital. This increase is also attributable to:

- Increased turnover;
- A longer billing cycle in December compared to the previous financial year;
- The fact that the Oxyon business was bought excluding tangible assets, hence the build in the debtors' book is defined as operating cash flow and not investment cash flow; and
- Deterioration in days sales outstanding to 53 days (2016: 46 days) due to the above.

Furthermore, the fair value adjustment is a non-cash flow item impacting cash conversion. Improving cash generation is a key focus of management.

Balance sheet and gearing

Net interest-bearing debt to total tangible assets increased to 28% (2016: 27%), in spite of net cash flow on acquisition of business combinations totalling R43,1 million. Net interest-bearing debt to total tangible assets also improved marginally to 34% (2016: 32%).

Group structure

During the reporting period, we consolidated our previous five reporting segments into three segments which we believe better represent the current core trading of the group and allows for a simpler understanding and communication of the performance of the business. The new segmental structure is now reflected as (i) Staffing and Outsourcing, (ii) Training and Consulting and (iii) Financial and Healthcare.

The Staffing and Outsourcing segment accounts for 81% of EBITDA prior to central costs (2016: 82%). The acquisitions of Prisma Training Solutions Proprietary Limited ("Prisma") in 2015 and KBC in 2017 have contributed to our diversification strategy with the Training and Consulting segment now accounting for 11% of total EBITDA (2016: 10,2%). The Financial and Healthcare segment contributed 8% to EBITDA (2016: 7,8%).

Segmental review

Staffing and Outsourcing segment

Turnover of the Staffing and Outsourcing segment increased by 9,5% but the gross margin percentage decreased from 20,3% to 18,5%. The reduction in margin is as a result of the conclusion of a significant high margin infrastructure contract in 2017, the acquisition of Oxyon, a high turnover, low margin business and the poor performance of our white-collar permanent recruitment businesses.

Our core business, Workforce Staffing, improved EBITDA despite the conclusion of one of its major infrastructure project contracts described above. Workforce Staffing has an encouraging pipeline of new business that hopefully augers well for 2018.

The continued delay in government infrastructure spending resulted in a disappointing performance from the Quyn group of companies ("Quyn") acquired in 2016. Government's renewed investment on its delayed infrastructure development projects and the entry of independent power producers ("IPPs") in the electricity sector however present exciting opportunities for Quyn moving forward.

Our Allmed Healthcare Professionals and Nursing Emergencies brands in the nursing and healthcare staffing sector experienced solid growth in 2018 with increasing market share and new clients.

We continued to invest in our new "green shoot" businesses locally and in Africa. Although these businesses are loss making, lots of progress and momentum is being achieved, resulting in improved financial performance and promising progress into 2018.

Training and Consulting segment

The Training and Consulting segment increased revenues by 78,8% to R158,0 million and EBITDA by 2,9% to R23,5 million for the reporting period.

The substantial increase in turnover is attributable to KBC. KBC trains over 120 000 inductees annually through eight training facilities in the country, including two "walk-in" centres based on client sites and one fully inclusive onsite contractor on-boarding hub.

EBITDA was constrained in 2017 in this segment as Prisma, acquired in 2015, experienced a challenging year with a lack of committed spend and investment by the mining sector.

Training Force performed well with pleasing growth. In addition to being a leader in the learnerships and apprenticeships area, Training Force are growing their training reach with a variety of focused skills programmes and short courses.

Our Training and Consulting cluster is a strategic growth area for the group.

Financial and Healthcare segment

The Financial and Healthcare segment turnover decreased by 4,5% to R127,0 million with EBITDA increasing by 4,7% to R17,8 million.

Babereki Employee Support Services (incorporating Dreams Direct and Debtworx), tightened its credit vetting criteria during 2017, resulting in less loans advanced and less products sold. This resulted in lower growth in profitability in this segment but improved cash utilisation. Compliance remains a key focus of our Babereki and Debtworx businesses.

Despite market challenges, collection performance improved in 2017. The gross advances book was R251 million (2016: R225 million).

Companies are recognising the positive impact employee wellness has on a business, from reducing absenteeism to improved levels of productivity and quality of life. We experienced encouraging growth in our employee wellness programmes and now cover over 45 320 lives through our Employee

Assistance Programme ("EAP") call centre and additional value-added products are being offered via this channel.

Acquisitions

During the period under review, we announced the acquisition of 100% of the shares of KBC, the acquisition of the business of Oxyon and the acquisition of a 76% stake in Day-Click.

KBC was acquired with effect from 1 January 2017 and we are pleased to report that it has performed ahead of expectations as described in our training and consulting segment review above.

The Oxyon acquisition was effective 1 February 2017 and has contributed positively to the group's profitability. Oxyon is a temporary employment service provider and permanent recruiter concentrating on higher level technical and artisanal skills in the engineering industry. The Oxyon acquisition resulted in an operating cash flow investment by Workforce to fund the client debtors' book as we purchased the business of Oxyon and not the company itself.

Day-Click, based in Mauritius, was effective 1 March 2017 and is at this stage not material in financial terms. We do, however, see Mauritius as an exciting business opportunity within its own borders as well as it being a possible base to further expand our other African operations as they increase in size and scale.

Our previous acquisitions, comprising Prisma, Quyn and Gcubed Boutique Recruitment all faced challenging trading conditions during 2017. Prisma was unable to continue the momentum it had enjoyed in 2016 against the backdrop of curtailed training spend in the mining sector, caused by the uncertainty and slowdown in the industry, and recorded a decline in its profits. The continued delays in renewable energy and other infrastructure projects also hampered Quyn whose profitability also fell short of expectations.

Given government's renewed outlook on the mining industry as well as its planned spend on infrastructure projects, the outlook for the coming year for both Prisma and Quyn is looking favourable and their respective management teams remain committed to delivering growth in revenue and profitability for 2018.

Our acquisition strategy is still a key pillar for our growth and we have commenced the 2018 financial year with clearly defined objectives and some exciting acquisition opportunities within our various operational segments. We will continue to pursue acquisitions that will enhance the group and its value offering whilst mitigating business risk.

Funding

During the year under review, communication with shareholders, the capital markets and all our stakeholders was deliberately enhanced. We successfully increased and improved our terms of our borrowing facilities in 2017 with our existing bankers.

Diversification of our shareholder base and an improvement in the liquidity of our equity shares on the AltX is recognised and constantly being considered.

Directors

Shaun Naidoo was appointed as a Non-Executive Director on 26 June 2017 as a representative of the company's shareholder Vunani. Shaun replaces Mark Anderson who will remain on the board as an Alternate Director to Shaun.

Outlook

The TES industry has significant milestone events in the next 12 months including:

- The Constitutional Court ruling on the "deeming provision";
- The introduction of the National Minimum Wage in May 2018; and
- ETI expiry, pending an extension or replacement, on 28 February 2019.

We are actively engaging with our clients to determine and assist them with any implications and opportunities arising from the introduction of the national minimum wage. From a regulatory point of view, we welcome the introduction of the minimum wage legislation during 2018 and although it may initially create a degree of uncertainty, we believe it will, in the longer term, improve the stability of labour in the country and will provide fairer and more sustainable pay structures.

The State of the Nation address in February 2018 highlighted the understood plight of youth in the job market and we are hopeful that the employment tax incentive, a significant and material component of our group's results, will be either extended or at least replaced in 2019.

Although we operate in a complex regulatory environment it is important to note that the TES industry enable just short of 10% of all employment in South Africa. Many of the assignees Workforce place into employment are the "vulnerable". In other words, the youth, people with disabilities and the unemployed or first-time job seekers.

In addition, we provide accredited training courses and learnership programmes, training thousands of people each year through our 18 training centres nationally. Although we are driven commercially, we are proud of the meaningful societal impact we make.

Workforce is a significant player in the markets in which we operate.

Government aims to transform the economy through job creation and increased infrastructure investment. Many initiatives and partnerships between government and business are under way to spur growth. These include the "YES Initiative" - a three-year programme to create one million youth internships - being negotiated by government, business and labour, and through the entry of independent power producers ("IPPs"). The IPPs are private investors who build solar and wind power generation plants and sell the electricity to Eskom. Government plans to continue with the IPP's programme and extend the model to other sectors. The YES Initiative should result in more business for at least our training segment and government's renewed investment on its delayed infrastructure development plans should result in further demand for our group's staffing services. These all represent significant opportunities for our group.

The world of work is constantly changing. In an increasingly competitive environment, companies need to be flexible and as a result, they tend to focus more on their core activities, increasingly outsourcing human capital management activities.

We continue to also strategically diversify our business. South Africa experiences significant skills shortages and our training segment is a key area for both organic and acquisitive growth.

We are positive and are looking forward to the challenges and exciting opportunities that 2018 presents.

Appreciation

We commend and thank all our divisional directors, management and staff of the group who continued to show commitment, perseverance and determination in a particularly challenging operating environment. A warm thank you is also extended to all our assignees, trainees, learners and interns for their reliable support and commitment. To our customers, who continue to demonstrate faith in our ability to provide the vital component of human capital solutions into their organisations, we thank you for your loyal support.

Finally, we would like to thank our fellow board members for their support and counsel in our business and their valuable input to the strategies of the group, it is much appreciated.

Ronny Katz
Executive Chairman

Philip Froom
Chief Executive Officer

Willie van Wyk
Financial Director

15 March 2018

Executive Directors
RS Katz (Executive Chairman)
PM Froom (Chief Executive Officer)
WP van Wyk (Financial Director)

Non-Executive Directors
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JR Macey
K Vundla
S Thomas

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Company secretary
S van Schalkwyk

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