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')

# Reviewed condensed consolidated interim results for the six months ended 31 August 2015

## Highlights
Return to profitability
HEPS up 131%
2 year order book of R1,62 billion
Gearing reduced to 18%
Developments division on track and delivering positive results
Level 3 B-BBEE rating maintained

## Commentary
### Introduction
The reviewed condensed consolidated interim results for the six months to August 2015 ('the period') saw the group successfully return to profitability following previous loss-making periods. The full integration of the group restructure, which included the rationalisation of the Civils operations, and a 'back to basics' approach were key drivers of restoring bottom line health. Trading conditions remained challenging in the period.

### Financial results
Revenue for the period was flat at R773 million (2014: R790 million). Esor nonetheless posted profit before tax of R10,8 million to reverse the R32,5 million loss before tax in the comparative period. This translated into positive headline earnings per share of 2,0 cents (2014: headline loss of 6,59 cents per share). Profit was slightly curtailed by losses on an RDP housing project in KwaZulu-Natal (see Review of operations). Borrowings improved with the group settling vehicle asset finance of R42,7 million. A comfortable gearing level of 18,4% has been achieved.

Cash flow improved 11,6% on February 2015 with the group ending the period with R40,5 million cash on hand.

Following approval of the Esor Limited Share Plan at the annual general meeting on 26 June 2015, the group repurchased 4,7 million treasury shares during the period.

### Safety
As previously announced, Esor experienced a regrettable fatality at the Northern Aqueduct project on 2 April 2015. Esor again extends its condolences to the family and colleagues. Any loss of life impacts the wider Esor family and steps have been put in place to prevent further such incidents.

During the period Esor achieved two million lost-time injury-free hours at the Kusile project. The group Lost Time Injury Frequency Ratio ('LTIFR') at 31 August was 0,59 (2014: 0,39) although above the group target still a world-class achievement. Esor 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 performed largely on budget despite the low-cost housing loss-making contract impacting profit. Esor incurred a R10 million loss at the Umzumbe low-cost housing project in KwaZulu-Natal due to excessive rain, increased transport costs, subcontractor delays and increased plant requirements, all impacting project time overruns. These issues have been addressed and steps put in place to avoid similar occurrences. The group has accounted for all expected losses and the project is due for completion in April 2016.

Esor reports in two core divisions being Esor Developments and Esor Construction. The construction division has five focus areas: Esor Infrastructure, Esor Building and Housing, Esor Pipelines, Esor Sanitation and Esor Pipe Services.

### Esor Construction
Esor Infrastructure remained focused on the Kusile project where the terrace underground facilities works contract and the general services piping are currently under way. The Kusile project is on track and has achieved the set milestones of 'ready for coal stock out' and 'raw water available' within the milestone dates set. Claims on both Package 25 and 26 remain outstanding and the group remains focused on entrenching its strong relationship with Eskom, who has proven a reliable debtor. Resolution on the Package 25 claim is expected by the end of the calendar year while Package 26 claims are being dealt with through the project.

In line with strategy the division focused mainly on current work, limiting work to the Kusile project as above, ongoing projects and some internal infrastructure work for Esor Developments. However, the division has recently started to price new work in areas of core competence such as infrastructure and smaller roadworks projects.

Ongoing projects in Esor Building and Housing continued to progress well, with upgrades for ACSA to the OR Tambo Duty-free Mall and the SAA Domestic Lounge as well as the Eloff Street office renovation for Transnet. Smaller new projects awarded in the period included a regeneration project in Maboneng Johannesburg and upgrading of parking facilities at the Randburg Home Affairs building.

This division is tasked with the completion of the current RDP housing projects that were awarded two years ago and is expected to complete the last of the current awarded contracts by March 2016.

The order book for the combined divisions (Esor Infrastructure and Esor Building and Housing) at 31 August was R902 million (2014: R1 billion), now including the Diepsloot project previously allocated to Esor Developments' order book.

Esor Pipelines and the newly formed Esor Sanitation continued to perform solidly and within budget. The Western Aqueduct project is progressing well while the current eThekwini sanitation contract has been completed and only final accounts are outstanding. The group continually engages with clients on the major projects to find solutions on outstanding claims.

Esor Pipe Services continued to grow both locally and cross-border while securing longer term contracts at Steelpoort and the O6 pipeline. Esor remains the recognised leader in South Africa with a track record in excess of 30 years.

Esor Pipelines, Sanitation and Pipe Services had an order book of R604 million (2014: R605 million) at 31 August 2015.

Esor Developments

The division progressed well in implementing current projects and is now contributing positively to group performance despite delays in the Diepsloot project. Esor eliminated its market volatility risk on the Orchards development with the conclusion of an exclusivity sale agreement for all remaining stands to RBA Homes. The deal is backed by guarantees from Old Mutual. The preference share repayment terms have been restructured to coincide with the project cash flows.

Environmental delays and objections lodged by neighbouring residents continue to delay the Diepsloot development that is currently estimated to commence with infrastructure work only in Q1 2017.

The group is currently finalising negotiations for a 1 000+ unit low-cost housing development in Khayelitsha in partnership with the current land owner. This will secure both infrastructure and top structure opportunities within the next three months.

At 31 August the division's order book stood at R116 million (2014: R725 million) with a pipeline in excess of R1 billion, reflecting the transfer of projects to the Esor Infrastructure and Esor Building and Housing order book.

In Africa the group has progressed in line with strategy and has secured two projects in Botswana and completed three small piling jobs in Zimbabwe, where the group has no restraint of trade following the sale of Franki. The Pipelines projects in Swaziland continue to progress well. Revenue from operations outside South Africa totalled R18 million (2014: Nil) during the period.

CAPEX

There were no significant capital expenditure investments during the period. A further R28,9 million of underutilised plant was disposed of. The approach to capital remains to balance the percentage of owned plant to rental plant.

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') holds a 5,32% stake in the company. Following the approval of the Esor Share Plan at the June 2015 AGM, the company acquired 4 721 762 shares to hedge the volatility in the share price.

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

Prospects

The general market outlook is expected to fare neither worse nor better in the foreseeable future. There has been a slight uptick in tender activity although no commensurate increase in awards.

At 31 August the group order book totalled R1,62 billion (February 2015: R1,94 billion), marking a decline in line with industry conditions as well as the group's strategy of focusing on existing work.

Pending awards total R681 million on a par with February 2015.

The board anticipates Esor's recovery to continue into the year ahead. The benefits of the restructure and a more streamlined group are expected to continue, with Esor Developments and Pipe Services poised for growth.

Directorate

Eugene Erasmus and Ethan Dube resigned as independent non-executive directors effective 22 May and 17 July 2015, respectively. The board thanks them for their valuable contribution and guidance during their tenure.

The board believes the size and skills mix of the current board, which includes business, finance, engineering and legal expertise, is appropriate to the size and diversity of the business.

Dividend declaration

In line with group policy, no dividend has been declared (2014: Nil). 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

There were no significant events after the reporting date.

Statement of compliance

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements.

The financial statements have been prepared under supervision of the CFO, Mr B Atkinson CA(SA), and were approved by the board on 29 October 2015.

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 directors for their wise counsel and management and all employees for their ongoing hard work and 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

5 November 2015

Condensed consolidated statement of financial position
at 31 August 2015

| | Reviewed 31 August 2015 R'000 | Reviewed 31 August 2014 R'000 | Audited 28 February 2015 R'000 |
|---|---|---|---|
| Assets | | | |
| Non-current assets | 457 168 | 587 727 | 475 950 |
| Property, plant and equipment | 208 786 | 289 719 | 230 932 |
| Goodwill | 155 323 | 185 062 | 155 323 |
| Loans and long-term receivables | 761 | 36 630 | 761 |
| Financial assets at fair value through profit or loss | 29 488 | 64 923 | 29 488 |
| Deferred tax asset | 11 805 | 11 393 | 10 566 |
| Investment and loan to joint venture | 51 005 | – | 48 880 |
| Current assets | 656 073 | 903 953 | 753 117 |
| Loans and receivables | 37 619 | – | 35 014 |
| Inventories | 127 222 | 228 536 | 149 374 |
| Non-current assets held for sale | – | – | 20 046 |
| Taxation | 2 692 | – | 8 014 |
| Trade and other receivables | 448 003 | 624 736 | 504 330 |
| Cash and cash equivalents | 40 537 | 50 681 | 36 339 |
| Total assets | 1 113 241 | 1 491 680 | 1 229 067 |
| Equity and liabilities | | | |
| Share capital and reserves | 673 420 | 742 475 | 667 340 |
| Share capital and premium | 582 381 | 583 730 | 583 730 |
| Foreign currency translation reserve | 16 040 | 12 970 | 27 033 |
| Retained earnings | 74 999 | 145 775 | 56 577 |
| Non-current liabilities | 110 100 | 159 514 | 121 586 |
| Secured borrowings* | 83 984 | 123 372 | 101 837 |
| Preference shares* | 5 000 | 22 279 | – |
| Deferred tax liabilities | 21 116 | 13 863 | 19 749 |
| Current liabilities | 329 721 | 589 691 | 440 141 |
| Current portion of secured borrowings* | 58 116 | 105 216 | 82 920 |
| Current portion of preference shares* | 5 239 | – | 21 000 |
| Taxation | – | 7 337 | 2 644 |
| Provisions | 12 813 | 15 817 | 11 458 |
| Trade and other payables | 253 553 | 461 321 | 322 119 |

| | | | |
|---|---|---|---|
| Total equity and liabilities | 1 113 241 | 1 491 680 | 1 229 067 |
| Net asset value per share (cents) | 182,3 | 198,4 | 178,3 |
| Tangible net asset value per share (cents)** | 152,0 | 162,8 | 148,4 |

* Interest-bearing debt.
** (Net asset value less intangible assets net of deferred tax)/issued shares at period end.

Condensed consolidated statement of comprehensive income
for the six months ended 31 August 2015

| | Reviewed 6 months ended 31 August 2015 R'000 | Reviewed 6 months ended 31 August 2014 R'000 | Change % | Audited year ended 28 February 2015 R'000 |
|---|---|---|---|---|
| Revenue | 772 551 | 789 831 | (2,2) | 1 448 363 |
| Cost of sales | (721 088) | (756 908) | 4,7 | (1 385 681) |
| Gross profit | 51 463 | 32 923 | 56,3 | 62 682 |
| Other income | 10 876 | 5 612 | 93,8 | 10 170 |
| Operating expenses | (32 760) | (45 553) | 28,1 | (95 963) |
| Profit/(loss) before interest, tax, amortisation, impairments and depreciation | 29 579 | (7 018) | 521,5 | (23 111) |
| Depreciation, impairments and amortisation | (16 385) | (23 920) | 31,5 | (78 650) |
| Results from operating activities | 13 194 | (30 938) | 142,6 | (101 761) |
| Finance costs | (6 880) | (7 544) | 8,8 | (22 983) |
| Finance income | 4 445 | 5 944 | (25,2) | 19 538 |
| Profit/(loss) before tax | 10 759 | (32 538) | 133,1 | (105 206) |
| Taxation | (4 599) | 8 546 | 153,8 | 5 314 |
| Profit/(loss) for the period | 6 160 | (23 992) | 125,7 | (99 892) |
| Other comprehensive income: | | | | |
| Foreign currency translation differences for foreign operations | (1 627) | (9 808) | 83,41 | (9 770) |
| Income tax on other comprehensive income | 358 | 1 471 | (75,7) | 2 198 |
| Other comprehensive income for the period, net of tax | (1 269) | (8 337) | 84,8 | (7 572) |
| Total comprehensive income attributable to: | | | | |
| Owners of the company | 4 891 | (32 329) | 115,1 | (107 464) |
| Basic earnings/(loss) per share (cents) | 1,65 | (6,28) | 126,3 | (26,4) |
| Diluted earnings/(loss) per share (cents) | 1,65 | (6,28) | 126,3 | (26,4) |
| Reconciliation of headline earnings | | | | |
| Profit attributable to ordinary shareholders | 6 160 | (23 992) | 125,7 | (99 892) |
| Adjusted for: | | | | |
| Loss/(profit) on disposal of property, plant and equipment | 1 371 | (1 147) | (219,5) | (893) |
| Impairment of goodwill | – | – | – | 29 739 |
| Headline earnings/(loss) attributable to ordinary shareholders | 7 531 | (25 139) | 130,0 | (71 046) |
| Number of ordinary shares in issue ('000) | 395 185 | 395 185 | | 395 185 |
| Diluted weighted average | 374 096 | 381 747 | | 378 109 |
| Weighted average | 374 096 | 381 747 | | 378 109 |
| Headline earnings/(loss) per share (cents) | 2,01 | (6,59) | 130,5 | (18,8) |

Condensed consolidated statement of changes in equity
for the six months ended 31 August 2015

| R'000 | Share capital | Share premium | Equity compen-sation reserve |
|---|---|---|---|
| Balance at 1 March 2014 | 382 | 585 763 | 19 213 |
| Loss for the period | | | |
| Other comprehensive income | | | |
| Foreign currency translation differences for foreign operations | | | |
| Total other comprehensive income | – | – | – |
| Total comprehensive income for the period | – | – | – |
| Transactions with owners, recorded directly in equity | | | |
| Contributions by and distributions to owners | | | |
| Shares acquired | (8) | (2 407) | |
| Transfer to retained earnings | | | (19 213) |

| | | | |
|---|---|---|---|
| Total contributions by and distributions to owners | (8) | (2 407) | (19 213) |
| Balance at 31 August 2014 | 374 | 583 356 | – |
| Balance at 1 March 2015 | 374 | 583 356 | – |
| Profit for the period | | | |
| Other comprehensive income | | | |
| Foreign currency translation differences for foreign operations | | | |
| Total other comprehensive income | – | – | – |
| Total comprehensive income for the period | – | – | – |
| Transactions with owners, recorded directly in equity | | | |
| Contributions by and distributions to owners | | | |
| Shares acquired | (5) | (1 344) | |
| Foreign currency translation differences transferred to retained earnings | | | |
| Total contributions by and distributions to owners | (5) | (1 344) | – |
| Balance at 31 August 2015 | 369 | 582 012 | – |

| R'000 | Translation reserve | Retained earnings | Total equity |
|---|---|---|---|
| Balance at 1 March 2014 | 23 665 | 148 196 | 777 219 |
| Loss for the period | | (23 992) | (23 992) |
| Other comprehensive income | | | |
| Foreign currency translation differences for foreign operations | (8 337) | | (8 337) |
| Total other comprehensive income | (8 337) | – | (8 337) |
| Total comprehensive income for the period | (8 337) | (23 992) | (32 329) |
| Transactions with owners, recorded directly in equity | | | |
| Contributions by and distributions to owners | | | |
| Shares acquired | | | (2 415) |
| Transfer to retained earnings | (2 358) | 21 571 | – |
| Total contributions by and distributions to owners | (2 358) | 21 571 | (2 415) |
| Balance at 31 August 2014 | 12 970 | 145 775 | 742 475 |
| Balance at 1 March 2015 | 27 033 | 56 577 | 667 340 |
| Profit for the period | | 6 160 | 6 160 |
| Other comprehensive income | | | |
| Foreign currency translation differences for foreign operations | 1 269 | | 1 269 |
| Total other comprehensive income | 1 269 | – | 1 269 |
| Total comprehensive income for the period | 1 269 | 6 160 | 7 429 |
| Transactions with owners, recorded directly in equity | | | |
| Contributions by and distributions to owners | | | |
| Shares acquired | | | (1 349) |
| Foreign currency translation differences transferred to retained earnings | (12 262) | 12 262 | – |
| Total contributions by and distributions to owners | (12 262) | 12 262 | (1 349) |
| Balance at 31 August 2015 | 16 040 | 74 999 | 673 420 |

Condensed consolidated statement of cash flows
for the six months ended 31 August 2015

| | Reviewed 6 months ended 31 August 2015 R'000 | Reviewed 6 months ended 31 August 2014 R'000 | Audited year ended 28 February 2015 R'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Profit/(loss) before taxation | 10 759 | (32 538) | (105 206) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 16 385 | 23 920 | 48 911 |
| Impairment of intangible assets | – | – | 29 739 |
| Amortisation and fair value adjustments of financial assets | – | – | 35 444 |
| Loss/(profit) on disposal of property, plant and equipment | 1 904 | (1 593) | (1 240) |
| Foreign currency adjustment | (4 573) | (8 337) | (9 816) |
| Income tax (paid)/refund | (1 793) | 2 799 | (10 299) |
| | 22 682 | 15 749 | (12 467) |
| Change in inventories | 22 152 | (7 191) | 23 210 |
| Change in trade and other receivables | 56 327 | 35 192 | 151 381 |
| Change in trade and other payables | (68 566) | 24 308 | (61 926) |
| Change in provisions | 1 355 | 2 104 | (2 255) |
| Net cash generated from operations | 33 950 | 38 664 | 97 943 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | 26 804 | 20 089 | 41 954 |
| Loan advanced to joint venture | – | – | (48 880) |

| | | | |
|---|---|---|---|
| Acquisition of property, plant and equipment | (2 050) | (12 000) | (20 468) |
| Disposal of discontinued operation, net of cash | – | – | 1 |
| Acquisition of other investments | – | (4 547) | – |
| Net cash generated by/(used in) investing activities | 24 754 | 3 542 | (27 393) |
| Cash flows from financing activities | | | |
| Preference shares redeemed | (10 500) | – | – |
| Decrease in secured borrowings | (42 657) | (9 950) | (52 636) |
| Shares acquired | (1 349) | (2 415) | (2 415) |
| Net cash generated by financing activities | (54 506) | (12 365) | (55 051) |
| Net decrease in cash and cash equivalents | 4 198 | 29 841 | 15 499 |
| Cash and cash equivalents at beginning of period | 36 339 | 20 840 | 20 840 |
| Cash and cash equivalents at end of period | 40 537 | 50 681 | 36 339 |

Information about reportable segments
for the six months ended 31 August 2015/ twelve months ended 28 February 2015

| Operating segment | August 2015 R'000 | August* 2014 R'000 | February* 2015 R'000 |
|---|---|---|---|
| Construction | | | |
| Segment revenues | 726 869 | 781 852 | 1 423 314 |
| Reportable segment profit/(loss) before income tax | 16 632 | (28 834) | (18 857) |
| Reportable segment assets | 659 664 | 938 448 | 775 588 |
| Developments | | | |
| Segment revenues | 47 883 | 32 075 | 75 873 |
| Reportable segment profit/(loss) before income tax | 5 446 | (688) | 297 |
| Reportable segment assets | 121 213 | 244 321 | 196 644 |
| Corporate and eliminations | | | |
| Segment revenues | (2 201) | (24 096) | (50 824) |
| Reportable segment loss before income tax | (11 319) | (3 016) | (86 666) |
| Reportable segment assets | 332 364 | 308 911 | 216 835 |
| Consolidated | | | |
| Segment revenues | 772 551 | 789 831 | 1 448 363 |
| Reportable segment profit/(loss) before income tax | 10 759 | (32 538) | (105 206) |
| Reportable segment assets | 1 113 241 | 1 491 680 | 1 229 067 |
| Geographical information | | | |
| South Africa | | | |
| Total revenue | 754 706 | 789 831 | 1 447 464 |
| Reportable segment profit/(loss) before income tax | 9 164 | (32 538) | (101 350) |
| Total assets | 1 097 725 | 1 491 680 | 1 227 946 |
| Other regions | | | |
| Total revenue | 17 845 | – | 899 |
| Reportable segment profit/(loss) before income tax | 1 595 | – | (3 856) |
| Total assets | 15 516 | – | 1 121 |
| Consolidated | | | |
| Total revenue | 772 551 | 789 831 | 1 448 363 |
| Reportable segment profit/(loss) before income tax | 10 759 | (32 538) | (105 206) |
| Total assets | 1 113 241 | 1 491 680 | 1 229 067 |

* Comparative amounts have been revised to reflect the new reporting structure of the group as indicated on page 1 of the commentary.

Disposal of business unit
for the six months ended 31 August/ twelve months ended 28 February

| | 31 August 2015 R'000 | 31 August 2014 R'000 | 28 February 2015 R'000 |
|---|---|---|---|
| Inventories | – | – | 48 761 |
| Trade and other receivables | – | – | 4 208 |
| Cash | – | – | (1) |
| Post-retirement benefits | – | – | (48 880) |
| Trade and other payables | – | – | (4 087) |
| Net asset value | – | – | 1 |
| Profit on disposal | | | – |
| Net cash outflow | – | – | 1 |

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 2014 year, 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)
Dr OW Franks* (Lead Independent)
KR Moloko*
HJ Sonn*
* Independent non-executive
# Non-executive

Company secretary
iThemba Governance and Statutory Solutions (Pty) Limited
Monument Office Park
Suite 5 - 102 79 Steenbok Avenue
Monumentpark
0181

PO Box 25160
Monumentpark
0181

Registered office
30 Activia Road
Activia Park
Germiston
1401

PO Box 6478
Dunswart
1508
Telephone: +27 11 776 8700
Fax: +27 11 822 1158

Sponsor
Vunani Corporate Finance
Vunani House
Vunani Office Park
151 Katherine Street
Sandton, 2196

PO Box 652 419
Benmore
2010

Transfer secretaries
Computershare Investor Services (Pty) Limited
70 Marshall Street
Johannesburg
2001

PO Box 61051
Marshalltown
2107

Investor relations
Envisage Investor & Corporate Relations
16th Floor
Sinosteel Plaza
159 Rivonia Road Morningside Ext
Sandton