esor
LIMITED

Abridged consolidated results

for the year ended 28 February 2015

Highlights

Headline earnings per share from continuing operations up 23%

Loss-making N4 road contract resolved

Restructured Civils operations and Support Services

Established joint venture with Calgro M3 for Diepsloot development

LTIFR improved to 0,37

Two-year order book stable at R1,9 billion

Level 3 B-BBEE rating maintained

Gearing down to 23,6%

Esor Limited | (Registration number 1994/000732/06) | Incorporated in the Republic of South Africa
(JSE Code: ESR | ISIN: ZAE000184669) | ("Esor" or "the company" or "the group")

Commentary

Introduction

The abridged consolidated financial results for the year to 28 February 2015 ("the year") reflect the results of a challenging period with the impact of legacy loss-making contracts still reflected in the results. However, all legacy problem contracts have since been completed, handed over and resolved.

In accordance with our "back to basics" approach, the group has been restructured into one construction unit with six product areas offering positive prospects, while capitalising on Esor's strong brand. The business has been consolidated, including rationalising the Civils operations.

Financial results

These results were impacted by the impairment of goodwill of R29,7 million and the fair value write down of the contingent consideration from the disposal of the Geotechnical business of R35,4 million and the operating loss of R48,3 million reported in the Civils division.

Revenue was impacted by the group consolidation initiatives as well as the last effects of loss-making contracts, and reduced by 9,1% to R1,45 billion. Earnings improved by 39,9% to a loss of R99,9 million and improved by 53,8% against continuing operations from the preceding period. This translated to a headline loss per share of 18,8 cents compared to a headline loss of 11,3 cents and a headline loss from continuing operations of 24,4 cents at February 2014. Gearing was lowered to 23,6% which was better than our target.

Safety

It is regrettable to report a fatality at the Northern Aqueduct project post year-end on 2 April 2015. Esor extends its condolences to the family. Any loss of life impacts the wider Esor family too and steps have been put in place to prevent further such incidents.

During the year Esor improved its Lost Time Injury Frequency Ratio ("LTIFR") to 0,37 (2014: 0,59). The group continues to focus on leading indicators to ensure accidents are prevented and on maintaining its ISO 9001, ISO 14001 and OHSAS 18001 accreditations.

Review of operations

The group continued to operate through three core divisions in the year: Esor Civils, Esor Pipelines and Esor Developments, and reports accordingly. The restructuring into a focused construction and developments group happened post year-end, effective 1 March 2015.

Esor Civils remained negatively impacted by macroeconomic conditions. Margins were tight, with contracts which were tendered for in a tough environment now being executed in an even more challenging landscape.

The Kusile contracts account for 60% of Esor Civils' revenue and approximately one-third of group revenue. The division therefore focused on entrenching its strong relationship with Eskom, who have proven a reliable debtor. The Kusile terrace underground facilities works and the general services piping contracts are currently under way. The crushing and bulk earthworks contracts are completed and claims have been finalised. Historical claims on the terrace underground facilities contract, related to delays and disruptions, were finalised in October 2014 and the settlement received in November 2014.

In the second half of the year Esor Civils successfully completed the Bakwena N4 road contract, its most challenging loss-making contract. Now handed over, the N4 contract incurred a further R56 million loss resulting from late completion, partly due to late changes to the scope of works and the impact of the labour unrest at Marikana mine. This loss was reported in the interim results.

The division successfully targeted refurbishment projects in the year, securing a contract for the conversion of a Johannesburg inner city office block into residences. Other refurb contracts currently under way include the upgrade of OR Tambo Duty Free for ACSA, and the upgrade of Walter Sisulu square for the Johannesburg Development Agency. In addition, Esor grew its footprint in the KwaZulu-Natal RDP housing market with two projects totalling 1 500 units. The group continues to pursue work in the sizable low-cost housing market.

Esor Pipelines has a solid, substantially full order book notwithstanding some project cancellations and delays in the year, and continued to deliver a good performance in an increasingly competitive market. The group successfully completed a number of key pipeline projects. The division has successfully targeted work for eThekwini at the Western and Northern aqueducts, which contracts are progressing well.

On the pipejacking front, Esor was awarded substantial work in the year and remains the recognised leader in South Africa. The work, although mostly of a smaller nature, geographically covers most of South Africa from Northern, North West, Mpumalanga, KwaZulu-Natal and Gauteng provinces.

The pipelines order book comprises various long-term projects such as the Western and Northern Aqueducts and new awards such as the Malkerns Canal project in Swaziland, the Lion Park and Tshelimnyama pipelines contracts, also in KwaZulu-Natal. Esor continues to drive cross-border expansion and has achieved success in Swaziland. However, procuring work in other SADC countries is proving tougher, impacting time and costs.

The **Esor Developments** business is progressing well, with five developments in various phases of planning and execution. In the year Esor concluded a joint venture agreement with Calgro M3 on the Diepsloot East integrated residential development project with our share being up to R2 billion. Calgro M3 will be responsible for project development and management, an area we need to outsource, with Esor retaining the "right of first refusal" for the installation of all engineering services and construction of 50% of the top structures. Esor's new prospective development project in Khayelitsha township in the Western Cape means that the order book value remained steady despite a drop in revenue in terms of the Calgro M3 joint venture.

Looking ahead, delays in spending the allocated budget on the Diepsloot project will impact revenue in FY16.

CAPEX

Capital expenditure of R20,5 million (2014: R38 million from continuing operations) was incurred during the year primarily to expand the capacity of the Pipelines division, which has resulted in a relatively new and well-maintained fleet and well-equipped workshops. The plant capacity has been rationalised and aligned with our future growth strategy.

Transformation

Esor maintained its Level 3 B-BBEE accreditation in terms the Department of Trade & Industry's B-BBEE Codes of Good Practice, and is targeting Level 2 by 2016 (based on the 2009 Construction Sector Charter).

The Esor Broad Based Share Ownership Scheme ("EBBSOS") increased its shareholding during the year and now holds a 5,32% stake in the company.

The group continues to invest heavily in enterprise development with eight SMMEs currently receiving Esor's support.

Prospects

The board anticipates Esor's recovery to continue into the year ahead. Esor has been refocused on what the group does well and profitably. The directors are confident that the streamlined group is agile and nimble to go to where the work is and structured for profitability with clear focus areas and improved synergies between disciplines.

Sanitation has been earmarked as an area of future opportunity following the Minister of Water and Sanitation's stated commitment to improved access and better infrastructure, particularly in rural areas. Esor, having substantially completed a large sanitation project for the eThekwini Municipality, is able to leverage existing capacity and skills to accommodate this growth area.

The group will continue to focus on reducing debt and improving cash flow.

Directorate

As announced at interim results, a long-planned restructuring of the board was effected during the year. The restructured board is operating well under the helm of Chairman Bernie Krone and CEO Wessel van Zyl, supported by CFO Bruce Atkinson.

Oswald Franks was appointed as Lead Independent Director and three new independent non-executive directors were added. Dave Thompson and Franklin Sonn retired as independent non-executive Chairman and independent non-executive director, respectively, effective 21 August 2014.

Effective 21 August 2014 Heather Sonn and Eugene Erasmus were appointed as independent non-executive directors, while Keneilwe Moloko was appointed as independent non-executive director effective 6 October 2014.

The new board continues to ensure compliance with governance and transformation requirements, with a valuable mix of business, financial and engineering expertise.

Dividend declaration

In line with group policy, no dividend has been declared (2014: 38 cents interim dividend following the disposal of the geotechnical business). It remains the policy of the group to review the dividend policy annually in light of cash flow, gearing, capital requirements and bank covenants.

Events after the reporting date

As of 1 March 2015, Esor restructured the group into six product areas, namely:

- Building/Housing
- Developments
- Infrastructure
- Pipe services
- Pipelines
- Sanitation

On 2 March 2015, the company received notification from the Construction Industry Development Board ("CIDB") that they were investigating those companies implicated in the Competition Commission enquiry. We are currently in discussions with the CIDB to resolve the matter. The board of the CIDB, on 12 May 2015, resolved to suspend the formal enquiry pending resolution of the legal challenges to its regulations.

There were no other significant events after the reporting date.

Basis of preparation

The summarised consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act applicable to summarised financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the consolidated financial statements, from which the summarised consolidated financial statements were derived, are in terms of International Financial Reporting Standards and are consistent with the accounting policies applied in the preparation of the previous consolidated financial statements. The financial statements that are summarised in this report were prepared by the CFO, Bruce Atkinson.

Audit opinion

This summarised report is extracted from audited information, but is not itself audited. The financial statements were audited by KPMG Inc., who expressed an unmodified opinion thereon.

The audited financial statements and the auditor's report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of the summarised report and the financial information has been correctly extracted from the underlying annual financial statements.

The group audited financial statements, which were prepared under the supervision of the CFO, Bruce Atkinson CA(SA), are available for inspection at the company's registered office and will be included in the Integrated Annual Report 2015 to be posted to stakeholders on or about 28 May 2015.

Annual general meeting

The annual general meeting of the company will be held at the company's offices, 30 Activia Road, Activia Park, Germiston on Friday, 26 June 2015 at 10:00. The notice of annual general meeting forms part of the Integrated Annual Report 2015, to be posted to stakeholders on or about 28 May 2015.

The board of directors of the company determined that, in terms of section 62(3)(a), as read with section 59 of the Companies Act, 2008 (Act 71 of 2008), as amended, the record date for the purposes of determining which shareholders of the company are entitled to participate in and vote at the annual general meeting is Friday, 19 June 2015. Accordingly, the last day to trade Esor shares in order to be recorded in the Register to be entitled to vote will be Thursday, 11 June 2015.

Appreciation

We thank our directors, both existing and new, for their input and commend management and our employees for their ongoing commitment. We also thank our business partners, suppliers, advisors and our valued clients and shareholders for their continued confidence in the group.

On behalf of the board

Bernie Krone
Chairman

Wessel van Zyl
CEO

28 May 2015

Statements of financial position

at 28 February 2015

	Group 2015 R'000	2014 R'000
Assets		
Non-current assets	**475 950**	613 660
Property, plant and equipment	**230 932**	320 135
Goodwill	**155 323**	185 062
Financial asset at fair value through profit or loss	**29 488**	64 923
Deferred tax asset	**10 566**	11 457
Investment and loan to joint venture	**48 880**	–
Loans and long-term receivables	**761**	32 083
Current assets	**753 117**	935 151
Loans and receivables	**35 014**	–
Inventories	**149 374**	221 345
Non-current assets held-for-sale	**20 046**	–
Taxation	**8 014**	13 455
Trade and other receivables	**504 330**	659 928
Cash and cash equivalents	**36 339**	40 423
Total assets	**1 229 067**	1 548 811
Equity and liabilities		
Share capital and reserves	**667 340**	777 219
Share capital and premium	**583 730**	586 145
Equity compensation reserve	**–**	19 213
Foreign currency translation reserve	**27 033**	23 665
Retained earnings	**56 577**	148 196
Non-current liabilities	**121 586**	207 802
Secured borrowings	**101 837**	163 043
Preference shares	**–**	23 424
Deferred tax liability	**19 749**	21 335
Current liabilities	**440 141**	563 790
Current portion of secured borrowings	**82 920**	74 350
Current portion of preference shares	**21 000**	–
Bank overdraft	**–**	19 583
Taxation	**2 644**	19 131
Provisions	**11 458**	13 713
Trade and other payables	**322 119**	437 013
Total equity and liabilities	**1 229 067**	1 548 811

Statement of profit or loss and other comprehensive income

for the year ended 28 February 2015

	Group	
CONTINUING OPERATIONS	**2015 R'000**	2014 R'000
Revenue	**1 448 363**	1 592 835
Cost of sales	**(1 385 681)**	(1 611 624)
Gross profit	**62 682**	(18 789)
Other income	**10 170**	10 564
Operating expenses	**(95 963)**	(127 117)
Loss before interest, tax, amortisation, impairments and depreciation	**(23 111)**	(135 342)
Amortisation, impairments and depreciation	**(78 650)**	(146 419)
Results from operating activities	**(101 761)**	(281 761)
Finance income	**19 538**	4 980
Finance costs	**(22 983)**	(42 420)
Loss before income tax	**(105 206)**	(319 201)
Taxation income	**5 314**	102 862
Loss from continuing operations	**(99 892)**	(216 339)
Discontinued operations		
Profit from discontinued operations, net of income tax	**–**	50 178
Loss	**(99 892)**	(166 161)
Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Foreign currency translation differences for foreign operations	**(9 770)**	25 568
Related taxes	**2 198**	(5 753)
Other comprehensive income, net of tax	**(7 572)**	19 815
Loss attributable to:		
Owners of the company	**(99 892)**	(166 161)
Total comprehensive income attributable to:		
Owners of the company	**(107 464)**	(146 346)
Reconciliation of headline loss:		
Loss after tax	**(99 892)**	(166 161)
Net (profit)/loss on disposal of property, plant and equipment	**(893)**	294
Impairment of property, plant and equipment and goodwill	**29 739**	84 638
Loss on disposal of discontinued operations	**–**	38 190
Headline loss	**(71 046)**	(43 039)

Statement of profit or loss and other comprehensive income (continued)
for the year ended 28 February 2015

	Group	
CONTINUING OPERATIONS	**2015 R'000**	2014 R'000
Reconciliation of headline loss from continuing operations		
Loss after tax	**(99 892)**	(216 339)
Net (profit)/loss on disposal of property, plant and equipment	**(893)**	294
Impairment of property, plant and equipment and goodwill	**29 739**	84 638
Loss on disposal of discontinued operations	**–**	38 190
Headline loss	**(71 046)**	(93 217)
Earnings per share		
Basic loss per share (cents)	**(26,4)**	(43,5)
Diluted loss per share (cents)	**(26,4)**	(43,5)
Headline loss per share (cents)	**(18,8)**	(11,3)
Diluted headline loss per share (cents)	**(18,8)**	(11,3)
Net asset value per share (cents)	**178,3**	203,5
Net tangible asset value per share (cents)	**148,4**	168,6
Earnings per share from continuing operations		
Basic loss per share (cents)	**(26,4)**	(56,6)
Diluted loss per share (cents)	**(26,4)**	(56,6)
Headline loss per share (cents)	**(18,8)**	(24,4)
Diluted headline loss per share (cents)	**(18,8)**	(24,4)
Earnings per share from discontinued operations		
Basic earnings per share (cents)	**–**	13,1
Diluted earnings per share (cents)	**–**	13,1
Headline earnings per share (cents)	**–**	13,1
Diluted headline earnings per share (cents)	**–**	13,1

Statements of changes in equity

for the year ended 28 February 2015

Group	Share capital R'000	Share premium R'000	Equity compen-sation reserve R'000	Foreign currency translation reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 28 February 2013	376	570 924	18 606	3 850	459 506	1 053 262
Loss for the year	–	–	–	–	(166 161)	(166 161)
Other comprehensive income	–	–	–	19 815	–	19 815
Total comprehensive income for the year	–	–	–	19 815	(166 161)	(146 346)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	–	–	–	–	(145 149)	(145 149)
Share-based payment transactions	–	–	607	–	–	607
Treasury shares – disposed	6	14 839	–	–	–	14 845
Total transactions with owners	6	14 839	607	–	(145 149)	(129 697)
Balance at 28 February 2014	**382**	**585 763**	**19 213**	**23 665**	**148 196**	**777 219**
Loss for the year	**–**	**–**	**–**	**–**	**(99 892)**	**(99 892)**
Other comprehensive income	**–**	**–**	**–**	**(7 572)**	**–**	**(7 572)**
Total comprehensive income for the year	**–**	**–**	**–**	**(7 572)**	**(99 892)**	**(107 464)**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Transfer to retained earnings	**–**	**–**	**(19 213)**	**10 940**	**8 273**	**–**
Shares acquired	**(8)**	**(2 407)**	**–**	**–**	**–**	**(2 415)**
Total transactions with owners	**(8)**	**(2 407)**	**(19 213)**	**10 940**	**8 273**	**(2 415)**
Balance at 28 February 2015	**374**	**583 356**	**–**	**27 033**	**56 577**	**667 340**

Statements of cash flow

for the year ended 28 February 2015

	Group	
	2015 R'000	2014 R'000
Cash flows from operating activities	**97 943**	(279 069)
Cash receipts from customers	**1 643 961**	1 487 579
Cash paid to suppliers and employees	**(1 532 274)**	(1 575 788)
Cash generated by/(utilised in) operations	**111 687**	(88 209)
Finance income	**19 538**	25 957
Finance costs	**(22 983)**	(71 213)
Dividends paid	**–**	(145 149)
Taxation paid	**(10 299)**	(455)
Cash flows from investing activities	**(27 393)**	422 816
Additions to property, plant and equipment	**(20 468)**	(52 564)
Proceeds on disposal of property, plant and equipment	**41 954**	79 312
Acquisition of business, net of cash	*****	(40 558)
Loan advanced to joint venture	**(48 880)**	–
Disposal of discontinued operations, net of cash	**1**	437 387
Investments acquired	**–**	(761)
Cash flows from financing activities	**(55 051)**	(156 495)
Decrease in secured borrowings	**(52 636)**	(171 340)
Shares acquired	**(2 415)**	–
Proceeds from share issue, net of issue expenses	**–**	14 845
Net increase/(decrease) in cash and cash equivalents	**15 499**	(12 748)
Net cash and cash equivalents at beginning of year	**20 840**	33 588
Cash and cash equivalents at end of year	**36 339**	20 840

* *Less than R1 000*

Operating segments

The group has three reportable segments, which are the group's strategic business units.

	Civils R'000	Pipelines R'000	Development R'000	Corporate and eliminations R'000	Consolidated R'000
Group					
2015					
External revenue	**787 983**	**584 507**	**75 873**	**–**	**1 448 363**
Inter-segment revenue	**–**	**50 824**	**–**	**(50 824)**	**–**
Segment revenue	**787 983**	**635 331**	**75 873**	**(50 824)**	**1 448 363**
Segment result					
(Loss)/profit before interest and taxation	**(48 256)**	**35 470**	**4 297**	**(93 272)**	**(101 761)**
Net finance (cost)/income	**(8 063)**	**2 012**	**(4 000)**	**6 606**	**(3 445)**
Taxation	**20 948**	**8 948**	**(1 668)**	**(22 914)**	**5 314**
Segment (loss)/profit	**(35 371)**	**46 430**	**(1 371)**	**(109 580)**	**(99 892)**
Segment assets	**415 710**	**359 878**	**196 644**	**216 835**	**1 189 067**
Segment liabilities	**554 770**	**263 774**	**179 773**	**(476 590)**	**521 727**
Capital and non-cash items					
Additions to property, plant and equipment	**4 243**	**11 496**	**–**	**4 729**	**20 468**
Depreciation	**2 920**	**14 024**	**–**	**31 967**	**48 911**
Impairment loss	**–**	**–**	**–**	**29 739**	**29 739**
Number of employees	**1 287**	**1 094**	**3**	**154**	**2 538**

	Civils R'000	Pipelines R'000	Development R'000	Geotechnical R'000	Corporate and eliminations R'000	Consolidated R'000
Group						
2014						
External revenue	961 599	579 285	63 356	712 646	–	2 316 887
Inter-segment revenue	42 690	–	–	11 406	(54 096)	–
Segment revenue	1 004 289	579 285	63 356	724 052	(54 096)	2 316 887
Segment result						
(Loss)/profit before interest and taxation	(183 881)	39 892	1 404	71 037	(139 176)	(210 724)
Net finance (cost)/income	(15 179)	1 318	(342)	(6 644)	(23 237)	(44 084)
Taxation	56 514	(11 891)	(100)	(14 215)	58 339	88 647
Segment (loss)/profit	(142 546)	29 319	962	50 178	(104 074)	(166 161)

Segmental analysis (continued)

	Civils R'000	Pipelines R'000	Develop-ment R'000	Geo-technical R'000	Corporate and eliminations R'000	Consoli-dated R'000
Segment assets	788 590	254 857	264 454	–	313 449	1 621 350
Segment liabilities	875 797	204 802	245 312	–	(481 780)	844 131
Capital and non-cash items						
Additions to property, plant and equipment	26 313	9 596	–	14 538	2 117	52 564
Depreciation	50 257	6 176	–	23 435	5 347	85 215
Impairment loss	–	–	–	–	84 446	84 446
Number of employees	1 969	1 163	3	–	35	3 170

Revenue generated from significant customers includes:

Customer	Business unit	**2015 R'000**	2014 R'000
Eskom Holdings SOC Limited	Civils	**566 120**	596 492
Department of Human Settlements	Civils	**49 792**	–
Airports Company South Africa	Civils	**30 224**	–
Umgeni Water	Pipelines	**77 744**	146 064
Ethekwini Municipality	Pipelines	**335 845**	98 824
uThukela Municipality	Pipelines	**33 766**	–
Bakwena Platinum Corridor Concessionaire (Pty) Limited	Civils	**–**	69 213
Anglo American Inyosi Coal	Civils	**–**	47 672
Rand Water	Pipelines	**29 035**	23 484
Katu Developers (Pty) Ltd	Civils	**–**	59 990

	South Africa		Other regions		Consolidated	
Geographical information	**2015 R'000**	2014 R'000	**2015 R'000**	2014 R'000	**2015 R'000**	2014 R'000
Total revenue from external customers	**1 447 464**	2 015 474	**899**	301 413	**1 448 363**	2 316 887
Property, plant and equipment	**249 857**	319 014	**1 121**	1 121	**250 978**	320 135

Financial asset at fair value through profit or loss

The contingent consideration receivable, a Level 3 financial asset, arose from the disposal of the discontinued operation in the comparative period, which includes a clause that entitles the seller to an amount of R150 million if the discontinued operation's cumulative EBITDA over the next three years exceeds a threshold. The fair value is determined considering the estimated receivable, discounted to present value. The fair value is based on key unobservable inputs of EBITDA growth of the business of 3% and 12% in the years ending December 2015 and 2016 respectively, and a discount factor of 9%. Prior year growth was calculated at 8%. The fair value was determined by the group finance department. Scenarios on EBITDA growth were developed by management together with management of the discontinued operation considering the economy generally and their knowledge of the geotechnical business. The estimated fair value increases the higher the annual EBITDA growth rate, the higher the EBITDA margin and the lower the discount rate. Management considers that changing the above mentioned unobservable inputs to reflect other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

Directors: B Krone (Chairman)+; WC van Zyl (CEO); BW Atkinson (CFO); EG Dube*; E Erasmus*;
Dr OW Franks* (Lead Independent); KR Moloko*; HJ Sonn* * *Independent non-executive* + *Non-executive*

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