

# REVIEWED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2012

**ESORFRANKI LIMITED**  
(Registration number: 1994/000732/06)  
Incorporated in the Republic of South Africa  
(Share Code: ESR ISIN: ZAE000133369)  
(“Esorfranki” or “the company” or “the group”)

## COMMENTARY

Esorfranki's reviewed condensed consolidated interim results for the six months ended 31 August 2012 (“the period”) reflect the group's continuing turnaround and the resumption of sustainable profitability. Effective rationalisation and optimisation processes in all divisions are further strengthening profitability. The group's continued growth is affirmed by our order book, standing at R2,43 billion at the end of the period.

Strategy to improve the group's BEE rating progressed well during the period, particularly in terms of ownership, with the announcement that Esorfranki is in negotiations with a BEE investment consortium to acquire a stake in the group.

In addition, the High Yield Bond Programme was successfully concluded in August 2012 raising funds of R202,5 million. These will be used primarily to settle existing credit lines and free facilities to support future growth. The group has secured adequate facilities to support the working capital requirements commensurate with increased activity levels and expansion in the property development market.

During the period, the group assumed control of the Esor Broad Based Share Ownership Scheme, following a change in trustees in March 2012. Accordingly the 13,3 million treasury shares have been consolidated into the group.

### Financial results

Revenue increased 33% to R1,14 billion from R857,5 million in the comparative period. Earnings before interest, depreciation, impairments, amortisation and taxation (“EBITDA”) was up 437% to R136,4 million from R25,4 million. HEPS increased 300% to 7,8 cents per share from a headline loss per share of 3,9 cents in the comparative period. Net asset value per share (“NAV”) increased 16,4% to 267,9 cents from 230,1 cents. The order book was up 35% to R2,43 billion from R1,8 billion at 31 August 2012. An impairment of R8,5 million was recognised on the property in Midrand as a result of the group's changed strategy regarding divisionalisation with respect to office and yard requirements.

### Review of operations

Although the construction sector in South Africa remains tough, Esorfranki has managed to sustain the turnaround started in the latter half of FY2012, putting the group firmly on track for growth with good prospects going forward.

**Esorfranki Civils'** revenue increased 69% to R598 million from R354 million. Profit before tax increased by 210% to R28,7 million compared to a loss of R25,9 million in the comparative period. The division maintained the profitability achieved in the second half of FY2012. The order book grew by 101% to R1,80 billion from R984 million. Operating margins increased considerably over the previous period.

The R21 road contract, which recorded a loss at the end of the previous year, achieved a pleasing turnaround to a near break-even position. Work on the R271 million Bestwood housing and infrastructure contract near Kathu in the Northern Cape is progressing well and attaining reasonable margins. An additional housing and property development contract – the R340 million Orchards development in Rosslyn near Pretoria – also commenced. This project required the acquisition of a new subsidiary in July 2012. The acquisition resulted in the inclusion of inventory totalling R33,1 million, which comprised land for development and development costs already incurred at acquisition date.

Although work in the mining sector is available, a slight slowdown is fuelling a more competitive market with eroding margins. The company secured additional contracts at Kusile Power Station including two earthworks contracts encompassing the formation of terraces and the crushing of stockpiled materials. The N4 contract at Mooiooi for Bakwena Concessions is progressing well.

**Esorfranki Pipelines'** revenue was up 32% to R149 million from R113 million which, coupled with an order book of R314 million at period-end, more than compensates for the cancelled Western Aqueduct contract. The KZN region provided a number of new contracts including Umlaas Road for Umgeni Water and The Bluff Military Base and the Richmond Road Off-lake in Woodmead. In the Free State, a new contract was awarded for the Ezenzelezi Water Treatments Works in Warden.

The BG 3 dispute remains unresolved and is in the process of arbitration. Resolution is expected early in 2013.

**Esorfranki Geotechnical's** revenue grew marginally by 1,2% to R410 million from R405 million, reflecting continued difficult trading conditions. Profit before tax increased by 159% to R39,3 million from R15,2 million. This included a profit of R24,4 million on the sale of property in Pinetown for R30,5 million following the consolidation of the two offices in Durban. Off-shore revenue increased 26% to R179,4 million from R142,9 million, translating into an increase in offshore profit before tax of 19,7% to R22,5 million from R18,8 million. In South Africa, stiff competition and limited demand are constraining margins which are currently lower than historical averages.

The division continues to focus on expansion in high-growth Ghana and has demonstrated pleasing progress with a fifth contract awarded. The Ada Groynes contract is moving quickly following the completion of all temporary and establishment works.

### Safety

Esorfranki Civils recently won an award for its safety record at the Kusile Power Station for achieving 1 million injury free hours. The group's Lost Time Injury Frequency Ratio (LTIFR) of 0,74 at period-end is significantly better than the industry norm of 1,33.

### CAPEX

During the period, the group invested R126 million in property, plant and equipment compared to R152 million in the comparative period. The majority of CAPEX requirements are applied in Esorfranki Civils. The CAPEX spend for the period was supported by the successful listing of the High Yield Bond Programme.

### Black Economic Empowerment

Esorfranki is currently a Level 4 contributor in terms of the Department of Trade and Industry's B-BBEE Codes of Good Practice, a critical differentiator in an environment dependent on Government infrastructure spend. The group remains focused on continually reviewing and enhancing all areas of scorecarding and will look to improve the rating in the medium term. To this end, specific training is being implemented to ensure that all B-BBEE spend is correctly allocated with respect to skills development, procurement, enterprise development and socio-economic development.

In terms of ownership, should the BEE transaction currently in negotiation advance, Esorfranki would considerably exceed industry Charter requirements. Details will be announced in due course.

Incorporating retail shareholders on the open market, current direct black ownership totals 18,3% (2011: 29,64%). Included in this is the 3,3% stake in the company held by black staff through the Esor Broad Based Share Ownership Scheme.

More than 80% of the group's 3 799 strong workforce is black and emphasis is placed on skills training and development to accelerate promotion into middle and senior management.

### Competition Commission update

As previously announced, Esorfranki was named in July 2009 by the Competition Commission in an investigation into alleged anti-competitive behaviour in the piling and drilling industry. The allegations related to transgressions by Franki Africa prior to that company's acquisition by the group and by the then-named Esor (Proprietary) Limited prior to listing. Esorfranki has co-operated fully with the Competition Commission. The investigation is ongoing and no updates have occurred since the announcement at the previous year-end.

### Directorate

Post period-end CFO Wayne van Houten resigned effective 1 October 2012. The board thanks him for his contribution to the group. Wessel van Zyl, CA(SA) was appointed as CFO effective 8 October 2012.

### Events after the reporting date

There were no significant events after the reporting date.

### Prospects

Esorfranki has started to benefit from the tentative recovery in the South African economy. The promised government infrastructure spend did not progress as anticipated during the period and a full economic recovery is expected only in the medium term.

**Esorfranki Civils** is expected to further capitalise on opportunities in housing, with affordable housing projects planned in the Vaal Triangle and Thabazimbi and a low-cost house development in Johannesburg. Despite the slowdown in the mining sector, opportunities remain in the coal mining sector from which Esorfranki anticipates benefiting.

**Esorfranki Pipelines** started the second half of the year securing a significant R250 million contract in Stanger. In addition the Rand Water Augmentation continues and there are good prospects in KZN and Gauteng. The sector remains challenged by the slow delivery of pipes from suppliers. This is expected to be alleviated in the second half of the current year to boost production. Further promising prospects exist with potential reticulation in the SADC region.

**Esorfranki Geotechnical's** prospects in Sub-Saharan Africa are varied, but promising. The Mauritian market is currently flat and is likely to remain so for the next reporting period, but in the medium term PPP projects around Port Louis offer attractive opportunities. Mozambique is looking positive with a number of large projects to be awarded in the coal mining sector. Although the Angolan market has become more competitive with the entry of international construction companies, the division is confident of further contract awards. Despite some challenges, the group expects to achieve targets in all regions this year.

### Dividend policy

In line with group policy no interim dividend has been declared. It remains the policy of the group to review the dividend policy annually in light of cash flow, gearing, capital requirements and bank covenants.

### Statement of compliance

The reviewed condensed consolidated interim financial statements for the period have been prepared in accordance with the recognition and the measurement requirements of International Financial Reporting Standards, the presentation and disclosure requirements of IAS 34: Interim Financial Reporting, the AC 500 standards and the JSE Listings Requirements and in the manner required by the South African Companies Act, 71 of 2008. The accounting policies applied in preparation of the condensed consolidated interim financial statements are consistent with those applied in the group's annual financial statements for the year ended 29 February 2012, which comply with International Financial Reporting Standards (“IFRS”).

### Auditor's independent review

These condensed consolidated financial results for the period have been reviewed by the company's auditors, KPMG Inc., in terms of International Standards on Review Engagements 2410. The scope of the review was to enable the auditors to report that nothing had come to their attention that caused them to believe that the accompanying condensed consolidated interim financial statements are not presented, in all material respects, in accordance with IAS 34 – Interim Financial Reporting and the South African Companies Act. Their unmodified review report on the condensed consolidated interim financial statements is available for inspection at the registered office of the company.

### Appreciation

We thank our management teams and employees for their persistence and loyalty in a trying period and challenging environment. Our appreciation also extends to our customers, suppliers, advisors and stakeholders for their continued support.

On behalf of the board.

**Bernard Krone** **Dave Thompson**

Chief Executive Officer

Chairman

25 October 2012

## HIGHLIGHTS

REVENUE UP 33,3%

HEPS UP 300%

ORDER BOOK R2,4 BILLION

SHORT-TERM PROSPECTS R4,8 BILLION

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended			Year ended
	Reviewed 31 August 2012 R'000	Reviewed 31 August 2011 R'000	Change %	Audited 29 February 2012 R'000
<b>Revenue</b>	<b>1 142 776</b>	<b>857 524</b>	<b>33,3</b>	<b>1 771 692</b>
Cost of sales	(992 177)	(777 629)	27,6	(1 549 955)
<b>Gross profit</b>	<b>150 599</b>	<b>79 895</b>	<b>88,5</b>	<b>221 737</b>
Other income	25 072	1 058	2 269,8	1 705
Operating expenses	(39 266)	(55 546)	29,3	(90 786)
<b>Profit before interest, tax, amortisation, impairments and depreciation</b>	<b>136 405</b>	<b>25 407</b>	<b>436,9</b>	<b>132 656</b>
Depreciation, impairments and amortisation	(57 730)	(39 822)	(45,0)	(79 510)
<b>Results from operating activities</b>	<b>78 675</b>	<b>(14 415)</b>	<b>645,8</b>	<b>53 146</b>
Finance costs	(16 868)	(12 073)	(39,7)	(73 233)
Finance income	1 654	2 614	(36,7)	49 726
<b>Profit/(loss) before tax</b>	<b>63 461</b>	<b>(23 874)</b>	<b>365,8</b>	<b>29 639</b>
Taxation	(16 125)	5 197	410,3	(11 423)
<b>Profit/(loss) after tax</b>	<b>47 336</b>	<b>(18 677)</b>	<b>353,4</b>	<b>18 216</b>
<b>Other comprehensive income:</b>				
Foreign currency translation differences for foreign operations	18 268	6 864	166,1	13 655
Actuarial gain on post retirement benefit	–	–	–	(73)
Income tax on other comprehensive income	(2 119)	(546)	(288,1)	(1 862)
<b>Other comprehensive income for the period, net of tax</b>	<b>16 149</b>	<b>6 318</b>	<b>(155,6)</b>	<b>11 720</b>
<b>Total comprehensive income attributable to:</b>				
Owners of the company	63 485	(12 359)	613,7	29 936
Basic earnings/(loss) per share (cents)	12,6	(4,8)	362,5	4,7
Diluted earnings/(loss) per share (cents)	12,6	(4,8)	362,5	4,7
<b>Reconciliation of headline earnings/(loss)</b>				
Profit/(loss) attributable to ordinary shareholders	47 336	(18 677)	353,4	18 216
Adjusted for:				
Profit/(loss) on disposal of property, plant and equipment	(23 437)	3 630	(745,6)	5 830
Profit on acquisition of subsidiary	(801)	–	–	–
Impairment of property, plant and equipment	6 113	–	–	–
Headline earnings/(loss) attributable to ordinary shareholders	29 211	(15 047)	(294,1)	24 046
Number of ordinary shares in issue ('000)	395 185	395 185	–	395 185
Diluted weighted average	374 787	387 980	–	386 731
Weighted average	374 787	387 812	–	386 731
Headline earnings/(loss) per share (cents)	7,8	(3,9)	300,0	6,2

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Share capital	Share premium	Equity compensation reserve	Translation reserve	Retained earnings	Total equity
Balance at 1 March 2011	294	389 155	14 444	(33 188)	332 451	703 156
Loss for the period	–	–	–	–	(18 677)	(18 677)
<b>Other comprehensive income</b>	–	–	–	6 864	–	6 864
Foreign currency translation differences for foreign operations	–	–	–	6 864	–	6 864
<b>Total other comprehensive income</b>	–	–	–	6 864	–	6 864
<b>Total comprehensive income/(loss) for the period</b>	–	–	–	6 864	(18 677)	(11 813)
Transactions with owners, recorded directly in equity						
<b>Contributions by and distributions to owners</b>						
Share issues	93	199 907	–	–	–	200 000
Share-based payment transactions	–	–	1 781	–	–	1 781
Share options exercised	8	243	–	–	–	251
<b>Total contributions by and distributions to owners</b>	101	200 150	1 781	–	–	202 032
<b>Balance at 31 August 2011</b>	<b>395</b>	<b>589 305</b>	<b>16 225</b>	<b>(26 324)</b>	<b>313 774</b>	<b>893 375</b>
Balance at 1 March 2012	388	591 657	16 188	(21 395)	350 594	937 432
Profit for the period	–	–	–	–	47 336	47 336
<b>Other comprehensive income</b>	–	–	–	18 268	–	18 268
Foreign currency translation differences for foreign operations	–	–	–	18 268	–	18 268
<b>Total other comprehensive income</b>	–	–	–	18 268	–	18 268
<b>Total comprehensive income for the period</b>	–	–	–	18 268	47 336	65 604
Transactions with owners, recorded directly in equity						
<b>Contributions by and distributions to owners</b>						
Share issues	–	(582)	–	–	–	(582)
Share-based payment transactions	–	–	1 467	–	–	1 467
Acquisition of trust treasury shares	(13)	(21 287)	–	–	21 300	–
<b>Total contributions by and distributions to owners</b>	(13)	(21 869)	1 467	–	21 300	885
<b>Balance at 31 August 2012</b>	<b>375</b>	<b>569 788</b>	<b>17 655</b>	<b>(3 127)</b>	<b>419 230</b>	<b>1 003 921</b>

### Information about reportable segments for the six months ended 31 August/twelve months ended 29 February

R'000	Esorfranki Geotechnical			Esorfranki Civils			Esorfranki Pipelines			Corporate and Eliminations			Consolidated		
	August 2012	August 2011	February 2012	August 2012	August 2011	February 2012	August 2012	August 2011	February 2012	August 2012	August 2011	February 2012	August 2012	August 2011	February 2012
External revenues	410 327	405 611	734 092	598 765	354 366	824 051	149 163	113 320	227 821	(15 479)	(15 773)	(14 272)	1 142 776	857 524	1 771 692
Reportable segment profit/(loss) before income tax	39 246	15 211	42 620	28 670	(25 958)	(2 564)	10 418	637	(4 767)	(14 873)	(13 764)	(28 526)	63 461	(23 874)	6 763
Reportable segment assets	726 991	674 136	722 746	795 274	718 654	583 537	125 166	115 445	84 007	543 909	204 635	426 179	2 191 340	1 712 874	1 816 469

### Geographical information

R'000	South Africa			Other Regions			Consolidated		
	August 2012	August 2011	February 2012	August 2012	August 2011	February 2012	August 2012	August 2011	February 2012
Total revenue	963 374	714 633	1 497 994	179 402	142 891	273 698	1 142 776	857 524	1 771 692
Profit/(loss) before interest and tax	48 241	(33 219)	439	30 434	18 804	46 711	78 675	(14 415)	47 150
Total assets	1 895 389	1 300 919	1 568 821	295 951	411 955	247 648	2 191 340	1 712 874	1 816 469

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COMPANY SECRETARY: IThemba Governance and Statutory Solutions (Proprietary) Limited, Monument Office Park, Suite 5 – 102, 79 Steenbok Avenue, Monument Park, 0181 (PO Box 25160, Monument Park, 0105)

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