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')

Abridged consolidated results for the year ended 29 February 2016 and notice of annual general meeting

Highlights
- Operating profit up 103,4%
- HEPS up 176,6%
- Order book of R1,7 billion
- Gearing reduced to 15,0%
- Developments division matures and achieving targets

Commentary

Introduction
The abridged consolidated results for the year ended 29 February 2016 ('the year') continued the positive trajectory for Esor. In the first six months the group returned to profitability. The second half of the year performed as expected to achieve a largely break-even position, impacted by quality issues on the Northern Aqueduct, the December builders' break and macro economic conditions forcing some clients into financial distress. The group remained profitable overall and returned earnings of R3,7 million for the year compared to a loss of R99,9 million at February 2015.

The return to profitability follows a successful restructure that has resulted in a more stable platform for growth. The process saw group supporting functions centralised for improved efficiency - health, safety and environment, tendering, commercial, plant & yard and finance - and incurred further retrenchment costs of R3,4 million (R12,1 million in the previous year).

The streamlining also saw the group reorganised into two core divisions - Esor Construction and Esor Developments, driven by the need to properly leverage our areas of expertise and focus on product delivery.

Continuing our drive for focus, post year-end Esor Construction has been regionally divided into Inland and Coastal, each still focusing on five product lines: infrastructure, pipelines, pipe services, building and housing and sanitation. This move will enable the group to focus on all product lines in all regions of southern Africa and so opens new geographic markets.

Esor work on hand at R1,7 billion is still largely dependent on Government contracts, with 86% secured revenue from National, Provincial and Local Government and parastatals. We focus on debt collection and cash management and are currently not exposed to any Government overdue accounts.

Financial results
Revenue was impacted by the strategic consolidation initiatives as well as delays in awards and in the implementation of the Diepsloot mixed-use housing development, and reduced by 0,9% to R1,44 billion. Earnings improved to a profit of R3,7 million compared to a loss of R99,9 million in the comparative period. This translated to a basic earnings per share of 1,0 cents compared to a basic loss per share of 26,4 cents in 2015. Headline earnings per share improved to 14,4 cents at February 2016 (FY 2015 loss of 18,8 cents per share).

Cash flow improved by R6,1 million or 16,7% on February 2015 with the group reporting R42,4 million cash on hand at February 2016. Gearing was further reduced to a comfortable level of 15,0% after repaying R96,1 million of debt during the year.

Following the approval of the long-term incentive plan, namely the Esor Limited Share Plan, at the AGM on 26 June 2015, Esor acquired 9,2 million shares at a cost of R2,7 million to hedge against future volatility that resulted in a R72 000 IFRS 2 charge for the year.

Safety
Health and safety remains a priority and the group adheres to a Zero Harm approach. The Lost Time Injury Frequency Ratio ('LTIFR') at year-end was 0,47 (2015: 0,37). The increase was a result of a number of preventable accidents and to address the slight increase in incidents at certain projects, we increased training and mentoring efforts as well as visible felt leadership initiatives supported with quarterly compliance audits.

Review of operations
For the year under review the group reported in two divisions: Esor Construction and Esor Developments.

Esor Construction
A tough macro economic landscape adversely impacted the operating environment. Depressed commodity prices and low demand for minerals and oil affected group activity and credit downgrades and interest rate hikes further pressured contract awards, resulting in tighter commercial terms and extended payment terms.

Infrastructure
The Kusile power station contract remained a positive for the group. A key project milestone

was moved forward from December 2016 to September 2016 and negotiations for consequent acceleration are underway. Unresolved claims in the ordinary course, amounting to R105 million on the underground terraces contract, remain under negotiation with a number of these at an advanced stage. Historical claims to March 2014 were settled in full and we are confident that the current claims under negotiation will be resolved within the next three months.

Pipelines

The Western Aqueduct contract remains on track with good quality control and within budget. The pipelines business in KwaZulu-Natal is expected to perform well over the next two to three years given the number of current projects and exciting prospects. The Northern Aqueduct contracts are presently subjected to penalties following certain quality issues that were detected late in the project and the resultant overrun in contractual completion dates. Additional resources were deployed to correct and complete the project within specifications and the revised agreed timelines. However, these impacted the group's cash position. Insurance claims have been submitted to our insurer who is currently in the process of obtaining additional information in assessing the claim. We, together with our legal team, are confident that the costs of repair will be recovered under the relevant insurance contract. Nonetheless we have traded a R59,8 million loss in FY16 in recognition of the contract as onerous. None of the pending insurance claim has been recognised.

In Limpopo projects for the province, municipalities and mines have been awarded to Esor over the last 12 months and as a result we opened an office in Polokwane during the year. Esor was awarded the R230 million Vuwani project and two emergency projects through the provincial pipeline emergency repairs programme on which we are a preferred supplier.

Pipe Services

Esor gained market share in pipejacking with revenue that doubled during the year. The outlook is promising with a number of larger projects coming to market. We have completed the complex jacks in Steelpoort post year-end as well as performing to programme and project managing the 06 Pipeline and pipejacks in Johannesburg. The division has also been awarded three pipejacking contracts in Botswana, extending our footprint into Africa.

Building & housing

Revenue doubled for the year through the ACSA Duty Free upgrade, Platinum Place refurbishment and SAA lounge upgrade, although margins were tight. The Transnet, Craftsmanship and Westgate Shopping Centre upgrades are currently underway. The building sector is starting to settle and we expect to see larger-scale jobs coming to market in the long term.
We have completed the two RDP housing projects in KwaZulu-Natal, which was a learning curve for the company. Unknown terrain, unreliable subcontractors and late start-ups resulted in a R15,9 million loss in the 2016 financial year, largely accounted for in the interim results. We have reassessed our approach to RDP housing projects and aligned with Bigen Africa, a consultancy firm that designs RDP houses, and are submitting joint proposals. Once successful, this will reduce our risk to delivery by Bigen Africa becoming the Implementation Agent and taking responsibility for the entire process.

Sanitation

The eThekwini project has been completed and was awarded 'Best sanitation project in South Africa', providing us the best model for sanitation roll-out. There are definite opportunities although sanitation, as an area of government spend, has been slow to take off. We have tendered for a number of treatment plant upgrades and remain focused on this area.

Esor Developments

The affordable housing project in Khayelitsha will be undertaken in joint venture with the Khayelitsha Community Trust. The bankability study and contractual agreements are currently being finalised. We will develop 368 stands that are already serviced with a further potential 1 000 mixed-use opportunities over three to five years. We are presently awaiting approval for the ready-to-build design for affordable housing of R400 000 to R500 000 a unit.

We are also in the final phase of servicing the remaining 360 stands at Orchards. After concluding an exclusivity agreement with RBA, guaranteed by HIFSA, we have de-risked our balance sheet. Registration of these stands is expected in January 2017. The previous phase was successfully completed, handed over and registered in the name of RBA at the end of the 2016 financial year.

Uitvlugt in the Vaal Triangle has been negatively impacted by a stagnant economy in the area and we are accordingly taking a phased approach to the project. We are finalising the township layouts and obtaining the necessary approvals. Further infrastructure investments will only be done when the market picks up.

Delays at Diepsloot continue as a result of environmental objections, which were overruled post year-end and the project is currently in the final phases of township layout and approvals. In terms of our agreement with Calgro M3, Esor is due a payment of R23 million by November 2016 regardless of the project progress at that time. We maintain first right of refusal on all infrastructure work as well as 50% of the top structure work.

Africa

Africa remains a hotbed of growth with a number of opportunities in Zimbabwe, particularly in the non-Government sector. Since there is no restraint of trade restriction in the sale agreement of the Franki business, we are also able to capitalise on piling and lateral support projects in the country. We are currently working on three pipejacking projects in Botswana valued together at R28 million and progressing well on the European Union-funded Malkerns Canal Project in

Swaziland. Our African projects continue to offer a foreign currency hedge, which is favourable in a weak Rand climate, and now account for 3% of revenue.

CAPEX

Capital expenditure of R6,7 million (2015: R20,5 million) was comparatively low year-on-year as existing plant is sufficient for current needs. All plant and equipment was consolidated into a single group-wide department under Support Services in the year, and centralised in one yard. This resulted in significant cost savings and better control.

An increase in investment is expected in the next two to three years to maintain the current fleet and balance the average age.

Transformation

Esor maintained its Level 3 B-BBEE accreditation in terms the Department of Trade & Industry's B-BBEE Codes of Good Practice and continues to invest in improvement, specifically in enterprise development. Eight SMMEs currently receive Esor's support.

The Esor Broad Based Share Ownership Scheme ('EBBSOS') holds a 5,32% stake in the company.

We have put in place a number of strategies to drive further transformation within the group.

Prospects

We do not expect markets to change materially in the foreseeable future. We will continue with business as usual, focusing on core competencies in known regions. The work on hand is much the same as last year, which aligns with our strategy. The order book is stable at R1,7 billion.

Notwithstanding the still harsh macro economic environment, Esor is undoubtedly in a stronger position than two years ago and is now properly positioned for growth.

Dividend declaration

In line with group policy, no dividend has been declared (2015: 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.

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. This announcement does not include the information required pursuant to paragraph 16A(j) of IAS 34. The full report is available on the issuer's website, at the issuer's registered offices and upon request. 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.

The full integrated report is published on the same day as this report and may be obtained from the registered office of the company, its sponsor, or its website. The integrated report provides details of all material movements in account balances.

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 2016 to be posted to stakeholders on or about 26 May 2016.

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, 24 June 2016 at 10:00. The notice of annual general meeting forms part of the Integrated Annual Report 2016, to be posted to stakeholders on or about 26 May 2016.

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, 17 June 2016. Accordingly, the last day to trade Esor shares in order to be recorded in the Register to be entitled to vote will be Thursday, 9 June 2016.

Appreciation

We wish to thank our management and staff for their unrelenting efforts. Our appreciation also to our fellow directors for their ongoing measured guidance which provided a safe port in another challenging year. We also thank our business partners, suppliers, advisors and valued clients and shareholders for your loyal support.

On behalf of the board

Bernie Krone
Chairman

Wessel van Zyl
CEO

26 May 2016

Statements of financial position at 29 February 2016

	Group	
	2016	2015
	R'000	R'000
Assets		
Non-current assets	404 539	475 950
Property, plant and equipment	178 381	230 932
Goodwill	112 091	155 323
Financial assets at fair value through profit or loss	51 228	29 488
Deferred tax asset	10 186	10 566
Investments in subsidiaries	–	–
Investment and loan to joint venture	51 892	48 880
Loans and long-term receivables	761	761
Current assets	696 386	753 117
Loans and receivables	35 428	35 014
Inventories	108 075	149 374
Non-current assets held-for-sale	9 500	20 046
Unsecured loans	–	–
Taxation	15 552	8 014
Trade and other receivables	485 409	504 330
Cash and cash equivalents	42 422	36 339
Total assets	1 100 925	1 229 067
Equity and liabilities		
Share capital and reserves	669 102	667 340
Share capital and premium	581 014	583 730
Equity compensation reserve	72	–
Foreign currency translation reserve	27 756	27 033
Retained earnings	60 260	56 577
Non-current liabilities	72 968	121 586
Secured borrowings	45 726	101 837
Preference shares	–	–
Deferred tax liability	27 242	19 749
Current liabilities	358 855	440 141
Current portion of secured borrowings	55 093	82 920
Current portion of preference shares	10 605	21 000
Bank overdraft	–	–
Financial liability at fair value through profit or loss	5 843	–
Taxation	714	2 644
Provisions	17 040	11 458
Trade and other payables	269 560	322 119
Total equity and liabilities	1 100 925	1 229 067

Statements of profit or loss and other comprehensive income for the year ended 29 February 2016

	Group	
	2016	2015
	R'000	R'000
Revenue	1 435 901	1 448 363
Cost of sales	(1 353 798)	(1 385 681)
Gross profit	82 103	62 682
Other income	52 589	10 170
Operating expenses	(52 899)	(95 963)
Profit/(loss) before interest, tax, amortisation, impairments and depreciation	81 793	(23 111)
Amortisation, impairments and depreciation	(78 016)	(78 650)
Results from operating activities	3 777	(101 761)
Finance income	12 577	19 538
Finance costs	(9 851)	(22 983)
Profit/(loss) before income tax	6 503	(105 206)
Taxation income	(2 820)	5 314
Profit/(loss)	3 683	(99 892)

Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Foreign currency translation differences for foreign operations	933	(9 770)
Related taxes	(210)	2 198
Other comprehensive income, net of tax	723	(7 572)
Profit/(loss) attributable to:		
Owners of the company	3 683	(99 892)
Total comprehensive income attributable to:		
Owners of the company	4 406	(107 464)
Earnings per share		
Basic earnings/(loss) per share (cents)	1,0	(26,4)
Diluted earnings/(loss) per share (cents)	1,0	(26,4)
Headline earnings/(loss) per share (cents)	14,4	(18,8)
Diluted earnings/(loss) per share (cents)	14,1	(18,8)

Statements of changes in equity for the year ended 29 February 2016

Group	Share capital R'000	Share premium R'000	Equity compen-sation reserve R'000
Balance at 28 February 2014	382	585 763	19 213
Loss for the year	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners			
Transfer to retained earnings	–	–	(19 213)
Shares acquired	(8)	(2 407)	–
Total transactions with owners	(8)	(2 407)	(19 213)
Balance at 28 February 2015	374	583 356	–
Profit for the year	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners			
Share-based payment	–	–	72
Shares acquired	(9)	(2 707)	–
Total transactions with owners	(9)	(2 707)	72
Balance at 29 February 2016	365	580 649	72

Group	Foreign currency translation reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 28 February 2014	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	10 940	8 273	–
Shares acquired	–	–	(2 415)
Total transactions with owners	10 940	8 273	(2 415)
Balance at 28 February 2015	27 033	56 577	667 340
Profit for the year	–	3 683	3 683
Other comprehensive income	723	–	723
Total comprehensive income for the year	723	3 683	4 406
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners			
Share-based payment	–	–	72
Shares acquired	–	–	(2 716)
Total transactions with owners	–	–	(2 644)
Balance at 29 February 2016	27 756	60 260	669 102

Statements of cash flow for the year ended 29 February 2016

	Group 2016 R'000	2015 R'000
Cash flows from operating activities	76 254	97 943
Cash receipts from customers	1 454 822	1 643 961
Cash paid to suppliers and employees	(1 376 669)	(1 532 274)
Cash generated by/(utilised in) operations	78 153	111 687
Finance income	12 577	19 538
Finance costs	(9 851)	(22 983)

Taxation paid	(4 625)	(10 299)
Cash flows from investing activities	28 632	(27 393)
Additions to property, plant and equipment	(6 663)	(20 468)
Proceeds on disposal of property, plant and equipment	35 295	41 954
Acquisition of joint venture	–	*
Loan advanced to joint venture	–	(48 880)
Disposal of discontinued operations, net of cash	–	1
Cash flows from financing activities	(98 803)	(55 051)
Decrease in secured borrowings	(83 938)	(52 636)
Preference shares redeemed	(12 149)	–
Shares acquired	(2 716)	(2 415)
Net increase/(decrease) in cash and cash equivalents	6 083	15 499
Net cash and cash equivalents at beginning of year	36 339	20 840
Cash and cash equivalents at end of year	42 422	36 339

* Less than R1 000.

	Group	
	2016 R'000	2015 R'000
Reconciliation of headline earnings		
The calculation of the headline earnings/(loss) per share attributable to the ordinary equity holders of the parent is based on the following information:		
Reconciliation of headline loss:		
Profit/(loss) after tax	3 683	(99 892)
Net profit/(loss) on disposal of property, plant and equipment	2 678	(893)
Impairment/(reversal) of property, plant and equipment, investments and goodwill	47 108	29 739
Headline earnings/(loss)	53 469	(71 046)
Weighted average number of ordinary shares:		
Issued ordinary shares	395 185 430	395 185 430
Effect of own shares held	(24 679 252)	(17 075 798)
Effect of shares issued	–	–
Weighted average number of shares	370 506 178	378 109 632
Dilutive average number of ordinary shares:		
The calculation of the diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following information:		
Weighted average number of ordinary shares	370 506 178	378 109 632
Effect of share incentive allocations	8 490 000	–
Diluted weighted average number of shares	378 996 178	378 109 632

Segmental analysis

Operating segments

The group has two reportable segments, as described in the accounting policy note 2.23, which are the group's strategic business units. Comparative information has been restated in line with the new reporting segments.

	Esor Construc-tion R'000	Esor Develop-ments R'000
Group		
2016		
External revenue	1 341 162	94 739
Inter-segment revenue	8 940	–
Segment revenue	1 350 102	94 739
Segment result		
Profit/(loss) before interest and taxation	20 225	23 158
Net finance (cost)/income	(4)	(1 603)
Taxation	–	–
Segment profit/(loss)	20 221	21 555
Segment assets	282 261	139 683
Segment liabilities	262 591	124 706
Capital and non-cash items		
Additions to property, plant and equipment	–	–
Depreciation	–	–
Impairment loss	–	–
Number of employees	2 184	2
2015*		
External revenue	1 372 490	75 873
Inter-segment revenue	50 824	–
Segment revenue	1 423 314	75 873
Segment result		
(Loss)/profit before interest and taxation	(12 786)	4 297
Net finance (cost)/income	(6 051)	(4 000)
Taxation	29 896	(1 668)
Segment profit/(loss)	11 059	(1 371)
Segment assets	775 588	196 644
Segment liabilities	818 544	179 773

Capital and non-cash items		
Additions to property, plant and equipment	15 739	-
Depreciation	16 944	-
Impairment loss	-	-
Number of employees	2 381	3

* Restated.

	Corporate and eliminations R'000	Consoli-dated R'000
Group		
2016		
External revenue	-	1 435 901
Inter-segment revenue	(8 940)	-
Segment revenue	(8 940)	1 435 901
Segment result		
Profit/(loss) before interest and taxation	(39 606)	3 777
Net finance (cost)/income	4 333	2 726
Taxation	(2 820)	(2 820)
Segment profit/(loss)	(38 093)	3 683
Segment assets	678 981	1 100 925
Segment liabilities	44 526	431 823
Capital and non-cash items		
Additions to property, plant and equipment	7 911	7 911
Depreciation	28 546	28 546
Impairment loss	3 876	3 876
Number of employees	214	2 400
2015*		
External revenue	-	1 448 363
Inter-segment revenue	(50 824)	-
Segment revenue	(50 824)	1 448 363
Segment result		
(Loss)/profit before interest and taxation	(93 272)	(101 761)
Net finance (cost)/income	6 606	(3 445)
Taxation	(22 914)	5 314
Segment profit/(loss)	(109 580)	(99 892)
Segment assets	216 835	1 189 067
Segment liabilities	(476 590)	521 727
Capital and non-cash items		
Additions to property, plant and equipment	4 729	20 468
Depreciation	31 967	48 911
Impairment loss	29 739	29 739
Number of employees	154	2 538

* Restated.

	South Africa	
	2016	2015
Geographical information	R'000	R'000
Total revenue from external customers	1 391 951	1 447 464
Property, plant and equipment	186 642	249 857

	Other regions	
	2016	2015
Geographical information	R'000	R'000
Total revenue from external customers	43 950	899
Property, plant and equipment	1 239	1 121

	Consolidated	
	2016	2015
Geographical information	R'000	R'000
Total revenue from external customers	1 435 901	1 448 363
Property, plant and equipment	187 882	250 978

A separate segment report has not been prepared for the company as it had no trading operations.

Level 3: The contingent consideration receivable arose from the disposal of the discontinued operation in the 2014 financial year, which included 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 12% in the year ending December 2016 and a discount factor of 10,5%. The fair value was determined by the group finance department. Scenarios on EBITDA growth were developed by the 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 estimated fair value.

Directors:

B Krone (Chairman)+
WC van Zyl (CEO)
BW Atkinson (CFO)
Dr OSW 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