Esor year-end results 2018 SENS

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")

FULL SENS ANNOUNCEMENT Esor Limited - Abridged summarised consolidated results for the year ended 28 February 2018

ESR 201706290006A
Abridged consolidated results for the year ended 28 February 2018.

Abridged summarised consolidated results for the year ended 28 February 2018
The financial statements that are summarised in this report were prepared by the acting CFO, Wessel van Zyl.

The abridged summarised consolidated financial statements have not been audited, but are extracted from the underlying audited information.

Copies of the full announcement may also be requested at the company's registered office or from the company's sponsor, at no charge, from 09:00 to 16:00 on weekdays.

SALIENT FEATURES (not audited)
Challenging local operating environment
Non-RSA revenue increasing
Cash constraints negatively impacting operations
Medium-term liquidity constraints relief
LTIFR further improved to 0,15
Three Aqueduct projects imminent finalisation
Successful professional indemnity insurance claim at Northern Aqueduct

COMMENTARY
Introduction
FY2018 brought little relief to the harsh operating landscape for civil and construction companies in South Africa, with many of the larger players shedding their construction subsidiaries and restructuring in a bid to sustain themselves. As a smaller competitor in the industry, Esor has proven innovative in maintaining our sustainability.

We have focused successfully on water and sanitation and the contribution to group revenue now stands at approximately 53%. Within construction we have migrated away from long lead-time, large-scale civil and building construction projects to smaller, quicker turnaround construction projects and viable development opportunities. We have also looked to mining projects as a revenue underpin. Within all sectors of operation, the South African government bottleneck remains the key obstacle to implementation of projects and actioning of tenders.

Outside of South Africa, the situation was more promising in FY2018 as reflected in the comparative operational ease of our Africa projects which progressed on time and on budget, and our increase in contribution therefrom. Non-South Africa revenue now accounts for 16,2% overall in the FY2018.

Within the group we have employed more commercial personnel to cater for the increasing complexity of the industry and trimmed our headcount and overheads where our order book could not sustain the resource allocation. Retrenchment costs of R13,6 million were incurred in the year. We have successfully fought protracted legal battles to ensure we are not unjustifiably out of pocket at the end of any project. Nevertheless, these initiatives come at a price.

In the year the group experienced a cash flow and liquidity crunch, which necessitated a R42,5 million bridging loan from our major investor Geomer Investments. Esor is and remains a going concern with liquidity measures in place and relief on the horizon.

The order book at year-end was R881 million compared to R1,54 billion at February 2017. This is mainly attributed to a reduction of R300 million in Developments order book due to the group reducing the exposure to large-scale developments in favour of smaller affordable housing developments.

Financial results
Revenue was down to R1 billion from R1,4 billion in the prior period. This is driven by reduced activity levels in the sector and the lack of new contract awards. Also contributing to this lower revenue generated is the revenue losses incurred due to the non-revenue generating repair work at the Northern Aqueduct. This accounted for around R50 million. The impairment of claims due to changes in contractual circumstances, that are not deemed to be at an advanced stage of negotiation amounted to R84 million.

Profitability was severely impacted by further losses of R60 million and R119 million incurred on the Northern and Western Aqueduct projects, respectively, and the impairment of goodwill of R61,8 million. The above losses were partially offset by strong performance in the Mpumalanga and Limpopo regions and resulted in a consolidated loss of R306,9 million compared to a loss of R139,8 million in the prior year.

This resulted in a basic loss per share of 66,2 cents compared to a loss of 38,1 cents per share in the prior year.

Cash flow and liquidity remained challenging in the current environment. We remain focused on both debtor and supplier management with net cash balance at year-end of negative R36,7 million (2017: negative R22,1 million). Our professional indemnity claim against the quality assurance sub-contractor has been settled with proceeds received in full in April 2018.

Safety (not audited)
Esor continued to successfully improve on our Lost Time Injury Frequency Ratio ("LTIFR") to 0,15 (February 2017: 0,17). We are proud to have recorded in excess of 20 million fatality free man hours. This reflects our continued focus on training and leading indicators to prevent incidents, rather than repeat accidents. We employ more than 50% contract-specific employees, a challenge we continue to address to remain one of the leading companies in SHEQ.

We are ISO 9001, 14001 and OHSAS 18001 accredited for the next three years across all operations.

Review of operations (not audited)
Esor Construction
We remain focussed on water and sanitation, which given recent commitment and budget allocation by Government to future water projects, continues to look promising. However, in the year Government's verbal commitment to investment did not translate into action and R2 billion of Esor awards and pending awards were cancelled. Even given the Cape's drought crisis, very few of the tenders on bid were actually awarded in the year and government delays traversed all levels of government from national to local.

The four main KZN Aqueduct projects (two contracts each and Northern and Western) were further delayed by community unrest, rain and operational challenges. At the Northern Aqueduct completion of Phases 1 and 3 is imminent and agreed rehabilitation and demobilisation should be fully completed by July 2018. Our professional indemnity claim against the quality assurance subcontractor has been settled with proceeds received in full in April 2018. However, the two-year process had a severe impact on liquidity through funding losses on the Northern Aqueduct to the value of R207 million. Delays to our handover had a significant impact on other group operations in order to fund the Northern Aqueduct project cash flows, which at peak were a R25 million a month drain on the group's resources.

The Tshelimnyama contract is in the process of being handed over to the client. The Phase I of Western Aqueduct was subject to certain client delays and impacted by operational issues. Various legal and claim disputes are being addressed and remain in various stages of finalisation. For FY2018 these resulted in a loss of R119 million and will continue to impact cash flow and liquidity until September 2018, when it is anticipated this will be finalised.

The successful completion of the above Aqueduct projects will greatly assist in improving the liquidity and provide much needed relief as explained above. Not only will the group benefit by the savings in cash outflows but will be in a position to invoice for the first tranche of retention that amounts to R17 million as well as the cancellation of around R60 million in guarantees, that will assist in freeing up facility for future works.

Excellent performances of the Inland projects for power, mining and water projects have ensured that the group still has a strong base for future work and shielded the results from the unacceptable level of losses incurred in KZN. Dedication and commitment from all team members to realise profits of R86 million is commended.

Esor Developments
This segment experienced mixed fortune in the year. On the upside, the remaining 360 residential sites at our Orchards development were completed and transferred. We have full proclamation of the three commercial sites which are being marketed with fair interest. Our focus on smaller developments proved successful, for instance a 10-unit development in Timm Street Boksburg on which construction is due to start in the next month. A number of other opportunities are being evaluated that may come to market during H2 FY2019.

Our Uitvlugt development remained impacted by ongoing township approval and planning delays, not helped by the slow economic growth in the region. We have accepted an offer for the sale of shares in the project, with the payment of a non-refundable deposit to be finalised in July 2018. With regards to the Khayelitsha project in Cape Town, we terminated our agreement with the developer, due to the unresolved and protracted delay in the transfer of land and the resultant impact on the business plan. Material differences between the parties in the vision of implementing the project ultimately resulted in the mutual termination of the partnership.

Africa (not audited)
Our international order book of 37,9% at year-end compares favourably to 23% in February 2017. We have seen positive growth in Swaziland, Botswana and Zimbabwe for the past three years and over one third of our secured work is now outside South Africa. However, this too comes at a price - capital demands and working capital investment, resources including local indigenisation requirements, and exchange control restrictions. The requirement for bonding facilities in the bidding process further adds to the costs and complexity of doing business outside our borders.

The Lusip II infrastructure project in Swaziland, in joint venture with a local construction company, is progressing well. The certified VAT has now been repaid by the Swazi government and the project is cash neutral. The joint venture is set to reimburse its partners to the aggregate value of R35 million.

The ZINWA and Harare Water and Sewer Projects are all on track for timeous completion. This has given us a solid base for other projects in Zimbabwe. There has been no impact on repatriation of funds as the major projects are funded from offshore and enables us to receive the revenue in off-shore bank accounts.

Transformation (audited)
In terms of the Revised Construction Sector Charter issued in December 2017, Esor is a Level 3 BEE contributor. In the short term we aim to retain Level 3 and improve to Level 2 in the medium term.

Competition Commission/CIDB (not audited)
Esor was not party to the Competition Commission's settlement reached in October 2016 between government and seven other South African construction companies. Esor settled separately and amicably with the company concerned in the Franki-related matter.

Negotiations with the Competition Commission are ongoing in relation to the Tribunal Enquiry into the 2009 complaint of collusive tendering practices in the geotechnical exploration and investigation works. We continue to follow the legal process and timelines. The final hearing was expected to be completed in April 2018, but due to time constraints has been extended to November 2018.

Esor received a formal enquiry letter in December 2016 related to the CIDB intention to institute a Regulation 29 formal enquiry against the construction firms that were not party to the voluntary rebuild programme. We are in ongoing negotiations to reach an amicable settlement.

Directorate (audited)
As previously announced, Heather Sonn resigned as an independent non-executive director during the year to pursue other business interests. Effective 16 November 2017, Haroon Takolia was appointed in her stead as an independent non-executive and chairman of the Audit and Risk Committee.

Subsequent to year-end Bruce Atkinson has resigned as CFO in order to pursue interests outside of the construction environment. Proceedings to appoint a successor are under way and details will be announced in due course. In the meantime we have requested and received approval from the JSE to combine the roles of CEO and acting CFO until 31 August 2018.

Prospects (not audited)
Looking ahead we are hopeful. We remain a going concern with a number of positive cash flow reliefs outlined above, together with approximately R2 billion in pending awards and almost R4 billion in targeted projects such as the 2B and 2E pipeline contracts in Limpopo and a number of funded projects in Zimbabwe, including the long-awaited Diepsloot mixed housing development for the Department of Human Settlements in Gauteng. We are cautiously optimistic that the new political leadership and agenda will resolve the government bottleneck to project implementation. Government's commitment to raise USD100 billion for investment opportunities also bodes well in this regard.

We remain focused on water, particularly in the Western Cape. The five-year restraint of trade on the geotechnical business expires in November 2018 and we are gearing-up to proactively re-enter the Geotechnical market.

In Africa we continue to focus on Botswana, Zimbabwe and Swaziland as future growth opportunities and align with local partners to improve competitiveness and profitability. In Zimbabwe, particularly, there are some low hanging fruit for the taking in collaboration with our local partners.

We will continue to do what needs be done to return the group to profitability including continuing to restructure, down-scale and learn from past mistakes to prevent future recurrence, while actively seeking out positive opportunity.

Dividend declaration
In line with group policy and Companies Act Requirements no dividend has been declared (2017: 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.

Ability to continue as a going concern
The group results had been impacted negatively by incurring further losses at the Aqueduct projects in KZN during this financial year, impairment of certain claims as well as writing-off goodwill to the value of R61,8 million. As a result, the group reported a net loss after tax of R306,9 million and a headline loss of R241,6 million. The losses accounted for in the FY18 financial year at the Aqueduct projects, totalling R179 million as well as delays in finalising contractual claims and entitlements have resulted in severe pressure on liquidity and the ability to pay obligations as they fall due.

The group plans, to improve cash flow sustainability, has focused on:
- Finalising legacy contracts and therefore stop cash outflows, through the practical completion of three of the four Aqueduct projects in Q12018. This will also release substantial retention monies;
- Disposal of idle and non-core assets following the strategic positioning of the group to focus on Water, sanitation and developments. Proceeds to the value of R20,7 million has been received subsequent to

year-end;
- Refinancing of selected equipment through vendor finance that has generated R12,2 million inflow and repayment over an 18-month instalment sales period;
- Renegotiating payment terms with major suppliers and subcontractors to more closely match inflows with outflows;
- Ensuring that adequate security is provided to the primary bankers to cover the facilities that are made available in terms of the facilities arrangements;
- Ongoing communication with guarantor providers to maintain adequate bonding facilities to facilitate successful implementation of contract awards;
- Negotiations to sell-off development land in Uitvlugt, in excess of 400ha, which has been on the balance sheet for over four years but needs working capital to unlock these major projects. Instead we will focus on small private developments that can be largely leveraged and have a quick turnaround life.

Post year-end, R8 million of the bridging loan was repaid to Geomer Investments, with the balance of repayment being linked to specific claims and events occurring after financial year-end. The minimum repayment of R2 million per month will commence from 31 August 2018 and may be increased on successful settlement of the labour loss claim at Kusile.

Further imminent liquidity relief includes the release in H1 FY2019 of R30 million retention that includes the release for the Northern and Western Aqueduct projects, three of the four work packages are concluding. The cash settlement, received by the group in April 2018 from the professional indemnity insurance claim on the Northern Aqueduct project assisted with unlocking certain supplies and the ability to complete the critical aspects of the Aqueduct projects. The timing of the settlement was some six months later than expected and has definitely had an impact on revenue generation in Q42018.

In addition, the cash flow of the Esor Joint Venture ("JV") in Swaziland has been impacted negatively by the non-payment of VAT since inception, but a large payment was made in May 2018 to bring the balance outstanding up to date. This has led to the JV being unable to pay the partners for their share of plant and r esources supplied to the JV. Post year-end an amount of R7 million was received as partial payment towards Esor's outstanding balance of R22 million.

Given the current liquidity constraints experienced by the group, management has prepared a 15-month cash flow forecast from the date of this report, which if successfully implemented, indicates that the group will have sufficient cash resources for the foreseeable future. These cash flows are, however, based on certain key assumptions that are potentially uncertain either in their timing and/or quantum some of which are detailed below:
- Significant claims on contracts that management believes are contractually due but have not been awarded;
- The finalisation of certain insurance claims with their insurers relating to equipment damaged/destroyed on certain contract sites;
- The continued ability of certain customers to settle their outstanding debts in accordance with the agreed payment terms;
- The successful profitable completion of new and existing contracts;
- The timely payment of obligations due to creditors, subcontractors and providers of debt capital for which extended payment term plans have been re-negotiated and for those obligations where the terms have not been re-negotiated;
- The successful disposal of idle and non-core plant and equipment.

Consequently, the ability of the group to settle its liabilities as and when they fall due is largely dependent on the successful realisation of these initiatives to improve cash inflows. If the group does not realise the cash inflows in a timely manner and in the quanta estimated, then the cash flow resources available to the group will be materially impacted.

As a result of the events and conditions described above, there is material uncertainty on the timing and quantum of the cash inflows included in the cash flow forecast that may cast significant doubt on the group's ability to continue as going concern.

KPMG issued a Reportable Irregularity report on 19 April 2018, citing the liquidity crunch as an indicator of financial distress. Continued efforts and plans have been put in place to ensure Esor's ability to pay creditors when they fall due. The board is satisfied that the company is solvent and liquid both commercially and factually.

Events after the reporting date
The management and board continue to evaluate the liquidity of the group and in an effort to realign the resources to workload, the group has started a Section 189 process of anticipated retrenchment that will see the reduction in headcount to align with workload as well as reducing costs by around R4 million a month. The total anticipated retrenchment cost for the 2019 financial year is estimated at R10 million.

Basis of preparation
The summary 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 of South Africa applicable to summary 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 summary 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 annual financial statements.

Use of judgements and estimates
In preparing these abridged summarised consolidated results, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 28 February 2018.

Audit opinion
This summarised report is extracted from audited information but is not itself audited.

The annual financial statements were audited by KPMG Inc. whose unmodified opinion included an emphasis of matter in relation to material uncertainty over going concern. The audited consolidated annual 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 abridged summarised consolidated financial statements and that the financial information has been correctly extracted from the underlying consolidated annual financial statements.

On behalf of the board

Bernie Krone
Chairman

Wessel van Zyl
CEO

29 June 2018

Abridged summarised consolidated statement of financial position
as at 28 February 2018

	GROUP	
	2018	2017
	R'000	R'000
Assets		
Non-current assets	231 619	337 556
Property, plant and equipment	157 014	197 624
Goodwill	3 630	65 447
Deferred tax asset	17 323	31 044
Investment and loan to joint venture	52 891	42 680
Loans and long-term receivables	761	761
Current assets	404 686	680 421
Loans and receivables	40 578	40 578
Inventories	97 921	98 557
Taxation	54	13 840
Trade and other receivables	253 342	522 086
Cash and cash equivalents	9 291	5 360
Sub total	401 186	680 421
Non-current assets held-for-sale	3 500	-
Total assets	636 305	1 017 977
Equity and liabilities		
Share capital and reserves	259 776	566 794
Share capital and premium	617 236	617 236
Equity compensation reserve	1 421	557
Foreign currency translation reserve	27 554	28 497
Retained deficit	(386 435)	(79 496)
Non-current liabilities	66 267	71 136
Secured borrowings	58 332	38 814
Deferred tax liability	7 935	32 322
Current liabilities	310 262	380 047
Current portion of secured borrowings	32 614	31 869
Bank overdraft	45 947	27 487
Taxation	5 086	146
Trade and other payables	226 615	320 545
Total equity and liabilities	636 305	1 017 977

Abridged summarised consolidated statement of profit or loss and other comprehensive income for the year ended 28 February 2018

	GROUP 2018 R'000	GROUP 2017 R'000
Revenue	959 357	1 373 048
Cost of sales	(1 077 306)	(1 358 591)
Gross (loss)/profit	(117 949)	14 457
Other income	4 274	19 635
Operating expenses	(83 016)	(121 969)
Loss before interest, tax, impairments and depreciation	(196 691)	(87 877)
Impairments and depreciation	(94 834)	(72 967)
Results from operating activities	(291 525)	(160 844)
Finance income	1 210	13 670
Finance costs	(10 815)	(8 248)
Loss before income tax	(301 130)	(155 422)
Taxation (charge)/income	(5 809)	15 666
Loss for the year	(306 939)	(139 756)
Other comprehensive income:		
Items that will be reclassified to profit or loss		
Foreign currency translation differences for foreign operations (net of tax)	(943)	741
Other comprehensive income, net of tax	(943)	741
Loss attributable to:		
Owners of the company	(306 939)	(139 756)
Total comprehensive income attributable to:		
Owners of the company	(307 882)	(139 015)
Earnings per share		
Basic loss per share (cents)	(66,2)	(38,1)
Diluted loss per share (cents)	(64,9)	(36,7)

Abridged summarised consolidated statements of changes in equity
for the year ended 28 February 2018

GROUP	Share capital R'000	Share premium R'000	Equity compen-sation reserve R'000
Balance at 29 February 2016	365	580 649	72
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			
Shares issued	98	37 444	-
Share issue expenses	-	(1 320)	-
Share-based payment	-	-	485
Total transactions with owners	98	36 124	485
Balance at 28 February 2017	463	616 773	557
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			
Share-based payment	-	-	864
Total transactions with owners	-	-	864
Balance at 28 February 2018	463	616 773	1 421

GROUP	Foreign currency translation reserve R'000	Retained earnings/ (deficit) R'000	Total equity R'000
Balance at 29 February 2016	27 756	60 260	669 102
Loss for the year	-	(139 756)	(139 756)
Other comprehensive income	741	-	741
Total comprehensive income for the year	741	(139 756)	(139 015)
Transactions with owners, recorded directly in equity			

Contributions by and distributions to owners			
Shares issued	-	-	37 542
Share issue expenses	-	-	(1 320)
Share-based payment	-	-	485
Total transactions with owners	-	-	36 707
Balance at 28 February 2017	28 497	(79 496)	566 794
Loss for the year	-	(306 939)	(306 939)
Other comprehensive income	(943)	-	(943)
Total comprehensive income for the year	(943)	(306 939)	(307 882)
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners			
Share-based payment	-	-	864
Total transactions with owners	-	-	864
Balance at 28 February 2018	27 554	(386 435)	259 776

Abridged summarised consolidated statement of cash flow for the year ended 28 February 2018

	GROUP	
	2018 R'000	2017 R'000
Cash flows from operating activities	(46 722)	(23 946)
Cash receipts from customers	1 228 101	1 379 501
Cash paid to suppliers and employees	(1 264 609)	(1 400 847)
Cash utilised in operations	(36 508)	(21 346)
Finance income	1 210	6 573
Finance costs	(10 815)	(6 220)
Taxation paid	(609)	(2 953)
Cash flows from investing activities	11 930	(31 287)
Additions to property, plant and equipment	(18 299)	(20 373)
Proceeds on disposal of property, plant and equipment	20 721	10 473
Acquisition through business combination	-	(36 387)
Loan repaid by joint venture	9 508	15 000
Cash flows from financing activities	20 263	(9 316)
Secured borrowings		
- raised	42 563	4 662
- repaid	(22 300)	(37 841)
Preference shares redeemed	-	(12 359)
Shares issued net of expenses	-	36 222
Net decrease in cash and cash equivalents	(14 529)	(64 549)
Net cash and cash equivalents at beginning of year	(22 127)	42 422
Cash and cash equivalents at end of year	(36 656)	(22 127)

Extract of Notes to the financial statements for the year ended 28 February 2018

	Cost R'000	Accumulated impairment R'000	Carrying value R'000
1. Goodwill			
Group			
2018			
Esor Construction	273 330	(269 700)	3 630
2017			
Esor Construction	273 330	(207 883)	65 447

The carrying amount of goodwill can be reconciled as follows:

	Carrying value at beginning of year R'000	Impairment R'000	Acquisition through business combination R'000	Carrying value at end of year R'000
2018				
Esor Construction	65 447	(61 817)	-	3 630
2017				
Esor Construction	112 091	(50 274)	3 630	65 447

Goodwill arising from business combinations is allocated to individual reporting unit or cash-generating units. The smallest CGU which is separately identifiable is Esor Construction.

The recoverable amount of this cash-generating unit was estimated based on its value in use. The carrying amount was higher than its recoverable amount and an impairment loss was recognised. An impairment loss of R61,8 million (2017: R50,3 million) was recognised on the goodwill. The recoverable amount was determined internally using the Discounted Cash Flow method, as follows:

	2018 R'000	2017 R'000
Esor Construction	68 000	489 391

Value in use was determined by discounting the future cash flows generated from the continuing use of the individual CGU and was based on the following key assumptions:
- Cash flows were projected based on actual operating results and a forecast period of five years;
- Revenue growth was projected at negative 1,9% for 2019 year based on secured work load and past experience and then at a growth rate of 4,5% thereafter;
- Gross margins were maintained at margins expected in the industry over the forecast period based on past experience;
- Operating expenses were not expected to increase significantly but have been increased in line with revenue growth; and
- A weighted average cost of capital of 18,34% (2017: 16%) was applied in determining the recoverable amount of the cash-generating unit. The discount rate was estimated based on weighted average cost of capital and a targeted debt-equity ratio of 20% (2017: 20%).

We determined the value in use using post-tax cash flows and a post-tax discount rate on the basis that the outcome will not differ to that determined by discounting pre-tax cash flows using pre-tax discount rates.

The post-tax discount rate applied in the value in use calculation was determined using WACC as a starting point, and was adjusted to reflect the specific amount and timing of the future tax cash flows, though still excluding the effects of any existing temporary differences and available tax losses at the measurement date.

The rate also took into account adjustments for:
a. Systematic risk premium
b. Beta
c. Unsystematic risk premium

Furthermore, we analysed the debt-equity ratio of comparable companies in the construction sector and determined a target ratio based on these which we used to adjust the Beta.

The values assigned to key assumptions represent management's assessment of future trends in the construction industry and are based on both internal and external sources.

The above estimates are sensitive in the following areas:
- Discount rate applied;
- Forecasted revenues and margins; and
- Working capital levels.

If all assumptions remain unchanged a 1% increase/(decrease) in the discount rate would result in an (decrease)/increase in the value in use of R1 million.

Based on a range of estimates in the above areas, management impaired goodwill by R61,8 million (2017: R50,3 million). The remainder of the difference between the carrying value of the CGU and the value in use was not allocated to the remaining assets within the CGU as they are all stated at their recoverable amounts as at 28 February 2018.

2. Segmental analysis
Operating segments

	Esor Construction R'000	Esor Develop-ments R'000	Corporate and eliminations R'000	Consoli-dated R'000
Group				
2018				
External revenue	958 878	479	-	959 357
Inter-segment revenue	79 439	-	(79 439)	-
Segment revenue	1 038 317	479	(79 439)	959 357
Segment result				
Loss before interest and taxation	(146 316)	(4 957)	(139 457)	(290 730)
Net finance (cost)/income	(3 448)	505	(6 663)	(9 606)
Taxation	731	(11)	(6 280)	(5 560)
Segment loss after tax	(149 033)	(4 463)	(152 400)	(305 896)
Segment assets	514 017	85 983	36 305	636 305
Segment liabilities	334 122	40 325	2 082	376 529
Capital and non-cash items				
Additions to property, plant and equipment	17 892	-	407	18 299
Depreciation	29 072	-	3 945	33 017
Impairment	-	-	(61 817)	(61 817)
Number of employees	1 431	3	44	1 478

2017				
External revenue	1 306 785	66 263	-	1 373 048
Inter-segment revenue	35 511	-	(35 511)	-
Segment revenue	1 342 296	66 263	(35 511)	1 373 048
Segment result				
(Loss)/profit before interest and taxation	(66 288)	3 594	(98 150)	(160 844)
Net finance (cost)/income	(2 276)	(703)	8 401	5 422
Taxation	-	-	15 666	15 666
Segment (loss)/profit after tax	(68 564)	2 891	(74 083)	(139 756)
Segment assets	825 026	90 445	102 506	1 017 977
Segment liabilities	391 207	51 509	8 467	451 183
Capital and non-cash items				
Additions to property, plant and equipment	-	-	20 373	20 373
Depreciation	-	-	22 693	22 693
Impairment reversal	-	-	(3 876)	(3 876)
Number of employees	2 234	2	259	2 495

Revenue generated from significant customers includes:

Customer	Business unit	Revenue 2018 R'000	Revenue 2017 R'000
Eskom Holdings SOC Limited	Construction	358 526	505 350
eThekwini Municipality	Construction	121 165	162 731
Vhembe District Municipality	Construction	52 749	67 563
Orchards Developments (Pty) Limited	Developments	720	66 263
uThukela District Municipality	Construction	14 516	53 929
Greater Sekhukhune District Municipality	Construction	2 165	44 380
Rand Water	Construction	54 376	42 310
Umgeni Water	Construction	2 651	18 143
South 32 SA Coal Holdings (Pty) Limited	Construction	47 866	21 579
City of Cape Town	Construction	55 310	70 103
Swaziland Water and Agricultural Development Enterprise	Construction	81 516	23 043

	South Africa	
	2018	2017
Geographical information	R'000	R'000
Total revenue from external customers	1 217 631	1 331 735
Property, plant and equipment	195 823	195 699

	Other regions	
	2018	2017
Geographical information	R'000	R'000
Total revenue from external customers	155 417	41 313
Property, plant and equipment	1 801	1 925

	Consolidated	
	2018	2017
Geographical information	R'000	R'000
Total revenue from external customers	959 357	1 373 048
Property, plant and equipment	157 014	197 624

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

	GROUP	
	2018	2017
	R'000	R'000
3. Earnings per share		
Basic loss per share (cents)	(66,2)	(38,1)
Diluted loss per share (cents)	(64,9)	(36,7)
Headline loss per share (cents)	(52,1)	(24,4)
Diluted headline loss per share (cents)	(51,0)	(23,5)
Dividend per share (cents)	-	-

	GROUP	
	2018	2017
	R'000	R'000
The calculation of the headline loss per share attributable to the ordinary equity holders of the parent is based on the following information:		

Reconciliation of headline loss:		
Loss after tax	(306 939)	(139 756)
Net loss on disposal of property, plant and equipment	1 442	85
Impairment of property, plant and equipment, investments and goodwill	63 912	50 274
Headline loss	(241 585)	(89 397)
Weighted average number of ordinary shares:		
Issued ordinary shares	493 981 787	493 981 787
Effect of own shares held	(30 244 012)	(30 244 012)
Effect of shares issued	-	(96 636 874)
Weighted average number of shares	463 737 775	367 100 901
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	463 737 775	367 100 901
Effect of share incentive allocations	9 532 108	13 788 333
Diluted weighted average number of shares	473 269 883	380 889 234

	GROUP	
	2018	2017
	R'000	R'000
4. Onerous contract provision		
Balance at beginning of year	50 700	46 000
Provisions made during the year	29 700	50 700
Provisions used during the year	(50 700)	(46 000)
Balance at end of year	29 700	50 700

Quality issues were addressed at the Northern Aqueduct contract for eThekwini Municipality in KwaZulu-Natal, where certain of the costs in repairing the defective welds were being claimed from the insurance underwriter. This matter was resolved during April 2018. The contract was due for completion in September 2015 but will only be completed and tested in June 2018. The total estimated cost to complete amounts to an additional cost of R6,7 million for losses to be incurred post FY2018. After year-end the insurer agreed the quantum for the professional indemnity claim that relates to the costs in gaining access to and reinstating the pipeline.

Phase I of Western Aqueduct was subject to certain client delays and impacted by operational issues. Various legal and claim disputes are being addressed and remain in various stages of finalisation. For FY2018 these resulted in a loss of R119 million and will continue to impact cash flow and liquidity until finalised. The total estimated cost to complete amounts to an additional cost of R23 million for losses to be incurred post FY2018.

5. Going concern and subsequent events

The directors are required to make an assessment of the ability of the group to continue as a going concern and have disclosed their considerations below.

The group incurred a loss for the year of R306 million (2017: loss of R140 million).

The matters described below have placed significant pressure on the overall liquidity of the group:
- Significant losses incurred on certain construction contracts by the group in the current and prior financial years;
- The current challenging economic environment within the construction sector, particularly in respect of the inability of the government and municipalities to execute and award contracts and the significant delays experienced in receiving payments due in respect of contract receivables relating to these entities;
- The inability of the group to obtain further short to medium term funding.

In order to mitigate the negative effects of the above, the directors have implemented various strategies to ensure that the group is able to meet the group's obligations as and when they fall due. These include:
- Expediting the completion of the legacy loss making contracts in order to minimize further losses and the consequential cash outflows;
- Disposal of idle and non-core assets following the strategic positioning of the group to focus on water, sanitation and developments. Proceeds to the value of R20,7 million have been received subsequent to year end;
- Refinancing of selected vehicles and equipment through vendor financing which has resulted in an inflow of cash subsequent to year end of R12,2 million. The terms of financing are over an 18-month period;
- Renegotiating payment terms with major suppliers and subcontractors to more closely match the renegotiated outflows with the timing of anticipated future cash inflows;
- Ensuring that adequate security is provided to the primary bankers to cover the facilities that are made available in terms of the facilities arrangements;
- Ongoing support of guarantee providers to maintain adequate bonding facilities to facilitate successful implementation of contract awards;
- Negotiations to dispose of the certain development land.

- In an effort to realign the resources to workload, the group has started a Section 189 process of anticipated retrenchment that will see the reduction in headcount to align with workload as well as reducing costs by around R4 million a month.
- Renegotiating payment terms of the shareholders loan received from Geomer Investments (Pty) Ltd.

Management have prepared a 15-month cash flow forecast from the date of the audit report, which if successfully implemented, indicates that the group will have sufficient cash resources for the foreseeable future. These cash flows are, however, based on certain key assumptions that are potentially uncertain either in their timing or quantum or both which are detailed below:
- Significant claims and awards on contracts that management believe are contractually due;
- The finalisation of certain insurance claims with their insurers relating to equipment damaged/destroyed on certain contract sites;
- The continued ability of certain customers to settle their outstanding debts in accordance with the agreed payment terms;
- The successful profitable completion of contracts in progress and of newly awarded contracts;
- The timely payment of creditors/subcontractors and loans for which extended term payment plans have been re-negotiated and for those creditors whose terms have not been re-negotiated;
- The disposal of idle and non-core plant and equipment.

Consequently, the ability of the group to settle its liabilities as and when they fall due is largely dependent on the successful realisation of these projected cash inflows. If the group does not realise the cash inflows in a timely manner and in the quantum estimated, then the cash flow resources available to the group will be materially impacted.

As a result of the events and conditions described above, there is material uncertainty on the timing and quantum of the cash inflows included in the cash flow forecast that may cast significant doubt on the group's ability to continue as a going concern and, therefore, the group may be unable to realise its assets and discharge its liabilities in the normal course of business.

6. Reportable Irregularity

Following the receipt of an external service provider's report on the liquidity position of the group our auditors made a determination that there appeared to be reasonable grounds that the company was financially distressed. Therefore there was reason to believe that a reportable irregularity, as defined in the Auditing Profession Act was taking place as a result of the board not complying with the following:
- In accordance with section 129(7) of the Companies Act 71 of 2008 if the board of a company has reasonable grounds to believe that the company is financially distressed, but the board has not adopted a resolution contemplated in section 129(1)(a) of the Companies Act 71 of 2008, the board must deliver a written notice to each affected person, setting out the criteria referred to in section 128(1)(e) of the Companies Act 71 of 2008 that are applicable to the company, and its reasons for not adopting a resolution contemplated in section 129(1)(a) of the Companies Act 71 of 2008.

In response to the reported irregularity it was the boards view that Esor is not financially distressed and that Esor will not become financially distressed. This view was informed by amongst other actions, the following proactive steps which have been taken/or matters concluded to avoid such financial distress and ensure Esor's creditors remain satisfied:
- Formal contracts (re-payment agreements) have been concluded with a number of Esor's major creditors. These contracts aim to enable Esor to pay the relevant creditors in accordance with an agreed plan assisting Esor and enabling it to meet its financial requirements relating to the underlying debts. The result of concluding such re-payment agreements is a total deferment of R46 million of due and payable creditors and subcontractors to future periods.
- A section 189 Labour Relations Act procedure for the retrenchment of about 33% of employees is underway. Provision has been made in the cash flow forecast for retrenchment costs of around R10 million.
- An agreement relating to a shareholder claim against Esor, in an approximate amount of R33 million, is in the process of being finalised with Esor's largest shareholder, Geomer. In terms of such agreement the repayment date for the full outstanding amount due, at 30 June 2018 is to be amended to commence repayment from 31 August 2018 and thereafter repayment will be effected in monthly instalments of R2 million until the claim fully settled.
- A number of plant assets have already been disposed of which resulted in an injection of about R16,6 million in the cash flow of Esor.
- A net insurance settlement claim of R42 million in favour of Esor, was received by Esor during April 2018.
- A refinancing facility agreement was concluded for purposes of raising approximately R13 million cash for an improved cash flow. The net cash proceeds were received in early May 2018.
- A cash flow and debt forecast (which excludes uncertain inflows relating to claims) for the period ending March 2019 illustrates an ultimate cash flow position within the available facilities for Esor for the applicable period and continuing thereafter.
- There are a number of movable, underutilised assets that can be rented out and/or disposed of to increase cash flow.

Consequently the Board was of the view that the directors have taken sufficient steps to alleviate the immediate cash flow problems of Esor and have acted in terms of the requirements of the Companies Act.

Directors: B Krone (Chairman)*
WC van Zyl (CEO)
Dr OSW Franks* (Lead Independent)
R Masemene*
H Takolia*
* Independent non-executive

Company secretary
iThemba Governance and Statutory Solutions (Pty) Limited
R21 Corporate Park
72 Regency Drive
Block A,
Irene,
0157
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
Rosebank Towers
15 Biermann Avenue
Rosebank
(PO Box 61051, Marshalltown, 2107)

Investor relations
Singular Systems IR
28 Fort Street
Birnam
Johannesburg
2196
(PO Box 785261, Sandton, 2146)